

# **Bright Promises, Dismal Performance: Aid, Cooperation & Post-Conflict Countries**

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## Introduction

Since 1970, there have been more than xxx wars, with civil wars representing the bulk of violent conflicts. Most casualties are civilian ones, not military or paramilitary. More than 4.8 million people have been killed, maimed, handicapped, displaced. The wars have wrought damage and destruction to the physical capital (buildings, structures, plants and equipment) and infrastructure of the war-ridden countries. That is the most visible part of the destruction. The destruction and capital implies a loss of productive capacity, of the ability to produce goods and services, the capacity to trade- both internally as well as externally- and investments. The wars resulted in large declines in income- negative economic growth- in excess of 30% or 50%- and increased poverty.

The less visible destruction, but more potent, is the damage and destruction to the social capital of countries in civil war. The social capital comprises the country's laws, institutions, culture and traditions that underlie the social fabric, enabling the overall governance of the country. The institutions include the political, legal, judicial institutions and agencies, both public and private, civil society and others that are the ultimate source of authority and trust. Rebuilding and investing in the social capital is the major task of nation-building in post-conflict societies and economies. It is the failure in recognizing the importance of rebuilding social capital as the major building block in nation building that has resulted in the dismal results from aid and cooperation in post-conflict situations. Rebuilding destroyed physical infrastructure will not restore the torn social fabric, nor diminish the probability of renewal of conflict.

## **Civil Wars and Violent Conflicts**

More than 5.5 million people perished in violent conflict between 1989 and 2002, and more than 37- 40 million were displaced. The majority of the victims were the result of intra-state or civil war conflicts: for example, in 2000, out of 25 major armed conflicts, 23 were intrastate. Turning to the geography, some 70% of all major conflicts and 29% of international terrorist attacks and 70% of casualties were in Africa and Asia.

For international aid and cooperation to be more effective in preventing the onset of civil wars, limiting and reducing their duration, scale and intensity, preventing their spill-over to neighbouring or other states, and ensuring recovery and rebuilding post-conflict, as well as preventing or reducing the probability of recurrence, we need to understand the causes and consequences of civil wars and violent conflicts. The World Bank in association with other international organizations has, recently, vastly enriched our knowledge of civil wars by focusing, in particular, on the social and economic causes and consequences of civil wars and violent conflicts. I note the major consequences:

1. A large increase in mortality and morbidity during, but also continuing post-conflict. Civil wars are associated with greater vulnerability, diminished immunity, more rapid spread of diseases. There is reduction of the health capital of the affected populations and leading to increased mortality and morbidity. Evidence suggests that “approximately half of the loss of disability- adjusted years of life expectancy due to a conflict arise *after* it is over.” (My emphasis). These effects can last longer than the violent conflict. Further, there is the effect of landmines, depleted uranium (DU), and a variety of toxic weapons-related waste.
2. Civil wars result in the widespread displacement of populations, within the country involved, as well as externally, resulting in forced migration. The result is severe disruption of economic activity and social life. The normal operation of the labour market is disrupted with the loss of job security and the ability to earn from legal activities. Typically, as well, out-migration is associated with a brain-drain, with the country’s skilled, professional and educated labour force tending to leave, frequently on a permanent basis. Population displacement thus results in a deterioration and reduction of the stock of human capital, leading to a reduction in overall productivity, labour productivity and economic growth. In addition, displacement of population results in a demand for new physical infrastructure (electricity, water, transport, telecommunications) to serve the displaced population in their new location. This adds to the overall costs and requirements of reconstruction resulting from the destruction to infrastructure. [Develop examples from Lebanon’s case].
3. Violent conflicts and civil wars lead to an increase in poverty and lower per capita income. ‘The typical civil war reduces income per capita by about 15% in real terms and increases the incidence of poverty to an average 30 % of the population. In Lebanon’s case, I estimate that per capita income declined by at least 35% and poverty increased to encompass some 20% of the resident population.
4. Civil wars destroy capital and physical infrastructure and lead to an accelerated depreciation of capital as a result of lack of maintenance expenditure. Typically, both domestic and foreign direct investments dry out, resulting in a larger reduction of the physical stock.
5. Civil wars and conflicts induce an outward flight of capital, with domestic and foreign investors moving out as the result of lower returns, higher volatility of returns, and the increased probability of loss, expropriation or extortion.
6. Importantly, the horrendous costs of civil wars and conflicts are *not* compensated for by the post-conflict changes in economic policies and reforms, by the creation or improvement of domestic institutions or political freedoms. This is well illustrated in the case of Lebanon where the end of war and violent conflict as enshrined in the Taef accord of 1989, did not lead to fundamental, deep, political or economic reforms. Rather, the Taef accord and revised constitution increased the rigidity of political institutions. It created an ineffective and inefficient Triumvirate of the President of the Republic, the Speaker of Parliament and the

