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ENDING CIVIL WARS

The Implementation of Peace Agreements

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Economic Priorities for Successful Peace Implementation

SUSAN L. WOODWARD

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 as well as psychologically and socially destructive. The first steps taken by people themselves 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, which 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.

These economic aspects of peace agreements and their implementation are obvious. But to move from the obvious to hard conclusions about the role of economic factors in the success of implementation and to policy recommendations supported by evidence from actual cases is very difficult. This is surprising, given the substantial and growing attention during the 1990s by scholars, specialized research institutes, and international organizations such as the World Bank and UN agencies to the causes of state failure and civil war, to the characteristics of war-torn societies, and to policies for postconflict reconstruction. By 1999, such attention had even provoked substantial policy initiatives and new mechanisms at the international financial institutions (IFIs), the UN, and many bilateral development agencies.[1] Nonetheless, there has been no systematic analysis of the contribution of economic factors to the success or failure in the implementation of peace agreements.

One explanation may be that the economic aspects of peace agree-

ments and the staging of their implementation tend to take a backseat to security concerns. Two case studies for this project conclude that peace agreements are only achieved at the cost of ignoring the economic disputes (often identified as "root causes") that led to war.[2] Mounting evidence of the longer-term economic trajectories of postconflict cases shows that countries that have experienced a civil war never fully recover to the economic level they had before war began. Their growth paths also remain lower economically than comparable countries that did not have a civil war. But both of these findings suffer the same temporal problem in judging the role of economic factors in successful implementation; the outcomes of economic assistance are often not known for quite some time. Moreover, economic conditions usually worsen after the civil war ends. And while armed hostilities may cease, growing economic inequalities and hardship can fuel increased violence from crime or social crises after the peace agreement, thus substantially complicating the tasks of building peace and stable government. These outcomes have tended to be judged as regrettable but inevitable rather than as a matter of policy choice.

Peace agreements, as a rule, do not address economic reconstruction and development. Economic objectives are often included in a list of concerns, but with little and vague discussion, particularly when compared with the attention given to security and justice. There are a few partial exceptions—Bosnia-Herzegovina, El Salvador, Sierra Leone, and Mozambique, as well as the Oslo Accords for Palestine—that addressed economic concerns directly. In Guatemala and Bosnia-Herzegovina, representatives of the IFIs were present at the peace negotiations and had some influence over the outcome. But far more common is the example of Cambodia, where the mandate of the UN Transitional Authority there (UNTAC) was "limited to rehabilitation" and where assessments rated economic reconstruction as "one of the least effective aspects," involving "exceptionally poor planning and administrative confusion."[3] An explicit mandate to a reconstruction agency is rarely included in peace agreements.

There is somewhat greater knowledge about the economic role of outsiders in peace implementation. Widespread consensus exists that economic resources do matter to success. The surest way to failure, as illustrated by the failures in Angola and Rwanda, the mixed results in Cambodia, and even by certain important aspects of the otherwise successful case of El Salvador, is not to provide sufficient external resources in support of a peace agreement. But even more influential than the level of resources available is the kind of resources provided. External assistance can be "redundant, harmful, or squandered."[4] A repeated theme of postconflict reconstruction assessments is the stark contrast between what is known to be needed in the first years after war and what is currently funded and done. A summary of the role of Bretton Woods institutions in peacebuilding

written in 2000 concludes: "IFI efficacy cannot make a peace process, but IFI inefficacy can break one."[5]

Another reason for the lack of analysis may lie in the nature of the policy response to such findings and criticism, which has tended to focus on operational aspects, particularly efforts to improve the delivery of aid—for example, faster, more efficiently, with greater flexibility and transparency, better coordination among donors, or more targeted conditionality.[6] Some of these refinements in the technology of aid appear to improve chances of success. But one would not know from the actual measures of that success because these measures are also technical—such as performance criteria for the delivery of money or the completion of economic projects and programs. These technical measures do not assess the contribution of aid to the implementation of the peace agreement or its political goals.

Finally, one might be able to deduce conclusions from recent efforts by the IFIs to learn lessons from experience or to concede to criticism coming from other donors in regard to the substance of economic policy and strategy. But the result has been shifts in policy emphasis from one fad to another, for example, from macroeconomic stabilization to good governance to social capital. These shifts confound the task of analysis and assessment further. They also reveal the absence of agreement on appropriate economic strategy specifically addressed to the tasks of implementing peace agreements and the first years after war.

The Economic Needs and Priorities of Peace Implementation

There are three sets of economic tasks necessary to implement a peace agreement: sufficiently rapid economic revival to buy confidence in the peace process; funding to implement specific commitments in the peace agreement; and the economic foundations necessary to sustain peace over the long term.

Reviving the Economy

The first, immediate economic tasks are both straightforward and inexpensive, although their funding is often quite difficult to secure. The provision of services such as garbage collection, sewage, electricity, power plants, and sufficient, clean water are not only basic to health but also the best way to build confidence in government, that elusive ingredient called "social capital" that is considered essential to a successful transition and collective action of any kind.[7] Such services may only require repair of existing facilities, but they may require entirely new construction.

Because these simple economic necessities are obvious, their political role in the success of a peace agreement—and thus the significance of funds for their provision—can easily be overlooked. Peace agreements are commitments signed by leaders, but the population must also be persuaded to make a commitment to peace. Some signal that there will be a "peace dividend"—that the benefits will outweigh the costs—must be palpable for people to make even the minimal investment in rebuilding their lives and supporting politically those promoting peace.

In the words of Christine Wallich, 1995–1997 director of the World Bank's five-year program for reconstruction, rehabilitation, and recovery in Bosnia, "an accepted *prior* of all peace agreements" is an early peace dividend and quick transition to earned incomes that provide "relief from the cruelty of the environment and a clear signal from the international community that they stand to support them and the agreement."[8] Such apparent consensus, however, has not translated into early assistance and aid policy as often as its acceptance would lead one to expect.[9]

In addition to speed, this dividend must be equitable. Reviving the inequalities that caused or fueled civil war, or creating new ones, will create divisions that can be easily mobilized by populist rhetoric from politicians who are dissatisfied with the terms of the peace or its actual results. Distributional differences are inevitable, such as between areas with greater or less war damage or the needs of urban and rural populations. But if these differences are perceived as unjust, there will be at the least fuel for spoilers and for delays in demobilization.

Moreover, if equal access to basic services including education and healthcare and explicit attention to land redistribution are not addressed in the first stage of peace, macroeconomic policies aimed at currency stabilization and at domestic and foreign investment in growth will institutionalize the inequalities produced by wartime and likely worsen their effects.[10] The political task of achieving greater equity later will be very difficult. Success in implementation will depend on a transformation in methods of political conflict and competition, from the threat and use of violence to those of nonviolence. Generalized poverty is less threatening to such practices than are sharp inequalities.[11]

A contemporary vogue to view civil wars in the Cold War period as based on class conflict and those since the Cold War as wars of identity and ethnicity may have wrongly diverted attention away from economic inequality. Even if there were any truth in this tendency to essentialize identity and ethnicity, the end of a civil war requires warring factions of different identities to create a single state—not only to accept a new balance of political power but also for some to abandon hopes of independence. The ability in such cases to create one constituted state, whether through majoritarian or proportional rules, depends even more on avoiding

the emergence of economic inequalities that can be interpreted as discriminatory on cultural grounds (religion, language, lineage).

