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Economic Priorities For Peace Implementation

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Preface

As a sub-field of conflict resolution, peace implementation has been more practiced than studied. Unlike either conflict mediation or long-term peacebuilding, very little analytical reflection has been devoted to the immediate challenges of implementing peace agreements once they are concluded. Too often, those responsible for translating these accords into meaningful action have had to proceed quickly, without either an accurate map of the hazards of the war-torn terrain in which they find themselves or a reliable plan for managing challenges when they do arise. At the most elementary level, what has been missing is clear knowledge of those factors that make the difference between successful peace implementation and failure, between the assurance of peace and the resumption of war.

That such analysis is needed, and needed urgently, becomes clear in surveying the experience of the 1990s. In Rwanda, Sierra Leone, Sri Lanka, Somalia, and twice in Angola, the failure to get warring parties to live up to their peace agreements not only restarted armed conflict, it also escalated the violence. The breakdown of the 1994 Arusha Accords in Rwanda led to a genocide of some 800,000 people: approximately fifty times more deaths than had occurred in the 1990-1993 civil war. As all of these tragedies suggest, the period immediately after the signing of a peace agreement is arguably the time of greatest uncertainty and danger. It is also the time when most peace agreements fail. Improving our knowledge of the specific challenges of peace implementation might help to improve the odds of success.

Between late 1997 and early 2000, Stanford University's Center for International Security and Cooperation (CISAC) and the International Peace Academy (IPA) engaged over two dozen scholars to undertake a systematic study of the determinants of successful peace implementation. The project examined every peace agreement between 1980 and 1997 where international actors were prominently involved. The sixteen cases studied covered the full range of outcomes: from failure, to partial success, to success, thereby permitting a more rigorous investigation of what makes implementation work. To strengthen the policy relevance of the research, practitioners contributed to the design of the project and participated in the workshops, conferences, and policy fora in which preliminary findings were presented and discussed. It is our hope that the results of this research will help improve the design and practice of peace implementation.

With this goal in mind, I am pleased to introduce "Economic Priorities For Peace Implementation", the third of our *IPA Policy Paper Series on Peace Implementation*. Written by Dr. Susan L. Woodward, it addresses the critical but often neglected connections between donor strategies for post-conflict economic recovery and successful peace implementation. Based on the experience of peace implementation in the 1990s, Dr. Woodward provides an analysis of the way economic factors affect prospects for peace, evaluates the impact of past donor strategies, and derives five lessons for policy practitioners and donor agencies concerned with strengthening the economic underpinnings of sustainable peace.

A fuller version of this paper will be published in a forthcoming study, entitled Ending Civil Wars: The Implementation of Peace Agreements, co-edited by project directors Stephen John Stedman, Donald Rothchild, and Elizabeth Cousens. On behalf of the project directors and authors, I would like to express our deep appreciation to the Ford Foundation and the Edward E. Hills Fund for their generous support of this project.

David M. Malone
President
International Peace Academy

Executive Summary

- There has been surprisingly little systematic analysis of how economic factors contribute to the success or failure of peace agreements. What is clear however, is that economic factors play a more significant role in the failure of peace agreements than they do in the success of such initiatives;

- Peace agreements are often very weak on economic aspects. This is problematic because the success of the first phase of peace implementation is largely dependent on three economic factors: sufficiently rapid economic revival to generate confidence in the peace process; adequate funding to implement key aspects of the peace agreement; and, for a sustainable peace, there must be sufficient funding to enable the establishment of government institutions and the transition to a peace-time economy;

- Five important lessons have emerged from experience in the area of peace implementation over the last decade:

  (1) *The need for broad-based impact assessments*
  At present, assessments tend to measure whether an aid project was implemented as planned, not whether it contributed to a sustainable peace. As a consequence, important opportunities to make informed mid-course adjustments in long-term programs and to develop more effective programs are lost;

  (2) *An early emphasis on employment is critical*
  Active employment is critical to redirecting behavior and encouraging support for the peace process. The success of crucial programs such as those for the demobilization and reintegration of former combatants and the return of refugees and internally displaced persons are also linked to the availability of employment;

  (3) *Invest in Building Institutional and Social Capital*
  Conventional approaches to post-conflict economic recovery tend to emphasize macro-economic stability at the expense of economic infrastructure. However, in post-conflict settings, the financial and legal institutions so necessary to implement economic policy and ensure good governance are either weak or nonexistent. More attention must be paid to financing the development of basic public sector capacities and social capital.

  (4) *Donor decisions about whom to assist and what to fund have lasting political impacts*
  Donor monies influence government policy, whether directly through the imposition of explicit conditions or in more indirect ways. Lending decisions also influence the political landscape within the recipient county and the behavior of third-party implementers;

  (5) *An international presence introduces economic distortions*
  It is seldom acknowledged that the economic impact of international peace missions runs contrary to the aims of self-government and economic and political sustainability. As a consequence, decisions about implementation and exit are extremely important;

- There is an urgent need for a new economic strategy that addresses the challenges of post-civil war environments.

