



OECD DEVELOPMENT CENTRE

Working Paper No. 228

(Formerly Webdoc No. 16)

ECONOMIC RECONSTRUCTION IN POST-CONFLICT TRANSITIONS: LESSONS FOR THE DEMOCRATIC REPUBLIC OF CONGO (DRC)

by

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Research programme on:
Social Institutions and Dialogue



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RÉSUMÉ

L'objectif de ce document est d'élaborer une stratégie de transition post-conflit pour la République démocratique du Congo (RDC) à partir des expériences de pays ayant connu cette même triple transition. Ces expériences permettront d'identifier les tâches à accomplir ; d'illustrer les politiques nationales efficaces et celles qui ont échoué ; et de donner un exemple de l'assistance technique et financière que la communauté internationale pourrait apporter pour faciliter la transition et résoudre les problèmes de l'intégration et de la coordination d'une telle assistance.

Si ce document n'a pas pour ambition de se livrer à une analyse approfondie de l'évolution politique et économique de la RDC, une rapide description de quelques-uns des changements intervenus est indispensable pour bien appréhender l'immensité des défis de la transition post-conflit, mais aussi pour tirer les leçons des expériences passées. Parallèlement, alors que la stratégie de transition post-conflit de la RDC s'intéressera surtout à la reconstruction économique, les auteurs évoquent la question des droits politiques et des droits de l'homme, dans la mesure où ils pèsent sur le cadre d'intervention de la politique économique et de l'aide internationale.

SUMMARY

The purpose of this paper is to develop a strategy for PCT in the DRC, drawing from the experience of other countries that have gone through this triple transition. These experiences will be used to identify the tasks that need to be carried out in the DRC, to illustrate domestic policies that have worked and those that have failed, and to exemplify the financial and technical assistance that the international community could offer to facilitate the transition and the problems of integrating and coordinating such assistance.

Although a rigorous analysis of the political and economic developments in the DRC is well beyond the scope of this paper, a brief description of some of these developments is necessary to understand the daunting PCT challenges facing the DRC, as well as to draw lessons from previous experiences. At the same time, although the strategy for PCT in the DRC will focus on economic reconstruction, political and human rights issues will be mentioned in as far as they constraint the framework in which economic policy-making and international assistance will take place.

I. INTRODUCTION

The Democratic Republic of the Congo (DRC) is one of the largest and most populated countries in Sub-Saharan Africa. Despite a rich mineral endowment, an extensive network of navigable waterways, a vast hydroelectric potential, the second largest rain forest in the world, and an entrepreneurial population, the DRC is among the poorest and least developed countries in the world.

Economic and financial mismanagement, corruption, political turmoil, civil strife and war have contributed to extremely low and falling per capita income, appalling living conditions, human rights violations, and dismal prospects for human development. The brutal war that broke up in 1998 put major pressure on public finances and public enterprises, with the economy sinking into hyperinflation and the currency becoming worthless, with savings and investment plummeting, and financial intermediation collapsing.

Potentially one of the richest countries in Africa, the DRC's 55 million people saw their per capita income fall to about \$85 per year (23 cents a day) at the turn of the century, from close to \$300 per year 40 years earlier, at the time of independence. The widespread incidence of poverty is reflected in weak social indicators, with the 2001 United Nations Human Development index ranking the DRC 142nd out of a total of 162 countries. It has been estimated that only about 2 percent of the total population and about 4 percent of the active population are employed in the formal sector, with the average salary in the public sector amounting to only \$15 per month.

With the signature of key agreements in Pretoria (July and December 2002) and Luanda (September 2002), the subsequent Rwanda and Uganda troop withdrawal, progress being achieved on national power sharing in an all inclusive transition government and the elimination of arrears on debt to the international financial institutions (IFIs), the DRC has been positioning itself to embark in a most difficult triple post-conflict transition (PCT): from war to peace; from ethnic exclusion to national reconciliation; and from macroeconomic mismanagement to economic reconstruction¹.

1. The term economic reconstruction is used in a broad sense to include not only the reconstruction itself but all the policy measures, including stabilization and structural reform as well as institutional and capacity building activities, necessary to reactivate the economy and bring it to a sustainable development path.

The difficulties of this transition should not be under-estimated. Renewed fighting provoked by the vacuum created by the withdrawal of foreign troops (and apparently provoked by them) in Sud Kivu province near the border with Rwanda and in Bunia, a small town in the Ituri region², have become a serious drawback.

Perhaps the most difficult, and at the present time highly uncertain, are the prospects for a quick end to the vicious fighting and ethnic massacres in the Ituri region as are the prospects for the full and irreversible implementation of recent political agreements. As a full-page article in the *Financial Times* on 22 May 2003 by William Wallis notes, "while conflict rages in the east, hope remains for a peaceful solution". On 30 May, the Security Council authorized a French-led multinational peacekeeping force of up to 1 400 troops, with the first troops to arrive the first week in June. This is indeed a step in the right direction to establish law and order in this region. An improved security situation is a condition *sine qua non* for the initiation of the triple transition. Both the government of the DRC and the international community need to be ready for such transition.

The overall strategy for PCT should be planned with time and great care so that, when the necessary conditions are met, there is no need to improvise. Not only aid needs to be well coordinated but multifaceted and complex PCTs require diverse and specialized expertise, not easily available to a single international institution, bilateral donor or NGO. Hence, an integrated strategy needs to be planned with the DRC leadership setting the principles and the international community providing assistance, according to the comparative advantage of each of the different actors involved.

In setting up the priorities for the PCT, the DRC leadership should keep in mind that stability and economic growth will not be sustainable without a lasting peace and that peace will not be durable without economic reconstruction. In plunging into this transition, the DRC will face the difficult task of putting a fragile peace on a solid foundation; building a democratic system based on the rule of law, strong institutions, and good governance; and promoting high quality growth³ as a basis for poverty alleviation. At the same time, the international community will face the difficult task of facilitating financing and providing training and technical assistance for the implementation of peace-related projects and the establishment of the appropriate macro- and microeconomic framework for the development of a dynamic private sector. Through this process, national capabilities and solid institutions will be gradually built up.