The concept of security must also change from that required in wartime to the expectations of law and order and broader human security. While most peacebuilding missions give priority early on to demobilization and reducing the capacity to make war and may even include monitors on human rights, they tend to neglect the institutions that must fill the security vacuum that arises—law enforcement and assistance to organizations that can bargain with authorities over human rights protection or wages and prices.[12] Yet, overall crime rates tend to rise in the first years after war and threats to individual lives may actually be greater than during the war. Peacekeeping missions now recognize increasingly that law enforcement cannot be delayed until the separation of forces and their cantonment or demobilization are complete, but funding sources have not caught up. Moreover, as one practitioner with leading positions in many UN peace-implementing missions has emphasized, the primary focus of the average citizen in the first year is on everyday concerns for material survival, such as jobs, pensions, schooling, and healthcare, which are perceived fundamentally as a matter of security.[13]

Financing the Peace

The second set of tasks are specific commitments made in the peace agreement that simply will not be met if they are not funded and organized. Most prominent in studies of peace implementation are the demobilization of wartime armies and the right of refugees and internally displaced persons to return home.[14] Return requires substantial resources for housing, transport, and some minimal welfare. Although spontaneous return is the most common experience, the more important the role of return is to achieving the political goals of the peace, such as the attempt to reverse ethnic cleansing in Bosnia-Herzegovina, the more that external resources will be necessary to success. And where spontaneous return depends on remittances sent by relatives living abroad, such in El Salvador, there will be a cost in the return of those who sent remittances. Even more necessary to success in implementation is funding for the demobilization of armed groups. As Joanna Spear points out in Chapter 6, without monies and programs for the reintegration of demobilized soldiers into civilian society, demobilization will fail.

Although a stable government is rarely a specific element of a peace agreement, there will be no peace without it. The construction of a new government, or an entire governmental system, requires salaries for civil servants and perhaps also training, particularly, as Terrence Lyons suggests in Chapter 8, if the goal is to transform former warring factions into politi-

cal parties capable of governing. Physical reconstruction of infrastructure—power plants, schools, health clinics—makes no sense without monies to pay the salaries of the people who run them, but many donors have rules against paying local wages and salaries. Elections figure prominently in most third-party engagements in peace implementation. The creation of a voter register, preparation of electoral rules and regulations and their enforcement, and the mounting of information campaigns cost substantial monies. Third-party mediators increasingly urge the adoption of a power-sharing agreement among the parties as an inclusionary political formula to end the war, but such arrangements also presume public expenditures.

Sovereignty depends not only on international recognition and a functioning government but also on relations with the rest of the world. Embassies and ambassadorships need to be funded. Even more problematic and urgent are relations with IFIs; without full membership in the International Monetary Fund (IMF), countries cannot receive World Bank, International Development Association (IDA), or International Fund for Agricultural Development (IFAD) loans, borrow in international capital markets, or join trade associations.[15] For membership, a country must first settle its debt arrears.

Sustaining the Peace

The third set of tasks arise because initial success in implementing a peace agreement cannot be sustained unless the bases of a functioning government and economic growth are also put in place. Both political and economic institutions must be built. Years of war will have created a genuine need for economic development, if this had not already been the case. Transforming a war economy will require legalization of property rights and the elimination of trafficking routes that provided arms, ammunition, and financing for the war, and the creation of judicial systems to protect contracts and property rights. It is likely also to require a total reorientation of a production structure and economic policy that was based on defense to civilian industries and export production. While the literature on civil war emphasizes human reintegration, the reintegration of the country in physical, economic, and administrative terms will also be necessary.

Sustainability means both a continuation of peace and an increasing capacity to survive without external assistance, or at least to reach a level of economic independence in which foreign loans and credits can be serviced effectively and domestic revenues are sufficient to keep the budget deficit at a manageable level. In the short run, sustainability requires generating popular confidence that the hardships will be only temporary.

Strategy

Until the second half of the 1990s, donors responded to these economic tasks and their financing with long-established programmatic approaches developed for other circumstances. The tasks were divided into two categories: relief and development. Relief was provided on humanitarian principles by humanitarian organizations or emergency response divisions of development agencies. Development was provided by development agencies, both bilateral and multilateral. The increasing number of cases of third-party-assisted implementation of peace agreements during the 1990s, and the growth of humanitarian aid and peacekeeping missions, however, led to a recognition that there was a gap between these two types of assistance. Very specific lessons drawn from the mounting number of cases seemed to demonstrate that quite different policies were needed for the immediate transition that were neither relief nor development. The result was to reconceptualize the division between relief and development as a continuum and the stages in that continuum in terms of transitions and postconflict reconstruction.

Nevertheless, by the year 2000, only one government, Germany, had taken this lesson on board in terms of budget lines; all others perpetuated the inherited approaches and distinctions between relief and development through separate budget lines. Some governments did create new sections, such as the Office of Transition Initiatives (OTI) within the U.S. Agency for International Development (USAID), or the addition of the word "conflict" to the humanitarian affairs department (CHAD) of the UK's Department for International Development (DFiD). Canada established a Peace-Building Fund, and similar special budgetary lines for policy coordination under these circumstances were introduced by Denmark, the Netherlands, and Norway. But the distinction between relief and development and the resulting bureaucratic stovepipes remains the dominant influence over funding and field operations.

These two aid strategies, relief and development, are based on different economic models: the natural disaster model for crisis relief, and the postwar stabilization and reconstruction model for development.

The Natural Disaster Model

The natural disaster model provides the conceptual framework for most postagreement assistance in the first year or two, as it does for most humanitarian assistance and emergency relief during wartime. Organized by crisis-response divisions of bilateral development agencies and implemented by international NGOs, its principles are rapid response and the use of local labor. Its aims are to provide an immediate, visible peace-dividend

in food, shelter, and basic utilities until longer-term developmental projects can be implemented, and to move the population as rapidly as possible toward self-sufficiency and away from aid dependence. The goal of buying commitment to peace overrides economic objectives, for small repair tasks do not by themselves generate jobs or local economic activity, except in the rare cases where the international mission decides to favor local produce and purchase locally produced materials. Its political aspects are similarly narrow.

The connection between this approach and wartime relief is largely organizational. Agencies that have the budgetary authority to act quickly, taking aid decisions within hours or days, dispersing monies and matériel quickly, without cumbersome bureaucratic procedures, are the emergency response and disaster relief agencies that deploy under both circumstances.

Adaptation to the special conditions of a peace implementation mission did introduce another organization—civil affairs or civil-military cooperation (CIMIC) officers within military units of the peacekeeping troops—into the early delivery of aid. An innovation of the UK's Overseas Development Agency (ODA, predecessor of the DFiD), first in Bosnia-Herzegovina in early 1996, and now widely copied by other countries and the European Union (EU), CIMIC aimed to improve cooperation in emergency circumstances between development agencies and military forces—two organizations that represent two cultures and conscious distancing. Impressed by the importance of showing immediate, visible progress and by the fact that the first representatives of the international community to deploy in large numbers are military forces, officials at the ODA decided to develop a program of microreconstruction projects that soldiers would identify with the help of local communities and then supply. In turn, confidence would be built between the peacekeeping troops and the local population.[16]

Organizationally equipped to respond rapidly and often directly knowledgeable about the local conditions and the immediate needs of the population, humanitarian workers and the military nonetheless have a short-term approach, which they tend to continue beyond the initial stages of peace implementation because they gain a vested interest in the program's continuation. World Bank staff argue that this is a general problem, that "in the transition from relief to development, too much time has been spent in the relief phase."[17] The debate over how fast one should move from emergency relief to development, however, often obscures the fact that development strategy for postconflict reconstruction has also been based on the same assumptions. The World Bank, the dominant force globally in defining postconflict reconstruction strategy, acknowledges in its 1998 review of Bank experience in postconflict reconstruction that the model underlying that strategy from its origins in the 1970s and 1980s to 1998 was also that of recovery from natural disasters.[18]

Postwar Stabilization and Reconstruction Model

The postwar stabilization and reconstruction model is a neoliberal economic strategy emanating from the IFIs, particularly the IMF. The IMF determines the conditions for foreign confidence in a country's economic prospects and places priority on macroeconomic stability, both as the first task of economic policy and as the context within which all other aid and policy takes place. Its stabilization model has been criticized frequently for being in conflict with the goals of social peace and reconciliation. The tension has organizational and strategic aspects as well, between representatives of the IFIs and their role in financing reconstruction, on the one hand, and the representatives of the peace mission (most often the UN) and its mandate to implement the peace agreement, on the other.[19]

As a postwar model, this strategy emerged in response to the particular needs of Western Europe after World War II, when short-term balance-of-payments constraints on foreign trade threatened the import needs of postwar reconstruction and the revival that depended on it. The IMF response in 1947 to the British liquidity crisis evolved over the next decades into a development strategy based on neoliberal principles of economic growth and free trade. The Articles of Agreement of the World Bank include the express purposes of "the restoration of economies destroyed or disrupted by war" and "the reconversion of productive facilities to peacetime needs."[20]

The two-pronged strategy of macroeconomic stabilization and structural adjustment begins with an IMF conditionality program and credits drawn on a country's special drawing rights (SDRs) at the IMF in support of stabilization based on orthodox deflationary principles of monetary and fiscal restraint. It is followed by sovereign loans mobilized from donors by the World Bank in support of Bank-designed projects for large-scale physical infrastructure and for reform of economic institutions and policies to effect liberalization and privatization that are said to promote economic growth and attract foreign investment.