Prime Minister that consolidates and confirms a sectarian division of power, and has led to a deterioration of all forms of governance.

The implication is that civil wars are not efficient agents for social or political progress and reform. It is clear that the losses and negative contemporaneous and long-term consequences outweigh any positive effects that may result from post-conflict political, economic and social reforms. Civil wars are not good instruments for change!

7. Civil wars are a regional and potentially global 'public good'. Displaced populations and refugees tend to spread disease and unrest in neighbouring countries. Research using annual data for 135 countries between 1960 and 1999, has studied the effects of refugee flows in tropical countries. The evidence is that for each 1000 refugees, there are 1406 new cases of malaria in the asylum countries. In addition, there are negative spill-over effects on economic activity. Civil war in a country results in lower economic growth in neighbouring countries, a negative externality. There are a multitude of channels: reduction of bilateral trade and investment, reduction in tourism to the region (vide the volatility of tourism revenues in the countries of the Mediterranean following the September 11, 2001 attacks), reduction in capital inflows and increased outflow in the affected countries, higher transport and insurance premiums, and higher international borrowing costs. For the asylum countries, there is the direct burden of supporting and sustaining the refugee population, along with increased security and military costs. The 'global public bad' characteristic of civil wars results from the breakdown of 'law and order'. It is estimated, that civil war territories are associated with criminal activities, such as narcotics production and trade, and human trafficking: "95% of drugs are produced in countries with conflicts".
8. Macroeconomic and Fiscal Consequences.  
Violent conflicts lead to lower real economic growth and lower government tax revenues: both because economic activity and incomes fall and because tax administration efficiency deteriorates, resulting in lower tax collection rates. In turn, the loss of revenues generates higher budget deficits that are financed through monetary expansion, generating higher inflation rates.  
As mentioned above, total investment declines during conflicts, with the investment to GDP ratio, (I/GDP), falling, followed by a recovery post-conflict. Similarly, private investment falls dramatically, but tends to pick in the post-conflict rebuilding phase.  
Finally, the evidence shows a change in the pattern of government expenditure, with an increase in military spending *pre and during* conflicts. On the other hand, health and education expenditure, fall as a share of GDP and of government spending. These reductions in health, education and social spending weaken the ability of the population to respond to the spread of disease, and leaves it open to the enticements of rebel groups and militias.

This brief overview of the consequences and results of civil wars has intentionally focused on the, neglected, economic dimension of wars. Civil wars by destroying both physical and social capital, social cohesion and fabric, are aptly termed 'development in reverse'. Civil wars can undo the achievements of generations, undoing and retarding

development. The obverse side of the coin, is that development retards and reduces the probability of civil war.

The economic dimension has also been neglected in the analysis of the initiation and duration of war. Extensive research has concluded that over the post-war period and particularly 1965-1999, the “risk of civil has been systematically related to a few economic conditions, such as dependence on primary commodity exports and low national income. Conversely, and astonishingly, objective measures of social grievance, such as inequality, a lack of democracy, and ethnic and religious divisions, have had no systematic effect on risk.”

