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THE IMPACT OF WAR AND PEACE IN MENA

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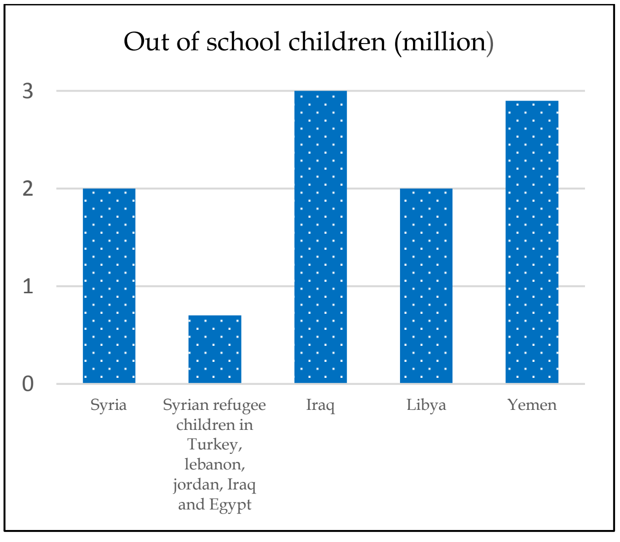
Introduction: Civil wars and violence have significantly damaged human, social and physical capital in the war-torn countries of Syria, Iraq, Libya and Yemen. The results on educational attainment are devastating. Estimates by the UN show that more than 13 million children are out of school in these countries (Figure 1). The Quick Note summarizes the findings of the January 2016 MENA Quarterly Economic Brief " The Economic Effects of War and Peace" published by the World Bank's MENA Chief Economist Office.[2]

Figure 1. Status of education



Source: UNHCR.

Damages to human and social capital. *In Syria,* the education sector is falling apart, losing the progress it had made towards meeting the Millennium Development Goals (MDGs). Roughly one quarter of schools have been damaged, destroyed or are used as shelters. Inside Syria, more than two million children are currently out of school, almost half of all children have already lost three years of schooling. Outside of Syria, more than half of the Syrian refugee children (600,000) are out of school. Estimates by UNICEF show that more than half of the population (approximately 13.5 million) in Syria need protection and humanitarian assistance, including 6 million children, while 9.3 million people are unable to meet their basic food needs (Table 1). Health care is deteriorating as more than half of Syrian hospitals are destroyed or damaged in addition to a large number of physicians that have fled the country. Poverty is rising and the existing Syrian population lacks access to safe drinking water, sanitation and hygiene facilities.

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[2] For current and past issues of the report please visit the website at: MENA Quarterly Economic Brief

Table 1. Estimated affected population

Total affected population *	9,347,000
Children affected (Under 18)	4,299,620
Pregnant women	467,350
Children displaced	2,990,200
Source: UNICEF 2015. Note: (*) revised November 2015. The rest of the figures are calculated based on CBS demographic distribution of 2011 and on UNOHCHR figures - estimate 46% of population are children under 18 years old, and 5% are pregnant women.	

In Yemen, the situation is extremely fragile and unstable, despite a ceasefire announced in early December 2015. The civil war has led to an almost complete halt in oil and gas production in a country that relies almost exclusively on oil export revenues. The economy has shrunk by a quarter and lack of basic services have further exacerbated human suffering. Capital expenditures are on hold with spending on education, health, water and electricity being affected significantly affecting people and children.

The humanitarian situation in Yemen continues to deteriorate. Yemenis are facing severe shortages of basic services including water, electricity, medicine, and fuel. Estimates show that more than 21.1 million people (more than 80 percent of population) are in need of food, shelter, and healthcare and water aid. Half of them are children and more than 10 percent are Internally Displaced Persons (IDPs). Inflation is skyrocketing. The large fiscal deficit is fully financed through direct borrowing from the Central Bank, escalating the already high inflation in Yemen to over 30 percent in 2015. In addition, the sharp increase in prices of food coupled with loss of jobs and lack of work opportunities have increased poverty and malnutrition among the most vulnerable groups. Poverty data are not available, but the situation has made it difficult for the Yemenis to access basic services, further pushing more people into poverty, currently standing at 80 percent of the population (Poverty line at $1.90 per day/ppp).