Introduction

No international or local action in support of peace can occur without a budget or donor to tap. The organization of peace implementation requires financial resources. What donors are willing to fund will heavily influence the actual strategy of implementation, often more than the peace agreement itself. In addition, war is physically, psychologically and socially destructive. The first steps taken by individuals toward peace are physical repair and reconstruction as they struggle to put their lives back together and reorient to peaceful pursuits. The best indicator of success in the first stages of implementation will, in fact, be the level of such activity. The decision to go home, to repair a roof, or to rebuild a school is a calculated risk that will not be taken if the environment has not begun to change in the direction of greater physical and psychological security.

During the 1990s scholars, specialized research institutes, and international organizations started to focus on the causes of state failure and civil war. A lot of attention was devoted to the characteristics of war-torn societies and to policies for post-conflict reconstruction. This led to substantial policy initiatives and new mechanisms for peacebuilding. Surprisingly, however, there has been no systematic analysis of how economic factors contribute to the success or failure of peace agreements.

The longer paper on which this note is based[1] assesses the state of our knowledge of the contribution of economic aspects of peace agreements and external economic assistance during the critical first two years after the signing of a peace agreement.

Peace agreements pay far less attention to economic reconstruction and development than to security and justice. Yet, economic conditions nearly always worsen after civil wars end. Growing economic inequalities and hardship, which are often accompanied by a rise in crime and social unrest, can complicate the task of building peace and stable governance.[2] Moreover, both the extent and kind of economic resources provided to the peace process significantly impact its success or failure. Financial assistance can even be harmful. A repeated theme of post-conflict reconstruction is the stark contrast between what is known to be needed in the first years after war and what is currently funded and done.

Donors and the aid community tend to focus on the "gap" between relief and development but not on the specific character of the crucial post-war phase and the need for a strategy that addresses the crucial needs that arise during this period. Even existing approaches to relief and development are not tailored to the special needs of building peace and implementing a negotiated political settlement, particularly one that may be required to strengthen fragile commitment. Moreover, criticism of these existing approaches from the aid and development community has prompted responses that largely focus on tactics, particularly issues of sequencing, and operational techniques, such as faster, more efficient, more flexible and transparent delivery with better coordination among donors or more targeted conditionality.

It has become clear that there are three important economic tasks in this first phase: promoting sufficiently rapid economic revival to buy confidence in the peace process; financing for specific commitments contained in the peace agreement itself (such as demobilization of armed groups and the right of return for refugees); and creating/building the economic foundations necessary to sustain peace over the long term, particularly the creation of a peace-time economy and government institutions. Current economic strategies do not focus directly on these tasks and are even frequently in conflict with the needs of building peace. The result is a vacuum in financial mechanisms designed for this purpose. Who pays for peace governs the results. With all their known legal and institutional limits, the international financial institutions – the International Monetary Fund (IMF) and World Bank – still dominate the culture and strategy of assistance.

[1] Economic Priorities for Successful Peace Implementation" in Stephen Stedman, Donald Rothchild and Elizabeth Cousens, eds., Ending Civil Wars: The Implementation of Peace Agreements (Boulder, CO: Lynne Rienner, 2002), pp 183-214.

[2] In the 1990s, the two dominant approaches were "the natural disaster model" and "the postwar stabilization and reconstruction model". The first narrowly focuses on short-term humanitarian relief, regardless of macro-economic stability and structural adjustment, but assumes a context of functioning institutions, which rarely obtains in post-conflict settings. See: Woodward "Economic Priorities for Successful Peace Implementation" in Stedman, Rothchild and Cousens, eds., Ending Civil Wars.

Five Emerging Lessons

Experience in the area of peace implementation in the 1990s suggests that economic factors have far more to do with the failure, or severe retardation of the peace process, than they do with the success of such initiatives. The overall record points clearly to five emerging lessons: (1) there is a need for broad-based impact assessments; (2) early emphasis on employment is critical; (3) institution-building and social capital development programs are essential; (4) deciding whom to assist and what to fund has political impacts; and (5) an international presence introduces economic distortions. Each of these lessons will be addressed in the following section.

1. Measuring Impact

A search for evidence about the relative contribution of economic factors and assistance to the implementation of peace agreements reveals the limited character of most assessments. These assessments rarely examine overall impact. The idea that success should be judged in terms of the political mission to establish sustainable peace tends to be lost in a world of symptomatic monitoring and a priori assumptions about the effects of a particular strategy, policy, or program.

