



**War Economies in a Regional Context:
Overcoming the Challenges of
Transformation**

IPA Policy Report

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Acknowledgements

The author wishes to thank Karen Ballentine, Heiko Nitzschke, and Clara Lee for their comments on an earlier draft.

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Executive Summary

This policy report distills key findings from research commissioned by the International Peace Academy's program on Economic Agendas in Civil Wars (EACW) on the regional dimensions of war economies and the challenges they pose for peacemaking and peacebuilding.¹ Drawing from analytical research as well as case studies of Afghanistan in Central Asia, Sierra Leone in West Africa, and Bosnia and Herzegovina in Southeast Europe, a number of key issues concerning the political economy of regional war economies and lessons for more effective peacebuilding were identified:

- The notion that internal conflicts have economic “spill over” or “spill into” effects on neighboring states needs to be extended and deepened. Policymakers should work to develop a more comprehensive understanding of the interstate impacts of civil conflict that gives greater weight to systemic cross-border networks and less to potentially ‘one-off’ transborder phenomena.
- Peace processes suffer from a state-centric bias. It is not enough to encourage the participation of key neighboring states in peace negotiations. Rather, mediators and other representatives of the international community must endeavor to incorporate non-state local and regional actors, particularly participants in regional formal and informal economies, into the peacebuilding process. This entails taking account of the interests and agendas of such actors at the war termination stage, as well as ensuring their inclusion in subsequent aid, training, and rebuilding initiatives.
- Regional conflict complexes pose particular challenges to the management of conflict and to post-conflict peacebuilding. Ignoring the regional dimensions of a conflict may simply create a balloon effect, whereby corruption, instability, and conflict is displaced from one country to another neighboring country. In developing strategies to cope with regional conflict complexes, policymakers should note that the interplay of military, political, economic, and social networks fosters a self-reinforcing conflict dynamic that requires a multifaceted and comprehensive approach.
- Contrary to many common perceptions, certain informal regional economic activities that are presently ignored or criminalized may actually be brought into the service of peacebuilding and reconstruction. Policymakers should, at the outset, distinguish between those activities and actors which pose an immutable threat to peacebuilding aims and those which may actually contribute to social and economic stability. The latter may include shadow networks capable of being incorporated into the formal economy, natural resource industries supported by foreign investment, and also small-scale informal economic activities and trade networks, particularly where these are traditional and not wholly infiltrated by combatants.
- War economies are extremely flexible and resilient and may continue to operate after the official end of violent conflict. Spoilers marginalized by the peace process will continue to exploit weaknesses in the informal sector through regional networks and the support of dispossessed populations to expand their power and challenge the authority of the post-conflict order. These actors require a complex policy approach, the aim of which should be to alter the social function of these actors with an eye to ultimately reintegrating the resources at their control, whether derived from natural resource exploitation or the trade in illicit goods. Strategies may include co-opting spoilers with a view to reintegrating them into the formal economy, criminalizing warlords and seeking to bring them to justice, fashioning national and regional policies of Keynesian economic development, or settling on a default

¹ Neil Cooper and Michael Pugh, with Jonathan Goodhand, *War Economies in a Regional Context: The Challenges of Transformation* (Boulder: Lynne Rienner Publishers, 2004).

policy of benign neglect where the other strategies may not be implemented. This set of policy options may be augmented by general efforts at improving regulatory effectiveness through region-wide economic development programs to address transnational shadow networks, the creation of regional regulation that identifies specific conflict commodities plaguing a region, and improving sanctions regimes, with a focus on robust monitoring and implementation, a firmer UN Security Council commitment to report sanctions violations, and the imposition of secondary sanctions.

- Security should not be seen as existing only at the level of the global or the national. In fact, in a post-conflict situation, marginalized populations living along borderlands often rely on illicit networks and other shadow activities for survival. In the absence of formal coping mechanisms, these borderland regions may be seized by those who

resist peace. Unless policymakers supplement capital-centered reconstruction policies with a more comprehensive national approach that addresses borderland insecurity, continued insecurity could threaten peace.

- The set of economic policies relied upon by the donor community and international financial institutions (IFI's) do not treat war transformation as distinct from economic crises unaccompanied by violence. To secure a lasting peace, it is necessary to understand that policies aimed at privatization, foreign direct investment, and deregulated markets may have debilitating effects on peacebuilding. The specific needs of war-torn societies include the establishment of a functioning state with the capacity to control its finances, social programs and institutional decision-making, policies which acknowledge the role that shadow economies play, and greater support for regional approaches to security and development.

Introduction: Understanding Regional Conflict Complexes

Research on contemporary civil war points to the salience of economic factors in exacerbating and perpetuating conflict. While their role in the onset of conflict is typically indirect, they can influence the character, duration, and adaptation of war in consequential ways.² In the post-Cold War environment, decline in superpower support has fashioned the self-financing nature of today's civil wars, with various actors turning to the predatory exploitation of lucrative natural resources, such as diamonds, timber, oil, and narcotics, or to the capture of illicit trade networks and informal economies, to support military objectives. While policymakers and academic literature recognize the importance of economic agendas during civil war, considerably less attention has been given to the regional dimensions of intra-state conflicts. Where the spread of conflict has transgressed from one state to another, analysis has tended to point to the "spill over" or "spill into" phenomenon of conflict, with a one-off outpouring or inpouring of conflict-promoting actors and activities (such as cross-border raids, refugee flows, and the inflow of arms) wreaking havoc on a neighboring state and threatening a region's stability. While the "cross border contagion" of conflict imported from one state to another drastically affects a neighboring state economically, and while conflict in one state greatly increases the chance of civil war in a neighboring state, the one-off nature inherent in the "spillover phenomenon" does not adequately explain the proliferation of regional instability.³ There is

increasing recognition that the "spill over" concept fails to appreciate the long-standing cross-border dimensions of internal conflict.⁴

Instead, the "spread" of conflict from one state to a neighboring state can be seen as part of a systematic regional conflict complex, characterized by Barnett Rubin as "transnational conflicts that form mutually reinforcing linkages with each other throughout a region, making for more protracted and obdurate conflicts."⁵ The outbreak of internal conflict in one country can spur regional movements and contestations for territory, resources, and power, sometimes resulting in the destabilization of neighboring states. Alternatively, long-standing regional rivalries centered on power and economic control of valuable natural resources can create grievances and political transborder disputes, leading to conflict in a region. The spread of violence from Liberia to Sierra Leone and Côte d'Ivoire in West Africa is a case in point, where the perpetuation of violence and instability has been spurred by a variety of transborder dynamics, including the trade in arms and the exploitation of diamonds and timber. Additionally, in Afghanistan, it is impossible to separate the decades of internal conflict from the regional instability that has plagued Central Asia.

