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To: Members of the Executive Board  
From: The Secretary  
Subject: Fund Involvement in Post-Conflict Countries

Attached for consideration by the Executive Directors is a paper on Fund involvement in post-conflict countries, which is tentatively scheduled for discussion on Wednesday, September 6, 1995. Conclusions and issues for discussion appear on pages 16 and 17.

Ms. Christensen (ext. 38397) or Ms. McGuirk (ext. 38363) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Fund Involvement in Post-Conflict Countries

Prepared by the Policy Development and Review Department

(In consultation with other departments)

Approved by Jack Boorman

August 15, 1995

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## Fund Involvement in Post-Conflict Countries

### I. Introduction

Recent years have witnessed an increase in the number of countries in political turmoil, civil unrest, or international armed conflict. The Interim Committee, in its October 1994 Communiqué, recognized the special needs and problems of countries emerging from economic and political disruption and requested the Executive Board to examine proposals in this area. When the Executive Board discussed this issue in May in the context of bilateral and multilateral aid flows, 1/ Directors noted that the Fund should play a critical role at an early stage in post-conflict cases to help establish a sound macroeconomic framework. Early Fund support should take the form of technical assistance and policy advice. Fund financial assistance, on a limited scale, could be extended in cases where the political situation had stabilized sufficiently and where Fund financing could play an effective catalytic role for balance of payments financing from other creditors and donors. 2/

The issue of coordination of assistance to countries affected by disasters and other crises has received considerable attention in international fora recently, including in the United Nations (UN) and the OECD's Development Assistance Committee. In addition, the recent G-7 Summit in Halifax called on the Bretton Woods institutions and the UN to establish a new coordination procedure, supported as necessary by existing resources, to facilitate a smooth transition from the emergency to the rehabilitation phase of a crisis and to cooperate more effectively with donor countries. 3/

This paper focuses on two aspects: (i) coordination of assistance in post-conflict cases; and (ii) the role of the Fund in providing technical assistance, policy advice, and financial assistance. 4/ Section II of the paper reviews the Fund's involvement in five recent post-conflict countries, focusing on the mechanisms for coordinating assistance within the donor community, and considerations relevant for future coordination of assistance in such cases. Section III explores possible modifications to the Fund's policy on emergency assistance to encompass support for post-conflict countries under certain circumstances. Section IV presents some conclusions and issues for discussion.

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1/ "Bilateral and Multilateral Aid Flows and Fund-Supported Programs," SM/95/73, Supplement 1 (4/25/95).

2/ Summing Up by the Chairman, "Bilateral and Multilateral Aid Flows and Fund-Supported Programs," Buff/95/48 (6/6/95).

3/ Halifax Summit Communiqué, June 15-17, 1995.

4/ The paper has benefitted from comments by the World Bank.

## II. Past Experience in Post-Conflict Cases

### 1. Socio-political and economic background in post-conflict cases

In this paper, post-conflict cases are regarded as those countries that have been affected by profound domestic or international unrest and are characterized by the following two features as a consequence of the conflict: (i) severely impaired administrative capacity limiting the ability to develop and implement a comprehensive macroeconomic and structural adjustment program; and (ii) a need for concerted and speedy international assistance to address the aftermath of the crisis. These characterizations would not encompass countries with an inherently weak administrative capacity; countries experiencing economic or political disruption that nonetheless leaves the administrative capacity relatively intact; or economies in transition where difficulties in policy implementation stem primarily from weak or nascent institutional development in the transition to a market economy.

Over the years, the Fund has been involved in a variety of ways in a number of post-conflict cases. 1/ This section reviews the experience of Fund involvement in five selected recent cases that might be considered to be post-conflict situations as described above, namely, Cambodia, El Salvador, 2/ Georgia, 3/ Haiti, and Rwanda (see Box 1). All these countries recently suffered varying degrees of armed conflict and/or disruption. In some cases, the countries preserved at least a minimum of institutional structure (e.g., El Salvador and Haiti) while in other cases, the administrative structure had been largely destroyed (e.g., Cambodia and Rwanda). Some of these countries were emerging from financial and political isolation (e.g., Cambodia and Haiti).

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1/ For example, Fund financial support to countries affected by domestic or international conflict/disruption has been provided under the CCFF and its predecessor in some 10 cases since 1963 (including Jordan in 1971-72, Cambodia in 1972-73, Bangladesh in 1972, Ethiopia and Nicaragua in 1979, and Chad and El Salvador in 1981).

2/ Administrative capacity in El Salvador was much less disrupted than in the other countries reviewed and therefore the country does not fully fit the criteria for a post-conflict case outlined above; nevertheless, it is included in this analysis as it offers useful lessons on coordination between the Fund and the UN agencies.

3/ As Armenia's experience is broadly similar to Georgia's in terms of Fund involvement and coordination of assistance, it is not included in this review.

### Box 1. Circumstances in Post-Conflict Countries

- **Cambodia.** Decades of war and internal strife ended with the October 1991 Paris Peace Accord. The Supreme National Council (SNC) headed by Prince Sihanouk was recognized as the institution that embodied the national sovereignty of Cambodia until the mid-1993 elections. The SNC had no administrative apparatus; a number of countries and multilateral organizations dealt with the previous administration as the executive arm of the SNC. The economy was also adversely affected by the dissolution of the Council for Mutual Economic Assistance (CMEA).