Both in-house and independent evaluations focus on audits of record-keeping and financial transactions within the particular donor organization and its subcontractors, such as NGOs, and assess whether a particular aid project or program was implemented as planned. But "aid flows themselves tell us little about the *impact* of external assistance ... [P]erformance is often evaluated according to success in transferring funds, rather than the appropriateness of the design of the aid --and its likely impact on recipient populations."[3] Similarly, "... project-by-project assessments often do not provide the broader picture . . . [and] delays as long as a year or more have reduced the usefulness of post-conflict completion reports."[4] For bilateral donors whose aid portfolio may be comprised of a large number of small projects, often administered by autonomous NGOs, the problem of impact assessment is magnified many times.[5]

The World Bank evaluation of 1997-98 recommends that post-conflict projects need a "process" rather than "blueprint" design,[6] but process is far less amenable to standard evaluation techniques. A more serious problem is that donors have no reason to evaluate their impact on goals they never had in the first place, as the forthright Norwegian evaluation for the Mozambican case suggests: "Norwegian authorities gave little systematic attention to the links between supporting the peace process in the short run and sustaining the peace in the long run."[7]

Because the effect of developmental assistance is intended to be long-term, it is often difficult to assess its positive contribution to the first years of a peace agreement. Short-term negative effects are excused as necessary for long-term sustainability on the basis of economic philosophy, not on the determinants of peacebuilding. Where benchmarks of progress are proposed, they tend to be vague. Likewise, the longer-term effects of projects designed for the first years after war are also rarely assessed, with the consequence that the opportunity cost of wasted investments is not calculated. It is as if "quick-impact projects" are never intended to have longer-term benefits. The result in both cases is to provide little basis on which to propose

3 Shepard Forman and Stewart Patrick, "Introduction," in Forman and Patrick, eds., Good Intentions: Pledges of Aid for Postconflict Recovery (Boulder, CO: Lynne Rienner, 2000), p. 30.

4 This particular criticism is made by the World Bank Operations Evaluation Department of its assessments, in The World Bank's Experience with Post-Conflict Reconstruction (Washington, DC: World Bank Operations Evaluation Department, 1998), p. xvii.

5 Here, too, "the autonomy and diversity of NGO operations...made it difficult for the Embassy to assess the cumulative impact of the Norwegian contribution and extract political mileage accordingly." Alistair Hallam, et al. (with Astri Suhrke as project leader), Evaluation of Norwegian Assistance to Peace, Reconciliation and Rehabilitation in Mozambique, Chr. Michelsen Institute, in association with Nordic Consulting Group, May 1997, p. xiii.

6 The World Bank's Experience, p. 40.

7 Evaluation of Norwegian Assistance, p. xi.

mid-course adjustments in long-term programs or corrections to the method of planning and choosing immediate post-war projects and priorities.

It is even difficult to gain a clear sense of the total amount of aid provided, so as to evaluate aid's contribution to the mission. In their pledges of assistance, many donors often repackage funds previously committed or list amounts they are already contributing to their standing obligations so as to appear more generous than they are. Most peace missions have either no database of donors and projects or multiple databases, each with different assumptions and criteria for recording those data.[8] Many donors insist on controlling their own accounts and projects and on channeling funds through an intermediary. This creates multiple budgetary systems that are difficult to capture in one snapshot. Even breakdowns of global flows that distinguish between aid money that remains within the country and money that leaves the country, either because it is used to repay existing debt or relieve the costs of refugee upkeep in host countries, are hard to come by.

In 1999, the World Bank's Post-Conflict Unit was tasked with preparing quarterly monitoring reports on countries and regions affected by conflict. A Post-Conflict Management Steering Group was given the responsibility of reviewing these reports. Country desks were given the responsibility of conducting Country Portfolio Performance Reviews every 12 months or less for post-conflict countries (instead of the normal 12 to 18 months). And the Operations Evaluation Department was tasked with developing guidelines "on how to apply evaluation criteria with greater sensitivity to the post-conflict political and economic environment when conducting completion reports." Watching briefs are now required for every country emerging from conflict.[9]

It is too early to say whether these innovations will address the relationship between a peace process and economic assistance strategies of the international financial institutions (IFIs). Regular social surveys are now required by the Bank in post-conflict countries but they do not measure that relationship, while the emphasis on country-specific assessments, in place of a standardized system for monitoring and reporting impact, may work against drawing generalizable inferences on which new strategy and policies could be developed. One thing is clear: systematic monitoring and assessments of actual impact are sorely neglected, and without research designed to assess how aid contributes to peace, refinements of existing practice make little sense.

