

2. Boosting Economic Recovery after Conflict: Patterns and Policies¹

Economic recovery from conflict requires more than peace—it demands a comprehensive policy effort that restores macroeconomic stability, rebuilds institutions, and secures the resources needed for reconstruction. This chapter draws on findings from novel statistical analyses of post-conflict recovery experiences and the analysis of selected case studies to identify the conditions and policies associated with post-conflict economic recoveries, with a particular focus on the economies of the Middle East and North Africa, Afghanistan, and Pakistan (MENAP) and Caucasus and Central Asia (CCA) regions. While recognizing that each recovery is shaped by its own context, the analysis shows that macroeconomic stabilization efforts, access to financing—including through international support and debt relief—and improvements in institutional quality have generally been associated with better outcomes. Case studies further highlight the importance of coordinated donor engagement, timely structural reforms, sustained political commitment to rebuilding state capacity, and technical assistance provided by international organizations.

2.1. Introduction

Conflicts in the Middle East and Central Asia have become more frequent and intense over the past two decades, causing significant human suffering and weakening both near- and long-term economic performance (Chapter 2 of the April 2024 *Regional Economic Outlook: Middle East and Central Asia*).² Intense and protracted conflicts, particularly those that result in large-scale forced displacement, can disrupt social cohesion and human capital accumulation, which is a key driver of medium-term economic prospects (Chapter 2 of the October 2024 *Regional Economic Outlook: Middle East and Central Asia*). Restarting the economy after conflict presents major challenges for domestic policymakers and international partners, with recovery efforts often affected by specific domestic contexts, including political economy dynamics, historical legacies, and diverse post-conflict needs.³ In a more shock-prone world, external factors can also add considerably to these challenges and further complicate post-conflict recovery efforts.

This chapter contributes to the discussion by looking at the drivers of post-conflict economic recoveries in a large sample of countries over the past three decades. Through statistical analyses and case studies, it aims to answer the following questions: What common patterns emerge in post-conflict recoveries? What factors support stronger and more sustained economic recoveries after conflict? What lessons do these experiences offer for economies emerging from conflicts in the MENAP and CCA regions?

The chapter begins by building a dataset of post-conflict recovery episodes, distinguishing between “successful” and “unsuccessful” recoveries. It then analyzes recovery patterns across regions and economy groupings, distinguishing by conflict characteristics (intensity, duration, and type). It further examines the roles played by macroeconomic stabilization efforts, financing, including international support measures, and structural policies. Country case studies are considered to reinforce the findings from the statistical analyses and add further insights into how the type of conflict and economy-specific factors shape outcomes.

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² This chapter finds that after a severe conflict in an economy in the MENAP and CCA regions, per capita output is still about 10 percent lower on average after a decade.

³ Political economy factors could affect post-conflict recovery dynamics through multiple channels. This chapter investigates three in particular: macroeconomic stabilization, international support, and institution building. However, other aspects, such as design of peace and post-conflict political representation agreements could also have implications for the durability of peace and quality of recovery. These are left as potential areas for future research.

2.2. Assessing the Duration and Resilience of Post-Conflict Recoveries

This chapter's main data source is the Uppsala Conflict Data Program's Georeferenced Events Database (covering 1989–2024), which defines conflicts as “incidents of organized and lethal violence between identifiable state or nonstate actors or against civilians.” The chapter defines a country as in conflict if its conflict intensity—defined as total conflict-related deaths divided by the country's total population—in a given year is greater than 25 deaths per million population.⁴ Within the set of conflict episodes in the database, this chapter defines a *post-conflict episode* as one where conflict intensity falls below 25 per million population for at least two consecutive years.⁵ Based on this definition, the chapter finds 121 post-conflict episodes around the world over the past 30 years: 20 in the MENAP region, 8 in the CCA region, and 93 in other regions.

Peace Duration and Growth Performance

Post-conflict (“peace”) episodes in the MENAP region tend to be shorter than elsewhere (Figure 2.1, panel 1). Peace duration curves, which estimate the likelihood of sustaining peace beyond a given duration, also reveal that peace tends to be more fragile in the MENAP region, as the probability of sustaining it drops at a faster pace than in the CCA and other regions, falling below 50 percent after 10 years (Figure 2.1, panel 2).⁶

This fragility may partly reflect MENAP's more intense conflicts on average compared with the CCA region and the rest of the world (Figure 2.2), with conflict intensity measured as the average annual number of per-capita conflict-related deaths per million population across conflicts. Post-conflict growth performance in the MENAP region also tends to lag other regions. Economies in the MENAP region recover more slowly on average, with average five-year post-conflict GDP per capita growth of less than 1 percent, well below the 4.8 percent seen in the CCA region and 2.2 percent elsewhere (Figure 2.3).⁷

Why Do Some Recoveries Succeed While Others Stall?

Post-conflict economies lag their pre-conflict output trends for years on average (April 2024 *Regional Economic Outlook: Middle East and Central Asia*). In this chapter we classify post-conflict recovery episodes as *successful* if two conditions are satisfied; first, GDP per capita returns to its pre-conflict projected path (as captured in the IMF's *World Economic Outlook*) within five years, and second, peace (as defined earlier) is sustained over these five years.⁸ Episodes where the recovery gap persists or peace is not sustained over the five years after the identified end of the conflict are defined as *unsuccessful* (or *failed*). Using these criteria yields the following stylized facts:

- Only about one-third of the episodes in the MENAP and CCA regions and the rest of the world can be categorized as successful (see the Online Annex for further details).
- During conflict (that is, over the five years before the end of conflict), output tends to lag its pre-conflict growth trend for all economies on average, but the MENAP and CCA regions tend to be further behind than elsewhere (Figure 2.4, panel 1).