A variety of regional linkages, including population movements, smuggling routes, transnational identity groups, criminal rings, and political connections are often systematic features of a conflict. These linkages fit into the regional conflict complex through four types of networks: military, economic, political and social. Such networks often overlap and shift as the

² For further reading on the political economy of armed conflict, see Paul Collier and Anke Hoeffler, *Greed and Grievance*, Policy Research Working Group Paper no. 2355 (Washington, DC: The World Bank); Mats Berdal and David M. Malone, eds., *Greed and Grievance: Economic Agendas in Civil Wars* (Boulder: Lynne Rienner Publishers, 2000); Karen Ballentine and Jake Sherman, eds., *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (Boulder: Lynne Rienner Publishers, 2003).

³ See, for example, James C. Murdoch and Todd Sandler, "Economic Growth, Civil Wars and Spatial Spillovers," *Journal of Conflict Resolution* 46, no.1 (2002).

⁴ Michael E. Brown, "The Causes and Regional Dimensions of Internal Conflict," in Michael E. Brown, ed., *The International Dimensions of Internal Conflict* (The MIT Press, 1996).

⁵ Barnett Rubin distinguishes these regional linkages as being part of a regional conflict formation. Cooper and Pugh, with Goodhand, draw heavily from Rubin's concept of regional conflict formations to expand on their analysis of regional conflict complexes, yet borrow the term from Wallensteen and Sollenberg. See Barnett Rubin, Andrea Armstrong, and Gloria R. Ntegeye, eds., *Regional Conflict Formation in the Great Lakes Region of Africa: Structure, Dynamics and Challenges for Policy* (New York: Center on International Cooperation, 2001); Peter Wallensteen and Margarata Sollenberg, "Armed Conflict and Regional Conflict Complexes, 1989-1997," *Journal of Peace Research* 35, no.5 (September 1998), pp. 621-634.

nature of conflict mutates and the participants' incentive structures develop throughout the course of a conflict. Regional conflict complexes encompass a wide range of actors tied together through a fluid web of alliances and enmity: rebel groups, official state actors, and the civilian population. An exploration of these four networks may serve to illustrate their differing impacts on civil conflict and the potential challenges they pose to peacebuilding.

Military Networks

The most self-evident military element of regional conflict complexes is the invasion of states by rebel groups that receive financial support, logistical aid, actual troops, or a base of operations from neighboring governments. These cross-border proxy invasions undertaken by "bad neighbors" may have a variety of motivations, including national security concerns, the desire to 'tie up' regional rivals in civil conflicts, economic motivations directed at the acquisition of natural resources or trade and smuggling routes, retaliation, and the goal of installing allies in the government of target states. In West Africa, for example, the government of Charles Taylor provided mercenaries, financial aid, arms, and bases to rebel groups directed at Sierra Leone in the hope of gaining control over regional economic networks and diamond mines, prompting the withdrawal of Sierra Leonean troops from the The Economic Community of West African States (ECOWAS) Monitoring Group (ECOMOG) action in Liberia and installing his ally Foday Sankoh in power. This tactic by Charles Taylor spread to include other states in the regional conflict complex, resulting in the eventual involvement of Burkina Faso, Guinea, Côte d'Ivoire, and Nigeria, as well as Sierra Leone itself.

Another military network that plays a major role in the transmission and prolongation of conflict is the regionalized nature of the trade in arms. Civil wars are often fraught with arms produced from areas outside a region, and in particular by industrialized nations who dominate the global arms supply. Once arms make their way into a region marked by conflict, however, they become an element of regional smuggling and trade networks characterized by flexibility and resilience.

The imposition of arms embargoes on governments or rebel groups often results in a reorientation of arms networks to fill the resulting demand for weaponry. In this situation, regional networks serve the purpose of creating alternative routes for weapons circulation, concealing the destination of the weapons, and shielding the supplier. Regional illicit networks, such as the smuggling and drug rings that developed in Kosovo, rewarded insurgent participation with the arms required to wage war against the Serbian authorities. Kosovar Albanians, unable to acquire arms licitly on the state-oriented global market, turned to long-standing networks built around the transport of heroin and the smuggling of consumer goods to develop the revenue and criminal connections they used to funnel small arms to the region.

Political-military alliances within regional conflict complexes play a significant role in structuring and maintaining arms supplies throughout the course of a conflict. States take care to ensure that their proxies have the capability to continue the conflict; thus arms transfers may take place directly between states and rebel groups or, alternatively, may be facilitated through the provision of contacts with arms dealers and the granting of concessions in the form of resources or plunder. In the Afghan conflict, neighboring states ensured the continued provision and maintenance of arms supplies in the wake of the withdrawal of superpower support. Thus, Iranian arms supplies were directed to their allies in the Northern Alliance through other regional actors such as Turkey, Uzbekistan, and Tajikistan, while Pakistan's strategy of 'strategic depth' manifested itself in support for the Taliban that took the form of shipments of ammunition and fuel as well as direct combat assistance.

Alternatively, the dynamics of a conflict in one state may create displacement effects that extend to arms supplies throughout the region. In this sense, ineffective or incomplete disarmament, demobilization, and reintegration (DDR) programs, by failing to demobilize and destroy supplies of weapons, can leave behind a legacy of inexpensive arms. Existing regional networks can maximize the flaws of such DDR processes, resulting in the transport of large quantities of arms to neighboring states, which may in itself contribute to

the eruption of conflict. State collapse and civil conflict can contribute to the regionalized nature of arms networks, as the breakdown of central state control fosters the outpouring of arms to surrounding states. The disintegration of the authority of the central government in Albania in the 1990s, for example, permitted the looting of thousands of weapons that contributed to the political economy of revolt in Kosovo.