Indeed, one of the most empirical regularities is that societies which are diverse in terms of ethnicity and religion are significantly safer than societies which are homogeneous. As social scientists, central importance should be given to the economic and “financial viability of the rebel organization as the cause of civil war”, and “is why civil wars are so unlike international wars”. Militias, rebel groups and organizations require financing to sustain themselves. In most cases, the source has been a primary commodity (diamonds, precious stones and metals) and/or narcotics. In other cases –such as Lebanon- external financing has combined with narcotics or the arms trade, as the major factors allowing militias to remain financially viable.

### **International Aid and Cooperation**

The role of international aid and cooperation has come under increased scrutiny over the past few years. The international financial institutions, led by the World Bank, have focused on the determinants and effects of foreign aid. The empirical work has established a number of results.

- a) Foreign aid, being fungible, is most often used for largely wasteful public consumption. The theoretical linkages of aid inducing investment and growth are not robust. Aid does not appear to spur domestic investment or attract FDI, and generate higher economic growth.
- b) Differences in the economic policies pursued by governments can explain much of the difference in economic outcomes. Countries pursuing good policies can put foreign assistance, aid and cooperation to good use. However, the probability that a country adopts ‘good’ or efficient economic policies is *not* influenced by the amount of foreign aid it receives.
- c) Donor countries disburse foreign aid largely as a function of strategic and geo-political considerations, rather than as a function of the real needs of the aid receiving countries. The empirical evidence is clear: colonial past and political alliances are the major determinants of foreign aid! The allocation of bilateral aid across countries explains why foreign aid and cooperation have been, at best, only partially successful in promoting growth and reducing poverty. Factors such as the colonial ties and voting patterns in the UN explain more of the distribution of aid than the political institutions or economic policies pursued by the recipients. As Alesina and Dollar show: “... a non-democratic former colony gets about twice as much aid as a democratic non-colony”. Similarly, former colonies that are closed to trade receive more aid than non-colonies that are open to trade.
- d) There is a significant difference in the behaviour of different donors. Some donors –notably the Scandinavian countries- direct aid in response to the “correct”

- incentives, namely low income levels, good institutions of the receiving countries and openness to trade and investment. Other countries –notably France, the UK and Portugal- give to former colonies tied by political alliances, without much regard to other factors, including poverty, politico-economic regimes, democracy or governance. The US pattern is well known to be dominated by aid giving to Israel and Egypt, while Japanese aid goes to countries that have a similar voting pattern at the UN.
- e) The evidence is consistent with an increase in aid to countries that ‘democratize’: a democratizing country gets a 50% increase in aid. Similarly, countries that increase their openness or liberalize their economic policies, experience a temporary increase of about 25% in aid. Hence, over time, a country can expect to receive an increase in aid, if it reforms its political institutions and economic policies.
  - f) The rhetoric that accompanies foreign aid programs is that they not only serve to reduce poverty, but also to reward good policies, as well as efficient and honest governments. Given the recent focus on “good governance”, it is interesting to enquire on the relationship between aid and corruption. Specifically, do corrupt governments receive less aid? Does aid tend to reduce corruption? That is does aid tend to foster better governance? Recent research gives a negative answer to these questions! Alesina & Weder find that the more corrupt a government is the more aid it actually receives! According to no measure of corruption, do less corrupt governments receive more aid. Further, they conclude that an increase in foreign aid does not reduce corruption: aid givers do not try to reward governments for becoming less corrupt. On a bilateral basis, the Scandinavian countries (plus Australia) seem to give more to *less* corrupt governments. The US is at the opposite extreme: the results indicate that *more* US foreign aid goes to countries with more corrupt governments. The US appears more interested in democracy, rather than the quality of government or governance. The Alesina-Weder empirical results suggest that “a country that is more corrupt receives about US\$8 more aid per capita”. Finally, they also conclude that there “are no large differences between multilateral organizations and bilateral donors” in the allocation of aid; “neither seems to have targeted countries with little corruption”.
  - g) More troubling is the presence of a “voracity effect” of foreign aid: countries that receive more foreign aid have tended to become more corrupt! The explanation appears to be that foreign aid, over time, creates a political clientele which engenders corruption. This is similar to the foreign military aid to Israel which makes it more belligerent and violent. In turn this creates a vicious circle of cycle in reaction to Israeli violence and wars, which Israel then uses to seek more foreign military aid, to confront the violence it induced by its actions!