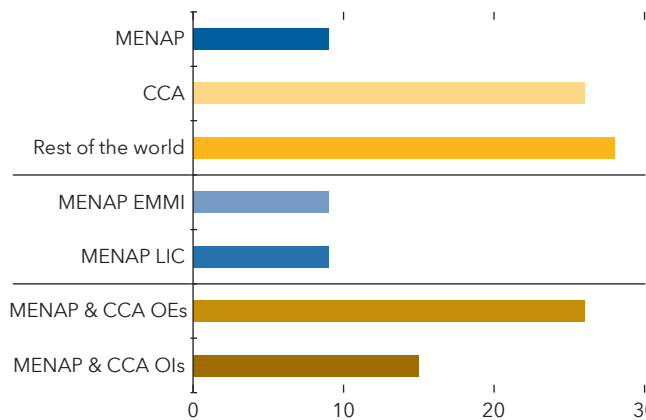
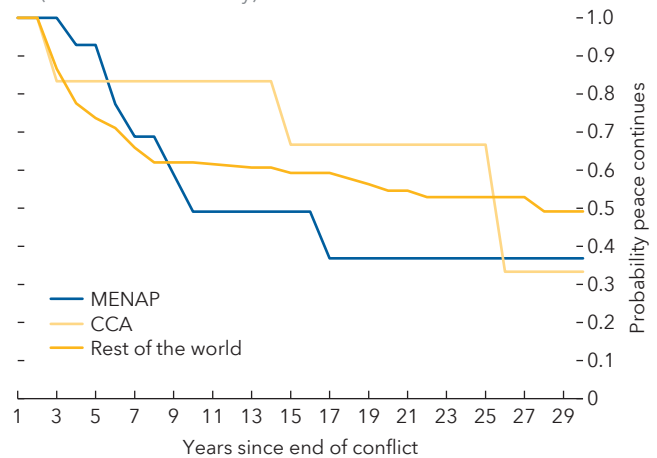
⁴ See Uppsala Conflict Data Program (UCDP 2024). A conflict incident is recorded in the UCDP if there are at least 25 conflict-related deaths. The definition of conflict in the chapter may differ from that of other parties.

⁵ The term “post-conflict” refers to peace episodes used for analytical purposes and does not imply that certain countries are no longer classified by the Fund as fragile and conflict-affected states.

⁶ The curves are estimated following the Kaplan-Meier methodology (Kaplan and Meier 1958), accounting for post-conflict episodes that are still at peace when the dataset ends in 2024.

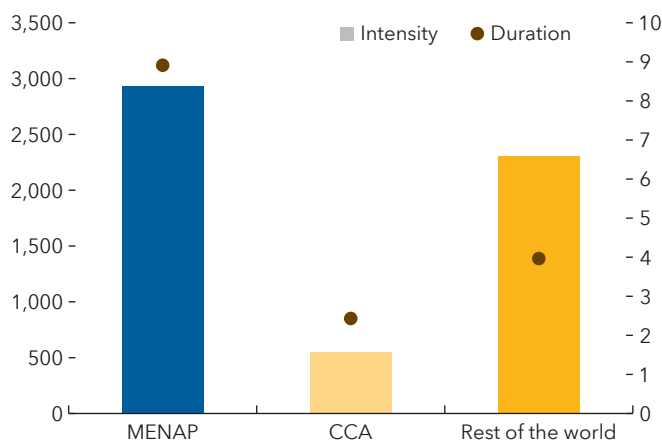
⁷ Previous research shows two challenges stand out for the economies of the MENAP region that may also entail a greater growth drag: higher debt burdens which reduce fiscal space (partly from rising primary fiscal deficits as governments prioritize greater conflict-related expenditures while at the same time revenue sources dwindle as conflict significantly disrupts economic activity; see Rother and others 2016); and greater political instability and general insecurity surrounding peacebuilding, which deters foreign investment and delays recovery (World Bank Group 2020).

⁸ See the Online Annex for further details on the construction of the pre-conflict projected path.

Figure 2.1. Post-Conflict Peace Episodes, 1989–2024**1. Median Duration of Peace by Regional and Economy Groupings**
(Years)**2. Peace Duration Curve by Regional and Economy Groupings**
(Estimated Probability)

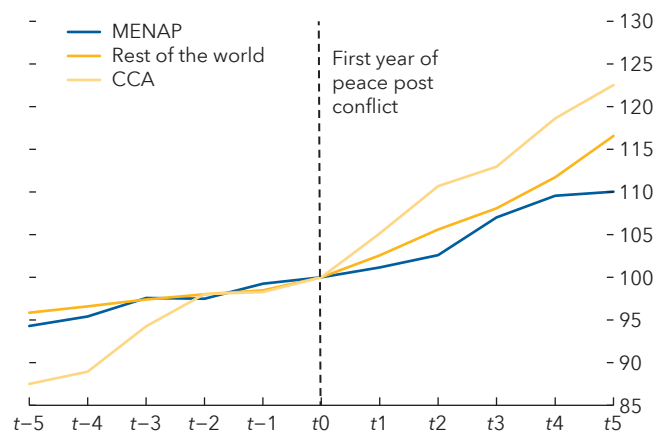
Sources: Uppsala Conflict Data Program, Georeferenced Event dataset; and IMF staff calculations.

Note: Duration curves are Kaplan-Meier estimates. Classifications for oil exporters and importers are based on the current groupings used in the IMF's *Regional Economic Outlook: Middle East and Central Asia*. The "rest of the world" category includes all countries except those in the MENAP and CCA regions. CCA = Caucasus and Central Asia; EMMI = emerging market and middle-income economies; LIC = low-income countries; MENAP = Middle East and North Africa, Afghanistan, and Pakistan; OEs = oil exporters; OIs = oil importers.

Figure 2.2. Average Conflict Intensity and Duration
(Average annual number of conflict-related deaths per million population on left axis, duration in years on right axis, 1989–2024)