Barriers to Effective Economic Support of Peace Implementation

Sequencing

Although there is internal coherence to these economic models and the strategies based on them, their application to contemporary postconflict settings creates a series of practical problems. Current practice is to treat this as a matter of tactics and, in particular, a question of sequencing. The parallel is strong with the debates in the 1990s over the sequencing of market

transitions in postcommunist countries between advocates of shock therapy, who insisted on rapid stabilization, price liberalization, and privatization, and the gradualists, whose local expertise led them to emphasize the institutional and human infrastructure necessary for the expected supply response. Evidence from the successful postsocialist transitions and the developmental failures in Africa reinforce this challenge to the neoliberal model.[21] Its relevance to postconflict countries, where the focus was on achieving economic sustainability without losing the peace, is even more questionable.

First, the alleged success of the orthodox model in post–World War II Europe occurred in dramatically different conditions than current cases of peace implementation. Post–World War II Western Europe faced the tasks of physical reconstruction and demobilization after an interstate war, in countries that were victors, and whose governmental and economic institutions were intact. Their tasks were not those of state-building, nation-building, and reconciliation after a civil war, integration of former enemies into one army and one society, overcoming underdevelopment, and the implementation of a peace agreement. Moreover, the characteristics of a war economy then were entirely different than the war economies created by civil war in poorer countries now.[22] Priority on macroeconomic stabilization assumes, for example, that the economy is fully monetized when barter, informal economies, and illegal trafficking actually predominate. In contrast to mass mobilization for wartime production, the war economies that must be transformed to peacetime economies in contemporary cases of civil war are not emergency adjustments to an otherwise normal economy but an entire transformation of social and political institutions. The role of women is critical in return, reconciliation, and the reestablishment of households, but "the Bank [not to speak of the IMF] has done little to incorporate *gender issues* in its post-conflict portfolio."[23] The obstacles to foreign investment in postwar Western Europe did not include the high level of uncertainty surrounding the prospects for peace and the absence of a capacity to enforce contracts, property rights, and repatriation of profits. While some countries then might have been at risk from social revolution from below, they did not risk U.S. withdrawal or a collapse of the peace.

Moreover, the neoliberal orthodoxy of IFI policy and practice in the 1990s even ignores crucial lessons of the post–World War II experience, particularly "the role that, historically, social policy has played in the development of western European economies." Although "strong institutions that deliver public policy, the rule of law, and sustain open societies are fundamental to the functioning of a modern economy . . . they have been consistently underestimated by market fundamentalists."[24] This tendency has been powerfully reinforced by the "exclusionary clause" and the "doctrine of economic neutrality" of the charters of both the IMF and the World Bank, which, according to interpretations dominant in the legal

offices of the organizations, explicitly prevents them from being involved in anything political, including funding for explicit peacemaking functions.[25]

In postconflict conditions, there are several deleterious consequences. Privatization before business infrastructure exists makes no sense, while privatization of economic assets before the transfer of power from armies to accountable civilian governments and successful legal control over criminal networks will seriously delay—if not prevent—the political goals of the peace agreement. The method of privatization also has political consequences and should be subject to political as well as economic criteria if it is to contribute to successful implementation. Only belatedly have the IFIs begun to recognize that rapid privatization may be counterproductive to peace in many instances.[26]

Likewise, IFI policies of macroeconomic restraint prevent the public expenditures that are essential to peace, such as building a new, competent civilian administration, financing demobilization, and providing social infrastructure such as healthcare and schools. Although in this aspect the IMF and the World Bank are frequently in conflict in their loan criteria and proposals, as manifested in Mozambique, Nicaragua, and Macedonia, the World Bank tends to pull back, deferring to IMF targets on budget deficits despite their negative political effects. In its 1998 evaluation, for example, the Bank admitted that "the Cambodia case study finds that the Bank has continued to push for downsizing the civil service when the political coalition arrangement under the peace accords was based in part on raising the size of the civil service to absorb large numbers of the incoming parties' functionaries. The Bank's position was not politically realistic from the outset."[27]

Orthodox stabilization policies also tend to increase and exacerbate economic inequalities, certainly in the short run, and tend to create more unemployment, when achieving the reverse is essential. Tight monetary policy inhibits cheap credit for the promotion of local small and medium enterprises (SMEs), even though their critical importance early on in the peace process is now widely acknowledged even by World Bank staff. Privatization and the promotion of agricultural exports work directly counter to the crucial task of land reform and redistribution and of poverty reduction.

IFI Rigidities

As mentioned above, the ability of IFIs to design and implement effective economic assistance to peace implementation has been hamstrung by strict interpretations of the charters of the IMF and the World Bank, which prevent funding for explicitly political tasks like peacemaking. By charter, too, the IMF and the World Bank deal only with sovereign lending, that is, they

work only with recognized governments and are bound to respect their sovereignty. Although this is also true of the UN agencies, they are less constrained than the IFIs. For example, where there is no government (as in Somalia), where a government exists but is not a member of the IMF (as was true for a time of Bosnia-Herzegovina), where relations with the IMF have been suspended because of default (as in Liberia), or where circumstances such as these prevail, as is likely in many immediate postwar settings, the IFIs cannot act at all or cannot remain engaged once they have spent their small grant monies. If a peace agreement applies only to a region of the country (as in Eastern Slavonia in Croatia, and Kosovo in Serbia), then the fact that the IFI can only work through the recognized government may actually provide the means for that government to undermine the peace agreement. Indeed, this is precisely what the Croatian government attempted to do with the Erdut Agreement, an obstructionism that became an "open sore" for the mission of the UN Transitional Administration for Eastern Slavonia, Baranja, and Western Sirmium (UNTAES).

Coordination

Decisions on sequencing and priorities are also the source of conflicts in the field operation among organizations and approaches to peacebuilding. As Bruce Jones observes in Chapter 4, such obstacles to strategic coordination are more often than not resolved by pluralism—donors are left to pursue different approaches in different parts of the same country. Although this practical solution may reduce obstacles to the flow of aid, it introduces inconsistencies and potential political problems into the implementation strategy. In Mozambique, for example, some regions continued to receive food aid free while people in another region were required to pay, a disparity that can actually slow the peace process. Similarly, bilateral donors and UN agencies tend to leave leadership on macroeconomic stabilization and policy reform to the IFIs, while designing and financing development projects, either as donors to a World Bank program or as independent actors, along sectoral lines within that framework. They do not use their disagreements to propose an alternative strategy. Meanwhile, sectoral coverage can be hit-or-miss and lead to wasteful duplication.[28] The "let a hundred flowers bloom" approach of these other agencies and donors does not mean that they support the IFI approach. In fact, the IFI approach generates much criticism. The problem, as Alvaro de Soto and Graciana del Castillo made abundantly clear in their seminal study, is that the economic approach and decisions of the IFIs, particularly the IMF, and the political tasks of implementing a peace mission, are often directly in conflict.[29]