Given the magnitude of the problem, the large potential for exploitation of natural resources and abundant labour, and the tremendous needs to rebuild physical infrastructure, the private sector — both national and foreign — will have to play a critical

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2. Ituri is a diamond-rich region in the north-eastern part of the country which also has gold and coltan (a mineral used in the computer chip).
 3. This means growth that is sustainable, creates employment, and brings poverty alleviation; growth that promotes greater equality of income through greater opportunity and human development; and growth that respects both human freedom and the environment.

role in reactivating the economy and creating employment⁴. The government should recognize that, given donors' fatigue, the large demand for resources from smaller countries with less attractive investment opportunities such as Afghanistan and the immediate requirements of a post-war Iraq, aid is going to be inadequate and short-term. The private sector therefore needs to be brought on board as soon as possible. For this, the government needs to ensure that good macroeconomic policies, clear rules for investment and trade, an appropriate legal and regulatory framework and a functioning judiciary are set up as soon as possible. For the private sector to develop, efforts at improving public security should be addressed head on.

The purpose of this paper is to develop a strategy for PCT in the DRC, drawing from the experience of other countries that have gone through this triple transition. These experiences will be used to identify the tasks that need to be carried out in the DRC, to illustrate domestic policies that have worked and those that have failed, and to exemplify the financial and technical assistance that the international community could offer to facilitate the transition and the problems of integrating and coordinating such assistance.

Although a rigorous analysis of the political and economic developments in the DRC is well beyond the scope of this paper, a brief description of some of these developments is necessary to understand the daunting PCT challenges facing the DRC, as well as to draw lessons from previous experiences. At the same time, although the strategy for PCT in the DRC will focus on economic reconstruction, political and human rights issues will be mentioned in as far as they constraint the framework in which economic policy-making and international assistance will take place.

4. African leaders themselves have formulated a concept to end the marginalization of Africa, the New Partnership for Africa's Development (NEPAD). In it they have stressed that there is no hope of reducing poverty without peace, democracy and respect for the rule of law, and no hope of reactivating growth without better education, improved infrastructure and a good climate for domestic and foreign investment. See Braga de Macedo (2003), Kohler (2002) and IPA (2002).

II. OVERVIEW OF POLITICAL CONDITIONS

The conflict in the DRC is extremely complex, partly because of its regional dimension resulting from the involvement of half dozen neighbouring countries in the four-year war. The war started in 1998 when Rwanda and Uganda-backed Congolese rebels tried to overthrow President Laurent Kabila, accusing him of harbouring armed militias that threatened regional security in general and these two neighbouring countries in particular. Zimbabwe, Angola and Namibia entered the war on Kabila's side and thus the DRC was soon divided into government- and rebel-controlled zones. Aid organizations have estimated that about 3 million people have been killed and about 2.5 internally displaced since the beginning of the conflict.

Suffice it to say for our purposes that, despite a cease fire agreed in July 1999⁵, serious problems of public security, clashes among ethnic-militia and human rights violations continue to this day, despite the more recent Pretoria and Luanda Agreements. Furthermore, despite the withdrawal of foreign forces⁶, the government still has no control over large parts of the territory in the east and north of the country, which are controlled largely by rebel groups. At the same time, the extent of Rwandese and Ugandan withdrawal is widely disputed and this process faces uncertainties as the Rwandan Patriotic Army (APR) has once threatened to redeploy in DRC⁷. Furthermore, as the report on a Panel of Experts⁸ points out, troop withdrawal is unlikely to alter the determination of Rwanda and Uganda to exercise economic control over rich regions of the DRC.

A UN Observers' Mission (MONUC), deployed under Security Council Resolutions SCR 1291 of 24 February 2000, has been monitoring adherence to the cease-fire and

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5. See Lusaka Ceasefire Agreement. See also Arusha Agreement on Peace and Reconciliation (2000).
 6. At the end of October, a ceremony was held in Kinshasa to bid farewell to the last troops from Zimbabwe, Angola and Namibia to leave the DRC. At the peak of their deployment these countries had a combined force of 20 000 troops.
 7. In July 2002, a pact of the DRC with Rwanda contemplated Rwanda's withdrawal of its troops in exchange for the DRC commitment to pursue and hand over the Rwandese (Hutu) militia responsible for the 1994 (Tutsis) genocide in Rwanda and to cut off supplies to anti-Rwandese militia. In early October, Rwanda reported withdrawal of "all its troops", estimated by them at 23 000 but the agreement for the repatriation of the rebels was nevertheless extended for an additional 90 days. By end October, however, Paul Kagame, the Rwandan president expressed his scepticism about the prospects for peace in central Africa and did not rule out the immediate return of his troops to the DRC. This would happen, he said, if President Kabila failed to control the militia that threatened Rwanda's stability.
 8. See UN (2002).

supervising the separation and redeployment of the armed forces. It has also taken some steps towards the disarming and demobilization of militias and armed groups. MONUC's capabilities, however, remain seriously inadequate and as recent events have shown, it has been unable to manage the security situation in the region. With regard to domestic politics, progress was made in the Lusaka peace process in February-April 2002 when the Inter-Congolese Dialogue took place in Sun City, South Africa, and adopted by consensus more than 30 resolutions on political and legal issues; economy and finance; defence and security; humanitarian, social and cultural issues; and peace and reconciliation. In December 2002, an all-inclusive agreement⁹ was finally reached by Joseph Kabila's government, in power since April 2001, the MLC (Movement for the Liberation of Congo), the RCD-Goma (Congolese Rally for Democracy) and the Mai-Mai¹⁰, the unarmed opposition and civil society.

The all-inclusive agreement provides that elections should be held at the end of a 24-month transition period. During that period, Kabila will remain President and Supreme Commander of the Armed Forces. Four Vice-Presidents will be in charge of commissions, each comprising Ministers and Vice-Ministers. A bicameral Parliament includes a National Assembly and a Senate. Civil society representatives will head five independent institutions set up in support of democracy, including an independent electoral commission and a human rights monitoring body.