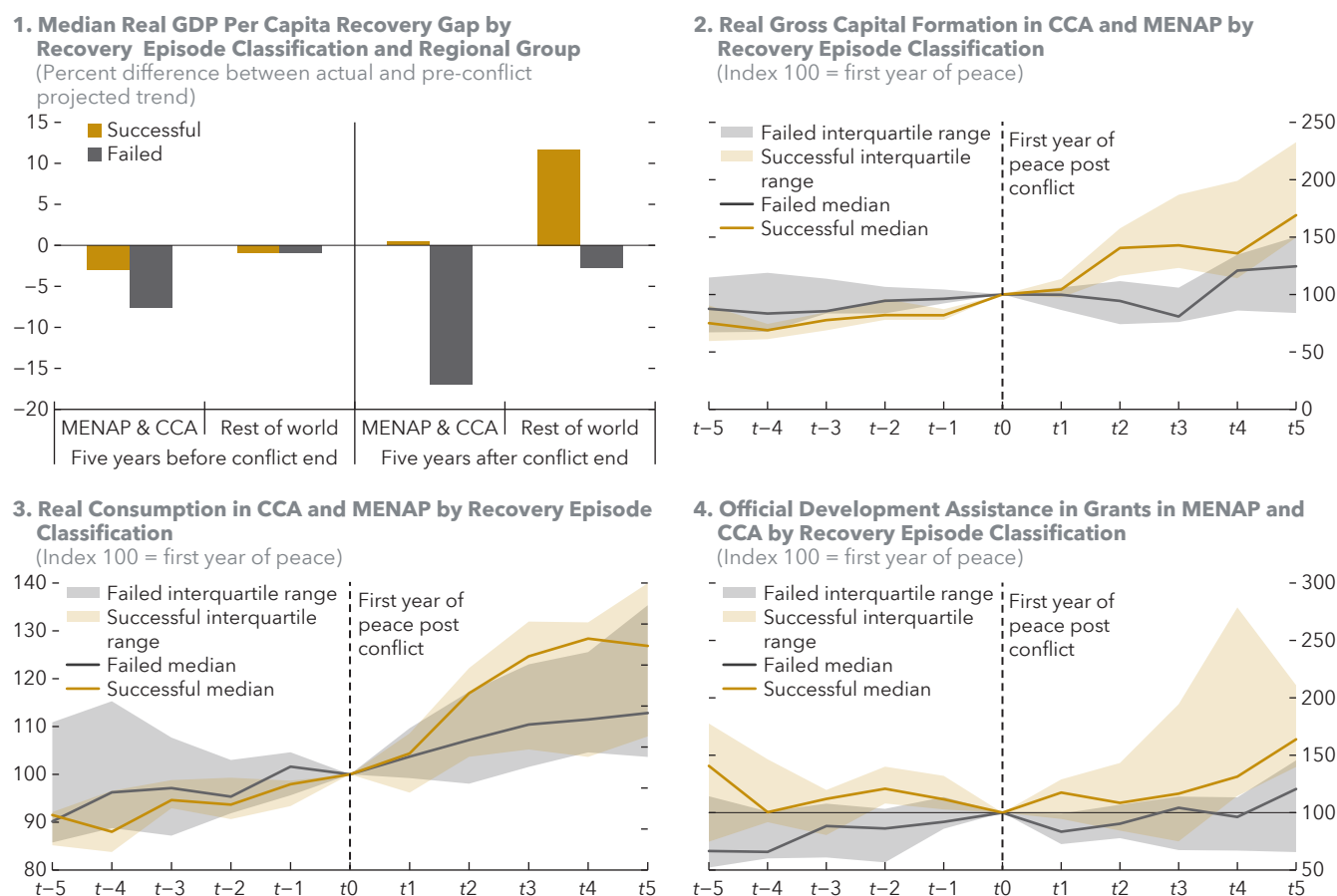
Sources: Uppsala Conflict Data Program, Georeferenced Event dataset; and IMF staff calculations.

Note: The "rest of the world" category includes all countries except those in the MENAP and CCA regions. CCA = Caucasus and Central Asia; MENAP = Middle East and North Africa, Afghanistan, and Pakistan.

Figure 2.3. Median Level of GDP per Capita around Conflict End
(Index 100 = first year of peace)

Sources: IMF, World Economic Outlook database; Uppsala Conflict Data Program, Georeferenced Event dataset; and IMF staff calculations.

Note: The "rest of the world" category includes all countries except those in the MENAP and CCA regions. CCA = Caucasus and Central Asia; MENAP = Middle East and North Africa, Afghanistan, and Pakistan.

Figure 2.4. Post-Conflict Recovery: Evolution of Macroeconomic Channels

Sources: IMF, World Economic Outlook database; Feenstra, Inklaar, and Timmer (2015); Penn World Tables; Organization for Economic Cooperation and Development, Creditor Reporting System database; Uppsala Conflict Data Program, Georeferenced Event dataset; and IMF staff calculations.

Note: Panel 1 includes conflicts that did not persist for five years. Horizontal axes of panels 2–4 show time in years relative to the identified end of conflict. CCA = Caucasus and Central Asia; MENAP = Middle East and North Africa, Afghanistan, and Pakistan.

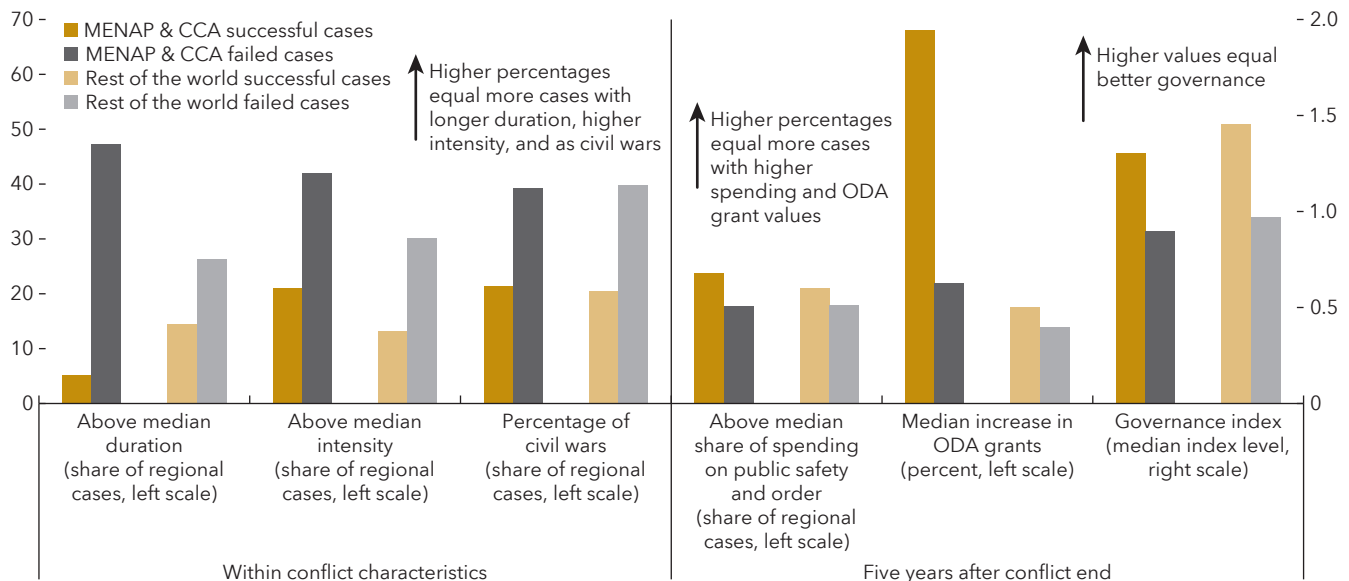
- After the end of the conflict, output in successful recoveries exceeded pre-conflict projected trends by about 12 percent on average for all economies excluding MENAP and CCA economies, but only about half a percent on average in the MENAP and CCA regions.
- In failed recoveries, output in the MENAP and CCA regions fell 17 percent below trend, compared to just 3 percent elsewhere.^{9,10}
- In the MENAP and the CCA regions, successful recoveries are characterized by a sharp rise in investment, with real gross capital formation up by nearly 75 percent on average within five years of a conflict ending, whereas the rebound of real consumption is 25 percent. By contrast, failed recoveries typically do not see investment growth turn positive until the fourth year and consumption lags significantly (Figure 2.4, panels 2 and 3).¹¹

⁹ These results align with Chapter 2 of the April 2024 *Regional Economic Outlook: Middle East and Central Asia* that found the negative economic impact of conflicts in the MENAP and CCA regions tend to be larger and more persistent than in the rest of the world.