2. *Employment: The Most Obvious But Most Neglected Lesson*

A common problem for all cases of peace implementation is high levels of unemployment in the first years after war. Lessons drawn about success or failure all point to the lack of employment opportunities. For example, the poor record on demobilization and reintegration of soldiers and on the slow rate of return of refugees and internally displaced to their homes, both key aspects of all peace agreements, turn on the lack of employment opportunities. Conversely, where partial success is claimed on demobilization, as in Mozambique, analysis points to specific funds designated for employment creation. High levels of unemployment pose a clear threat to peace, whether through disillusionment, lack of alternative activity and status, or the continued availability of the unemployed for mobilization by spoilers.

The critical role of active employment in redirecting behavior and commitments to peace is so obvious that no one disputes its importance. Yet, economic strategies are not aimed to overcome the problem. Neither the IMF's approach to macro-economic stabilization nor the World Bank's emphasis on developing large-scale infrastructure promotes employment. Development assistance and advice is still focused on laying the basis for economic growth in the long run, and assumes that employment will naturally follow. This is surprising in the case of the World Bank, which has long come to view small and medium enterprises (SME)

8 On this problem, see in particular the discussion in Zlatko Hurtic, Amela Sapcanin, and Susan L. Woodward, "Bosnia and Herzegovina," in Forman and Patrick, eds., Good Intentions, pp. 328-337.

9 The World Bank Experience, p. 47; Jonathan Stevenson, Preventing Conflict: The Role of the Bretton Woods Institutions (Adelphi Papers 336) (New York: Oxford University Press, 2000), p. 61.

as a core component of development, particularly to promote employment. The promotion of SME would seem to be even more central to promoting peace.

Only in 1999 did Bank officials draw this lesson from Bosnia and Herzegovina, proposing earlier and greater attention in a peace process to SMEs. This was incorporated into the revised strategy for Kosovo which was then in its early stages. At the same time, only 12 donors for Bosnia had committed funds for emergency projects designed to create jobs. But even here they were slow to deliver: only $146 million was committed (out of more than $5 billion pledged) and $116 million actually disbursed, leading the Bank to conclude that the "primary obstacle" to reducing Bosnia's "painfully high" unemployment was "lack of credit."[10]

Alternatively, the problem of unemployment may be the consequence of sequencing rather than policy. For example, in the case of Sierra Leone, the reduction of resources to subsidize the army led to rapid cuts in pay and personnel, with the result that 8,000 newly unemployed soldiers defected to the guerrillas and the peace was lost. Arguably, greater coordination between the economic and political halves of the mission could have prevented such "mis-timing". But if insistence on early cuts in public expenditure to establish macro-economic stability always wins the day, and is not *accompanied* by explicit attention to alternative employment, it is difficult to see what benefit coordination would bring.

Equally costly is the reluctance – and, in the case of some donors, a downright refusal – to finance core and recurrent budgets. This is costly because a peace agreement is, more than anything, about transforming wartime political structures or re-establishing government, providing public services, and restoring trust in public institutions. Government and other public institutions, however, need staff. Without monies to finance the salaries of public officials, police officers, judges, teachers, doctors, and others who will actually restore basic public order, the most fundamental services will not be provided. Resources used to reconstruct schools and clinics are wasted if they remain empty due to a lack of recurrent funding for staffing and operation. Donor reluctance goes beyond the generally recognized problem of the IFIs' priority in economic strategy on macroeconomic balance through cutting public expenditures and therefore, public sector employment.

Furthermore, donors to peace missions favor providing technical assistance as it enables them to avoid making political judgments in the sensitive early stages of peace implementation. Such assistance provides salaries for their own nationals to train and advise locals, which further reduces the opportunities for local employment.[11] Donor preference for visible showcase projects also tends to result in the neglect of the employment aspect. People are needed to make these projects – whether schools, hospitals, or factories – operate. Although this would appear to be obvious, there is seldom funding for these aspects. Monies for local salaries are required until there is local purchasing power sufficient to make World Bank cost-recovery policies actually work.

Finally, because people have to find ways to survive, and relief is never sufficient, the slow growth of paid employment also leaves many with little option but to turn to illegal or informal sources of earnings. The inevitable result is to create new problems - crime, patronage, and corruption – that undermine the rule of law and are particularly difficult to root out later. Informalization also slows monetization and other aspects of economic normalization, delaying the effectiveness of IFI policies, and reducing the state's tax base further. This takes place at exactly the moment when social trust and public confidence in government and the future are at a premium.

10 Bosnia and Herzegovina: 1996-1998. Lessons and Accomplishments. Review of the Priority Reconstruction program and Looking Ahead: Towards Sustainable Economic Development. A Report Prepared for the May 1999 Donors Conference Co-Hosted by the European Commission and the World Bank, especially, pp. 14-15.

11 For example, one third of all aid to Mozambique was technical assistance to expatriate professionals (Roberto Chavez at the Peace Implementation Network Forum on "Public Sector Finance in Post-Conflict Situations," Washington DC, August 1999).