- **El Salvador.** In February 1992, a 12-year civil war ended with a Peace Accord. A National Reconstruction Plan (NRP) covering the period 1992-97 was drawn up by the authorities with assistance from the UN and was part of the overall Peace Accord.

- **Georgia.** Declared independence in April 1991 and became a member of the Fund in May 1992. Issued its own currency in April 1993. In addition to the major problems stemming from the collapse of the U.S.S.R. economy, internal civil strife severely disrupted economic activity. The civil strife ended in late 1993 and a treaty of friendship and cooperation with Russia was signed in February 1994.

- **Haiti.** Following a military coup in September 1991, Haiti was isolated internationally, facing a trade embargo, until the return of President Aristide in October 1994.

- **Rwanda.** Civil war erupted in April 1994; mass killings triggered unprecedented population movements; a new Government took power in July 1994.

While the economic circumstances of post-conflict countries have varied, in most cases output as well as foreign trade collapsed and official reserves were extremely low following the disruptions. For example, exports plunged by an average of over 30 percent per year during 1992-94 in Haiti, and by over 50 percent in Rwanda in 1994. <sup>1/</sup> At the peak of the conflict situation, gross official reserves of Haiti were equivalent to about one month of imports, and in Cambodia, Georgia, and Rwanda, they were substantially below that level. In addition, in all cases except El Salvador, there was an urgent need to rebuild policy-making institutions, technical capacity, and the economic data base. In Cambodia, most individuals in the professional classes had been killed or had fled the country and economic statistics were almost nonexistent. In Rwanda, key ministries and the Central Bank were operating at 30-40 percent of their prewar manpower capacity in early 1995--six months after the end of the war--as most civil servants, especially those more skilled, had left the country or had been killed during the war. In Haiti, high-level civil

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<sup>1/</sup> Such figures should be interpreted with caution as during the period of crisis the administrative capacity to collect data was substantially diminished.

servants had left the country in large numbers during the period of military rule.

## 2. Fund experience in post-conflict cases

This section describes the role of the Fund in the diverse circumstances of these five post-conflict countries (Table 1 provides details on the provision of technical assistance (TA) and Box 2 on the financial involvement of the Fund). The forms of international coordination of donor support and some lessons to be drawn are discussed in the following section.

The review of these cases confirms that the Fund's activities in the early phase of the post-conflict situations have been part of an internationally coordinated effort, with different multilateral agencies and bilateral donors taking the lead role in coordinating and mobilizing assistance in different countries. While the format and formality of coordination have varied with country-specific circumstances, as detailed in Section 3 below, in all cases, the Fund was involved at an early stage in the provision of TA and policy advice. This early assistance helped to lay the groundwork for the design of a macroeconomic framework that could eventually be supported financially by the Fund, and that has frequently also served as a framework for financial assistance from others.

Typically, Fund TA initially was focused on rebuilding capacity in the fiscal, monetary, exchange, and statistical areas, and took place in close coordination with the World Bank, the UN, and other multilateral and bilateral agencies. <sup>1/</sup> Policy advice initially tended to focus on preparing a budget that was consistent with the limited domestic resource base of the government and with the commitments of external assistance and on developing policy measures that could be implemented rapidly (such as quick-yielding revenue measures). Advice was also provided on the establishment and reorganization of monetary and exchange institutions to help restore payment, credit, and exchange operations and ensure effective use of aid resources. More generally, Fund advice involved the development of a (sometimes rudimentary) macroeconomic framework and an assessment of the immediate balance of payments needs.

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<sup>1/</sup> Financing for this technical assistance has been provided by the Fund, the UNDP, the World Bank, the European Union (EU), and bilateral and multilateral donors.



**Box 2. Fund Financial Support in Selected Post-Conflict Countries**

Country	Date	Arrangement/ Facility	Access (in percent of quota)
Cambodia	October 1993	STF (1)	25.0 <u>1/</u>
	May 1994	ESAF	129.2 <u>2/</u>
El Salvador	August 1990	SBA <u>3/</u>	28.3
	January 1992	SBA <u>3/</u>	33.0
	May 1993	SBA <u>3/</u>	27.5
	March 1994	SBA (extension) <u>3/</u>	37.5
	July 1995	SBA	30.0
Georgia	December 1994	STF (1)	25.0
	June 1995	STF (2)	25.0
	June 1995	SBA	65.0
Haiti	March 1995	SBA	32.9
Rwanda <u>4/</u>	...	...	...

1/ In percent of the old quota and 9.6 percent of quota following the Ninth Quota Review.  
2/ Three-year arrangement.  
3/ Precautionary SBA; no drawings made.  
4/ A request from Rwanda for financial support under the CCFF (15 percent of quota) is expected to be considered by the Board in September 1995.

In most cases, there was a substantial need for urgent balance of payments support, and the Fund was able to provide financial assistance within one-half to one year after the end of the conflict. The timing depended on a number of country-specific factors, such as the speed with which the political situation was clarified, the member's capacity to formulate and implement an economic program, the time needed for mobilizing donor support, and in several cases, the clearance of arrears to multilateral institutions, including the Fund. The initial provision of Fund financial support has sometimes taken place around the same time as initial financial support from the World Bank, although in three of the

cases reviewed, the Bank initiated financial support up to about half a year in advance of the Fund. 1/

The following paragraphs summarize the Fund's experience in the five country cases.