The existence of mercenary networks also contributes to the formation and entrenchment of regional conflict complexes. In this sense, underfunded or poorly designed peace implementation efforts in one state may lead to regional instability, as combatants who are not reintegrated into formal society are enticed to join forces in mercenary activity in neighboring states in exchange for economic reward. For instance, in West Africa, ex-Revolutionary United Front (RUF) fighters from Sierra Leone have subsequently been used as mercenaries in neighboring Guinea and Liberia.

Economic Networks

There are a number of ways in which economic networks can add to regional conflict complexes. Regional trade routes may be a means by which conflict goods can escape formal sanction, enabling neighboring states to derive revenue from one state's civil conflict and the resulting establishment of trade restrictions. For example, the imposition of sanctions on Sierra Leone, and in particular, the system of control and certification designed to stem the trade in conflict diamonds, created a space for neighboring states to exploit the regulatory regime by acting as middlemen and re-exporting diamonds under their own names. This regional network was built upon a long-standing and informal system of diamond production and exportation in West Africa that originated in the colonial period and thrived during the military dictatorships that preceded the civil war. Taking advantage of the central role of Lebanese diamond traders, conflict actors developed a complex supply chain extending from the alluvial diamond fields in rebel-held Sierra Leone through intermediate control by Liberians and Lebanese before eventual processing in such states as the Gambia and Liberia,

which both boasted significant diamond exports despite a lack of domestic reserves. This regional economic network enabled rebel groups to derive significant revenues from diamond production as Sierra Leonean diamonds clandestinely entered global markets such as Antwerp.

Additionally, attempts to regulate commodities and conflict goods can create a "balloon effect" in a region, whereby the focus on eradicating production in one state without simultaneous regional measures results in the displacement of resources and goods to a surrounding state. For example, the ban on poppy production in Afghanistan, absent a larger, region-wide initiative, resulted in an upsurge of poppy cultivation in Burma and in Northern Alliance controlled Afghanistan.

Economic networks can also feed into regional conflict complexes even if a state possesses neither valuable natural resources nor illicit commodities, through the manipulation of tax systems and the circumvention of regulation. For instance, while Southeast Europe has few primary resources, conflict actors have been quite successful at generating revenue by evading formal tax collections through smuggling a variety of goods. Taking advantage of insecure borderlands and differences in adjoining regulatory regimes, smugglers have developed a large land-based system of illicit trucking that supplies Western Europe with drugs, prostitutes, and other forms of contraband. By evading sales tax and serving as a conduit for money laundering, smugglers can generate very large sums of money. Cross-border smuggling is a pervasive social and criminal problem in the Central Asian regional conflict complex also, with particularly large amounts of smuggling occurring in the Afghan-Pakistan border region. The more open trade regime of Afghanistan, as opposed to the more restrictive trade regime in Pakistan, has created additional incentives for illicit smuggling and tax evasion. The pervasiveness of smuggling is made more acute by corruption among customs officials and police, a phenomenon that may be exacerbated by low salaries and minimal investment in these sectors of the government. The impact of smuggling and tax evasion is apparent not only in the state where criminal activity occurs. Rather, such

networks have the effect of entrenching transborder criminal operations and depriving neighboring states of legitimate tax revenue. The finances generated illicitly both weaken formal state capacity and transfer finances to rebel organizations that challenge state authority.

Political Networks

Linkages across borders amongst political and military groups may contribute to the regional conflict complex, as individuals utilize their political associates to engage in a variety of both licit and illicit trade deals. In this sense the repercussions of political networks are not separate from the other networks discussed in this report. Rather, political alliances channel behavior in the military, economic, and social spheres, structuring relationships in these areas in line with political goals and aspirations. In Afghanistan, for example, rival factions in the civil conflict were covertly aided by political patrons in such neighboring countries like Pakistan and Uzbekistan; such alliances connected the civil strife in Afghanistan with violence in Kashmir, Chechnya, Tajikistan, and Kyrgyzstan. Pakistan lent significant support to Afghan groups, particularly the Taliban, in an attempt to redress perceived security threats from its historic antagonist, India, while curbing Pashtun nationalism thought to threaten Pakistan's territorial integrity.

Transnational political relationships affect the forms and motivations of shadow economic activity in the context of regional conflict complexes. Leaders may provide political associates with valuable commodities or smuggled goods both as a reward for loyalty and to provide their allies with the means to advance commonly held goals or continue military campaigns. This form of association, in turn, gives rise to a subsidiary class of economic actors dedicated to facilitating these political exchanges. Thus, in the West African context, Taylor relied on a coterie of assorted regional actors, from the Lebanese diamond traders to a Berkinabe 'General' named Ibrahim Bah, to assist him in exploiting the diamond fields of Sierra Leone and providing his RUF allies with funds and military equipment.

Political linkages may persist beyond war termination, distorting peacetime economic relations and subverting the authority of the post-conflict state. In the Balkans, for example, relations between the Croatian military and extreme Croat nationalists based in the Mostar region of Bosnia and Herzegovina (BiH) persisted into the post-Dayton era, undermining the control of the Sarajevo government and providing the faction with incentives to continue their resistance of central authority.

Social Networks

Transnational social networks include familial, kinship, occupational, and diaspora groups. Family networks in particular play a vital role in providing social and economic welfare to impoverished societies through the disbursement of private loans and employment opportunities. When the state is unable to guarantee basic livelihoods and sustenance, informal shadow networks comprised of familial and clan systems may fill the vacuum, directing the organization and provision of essential goods and services. In Afghanistan, for example, with the decline in the central state's ability to carry out its essential functions, individuals relied upon informal and traditional family and clan networks for support. Occupational groups may have regional systems that become connected to a conflict trade. In Southeast Europe, for example, lorry drivers have been incorporated into a larger criminal network of drug smuggling and human trafficking. As these trucks crossed through a number of "tax" zones, the revenue generated went to local militia groups. In the absence of formal economic opportunities, these structures create livelihoods and further strengthen regional shadow economies and the unruliness of borderlands.