¹⁰ MENAP and CCA economies are pooled together for the stylized facts and statistical analysis because of the limited sample coverage for the CCA region, which experienced fewer post-conflict episodes, a total of eight, of which one is classified as successful and four as unsuccessful. Data truncation precludes classifying the other three episodes.

¹¹ Real gross capital formation and real consumption for successful recoveries also rebound five years after conflict for the rest of the world, rising 50 and 20 percent, respectively, but the differences between successful and failed recoveries for these variables in the rest of the world are less.

Figure 2.5. Successful Versus Failed Post-Conflict Recovery Cases: Conditions during and after Conflict
(Percent on left axis; index value on right axis)



Sources: IMF, World Economic Outlook database; Feenstra, Inklaar, and Timmer (2015); Penn World Tables; Organization for Economic Cooperation and Development; Uppsala Conflict Data Program, Georeferenced Event dataset; World Bank, Worldwide Governance Indicators; and IMF staff calculations.

Note: Conflict intensity is measured as the average annual deaths per capita for each conflict. Civil wars fall under the state-based category in the Uppsala conflict database, where one or more rebel groups challenge the state. The median increase in ODA grants shows the median change five years after the first year of peace. The Governance Index is calculated as the average of the six Worldwide Governance Indicators subindices, normalized to a minimum value of zero. The “rest of the world” category includes all countries except those in the MENAP and CCA regions. CCA = Caucasus and Central Asia; MENAP = Middle East and North Africa, Afghanistan, and Pakistan; ODA = official development assistance.

- Successful recoveries also tend to show greater increases in gross remittances, net exports, and official development assistance in the form of grants within the first five years after conflict (Figure 2.4, panel 4 and Online Annex).

Several characteristics and factors may help explain why some post-conflict recoveries succeed, whereas others fall short (Figure 2.5):

- The prior conflict’s characteristics play an important role—recoveries are more likely to be successful when the prior conflict is shorter, less intense, and not a civil war.¹²
- Success is also more common when governments allocate greater fiscal resources to restoring public order and safety in the aftermath of a conflict. Case studies further underscore the importance of security. When peace remains fragile or security threats persist, reconstruction costs are higher, and investment is discouraged, as illustrated in the case of Afghanistan (see Box 2.1).¹³
- Higher levels of grant-based official development assistance and stronger governance after the end of conflict are also associated with better outcomes. Notably, the differences between successful and failed recoveries in the MENAP and CCA regions tend to be larger on average than the rest of the world across most of these characteristics.

¹² Within the Uppsala database, conflicts are categorized by the nature of the actors involved. It identifies three primary types of conflicts: (1) state-based conflicts, involving clashes between two organized entities, with at least one being a government body (civil wars are a sub-category under this, where one or more rebel groups challenge the state); (2) nonstate-based conflicts, featuring confrontations between two organized groups, with neither being a government; and (3) one-sided events, where an organized group—either governmental or non-governmental—directly targets civilians. In the sample, roughly 80 percent of conflicts are state-based, of which 61 percent are civil wars, 7 percent are non-state, and 13 percent involve one-sided violence. All three conflict types are retained in the empirical analysis to ensure comprehensive coverage of conflicts in the sample.

¹³ See Special Inspector General for Afghanistan Reconstruction (2021).

Although these findings point to a few possible factors linked to stronger recoveries, the bilateral associations presented here do not capture the combined impact of policy responses and other dimensions of the episodes we have identified. To do that, in the next section we turn to a multivariate statistical analysis.

2.3. Conditions and Policies Supporting Post-Conflict Recovery

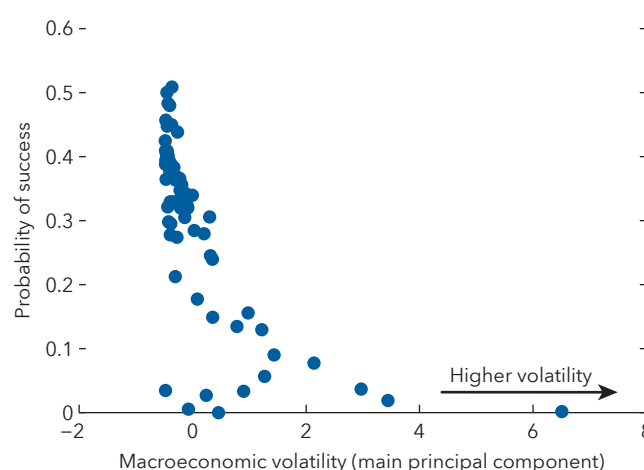
This section looks at whether specific policies are associated with higher chances of successful economic recovery after conflict, while controlling for other characteristics of the episodes. Specifically, the analysis uses logistic regressions to examine the relationship between a binary dependent variable indicating a successful or unsuccessful economic recovery and a set of explanatory variables capturing potential policy-related drivers related to: (1) macroeconomic stabilization, (2) financing and international support, and (3) structural policies and institutions. Prior conflict characteristics—their duration and intensity—are included as controls, as they may affect initial conditions and dynamics after conflict. Although the findings point to important relationships, it is important to caveat that these are associational and suggestive, rather than causal.¹⁴

Macroeconomic Stabilization

Stabilizing the economy in the early stages after a conflict is an important factor in supporting recovery. Reducing macroeconomic volatility helps lower uncertainty, which in turn builds confidence and predictability. These are key ingredients for the post-conflict rebound of investment and consumption in successful episodes. Macroeconomic stabilization is particularly important in post-conflict settings where weak institutions and underdeveloped financial markets can amplify the negative effects of economic instability on long-term growth (Hnatkovska and Loayza 2003).¹⁵

Taking the first principal component of volatilities in real output growth and inflation across post-conflict episodes as a measure of macroeconomic volatility, the analysis shows that economies experiencing higher volatility in the first five years of peace are less likely to achieve a successful recovery (Figure 2.6).¹⁶ Specifically, an increase equivalent to a jump from the 25th to the 75th percentile of macroeconomic volatility across post-conflict cases is associated with a more than 25 percent drop in the odds ratio of success.¹⁷

Figure 2.6. Macroeconomic Volatility and Successful Recoveries
(Estimated probability of success)



Sources: IMF, World Economic Outlook Database; Feenstra, Inklaar, and Timmer (2015); Penn World Tables; Uppsala Conflict Data Program, Georeferenced Event dataset; and IMF staff calculations. Note: Output growth volatility is estimated as the average squared deviation of real per-capita GDP growth relative to its mean in the first five years of peace, while inflation volatility is captured by the average squared deviation of CPI inflation relative to a 5 percent benchmark in the first five years of peace. The estimated probability of success conditional on macroeconomic volatility is derived from a logistic regression that controls for conflict duration and intensity.