The basic conclusions from the empirical evidence on the determinants and effects of foreign aid contradict the standard pre-conceptions and political rhetoric. The aid allocations of the major donors are directed at promoting their strategic interests. As a result, bilateral aid has only a weak association with poverty, democracy and good governance. Foreign aid does not increase economic growth or reduce poverty by improving the quality of government policies and governance. Foreign aid tends to go to

more corrupt governments! The argument that aid is intended to redress corrupt governments or foster better economic and political policies is also not true: the evidence suggests that foreign aid tends to generate more corruption, not less, over time!

An illustrative example of the conclusions reviewed above on aid policies and their determinants, is the failure of the international community to deal with the post-conflict situation of South Lebanon following the Israeli withdrawal from its protracted occupation of South Lebanon and the Western Bekaa in May 2000. Given the recognition by the international community of the geo-strategic importance of security, peace and stability in South Lebanon, the expectation of domestic policy-makers –of which I was one-, was that aid, cooperation and assistance would be forthcoming for an area that was impoverished, devastated by more than two decades of occupation. A detailed integrated five-year development plan was prepared, and a donors meeting was called in record time, by July 2000, in order to benefit from the overall euphoria generated by the liberation of the occupied territories. Three objectives were identified: an objective of prosperity, an objective of security and an objective of national integration of the South back into Lebanon. Four areas were deemed critical: de-mining, rebuilding of critical infrastructure, rehabilitation and re-integration of former detainees in illegal Israeli prisons and detention camps and providing for the reconstruction and development of the former occupied zone. The liberation of Southern Lebanon had been the only positive development and achievement of years of so-far sterile attempts at achieving a peaceful settlement in the region. Alas, the response of the international community was shameful: international organizations such as the World Bank bowed to international as well as domestic political pressure, countries that were deemed friends of Lebanon absconded, others played into domestic politics. Locally, the domestic political opposition sought and succeeded to sabotage the timid international efforts to help South Lebanon rebuild itself. In particular, they managed to engineer the postponement of a donors' conference that was scheduled for October 2000. To-date, no donors' conference was held and South Lebanon continues to bear the scars of Israeli occupation. Indeed, it is now less populated than under occupation and income per capita has declined. None of the Lebanese governments since October 2000 or the international community sought to relieve the peoples of the former occupied zones of their misery and the shameful memory of occupation. What could have been a true opportunity for a successful 'confidence building measure' was irretrievably lost.

I end this section on the determinants of aid by looking at another foreign intervention: lending programs by international institutions. A recent study by economist Robert Barro examined the determinants of IMF loan programs in a cross-country panel data set, comprising information on more than 130 countries over the last three decades. Barro finds that "IMF lending was influenced by a country's presence at the Fund, as measured by the country's share of quotas and professional staff. IMF lending was also sensitive to a country's political and economic proximity to some major shareholding countries of the Fund –the US, France, Germany and the UK." Political proximity was measured by voting patterns in the UN General Assembly and economic proximity by bilateral trading volumes.

Thus, “the set of political-economy variables was statistically significant overall for explaining the size of IMF loans, the frequency of participation in IMF lending programs, and the probability of loan approval”. The IMF apparently takes politics into account when making decisions on loans to developing countries. What about the effects of IMF lending? Does it lead to better outcomes and higher growth in the borrowing countries? It turns out that, taking into account the effects of the above-mentioned politico-economic variables, that IMF lending has no contemporaneous effect on economic growth. However, IMF lending has a negative influence on economic growth in the medium-term (after five years), that is there is an adverse effect on growth with a lag on the order of five years.

