

**POSTCONFLICT ECONOMICS  
IN SUB-SAHARAN AFRICA**

Lessons from the Democratic Republic of the Congo

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## Introduction and Overview

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Internal conflict and wars have seriously affected Africa's development and caused immense suffering to its population. One of the bloodiest wars since World War II took place in the Great Lakes region. The Democratic Republic of the Congo (DRC), the third-largest country in Africa, had the sad privilege to be the main battlefield of the conflicts, which involved seven neighboring countries. This war, which some labeled as the "Third World War," directly or indirectly affected about 100 million people. However, since early 2001, under the leadership of its new president, Joseph Kabila, the DRC has made remarkable progress in moving from conflict to reconstruction.

This turnaround on both the political and the economic front, while fragile, offers lessons and challenges not only for other postconflict countries but also for the international community, in particular the International Monetary Fund. One key lesson is that an early, proactive, and coordinated approach of the international community and the IMF and World Bank is critical for taking advantage of windows of opportunity opened by the willingness of country officials (even if they are few) to extricate their country from war. This early involvement is not without risks, but is essential to create a momentum and catalyze support inside and outside the country involved in a conflict. Another key lesson is that a lasting peace process must include an economic pillar that duly takes into account the particular characteristics of a country (or region) exiting from war. This is crucial to buttress the peace dividends that will gradually benefit the entire population and, therefore, its support of the peace process. Authorities

must early on reach a common diagnosis of the economic situation and share it with representatives of civil society and the international community. A common diagnostic helps in forging the ownership of a well-sequenced road map of measures to address the economic situation as well as in ensuring the timely support of the international community, including the early buttressing of administrative capacity. The new Transitional Constitution of the DRC foresees the holding of free and transparent elections after a two-year interim period. The holding of elections now scheduled for 2005 will be facilitated by a steadfast implementation of the regional demobilization and reintegration program of armed forces. Notably, the United Nations and European Union will help the DRC prepare for the elections, which represent the hopes and aspirations of millions of people for the installation of a major democracy in the heart of Africa.

This book addresses the different lessons and challenges that a post-conflict country faces in its path from conflict to reconstruction, focusing particularly on the case of the DRC and the Great Lakes region. It also offers a summary of the most recent research on conflict and its implications for postconflict assistance. The book investigates the causes of the civil wars in sub-Saharan Africa, including in the Great Lakes region. In particular it analyzes the sources of growth in the DRC and the impact of the conflict on the Central African Republic (C.A.R.), a neighboring country. It reviews the issues of financial disintermediation and sources of the vicious circle of hyperinflation and falling currency in the DRC. The book analyzes the challenges of rebuilding institutions, addressing structural bottlenecks, and coping with debt overhang. Finally, the book reviews the demobilization and reintegration of armed forces, with particular emphasis on its regional implications.

### *Lessons and challenges for a country exiting from war*

Chapter 2 attempts to show how the early, proactive approach of the IMF and the ensuing timely support of the international community have been critical in strengthening the DRC's peace process and its remarkable economic turnaround. It shows that the mutually reinforcing support of the IMF and the actions of proreformers in the DRC government, despite the risks involved, were essential in putting in place a courageous, bold, and front-loaded economic agenda that helped stabilize the macroeconomic situation and led to the normalization of financial relations with the international community while addressing the debt overhang. The chapter reviews the dire situation facing the country in early 2001, and the content and results of the enhanced interim program monitored by the IMF, as well as results achieved thus far

under the economic program of the government supported by the Poverty Reduction and Growth Facility of the IMF, the design of which was consistent with the DRC government's poverty reduction strategy.