¹⁴ See the Online Annex for further details on the analytical methodology and the interpretation of the estimated relationships.

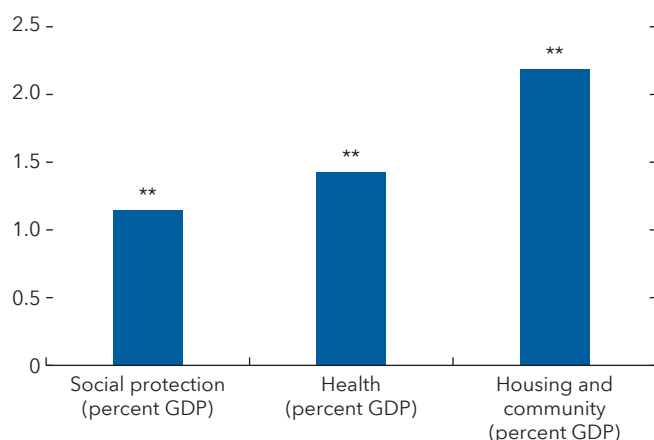
¹⁵ See also Loayza and others (2007) for a review of the literature on the growth implications of macroeconomic volatility.

¹⁶ Using these two variables to capture the gains of macroeconomic stabilization is well grounded in theory: the baseline New Keynesian model posits that optimal monetary policy stabilizes both inflation and output (Gali 2015). In addition, inflation volatility also captures the pass-through of exchange rate volatility, which is associated with a reduced ability to withstand shocks in economies with less developed financial markets (Aghion and others 2009; Eklou 2023).

¹⁷ Odds ratios describe changes in the ratio of probability of success over the probability of failure associated with the change in the explanatory variable.

Figure 2.7. Public Spending and Successful Recoveries

(Estimated odds ratio impacts)



Sources: Gethin (2024), Database of General Government Revenue and Expenditure by Function; IMF, World Economic Outlook Database; Feenstra and others (2015), Penn World Tables; Uppsala Conflict Data Program, Georeferenced Event dataset; and IMF staff calculations.

Note: Odds ratios are estimated from a logistic regression of success on each public spending category (measured as the average spending in that category as a percentage of GDP during the first five years post-conflict) separately, controlling for conflict duration and intensity. Robust standard errors, with levels of significance * $p < 0.10$; ** $p < 0.05$.

protection, health, and housing is associated with 15, 42, and 119 percent higher odds ratios of a successful recovery after conflict, respectively (Figure 2.7).¹⁸

Evidence from post-conflict case studies also shows that macroeconomic stabilization proved essential to enhancing economic prospects during post-conflict recovery. For example, to establish credibility, Afghanistan undertook currency reform and reined in monetary financing to curb inflation, whereas Rwanda unified parallel exchange markets (see Section 2.4 and Box 2.1).

Financing and International Support

Conflict-affected states often face severe debt vulnerabilities and damaged productive capacity, which can limit their ability to mobilize resources and restart economic activity once peace is restored. External financial support from international donors and creditors—including through debt relief, grants, or concessional financing—can play a vital role in easing these constraints by expanding fiscal space and providing a much-needed boost to recovery efforts (Boyce 2011; Cassimon and others 2015).

Debt restructuring—reducing the overall sovereign debt burden—appears to be an important factor: cases where restructuring occurred during the conflict or within five years after the onset of peace are associated with an over 50 percent higher estimated probability of a successful recovery, compared with cases without any restructuring (Figure 2.8).¹⁹ Although restructuring agreements may help increase available fiscal resources,

Although this chapter is unable to unpack fully which specific policy measures contributed to greater macroeconomic stabilization, the analysis suggests that a shift toward greater financial openness over the first five years of peace is significantly associated with a higher likelihood of success. Measured by changes in the Chinn-Ito index of capital account openness (Chinn and Ito 2006), the improvement in financial openness reflects factors such as lowering restrictions on capital and current account transactions, unifying multiple exchange rates, and reducing surrender requirements for export proceeds.

Furthermore, public spending on areas such as social protection and health can also support macroeconomic stabilization through the delivery of basic public and social services that help maintain social cohesion, promote inclusion, and support more lasting peace in post-conflict settings (Ovadiya and others 2015; Bashur 2025). The analysis finds a strong link between higher public spending in these areas (as a percentage of GDP) during the first five years of peace and the likelihood of a successful recovery. On average, each additional 1 percent of GDP spent on social

¹⁸ Increased spending in these categories also potentially speaks to the importance of addressing inequality and closing inclusiveness gaps.

¹⁹ This finding aligns with broader research showing that sovereign defaults tend to precede economic recoveries (Yeyati and Panizza 2011). However, this should not be interpreted to suggest that sovereign defaults are harmless. The authors also find that recessions tend to precede the formal default decision. They argue that the associated financial distress can be explained by market anticipation of default.

other factors that are not fully controlled for may also drive the incidence of restructuring agreements. As discussed in section 2.2 and the country cases studies (see Box 2.1 and the Online Annex), grants and other financing have also played important roles in supporting stronger post-conflict economic recoveries, particularly for Afghanistan, Rwanda, and Somalia. These could include a perceived greater commitment to structural reforms, improvements in governance, and sounder policies, which all may contribute to greater investor confidence and economic prospects more directly, while also boosting the chances of a restructuring agreement.

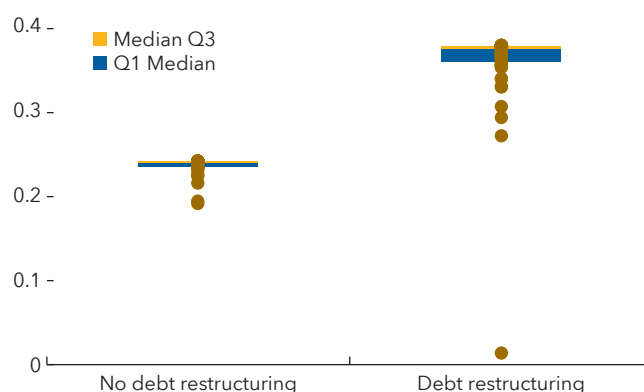
In addition to debt relief, non-financial support can play a role in post-conflict recoveries. Post-conflict economies often suffer from weak absorptive capacity to effectively manage aid inflows and implement structural reforms. This weak capacity also makes the proper sequencing of structural reforms more important. Hence, IMF capacity development and support for economic institution building have been extensive in conflict-affected economies regardless of resolution outcomes, with an average of about 56 capacity development missions over five years in both successful and failed post-conflict recovery cases. The largest shares of assistance were in the areas of fiscal and financial sector issues, followed by legal frameworks and data systems.