Although the World Bank acknowledges that it has paid insufficient attention to sequencing and coordination in postconflict countries, this has

not influenced the package of economic reforms that make up its advice and loans, or its conviction that these reforms should take place as early as possible so as to attract foreign investment. Perhaps the best evidence that these approaches to peacebuilding are inadequate was the acknowledgment by donors, particularly the World Bank, that their involvement in postconflict missions is ad hoc and in need of a framework. In 1996 the Operations Evaluation Department (OED) of the Bank was tasked to review its involvement in postconflict cases (18 countries with 157 Bank-supported operations representing $6.2 billion in lending at the time)[30] and to draw lessons for future policy. Its findings, based on three field studies (Bosnia-Herzegovina, El Salvador, and Uganda) and six desk studies (Cambodia, Eritrea, Haiti, Lebanon, Rwanda, and Sri Lanka), emphasized the key importance of speed and flexibility. Yet its recommendations suggest these two criteria are in conflict. While emphasizing speed, including more flexible and simplified procurement procedures to reduce delivery delays, the study urges greater flexibility on pace to be more sensitive to the social and political context. Sequencing of policy reforms had to be sensitive to the fact that in the early transition from war to peace, governments are fragile and unstable, and can rarely push rapidly on economic reforms. "Bank and Fund insistence on rapid increase in tax effort (ratio of tax revenues to GDP) may well have been counterproductive, constraining growth of the economy and the size of the tax base."[31] Similarly with regard to tax policy in the cases of Guatemala and Uganda, "the Uganda case study finds that owing to a history of predatory government tax policy during the conflict periods, pressure by the Fund and Bank on tax effort (often included in a standard stabilization package) has had a chilling effect on private investment, driving economic activity into subsistence, or along with investable funds, abroad."[32] Rapid privatization may make the "prospects for sustained, equitable development" worse. And many elements of conventional developmental wisdom, such as a focus on primary education and healthcare, may be incorrect for these circumstances when the effects of war may make secondary and tertiary education and hospitals far more urgent.[33]

Nonetheless, these assessments evaluate the success in implementing specific donor projects, not their contribution to the overall implementation of the peace agreement or to sustaining the peace. Indeed, the three main recommendations in this World Bank study focus not on altering its approach but on increasing the role of the Bank's expertise in the peace process: first, that the Bank should encourage invitations to participate in the peace negotiations itself, to advise on the economic implications of particular choices; second, that it should act to coordinate donors and assistance programs in each case because external aid coordination is more important where a government has been weakened by war; and third, that unusually large, resident World Bank missions should be established to gain the flexibility and sensitivity possible from decentralized operations.

Similarly, the World Bank and the IMF have taken on board the recommendations made by de Soto and del Castillo in 1994: to be more transparent in their interactions with noneconomic peacebuilding actors and agencies through the systematic and regular exchange of information; to accept the need for coordination in the field; and to be flexible in their conditionality when it appears directly contrary to immediate peacebuilding goals.[34] But this has meant that the World Bank seeks, with IMF agreement, to become the lead agency on reconstruction and development in the mission. Special funds for demobilization, de-mining, budgetary and recurrent expenditures (the Holst Fund for the West Bank and Gaza Strip), a political risk guarantee facility (developed for Bosnia-Herzegovina), "peace technology," and postconflict projects have all been created in the late 1990s, but within the context of Bank programs and relatively "rich" cases (Bosnia-Herzegovina, Palestine).[35] Despite the negative lessons from El Salvador and Mozambique, for example, on the restraints on demobilization and reintegration imposed by IMF loan conditions on inflation, budget deficit, and credit targets, the IMF has not shown willingness to adjust loan criteria in the first crucial years so that peace goals can be financed.

Moreover, none of these changes amount to a strategy designed for the purpose of peacebuilding. As Jonathan Stevenson concludes after an analysis of the changes made between 1995 and 2000, "[The Bretton Woods institutions] have not critically explored the connection between structural adjustment and peace, have only circumspectly approached the sensitive issue of security-sector conditionality, and have not optimally synchronized structural adjustment and development strategies with political efforts aimed at consolidating fragile peace agreements following protracted periods of armed conflict."[36]

Who Pays for Peace?

There is an underlying disequilibrium in the political economy of the first postwar years: a huge gap between popular expectations and peace requirements, on the one hand, and government revenues and fiscal capacity, on the other. Initial repair and political tasks are not particularly expensive relative to later capital investments, but the demand on public expenditures is huge in relation to the low capacity of new governments to extract resources from the population and of civil servants to use available resources efficiently. This problem of capacity is politically serious because of the central focus of external third parties on the signatories to the peace agreement and their commitment to implement it. An increasing emphasis on early elections as a major component of the peace process, aimed at increasing leaders' accountability for implementation, makes the political implications even more immediate and consequential. Instead, the insecurities of the first stage of peace implementation encourage politicians to seek votes on populist grounds, promising improved welfare or less onerous policies.

Therefore the critical question of economic strategy and policies, as de Soto and del Castillo posed it in 1994, is: Who pays for peace?[37] The choices of policy and sequencing of tasks will be hostage to the source and availability of funds. If external resources are to fill part of the gap between inevitably insufficient local resources and the immediate needs of peace, early negotiations with the IMF and its stamp of approval are necessary. As the World Bank assessment in 1998 emphasized: the comparative advantage of the Bank and the Fund is in establishing a "sound macroeconomic framework," and they should take the lead on macroeconomic and external debt issues. Their comparative advantage on these issues does not, however, guarantee that the IFIs will accept that responsibility.

The World Bank nearly always takes the lead in designing a program for economic recovery. Bank officials are inclined to insist that it is better suited to do a needs assessment than any other agency. Bilateral donors also tend to defer to the Bank's sheer technical capacity for all aspects of a financial project. In addition, the World Bank Group has a special lending instrument for poorer countries—its IDA window—that is of particular use for most countries emerging from war. The very size of World Bank funds and reconstruction programs tends, in turn, to give it dominant influence in the field mission over the economic program chosen for peace implementation.

There are also reasons of international power why the IMF and the World Bank are likely to be the dominant shapers of economic strategy and sequencing. The U.S. Treasury Department consistently argues successfully for IMF leadership because of its policy of conditionality and its capacity to use conditionality in obtaining reform. Because the World Bank, in turn, does not operate on budgetary assessments of its member states, major powers such as the United Kingdom and the United States lobby as well, and usually successfully, for World Bank leadership so that they do not have to pay additional budgetary assessments. Like most countries, they prefer to use their monies for visible bilateral aid projects for which they can claim direct credit and show taxpayers at home what they are doing.

As banks, the IFIs take account of exposure to risk and the political will to reform in their decisions to become involved and lend. Unless there is strong political pressure from a major member of the executive board of the IMF or the World Bank,[38] the IFIs will be reluctant to support what appears to be a risky peace. This, in turn, can lead to self-fulfilling prophecies about the success of aid. The minimal amounts of aid in support of the peace agreement itself that flowed into Cambodia, Sierra Leone, Liberia, and Angola can be explained by initial assessments that the prospects for sustainability and reform were low. In the case of Bosnia-Herzegovina, the

World Bank sought to reduce this problem by developing a new financial instrument, the political risk guarantee facility, but this is aimed at attracting private investors, not at easing IFIs' reluctance to engage.

Even where the IFIs choose to act, this caution often leads to very significant and harmful delays in financing. When they do act, it is often because the country has already been engaged in negotiations or has actual loan programs with the IMF and the Bank that preceded or accompanied the war. Although these programs are unrelated to the peace negotiations and the tasks of peacebuilding, their legacy imposes a burden on postwar policy formation on both sides. For the IFIs, there appears to be an inclination to restore their reputation against those who would identify connections between their policies and the outbreak of conflict. Unfortunately, it is also not so easy bureaucratically to refashion the content of ongoing or stalled programs to the new demands of peace. For the government, the burden can be a psychological wariness based on hard experience with IFI programs in the past. This can dilute the prime political advantage claimed by the IFIs in imposing harsh conditions, that governments can more easily withstand public criticism and focus on reconciliation and social peace if they can blame inescapable budgetary stringency and austerity on the IMF.