In Cambodia, after years of no communications between the Fund and the member, the conclusion of the Paris Peace Accord in October 1991 created the prospects for a movement toward normalization of Cambodia's relations with the Fund, including the settlement of longstanding arrears to the Fund. In November 1991, Fund staff participated in a mission of the Asian Development Bank (AsDB) to elaborate a comprehensive TA program. Subsequently, a number of Fund TA missions assisted the authorities in the fiscal, monetary, and statistical areas (Table 1). Building on this work, in late 1992, Fund staff negotiated with the authorities an economic program which was informally monitored by the staff, consistent with the arrears strategy. While a program that could have been supported under a first credit tranche stand-by arrangement was ready by early 1993, lack of agreement among the factions that constituted the Supreme National Council delayed the mobilization of financing for clearance of arrears and for the proposed program. Following the May 1993 elections and the establishment of a new Government in September, arrears were cleared with the assistance of a donor group. An STF-supported program was approved by the Executive Board in October 1993 and was followed by an ESAF arrangement approved in May 1994. The World Bank approved an Emergency Rehabilitation Credit in October 1993.

In El Salvador, a precautionary stand-by arrangement was approved during the month before the signing of the Peace Accord of February 1992. 2/ As the Peace Accord had not been finalized at the time of the negotiations, the program could not fully take into account the costs and donor support related to the National Reconstruction Plan (NRP) that was part of the Peace Accord; the stand-by arrangement called for the incorporation of the fiscal impact of the NRP on the occasion of the mid-term review. In the event, however, the authorities implemented measures under the NRP before sufficient donor support had been assured, resulting in a fiscal stance that caused the program to go off track. The authorities subsequently developed a new program that incorporated the impact of the NRP; an arrangement in support of this program was approved by the Board in May 1993. This was followed by the Bank's approval of a second structural adjustment loan (SAL) in September 1993.

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1/ In these cases, the Bank provided an Emergency Economic Recovery Credit (Haiti), an Emergency Recovery Credit (Rwanda), and an Institution Building Credit (Georgia).

2/ A precautionary stand-by arrangement had been approved in August 1990, and shortly after the completion of the mid-term review under the arrangement, the Bank approved the first structural adjustment loan in February 1991.

Regarding Georgia, following initial contacts with the staff, a first TA mission visited the country a month after it had become a member of the Fund in May 1992. Subsequently, even during periods of ongoing conflict, substantial TA was provided to improve the country's statistical and policy-making capacity. The availability and quality of statistics were poor as domestic political developments had led to significant disruptions in their collection and compilation. During 1993, the authorities experienced a political crisis that precluded the formulation and implementation of an economic program that could have been supported by the Fund. After a several-month period of informal staff monitoring of policies, support under the STF was approved by the Board in December 1994, which was followed by a stand-by arrangement approved in June 1995. Meanwhile, the World Bank approved an Institution Building Credit in July 1994 and a Rehabilitation Credit in March 1995.

In the case of Haiti, one month after President Aristide's return in October 1994, Fund staff visited the country to collaborate with an IDB-led multi-agency mission that was reviewing an Emergency Economic Recovery Plan. 1/ Following the clearance of Haiti's arrears to the Fund with the assistance of selected donors, a stand-by arrangement was approved in March 1995. This relatively early Fund support took place notwithstanding poor financial statistics and a weak administrative capacity. The main reasons justifying early financial support were a strong political commitment on the part of the authorities, as demonstrated by early and substantial action in a few key areas, combined with strong international support spearheaded by a key donor. In addition, the phasing of policy measures under the stand-by arrangement took into account the constraints on implementation capacity. The Bank approved an Emergency Economic Recovery Credit in December 1994.

With respect to Rwanda, a few months after the end of hostilities in July 1994, Fund staff visited the country to provide TA and policy advice, in particular, on the budget and the reestablishment of a functioning financial system. By mid-1995, an economic program that could support a request for a purchase under the CCFF had been developed and is expected to be discussed by the Board in September, somewhat later than initially anticipated as political uncertainties caused some donors to temporarily suspend their assistance to the Government. In light of the country's limited current debt-service capacity and need for concessional support, efforts are currently under way to mobilize donor support for subsidy resources to be used in conjunction with the use of the Fund's general resources under the CCFF. The World Bank approved an Emergency Recovery Credit in January 1995, 2/ for which the Fund staff helped prepare and

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1/ In 1993, the Fund participated in a UNDP-led multi-agency mission to Haiti to initiate the preparation of the Emergency Economic Recovery Plan in anticipation of a clarification of the political situation.

2/ In 1994, the Bank had already approved a grant in support of UN agencies' operations in Rwanda.

manage the technical assistance component in support of macroeconomic management institutions.

In summary, in the five cases reviewed, the Fund has provided early assistance in rebuilding the countries' statistical and policy-making capacity. Fund financial assistance was also extended at a relatively early stage. This was facilitated in two cases (Cambodia and Georgia) by the availability of the STF. In El Salvador, the administrative capacity was less disrupted than in other cases, while in Haiti, the preparation of a comprehensive economic recovery plan was well advanced, facilitating support under stand-by arrangements. In Rwanda, Fund support under the CCFF is envisaged, as the decline in exports is considered likely to be temporary and an economic program meeting the test of cooperation under the CCFF has been developed; donor support for subsidizing Fund charges is being sought.