Notwithstanding political progress, as we pointed out earlier, the security situation remains the most serious impediment to the PCT. As stated by the United Nations Secretary-General (UNSG) in his June 2002 report to the Security Council, the Congolese national police is weak and in need of improvement, training, equipment and premises. It also requires a change in attitude and skills if it is to conduct civilian police functions, with due respect for human rights. At the end of July 2002, the UN Security Council blamed the RCD-Goma for the massacre in Kisangani and has called for an immediate demilitarization to avoid the recurrence of such tragic events.

At the same time, the Security Council expressed concern about the strengthening of troops in eastern DRC, particularly South Kivu where fighting had increased between the APR (Patriotic Army of Rwanda) and Banyamulenge¹¹, apparently in an effort by the latter to assert their Congolese identity and separateness from Rwanda. The Security Council also expressed concern about the north-eastern region that described as characterized by severe insecurity, the lack of clear political authority and the presence of a foreign army, the UPDF (Ugandan People's Defence Force). This force failed to maintain law and order in areas under its control. After Ugandan troops pulled out of

9. See the Global and All-Inclusive Agreement on the Transition in the Democratic Republic of the Congo signed in Pretoria in December 2002 by the representatives of the components and entities to the Inter-Congolese Dialogue.

10. The Mai Mai are traditional warriors and fierce fighters whose origin date from around the time the country gained independence from Belgium in 1960 (Lacey, 2002).

11. This group is formed by tutsis that left Rwanda in the XIX century and joined the APR at the time of the war against the Hutu regime in Kigali. Now led by Patrick Masunzu, they are trying to disassociate themselves from Rwanda in an effort to build up a relationship with other ethnic groups in the DRC.

parts of the north eastern region, however, a power vacuum was created which helped trigger local violence such as the one that took place in early August 2002 and once again in March-May 2003 in Bunia¹². In March 2003, the Security Council expressed grave concern about the security situation in the Ituri region and asked Secretary-General Kofi Annan to increase the presence of the UN peacekeeping mission in the DRC. The fact that despite all these warnings renewed violence took place again in May is evidence that MONUC forces remain inadequate and in danger.

This brief description is indicative of the overwhelming remaining political, human rights and security challenges before the DRC can fully plunge into its triple PCT across its whole territory. A large number of observers of the Congolese *problematique* agree that the full withdrawal of foreign army forces from the DRC is no guarantee of peace since rebel groups and ethnic militias will continue to fight each other and the government. It is therefore important, on the political front, that the implementation of the all-inclusive agreement on power-sharing is a success and that a robust international force could be sent to stop the fighting in Bunia¹³. Moreover, only a serious effort at economic reconstruction and reintegration of all these groups into productive activities would help the transitional government obtain full control and improve public security in the country.

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12. On 12 August 2002, the death toll from fighting in Bunia reached at least 90, many of them women and children. This resulted from clashes involving tribal militias (Lendu and Hema ethnic groups), the RCD and the Ugandan army, in a town 30 miles from the Ugandan border. Casualties in May 2003 also included peacekeepers.
 13. In mid-May, the Secretary-General requested the Security Council to send an international emergency force comprised of national forces to stop the atrocities which human rights experts have labelled genocide. The Secretary-General envisages this force as a "coalition of the willing" to end the power vacuum.

III. OVERVIEW OF ECONOMIC CONDITIONS

Economic conditions steadily deteriorated in the DRC, with per capita income declining from \$380 in 1985 to \$224 in 1990 and to \$85 in 2000. In 2001, in the presence of debt arrears with the IFIs, the Kabila government adopted an *interim IMF-monitored program* covering the period June 2001-March 2002. This program comprised a number of policy measures to start stabilizing and liberalizing the economy, including the floating of the exchange rate, as well as some structural reform. The program was supported by a \$50 million grant from IDA (Transitional Support Strategy, TSS). Initial results were encouraging. Budgetary discipline was instituted and price and exchange rate distortions tackled. After years of hyperinflation, inflation decelerated sharply and this in turn stabilized the exchange rate. The liberalization of petroleum prices improved product delivery and facilitated transportation services. The regulatory framework was also improved.

A three-year Government Economic Program (PEG) supported by the Fund's Poverty Reduction and Growth Facility (PRGF) was approved on June 2002. New statutes of the Central Bank were adopted according to which the Central Bank cannot lend to the government. In September 2002, Paris Club creditors granted exceptional debt relief beyond Naples terms.

A number of structural reforms have been put in place to eliminate price distortions, notably through the elimination of multiple exchange rates and the liberalizations of prices.

As a result of all these measures, the recent IMF Article IV consultations concluded that overall performance has been positive, with growth resuming for the first time in 13 years¹⁴ and the rate of inflation falling to about 15 percent, from 511 percent in 2002.

In response to these positive results, the international community began a coordinated effort to assist the DRC in normalizing relations with multilateral and bilateral creditors, starting with the clearing of arrears to the IFIs. The first Consultative Group Meeting took place in Paris in December 2002, with donors pledging \$2.5 billion in recognition to efforts made by the government towards peace and economic reform, and in response to the needs created by the severe socio-economic and humanitarian crisis in the country.

All these factors have improved confidence. If the security situation improves and the country can be reunified the prospects for an economic reconstruction of the DRC would greatly improve.

14. Growth reached 3 percent in 2002 and is expected to increase to 5 percent in 2003.

IV. POLICY-MAKING IN PCTS: THREE PRINCIPLES

Recent experiences in El Salvador, Guatemala, Mozambique, Bosnia, Kosovo and East Timor provide wide evidence that policymaking in PCTs needs to be broadly based on *three principles*. These are closely interrelated although they may have different implications for policy-making. Failure to apply these principles has often put peace at risk, as it was the case in Angola. In designing the PCT strategy for the DRC, both national authorities and the international community that supports them need to keep these principles in mind so as to integrate them into every decision.