3. Building Institutions and Social Capital

Beyond demilitarization, a peace agreement must construct a new political order. This requires establishing a government, a public sector and associated institutions, as well as public services. As many peace implementers attest, the primary lesson is "politics first."[12] By the late 1990s, the experience of market transitions in formerly communist or developmentalist states led major donors (including the IFIs) to stress the importance of institutions and "good governance" to the successful implementation of macro-economic stabilization and structural reforms. The World Bank recently has taken this aspect even further by emphasizing the importance of social trust to the creation and success of institutions.[13]

Macro-economic stabilization is a result of certain monetary and fiscal policies and their effective implementation. But these priorities pose a problem in post-conflict settings. Peace implementation cannot even begin, let alone become sustainable, if there is no government to adopt those policies or develop proper financial and legal institutions to make markets work and enforce contracts, property rights, and monetary and fiscal targets. Moreover, the development of social capital is a *response* to functioning, trustworthy institutions. A decline in social trust results from non- or poorly functioning public institutions. Even the ability of a post-conflict country to utilize the aid monies and technical assistance depends on the institutional environment.

In 1998 the World Bank took a major step in the direction of new strategy with its proposal to precede the preparation of a Country Assistance Strategy with a Transitional Support Strategy for countries in conflict that would be prepared "as soon as resolution is in sight." It requires Bank staff to "collaborate with the government and other partners to prepare a national recovery program as an initial step toward a more comprehensive, full-scale reconstruction program."[14] The Paris Peace agreement for Cambodia in 1991 mandated that the Cambodians do just that, take the lead in determining their own recovery needs and formulating a national recovery plan. But its formulation had to await the formation of a post-war government, and delays in the latter meant delays in everything else.[15]

Despite these lessons learned during the 1990s, and what appears to be a new consensus, actual assistance strategies for economic development and peace-building continue to be based on the assumption that governments and economic institutions already exist – at most, they may need reform, but not wholesale construction. While the IMF and the World Bank appear to be open to those who say that macro-economic stability is important but not sufficient, they do not appear to have accepted that institutions must be built first or, at the least, simultaneously. The result is usually to place this power in the hands of interim bodies. But the type of macro-economic stabilization policy chosen is one of the most consequential decisions that a government can take, with huge political consequences for the quality and durability of the peace. Because of the political consequences, it is becoming increasingly common to rely on an IMF-managed currency board in the first years after peace (as was done in Bosnia and Herzegovina) so as to deprive local authorities of any policy discretion. This goes counter not only to the IFIs' knowledge of the very narrow conditions in which currency boards are known to be effective, but also the advice of most economists with an understanding of the political and social environment in which economies function.

In 1996 the World Bank did move to accept, within its development mandate in post-conflict countries, some tasks that it had previously considered "political" – and, by some interpretations, prohibited by its Charter. New areas of involvement include de-mining, demobi-

12 See: Elizabeth Cousens and Chetan Kumar with Karin Wermester, eds., Peacebuiling as Politics: Cultivating Peace in Fragile Societies (Boulder, CO: Lynne Rienner, 2001)

13 Nat J. Colletta, Teck Ghee Lim and Anita Kelles-Viitanen, eds., Social Cohesion and Conflict Prevention in Asia: Managing Diversity through Development (Washington, DC: World Bank, 2001).

14 The World Bank's Experience, p. 6.

15 Forman and Patrick, "Introduction," p.17.

lization and reintegration, public-expenditure realignment, and human and social capital development. The Bank's 1996-2000 Priority Reconstruction and Recovery Program (PRRP) to support the Dayton peace accords for Bosnia and Herzegovina, which is the most innovative and well-endowed example of post-conflict engagement in the Bank's history, even classifies some projects as "peace implementation activities". Projects relating to the mass media, elections, human rights, and local security, including local police reform and a national border service fall within this category. Nonetheless, by the end of 1998, three years into the $5.1 billion PRRP, only $320 million had been pledged for these activities and only $217 million disbursed. This amounted to about 8 percent of total disbursements of the PRRP.[16] In 1999, the Bank's assessment was that "institutional and policy reform has generally lagged behind physical reconstruction."[17] The Bosnian program is also significant because it represents the first instance in which the importance of budgetary support for recurrent costs was accepted.[18] Nonetheless, even there, the Bank acknowledged that "emergency programs often failed to take into account the need for sufficient funding in recurrent costs."[19]