### 3. Coordination of assistance 1/

In post-conflict cases, coordination of external technical and financial assistance is particularly important because of the disruption in normal relations that often occurs during the period of conflict, the large number of agencies that are typically involved in reconstruction and rehabilitation activities, and because of the countries' weak administrative capacities. While the forms of coordination differed, depending on the country's circumstances and the initiatives of multilateral agencies and bilateral donors, experience has shown that the assumption of strong leadership by one or several of them is essential for the effectiveness of the initial assistance effort. In some instances, the Bretton Woods institutions have taken the lead in mobilizing international support, while in other cases, UN agencies or regional development banks with strong support from key donors have played a lead role. In all cases, the Fund's involvement has been part of an internationally coordinated effort and has helped to encourage other agencies and donors to provide their assistance within a common macroeconomic framework.

The Bretton Woods institutions played a lead role in mobilizing external assistance in the case of Georgia. Financial assistance was mobilized through a Consultative Group (CG) meeting that took place in November 1994 under the auspices of the World Bank, one month before Board approval of the STF. Prior to that meeting, Fund staff had contacted Executive Directors to define financing needs and to encourage financial

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1/ For a number of developing countries, the World Bank organizes donor meetings in the context of consultative groups. For other developing countries, donor meetings are organized by the UNDP in the context of round tables. For some Eastern European countries and countries in the former Soviet Union, the European Commission mobilizes external support in the context of Group of 24 (G-24) assistance. In all three formats, the Fund provides input on the balance of payments need and the overall macroeconomic situation.

support. In July 1995, before the Board's approval of the stand-by arrangement, another donor meeting was organized by the Bank and the Fund.

UN institutions played a key role in several of the cases in assisting the authorities in developing a reconstruction and rehabilitation plan (e.g., Cambodia, El Salvador, and Rwanda). This involvement arose out of the UN's role in negotiating and helping to implement a peace accord (El Salvador) or in channeling humanitarian assistance (Rwanda). In both cases, the UN took the lead in assisting the country authorities in drawing up a comprehensive economic reconstruction program. In Cambodia, as part of the 1991 Peace Accord, the UN Security Council established a United Nations Transitional Authority in Cambodia (UNTAC) that was empowered to implement the peace agreement, including overseeing national elections, administering the country until a new government was formed, and representing Cambodia in its international relations. In some cases, humanitarian assistance was mobilized in the context of UN Inter-Agency Consolidated Appeals (e.g., Georgia and Rwanda). 1/

For Rwanda, the Program for National Reconciliation, Rehabilitation, and Economic Recovery (PNRRER), developed by the country authorities with assistance from the UNDP, provided the framework for assistance pledged by donors on the occasion of a round table conference in January 1995. The macroeconomic component of the PNRRER was prepared in consultation with the staffs of the Fund and the Bank. Selected donors have subsequently taken the lead in coordinating the delivery of support within the various sub-programs of the PNRRER, but disbursements of pledged assistance have been slow because of a lack of capacity with regard to facilities, equipment, skilled management and technical staff, and political uncertainties. 2/ The unsatisfactory status of coordination of the activities of donors, NGOs, and the Government emerged as a key concern on occasion of the mid-term review under the round table conference of the Government's program in July 1995. In particular, humanitarian relief operations had increasingly focussed on rehabilitation, rather than relief, and thus needed to be coordinated with the rehabilitative efforts under the PNRRER. 3/

While close cooperation between the UN, the Fund, and the Bank has been instrumental in drawing-up the technical assistance program and the

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1/ Substantial humanitarian assistance was also provided outside the context of these appeals, notably by the EU and bilateral creditors and donors.

2/ In that context, fielding the technical experts for the Ministry of Planning, that had been envisaged under the round table program, has proven difficult--none of the posts were filled by end-June 1995.

3/ The inclusion of various representatives of NGOs in the mid-term review was a first step in that direction. Furthermore, during the review it was proposed that donors only fund NGOs that have authorization from the Government to proceed with a project and that NGOs work more closely with sectoral ministries.

macroeconomic framework in the case of Rwanda, such coordination initially did not take place with regard to the preparation of El Salvador's NRP. As a result, the fiscal impact of the NRP had not been fully assessed when the Peace Accord was drawn up. <sup>1/</sup> In addition, key measures under the NRP required unusual donor support (e.g., for demobilization) which proved difficult to obtain. Subsequently, therefore, the NRP was further refined and in Spring 1993, its economic impact was incorporated into a revised macroeconomic framework established with the assistance of the Fund; at the same time, coordination between Bank-Fund and the UN and other creditors and donors substantially improved. Throughout, the Bank took the lead in mobilizing external support in the context of CG meetings.

Regional development banks, with the strong backing of key donors, took the initiative in planning and mobilizing international support in the cases of Cambodia and Haiti. In the case of Cambodia, this took place in the context of the predominant role of the UNTAC, which also provided technical experts on several aspects of civil administration, including economic and financial policies; Fund missions were in regular contact with UNTAC experts in relevant areas. At the same time, the Asian Development Bank (AsDB) coordinated rehabilitation and relief assistance for Cambodia. It provided its first major loan in November 1992, prior to the financial involvement of the Bretton Woods institutions. During a November 1991 mission, AsDB and Fund staff jointly prepared an "Integrated Program of Technical Assistance" to be executed by the AsDB in collaboration with the Fund and financed by the AsDB and the UNDP. In the ensuing concerted efforts, although there was some overlap, the Bretton Woods institutions took the lead in developing the economic framework; the AsDB in coordinating TA and project assistance; and the UN in providing humanitarian assistance, advancing the demobilization, and planning the elections. The UNDP was involved in rehabilitation and reconstruction, relying on input from the other multilaterals, including a policy framework paper prepared by the authorities in collaboration with the staffs of the Bank and the Fund. France and Japan took the lead in coordinating donor assistance in the context of the meeting of the International Committee on the Reconstruction of Cambodia, held in mid-1992. The background document for that conference had been prepared jointly by the AsDB, the UNDP, the World Bank, and the Fund.