A) PCT is not “Development as Usual”

As other countries in these transitions, DRC has a number of characteristics shared by countries at the same level of development (but that are not coming out of war). These include a devastated economy with human and physical infrastructure in shambles; severe economic distortions and macroeconomic imbalances; flawed or weak national civil institutions; a high dependency on official aid flows, mostly in the form of grants; and protracted arrears on payment of foreign debt. In addition, the country will require large debt relief on what are clearly unmanageable levels of external debt.

Despite these common features, the triple transition in the DRC will create a number of needs which are clearly different from the needs of countries pursuing “normal development” and will require creative solutions. This is because of the high risk that a fragile ceasefire be reversed and that the country returns to civil unrest.

To avoid renewed conflict, the country will need to overcome the sharp polarization and ethnic confrontations that fuelled the conflict in the first place and are the legacy of the war. Only this could facilitate the reunification of the different regions in the country under the same political leadership and allow former adversaries to live with each other. Contrary to other countries that enter the PCT after a civil war, the DRC will also have to make peace with its neighbours, since the conflict was regional rather than purely domestic.

At the same time, because of the political and ethnic polarization of the country, building consensus for macroeconomic management and structural reform could be even more challenging than in countries in the normal process of development.

Furthermore, to build the peace, the DRC will have to carry out a number of critical activities that are distinct from normal development activities. These include, *inter alia*, the delivery of emergency aid to the former conflict zones (many of which are not yet under government control); the disarmament and demobilization of former combatants and their reintegration into productive activities; the resettlement of displaced populations

and the repatriation of remaining foreign troops; the reform of the armed forces and the strengthening of the national civilian police; the establishment of an adequate institutional framework to foster national reconciliation, including perhaps a truth commission; the economic rehabilitation and reconstruction of human capital and physical infrastructure and of basic services damaged or interrupted during the conflict; and the clearance of mines.

All these activities are important but the successful disarmament, demobilization, repatriation, resettlement, and reintegration (DDRRR) of former combatants is a condition *sine qua non* for the consolidation of peace. In carrying out these activities, the “equity principle” that prevails in normal development activities will often be overshadowed by the “ethics of peacekeeping”¹⁵. This means that it is often imperative to give preferential treatment and address the legitimate grievances of those groups most involved in, or most affected by, the conflict, to discourage them from returning to arms, as well as to redress hardships or repressions they suffered during the conflict.

One of the practical implications of the principle that PCT is not development as usual is that *the implementation of peace-related activities requires expertise not normally available among development institutions*. Thus, the actors involved in PCTs are more diverse than in normal development, including political institutions that might have a strong presence in the country during the transition¹⁶. A wide variety of bilateral donors with political ties to the country as well as NGOs also get involved. Eventually, representatives of the private sector would also join in as the sector develops and gains strength and as foreign direct investment (FDI) flows into the country. The presence of the international community in PCTs inevitably creates a number of distortions¹⁷ and requires special efforts at coordination to improve efficiency, evade duplication, and avoid working at cross purposes.

B) In PCT the “Political Objective” Should Predominate

The first principle states that PCT is not development as usual because a number of specific peace-related activities need to take place. The second principle goes further in arguing that — should conflict arise between the “development” and “peace” objectives — the latter should prevail. *Because peace is a precondition for sustainable development, economic priorities should always be guided by political considerations*. In carrying out

15. This term was first coined by Aldo Ajello when he was Special Representative of the UNSG in Mozambique.

16. The UN has maintained peacekeeping operations (PKOs) in Central America, Africa, and the Balkans, often supported by regional institutions such as the OAU in Africa or the EU in the Balkans.

17. Different agencies, bilateral donors and NGOs bid for a limited number of qualified nationals, viable office space and housing, food and all types of services. In this process they increase their prices and deprive the national civil service of their best people. Distortions also arise from the short-sightedness of the international community when it tries to transplant policies, systems, or ideas that may be suitable to other countries but not necessarily to the country in transition. If distortions are not minimized, the local population will soon resent the international presence and the difficulty in carrying out basic assistance will increase commensurably.

PTC in the DRC it should be recognized and accepted by all that *economic policymaking will often be constrained by political priorities*.

Because of its political impact, for example, the issue of DDRRR of former combatants should not be conditioned on economic or financial considerations¹⁸. Financial constraints imposed by the stabilization program threatened the demobilization of the FMLN in El Salvador soon after the signature of the Chapultepec Agreement of January 1992 and put peace at risk early on in the transition¹⁹. Failure to demobilize was an important factor in the collapse of UN efforts at peace building in Angola²⁰ and was responsible for serious setbacks in the Cambodia transition. In other less extreme cases such as Guatemala, the ceasefire was broadly respected, but public insecurity and human right violations continue as a result of failure to disarm and reintegrate former combatants productively into society. In other cases, notably Kosovo, the inability to fully demobilize and disarm former combatants of the KLA (Kosovo Liberation Army)²¹ spread the conflict into neighbouring countries.

The lessons from these experiences is that it would pay to dedicate enough financial and technical resources for the DDRRR of former combatants to ensure peace consolidation (political objective), even if their financial implications delay the overall process of stabilizing the economy and putting it into a sustainable growth path (economic objective).

