

Online Annex. Boosting Economic Recovery After Conflict: Patterns and Policies

2.1. DATA AND CLASSIFICATION OF POST-CONFLICT RECOVERIES

CONFLICT DATA

The chapter uses the Uppsala Georeferenced Event Dataset (GED) (Davies and others 2025; Sundberg and Melander 2013), global version 25.1, as a data source covering conflicts from 1989 to 2024.¹ As highlighted in Chapter 2 of the April 2024 *Regional Economic Outlook: Middle East and Central Asia*, this dataset has the advantage of providing comprehensive information on conflict-related deaths and covers the entire world. See the Online Annex of that REO chapter for additional details on the Uppsala Georeferenced Event Dataset.

POST-CONFLICT PEACE EPISODES: MEASURING SUCCESSES AND FAILURES

For the purposes of this chapter, a peace episode is defined as a period of two or more successive years with fewer than 25 conflict-related deaths per million population. Using these thresholds, the chapter examines a sample of 121 post-conflict peace episodes, with the Middle East and North Africa, Afghanistan, and Pakistan (MENAP) region accounting for 16 percent (20 episodes), the Caucasus and Central Asia (CCA) region for 7 percent (8 episodes), and the rest of the world for 77 percent (93 episodes). Table A.2.1 lists the post-conflict peace episodes in the MENAP and CCA regions.

Table A.2.1 MENAP, and CCA Regions Post-conflict Peace Episodes, 1989–2024

MENAP Region	Conflict period	CCA Region	Conflict period
Afghanistan	1989-2022	Armenia	2022-2022
Algeria	1993-2002	Azerbaijan	1992-1994
Djibouti	1990-1995	Azerbaijan	2020-2020
Djibouti	1999-1999	Azerbaijan	2023-2023
Djibouti	2008-2008	Georgia	1992-1993
Iraq	1991-1997	Georgia	2008-2008
Iraq	2003-2018	Kyrgyz Republic	2000-2000
Kuwait	1990-1991	Tajikistan	1992-1998
Lebanon	1989-1996		
Lebanon	2006-2006		
Lebanon	2013-2017		
Libya	2011-2020		
Mauritania	1989-1989		
Pakistan	2008-2010		
Somalia	1989-2023		
Sudan	1989-2016		
Sudan	2022-2023		
Syria	2011-2023		
Yemen	1994-1994		
Yemen	2011-2022		

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

Notes: CCA = Central Asia and Caucasus; MENAP = Middle East, North Africa, Afghanistan, and Pakistan.

Post-conflict recoveries are considered successful when they satisfy the following two criteria:²

1. Not falling back into conflict within five years of conflict-end (total conflict-related deaths per million people remaining below 25).
2. Real GDP per capita exceeding pre-conflict implied real GDP per capita counterfactual values.

¹ See data at UCDP Dataset Download Center ([uu.se](https://www.ucdp.org/)). UCDP is part of and funded by DEMSCORE, national research infrastructure grant 2021-00162 from the Swedish Research Council.

² Failed post-conflict recoveries comprise all other post-conflict recovery episodes not meeting the two criteria above.

To assess whether criterion 2 is met, pre-conflict implied real GDP per capita paths for each peace episode are constructed using projections from the October *World Economic Outlook* (WEO) vintage of the year *preceding the start of the conflict*.³ Specifically, this counterfactual path for real GDP per capita is constructed by extrapolating these projections using the last growth rate of real GDP per capita available (typically at year t+5 for an October WEO vintage of year t). The counterfactual value of real GDP per capita five years *after the end of the conflict* is compared to the most recent estimate⁴ (from the April 2025 *World Economic Outlook vintage*) of real GDP per capita in that same year.

Scaling factors are constructed to ensure comparability of real GDP per capita across different base years for different WEO vintages using the first non-missing year across both the April 2025 WEO vintage and the pre-conflict year WEO vintage. In the absence of overlapping years across the two WEO vintages, the most recent vintage of the Penn World Tables (Feenstra, Inklaar, and Timmer 2015) is used to create a scaling factor that allows comparability. In addition, if real GDP per capita data is not available in the WEO vintage of the year preceding conflict, the first year for which it is available is used instead. By definition, post-conflict peace episodes starting in 2020 or later cannot be classified as successful or failed, and therefore these cases were not included in this analysis. Out of 28 post-conflict peace episodes across MENAP and CCA economies, 19 could be classified as either successful or failed.