The importance to peace implementation of the development and maintenance of the public sector, both for critical institutional development and to give all parties a stake in reconciliation, is so great that some have proposed that all external aid be viewed as public expenditure support. It is argued that, rather than multiple, off-budget sources of reconstruction and capacity building, the aim should be to strengthen the public sector.[20] This would imply a major change in the way aid is delivered to peace processes. At the very least, others say, the focus should be on controlling budget expenditures rather than generating new budget revenues.[21] The initial lack of institutions should also be taken seriously in policy design. For example, new taxation regimes that do not require sophisticated systems of collection and revenue management might be more appropriate than a system that focuses on income tax collection. Countries should be urged, argues Vito Tanzi of the IMF, to begin simply, say with excise taxes which are the easiest to raise, and not to add complexity until state agencies are able to manage that complexity.[22]

Finally, the general absence of funding for key political tasks associated with peace implementation, such as police and judicial reform, civil administration, and democratization beyond elections, has been a particular grievance among the Special Representatives of the Secretary-General (SRSGs). To a person, they argue that the most important innovation in peacebuilding practice would be to insure a discretionary budget is available to the SRSG to finance political goals as they arise. SRSG Aldo Ajello attributes his greatest successes in implementing the Mozambican peace agreement to the $70 million Trust Fund he was able to obtain in order to transform RENAMO from an army into a political party. According to Derek Boothby, deputy SRSG in UNTAES (Eastern Slavonia, Croatia), a real discretionary budget, amounting, perhaps, to two percent of the total budget, would have made all the difference in terms of what the mission could accomplish.[23] The message may be getting through. Bilateral donors (particularly the UK's DFID) did provide a trust fund for UNMiK (Kosovo) in 1999, and

16 Bosnia and Herzegovina: 1996-1998 Lessons and Accomplishments, p.10.

17 Ibid., p. 6.

18 Similar measures were also applied in the West Bank and Gaza (The Johan Jørgen Holst Fund for Start-Up and Recurrent Costs) and other budgetary assistance. See Barbara Balaj, Ishac Diwan, and Bernard Philippe, "External Assistance to the Palestinians," Politique étrangère, (Autumn 1995) for the various attempts to fund their unexpectedly large budget deficit and the problems this caused.

19 Ibid.

20 Shanta Devarajan from the World Bank, at the Peace Implementation Network Forum on "Public-Sector Finance."

21 Odin Knudsen, on the basis of his experience as Resident Director for the World Bank in West Bank and Gaza, private communication.

22 Vito Tanzi, Peace Implementation Network Forum on "Public-Sector Finance."

23 Derek Boothby, private communication.

the World Bank set up another for UNTAET (East Timor) in the same year.

4. Whom to Assist and What to Fund?

The distinction between the political aspects of a peace mission and the economic aspects is hardwired into thinking about peacebuilding and into analyses of the role that economic actors and assistance should and do play. In fact, actions labeled economic and donor-initiated are highly political, with independent effects on implementation.

The most obvious effect derives from decisions about whom to assist. While the idea that neutrality is a myth is gaining ground in the humanitarian community, economic assistance is still constrained either by the norm of sovereignty governing intervention or by the rules of sovereign lending that now dominate the international monetary system. Whether giving relief or loans, donors need sovereign partners. This has several consequences. Humanitarian organizations and bilateral donors empower local actors by their decision of whom to aid. This is true regardless of whether the criterion is based on who appears most like a government or which political parties and leaders the donors want to support and strengthen. The IFIs must lend to governments, which will be held responsible for meeting loan conditions and eventually for repayment. The search for sovereign partners (which may require waiting for a government to establish itself) introduces substantial delays in the delivery of assistance and often means that humanitarian relief continues long beyond its constructive role. To avoid these two problems there is a growing movement to limit aid to technical assistance. This is seen as apolitical (in the sense that it appears not to be openly supporting one faction over another), but it takes the form of salaries to expatriate advisors, not to local actors and projects. Similarly, foreign donors increasingly seek out international non governmental organizations (INGOs) to implement projects where they do not trust either the politics or the capacity of local governments. The result, again, is that a large proportion of the actual assistance goes to salaries and overheads of the INGO, not to locals in need of assistance. But in all cases, the decision about whom to finance, whom to establish an aid relationship with, and whose preferences to consult have a direct influence on the peace process and the success of implementing the provisions of a peace agreement.

A second set of effects results from the fact that money is power and, with the possible exception of infrastructural finance, is intended to influence behavior. Third-party assistance in implementation creates a principal-agent relationship in which external actors seek not only to assist parties to a peace agreement but also to gain their compliance. A primary instrument of *leverage* over parties' behavior is offers of assistance or threats to withhold assistance. Today no aid is given without some conditions being attached. The ongoing debate about conditionality – to what extent and in what way should aid be used as leverage over parties' behavior – is based more on assumptions about influence than on studies of actual effects. However, no one doubts that there are effects.