Regional diaspora groups have proven to be influential both politically as well as through their economic support for home populations. They can provide safety for individuals by harboring or sponsoring them. Additionally, regional diaspora groups may engage in the physical transfer of goods. Diaspora groups can also feed into a regional conflict complex by strengthening shadow economic activity in surrounding states

and within borderland areas, especially when these remote areas are extremely poor and lack formal oversight. When peripheries are economically marginalized and borderlands are somewhat free from governmental monitoring, diasporas may take on the characteristics of a quasi-state, undermining central authority and control. The Pashtun community in Central Asia, for example, has extended from Afghanistan into the border regions of Western Pakistan, where it has usurped a large degree of local control.

Creating Sustainable Peacebuilding Strategies: Lessons and Policy Implications

Although research and policy have become more sensitive to the variety of ways that economic agendas may impact war transformation, there is a lack of understanding about the different functions of war economies and their implications of these for conflict settlement and post-conflict reconstruction.⁶ As discussed above, conflict economies are embedded in a complex web of regional social, economic, political, and military networks that profoundly impact the behavior of conflict actors. A similarly nuanced and complex understanding of the nature and structure of war economies must be developed. Often, analysis treats all economic activities associated with conflict situations as elements of the *combat economy*, which exploits natural resource wealth and illicit goods such as drugs and small arms to sustain conflict and profit from war. In other words, economic activity is viewed purely as a malignant agenda that must be rooted out. In Sierra Leone, for example, the connection between illicit trade in natural resources, particularly diamonds, and the criminal activities of rebel groups gave rise to an overly one-dimensional narrative that left out the role of government corruption and illicit exchange networks. Such a characterization of these economic relationships overlooks important distinctions among

various economic actors. For instance, the *shadow economy* encompasses a much wider range of behavior, motivated in large part by economic opportunism fueled by conflict. These actors thrive on their ability to operate outside the formal economy but do not necessarily find themselves committed to the pursuance of war. Furthermore, they often play a critical role for those whose livelihoods have been disrupted by conflict. In Afghanistan, landowners are often considered elements of the shadow economy, as they lease out their land for poppy cultivation and generate revenue from this and related transactions. Similarly, the smuggling of illicit goods via trucking in the Balkans is a shadow economic activity that benefited from the collapse of state authority during the conflict but has continued to thrive in the post-Dayton era. The *coping economy*, on the other hand, consists of individuals who seek to maintain a basic level of economic sustenance in the absence of a functioning state. In Afghanistan, for instance, many people are left with no other alternative but to turn to coping economic mechanisms for their survival, particularly growing poppies and dealing opium.

The main points of difference may have implications for vital war transformation goals and strategies pertaining to reintegration, the neutralization of potential peace spoilers, the economic development of licit economies, and the restoration of essential state services. However, this conceptualization of the political economy of war based around three clear-cut categories—combat, shadow, and coping—simplifies a very complex reality. In actuality, the economies described above are neither distinct nor wholly independent of one another. Rather, these forms of economic relationships easily coexist, and it may be very difficult to determine where one form of economic relationship ends and another begins. The seamless integration of combat, shadow, and coping economies is exemplified by the supply chain that has been created around the cultivation of poppies in Afghanistan during the 1990s. As Goodhand notes, much of the poppy production was carried out by poor

⁶ Most literature relating to war economies is concerned with the inception or maintenance of conflict, rather than the effect that war economies may have on post-conflict transformation. Exceptions to this include Susan Woodward, “Economic Priorities for Peace Implementation,” IPA Policy Paper Series on Peace Implementation, October 2002; and Heiko Nitzschke, “Transforming War Economies: Challenges for Peacemaking and Peacebuilding,” IPA Conference Report from Wilton Park, 27-29 October 2003.

farmers engaging in sharecropper agriculture as a means of providing basic subsistence; these individuals are part of the coping economy. The landowners who provided the lease and the capital, in return for the lion's share of the final agricultural product, make up the shadow economy. The military commanders who directed and taxed this trade, setting price levels and capping production, are firmly planted in the combat economy. Thus the production of a single commodity may pass through each of the different forms of conflict economy described above; the opium in question simultaneously provides basic subsistence, shadow profits, and capital for the waging of war.

In this light, there is a particular need to integrate the various economic dimensions of conflict in post-conflict strategies in those areas that have witnessed violent competition over and trade in natural resource wealth and illicit commodities. There is a general misconception that once a war has stopped the avaricious activities that occurred during wartime will also cease to exist. However, networks of government corruption and rebel-based illicit trade that have become an entrenched part of conflict rarely simply dissipate after the cessation of hostilities. On the contrary, these shadow networks may gain strength from delicate post-war conditions, where the state lacks the ability to govern its own resources and is unable to confront economic criminality. Furthermore, war-related economic activities may have filled an important gap in providing economic and social livelihoods to members of the coping economy. When the state is unable to fill these social, cultural, and economic roles, these patterns endure in and shape post-conflict recovery.

This phenomenon is particularly significant in borderland regions where the influence of the state may be weakest. In these areas, entrenched informal networks may provide the ideal conditions for the growth of shadow economies and the development of spoilers. Such networks constitute semi-autonomous social groups with significant control over lucrative resources and a stake in subverting the powers of the state. To perpetuate their clout, these groups may seek

the collusion of governmental officials, particularly those charged with combating illicit economic activity. Although borderlands are important for national security and territorial integrity, they are frequently neglected by weak central governments and may become prey to rampant criminality and 'capture' by shadow networks. This phenomenon is compounded by the difficulties inherent in the administration and policing of borderlands, which may be far from the state's seat of power, occupied by potentially hostile groups that may feel some allegiance to neighboring states, geographically sprawling, and resistant to economic integration. Examples of borderlands that exemplify one or more of these characteristics include the borders between Liberia and Sierra Leone, Afghanistan and Pakistan, and Serbia and Albania.