Furthermore, an IMF program depends on a willing bilateral donor or group of donors. The problem of debt must be addressed. If new borrowing is not to be used simply to settle past debts, but is to go toward rebuilding, then a patron willing to risk an early commitment to the success of the peace must be found (such as the Netherlands did for Bosnia-Herzegovina). But this is not easy. In addition, if monetary stability is to be achieved without at the same time restricting public expenditures essential to peace implementation, then monies must also be found from a donor willing to finance a higher budget deficit level than the IMF would otherwise allow. These additional funds are also critical because donors tend to follow closely the terms of the IMF agreement in their own lending policies, despite their freedom to do otherwise and their frequent criticism of IMF conditionality. The result is a culture of conditionality toward a particular country, in some instances inflexible, while in others less so, that becomes fixed very early, influencing the long-term path of the peace process and its outcomes regardless of its detrimental effects.[39]

Despite the lesson that a too rapid pace of economic reform will be detrimental to a peace process, the sharp decline in official foreign aid during the 1990s and its replacement by foreign direct investment and commercial lending still appear to drive donor policy; major donors, led by the World Bank and the United States, place high priority on economic reforms aimed at attracting private foreign investors.

In conclusion, the relief-development "gap" actually represents the vacuum in financial mechanisms designed for peace implementation and the transition between emergency relief and long-term development. Relief

occurs because humanitarian organizations and agencies of governments and international organizations exist to provide it. Long-term development also has its internationally institutionalized mechanisms for mobilizing resources and expertise. As Marika Fahlen wrote when she headed the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD): "Unlike fund-raising for emergencies and annual pledges for long-term development, there is no specific resource mobilization mechanism for post-conflict recovery of a combined developmental and humanitarian nature. . . . The UNDP-led Round Tables are sometimes late in coming about and the World Bank-chaired Consultative Group meetings do not make much sense without a legitimate government in place."[40] As Shepard Forman and Stewart Patrick demonstrate, there is no "international regime" for postconflict or peace implementation tasks: to the extent that resources flow, it is voluntary and ad-hoc.[41] But the question remains: Will the power of the purse continue to drive strategy, or will there be a recognition first that "the tool kit international donors bring to post-conflict transitions was not designed for peace building"?[42]

Five Emerging Lessons

The experience of peace implementation says far more about economic reasons for failure or severely handicapped success than about economic aspects of success. The overall record points clearly to five emerging lessons: the need for broad-based impact assessments; the critical importance of an early emphasis on employment; the need for institution-building and public-sector strengthening; the political influence of sovereign lending on the peace process; and the economic distortions introduced by the international presence.

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. The overwhelming lesson is that 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 perform audits of record-keeping and financial transactions within the particular donor organization and its subcontractors, such as NGOs, and ascertain whether a particular aid project or program was implemented as planned. But "aid flows them-

selves tell us little about the *impact* of external assistance . . . performance 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."[43] 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."[44] For bilateral donors whose aid portfolio may be composed of a large number of small projects, often administered by autonomous NGOs, the problem of impact assessment is magnified many times.[45]

The World Bank evaluation of 1997–1998 recommends that postconflict projects need a "process" rather than "blueprint" design,[46] 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."[47]

Because the effect of developmental assistance is intended to be long-term, there is also often little way 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. 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. Vague benchmarks of progress substitute for analysis. The result in both cases is to provide little basis on which to propose mid-course adjustments in long-term programs or corrections to the method of planning and choosing immediate postwar 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 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.[48] The structure of much assistance, by which each donor insists on controlling its own accounts and projects and on channeling funds through a foreign intermediary, creates multiple budgetary systems that are difficult to capture in one snapshot. Even breakdowns of global flows that distinguish aid money that remains within the country from money to repay former debt (which does not remain within the country), or sums spent to facilitate refugee return that go to relieve the costs of their upkeep in host countries rather than cash and materials allocated to the communities of return, are hard to come by.

In 1999, the World Bank assigned to its Post-Conflict Unit the task of preparing quarterly monitoring reports on countries and regions affected by conflict, to a Post-Conflict Management Steering Group the task of reviewing these reports, to country desks the task of conducting Country Portfolio Performance Reviews every twelve months or less for postconflict countries (instead of the normal twelve to eighteen months), and to the OED the task of 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.[49] It is too early to say whether these innovations will address the relationship between a peace process and economic assistance strategies of the IFIs. Social surveys now ordered by the Bank in postconflict countries on a regular basis 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.

Employment: The Most Obvious but Most Neglected Lesson

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

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

come to view SMEs as a core component of development, particularly to promote employment, and it would seem to be even more central in promoting peace. Only by 1999 did Bank officials draw this lesson from Bosnia-Herzegovina, proposing earlier and greater attention in a peace process to SMEs (for example, in revising their strategy for Kosovo, which was then in its first stages). At the same time, only twelve 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) and only $116 million was actually disbursed, leading the Bank to conclude that the "primary obstacle" to reducing Bosnia's "painfully high" unemployment was "lack of credit."[50]

Alternatively, the problem of employment may be the consequence not of policy but of sequencing. 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, had there been more coordination between the economic and political halves of the mission, such "mis-timing" might not have occurred. But if insistence on early cuts in public expenditures to establish macroeconomic 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 downright refusal, for some donors—to finance core and recurrent budgets. This is costly because a peace agreement is, more than anything, about the transformation of wartime political structures or re-creation of government, the provision of public services, and a restoration of trust in public institutions. Government and other public institutions, however, need staff. Without monies to finance the salaries of public officials, police, judges, teachers, doctors, and others who will actually restore basic public order, the most fundamental tasks will not occur. Initial reconstruction of schools and clinics is a waste if they remain empty for lack of recurrent costs for staffing and operation, a common experience. This donor reluctance goes beyond the generally recognized problem of the IFI's priority in economic strategy on macroeconomic balance through cutting public expenditures and, therefore, public-sector employment.

Furthermore, donors to peace missions overwhelmingly favor technical assistance so as to avoid making political judgments in the sensitive early stages of peace implementation. Such assistance pays salaries to their own nationals to train and advise locals, which further reduces the possibilities for local employment.[51] Donor preference for visible showcase projects also tends to neglect the employment aspect—that people are needed to make these projects operate, whether schools, hospitals, or factories. This requires monies for local salaries until there is local purchasing power sufficient to make World Bank cost-recovery policies actually work.

Finally, because people do have to find ways to survive, and relief is never sufficient for those who obtain it or fully comprehensive, 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 reduces the state's tax base further at exactly the moment when social trust and public confidence in government and the future are at a premium.

Institution-Building and Budgetary Support

Beyond demilitarization, a peace agreement must construct a new political order—government, a public sector and institutions, and public services. As many peace implementers attest, the primary lesson is "politics first." By the late 1990s, based largely on the experience of market transitions in formerly communist or developmentalist states, major donors including the IFIs did begin to stress the importance of institutions and "good governance" to successful implementation of macroeconomic stabilization and structural reforms. Recently, the World Bank has taken this aspect even further by emphasizing the importance of social trust to the creation and success of institutions.

The problem in the case of peace implementation is that macroeconomic stabilization is a result of certain monetary and fiscal policies and their effective implementation. That is, it cannot even begin, let alone become sustainable, if there is no government to adopt those policies or proper financial and legal institutions to make markets work and enforce contracts, property rights, and monetary and fiscal targets. Moreover, social capital is acquired. It is a *response* to functioning, trustworthy institutions, and a decline in social trust results from nonfunctioning or poorly functioning public institutions. Even the ability of a postconflict country to use the aid monies and technical assistance provided—called its absorption capacity—depends on functioning institutions.