Across MENAP and CCA economies and the rest of the world, about one-third of peace episodes were deemed successful (Table 2). Table A.2.3 presents a list of peace episodes classified as successful in the MENAP and CCA regions.

Table A.2.2. Successful versus Failed Post-Conflict Recovery Episodes
(percent of total post-conflict episodes)

1. MENAP and CCA

2. Rest of the World

	Recovery gap closed	Recovery gap open		Recovery gap closed	Recovery gap open
Peace maintained within 5 years	32%	63%	Peace maintained within 5 years	32%	41%
Conflict reoccurrence within 5 years	0%	5%	Conflict reoccurrence within 5 years	10%	17%

Sources: IMF, World Economic Outlook database; Feenstra, Inklaar, and Timmer (2015); Penn World Tables; and IMF staff calculations.

Note: Green refers to post-conflict episodes classified as successes, yellow refers to post-conflict episodes in economies that did not reach pre-conflict implied counterfactual GDP per capita five years after the end of conflict, while red refers to post-conflict episodes in economies that failed to maintain peace during the first 5 years after the end of conflict. CCA = Central Asia and Caucasus; MENAP = Middle East, North Africa, Afghanistan and Pakistan.

Table A.2.3. Successful Post-Conflict Recovery Episodes in the MENAP and CCA regions

MENAP and CCA Regions	Conflict period
Djibouti	1999-1999
Kuwait	1990-1991
Kyrgyz Republic	2000-2000
Lebanon	2006-2006
Sudan	1989-2016
Yemen	1994-1994

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.

Notes: CCA = Central Asia and Caucasus; MENAP = Middle East, North Africa, Afghanistan and Pakistan.

³ GDP per capita is chosen as the primary variable for reasons of comparability, data availability, and analytical consistency. Data from Penn World Tables (PWT) is also used only to match between the current WEO vintage and the pre-conflict vintage when there is no overlap in real GDP series (Feenstra, Inklaar, and Timmer 2015).

⁴ Precisely, the estimate of real GDP per capita 5 years post-conflict is the average of that variable between years 4 and 6 after the end of the conflict. This to avoid an artificial classification into successful or failed that is driven by one-off, temporary shocks, a potential issue for commodity exporters.

OTHER VARIABLES USED IN THE ANALYSIS

Data on macroeconomic indicators such as output growth, consumption, investment, inflation, exports come from the IMF April 2025 World Economic Outlook database. Information on official development assistance in grants (flows) was obtained from the OECD Creditor Reporting System, while data on remittances come from the World Bank World Development Indicators. Measures of institutional quality were taken from the World Bank Worldwide Governance Indicators, available starting from 1996. Data on public spending on social protection, health, housing and community, and public safety and order comes from the Gethin (2024) database on government revenues and expenditures by function, which provides a standardized cross-country fiscal dataset from 1980 to 2023. Finally, information on sovereign and private debt restructurings up to 2021 was drawn from datasets compiled by Horn, Reinhart, and Trebesch (2022); Asonuma and Trebesch (2016); and Asonuma, Niepelt, and Rancière (2017). Data on China debt restructurings is only available from 2000 onwards.

2.2. STYLIZED FACTS: POST-CONFLICT RECOVERIES IN THE MENAP AND CCA REGIONS

Figures 2.3 and 2.4 in section 2.2 of the main text show event studies, which were conducted to examine the performance of key macroeconomic variables between five years before the end of conflict ($t-5$) and five years after the end of conflict ($t+5$). For the MENAP and CCA regions, and the rest of the world, the median and interquartile range of these variables were computed and normalized to 100 during the first year of peace (t_0).