Unfortunately, efforts to transform post-conflict societies have typically ignored the regional dynamics of war economies. To date, emphasis has been given to state-centric policies of transformation. Development and reconstruction policies repeatedly underestimate the interconnectedness of regional economic networks, which have a profound impact on the likelihood of a sustainable peace. Furthermore, managing war economies tends to focus on control regimes.⁷ Cooper and Pugh, with Goodhand, elaborate on different control strategies that are currently being employed in response to conflict trade and war economies: governance initiatives, prophylactic controls, and control-lite strategies. *Governance initiatives* use donor conditionality to promote peace and improve political and economic governance. These programs, which focus on economic growth through established neoliberal formulas, have been criticized for fostering corruption and economic mismanagement while failing to address social welfare needs that are often the root causes of conflict. *Prophylactic control strategies* aim at interdicting the exportation of destabilizing resources and commodities—drugs, asylum seekers, and sex workers, for example—from conflict zones to developed states, or “zones of peace.”⁸ This approach reflects the trend of *liddism*, whereby the advanced nations of the world try to keep a lid on growing

⁷ Mark Duffield, *Global Governance and the New Wars: The Merging of Development and Security* (London: Zed Books, 2001).

⁸ M. Singer and A. Wildavsky, *The Real World Order: Zones of Peace and Zones of Turmoil* (Chatham, NJ: Chatham House, 1993).

insecurity without addressing root causes of dissent and without adequately taking into account the role that globalization may play in contributing to the negative effects of poverty and war.⁹ *Control-lite strategies* acknowledge the role of the developed world as both a market for and a participant in illicit networks. However, these are selectively targeted at rogue actors and the elaboration of minimal control mechanisms. Furthermore, they neglect structural elements, particularly the existence of a robust demand for illicit goods and of global illicit trade networks capable of transporting shadow goods and exchanging them for arms and other resources, that can underlie both armed conflict and the shadow economies upon which conflict can thrive.

The failure to take into account a regional analysis of war economies in post-conflict peacebuilding—including the challenges posed by porous border regions, the vitality of economic shadow networks, and the strong political, economic, social and military transnational linkages that comprise a regional conflict complex—may undermine the effective management of conflict and peacebuilding. Moreover, the imposition of neoliberal models of economic reform, with their insistence on privatization, foreign direct investment, and deregulated markets and their neglect of state capacity, are not designed for post-conflict settings and may have deleterious effects for transformation. War torn societies confront the various pressures of multiple transitions affecting the social, political, economic, and governmental sectors. These include the shift from war to peace, from command to open economies, and from collapsed state authority to nascent governmental systems. Current IFI donor policies run counter to the needs and capacities of weak states, in which the most urgent concern is to consolidate power and restore essential functions and institutions of governmental authority. Neo-liberal pressures to institute policies of deregulation, privatization, and fiscal probity over institution building and social services may imperil effective reconstruction. Furthermore, current international strategies fail to address the need to transform persistent coping and shadow economies. As such, they remain vulnerable to capture by potential peace spoilers who may use the

assets generated by illicit trade to thwart the restoration of legitimate authority.

Regional shadow economies have various effects upon peacebuilding efforts, as these transnational linkages often existed long before the eruption of conflict and tend to be flexible and resilient both during hostilities and beyond the official end of violence. While actors from neighboring states may be directly involved in the economic exploitation of conflict which thrives in the vacuum created by corruption, diminished state authority, and neglected, permeable border areas, not all regional activities are a threat and some may be harnessed to peace. In particular, regional illicit networks may provide the economic and social livelihoods for marginalized populations, thereby granting sustenance for the dispossessed and a path through bureaucratic impediment for other marginalized groups. These potentially benign activities include legitimate and long-standing economic relationships and informal trade and production that may be integrated into the formal economy during times of peace. The combination of the criminality of the mafiosi and warlords together with the concrete social and welfare benefits they may produce constitute, along with the chameleon-like nature of shadow networks, a significant obstacle for peacebuilding. There are, however, a number of policy approaches that may properly integrate the regional political economy into post-conflict reconstruction and peacebuilding and bolster peacemaking practice:

Building State Capacity

States emerging from armed conflict are faced with the daunting task of rebuilding their social, economic, and physical infrastructure in the aftermath of a debilitating period of violence and civil unrest. Those states that do not have the human and capital resources to rebuild need assistance from the international community, with a focus on institution building and the payment of fixed costs. The current neo-liberal concept endorsed by IFI's fails to see war transformation as unique from economic crises unaccompanied by physical violence. In particular, current programs place an emphasis on achieving a minimal state, in

⁹ Paul Rogers, *Losing Control: Global Security in the Twenty-First Century* (London: Pluto Press, 2000).

contrast to the more robust authority over finances and decision-making required by states in the process of rebuilding. In some cases, pre-conflict insistence on structural adjustment policies and a minimal state, such as in West Africa and the former Yugoslavia, have been listed as contributors to the eruption of violence. As such, lessons based on the sensitivities of conflict-prone and conflict-ridden societies to stringent neo-liberal policies must be reanalyzed. While privatization is a laudable goal, without a functioning state, initiatives designed to achieve that goal may never come to fruition.

As neo-liberal economic prescriptions combine with regional dynamics, regional conflict complexes may threaten transformation strategies. In particular, the economic strictures mandated by the international community may create an environment of weak central state authority and deregulation in which regional conflict networks may thrive. Where neighboring states are faced with asymmetrical structural adjustment programs and different rates of economic growth, such as in Afghanistan in the context of Central Asia, shadow networks may take advantage of discontent with fiscal belt-tightening and the chaos that may attend rapid economic change to cement their control over trade networks and embed themselves in ostensibly legitimate economic activities. Another side effect of deregulation and the devolution of political authority is the proliferation of different regulatory regimes, providing strong economic incentives to engage in smuggling activities. When this is combined with longstanding criminal social networks, the fragility of nascent state control, and the potential for corruption in states just emerging from patronage systems, the expansion of regional shadow networks will be hard to combat. In this context, only policy programs that take into account the unique nature of borderlands and the need for comprehensive regional measures will be successful.

Additionally, the implementation of privatization absent strong domestic institutions provides warlords and mafiosi with an opportunity to infiltrate the liberalized economy. This, in addition to providing these unsavory individuals with an economic windfall, may enable them to supplement and expand their illicit

activities. Resulting corruption, in a vicious cycle, may further ‘normalize’ the criminal. States such as Afghanistan, which continues to lack a vigorous central authority with a monopoly on domestic force, will have particular difficulty in combating the power of regional warlords and the illicit networks that support them.