The primary criticism of the policies of the IFIs stems from their use of economic conditionality. Conditions – such as wages and price levels, budget deficits, and sectoral expenditures - limit political flexibility, choice, and decisions about expenditures that may be necessary to building peace. Another source of contention is whether economic assistance should be used as *political conditionality*, to reward or punish political leaders for compliance or non-compliance with the provisions of peace agreements, rather than programs for economic reform. The IFIs generally oppose political conditionality because it violates their legal charters and in many cases, their economic philosophy which is focused on the efficiency and effectiveness of development plans. Some advocates go further in calling for *peace conditionality*, through which the enormous leverage of the IFIs and other major donors is used primarily to nurture constituencies for peace by rewarding supporters, punishing opponents, encouraging vacillators, and holding parties accountable to the terms of the peace agreement that they signed.[24]

24 James K. Boyce, "Beyond Good Intentions: External Assistance and Peace Building", in Forman & Patrick; see also James K. Boyce and Manuel Pastor, Jr., "Aid for Peace: Can International Financial Institutions Help Prevent Conflict?" World Policy Journal, 15, no. 29 (Summer 1998), pp. 42-49; and James K. Boyce, Peace Conditionality: External Assistance and Post-Conflict Transitions (forthcoming: 2000).

In addition, there is major disagreement about the best strategy for dealing with potential spoilers.[25] Should they be co-opted into the peace process, as UNTAC attempted to do with the Khmer Rouge in Cambodia and the Lomé accords with Foday Sankoh in Sierra Leone? Or should they be isolated, as Western policy for the Dayton implementation did with two Bosnian Serb political parties and their leaders? Even the identification of potential spoilers is not immune from the political preferences of major external actors and donors. But even economic conditionality requires political choices. Leverage over the compliance of governments by the IFIs, particularly by the World Bank, is limited by the IFI's market relationship with borrowing governments. IFIs cannot lend if governments are unwilling to sign off on proposed project loans. Yet, if a loan program is to succeed, the IFIs need to maintain good relations with the government. The danger of cozy relations – which may encourage recipient governments to refuse financing for projects that might aid political rivals or former enemies, act in ways that might harm constituencies and escape too much scrutiny of corrupt practices – is one of the motivations behind those who call for explicit peace conditionality with IFI financing.

A third political effect of economic assistance derives from the political tactics chosen by third-party implementers in response to donor funding preferences in the first years following peace agreements. For example, the concept of spoilers and how to deal with them assumes they are driven by strategic choices. But spoilers may actually be driven by their lack of institutional capacity to implement commitments. If local institutional capacity is not an explicit target of assistance in the first year or two of a peace agreement, then a leader's refusal to comply with specific aspects of the peace agreement may not be a choice. Whereas a peace mission may be present for several years – say, between two and five – a leader calculates his political survival over a longer period of time. Any admission that he does not have sufficient power and authority to implement a task and obtain compliance from his followers or citizens is a far riskier political step than appearing strong by refusing to comply with conditions set by outsiders. Similarly, doubts about the commitment of parties to a peace agreement have led donors and peace missions increasingly to emphasize *bottom up* peace-building instead of *top-down*. Bottom-up projects may be part of a loan package to governments but they emphasize local communities, NGOs, and popular participation as ways of circumventing national leaders. One effect, however, is to compound the problem of weak capacity at the center and to delay the "ownership" that outsiders demand. Another is that punishment – isolation, withholding aid, or circumvention - actually reduces one's ability to influence behavior.

5. *The Bubble Economy: Distorting Effects of an International Presence*

The very presence of an international peace mission, military force, and aid agencies has economic consequences that are directly contrary to the political goals of self-governance and economic and political sustainability. This problem is rarely discussed, but it emerges vividly in every case study for this project.[26]

The first set of distortions are those introduced into local labor, housing, and retail markets by the high salaries paid to expatriates and international civil servants, the rapid jump in demand for local translators and drivers, and the demand for local housing and services attuned to foreign tastes and salaries. Because the new peacetime governments cannot compete with the international organizations in terms of salaries, they find it difficult to attract the best professionals to government employment and public service, which delays local capacity and institution-building further. In time, many locals employed as translators and drivers progressively lose their skills because they are not practicing their profession. The high prices paid for housing and food crowd out locals, while internationals do not consume enough locally to stimulate and sustain local businesses.

A second set of distortions comes from the interaction between international and local actors in the peace

[25] Stephen Stedman, "Spoiler Problems in Peace Processes," International Security 22,2 (Fall 1997).