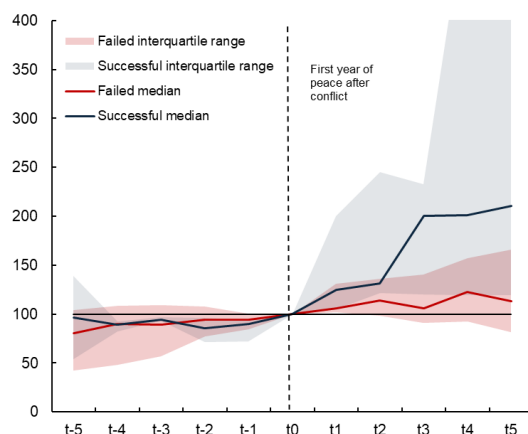
Peace duration curves (Figure 2.1 panel 2) were also estimated at the conflict-episode level across the MENAP and CCA, and other regions following using a Kaplan-Meier estimator (Kaplan and Meier 1958). The duration of peace is defined as the number of years between the end of a conflict and the start of the next conflict. Episodes without a relapse by 2024 were treated as right-censored, reflecting that peace persisted up to the end of the observation period. Relapse was coded as a failed event, equal to one if a new conflict subsequently occurred and zero otherwise. Peace duration curves were estimated separately for different region-specific subgroups (e.g., MENAP, CCA, MENAP and CCA oil-status groups) to illustrate differences in the probability of peace survival over time.

As outlined in section 2.2 of the main text of the chapter, differences between successful and failed recoveries are also reflected in underlying economic channels. In the MENAP and CCA regions, successful recoveries exhibit higher median increases in remittances and net exports within the first five years post conflict (see Figure A.2.1, panels 1 and 2).

Figure A.2.1. Successful versus Failed Post-Conflict Recovery Episodes

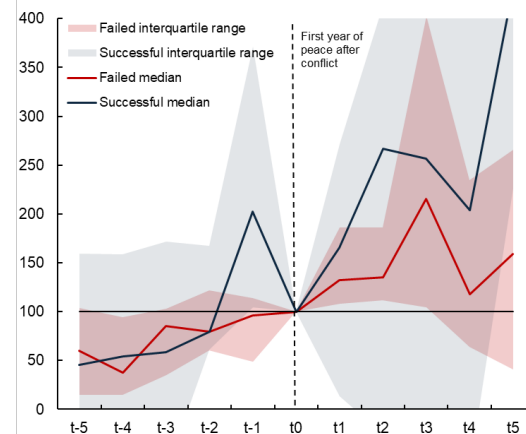
1. Remittances by MENAP and CCA Recovery Episode Classification

(Index 100 = first year of peace)



2. Net Exports by MENAP and CCA Recovery Episode Classification

(Index 100 = first year of peace)



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; World Bank, World Development Indicators; and IMF staff calculations. Notes: Successful post-conflict recovery is defined as a return of GDP per capita to the pre-conflict projected path as per the IMF's World Economic Outlook, without a relapse into conflict within five years. Failed post-conflict recoveries encompass all other recovery episodes. Due to the limited number of successful cases in the MENAP and CCA regions, these economies are aggregated into a single grouping. CCA = Central Asia and Caucasus; MENAP = Middle East, North Africa, Afghanistan and Pakistan.

2.3. DRIVERS OF POST-CONFLICT RECOVERIES

LOGISTIC REGRESSIONS

The relationship between a binary dependent variable indicating success (constructed as explained in Annex section 2.1) and explanatory variables capturing proxies for (1) macroeconomic stabilization, (2) financing and international support, and (3) institutions is assessed through a series of univariate logistic regressions, accounting for two conflict characteristics: conflict duration in years and conflict intensity, measured as the total number of conflict-related deaths per million population during the conflict episode. Standard errors are robust to heteroskedasticity. Conflicts ending after 2018 are excluded from the analysis because they cannot be classified as successes or failures according to our methodology.

The determinants of post-conflict recoveries investigated in Figures 2.6 to 2.9 of the main text include:

- **Macroeconomic volatility:** This variable is constructed as the first principal component of growth and inflation volatility across post-conflict episodes. Output growth volatility is measured as the average squared deviation of real per-capita GDP growth relative to its mean during the first five years of peace. Inflation volatility is measured by the average squared deviation of CPI inflation relative to a 5 percent benchmark in the first five years of peace.
- **Debt restructuring:** This is an indicator variable equal to 1 if a debt restructuring took place during the conflict or in the first five years of the peace episode. Debt restructurings include both bilateral official and private external creditors restructuring. Symbolic Paris Club or China debt restructurings are not included in the Analysis.
- **Public spending:** Average government spending as a percentage of GDP during the first five years of peace on: social protection, health, housing and community, and public safety and order.
- **Institutional quality:** This variable is measured as the average value in the six Worldwide Governance Indicators from the World Bank: control of corruption, government efficiency, political stability, regulatory quality, rule of law, and voice and accountability. This data is only available from 1996 onwards, at two year-intervals until 2002 and then annually. Values of these indicators in 1997, 1999 and 2001 are interpolated, and the analysis assumes the 1996 values of these indicators for peace episodes starting before 1996. On Figure 2.9, initial conditions (Panels 1 and 2) refer to the average at the onset of the peace episode (last year of conflict), while gains post-conflict (Panel 2) refer to the difference in the value of that average indicator between the fifth and the first year of the peace episode. Figure 2.9 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 post-conflict. The sample underlying the regression output shown in Figure 2.9 panel 2 excludes conflicts ending before 1996 as there is time-series variation in institutional quality variables prior to 1996.

To investigate the relationship between specific policies and success, the chapter presents several findings in terms of odds ratios. Odds ratios describe changes in the ratio of probability of success over the probability of failure associated with the change in the explanatory variable of interest.

QUANTITATIVE DECOMPOSITION

The relative contributions of policies and initial conditions in explaining the variation of post-conflict episode successful recoveries are estimated through a multivariate regression of the form:

$$\log\left(\frac{p_j}{1-p_j}\right) = \sum_k \beta_k x_{k,j} + \delta_j + \varepsilon_j$$

The dependent variable represents the log odds of success. j indexes post-conflict episodes. δ_j represents two conflict characteristics: duration and intensity, and $x_{k,j}$ represents determinant k . Standard errors are robust to

heteroskedasticity. Determinants k at the post-conflict episode-level are those described in the previous subsection, with the exception that individual public spending regressors are not used. Instead, social spending is captured by the average public spending on social protection, health and housing and community as a percentage of GDP during the first five years of peace is used as a regressor. The relative contribution c_k of each determinant k is computed as in Sterck (2019):⁵

$$c_k = \frac{d_k}{d_\varepsilon + \sum_k d_k} \quad \text{where} \quad d_k = \widehat{\beta}_k \sum_{j,t} |x_{k,j,t} - \bar{x}|, \quad \beta_\varepsilon = 1$$

Figure 2.10 in the main text of the chapter shows the contributions of three groups of explanatory variables: macroeconomic stabilization (the sum of contributions associated with the macroeconomic volatility and social spending variables), financing and international support (contribution of the debt restructuring variable) and institutions (contribution of the variable measuring average institutional quality at conflict-end). The shares of variation explained are net of the contributions from prior conflict characteristics and the error term. The conflict in Rwanda in the 1990s is excluded from the analysis examining the drivers of the variation of post-conflict recoveries as it is found to be an outlier with respect to conflict intensity (conflict-related deaths per million population during the conflict).

2.4. COUNTRY CASE STUDIES

AFGHANISTAN (1989–2022)

The conflict in Afghanistan, driven by historical grievances, political instability due to ethnic rivalries, and foreign influence, spanned more than four decades. It evolved from a Soviet-backed regime against the mujahideen (1979–89), to the rise of the Taliban (1992–96), followed by the US-led intervention in 2001, and the subsequent Taliban takeover in 2021. This prolonged conflict imposed a huge human toll with civilian deaths estimated at 318,000 between 1989 and 2024 and resulting in large numbers of refugees (5.3 million) and internally displaced people (3.3 million), according to the United Nations High Commissioner for Refugees.⁶ Long-standing ethnic tensions, particularly between Pashtun and non-Pashtun groups (ICG 2003), financial insecurity of youth playing into non state actors (Amini 2016), the geopolitical interests of neighboring countries (Bashir and others 2024) and corruption within the government (UNODC 2012) have contributed to instability and conflict in the country. Peace was established after fall of the Taliban regime in late 2001 and political agreement reached between various Afghan factions in Bonn in December 2001. A new constitution was adopted in January 2004, and the first presidential election was held in October 2004, kickstarting the recovery.