- Reconstruction policies that do not meaningfully address the role of shadow economies will undermine the state-building initiatives of the central authority and permit grey-market actors, who thrive in border regions outside central state control, to entrench destabilizing networks of illicit flows and threaten a sustained peace. External actors need greater understanding of the social function that shadow economies can provide for war-torn populations and to devise strategies that both address the pervasive coping and informal economies and create a positive social function for war profiteers through channels subscribed by formal government structures.
- IFI aid in post-conflict settings where resources have played a role should aim to create and strengthen resource monitoring to assist in resource management and revenue sharing that will feed into the economic and social development of formal state structures.
- In increasing state capacity and creating a credible state to protect its citizens and provide them with crucial social welfare systems, it is important to not only focus on building up the capital. Indeed, as is the case today in Afghanistan, operations that support state capacity will need to take into consideration the deleterious effects of ignoring borderlands and sub-statal areas, which often lack formal state authority, gather violent resistance against central state control, and serve as a conduit for illicit trade networks.

Neutralizing Warlords and Mafiosi: An Unattainable Goal?

To reduce dependence on illicit economic activities, policy strategies seem fairly straightforward: offer

alternative incentives to dispossessed populations who are part of the criminalized networks out of necessity. For those who lead the illicit activities, however, responses are thornier. In war transformation contexts, marginalizing warlords and mafiosi is not the only option. *Co-optation* may occur through offering incentives to warlords to invest in formal state activities. Yet, co-optation obliges concessions with and the legitimization of warlords, meaning that peace may come at the price of just and accountable governance. The ramifications of adopting *Keynesian policies of economic development*, another alternative, may be positive in the long term because of the debilitating role that such actors serve for those who are impoverished. However, such an approach is unlikely to address the immediate challenges of post-conflict reconstruction. While *criminal policing* without broader incentives to attract involvement in the formal economy may result in further adaptation and displacement of the shadow economy, *functional neglect*, with regard to Afghanistan and the rampant and unchecked warlordism throughout the country, may undercut efforts to secure the rule of law. As in other policy areas, state authorities and the international community ignore regional dynamics at their own peril; regional criminal networks and transborder mafioso alliances threaten the ability of any single state, working alone, to effectively combat criminal entrepreneurs. Examples of this phenomenon include the participation of Italian and Albanian mafiosi in the Balkans, the participation of Lebanese and Ukrainian diamond and arms dealers in the West African conflict complex, and the control of Pakistani criminal gangs, frequently based in Karachi, in the Afghan conflict.

- One of the difficulties in transformation will be to alter the social function that the shadow economy provides to large sectors of the coping population; although warlords and mafiosi are corrupt, predatory, and manipulative, they also tend to reward those involved with patronage, clientalism, and employment. Neutralizing peace spoilers will be especially difficult in the absence of an accountable government with the ability to control its resource revenues. The success or failure of each of these approaches will depend on complementary social, political, and economic reform undertaken

at the national, regional, and global levels and will need to take into consideration the individual political contexts.

- Regional and international criminal elements, many of which may be more resistant than local actors to policies of cooptation, criminal policing, and function neglect, may require a different approach. Collaboration at the level of local, regional, and international organizations may be one effective way to combat interstate criminal alliance networks. States may work through both regional security organizations, such as ECOWAS and the North Atlantic Treaty Organization (NATO), and general regional organizations like the African Union (AU) or the Mano River Union, to achieve coordination in tracking down the heads of criminal organizations and monitoring the activities of transnational networks. On the international level, states may work with such organizations as Interpol and other specialized agencies to combat these actors.

Delinking Conflict and Trade: Improving Sanctions

In taking the violence and criminalization out of economic activity, transformation strategies will need to reconsider current approaches aimed at regulating commodity flows. The UN Security Council is increasingly using sanctions as a tool for conflict resolution by curtailing resource flows to combatants, as with the sanctions imposed on the RUF, Liberia and UNITA. Yet commodity sanctions rarely affect those enmeshed in the actual conflict. Rather, sanctions seem to hit hardest throughout the coping economy and often result in the targeting of individuals who are unable to oppose such restrictions. Additionally, rather than acting as a lever to bring a conflict to a close or at least to disconnect the resource from the violence, the regulatory regime, in the absence of broader systems of economic and social support for the state and a recognition of the role that neighboring states may play in maintaining the conflict trade, may deepen the force and criminalization of the shadow economy. The consequence should not be surprising, given that sanctions routinely suffer from ineffective or nonexistent monitoring and implementation measures.

Furthermore, sanctions busting and the displacement of conflict goods to surrounding states seriously challenges effective sanctions. The regional impacts of sanctions regimes, such as the displacement effects and shadow economy dynamics discussed above, should be taken into account during each stage of the sanctions process, including design, implementation, and winding-down. One example of an attempt on the part of the international community to integrate regional concerns into a sanctions regime is the conflict-diamond certification system developed in the wake of the civil conflicts in West Africa. To supplement the certification regime developed for Sierra Leone, the UN also imposed a ban on the export of diamonds from Liberia and Guinea introduced its own certificate system, with Côte d'Ivoire expressing interest in a similar arrangement. In addition, the international community introduced a global certification scheme for rough diamonds as of January 2003.

Yet, these measures cannot be regarded as a complete success. Ironically, this system as currently constituted, combined with both a lack of enforcement by the international community and a shift in the fighting from Sierra Leone to Liberia and Côte d'Ivoire, may have created perverse incentives, with many reports of diamond smugglers rerouting their activities back through Sierra Leone, where they circumvent the certificate scheme at its place of origin. Similarly, although Liberia has been subject to an arms embargo since 1992, the daunting prevalence of small arms in West Africa and inadequate measures to combat sanctions-busters permitted Charles Taylor to effectively rearm despite the ban. In this sense, sanctions will continue to prove insufficient in halting violence if global demands for resources and the global trade in arms are not factored into the equation.