Similarly, a major step by the World Bank in 1998 in the direction of new strategy, its proposal to precede the preparation of a Country Assistance Strategy with a Transitional Support Strategy that would be prepared "as soon as resolution is in sight," would require 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."[52] The Paris Peace Agreement on 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 postwar government, and delays in the latter meant delays in everything else.[53]

Despite these lessons learned during the 1990s and what appears to be a new consensus, actual assistance strategies for economic development and peacebuilding 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 macroeconomic stability is important but not sufficient, they do not appear yet to have accepted that institutions must be built first, or at least simultaneously. The result is usually to place this power in the hands of interim bodies or simply individual officials. But the type of macroeconomic 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, in fact, it is becoming increasingly common to rely on an IMF-managed currency board in the first years after the peace agreement, as was done in Bosnia-Herzegovina, so as to deprive local authorities of any policy discretion. This goes counter to the IMF's own better judgment, the very narrow conditions in which currency boards are known to be effective, and the advice of most economists with an understanding of the political and social environment in which economies function.

The World Bank did move in 1996 to accept within its development mandate in postconflict countries some tasks that it had previously considered "political" (and, by some interpretations, prohibited by its charter)—specifically, de-mining, demobilization and reintegration, public-expenditure realignment, and human and social capital. In its 1996–2000 Priority Reconstruction and Recovery Program (PRRP) to support the Dayton Peace Accords on Bosnia-Herzegovina, which has been the most innovative and well-endowed example of postconflict engagement in the Bank's history, it even classifies some projects as "peace implementation activities," specifically those relating to the mass media, elections, human rights, and local security, including local police reform and a national border service. Nonetheless, by the end of 1998, after three years' operation of the $5.1 billion PRRP, only $320 million had been pledged for these activities and only $217 million had been disbursed, amounting to about 8 percent of total disbursements of the PRRP.[54] In 1999 the Bank's assessment was that "institutional and policy reform has generally lagged behind physical reconstruction."[55] It is also in the Bosnia program where the importance of budgetary support for recurrent costs was first accepted.[56] Nonetheless, even there, the Bank acknowledged that "emergency programs often failed to take into account the need for sufficient funding in recurrent costs."[57]

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. Rather than multiple, off-budget sources of reconstruction and capacity-building, the aim should be to strengthen the public sector.[58] This would imply a major change in the way aid is delivered to peace processes. At the very least, others say, the focus should not be on how to control budgetary expenditures but on how to generate new budget revenues.[59] The initial lack of institutions should be taken seriously in policy design as well, for example, to the kind of taxation that does not require sophisticated systems of collection and revenue management as are required for income taxes. 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.[60]

Finally, the general absence of funding for key political tasks of peace implementation, such as police, 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 ensure a discretionary budget 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 $17.5 million trust fund he managed to obtain and use to transform the Mozambique National Resistance (Renamo) from an army into a political party even though it allowed little discretion.[61] According to Derek Boothby, deputy SRSG in UNTAES, implementing the Erdut Agreement on Eastern Slavonia, Croatia, a true discretionary budget amounting to perhaps 2 percent of the total budget, would have made all the difference in what the mission could accomplish.[62] The lesson may be getting through. Bilateral donors (particularly the UK's DFiD) did provide a trust fund for the UN Mission in Kosovo (UNMIK) in 1999, and the World Bank set one up for the UN Transitional Administration in East Timor (UNTAET) the same year.

not the same

Assistance to Whom?

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

The most obvious effect is 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, whether the criterion is who appears most like a government or which political parties and leaders they want to support and strengthen politically. The IFIs must lend to governments, which will be held responsible for meeting loan conditions and eventually for repayment. But the search for sovereign partners, or the delay while governments get established, introduces substantial delays into the delivery of assistance and continues humanitarian relief long beyond its constructive role. To avoid these two problems, there is a growing resort to limit aid to technical assistance, which is seen as apolitical (in the sense that it appears not to be openly supporting one faction over another), but which takes the form of salaries to expatriate advisers, not to local actors and projects. Similarly, foreign donors increasingly seek out international NGOs 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 overhead of the international NGOs, not to locals in need of assistance. But in all cases, the decisions about whom to finance, whom to establish an aid relationship with, and whose preferences to consult have 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, aside perhaps from infrastructural finance, is intended to influence behavior. Third-party assistance in implementation is a set of principal-agent relationships 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 through offers of assistance (or threats to withhold assistance), and no aid is given without some conditions attached. The ongoing debate about conditionality—to what extent and in what way aid should be used as leverage over parties' behavior—is based more on assumptions about influence than on studies of actual effects. No one doubts that there are effects, however.

The primary criticism of the policies of the IFIs grows out of their use of economic conditionality—conditions such as agreed levels of wages, prices, budget deficits, and sectoral expenditures (such as on the military or on pensions) that must be met to receive each distribution of a loan—because of the limits they impose on political flexibility, choice, and expenditures that may be necessary to building peace. A second criticism comes from those who believe that economic assistance should be used as political conditionality, to punish or reward political leaders for noncompliance or compliance with provisions of their signed agreement, which is in conflict

with economic or loan conditionality. The IFIs generally oppose political conditionality for that reason, namely, that it is in violation of their legal charters, their economic philosophy, the conditionality they impose, and 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 the sums that they or other major donors control are used primarily to nurture constituencies for peace by rewarding supporters, punishing opponents, encouraging vacillators, and holding parties specifically accountable to the terms of the agreement they signed.[63] In addition, there is major disagreement about the best strategy for dealing with potential spoilers.[64] Should they be co-opted into the peace process, as UNTAC attempted to do with the Khmer Rouge and the Lomé Accords attempted to do with Foday Sankoh in Sierra Leone, or should they be isolated, as Western policy over the Dayton implementation chose to do with two Bosnian Serb political parties and their leaders (the Serb Democratic Party and the Serb Radical Party)? 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 of the World Bank, is limited by their market relationship with borrowing governments. They cannot lend if governments are not willing to sign off on project loans that are proposed, while to succeed in a loan program, they need to maintain good relations with the government. The danger of cozy relations—including a government's refusal to borrow for projects that might aid its rivals or former enemies, to act in ways that would harm its constituency, and to escape too much scrutiny over 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 is the choice of political tactics by third-party implementers that result from what donors are willing or not willing to fund in the first years. For example, the tendency to focus their tactics on spoilers may result from the lack of donor attention to institutional capacity, although it may be a far better explanation of a leader's apparent refusal to comply than any strategic choice to obstruct an agreement, as the concept of spoilers assumes. If local institutional capacity is not an explicit target of assistance in the first year or two of a peace agreement, 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 compliance with outsiders. Similarly, doubts about the commitment of parties to a peace agreement have led donors and peace

missions increasingly to emphasize bottom-up peacebuilding instead of top-down, that is, projects that are part of a loan package to governments but that 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.

Distortions Induced by the International Presence

The very presence of an international peace mission, military forces, 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.

The first set of distortions are those introduced into local labor, housing, and retail markets through 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 the salaries offered, they find it difficult to attract the best professionals to government employment and public services, 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 businesses.

A second set of distortions comes from the interaction between international and local actors in the peace process. The visibility of expatriates in their white foreign vehicles, eating at expensive restaurants reoriented to foreign clients, and buying in privileged, subsidized stores generates greater local resentment over economic hardships. The relative cost of an international presence—for example, $1 million a day for the UN Operation in Mozambique (ONUMOZ), $4–5 billion a year for the Dayton implementation in Bosnia-Herzegovina for the military deployment alone—provokes doubts about priorities when evidence regarding success tends to emphasize the importance of local initiative. 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. Robert Chavez, resident representative of the World Bank in Mozambique during ONUMOZ, 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."[65] According to a World Bank

assessment of Bosnia-Herzegovina in early 1999, "implementation of reconstruction programs has been most effective in those sectors (e.g. in transport and energy) where priorities of donor assistance have been established jointly with the authorities."[66]

And 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 in 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 for its lack of regard for the effects of the rapid hand-over to locals.[67] Although scholars of peacekeeping pay much attention to "exit strategies," their criteria for exit (aside from political pressures for disengagement in 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, in its timing and its manner, does not enter calculations.