The authorities advanced fiscal and governance reforms post conflict despite capacity constraints. Post 2002, Afghanistan undertook a broad range of governance reforms, focusing on institution-building, public financial management (PFM), and anti-corruption measures. Early efforts included the establishment of a transparent budget process (IMF 2003) introducing a new currency for financial stability and monetary control, creation of the Treasury Single Account (IMF 2005a) and the introduction of computerized financial management (IMF 2003) which improved expenditure recording and reporting at both central and provincial levels. The authorities adopted a new public finance and expenditure management law (IMF 2006) which strengthened the legal framework for fiscal management. Customs and tax administration reforms included the establishment of the Large Taxpayer Office, piloting of a Medium Taxpayer Office, and the enactment of a new customs code (IMF 2008, 2014). The authorities also advanced legal reforms, including the new banking, AML/CFT, and tax administration laws and took steps to improve the business environment by streamlining licensing and establishing a unified collateral registry (IMF 2014). These reforms—although helpful in recovery—faced continued capacity constraints despite substantial technical assistance. The IMF played a key role in rebuilding Afghanistan's fiscal and monetary institutions, conducting 24 technical missions between 2002 and 2004 to support reforms (IMF 2005a). It helped build tax and customs administration capacity, improve operations at the central bank and helped draft key financial legislation.

Recovery and reconstruction relied on substantial donor aid and debt relief. Afghanistan's post-2001 reconstruction was heavily financed by external grants and highly concessional loans, with donor support peaking

⁵ See the Online Annex of Chapter 2 of the May 2025 *Regional Economic Outlook for the Middle East and Central Asia* for additional details.

⁶ <https://www.unhcr.org/us/emergencies/afghanistan-emergency>. Last accessed on October 14, 2025.

at over 40 percent of GDP in some years. The authorities negotiated debt relief with the Paris Club and non-Paris Club creditors, culminating in the Heavily Indebted Poor Countries Initiative (HIPC) and Multilateral Debt Relief Initiative (MDRI), which reduced external debt by 90 percent, or \$10 billion (IMF 2008). Donor grants consistently financed the fiscal and external deficits, with the IMF and World Bank repeatedly emphasizing that Afghanistan's debt sustainability depended on continued grant financing and prudent borrowing policies. The authorities also developed a comprehensive debt management strategy (IMF 2006) and refrained from non-concessional borrowing, while donor conferences reaffirmed multi-year commitments for security and development spending (IMF 2014).

Afghanistan's experience highlights four key lessons. First, institution-building and governance reforms—such as transparent budgeting, improved PFM, and anti-corruption measures—are foundational but require persistent implementation and capacity-building. Second, fiscal and external sustainability in fragile and conflict-affected states is highly dependent on external grants and concessional financing; abrupt reductions in aid or weak revenue mobilization can quickly undermine stability. Third, the pace of reform is often constrained by weak security, political uncertainty, and limited absorption capacity despite substantial efforts to build capacity. Finally, the Afghanistan case demonstrates that successful recovery requires also requires political continuity and effective coordination among donors (IMF 2016b).

IRAQ (2003–18)

Conflict in Iraq was primarily driven by regional meddling, sanctions and sectarian divide. Two Gulf wars (1980–91) and a decade of severe UN sanctions were followed by the 2003 US-led invasion and a subsequent anti-coalition insurgency, an ethno-sectarian conflict (2006–08) and later a war with ISIS (2011–17) led to the destruction of infrastructure, which was compounded in the immediate aftermath by looting and the breakdown of public authority and weakening social cohesion in areas controlled by opposing factions (IMF 2004a). An estimated 4.4 million people were internally displaced as of 2016 (IMF 2016a).

Peace was reached after the fall of Saddam Hussein's regime. The Coalition Provisional Authority (CPA) took control and initiated reforms to stabilize the political and economic situation of Iraq. In 2004 an interim Iraqi government formally took over administration from CPA. However, widespread violence continued despite stabilization efforts as an intrastate conflict erupted in 2004. Elections were held in 2005, after which the first constitutional government was put in place in 2006 (IMF 2007b). Political stability returned with subsequent parliamentary elections, but security remained fragile (IMF 2010).