### **Lessons for Post-Conflict Nation Building**

The thrust of the argument and evidence reviewed in the previous two sections is the following:

- A. The vast majority of conflicts are intra-state, internal or civil wars. The implication is that international aid and cooperation must address the consequences and act so as to prevent or diminish the probability of recurrence of conflict. Intra-state wars are different in their causes and consequences from international wars and require a different framework and approach in providing aid and cooperation than the paradigm that emerged following World War II and other international wars.
- B. The evidence on aid and cooperation indicates that it has failed in its avowed objectives: it does not encourage investment, lead to higher and sustainable growth, or reduce poverty. It does not encourage recipient governments to adopt better economic and social policies or undertake political reform. Aid is determined by the political and strategic interests of the donors and by political alliances such as colonial ties! The majority of aid is not provided for altruistic reasons. More damning is the evidence that corrupt governments tend to receive more aid rather than less. The rhetoric on ‘good governance’ is not supported by action. Donor governments do not do what they say they do! And, like politicians, what countries say they do and what they do are very different! Further, international institutions such as the IMF are subject to the same politico-economic forces in determining their loans.

Are there lessons we can distil or guidelines for action? There may be no universally applicable lessons. I would like to offer some guidelines based among other on Lebanon’s experience, which I believe are also relevant to the ‘live’ cases of Iraq and Afghanistan.

1. **It is imperative to establish a secure environment, ‘law & order’ very fast.** Economic activity and investment will not take-off in an insecure environment. Nor will it be possible to re-activate the banking and payment systems, or have an efficient credit system in the absence of the enforcement of laws. Integrating militia, rebel and paramilitary forces with government military forces has proven to be a successful strategy. In particular, it reduces the risk of disgruntled irregular forces becoming a threat to security and turning to criminal activity for

- survival. Lebanon was successful in restoring security by integrating former militia members from all factions and religious denominations into the army.
2. **There has to be a benevolent/cooperative regional environment.** Neighbouring states can exert significant influence for nation-rebuilding or fragmenting. It is nearly impossible to put together a fragmented nation if its neighbours try to tear it apart. Every effort should be made to secure their support.
  3. **The greater the international support, the easier the process.** The UN and regional institutions have to be brought in to forge a strong peace and reconstruction coalition. Multilateral nation-building is more complex and time consuming than undertaking unilateral efforts but is also considerably less expensive for all participants. Multilateral nation-building can produce more thoroughgoing transformations and greater regional reconciliation than can unilateral efforts. Multilateral cooperation can bring more varied resources and experience to the difficult task of nation-building.
  4. **Humanitarian problems (health, food, shelter, basic public utilities) should receive priority in the first phase, but should not predominate over medium-term issues.** Rebuilding economic and financial institutions, building the absorptive capacity of the state and its institutions should be given early priority to support the recovery of the economy and its infrastructure. For example, distributing food aid for an extended period will kill the recovery of the domestic agricultural sector.
  5. **The central issue is not reconstruction, but state building.** Physical reconstruction, rebuilding destroyed infrastructure is important, costly and takes time. But, building political infrastructure, restoring the social fabric and the infrastructure of economic governance, is more complex and important. To build a state, one needs to know what state to build: agreement leading to a stable, representative constitutional structure that will ensure political stability. ‘Democracy’, ‘voice and accountability’ and representation cannot be imported, they have to be built by all the national stakeholders. The challenge is to break the web of mistrust spun during conflict. The challenge is to break out of the vicious circle of the conflict trap that gets created: the political leadership & organizations invest in skills specialized in and only relevant for conflict. Even language and vocabulary and political discourse get affected: ‘كسر عظام جبهة’ صراع خصم معركة”, elections and voting are described as ‘battles’ with ‘enemies’ whose ‘bones will be broken’. Lebanon’s experience is once more relevant here: the focus was on physical reconstruction as though that were the avenue for nation-building. The result was failure in both physical reconstruction and in nation-building.
  6. **Nation-building takes a longer time and more resources than initially expected:** Lebanon good example. Contrast with Afghanistan and Congo or former Yugoslavia.
  7. **Accountability for past injustices can be a powerful component of democratization.** South Africa’s experience in bring to justice those responsible for crimes and injustices had a salutary effect in fostering democracy and ‘voice’. It can also be among the most difficult and controversial aspects of any nation-

building endeavour. In many instances –as in the case of Lebanon- an amnesty law is passed under the guise of ‘healing the nation’s wounds’. Typically, it is the parties responsible for violent conflict and war that seek the amnesty and lobby for legislation. However, the nation’s wounds do not heal and democracy is not served, when those responsible for violence, war, death and destruction are not held accountable for their actions or worse, when they assume power and political positions and representation. There is a deep sense of injustice when those responsible for war and reaped its rewards, also reap the fruits of reconstruction! Certainly, this is the case in Lebanon.