Haiti provides another example of close inter-agency collaboration. It also illustrates the important role strong backing by a lead bilateral donor can play in catalyzing the delivery of assistance. After President Aristide's return in October 1994, the Inter-American Development Bank (IDB) initially took the lead in mobilizing donor support. The IDB chaired a mission of 16 international organizations (including the World Bank) to Haiti--with a parallel mission from the Fund--to prepare an updated

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<sup>1/</sup> On occasion of a CG meeting for El Salvador in March 1992, the Bank took the view that a precise quantitative assessment of the macroeconomic impact of the NRP over the coming years could only be undertaken once several variables in the plan were defined more clearly.

Emergency Economic Recovery Program for Haiti (EERP). <sup>1/</sup> The EERP report, with Fund input on the macroeconomic policy aspects, served as a medium-term policy framework for the dialogue between Haiti and the donors. The World Bank subsequently coordinated efforts to mobilize financial support in the context of a CG meeting in January 1995, followed by regular in-country CGs to take stock of progress in the assistance program. The United States played a key role in catalyzing and coordinating the support of multilateral and bilateral donors, including--together with the Bank--in the context of the clearance of Haiti's outstanding arrears to the Fund, the Bank, and the IDB, which took place in December 1994.

Several lessons can be drawn from the experience of these recent cases:

- The delivery of technical and financial assistance to post-conflict countries by bilateral and multilateral donors and creditors, including the UN system, has generally proceeded in a coordinated manner. In one instance--in El Salvador--initial problems might have been averted if there had been closer cooperation among institutions of the kind that occurred in the other cases reviewed; the experience has nevertheless proved helpful in developing a better framework for coordination of assistance in El Salvador itself and in other countries.

- The experience in the cases reviewed underscores the importance of clear and strong leadership in the coordination effort, and different multilateral institutions or agencies have performed this role in the various cases. No single institutional formula seems necessary or appropriate to all cases, but it is important that a lead be taken by one institution or donor and that communications be kept open among the various actors. Effectiveness has been enhanced by strong support by one or several key bilateral donors and creditors.

- Assistance was most effective when commitments were made within a common policy framework. In that context, it was crucial that the lead agency relied on the support and relative expertise of other agencies in drawing up the sectoral programs.

- Coordinated delivery of assistance can benefit from a comprehensive and detailed plan such as was in place in the case of Haiti. Wherever possible, advance preparation at the international level of a framework for organizing technical and financial support (including for financing TA) can greatly facilitate the delivery of assistance once the crisis is resolved.

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<sup>1/</sup> The comprehensive EERP could be put together quickly because a first version had been developed by a UNDP-led mission in 1993. The Bank had taken the lead in coordinating donor support on occasion of a donors meeting in the Summer of 1993 and an informal CG meeting in the Summer of 1994.

### III. Fund Financial Assistance in Post-Conflict Situations

While the UN and bilateral donors have tended to focus on the provision of humanitarian aid and assisting countries in drawing up reconstruction and rehabilitation plans in post-conflict situations, the Fund has focussed on institutional development, the restoration of macroeconomic balance, and strengthening of the external position. In addition to the need for technical assistance and policy advice, in many such situations there is likely to be an urgent need for balance of payments support from the Fund, in the context of a multi-agency collaborative effort, including to help rebuild reserves to a level that can support essential current payments. Relatively early financial assistance from the Fund can also play an important role in catalyzing balance of payments support from the international community within an appropriate macroeconomic framework. This section explores the possibility of broadening the types of situations in which Fund financial assistance could be made available under the policy on emergency assistance to include post-conflict situations. 1/

As noted above, in all of the post-conflict situations reviewed, the Fund has provided early technical assistance and policy advice in its areas of expertise. The Fund has also been able to provide financial assistance through existing instruments at a relatively early stage given the need for adequate safeguards for use of Fund resources and the need in some cases for prior clearance of existing arrears to the Fund. However, in two of these cases, relatively early Fund financial assistance was available under the STF, as the members in post-conflict situations were also STF eligible. The STF is no longer available (and even if it were, it would not be relevant to non-eligible countries). In the case of Haiti, the member received extraordinary donor support, which, combined with the advance preparation of a recovery plan and the authorities' strong political commitment and up-front policy actions, allowed for an early move to a stand-by arrangement. Such circumstances may not prevail in most post-conflict situations. In El Salvador, relatively early Fund financial assistance was possible in part because the country's administrative capacity had been less disrupted than in the other cases. In Rwanda, Fund financial assistance may be possible under the CCFF as the decline in exports is considered temporary and, although the member's capacity to develop and implement an economic program that could be supported by a Fund arrangement is currently weak, the member's policies are considered to be consistent with the test of cooperation under the CCFF. It is desirable in this case, however, that subsidies be made available to reduce the cost of use of the Fund's general resources, and this matter is being pursued.