Human capital is badly suffering. More than 3.4 million children are out of school, equivalent to 47 percent of all of Yemen's school-aged children, as the majority of schools are closed or occupied by displaced people, making it difficult for classes to continue. In those governorates where schools are functioning, student registration and attendance is low (between 30-70 percent) due to security problems. For example, in the governorate of Raymah and some districts in Hajjah, a number of schools (more than 10) remain closed due to lack of teachers.

In Iraq only, almost 2 million children are out of school and an additional 1.2 million children aged 5 to 14 are at risk of dropping out. These include children in host communities, displaced from their homes, as well as refugee children from Syria. Estimates by UNICEF show that one million children are displaced, 70 percent of whom have already lost an entire year of school. More than 5,300 schools across the country – nearly one in five – have been destroyed, damaged, or converted to shelters for displaced families. In northern Iraq, nearly 14,000 teachers have been forced to flee the violence.

In Libya, violence has displaced about 300,000 children and one fifth of the school-aged IDPs do not have access to education. In Jordan, Lebanon and Turkey, Syrian refugee children are unable to attend school because the current educational infrastructure cannot cope with the additional load, or in the case of Turkey, because of language barriers.

Damages to physical capital. In addition to the loss in human and social capital, civil wars have directly damaged the stock of physical capital in these countries. There are various estimates for the damages caused by war in Syria, Yemen, Iraq and Libya. The Syria Center for Policy Research estimated the capital stock damage at USD 72 billion in Syria between 2011 to the end of 2014. A separate study estimates Libya's infrastructure needs to be USD 200 billion over the next ten years.

The World Bank's preliminary assessment in six war-torn cities in Syria -- Aleppo, Dar'a, Hama, Homs, Idlib, and Latakia--within seven sectors -- housing, health, education, energy, water and sanitation, transport and agriculture-- range between USD 3.6 - 4.5 billion. Aleppo is the most affected city accounting for roughly 40 percent of the estimated damage. Latakia is the least affected city, although it is subject to the increased pressure on infrastructure and services from the increase in IDPs in the city. This assessment reveals that the damage to housing is by far the largest, accounting for more than 65 percent of the total damage.

The World Bank is currently undertaking a similar assessment for Yemen with the collaboration of UN agencies, the European Union, the Islamic Development Bank, and country authorities. The preliminary estimates, based on data as of October 31, 2015, show the damage in four cities--Sana'a, Aden, Taiz and Zinjibar-- over six sectors – education, energy, health, housing, transport, and water and sanitation-- to be in the range of USD 4.0 – 5.0 billion. The most affected sector is housing and serious damage can be observed in health facilities.

What if there is peace? Can the economic damage from the civil wars be reversed? An end to the conflicts in MENA will improve macroeconomic indicators through restoring security, increasing investment, and the commencement of reconstruction activity. Social indicators will also improve with growth as well as by the shifting of public resources from military expenses to education and health (Table 2). But the pace and pattern of economic recovery in the short term is typically not smooth, as post-conflict countries inherit a weak economy, damaged physical, human and social capital, widespread poverty and high unemployment, particularly among youth. Evidence suggests that, while in some post-war countries economic recovery and the growth dividend happened immediately, in other cases it took longer (Table 3). For example, ten years after the end of the conflict, per-capita income in Uganda did not regain its level of the early 1970s.

Post-war recovery. Collier (1999) finds some evidence of a "war overhang" effect: some countries continue to have low growth after the war. This is because physical and human capital are severely destroyed and some skills become scarce as people of working-age flee war and violence or are displaced internally. Moreover, the transition from war to peace is likely to remain fragile and in some instances reversible. Estimates show that there is a 39 percent probability that a peace settlement will collapse within the first five years, and a 32 percent probability that it will collapse in the next five years (Collier and Hoeffler, 2004). Angola, Burundi, the Democratic Republic of the Congo, Indonesia, Liberia, Rwanda, Sierra Leone and Sri Lanka, among others, have all experienced renewed violence after the conflicting parties signed peace agreements.