Likewise, when analyzing the economic potential of certain projects, political implications should always be present. For example, when assessing the pros and cons of restarting the Trepca mining complex in the ethnically divided city of Mitrovica in the north of Kosovo, the decision could not be made on simple profit-maximizing criteria. Political considerations predominated: the complex was controlled by the few remaining Serbs in Kosovo and was very much a political target of Kosovar Albanians, particularly

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18. This obviously does not mean that financial constraints should not be taken into consideration. It means that, in allocating resources, priority should be given to this task.
 19. See de Soto and del Castillo (1994) and Goulding (2002).
 20. Marrack Goulding (2002), Under-Secretary-General of the UN Peacekeeping Operations at the time, attributed the collapse of the Bicesse Accords to the failure to fulfil the political conditions stipulated by the Accords for the holding of elections. Goulding notes that at the time the elections were held there were three armies. He also mentions a belatedly call from the Security Council on the parties "to take urgent and determined steps to complete certain essential measures" which they had failed to complete during the previous twelve months, such as demobilization, the collection and storage of weapons, the formation of the new army and getting the police to operate as a neutral, national force. Hopefully lessons were learnt and the new cease-fire agreed in April 2002 will hold so that the peace process which was initiated with the Lusaka Protocol of 1994 can materialize.
 21. With UN acquiescence, a large part of the KLA remained united and under the same leadership after they transformed themselves into a civilian force, the Kosovo Protection Corps (KPC), with 3 000 active members of 2 000 reservists. The KPC was mandated to carry out humanitarian and reconstruction functions — akin a western civil defence group — and was not supposed to be involved in the maintenance of law and order. In practice, this force remained a cocooned KLA, ready and organised to become belligerent anew. Since the creation of the KPC, armed groups believed to be offshoots of the dismantled KLA, attacked targets inside Serbia and in Macedonia, apparently trying to unite the largely Albanian population of the region.

those who were fired from the complex a decade earlier, when Kosovo lost its autonomy from Serbia. These political factors acted in favour of reopening the complex, even if it did not make much sense on economic and environmental grounds alone, given the poor state of the mines, the low price of their minerals, the pollution they created, etc.

Similar considerations are likely to take place in the DRC when a decision is made on the reactivation of mining and other economic activities in the country. It will be important to design programs that can contribute to peace consolidation and ethnic integration, even if they are not the best in economic terms. This does not mean, however, that efforts should not be made to minimize economic distortions as much as possible and set the bases for sustainable development as early as possible. In the early phase of the PCT in the DRC, however, the main objective should be to ensure that conflict does not recur and that the security situation allows for a reactivation of economic activity throughout the country.

C) In PCT the “Yardstick” Should be Different

Because PCT is not development as usual, and because in case of conflict between economic and political considerations the latter should prevail, *the selection of first-best economic policies is not often possible or even recommendable in these transitions. It follows then that success in PCT should be measured with a different yardstick from development as usual.*

Because the first two principles apply, it would be unreasonable to expect that the policy design or the economic allocation of resources in PCTs will be optimal from a purely economic point view. This principle is of particular relevance to the design and implementation of stabilization policies. *The overall success of economic reconstruction should be measured in terms of whether it contributed or not to peace consolidation and national reconciliation.* The same criteria should apply at the micro level, to evaluate particular projects.

In this regard, the experience of El Salvador — by all standards a success story and one of the first PCTs in which the international community was closely involved — serves to illustrate this point. Given that land had been one of the main root causes of the civil war that ravaged the country for 12 years, the “arms-for-land program”²² became the main venue for reintegrating into the productive life of the country those most closely involved with the conflict. The objective was to give former combatants and their supporters a stake, however small, in the land resources of the country, land being the root cause of the civil war. In fact, the main objective of the program was to ensure that these people would not go back to arms. While this program was part of the UN-brokered

22. This program contemplated the provision of credit to demobilizing combatants rather than the outright granting of land. For a detailed analysis of this program as well as the very complex land tenure problems in El Salvador see del Castillo, 1997. During the war, land tenure problems worsened as many rural properties were abandoned by their owners. It was estimated that about half a million persons were displaced, approximately 45 000 became refugees, and more than one million (close to 20 percent of the population) emigrated, mostly to the United States. Many of the displaced persons were settled in communities, some of them on abandoned lands. Thus, property rights became a serious issue in El Salvador, as it was the case in Guatemala and other PCTs.

peace agreement — development institutions, notably the World Bank, had problems accepting it. They argued at the time that there were in El Salvador 300 000 peasants without land and preference should not be given to a few²³.

If judged with traditional yardsticks, the arms-for-land program in El Salvador may not get high marks. But the success of the program should not be measured by the purely economic or financial criteria that are used in normal land reform programs (e.g. production per acre, debt repayment, etc.). It should be judged by whether it contributed to national reconciliation and allowed beneficiaries to find productive employment that would permit them to make a decent living without resorting to arms. Thus, using the PCT yardstick the program was a resounding success. The design and *ex post* evaluation of alternative economic policies and peace-related projects in the DRC should also be judged using this yardstick.

23. World Bank policy has changed since then and the Bank has become closely involved in supporting PCTs, including reintegration efforts, as we shall discuss below.

V. A PCT STRATEGY FOR THE DRC

A strategy for economic reconstruction in the DRC will be developed by raising a number of issues that need to be addressed as well as tasks that need to be performed during the PCT. Many of these issues need to be addressed simultaneously and are not independent. Hence, there is not much logic in the order of their presentation; the logic for their inclusion is that they all need to be tackled by the Congolese government and the international community as they move forward in the transition.

A) Sovereign Decisions and Congolese "Ownership"

Economic policymaking and the performance of civil administration functions in PCTs are normally the prerogative of sovereign governments²⁴. In the DRC, the Kabila government will have to adopt tough stabilization and structural reform measures as well as to make difficult political choices for which it will need broad support from the population. Strong leadership will be necessary also as an effective counterpart to the international community to insure that this works in such a way as to support the priorities set by national leaders.

At the same time, the government will need to continue negotiations with opposition parties and work out a calendar leading to national elections. The political transition, however, will take time, not only to have the different parties prepare for the elections, but because many potential voters will not have appropriate identification and new documents will probably need to be issued.

Thus, while the government continues its political negotiations with opposition parties, it needs to start building consensus right away for economic reconstruction. This will require a broad-based domestic dialogue with the private sector and civil society in general, to design quick-impact projects and humanitarian assistance programs that could have an immediate impact on the population at large, particularly the groups that will be demilitarizing. Such dialogue need also extend to more medium-term projects for the reintegration of former combatants into more permanent civilian and productive activities, as well as other issues of macroeconomic management and institutional development.