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1/ Guidelines on emergency assistance were set out in SM/82/7 (1/8/82) and reflected in the Chairman's concluding remarks at EBM/82/16 (2/10/82). A staff review of the Fund's policy on emergency assistance was circulated in April 1989 (EBS/89/69, 4/13/89).



In most of the cases reviewed, relatively early Fund support has helped to speed up stabilization and begin a process of more comprehensive reform. Similarly, in some future post-conflict situations, early Fund financial involvement may also be desirable to give a strong start to the stabilization effort, catalyze support from others, and begin to rebuild the external position. The existing array of Fund instruments may not, however, meet the needs of all such cases. Notably, because the basic institutions of economic management in these cases may not be restored to sufficient working levels, the member may not yet be able to develop and implement a comprehensive economic program that could be supported under a Fund arrangement in the upper credit tranches or under the EFF or ESAF. A first credit tranche purchase or arrangement might be a possibility, but in some instances the member might not be in a position to formulate and implement the requisite program, and, moreover, the first credit tranche might either not be available or not be sufficient. The use of the CCFF might not be suitable in some cases in view of the longer-term nature of the declines in exports that may be involved, in terms of the policies needed to foster a strengthening of the economy and the balance of payments, or in terms of the amounts involved.

An option that could facilitate relatively early Fund financial assistance in post-conflict situations would be to broaden the scope of the policy on emergency assistance to include such situations. Under existing policy, the Fund is able to provide such assistance in the form of an outright purchase in the event of a balance of payments need arising from a natural disaster, provided that the Fund is satisfied that the member will cooperate with the Fund in an effort to find solutions to its balance of payments difficulties. Emergency assistance is provided in the credit tranches and not under a special facility. 1/ Such assistance is normally limited to one credit tranche, although in exceptional cases larger amounts have been made available. A member requesting emergency assistance is required to describe the general corrective economic policies it proposes to follow and indicate its intention to avoid introducing or intensifying exchange and trade restrictions. In the nine cases of emergency assistance since the guidelines were established in 1982, cooperation with the Fund was also evidenced by the member's explicitly expressed intent to subsequently adopt a program that could be supported by the use of Fund resources, or by the process of program negotiations already underway when the disaster occurred. In six of the nine cases, Fund arrangements were put in place shortly thereafter. 2/

Expanding the scope of emergency assistance could facilitate modest but early Fund financial assistance in some post-conflict cases on conditions tailored to their specific circumstances. Such an expansion could also

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1/ Emergency assistance is subject to the limits on access in the credit tranches, and is subject to the rate of charge and 3½-5 year repurchase period applying to other purchases in the credit tranches.

2/ See EBS/89/69.

strengthen coordination of Fund support with World Bank support: for the purposes of the Bank's Emergency Recovery Loans/Credits, an emergency is defined as an extraordinary (and infrequent) event of limited duration such as a war, civil disturbance, or natural disaster which causes serious dislocation to a country's economy. 1/

The staff has also considered the possibility of the use of ESAF resources in such circumstances. This would entail a basic departure from the structure and objectives of the ESAF--i.e., support for comprehensive and far-reaching programs of macroeconomic stabilization and structural reforms implemented in a policy framework articulated over a three-year period. Modification of the ESAF Trust Instrument would be required and the consent of contributors of loan and subsidy resources to the Trust would need to be sought. The incidence of post-conflict situations that may merit Fund support is unpredictable and may be rare raising questions about the efficacy of a major revision of the ESAF to deal with such situations, and some such cases may not be ESAF-eligible in any event.

In this light, it would seem preferable to build on the policy on emergency assistance, which is already oriented toward situations of disruption in which the member may not be in a position immediately to formulate and implement a comprehensive program. As noted below, for ESAF-eligible countries, it would be possible to seek interest subsidies in conjunction with use of the Fund's general resources under the emergency assistance policy and/or subsequently to replace those resources with ESAF resources when the member is able to qualify for an ESAF arrangement.

Several operational issues would need to be considered if it were decided to modify the existing policy on emergency assistance. First, the characteristics of a post-conflict situation in which emergency assistance could be considered would need to be described. Possible factors to consider are whether: (a) as a consequence of the conflict there is an urgent balance of payments need to help rebuild reserves and meet essential current payments, including debt service to multilateral institutions, and a role for the Fund to play in catalyzing support from other official sources; (b) the country's institutional and administrative capacity has been disrupted to the point that the member is currently unable to develop and implement a comprehensive economic program that could be supported under a

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1/ The Bank's Emergency Recovery Loan/Credits are provided on IBRD/IDA terms where an urgent response is vital and the benefits address economic recovery as opposed to relief. The main distinguishing feature of these loans and credits compared to the Bank's normal operations is their accelerated timetable for approval and disbursement. In exceptional circumstances, when no other suitable Bank financing mechanism can be utilized, the Bank may also provide financial assistance through ad hoc grants depending on resource availability. This grant would be made available to finance operations of other organizations such as UN agencies, as, for example, in the recent case of Rwanda.

Fund arrangement; (c) there is nonetheless sufficient capacity for planning and policy implementation, and demonstrated commitment on the part of the authorities, to provide confidence that the Fund's resources will be adequately safeguarded; and (d) there is under way a concerted international effort to address the aftermath of the conflict in a comprehensive way.