The country largely achieved macroeconomic stability but exposure to oil remained a key vulnerability. In 2004, the authorities approached the IMF for emergency post-conflict assistance (EPCA) followed by successive Stand-by Arrangements (SBA) which were instrumental in maintaining macroeconomic stability. IMF-supported measures reinforced the authorities' commitment to safeguard central bank reserves and to anchor inflation through exchange rate reform, demonstrating strong early policy alignment. Authorities introduced a new currency with the assistance of development partners to control soaring prices which helped to bring inflation down (IMF 2004b). Initially, government expenditure dominated fiscal operations. They were largely covered by donor financing which limited Iraqi ownership leading to a ballooning deficit.⁷ As the authorities reoriented resources, the efforts to contain government spending (by limiting wage growth, lowering hiring, eliminating ghost workers, reducing transfers to state-owned-enterprises (SOEs) and making room for investment in social spending) became key elements of fiscal policy (IMF 2010). The fiscal consolidation measures gradually improved the non-oil primary deficit.⁸ However, the continued dependence on oil remained a major vulnerability to fiscal sustainability and hence macroeconomic stability. This was amplified by global shocks. The authorities admittedly used up financial buffers—built up over the years—to absorb external shocks (IMF 2010, 2015). These

⁷ Iraq's fiscal operations combined the national budget, donor support, UN-managed oil-for-food balances. A dominant role was played by the United States, which directly controlled large capital expenditures through Development Fund for Iraq (DFI) subaccounts, seized regime assets, and bilateral aid flows. Over time larger share of reconstruction was mobilized from Iraq sources which underscore gradual increase in ownership and Iraq's vulnerability to oil-driven fiscal cycles.

⁸ Non-oil fiscal balance was 200 percent of the non-oil GDP in the early phase of conflict episode in 2004 but gradually declined nearly 4 times to 50 percent just before start of COVID-19.

external shocks coupled with ISIS insurgency firmly entrenched the conflict thus slowing the reform momentum (IMF 2015).

Reforms were undertaken to strengthen institutional capacity, public financial management, and governance; however, the prolonged nature of the conflict hindered their implementation. After the fall of Saddam Hussein's regime in 2003, Iraq implemented various reforms to improve institutional capacity and governance.⁹ Key measures included phased increases in fuel prices to reduce budgetary subsidies, adoption of a new law providing for independence and accountability for Central Bank of Iraq (CBI) and rolling out prudential requirements for commercial banks. In the area of fiscal management, a comprehensive framework for fiscal policy was established by adopting Financial Management Law and Public Debt Law. The authorities also adopted a PFM action plan covering budget preparation, public procurement, and fiscal reporting while establishing mechanisms to improve transparency in oil sector (IMF 2010). Regarding governance, the country established an interministerial committee to improve project selection and procurement practices based on objective criteria to reduce corruption and improve spending quality (IMF 2016a). Other than subsidy reforms and progress on development of monetary toolkit for central bank, progress on most other measures remained weak due to capacity constraints.

External financial support was ample, but their productive utilization was hindered by security and external shocks. International assistance was substantial, with the largest share coming from the US, much of it directed toward security-related expenditures which diverted resources from infrastructure investment. Significant debt relief¹⁰ was also provided which likely freed up resources for spending.¹¹ While early international pledges of grants and loans were slow to materialize, mechanisms like the International Reconstruction Fund Facility for Iraq (IRFFI) were established to coordinate donor support. Despite this, the bulk of reconstruction funding ultimately came from Iraqi resources, including the national development fund and capital budgets (World Bank 2017). The IMF played an active role in the reestablishment of the Central Bank of Iraq, by providing policy support and technical assistance. IMF helped set a stronger monetary policy framework by supporting the exchange rate framework, which provided a successful anchor for inflation expectations in a context of limited capacity and weak institutional framework at the central bank at the time and helped bring down inflation from double-digit territory in the early 2000s. However, external shocks (oil prices in particular) repeatedly tested the macroeconomic stability. Fiscal discipline often eroded during oil booms, and structural reforms (especially SOE and banking sector restructuring) lagged due to political constraints and capacity limitations.