24. The cases of Kosovo and East Timor were unique in that the UN was asked to govern them as a protectorate. Thus, the UN was asked to perform economic functions and to set development objectives that are normally the sole prerogative of sovereign governments. In the case of Kosovo this was so because it was not an independent country but a province of the Federal Republic of Yugoslavia. In the case of East Timor, the UN adopted these functions until the time that East Timor became an independent country in July 2002. Prior to Kosovo, the only recent experience the UN had in government as such was that of running the central bank of Cambodia. The IMF has appointed the Governor of the Central Bank of Bosnia who has a mandate over monetary policy. Other policymaking, however, is the prerogative of the Bosnian government.

Building broad-based consensus for policymaking is imperative if economic reconstruction is to succeed, if the country is to reunite, and if the economy is to be put on a path of sustainable development. The Congolese must own their reconstruction program in the sense that there should be a participatory process in setting up priorities. These should not be imposed on the population by the government and certainly not by the international community. The issue of ownership is particularly important as the national leadership — both at the national and local levels — work closely with international organizations, bilateral donors, and NGOs in designing particular programs²⁵.

B) National Logistics

That the government builds consensus for reconstruction policies does not mean that it will not be responsible for final policy decisions. A weak or indecisive government will find it difficult to set up the national logistics to pull together the country through the difficult transition. It would also be a poor interlocutor of the international community in the nation-building process and of the private sector in reactivating investment.

Before a decision on the national logistics can be made, the government, with the assistance of the international community, will need a rigorous assessment of initial socio-economic conditions and national capabilities in the DRC as well as prospects for external financing. This is necessary to determine the appropriate reconstruction strategy and policy mix required for the rehabilitation of infrastructure and the reestablishment of production and trade.

In setting up the logistics for the transition, the government of the DRC will have to decide which institution in the government will lead the reconstruction effort and how such institution — which could be the ministry of finance, ministry of development, planning office or any *ad hoc* body — should relate to the other national actors as well as the international community. To facilitate the adoption of policy decisions, a clear delineation of the lines of authority, responsibilities and obligations within and between decision-making and consultative bodies is imperative.

An adequate national coordinating mechanism is important to centralize and prioritize projects, to ensure that different national institutions do not work at cross-purposes or duplicate efforts and to guarantee the effective access and utilization of foreign assistance and technical advice from bilateral and multilateral sources, as well as from NGOs.

C) Formulation of Economic Policy

Peace agreements and prospects for the PCT create great expectations among the population that need to be fulfilled. Attending to the unsatisfied needs of large segments of the population as well and the basic needs of those that had been

25. A pertinent, if overlooked, aspect of the Marshall Plan's success was that countries themselves decided their own priorities, including in which industrial sectors to invest. The reconstruction process, therefore, was their own, rather than an imposition from abroad.

participants in the conflict require the resumption of stability and economic growth. Reconstruction efforts will not succeed unless they are conducted in a framework of macroeconomic stability. *While stability and economic growth cannot be sustained without a lasting peace, peace will not be durable without high-quality growth.*

In addition to a viable macroeconomic strategy and reconstruction plan, the formulation of economic policy in the DRC will have to include a legal, institutional, and regulatory framework that will guarantee the proper operation of property rights and private markets. To reduce uncertainty this framework needs to be developed rapidly and it should be simple, transparent, and easily enforceable so as to facilitate sound policymaking. *Economic reconstruction and an appropriate legal, institutional and regulatory framework will eventually create the bases for investment (both national and foreign) and technology transfer.*

As emphasized under the Interim Poverty Reduction Strategy Paper (I-PRSPT) of May 2002, the government of the DRC has little experience in the design or implementation of development programs. Also, the capacity for effective service delivery rests almost exclusively with NGOs established in response to community needs and notable gaps left by the collapse of the state. Thus, international support will be critical at every stage of the PCT.

D) Macroeconomic Strategy

Efforts at improving macroeconomic management, which started with the June 2001-March 2002 IMF-monitored program, must continue. The macroeconomic framework relies on market forces for the allocation of resources in the economy and will need to focus on establishing a sound banking and payments system and a sustainable fiscal stance. The framework will also need to incorporate and adjust for the financial requirements of peace-related programs, as formulated in a National Reconstruction Plan (NRP)²⁶.

In this regard, the DRC authorities and the International Monetary Fund (IMF) may have to revise fiscal and financial targets of the June 2002, \$750 million program under the Poverty Reduction and Growth Facility (PRGF)²⁷ to allow for the implementation of peace-related activities. Flexibility in this regard is not only important for its political implications but also in light of the normal problems and delays in disbursement of foreign aid that often take place in PCTs.

26. The reconstruction strategy could be formulated in a NRP or any equivalent format, but having it separately from the general poverty alleviation strategy would increase transparency and facilitate governance, even though poverty alleviation would obviously be a cornerstone of the reconstruction strategy.

27. The PRGF is the IMF concessional facility for low-income countries, carrying an annual interest rate of 0.5 percent and payable over 10 years with a 5 and 1/2 –year grace period on principal payments. The PRGF-supported program will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). The purpose of this is to ensure that the PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and poverty alleviation.

The present situation of Afghanistan, a country in which the international community in general, and the United States in particular, have a special interest in nation building as part of their anti-terrorist war, is illustrative of this problem. Financing for basic infrastructure rehabilitation has not been forthcoming, as pledged, and a large part of the population lacked essential housing and health services despite tough winter conditions in 2002-03.

The dilemma between economic stabilization and the implementation of projects targeted to the consolidation of peace is perhaps best illustrated in reference to El Salvador²⁸. An IMF-monitored program was put in place while the war ravaged at the end of the 1980s while the UN negotiated a peace settlement that was signed in 1992. There was no consultation between these two organizations at the time and, as a result, first best fiscal and financial objectives in the economic program did not incorporate the need to finance peace-related projects. This put the national authorities in the difficult dilemma between compliance with the provisions of the peace agreements and compliance with the stabilization program. Understandably, the government did not want to undermine the macroeconomic gains made since 1990, but delays in the initiation of the arms-for-land program put the peace accord at peril only few months after its signature. In subsequent years, however, the IMF and the UN started working closely together to integrate the political and economic objectives of the PCT, and the targets of the economic program were made more flexible to facilitate the implementation of peace-related projects.