Second, the appropriate level of access and its possible timing needs to be considered. Given the risks and limited capacity to repay the Fund that may at times be involved in such cases, relatively low access would be prudent; some spreading out of access in the form of a series of small outright purchases could in some cases help to ensure that Fund assistance was linked to satisfactory performance under the member's program, even though it might be rudimentary in the early stages, and facilitate the effort to elaborate a more comprehensive economic program. For the purposes described, the access potentially available under the existing policy on emergency assistance--normally up to one credit tranche--may be appropriate at the initial stages of Fund financial involvement in post-conflict situations where an arrangement is not immediately feasible. However, higher access can be provided exceptionally under the policy and this could also be appropriate in some post-conflict cases. 1/ 2/ It would be understood that Fund financial assistance for members in post-conflict situations under the emergency assistance policy would be relatively small, would be made available only in the context of a coordinated international effort, and would be subject to an assessment of capacity to repay.

Third, conditions in post-conflict cases would be tailored to individual country circumstances, particularly in view of the assumed need for rebuilding administrative and institutional capacity to enable a comprehensive economic program to be put in place. Conditions would include a statement of economic policies, including a quantified macroeconomic framework to the extent possible, and an expressed intent to move as soon as possible to an upper credit tranche stand-by, EFF, or ESAF arrangement. It would also be understood that there would be a comprehensive technical assistance program including institution building aspects, and provision for its financing.

Fourth, some of the countries that might make use of emergency assistance in post-conflict situations may be ESAF-eligible, and it may be desirable for some of these to seek sources of subsidy in conjunction with the use of the Fund's general resources under the emergency assistance policy. One approach could be to seek subsidies on a case-by-case basis (as

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1/ Access for post-conflict balance of payments problems could be additional to that made available for a concurrent natural disaster, subject to the appropriate safeguards and assessment of capacity to repay.

2/ In instances where purchases are made both under the CCFF and for emergency assistance (either for a natural disaster or for a post-conflict situation) the provisions with regard to avoidance of double compensation would apply, as described in SM/82/7 (1/8/82).

noted, donor-financed interest subsidies are currently being pursued for Rwanda). Alternatively, or in addition to this, it could be envisaged that the resources made available under emergency assistance would be repurchased early and be replaced with disbursements under a subsequent ESAF arrangement. Similarly, for non-ESAF eligible countries, an early repurchase replaced by purchases under the EFF could be envisaged where appropriate, which would provide resources on terms more appropriate to a medium-term reconstruction and structural adjustment effort.

Finally, coordination of technical and financial assistance (including relief operations) could be facilitated through preparation of a short document identifying, inter alia, the member's immediate policy objectives, the types of problems that need to be addressed including the need for institution building, areas of institutional responsibility, specific technical assistance (and relief) needs and sources, and possible sources of financial assistance. This document might be similar to a PFP but less comprehensive and with a shorter time horizon. The preparation of this document could involve the authorities, the Fund and the Bank, and, as relevant to the case, the regional development bank, UN agencies, and principal bilateral donors/creditors.

In summary, in post-conflict situations with characteristics as described on pages 14-15, the Fund could provide early financial assistance to the member in the form of outright purchases by broadening the types of situations where Fund financial support could be made available under the policy on emergency assistance. The required modifications to the guidelines would require approval by a majority of the Executive Board. If the Board favors such an approach, the staff will prepare more specific proposals for consideration in light of Directors' comments on the possible features outlined in this paper.

#### IV. Conclusions and Issues for Discussion

##### 1. Coordination of assistance

At the recent G-7 Summit in Halifax, participants emphasized the need for the Bretton Woods institutions and the UN to coordinate closely in supporting countries that have been affected by disasters and other crises. In the post-conflict cases reviewed in this paper, the process of coordination has benefitted from the leadership of a single agency, and different agencies--UN agencies, the Bretton Woods institutions, and regional development banks--have performed this role in the various cases. No single institutional formula seems called for, but it is important that the lead be taken by one institution or donor and that communication among the parties be open and effective. Coordination efforts have been enhanced by strong support from one or more bilateral donors and creditors with particular historical, political, or economic ties to the country concerned. While the delivery of technical and financial assistance has generally proceeded in a coordinated manner, there have been instances in which this

was not the case. Coordination could be facilitated through an early preparation, wherever possible, by the member and relevant agencies and bilateral donors/creditors of an agreed framework for organizing technical and financial support. Directors may wish to consider whether the institutional flexibility that has prevailed to date remains appropriate or whether they perceive a need for a more uniform institutional approach under which a particular institution would normally be expected to take the lead in post-conflict situations.

2. Fund financial support

a. In the post-conflict situations reviewed, the Fund has provided technical assistance and policy advice in its areas of expertise at an early stage. In general, the Fund has also been able to provide financial support at a relatively early stage, bearing in mind the need for adequate safeguards for use of the Fund's resources in all cases and the need for prior clearance of arrears in some. Nonetheless, existing instruments, as presently formulated, may not be fully suitable in all post-conflict situations that could otherwise merit Fund financial support. Would Directors wish to consider expanding the scope of the present emergency assistance policy to facilitate Fund financial support to post-conflict cases where appropriate and under conditions that would adequately safeguard Fund resources, it being understood that Fund support under an arrangement is the approach to be followed where this is possible?

b. If so, would Directors agree with the general characteristics mentioned on pages 14-15 as justifying consideration of emergency assistance in post-conflict cases (balance of payments need as a consequence of the conflict; incapacity to qualify currently for a Fund arrangement but sufficient capacity to provide adequate safeguards for Fund resources; and a framework of concerted international support)?

c. If Directors favor an expansion of the scope of emergency assistance along the lines discussed, would they agree with the suggestions made in the paper (pages 15-16) regarding access and timing; conditionality; for ESAF-eligible cases, especially those that are heavily indebted, the desirability of subsidies and/or early replacement of emergency assistance with resources under ESAF arrangements; and the desirability of preparing a document describing the framework for organizing and delivering technical and financial support in these cases?