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

The economic strategy behind the implementation of peace agreements has been adapted from other purposes, and 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, during the second half of the 1990s led to substantial efforts by donors to seek lessons and make improvements. The primary result has been to add new financing instruments for peace-related activities, such as for elections, police reform, and de-mining, and supplementary projects such as arms-for-land or trust funds for core and recurring budgetary expenditures.[68] New financial facilities 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 became the common denominator of reform.

None of these responses addresses the differences in approach, priorities, and tasks that do or do not get funded. The fact that so little evaluation takes place of the impact of assistance on peace tasks makes it very difficult to demonstrate why and how these reforms misunderstand the problem. Moreover, the selective interest of outsiders in postconflict cases means that even these remedies will not be available in 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 toward larger resources in most cases, but toward the need for a strategy appropriate to the task that would, inter alia, promote far more efficient use

of resources and greater likelihood of success. Indeed, the examples of Bosnia-Herzegovina and Palestine suggest that too much money and too assertive an international presence may be counterproductive, just as the lessons drawn from the 1996 World Bank study of Bank-financed demobilization and reintegration programs in Africa were that low-cost solutions may be more effective than costly interventions, if one is sufficiently attuned to local context and culture.[69] But as James Boyce and Manuel Pastor write, "*unless* the peace process is allowed to reshape economic policy, both will fail."[70] The vested interests in technical knowledge and in organizational autonomies and jurisdictions appear to be standing in the way of the substantial rethinking and collaborative design that would 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 high proportion of failures (or political stalemates and worsening economic conditions) in current experience would seem to demand as much.[71]

Notes

1. For example, the World Bank's Post-Conflict Unit, the Emergency Response Division (ERD) of the UN Development Programme (UNDP), and the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), as well as the U.S. Agency for International Development (USAID), the UK's Department for International Development (DFiD), and the international development agencies of Canada (CIDA) and Sweden (SIDA), among others.

2. See Chapter 14 on El Salvador by Charles Call in this book, and Lise M. Howard, "Namibia," draft prepared for this project.

3. Michael W. Doyle, *UN Peacekeeping in Cambodia: UNTAC's Civil Mandate* (Boulder, Colo.: Lynne Rienner, 1995), pp. 49–51.

4. Shepard Forman and Stewart Patrick, introduction to Forman and Patrick, eds., *Good Intentions: Pledges of Aid for Postconflict Recovery* (Boulder, Colo.: Lynne Rienner, 2000), p. 30.

5. Jonathan Stevenson, *Preventing Conflict: The Role of the Bretton Woods Institutions*, Adelphi Paper no. 336 (London: IISS, 2000), p. 68.

6. The best-known such study, Alvaro de Soto and Graciana del Castillo, "Obstacles to Peacebuilding in El Salvador," *Foreign Policy* 94 (spring 1994): 69–83, identifies the difference in mandate and approach between those normally assuming the responsibility for peacebuilding, such as the United Nations or regional security organizations, and those normally given the task of economic reconstruction, above all the international financial institutions and regional development banks.

7. Martin Raiser, "Informal Institutions, Social Capital, and Economic Transition: Reflections on a Neglected Dimension," Working Paper no. 25 (Washington, D.C.: World Bank, 1997); and Nat J. Coletta and Michelle L. Cullen, *Violent Conflict and the Transformation of Social Capital: Lessons from Cambodia, Rwanda, Guatemala, and Somalia* (Washington, D.C.: World Bank, 2000).

8. In her comments on an earlier version of this chapter made at the second conference of this project, at Pocantico, New York, February 28, 1998 (emphasis in original).

9. For an analysis of the slow delivery of pledged aid, see Forman and Patrick, *Good Intentions*.

10. On the importance of the distribution issue, see Elizabeth J. Wood, *Forging Democracy from Below: Insurgent Transition in South Africa and El Salvador* (Cambridge: Cambridge University Press, 2001).

11. Frances Stewart, "The Root Causes of Humanitarian Emergencies," in E. Wayne Nafziger, Frances Stewart, and Raimo Varynen, eds., *War, Hunger, and Displacement: The Origins of Humanitarian Emergencies*, vol. 1 (Oxford: Oxford University Press, 2000).

12. On the security gap, see Chapter 11 by Charles Call and William Stanley in this book. On human rights, see Chapter 9 by Tonya Putnam in this book.

13. Derek Boothby, commenting on an early version of Michael Doyle's chapter on transitional authority from his experience as deputy SRSG in UNTAES, at the second conference of this project at Pocantico, New York, February 28, 1998.

14. On demobilization, see Chapter 6 by Joanna Spear in this book. On refugee return, see Chapter 10 by Howard Adelman in this book.

15. Notably, "the majority of countries in arrears to the Bank are countries in conflict." *The World Bank's Experience with Post-Conflict Reconstruction* (Washington, D.C.: World Bank Operations Evaluation Department, 1998), p. 8.

16. An analysis of this innovation can be found in Centre for Defence Studies, *Evaluation of the Western Bosnia Rehabilitation Programme 1996–1998* (King's College, London: Centre for Defence Studies, November 25, 1999), a report prepared for the Department for International Development, the primary authors of which were Susan L. Woodward and Michael Clarke.

17. Sven Sandstrom, managing director of the World Bank, address to the Peace Implementation Network (PIN) Forum on "Public-Sector Finance in Post-Conflict Situations," Washington, D.C., August 1999.

18. *The World Bank's Experience*, p. 5, esp. para. 2.1.

19. The locus classicus of this literature is de Soto and del Castillo, "Obstacles to Peacebuilding in El Salvador."

20. Stevenson, *Preventing Conflict*, p. 51.

21. On the postcommunist transitions, Martin Wolf, citing a study by Joel Hellman, Geraint Jones, and Daniel Kaufmann, "Seize the State, Seize the Day," World Bank Policy Research Working Paper no. 2444, argues that privatization in the absence of appropriate institutional conditions leads to "insider privatisation" that "can be worthwhile for those who [are thereby enriched] but do great damage to the economy as a whole," as it creates vested interests with a strong incentive to prevent further reform. "To have the right sort of market-oriented democratic society, one needs the right sort of state." See "Avoiding the Trap of Transition," *Financial Times*, October 11, 2000, p. 25. On Africa, see Michael Holman, "Rethink Urged in Africa's Strategy for Development," *Financial Times*, August 1, 2000, p. 5, reporting on a study by the UN Conference on Trade and Development (UNCTAD), *Capital Flows and Growth in Africa*, www.unctad.org.

22. See David Malone and Mats Berdal, eds., *Greed and Grievance: Economic Agendas in Civil Wars* (Boulder, Colo.: Lynne Rienner, 2000), and work by Mark Duffield and by David Keen—for example, their contributions to Joanna Macrae and Anthony Zwi, eds., *War and Hunger: Rethinking International Responses to Complex Emergencies* (London: Zed Books, 1994), and David Keen, *The Economic Functions of Violence in Civil Wars*, Adelphi Paper no. 320 (Oxford: Oxford University Press, 1998).

23. *The World Bank's Experience*, p. xv (emphasis in original).

24. John Eatwell, Michael Ellman, Mats Karlsson, D. Mario Nuti, and Judith Shapiro, *Hard Budgets and Soft States: Social Policy in Central and Eastern Europe* (London: Institute for Public Policy Research, 1999), pp. 20–21.

25. A 1998 internal World Bank review of experience with postconflict operations maintains: "The Board has clearly stated that peacemaking and peacekeeping fall under the mandate of the UN and are not responsibilities of the Bank." *The World Bank Experience*, p. 22.

26. Reflecting evidence from postconflict countries, Nat Coletta, former head of the World Bank's Post-Conflict Unit, stated that "in general, privatization is proposed too early in post-conflict situations, before business infrastructure exists." Comments made at the PIN Forum on "Public-Sector Finance in Post-Conflict Situations."