- As sanctions usually lack robust monitoring and implementation approaches, a “Brahimi Condition” system, whereby certain conditions must be a requisite to the introduction of sanctions as well as a condition of their continued usage, could be introduced. In particular, the introduction of sanctions on conflict goods should also be

conditional upon a feasibility study on the effectiveness and the believed future impact of sanctions on the population as well as on neighboring states.

- The UN Security Council should include in the mandates of its peacekeeping and observer missions a requirement to report sanctions violations for such actions¹⁰, and greater effort should be made to impose secondary sanctions or substantial fines on those who attempt to evade sanctions. Furthermore, in light of the regional aspects that underpin conflicts, the imposition of sanctions on one state should take into consideration the impact that it may have for its surrounding neighbors, with a possible precondition of conferring necessary compensation. Implementation measures should also take into account regional dynamics and capacities. Concrete measures in line with this principle may include the development of a regional monitoring capacity—through funding for training and infrastructure such as radar—and regional cooperation in the capture and prosecution of sanctions-busters.
- In the case of conflict-specific conflict commodities, global certification and sanctions regimes may not be sufficient. Global measures are inherently diffuse and general, whereas regional regimes may be more specifically tailored to local conditions, actors, and resources. For example, a regional diamond certification regime and timber regime in West Africa, and a regional arms control regime in Central Asia and Southeast Europe could all include specific measures aimed at preventing evasion by known regional individuals and groups.

Dismantling Displacement

Peacebuilding is currently restricted to a state's physical boundaries. As has been identified, shadow networks tend to exploit regional ties that may undermine strategies aimed at war transformation and may imperil a delicate peace. In West Africa, for example, a state-centric DDR policy has spurred the

¹⁰ The Stockholm Process on smart sanctions has identified the need to include in the mandates of UN peacekeeping missions a mechanism to report sanctions violations. See <http://www.smartsanctions.se/>

regional movement of mercenaries and has exploited regional arms smuggling networks, displacing instability to neighboring states. Furthermore, informal economic networks are adept at finding methods to manipulate taxes and evade customs duties and policing across borders. Punitive regulation often fails to root out illicit economic activities. Instead, the displacement of illicit economic enterprises is directed to surrounding territories.

The regional dimensions of economic channels are not only well entrenched, they are also very malleable. As such, regulating conflict trade or enforcing customs and policing controls can lead to displacement throughout the region. In Afghanistan, for example, a ban on poppy production by the Taliban resulted in an exponential increase in opium production in Burma and in Northern Alliance controlled regions, places where the drug was not previously found to run rampant. While regulation may generate displacement, the pervasiveness of shadow economic channels can also give rise to displacement of conflict goods.

- In devising war transformation strategies, more attention needs to be paid to the displacement effects brought forth in part by a state's economic reconstruction, its move to a formal economy, and the imposition of regulation. IFIs in particular need to adopt regional initiatives that take into consideration the impact of differential tax and regulatory practices on one state for neighboring states throughout the region.
- One approach to tackling the pervasive issue of displacement is to introduce regional regulatory frameworks simultaneous to national and international regulation efforts. For example, creating a regional regulation of diamonds in West Africa may deter the displacement of conflict goods from one state to another, addressing more completely the shadow trade networks that contribute to conflict, and paving the way for enhanced cooperation among neighbors in the region.
- Creating regional regulatory regimes must also be coupled with a greater understanding of the way that illicit resource production traverses from one

state to another. In regions where drug cultivation is rife, simply banning the drug is not enough. Alternative livelihood systems will need to be created both within the state as well as within affected neighboring states and borderland regions, where, if left unaddressed, cultivation will spread.

Creating More Effective Regulation: A Regional Approach

In war transformation, shadow economies, which often existed before the outbreak of conflict and have proven to be extremely resilient in a post-conflict context, have their own variants of transnationalism to defend and maintain. Strong regional organizations may, in this context, provide a secure framework for the development of peace. Not only would regional regulation properly address specific security issues afflicting the region, it may also serve as an alternative to current trade controls, which are, at best, marginally successful. At worst, international agendas tend to be voluntary in nature, diminutive in effectively combating the profusion of conflict goods, and neglect the potentially harmful affects incurred by local war economies by global aid, trade, and investment. It would be undesirable to think of regional approaches to peacebuilding as a panacea; indeed, regional initiatives may not always be possible. A regional approach presupposes strong connections that extend beyond national boundaries, yet fails to address to some degree the impact that globalized economic structures have on non-state entities. Furthermore, regional attempts at devising peace may be required to deal with the demands of a regional hegemon, such as with Nigeria in West Africa. Nonetheless, developing or rediscovering links with regional neighbors to protect and assert control over economic exchange, production, terms of trade, employment, and social welfare has the potential to change the current dynamics of transformation for the better and offers states plagued by conflict an alternative to the narrow options currently presented to them by outside world.

- In order to generate more sustained peacebuilding results, the creation of regional organizations could address the particular problems plaguing a

region, such as by creating regional regulatory regimes based around arms transfers, the proliferation of mercenaries, and conflict goods, all issues that perpetuate shadow trade. In the case of drug cultivation, approaches may include addressing the cross-border environment through bilateral cooperation on poverty eradication, alternative livelihood development, and socio-economic integration of neighboring communities in border areas. In areas rife with small arms and conflict, regionally based DDR policies may prevent the displacement of weapons and preclude combat in a neighboring state.

- Regional NGO monitoring groups with a mandate to track conflict goods and illicit resources throughout the region should be established to work in concert with existing global monitoring NGOs. The regional approach would invite greater transparency on the issues, ensure similar objectives at the regional and global level, and provide the wider NGO monitoring community with a greater understanding of the forces at play in the region.

Regional Settlement for Durable Peace

Peace processes suffer from a state-centric bias. For example, although there has been recognition that Afghanistan's peripheries are in need of dedicated economic attention, although the Stability Pact for South Eastern Europe has been in place since 1999, and although some conflict trade controls have a regional dimension in West Africa, there are still no comprehensive policy approaches to the transformation of regional conflict complexes that will reduce their potential for future conflict. The 'spill over' and 'spill into' effects of regional networks are not one-time or solitary occurrences but rather individual manifestations of a pervasive and interconnected system. To date, however, the characteristics and nature of regional complexes have not played a central role in conflict analysis, peacemaking, and peacebuilding. A comprehensive approach to war transformation, in this sense, must take care not to dismiss regional war economies as a monolithic set of illicit undesirables. The malleability, resourcefulness, and deep-seated survival instincts of these tenacious

actors are demonstrated in Sierra Leone and Bosnia and Herzegovina.