Table 1. Fund Technical Assistance in Post-Conflict Countries 1/

Country	Date	Department	Purpose
Cambodia	December 1991	MAE FAD	Part of UN survey mission on administrative structure
	January 1992	CTA TRE	Staff visit with ADB mission on prospects for normalization of relations with the Fund, and technical assistance
	March 1992	STA FAD	Participation in UN economic assessment mission
	May 1992	FAD	Fiscal mission
	June 1992	MAE CTA	Money and banking mission
	June 1992	STA	Money and banking statistics mission
	August 1992	STA	Multitopic statistical mission
	November 1992	CTA FAD	Technical assistance on the formulation of the 1993 Budget
El Salvador	September 1990 -April 1994	FAD	Improvement of government accounting system
	January 1991 -January 1993	MAE	Banking supervision
	April 1991 -April 1992	MAE	Monetary policy advisor
	June 1991	MAE	Quantification of central bank operational losses
	September 1991 -November 1993	FAD	Introduction/implementation of value-added tax (VAT); resident advisor and three review missions
	September 1991	FAD	Drafting of VAT legislation
	October 1991	FAD	Setting up of large taxpayers unit
	January 1992	MAE	Review of monetary policy instruments
	January 1992	MAE	Administrative organization of Central Reserve Bank
	March 1992	STA	Money and banking statistics
	April 1992	MAE	Administration and management of international reserves
	July 1992	MAE	Administrative organization of Central Reserve Bank (follow up)
	October 1992	STA	Money and banking statistics
	December 1992	FAD	Review of VAT legislation and administration
	December 1992	INS	Seminar on financial programming
	January 1993 -July 1994	MAE	Financial Programming Advisor
	February 1993	MAE	Accounting
	February- March 1993	STA	Money and banking statistics

Table 1 (continued). Fund Technical Assistance in Post-Conflict Countries

Country	Date	Department	Purpose
Georgia	June 1992	MAE	Central Bank accounting, payments system, banking supervision, foreign exchange operations, monetary statistics, and financial programming
	June 1992	FAD	Multipurpose
	July 1992	INS	Seminar on financial programming and policies
	August 1992	STA	Balance of payments
	September 1992	STA	Central Bank accounting and monetary statistics (along with EUII)
	September 1992	MAE	Central Bank accounting and monetary statistics (along with EUII and STA)
	October 1992	TRE	Quota subscription
	November 1992	STA	Multitopic
	November 1992	MAE	Central Bank monetary arrangement, payments system, central bank accounting, banking supervision, reorganization of the Central Bank, banking legislation, and introduction of national currency
	November 1992	FAD	Technical assistance coordination in the fiscal and budgetary areas
	January 1993	STA	Balance of payments
	April 1993	STA	Consumer price statistics
	May 1993	FAD	Establishment of a Treasury (in collaboration with EBRD)
	June 1993	MAE	Follow-up advisory mission to the Central Bank
	August 1993	STA	Balance of payments and money and banking statistics
	July 1994	FAD	Establishment of a Treasury and tax administration
	July 1994	STA	Balance of payments
	August 1994	MAE	Monetary programming and operations, foreign exchange market, credit auctions, banking legislation, bank supervision, payments systems, accounting and auditing, and introduction of national currency (along with LEG)
	November 1994	EXR	Public Affairs seminar
	November 1994	FAD	Tax administration
	November 1994	FAD	Establishment of a Treasury
	December 1994	MAE	Central Bank: follow-up assistance (along with LEG)
	January 1995	FAD	Establishment of a Treasury
	February 1995	STA	Government finance statistics

Table 1 (concluded). Fund Technical Assistance in Post-Conflict Countries

Country	Date	Department	Purpose
Georgia	February 1995	STA	Consumer price statistics
	March 1995	FAD	Tax policy: multipurpose
	April 1995	MAE	Central Bank: follow-up assistance
	April 1995	INS	Course on macroeconomic and financial policies
	May 1995	STA	Money and banking statistics
	May 1995	FAD	Tax administration and treasury advisor
Haiti	February 1995	FAD	Assistance in area of fiscal policy and tax administration
	February 1995	MAE	Assistance in monetary policy and bank supervision
	February 1995	STA	Assistance in improving statistical base
Rwanda	October 1994	MAE	Advice on operational aspects of the National Bank of Rwanda and the banking sector
	January 1995	STA	Monetary and balance of payments statistics
	January 1995	FAD	Multitopic mission
	March 1995	MAE	Advice on the market-determined exchange system and monetary accounting
	May 1995	STA	Staff member joining AFR mission to collect and assess monitoring statistics
	June 1995	MAE	Mission to Central Bank

Source: Board documents.

1/ The table covers TA provided by the Fund for about one year after the end of the conflict situation.