[26] Stedman, Rothchild and Cousens, eds., Ending Civil Wars.

process. The visibility of expatriates in their white foreign vehicles, at expensive restaurants reoriented to foreign clients, and subsidized stores generates greater resentment by locals over their own economic hardships. The relative cost of an international presence – for example, $1 million a day for UNOMOZ (Mozambique) and $4-5 billion a year for the Dayton military deployment alone – provokes doubts about priorities when evidence regarding success tends to emphasize the importance of local initiatives. For example, in Mozambique, the international mission concluded that where locals took on the tasks of return, reconciliation, and reconstruction themselves, the result was more durable. The World Bank's Resident Representative in Mozambique during ONUMOZ, Robert Chavez, warned that, "relief agencies need to be more sensitive to the contribution of society to reconstruction and not try to impose too much order on the process."[27] According to a World Bank assessment of Bosnia and Herzegovina in early 1999, "implementation of the reconstruction program has been most effective in those sectors (i.e., transport and energy) where priorities of donor assistance have been established jointly with the authorities."[28]

While much attention in peace missions is now drawn to the problem of avoiding aid dependency or a "culture of dependency," there is also a risk of distortion from the timing and manner of the mission's departure. The precipitous departure of ONUMOZ from Mozambique – where a "resource-intensive, high-profile operation engulfed Mozambique for two years and then left as swiftly as it had come" – is much criticized because of the lack of regard for the effects of the rapid hand-over to locals.[29] Although scholars of peacekeeping are concerned about "exit strategies," their criteria for exit (aside from political pressures for disengagement from troop contributing countries) tend to be measures of progress along a list of benchmarks in implementing the peace agreement. The effect on that path of the exit itself, its timing and its manner, does not enter calculations.

27 At the PIN Forum on "Public-Sector Finance" and at a seminar on Donor Coordination in Post-Conflict Countries at the Overseas Development Council, Washington, DC, October 22, 1997.

28 Bosnia and Herzegovina: 1996-1998 Lessons and Achievements, p.6.

29 Evaluation of Norwegian Assistance, p. xiv.

Conclusion: The Need for a New Economic Strategy for Peace Implementation

The main economic strategies governing the implementation of peace agreements have been *adapted* from other purposes, and are not designed explicitly for ending civil wars. Increasing criticism of the consequences, particularly the conflict between the priorities and tactics of the political mission and those of the economic actors, has led to substantial efforts by donors to identify lessons-learned and improve practices. The primary result has been to add new financing instruments for peace-related activities, such as elections, police reform, de-mining, and supplementary projects such as arms-for-land or trust funds for core and recurring budgetary expenditures.[30] New financial facilities are also aimed at gaining flexibility on IMF restrictions, while increased coordination among donors in the field and between the main officials in the economic and political tracks has become the common denominator for reform.

None of these responses address the differences in approach, priorities, and tasks that do or do not get funded. The fact that the impact of assistance on peace tasks is seldom directly evaluated makes it very difficult to demonstrate why and how these reforms misunderstand the problem. Moreover, the selective interest of outsiders in post-conflict cases means that even these remedies will not be available to many countries. There is, however, substantial fragmentary evidence from actual cases of what does not work and what needs to be changed. This evidence does not point to the need for larger resource allocations in most cases, but toward the need for a strategy that would, inter alia, promote far more efficient use of resources and greater likelihood of success. Indeed, the examples of Bosnia and Herzegovina and of Palestine suggest that too much money and an overly assertive international presence may be counterproductive. Similarly, lessons drawn from the 1996 World Bank study of Bank-financed demobilization and reintegration programs in Africa show that low-cost solutions may be more effective than costly interventions, if they are sufficiently attuned to the local context and culture.[31]

As Boyce and Pastor write, "*unless* the peace process is allowed to reshape economic policy, both will fail."[32] The vested interests in technical knowledge and in organizational autonomies and jurisdictions appear to be inhibiting a substantial rethinking and collaborative redesign that could integrate both political and economic aspects into a peace strategy, building on the actual experience of peace missions and their lessons, such as the five discussed above. The history of failed peace processes, or political stalemates and worsening economic conditions following a peace agreement, would seem to demand as much.[33]

30 However, the World Bank, at least, has tended to underestimate the actual costs of the budgetary support that will be needed, such as occurred in El Salvador and in the West Bank and Gaza programs.

31 Jonathan Stevenson, Preventing Conflict: The Role of the Bretton Woods Institutions, Adelphi Paper 336 (London: The International Institute for Strategic Studies, 2000), p.60.

32 In Krishna Kumar, ed., Rebuilding Societies after Civil War; Critical Roles for International Assistance (Boulder, CO: Lynne Rienner, 1997), p. 287.

33 As Nicole Ball warns, "Because peacebuilding activities are inherently political and are implemented in highly politicized environments, the selection, design, and implementation of programs cannot be approached from a purely technical perspective." Nicole Ball, with Tammy Halevy, Making Peace Work: The Role of the International Development Community, Policy Essay No. 18 (Washington, D.C.: Overseas Development Council, 1996), p. 48.

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APPENDIX II

Ending Civil Wars: The Implementation of Peace Agreements

edited by Stephen John Stedman, Donald Rothchild, and Elizabeth M. Cousens

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