The well-publicized problems in El Salvador created a precedent and since then the IMF, the World Bank and the regional development banks have been more flexible in accepting that political constraints often result in sub-optimal economic policymaking. The government of the DRC should ensure that this flexibility in the economic program prevails from the very beginning.

Efforts at improving social conditions should aim at reducing poverty and raising the standard of living, education, and health of the population through investment in social infrastructure. To develop the proper infrastructure, however, will take time and the government will have to create temporary employment and provide food, shelter, and basic services to the most vulnerable groups during the early stages of the transition. This will obviously have fiscal implications, and a transitional budget (3-6 months) may be necessary.

Issues relating to tax policy and tax and custom administration need also be taken care of and might require temporary action until a more permanent solution can be found. Efforts at revenue collection are fundamental since donors are reluctant to finance current expenditure (salaries and pensions) except in the very short run.

In the monetary area, a system for exchange, internal and external payments, and the provision of credit (particularly for micro- and small-sized enterprises) needs to be restored. This may also take some time and a temporary solution may have to be developed to deal with urgent payment needs. Inflation, which was successfully brought

28. The problem was first raised by de Soto and del Castillo (1994). The subsequent improvement in the situation is analysed in del Castillo (2001). See also Reports of the Secretary-General on the United Nations Observer Mission in El Salvador (several years) and IMF (1995).

down to single digits (from hyper-inflationary levels in 1999-2000) needs to be kept at low levels since rapid inflation creates uncertainty, discourages private savings and investment and hurts the most vulnerable sectors of society.

Fiscal and monetary discipline is necessary to improve public savings and facilitate investment. By following appropriate macro- and micro-economic policies, the government should aim at creating a “virtuous circle” in which an appropriate policy framework promotes private involvement, including the repatriation of capital from abroad. Higher private investment in turn would contribute to government taxation and would strengthen the policy framework. At the same time, good macro-economic management, a transparent institutional framework, and a clear understanding of government policies encourage international assistance. The experience of the large number of countries that have gone through PCT clearly indicates that the international community is more willing to help countries that help themselves.

E) Rehabilitation and Reconstruction

Macroeconomic management is important to the process of rehabilitation and reconstruction of the economy. Given the long-standing and continuing depreciation of the human and physical infrastructure, the international community needs to understand that the process of reconstruction will be long-term and will require strong support. A poverty reduction strategy should be at the centre of reconstruction efforts. Reconstruction decisions should be decentralized and should be based on a participatory approach to development.

In the face of tremendous relief and rehabilitation needs, a comprehensive plan — with both short- and long-term goals — need to be developed. An assessment of local conditions will determine the needs for basic infrastructure rehabilitation (bridges, roads, schools, housing, etc.) and the need for services provision (electricity, water, sanitation, communications, etc.). At the same time, humanitarian efforts should provide basic health and nutrition, particularly in the areas of the country that the government will regain as peace efforts carry on.

During April 2003, representatives of the government, the MLC and the RCD-Goma signed an agreement proposed by MONUC on the reopening of the Congo River to commercial traffic. MONUC would escort the first convoys to provide security and build confidence. The operational details for the implementation of this agreement are being worked out but it would obviously have important implications for the reactivation of economic activity in the country. Hence they should be finalized promptly.

F) National Reconciliation

Peace-related programs for national reconciliation are a medullar part of the PCT. These programs, however, will put pressure on public finances and will be a constant test of the government commitment to peace. Furthermore, immediate relief operations and longer-term reintegration efforts need to be closely synchronized and well coordinated, since they are usually conducted or supported by different organizations.

1) Short-term Emergency Programs

These programs should start as soon as possible, particularly as the government regains control of critical areas of the country, and will be mainly of a humanitarian nature. UN agencies and NGOs, however, have often been able to enter areas that are not yet under government control and should continue to do so. Humanitarian assistance will mainly take the form of food supplies, basic health services, and in some cases temporary housing for relocating populations. Widespread malnutrition and high mortality rates will make this assistance imperative. Emergency programs, however, should be as short-lived as possible and should wither as combatants disarm and demobilize, reintegration programs start and more permanent solutions are found to the overall food, health and housing problems.

2) Economic Reintegration Programs

The international community should be prepared to provide basic training to combatants as they demobilize. This is particularly important given the low levels of educational attainment and skills formation in the DRC and the fact that many of the potential beneficiaries have not done anything in their lives but fight. Basic training will facilitate their decision on how to reintegrate into civil society and productive activities and will guarantee better success. Options would range from joining the civil police or initiating a political career to becoming a micro-entrepreneur or farmer. Most potential beneficiaries will be reintegrated through the economic option and the international community needs to be ready to support them to become micro-entrepreneurs and small farmers.

Perhaps one of the most difficult decisions will be to choose among different venues for reintegration. For a country with the large resources of the DRC, the possibilities are many. The decision will have to be made by the government, after broad consultation, and will have to be supported by the international community, given the tremendous need for financial and technical assistance that these programs will create.

To be able to fully implement the DDRRR program MONUC will have to be beefed up and learn to work closely with the World Bank, which is better prepared than the UN has proved to be, to design and support economic reintegration programs. Not only has the UN had great difficulty in integrating economic expertise into their peacekeeping operations in Africa and Central America but it has failed as well to develop a team at Headquarters to deal with the economic aspects of PCTs²⁹. On the other hand, the World Bank has created a post-conflict unit to deal with these situations and counts with better human resources in other parts of the Bank to support it. Nevertheless, the two organizations should closely coordinate their efforts since the disarmament,

29. Many of the delays and difficulties of implementing reintegration programs in Central America and Africa were associated to the lack of appropriate economic expertise in the respective UN peacekeeping operations and the incapacity of the UN to provide wise policy advice to governments in this area. On the other hand, in East Timor or Kosovo, where the UN worked closely on economic issues with the IMF, the World Bank and regional organizations such as the European Union, many of these problems were minimized.

demobilization, repatriation, and resettlement phases should be well integrated with the economic reintegration programs.