8. **Governance of natural resources is a major element in preventing conflict and limiting its duration.** We must strive to increase the transparency of natural resource revenues through better reporting by companies (to prevent illicit payments and bribery) and governments with monitoring by international financial institutions. I advocate the creation by a special law or by constitutional amendment of ‘Trust Funds’ where all revenues from natural resources are channeled. Such trust funds would be independent from government, reporting to Parliament or the nation’s representatives. Since in nearly cases the natural resources are non-renewable, optimal fiscal management of such resources would call for only a fraction of the income earned from investing the revenue generated by the sale of natural resources would be apportioned to government budgets. This would be a revolution compared to current practices where the wealth generated by natural resource sales is considered as income and spent!
9. **Reform of Post-Conflict Assistance is a priority.** We should adopt the UN’s Strategic Framework (SF), which would harmonize the political, security and human rights components of post-conflict peace-building, with the accompanying humanitarian and development assistance strategies for each crisis country. (See Box). This would force the harmonization, insofar as national interests and institutional mandates allow, of the conditions that donors place on aid to post-conflict countries. In particular, to improve the delivery and effectiveness of aid, we should create a standardized, transparent system for reporting, tracking, and monitoring pledges, commitments, and disbursements to countries under reconstruction. The creation of an International or a *Global Reconstruction Fund* would be an important instrument for donor coordination and would be a rapid-response facility.
10. **Build Absorptive Capacity.** In parallel, a major effort has to be put into building the absorptive capacity of recipient countries and good governance of the reconstruction process. Lebanon’s example is relevant. The authority, responsibility and executive power of reconstruction was invested in a single agency, the Council of Development and Reconstruction reporting to the Prime Minister. The intention was to be able to act rapidly and minimize bureaucracy. The results proved otherwise. After 13 years of reconstruction, even basic infrastructure and public utilities (electricity, water, transportation, sewage, and communications) are not available despite record government budget deficits and a build-up of public debt exceeding 175% of GDP! The virtual absence of voice and accountability and the ‘main mise’ on the state’s resources, including aid and cooperation by politicians, has meant inefficiency, waste and corruption in

education, health, security and infrastructure. More generally, as a recent report succinctly put it: “Insufficient human resources, immature political institutions, underdeveloped legal frameworks, limited transparency, and persistent (or resurgent) internal disputes can undermine good governance and encourage official corruption”.

### Conclusion

Civil wars and associated violent conflicts are development in reverse. They do not represent an effective instrument for social and political change. They can spillover and affect neighboring countries. As a consequence, they are a regional, and in some cases, a global ‘public bad’. In consequence, the international community must set a framework for conflict prevention and for post-conflict nation-rebuilding.

International aid and cooperation must deal with the post-conflict situation in its multi-dimensional aspects: security, infrastructure, the economic dimension and institution building.

We should not only adopt the *UN-Strategic framework*, but also have the courage and determination to implement the framework. The creation of a *Global reconstruction Fund* could be an effective instrument for rapid-action and achieving donor coordination.

We should also be active in implementing a number of global initiatives that help limit the duration of war, its recurrence and consequences. These initiatives include the Kimberley Process (2000) that regulates the international diamond trade, Anti-Money Laundering programs, the Criminalization of International Bribery and the UN Ban on Anti-Personnel Mines that has led to a 50% cut in casualties’ since 1997.

To help achieve the above, the international community must respect its commitments. In 2000, the international community adopted the Millennium development Goals. To achieve the international aid goal requires more than a doubling of current Official Development Assistance, from the current \$50 billion to more than \$100 billion. This requires reversing the trend of falling aid levels since 1990. Will we up to the challenge of reducing the human misery resulting from civil wars and preventing them?

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