Case studies also highlight the pivotal role of international support, through debt relief, and donor support. In Afghanistan, debt relief freed up resources to rebuild state capacity, whereas Rwanda judiciously used the fiscal space from debt relief and additional external aid flows to safeguard productive investments (see Section 2.4 and Box 2.1).

Institutions and Structural Reforms

Stronger institutions and better governance can support both economic development and lasting peace, boosting the chances of a successful recovery.²⁰ Conflicts often weaken the state's institutional capacity, making post-conflict rebuilding especially challenging (UNDP 2008; Besley and Reynal-Querol 2014). Economies with stronger institutional quality (measured by the average value of the Worldwide Governance Indicators) at the onset of a post-conflict episode are more likely to recover successfully, all else equal (Figure 2.9, panel 1). However, recovery is not solely determined by initial conditions, but also by continued improvements in governance after the conflict. Efforts to strengthen institutions following the return to peace are associated with larger increases in the likelihood of success. A 1 standard-deviation improvement in overall institutional quality during the first five years of peace—comparable to moving from the 10th to the 75th percentile—is associated with roughly double the odds ratio of a successful recovery. The most impactful gains are observed in areas such as government effectiveness, voice and accountability, political stability, and—to a certain extent—control

Figure 2.8. Debt Restructuring and Successful Recovery
(Estimated probability of success)

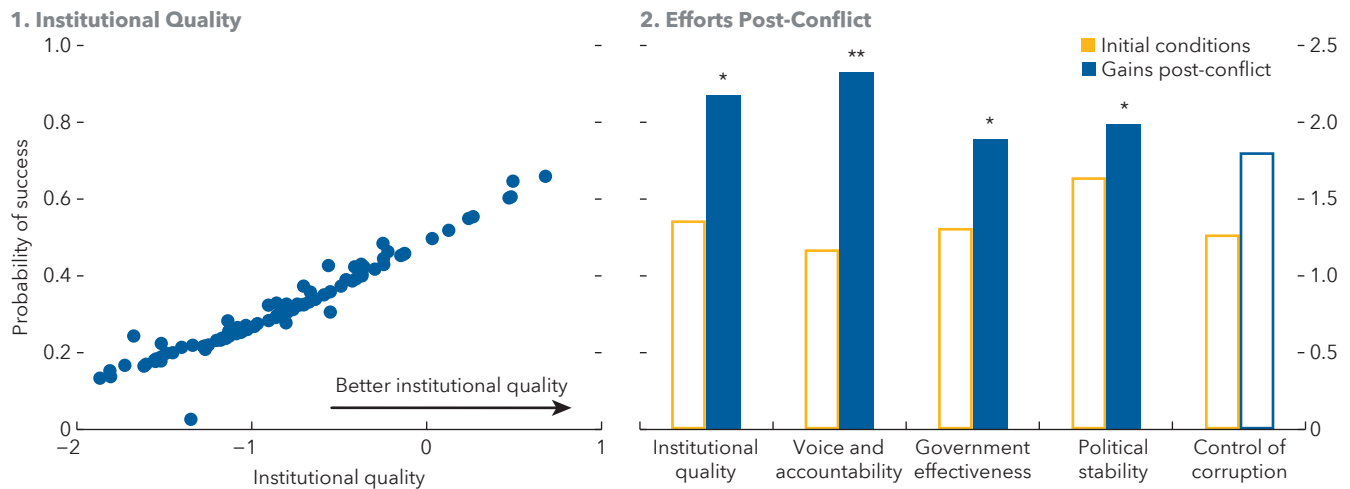


Sources: Asonuma and Trebesch (2016); Asonuma, Niepelt, and Ranciere (2017); Horn, Reinhart, and Trebesch (2022); datasets on sovereign and private debt restructurings; IMF, World Economic Outlook database; Feenstra, Inklaar, and Timmer (2015), Penn World Tables; Uppsala Conflict Data Program, Georeferenced Event dataset; and IMF staff calculations.

Note: Debt restructurings encompass bilateral official restructurings (including those by China and the Paris Club) and private creditor restructurings, while excluding symbolic official restructurings. The estimated probability of success conditional on an indicator variable for the occurrence of debt restructuring is derived from a logistic regression that controls for conflict duration and intensity.

²⁰ Studies exploring the relationship between institutional quality and economic performance include, among others: Mauro (1995), Hall and Jones (1999), and Acemoglu, Johnson, and Robinson (2001).

Figure 2.9. Institutions: Initial Conditions and Efforts to Improve Governance
(Estimated probability of success; odds ratio impacts)



Sources: World Bank, Worldwide Governance Indicators (WGI); IMF, World Economic Outlook Database; Feenstra, Inklaar, and Timmer (2015), Penn World Tables; Uppsala Conflict Data Program, Georeferenced Event dataset; and IMF staff calculations.

Note: Institutional quality is measured as the average of the six WGI subindices. Panel 1 estimates the probability from a logistic regression of success on the average institutional quality during the last year of conflict (onset of peace). For panel 2, odds ratios are estimated from a logistic regression of success on a measure of institutions (overall institutional quality and WGI subcomponents) during the last year of conflict, and changes in these measures over the subsequent five years post-conflict. Panel 2 displays odds ratios associated with a one-standard-deviation increase in the measure of institutional quality at conflict end, and a one-standard-deviation increase in the gains in institutional quality after conflict. The regression coefficients for Control of Corruption, Regulatory Quality, and Rule of Law are not significant at the 10 percent level. All regressions control for conflict duration and intensity. Hollow bars indicate a lack of significance. Robust standard errors, with levels of significance * $p < 0.10$; ** $p < 0.05$.

of corruption (Figure 2.9, panel 2). Case studies also illustrate that structural reforms are an important part of post-conflict recovery. Afghanistan focused on strengthening fiscal and monetary institutions, whereas Rwanda implemented reforms to improve governance (see Section 2.4 and Box 2.1).