The issue of adequate resources will be of paramount importance to effective reintegration. As the report of the Secretary-General to the Security Council of June 2002 makes clear, a major problem faced by MONUC as it prepares for the critical task of facilitating voluntary DDRRR in the eastern part of the DRC, is the lack of a capable force for this challenging task. The UNSG notes that this most important phase in MONUC's deployment has been on hold due to the absence of countries willing to provide the necessary troops and civilian personnel.

The Lusaka Agreement contemplates the full withdrawal of all foreign troops from the DRC territory. It might be unavoidable, however, that some members of these troops remain in the DRC, be it for political reasons or simply because of economic ones. It is nevertheless essential that they be disarmed and reintegrated productively into Congolese society. This will perhaps be one of the most difficult challenges of PCT in the DRC. Without it, the seeds for conflict will remain and post-conflict reconstruction and peace consolidation will remain elusive.

G) Technical and Financial Assistance

As in other PCTs, the international community will have to play a most critical role in providing technical and financial assistance to the DRC. Assistance in economic reconstruction in general and in reintegration in particular is essential given the serious capacity shortages in the country.

To attract the interest of the international community in general and donor countries in particular, will be most challenging for the DRC, amid tremendous demands for assistance from a large number of countries throughout the world, aid "fatigue" among donors, and fiscal restrictions in donor countries due to a deceleration in the world economy.

Aid assistance to the DRC will be particularly critical at the early stage of the transition since the government has a small capacity to raise its own revenue and its expenditure needs will increase as it starts to implement peace-related programs. For this reason, the DRC will have to present to potential donors a well structured and comprehensive rehabilitation and reconstruction plan at consultative group or other such donor meetings, so that donors can pledge their assistance with full knowledge and understanding of the needs and vulnerabilities of the country.

This would also facilitate the division of labour among different organizations. In the case of DRC the IMF would most likely have to take the lead in macroeconomic policy design and management. The World Bank should be involved in policy regulation and bank supervision, privatization and infrastructure development, poverty alleviation and reintegration, with MONUC involved in all other aspects of DDRRR. In poverty alleviation and reintegration, the World Bank should work closely with UNDP and the UN agencies.

Both technical and financial assistance needs to be properly coordinated and channelled to high-priority projects. In this regard, the international community will have

to establish a focal point to bring together the different actors and to make sure that they all work together in a prompt and effective way and to ensure that commitments for assistance are actually disbursed³⁰.

H) National and Foreign Investors

For the many reasons discussed above, a market-oriented private-sector-led economic recovery provides the best chance for rapid reactivation of growth in the DRC. Private sector involvement, however, will critically hinge upon the establishment of an appropriate policy, legal and regulatory framework, good economic governance, and the improvement in public security and the rule of law. Both national and foreign investors can and should play a complimentary role.

In addition to capital, FDI brings entrepreneurship, management, skills and top-notch technology into the country. There are different reasons why a parent company sets affiliates abroad. FDI often takes place with the objective of supplying the domestic market with goods produced *in situ* to avoid import barriers and benefit from lower transport costs. In other cases the main objective is to lower production costs, with goods produced in the country either consumed domestically or exported. Yet in other cases, the objective of FDI is to participate in the privatization of state-owned enterprises or in large infrastructure development.

Given political and economic conditions in the country, it is more likely that reactivation of the economy will first be mostly driven by domestic investors producing at small scale for the domestic market. Micro, small- and medium-size enterprises (MSMEs) in this market could be developed through the provision of credit and technical assistance. Ideally and in the medium-term it should be the private banks that provide credit to the MSMEs³¹. In the short-run, however, credit and technical assistance will have to be provided by the international community. Only when purchasing power in the country increases enough will foreign investors get interested in producing locally for the domestic market.

Foreign investors, however, could set up *maquila* (assembly plants), for export. This, for example, could be possible in the Bas-Congo area on the Atlantic Ocean where security conditions are acceptable, infrastructure is adequate and labour supply is abundant or could be brought from other areas of the country. *Maquila* operations producing low-tech products, mostly clothing, leather products, and other goods produced with intensive use of low-skilled labour, could be an important source of employment creation and raise disposable income in the country.

Foreign investors could also get involved in infrastructure projects and/or the production of services now provided by the government. For this, the government needs to have a privatization program and specific plans for the development of infrastructure.

30. As the experience of other PCTs show, different donor coordination schemes are possible. In the case of DRC, given the strong historical links to Belgium, this country could play an important role in coordinating and facilitating external assistance.

31. See Santos (2003a, 2003b).

Given the complexities that these programs involve, the government of the DRC needs all the help it can get in designing these programs so as to avoid the problems that may arise from poorly designed programs and weak regulatory frameworks. In this regard, the government should look for the support of the IFIs but should also search the expertise of countries, such as Chile and Mexico that have made progress in these areas.

VI. CONCLUDING REMARKS

Given the increasing demands for nation-building from Afghanistan, the Balkans, Angola, and now Iraq, the DRC will have to build a strong case to involve the international community constructively in support of its complex triple post-conflict transition. Financial and technical resources from the international community alone will be inadequate considering the massive needs of a country of the size and population of the DRC with donors' fatigue at a peak, fiscal consolidation efforts widespread among donors' countries, and the poor prospects for growth in the world economy. It is thus imperative that the private sector starts playing a major role as early as possible in the transition. But for the private sector to thrive, the political process needs to move forward, the security situation needs to improve with ethnic groups and other militia brought under government control, and a macro- and microeconomic framework needs to be in place to create an environment conducive to investment and respectful of property rights.

The task is monumental and the sooner the transition begins the better the chances are for stability and peace in the Great Lakes region.

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