Table 2. Social indicators for selected post conflict countries

	Pre conflict	**Conflict**	**Post conflict**
	(average annual rates of change)		
Life expectancy at birth, total (years)	0.4	-0.5	0.4
Mortality rate, infant (per 1,000 live births)*	3.8	0.6	0.0
Gross primary enrollment rate	...	-2.6	3.2
Gross secondary enrollment rate	...	-1.1	2.1
Gross tertiary enrollment rate	...	-1.5	2.1
Education spending (real per capita growth, median)	...	-4.3	5.4
Health spending (real per capita growth, median)	...	-8.6	5.1

Sources: IMF (2002). * Average annual rate of change indicates rate of improvement of the infant mortality. Note: The analysis is based on a cross-country data set for 45 countries, of which about two-thirds were not afflicted by conflict and terrorism, using five-year averages of annual data over 1980-99. Sample includes all the low-, lower-middle-, and upper-middle-income countries affected by armed conflict. Income categories are based on World Bank criteria, in terms of level of 1998 GNP per capita. For low-income, USD 760 or less; for lower-middle-income, USD 761-USD 3,030; and for upper-middle income, USD 3,031-USD 9,360.

The pace of economic recovery in the medium term depends to some extent on whether a country is rich in natural resources. Sab (2014) examines the pace of post-conflict recovery in three MENA countries: Lebanon 1975, Kuwait 1990; and Iraq 2003. The findings show that the structure of GDP (oil versus non-oil), the duration of the war, and assistance from the international community have a strong role in determining the speed of recovery post war. The study shows that real GDP growth recovered slowly in oil importers compared to oil exporters. In Lebanon, it took 20 years after the war for real GDP to recover, while real GDP per capita remained well below its pre-war level. Real GDP growth took seven years in Kuwait, and only one year in Iraq, to recover to pre-conflict levels. The main reason behind the different speeds of recovery is that in oil-rich countries, oil output recovers fast as oil fields can be activated quickly compared to other sectors in the post-war economy.

All in, a peace settlement in Syria, Iraq, Libya and Yemen, therefore, could lead to a swift rebound in oil output and exports, allowing them to increase fiscal space, improve current account balances, increase foreign reserves, and boost economic growth in the medium term. This could bring positive spillovers to the rest of the region.

Table 3. Average annual GDP per capita growth in selected countries (percent)

Start and end date of conflict	Pre-conflict	Number of years in conflict	In conflict	Number of years post conflict	Post conflict
Afghanistan 1978-2001	2.6	24	-6.5	6	10.4
Angola 1975-2002	3.4	28	-1.3	5	11.8
Azerbaijan 1991-1994	-2.2	4	-17.8	13	9.4
Bosnia and Herzegovina 1992-1995	-11.9	4	3.6	12	10.5
Cambodia 1970-1991	…	22	-4.0	16	4.8
Chad 1965-1990	…	26	-0.3	17	2.3
Congo-Dem. Rep 1996-2001	-4.0	6	-5.2	6	2.6
Croatia 1991-1993	…	3	-12.9	13	4.5
Ethiopia 1974-1991	1.1	18	-0.9	16	2.3
Georgia 1991-1993	2.4	4	-26.4	13	7.7
Lebanon 1975-1990	0.0	16	-5.0	17	3.7
Liberia 1989-2003	-2.0	15	-9.3	4	2.8
Mozambique 1976-1992	1.6	17	-1.4	15	5.3
Rwanda 1990-1994	0.7	5	-8.4	13	4.0
Solomon Islands 1998-2003	0.3	6	-5.7	4	3.2
Sierra Leone 1991-2001	-0.1	11	-7.3	6	8.0
Tajikistan 1992-1997	-2.3	6	-15.2	10	7.1
Uganda 1979-1991	-1.0	13	-2.0	16	2.9
Burundi 1991-2002	1.8	12	-2.9	5	0.4
Congo, Rep. of 1993-1999	2.1	7	-1.4	8	1.8
Ivory Coast 2002-2003	-0.6	2	-3.2	4	-0.1
El Salvador 1979-1991	2.0	13	-2.5	16	1.9
Eritrea 1974-1991	1.1	18	-0.9	16	1.2
Guatemala 1965-1995	…	30	0.9	12	0.6
Guinea-Bissau 1998-1999	0.4	2	-13.2	8	-3.2
Haiti 1991-1995	-0.3	5	-4.9	12	-0.1
Namibia 1973-1989	-2.8	17	-1.0	18	1.6
Nicaragua 1978-1990	1.7	13	-6.8	17	0.8
Papua new Guinea 1989-1996	0.7	8	1.7	11	-1.2

Source: UNDP 2008.

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