Recurring security challenges prolonged the conflict in Iraq, compounded by the lack of economic diversification. The unsettled security environment turned out to be a major impediment that clouded the economic outlook (IMF 2007b). As a result, it affected reconstruction spending as international development partners faced considerable security costs often manifesting in higher insurance outlays accounting for as high as 50 percent of total costs (IMF 2005b). In addition, the lack of a comprehensive economic diversification program appears to have indirectly contributed as oil-linked fiscal revenues frequently affected macroeconomic stability thus weakening the reform momentum. Therefore, the main lesson from Iraq's case is that that post-conflict stabilization in resource-dependent states requires robust buffers to manage oil price volatility. In addition, over-reliance on oil revenues without economic diversification or fiscal savings mechanisms leaves the economy highly exposed and vulnerable to conflict.

RWANDA (1990–98)

The drivers of conflict in Rwanda were multifaceted, involving demographic pressures, and political exclusion. The conflict reached its most tragic phase of genocide which severely damaged Rwanda's human capital and social and economic infrastructure (IMF 1998). A new constitution was adopted in 2003. The adoption of the 2003 constitution can be viewed as a key institutional milestone, marking the starting point for the country's post-conflict recovery efforts

The post-conflict recovery period shows a carefully sequenced structural reform agenda that prioritized

⁹ IMF-supported programs initially placed limited emphasis on governance beyond the oil sector and were focused on restoring macroeconomic stability.

¹⁰ Iraq had an unsustainable debt in the aftermath of 2003 (six times its GDP). In this context, the Fund sought to secure agreement from Iraq's creditors on the Fund's preferred creditor status in respect of the drawing by Iraq under the Emergency Post Conflict Assessment. Additionally, the Fund engaged with creditors to obtain their commitment to make their best efforts in providing debt relief to Iraq on appropriate and favorable terms.

¹¹ The debt to GDP ratio declined steadily from 344 percent of GDP in 2004 to 42 percent in 2019.

fiscally dominant macroeconomic stabilization followed by strengthening of institutions. Specifically, the sequencing shows an initial focus on monetary, fiscal consolidation and governance reforms, followed by privatization and regulatory reforms to support private sector development. The National Bank of Rwanda (NBR) introduced a system of auctions of foreign exchange (FX) which helped NBR achieve market-clearing exchange rate without excess volatility (IMF 2000). Between 1997 and 2004, Rwanda implemented a series of structural reforms with a clear sequencing that prioritized the strengthening of fiscal institutions before moving to broader market reforms. The fiscal reform agenda began in 1997 with the introduction of a revised direct tax code and the establishment of the Rwanda Revenue Authority, laying the foundation for improved domestic resource mobilization. In 1998, oversight was put in place with the creation of the Office of the Auditor General. This was followed by adoption of computerized tax data management (ASYCUDA) in 2000 marking a shift toward digitalization and administrative efficiency. In 2001, Rwanda introduced the value-added—tax (VAT) to broaden the tax base and approved an Organic Budget Law in 2004 to strengthen budgetary discipline. Liberalization measures included privatization of state owned PetroRwanda and two state owned banks. Simultaneously, the central bank was pursuing its own reform agenda with a new law. Complementary reforms focused on improving the business environment and governance, such as the 1999 Investment Promotion Act and the creation of public utilities regulatory authority in 2002, safeguarding and better monitoring of social spending and programs for reintegration of refugees and internally displaced persons (IMF 1998). Authorities identified priority spending (IMF 2004c) including on health and education in the context of the budget in 2000 (IMF 1999). As a result, basic social spending rose from 2.1 percent of GDP just before conflict to 6.1 percent post conflict (IMF 1999, 2004c). Throughout Rwanda's reform process, the IMF maintained close policy dialogue with the government, linking financial support to progress in governance-related reforms. The reintegration of an estimated 3.8 million (IMF 1998) refugees helped replenish depleted human capital in the economy.

These reforms laid the foundation for Rwanda's eventual qualification for debt relief. Rwanda approached the HIPC decision point in 2000 and qualified for MDRI in 2006 which reduced the external debt by more than \$1 billion (IMF 2007a). The authorities also received considerable external support for which they established the Central Project and External Finance Bureau (CEPEX) in 1998 to coordinate implementation of donor finance projects which improved governance and transparency (IMF 1999).

Rwanda's experience shows two key lessons. First, establishing strong fiscal institutions and governance frameworks early can provide a stable foundation for recovery. Second, a firm commitment to reform is essential to sustain reform momentum. Rwanda's authorities implemented 27 key structural reforms focused on reducing state footprint through privatization, building state capacity, and strengthening institutions (IMF 2004c).

