

## UNDERSTANDING INVESTMENT IN POST-CONFLICT SETTINGS

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1. Ending war saves *lives*, but may do little to improve *livelihoods*. For livelihoods to improve we need to see increased investment—by the private sector (large and small entrepreneurs, including small enterprises and micro-entrepreneurs), the state (public investment in key infrastructure), and communities (smallholder farmers, in particular). Without increased investment, post-war growth will be negligible, incomes will remain low, and unemployment high—with the resulting frustrations endangering the political settlement that ended war.
2. War not only reduces investment, it also *distorts* the pattern of investment, especially against investment in the main productive sectors of agriculture and manufacturing that require significant upfront investment for a future profit. The high uncertainty associated with war makes investors reluctant to take a long-term view; they favour short-term speculative activity—e.g. trading scarce goods—over long-term investment in the productive sectors. The exceptions are enclave mineral sectors that can be protected (e.g. West Africa's offshore oil) and high-value but illegal crops (e.g. opium) that finance warlords. The result is low income and employment growth, and the investment disincentive can persist into peace if uncertainty remains high (because of political instability or a peace agreement that is not *credible*).
3. Post-conflict reconstruction should *not* be seen as rebuilding the past—past policies, institutions, and investments were often not the best for development or political stability but instead generated grievances among those left out of the 'social pie' (ethnic groups

and regions suffering discrimination by an elite). It is a lot easier to rebuild shattered infrastructure ('pouring concrete') than it is to change institutions and to make them effective and accountable to the majority of the population—but it is the latter challenge that must be met for a durable peace.

4. Reconstruction without economic policy reform won't work: policies that impede investment by communities and the private sector must be reviewed and changed. Fiscal policy reform is paramount: creating better public expenditure management so that public money and aid can be channelled into the highest return public investments. Privatization is important for reducing the fiscal burden of inefficient state enterprises, freeing up public money for redeployment in the social sectors (education and health especially) and for improving the delivery of services essential to support and encourage community and private-sector investment (telecoms, water, power etc.). But the experience of privatizing state-owned banks, and recapitalising them through private investment (including foreign investment) also demonstrates the importance of putting in place effective regulation to protect the public interest and prevent banking crises that undermine growth. This also applies also to securing the access of poor communities to land and other natural capital (forests, fisheries etc.) upon which their livelihoods depend, and managing the allocation of natural capital to large (and often politically powerful) investors in a transparent manner that protects the rights of the poor as well as the public interest.

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