Quantifying the Importance of Conditions and Policies for a Successful Recovery

The analysis concludes by quantifying the roles that policy-related drivers in these three categories considered—macroeconomic stabilization efforts, financing and international support, and institutions and structural reforms—have together played in explaining the policy-related variation in the chances of a successful post-conflict recovery across the MENAP and CCA regions and the rest of the world. Variation in macroeconomic stabilization efforts and financing support (captured by macroeconomic volatility, social spending, and debt restructuring episodes) account for the bulk of the policy-related variation in the odds of success, whereas institutions and structural reforms (captured by initial institutional quality) account for the rest. Importantly, the analysis does not highlight major differences in the relative contribution of these factors to the policy-related variation of post-conflict recovery outcomes across MENAP, the CCA, and the rest of the world. This suggests that lessons from successful post-conflict recoveries elsewhere are relevant for MENAP and CCA economies (Figure 2.10).

2.4. Lessons from Case Studies

Although statistical analyses are useful to identify common and robust patterns across a broad set of episodes, they necessarily abstract from many economy- and episode-specific details in terms of historical context and the structure of policy interventions that can interact to shape recovery efforts and their effectiveness. To attempt to address these limitations and gain deeper insights into the policy reforms, examples of reform sequencing, and the role of international institutions underlying post-conflict recovery, the chapter draws on

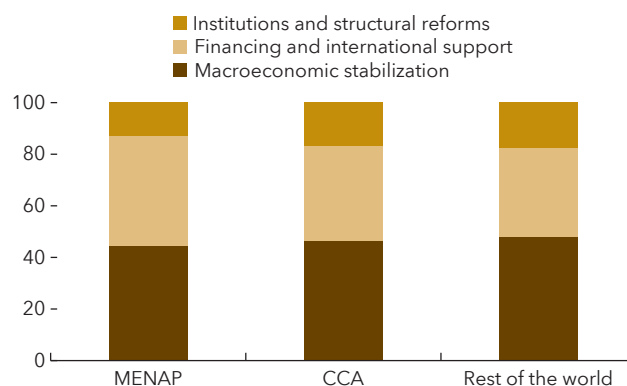
case studies from the post-conflict experiences in Afghanistan (1989–2022), Iraq (2003–18), Rwanda (1990–98), and Somalia (1989–ongoing), where the years indicate those periods in conflict. These economies represent a range of conflict types and duration as well as outcomes and policy approaches to post-conflict recovery (see Box 2.1 and the Online Annex for further details).

Beyond reinforcing the broad findings from the statistical analyses, the case studies highlight four important lessons. First, well-coordinated donor assistance—especially when mobilized within the economy’s fiscal frameworks (Afghanistan)—can enhance the impact of external support. A formal operational donor coordination mechanism through which assistance is coordinated may increase the effectiveness of such aid (Somalia).²¹ Second, economic stabilization efforts must be accompanied by structural reforms aimed at improving governance and economic liberalization (for example, the privatization of state-owned entities in Rwanda). Third, maintaining political stability is essential to sustain reform momentum (Rwanda) and to avoid relapsing into conflict (Afghanistan). Lastly, international institutions play a role beyond the provision of financial resources through their role in coordinating international support including technical assistance (Iraq). In the case of Afghanistan, the IMF, in particular, helped rebuild fiscal and monetary institutions from the ground up. However, success is not guaranteed, particularly when overlapping adverse shocks materialize (Iraq), and when persistent security challenges exist (Afghanistan, Iraq, Somalia), which can derail progress and set back recovery. In Rwanda, continued engagement through technical assistance supported the authorities’ commitment to long-term reconstruction and institutional development.

2.5 Conclusions

Boosting the chances of a successful post-conflict recovery requires a comprehensive strategy, calibrated to economy-specific circumstances. Although no single formula applies to all situations, three core priorities emerge from this chapter’s statistical analysis: macroeconomic stabilization, securing external financing—including through international support and debt relief—and strengthening institutions. As the relative importance of the variability of these factors to the odds of success is similar across regions, it suggests that the lessons learned from successful post-conflict recoveries in the rest of the world may help inform policymakers grappling with post-conflict economies in the MENAP and CCA regions. Case studies further highlight that (1) well-coordinated donor assistance can enhance the impact of external support; (2) the sequencing of policy actions matters,

Figure 2.10. Correlates of Successful Recoveries across CCA and MENAP Economies, and the Rest of the World
(Percent of policy-related variation explained)



Sources: Feenstra, Inklaar, and Timmer (2015), Penn World Tables; Gethin (2024), Database of General Government Revenue and Expenditure by Function; IMF, World Economic Outlook Database; Asonuma and Trebesch (2016); Asonuma, Niepelt, and Ranciere (2017); Horn, Reinhart, and Trebesch (2022); datasets on sovereign and private debt restructurings; Uppsala Conflict Data Program, Georeferenced Event dataset; World Bank, Worldwide Governance Indicators; and IMF staff calculations.

Note: The relative contributions of policy-related variation explained are computed following Sterck (2019), using multivariate logistic regression estimates for the log odds of a successful post-conflict recovery. See the Online Annex for further details. CCA = Caucasus and Central Asia; MENAP = Middle East and North Africa, Afghanistan, and Pakistan.

²¹ See case studies (Box 2.1) on the Highly Indebted Poor Countries (HIPC) Initiative for Afghanistan, Rwanda, and Somalia as well as Somalia’s Country Fund.

with macroeconomic stabilization the immediate priority;²² (3) political stability is essential to maintain reform momentum; and (4) international institutions have an important role to play beyond financing, through support for institution building and technical assistance.

Given the complex and multi-faceted nature of post-conflict situations, political economy and detailed policy design issues naturally arise which may affect the strength and durability of economic recoveries. Specific post-conflict political economy factors—such as domestic political agreements and power-sharing arrangements—may affect institutional effectiveness and policy decision-making, and thereby recovery outcomes. Specific design elements of operational mechanisms for donor coordination may also affect the responsiveness and effectiveness of external support in fostering recovery. Furthermore, external shocks—to global demand, trade policies, and financing conditions among others—may also influence the likelihood of successful post-conflict economic recovery, interacting with policies and their design, particularly in more fragile economies. These issues are left to future research to unpack further.

²² This should not be interpreted to imply that progress on adopting institutional and structural reforms cannot be made in parallel with undertaking policy actions for macroeconomic stabilization. Rather, the positive effects of such actions typically require more time to manifest fully, whereas stabilization policies after conflict act to improve the economic environment more immediately.

Box 2.1. Lessons from Economies Recovering after Conflict^{1,2}

Afghanistan (1989–2022)

The conflict in Afghanistan spanned over four decades, driven by historical grievances, political instability, and foreign influence, resulting in widespread deaths and the displacement of over 8 million people. After the fall of the Taliban in 2001, the Bonn conference laid the foundation for a political settlement that paved the way for a new constitution and the first post-conflict elections in 2004, marking the beginning of economic recovery.