### *The economics of civil war and sources of growth*

Chapter 3 summarizes the most recent research on conflict, with a focus on its economic, rather than social or political, dimensions. It offers a number of recommendations regarding the main areas in which to concentrate efforts to assist countries emerging from conflicts. Chapter 4 recalls the experience of about 20 countries in sub-Saharan Africa that have undergone at least one period of civil war since 1960. It investigates econometrically (the Collier-Hoeffler model) the causes of civil wars by determining which factors are more important in explaining the risk of civil war, including in the Great Lakes region. More specifically, it examines the extent to which economic growth and the development of good-quality institutions can help prevent civil wars in sub-Saharan Africa. Chapter 5 takes a detailed look at the profile of economic growth in 24 conflicts since 1970. It argues that there was a significant shift in the key economic characteristics of these conflicts during the 1990s, including shorter conflicts, deeper economic contractions, and a stronger rebound in growth after conflict. It explores the role of macroeconomic policy and changes in aid flows since the end of the cold war in causing this shift, in particular regarding the DRC. Chapter 6 investigates econometrically the sources of growth in the DRC, using the Johansen and Juselius (1990) and Johansen (1988 and 1991) methodology of cointegration, interpreted as representing a long-run equilibrium relationship. It evaluates the relative importance of productivity growth and factor accumulation. Unlike most studies on sources of growth, the analysis is extended to key sectors of the economy: agriculture, mining, and transport. Chapter 6 also assesses the DRC's medium-term growth prospects. Based on the econometric findings, the analysis suggests a simple methodology for projecting the real GDP growth rate. Chapter 7 addresses the causes of political instability and growth in the C.A.R. It finds, among other things, that successful efforts on the part of neighboring countries (including the DRC) to resolve conflicts and achieve sustained growth would be beneficial to the C.A.R.'s economic performance.

### *Financial intermediation*

Chapter 8 describes how the Central Bank of the Congo is facing the challenges of addressing financial disintermediation and dollarization and discusses the recent experience of nonfungibility between cash and bank deposits. It draws lessons for other postconflict countries in the

conduct of monetary policy and the need for early technical assistance. Chapter 9 analyzes the causes and consequences of the hyperinflation and falling currency rates that the DRC experienced until it succeeded in breaking this vicious circle with the implementation of a bold program monitored by the IMF.

### ***Rebuilding institutions***

Chapter 10 underlines the message that rebuilding macroeconomic management capacity was key in the recent economic turnaround in the DRC. Compared with a few other examples in which a number of international donors provided technical assistance from the outset (e.g., in Afghanistan), this rebuilding was made possible only because the IMF provided early and comprehensive technical assistance while a full peace agreement was still being negotiated. The chapter highlights the importance of an early strengthening of budget control and tracking of expenditure (including budget formulation and execution and reform of the civil service), as well as the enhancement of revenue mobilization. It offers important lessons for other postconflict countries on the sequencing of policies and the provision of international support and notes that the reunification of a country poses particular challenges. Chapter 11 describes how assistance from the World Bank, followed subsequently by other international partners, was also key in progressively removing major structural bottlenecks to growth. It notes, in line with Chapter 10, that the sequencing of measures was not fortuitous in helping to create a link early on between the macroeconomic and microeconomic reforms through the creation of an overall legal framework conducive to private-sector-led growth (notably through the adoption of new mining, forestry, labor, and communication codes). The strengthening of good governance and transparency in public affairs is also a key aspect of the Congolese authorities' new economic strategy, as illustrated particularly by the adoption of a new code of ethics for the civil service and the creation of a new institution, Bureau Central de Coordination, which ensures, with the help of the World Bank, a transparent procurement and bidding process.

### ***The long road to demilitarization***

Chapter 12 reviews efforts regarding the demobilization and reintegration of ex-combatants in the DRC between 1997 and 2003. Shortly after coming to power in May 1997, the new Congolese authorities requested assistance for the preparation and implementation of a demobilization and reintegration program for members of the army of the ousted regime. The renewed outbreak of war in August 1998 put these

activities on hold but, with the signing of the Lusaka cease-fire agreement in July 1999, the international community was able to launch several small-scale initiatives. A reinvigorated, concerted effort was begun in mid-2002. These activities were increasingly brought under a new regional framework, the Multi-Country Demobilization and Reintegration Program. International coordination and capacities improved significantly during 2003, and the DRC government has started to assume a leadership role with the creation of a national institutional structure in December 2003.