SOMALIA (1989–ONGOING)

Somalia's journey from state collapse to gradual rebuilding over the past decade has been shaped by strong domestic reform commitment and sustained international engagement. Civil strife between 1991 and 2012 led to complete state collapse, destroying the rule of law, the economy, infrastructure, basic public services, and public institutions, with substantial losses of human capital (Menkhaus 2014). The 2008 Djibouti Agreement¹² and the 2012 Provisional Constitution (Federal Government of Somalia 2012) established a federal framework, creating the Federal Government of Somalia (FGS) and Federal Member States. This framework enabled renewed external re-engagement and provided space for Somali leaders to begin rebuilding state institutions. Since then, Somalia has successfully held three parliamentary and presidential elections (2012, 2017, 2022), each with peaceful transfers of power, although political settlement remains incomplete and security challenges persist.

International support has been structured around comprehensive partnership frameworks. The 2013 Somali Compact provided the roadmap for development and state-building, later updated in 2017 through the Security Pact and the New Partnership for Somalia (IMF 2022). The accompanying Mutual Accountability Framework set out specific responsibilities for both Somali authorities and international partners, with regular

¹² Djibouti Agreement, signed August 2008. Transitional Federal Government of Somalia and Alliance for the Re-Liberation of Somalia. UN Peacemaker. <https://peacemaker.un.org/en/node/9525>

monitoring of progress. These arrangements helped to coordinate security, political, and economic support in an environment of severe capacity constraints.

Security gains have been made with strong international backing. The African Union Mission in Somalia (2007–22) and its successor, the African Union Transition Mission in Somalia (2022–24), provided essential peacekeeping functions, protected critical infrastructure, and supported the development of Somalia’s own security forces. These efforts were complemented by bilateral security assistance, training, and logistical support. Financing has been central to Somalia’s reconstruction. Remittances from the Somali diaspora have consistently been a lifeline, averaging over 20 percent of GDP over the last decade. Multilateral and bilateral donors provided large-scale grant financing, with the World Bank–administered Multi-Partner Fund and the UNDP-managed Somalia Joint Fund (United Nations Development Programme 2023) channeling coordinated resources for resilience and institution-building. The IMF and World Bank played a leading role in advancing debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, culminating in the delivery of \$4.5 billion in debt relief in 2023 and restoring external debt sustainability (IMF 2023a).

The IMF’s engagement has focused on macroeconomic recovery and institution-building. Successive Staff-Monitored Programs (SMPs) and Extended Credit Facility (ECF) arrangements supported reforms in public financial management, domestic revenue mobilization, financial sector oversight, and governance (IMF 2023b, 2024a, 2024b). Capacity development has been a critical element of IMF support. Since 2015, the Somalia Country Fund has financed tailored technical assistance across revenue administration, customs, financial supervision, and statistics.¹³ The authorities’ sustained commitment has delivered tangible outcomes: domestic revenue collection increased from 1 percent of GDP in 2013 to 3 percent of GDP in 2024, government expenditure per capita rose from \$8 to \$45 over the same period, and social programs—including the Baxnaano cash transfer scheme—were introduced to support vulnerable households (IMF 2024b). Public financial management evolved from manual, paper-based systems to modern digitalized operations with a strong legal framework (IMF 2023b). The Central Bank of Somalia has strengthened its supervisory capacity to regulate and supervise commercial banks, money transfer businesses, and mobile money operators and launched the National Payment System in 2021 (IMF 2024a).

Somalia’s experience highlights four lessons for post-conflict recovery. First, strong government ownership of reforms has been the foundation of progress, even under repeated shocks. Second, international support—financial, technical, and security-related—was critical to restoring functionality to state institutions. Third, careful prioritization and sequencing of reforms, alongside substantial technical assistance, ensured alignment with Somalia’s limited capacity while enabling resilience to shocks. Fourth, coordination across partners through the Somali Compact, the NPS, and pooled financing facilities helped to avoid duplication and maximize complementarities.

¹³ International Monetary Fund. *Somalia Country Fund – Capacity Development Support*. <https://www.imf.org/en/Capacity-Development/somalia-country-fund>

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