27. *The World Bank's Experience*, p. xvi.

28. For example, an external evaluation of Norwegian Assistance to Mozambique, where Norway was a major donor, noted: "The macro-economic context for peace and reconstruction was shaped by the Bretton Woods institutions and seems to have been largely accepted as a given in the development of Norwegian aid strategies toward Mozambique." Its "aid portfolio was extremely fragmented . . . with some 900 aid disbursements, many of them very small." Moreover, "four and a half years after the peace agreement was signed, the Ministry and NORAD [Norwegian Agency for Development Cooperation] still had not articulated an aid strategy that explicitly confronted issues of sustaining the peace." The evaluation summarizes a more general problem elegantly: "In practical terms, Norwegian policy tended to fold the peace process into the aid programme rather than vice versa." See Alistar Hallam, Kate Halvorsen, Janne Lexow, Armindo Miranda, Pamela Rebelo, and Astri Suhrke (project leader), Chr. Michelsen Institute in association with Nordic Consulting Group, *Evaluation of Norwegian Assistance to Peace, Reconciliation and Rehabilitation in Mozambique* (Oslo: Royal Ministry of Foreign Affairs, May 1997), pp. x–xii.

29. De Soto and del Castillo, "Obstacles to Peacebuilding in El Salvador."

30. *The World Bank's Experience*, p. ix.

31. Ibid., p. 33.

32. Ibid., p. xv.

33. Ibid., pp. 33–35.

34. Stevenson, *Preventing Conflict*, pp. 58–60.

35. The OED evaluation of Bank experience suggests that "BiH [Bosnia-Herzegovina] and the West Bank and Gaza may have set precedents for the establishment of trust funds for post-conflict reconstruction activities," but also admits that "the final report of the *Framework* [*for World Bank Involvement in Post-Conflict Reconstruction* of April 1997] does not provide much detail on budgetary arrangements and financing instruments for post-conflict reconstruction, indicating that this issue warrants further discussion." *The World Bank's Experience*, p. 8.

36. Stevenson, *Preventing Conflict*, pp. 12–13.

37. De Soto and del Castillo, "Obstacles to Peacebuilding in El Salvador."

38. In some cases, World Bank staff can be influential, as Kemal Dervi, director in 1995 of the Central Europe Department within the Europe and Central Asia Region of the World Bank, was in helping to mobilize the Bank to plan a program for Bosnia-Herzegovina even before the end of war and the peace negotiations.

39. The political consequences are particularly striking in the example of El Salvador, which decided nine years after the peace agreement of 1992, on January 1, 2001, to adopt dollarization—taking advantage of its heavy dependence on remittances but also accepting the resulting constraints on domestic economic and social policy. See Andrew Bounds, "Salvadoreans Embrace the Dollar," *Financial Times*, December 29, 2000, p. 2.

40. Marika Fahlen, "Mobilisation and Allocation of Resources for Post-Conflict Assistance and Identification of Appropriate Modalities for Implementation," note by the Delegation of Sweden submitted for discussion at the seventh meeting of the DAC Task Force on Conflict, Peace, and Development Cooperation, January 9–10, 1997 (Paris: Development Cooperation Directorate of the Organization for Economic Cooperation and Development, DCD (97)1/ANN1, OLIS, December 20, 1996), p. 5.

41. Forman and Patrick, introduction to *Good Intentions*, p. 13; see also their summary of the findings of *Good Intentions* and their proposal for the creation of such a mechanism, which they call a Strategic Recovery Facility, in Shepard Forman, Stewart Patrick, and Dirk Salomons, *Recovering from Conflict: Strategy for an International Response* (New York: Center on International Cooperation, New York University, 2000).

42. James K. Boyce, "Beyond Good Intentions: External Assistance and Peace Building," in Forman and Patrick, *Good Intentions*, p. 369.

43. Forman and Patrick, introduction to *Good Intentions*, p. 30 (emphasis in original).

44. This particular criticism is made by the World Bank Operations Evaluation Department of its assessments, in *The World Bank's Experience*, p. xvii.

45. 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." *Evaluation of Norwegian Assistance*, p. xiii.

46. *The World Bank's Experience*, p. 40.

47. *Evaluation of Norwegian Assistance*, p. xi.

48. On this problem, see in particular the discussion in Zlatko Hurtić, Amela Šapčanin, and Susan L. Woodward, "Bosnia and Herzegovina," in Forman and Patrick, *Good Intentions*, pp. 328–337.

49. *The World Bank Experience*, p. 47; Stevenson, *Preventing Conflict*, p. 61.

50. *Bosnia and Herzegovina: 1996–1998; Lessons and Accomplishments; Review of the Priority Reconstruction Program and Looking Ahead: Towards Sustainable Economic Development*, report prepared for the May 1999 Donors Conference Co-Hosted by the European Commission and the World Bank, esp. pp. 14–15.

51. For example, one-third of all aid to Mozambique was technical assistance to expatriate professionals (Roberto Chavez at the PIN Forum on "Public-Sector Finance in Post-Conflict Situations).

52. *The World Bank's Experience*, p. 6.

53. Forman and Patrick, introduction to *Good Intentions*, p. 17.

54. *Bosnia and Herzegovina: 1996–1998*, p. 10.

55. Ibid., p. 6.

56. 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.

57. Ibid.

58. Shanta Devarajan from the World Bank, at the PIN Forum on "Public-Sector Finance in Post-Conflict Situations."

59. Odin Knudsen, on the basis of his experience as resident director for the

World Bank in West Bank and Gaza, in comments made to the discussion at the second conference of this project at Pocantico, New York, February 28 and March 1, 1998.

60. In remarks made to the PIN Forum on "Public Sector Finance in Post-Conflict Situations."

61. Joao Honwana, "Mozambique," draft prepared for this project.

62. Derek Boothby in discussion at the second conference of this project at Pocantico, New York, February 28–March 1, 1998.

63. Boyce, "Beyond Good Intentions." 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).

64. Stephen John Stedman, "Spoiler Problems in Peace Processes," *International Security* 22, no. 2 (fall 1997): 5–53.

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

66. *Bosnia and Herzegovina: 1996–1998*, p. 6.

67. *Evaluation of Norwegian Assistance*, p. xiv.

68. 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.

69. Stevenson, *Preventing Conflict*, p. 60.

70. In Krishna Kumar, ed., *Rebuilding Societies After Civil War: Critical Roles for International Assistance* (Boulder, Colo.: Lynne Rienner, 1997), p. 287 (emphasis in original).

71. 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.

8

The Role of Postsettlement Elections

TERRENCE LYONS

In nearly all cases of negotiated settlements of civil wars, elections have been designated in the peace accord as the mechanism for ending the transition from war to peace.[1] As a crucial part of a peace process, such elections aim to terminate the civil war and contribute to sustainable peacebuilding. At the same time, postconflict elections attempt to instill democracy by enshrining new political institutions and rules of competition. For the international community, postsettlement elections serve as symbolic endpoints for the high-profile peacekeeping or peace implementation phase of their involvement. Christopher Clapham suggests that in the post–Cold War era the terms of a peace agreement have "to meet the moral expectations of those who mediated it, and who would in turn be required to guarantee its implementation."[2] In cases where civil war coincided with state collapse, the return of a "normal" recognized government allows international financial institutions and bilateral donors to begin making loans for reconstruction. Postsettlement elections therefore try to advance multiple and often contradictory goals both within the state in question and for the international community.

Such elections carry a tremendous burden. They are called upon to settle the contentious issues of internal and external legitimacy and must be organized under the difficult circumstances of societal disorder, general insecurity, and institutional breakdown—conditions, according to comparative studies of democracy, that seldom favor democratic transition.[3] Yet there seem to be few options other than elections to organize the transition from war to peace. Moreover, as demonstrated in the case studies of this project, the ability of postsettlement elections to serve these multiple roles is mixed, with more successes than the literature on democracy would predict.