- Developing war transformation strategies and peace agreement instruments designed to address the range of actors involved in regional networks is critically important. While it may be the case that regional actors—with competing interests—create further dissension on how to properly secure a sustainable peace, the incorporation of regional actors and local participants in settlements could also generate responses tailored to the region's specific conditions.
- A process that acknowledges the interconnectedness of conflicts from a regional perspective should be incorporated into region-wide peace talks. The process could include synchronizing domestic and region-wide initiatives aimed at conflict goods such as diamonds and timber, arms control, agreements on the cessation of specific conflicts, and the way in which national and regional economic systems can be better placed within the wider global systems of trade. One approach to take note of is the New Partnership for African Development (NEPAD), which utilizes economic platforms such as debt cancellation, aid packages, and greater market access of specific goods as an incentive to bring about greater reforms related to political and economic governance.
- Regional economic programs specifically included in peace agreements would help to simultaneously build up and protect small national markets and weak institutions, and tackle chronic poverty and unemployment by combining national resources so that the region would not find itself so reliant upon external aid.

Regional Development and Regional Protection

A regional approach to economic development through trade and infrastructure should be explored, as it may create legitimate and beneficial alternatives to regional shadow networks that are undermining successful peace and development. Furthermore, a regional strategy of economic development may improve regulation of transnational trade, combat the chaos of

borderlands, and promote regional development through enhanced investment in regional infrastructure. Where region-wide initiatives exist, they usually focus on suppositions of macroeconomic stability. In most fragile, post-conflict economies, this approach is counterproductive. Selected regional protection may be better suited to prevent spiraling back into the abyss.

- A focus on regional development and protectionism may act as a shield against neo-liberal policies that have a tendency to result in reductions in purchasing power, a decrease in formal employment opportunities, a rise in shadow economic activities, and the stifling of economic production. For example, diamond-polishing centers could be established in West Africa, where profits could be generated back into the region instead of sending the rough diamonds outside the region for polishing. The regional focus could have

beneficial effects on borderland areas, which could become places of interest for governments through official industry sites located in greater proximity to neighboring markets.

- Already-established regional frameworks, such as ECOWAS and the South Eastern Europe Stability Pact, could erect common customs policies as a way of sheltering their economies from outside pressures that may be particularly damaging to countries just out of war. This approach could aim to do away with import duties between members but could maintain common tariffs (to be gradually lowered) to protect their nascent or ailing industries, create intra-regional specialization of certain products, bolster production by making use of currently underemployed resources, and increase the bargaining power of these economies in the global market.

War Economies in a Regional Context: The Challenges of Transformation

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Lynne Rienner Publishers, 2004

A Project of the International Peace Academy

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Initiated in September 2000, the EACW program follows from a conference held in London in 1999, which produced the seminal volume, *Greed and Grievance: Economic Agendas in Civil Wars*, Mats Berdal and David M. Malone (eds.) (Lynne Rienner, 2000). The program addresses the critical issue of how the economic agendas of armed factions sustain violent conflict and inhibit durable peace, while also assessing the role of globalization in creating new opportunities for combatants to finance their military operations. This hitherto under-developed field of research holds particular promise of policy relevance for those international and national actors seeking more effective strategies for both conflict prevention and conflict termination.

Beginning with an overall commitment to durable conflict resolution, the broad aims of the program are:

- to improve understanding of the political economy of civil wars through a focused analysis of the economic behaviors of competing factions, their followers, and external economic actors in conflict zones;
- to examine how globalization shapes the economic interests of belligerents as well as creates new opportunities for competing factions to pursue their economic agendas through trade, investment and migration ties, both legal and illegal, to neighboring states and to more distant, industrialized economies; and
- to evaluate the effectiveness of existing and emerging policy responses used by external actors, including governments, international organizations, private sector actors, and NGOs, to shift the economic agendas of belligerents from war towards peace and to promote greater economic accountability in conflict zones.

Policy research and development proceed along two tracks: four expert working groups (Advisory Group, Working Group on Economic Behavior of Actors in Conflict Zones, Private Sector Working Group, and Policies and Practices Working Group) and commissioned research. EACW publications (all at Lynne Rienner Publishers) include: *The Political Economy of Armed Conflict: Beyond Greed and Grievance*, Karen Ballentine and Jake Sherman (eds.) 2003; *War Economies in a Regional Context: The Challenge of Transformation*, Michael Pugh and Neil Cooper, with Jonathan Goodhand, *forthcoming*; and *The Democratic Republic of Congo: Economic Dimensions of War and Peace*, Karen Ballentine and Michael Nest (eds.) *forthcoming*. A volume of analytic studies assessing policy responses to the economic dimensions of armed conflict will be published in Spring 2004. Other products include periodic meeting reports, policy briefs and background papers, which are available electronically on our website.

Policy development also involves on-going consultations with international experts and practitioners, academic conferences, and workshops and briefings that bring together relevant UN actors, governments, private sector actors, and NGOs. As part of a continuous outreach effort, the program has engaged in several partnerships, including with the Fafo Institute of Applied Social Science (Oslo); the Institute for Security Studies (Pretoria); the Woodrow Wilson International Center for Scholars (Washington, DC); the International Institute for Strategic Studies (London) and the World Bank's Development Research Group (Washington, DC). We have also built a virtual network of experts and policy practitioners through sponsorship of an electronic list-serve, war_economies@yahoogroups.com.

Acknowledgements:

The EACW program enjoys the generous support of a number of donor states and private foundations, including: the Canadian Department of Foreign Affairs and International Trade (DFAIT), the Canadian International Development Agency (CIDA), the Department for International Development (DFID) of the United Kingdom, the International Development Research Centre (IDRC) of Canada, The Government of Norway, the Government of Switzerland, the Government of Sweden, the Rockefeller Foundation, and the United Nations Foundation.

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