The new government implemented a sequenced stabilization program emphasizing prudent fiscal and monetary management. A new currency, the Afghani, was introduced in 2002, stabilizing the exchange rate and largely eliminating the dominant role of multiple currencies in circulation. Over time, institutional reforms strengthened the central bank and fiscal authority, supported by new legal frameworks, banking sector reforms, and anti-corruption efforts. However, challenges remained in sustaining capacity to govern especially with gradual return of refugees whose reintegration increased fiscal costs.

International support played a pivotal role in strengthening the authorities' capacity and creating fiscal space for recovery. Significant debt relief and donor assistance directly contributed to post-conflict recovery efforts. Beyond the financial support from donors, the technical assistance provided by the IMF was instrumental in building the economy's monetary and fiscal institutions from the ground up and stabilizing the economy. The lesson from Afghanistan's experience is that continued political stability, effective donor coordination, and strong absorptive capacity are essential to consolidate reconstruction and even amplify recovery. However, in practice, these gains were not fully realized, as political instability and security challenges eventually undermined reconstruction efforts.

Iraq (2003–18)

Iraq has endured two decades of violence and conflict, with the 2003 US-led invasion followed by an ethno-sectarian conflict (2006–08) and later a war with the Islamic State of Iraq and Syria, or ISIS (2011–17). Amid ongoing security challenges, the authorities initiated steps to secure macroeconomic stability through IMF-supported programs. In the early years, large investments in the oil sector generated a revenue windfall that aided post-conflict recovery, albeit increasing vulnerability to oil price fluctuations. Progress was also made in subsidy reform, including fuel price adjustments and efforts to improve the targeting and efficiency of social safety nets. With IMF support, the authorities strengthened the monetary policy framework by establishing an exchange rate peg against the dollar and expanding the central bank's toolkit, which helped stabilize inflation. Early governance and institutional reforms focused on the oil sector, whereas over time, the reform agenda broadened to include wider governance measures. However, progress remained constrained by weak capacity and corruption amid persistent security challenges.

This box was prepared by Muhammad Ejaz and Radhika Goyal.

¹ Conflict episode start and end dates are defined according to the definition in Section 2.2, first paragraph, based on the estimated conflict intensity aggregated by year from the Uppsala Conflict Data Program database.

² These specific post-conflict recovery episodes were selected mainly because international support and engagement were extensive and to draw lessons on what helped encourage recovery, regardless of whether the episode could finally be classified as successful or failed. For more information, see the Online Annex, including for further details on the nature and extent of international engagement over time.

Box 2.1. (continued)

The IMF played a pivotal role in Iraq's recovery by coordinating international support, providing financial and technical assistance, and helping the authorities build a sound macroeconomic framework and institutional capacity for fiscal and monetary policies. Importantly, IMF-supported programs helped establish a strong track record of reform commitment, paving the way for substantial debt relief. The stock of debt held by Paris Club creditors was reduced by 80 percent in three phases, contingent on the successful approval and completion of IMF programs. External shocks—especially fluctuations in oil prices—and prolonged security challenges repeatedly tested the authorities' resolve to maintain macroeconomic stability. The key lesson from Iraq's case is that recurring security challenges in resource-dependent states can prolong conflict, derail reform, and hinder a durable recovery.

Rwanda (1990-98)

Rwanda's recovery from the 1994 genocide highlights the importance of early institutional reform in post-conflict settings. After adopting a new constitution in 2003, the authorities pursued a sequenced structural reform agenda that prioritized fiscal consolidation and institution building before broader market liberalization. Between 1997 and 2004, 27 key reforms were implemented, including efforts to strengthen budget transparency, reduce the state's economic footprint through privatization, and the introduction of a system of foreign exchange auctions that helped the central bank achieve a market-clearing exchange rate without excess volatility. These reforms enabled Rwanda to stabilize the macroeconomy and regain control over the public finances.

Improved governance, supported by the creation of a centralized bureau to implement donor-financed aid projects and increased spending in socially-productive sectors—such as rural and agricultural transformation, human development, and institutional capacity—anchored donor confidence and paved the way for debt relief. Rwanda reached the Heavily Indebted Poor Countries decision point in 2000 and qualified for the Multilateral Debt Relief Initiative in 2006, resulting in external debt reduction exceeding \$1 billion.

Rwanda's experience offers two key takeaways. First, establishing strong fiscal institutions and governance frameworks early provides a stable foundation for recovery. Second, a firm commitment to reform creates a durable foundation for recovery by sustaining reform momentum coupled with continued political stability, international support, and strong local ownership.

Somalia (1989-Ongoing)

Somalia's path from state collapse to gradual rebuilding over the past decade has been shaped by domestic reform commitment and sustained international engagement. After two decades of conflict that devastated the economy, institutions, and human capital, the 2008 Djibouti Agreement and the 2012 Provisional Constitution established a federal framework that enabled renewed external support and space for state-building. Since then, Somalia has held three national elections with peaceful transfers of power, though political settlement remains incomplete, and security challenges persist.

International partners have played a critical role in Somalia's reconstruction. The United Nations and African Union missions have provided security and protection for key infrastructure, while bilateral partners supported training and logistics for national security forces. Multilateral and bilateral partners have supplied sizable grant financing, alongside coordinated support from the IMF and World Bank. A major milestone was reached in 2023 with \$4.5 billion in debt relief under the Heavily Indebted Poor

Box 2.1. (continued)

Countries Initiative, restoring external sustainability and unlocking further financing. Donor contributions to the Somalia Country Fund have also been instrumental in ensuring the IMF's sustained provision of capacity development support.

The authorities' strong ownership of the macroeconomic reform strategy has been critical. Since 2016, Somalia has implemented more than 100 structural measures under IMF-supported programs, alongside reforms supported by the World Bank and other partners. These reforms span tax policy and administration, public financial management, debt management, financial regulation and supervision, anti-money laundering and countering the financing of terrorism, governance, and statistics. Tangible outcomes include improved revenue mobilization, modernized public financial management processes, strengthened central bank capacity, and greater transparency and accountability.

Somalia's experience illustrates that fragile and conflict-affected states can make progress toward stability and development, but this requires strong domestic commitment, predictable international support, and carefully sequenced reforms. Progress remains long-term and contingent on both continued reform ownership and adaptation to shocks. The country's progress also illustrates that post-conflict recovery is a long-term process that requires adaptability and close collaboration between domestic stakeholders and international development partners.