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Dedicated to John Darby, 1940–2012
Mentor, Scholar, Wit, and Peacebuilder.

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THE POLITICAL ECONOMY OF PEACEBUILDING AND INTERNATIONAL AID[1]

Susan L. Woodward

Introduction

No peacebuilding operation can begin without commitments from those who will provide the financial and material resources necessary. One influential strand of the peacebuilding literature even argues that success is best explained by the amount of resources provided (in relation to the complexity of the case). The more resources, the more likely efforts at peace are to be effective.[2] The design of United Nations missions and their mandates, including the frequency of decisions on their renewal, is shaped by negotiations with countries willing to commit troops and the budgetary politics of the UN system. The evolution of the international peace architecture itself since the era of activism began in the early 1990s has been characterized as a drive to expand in every way possible the resources, tools, and leverage at its disposal, above all, the financing.[3]

The availability of funds not only shapes what the mission can do, but also which components of any peace agreement can be implemented. What countries emerging from war are able to accomplish depends not only on leaders' political will, as outsiders argue, but even more on what resources flow in from outside, from whom, and with what constraints. The donors and banks providing this assistance, in turn, see it not only as funds for projects and activities, including the early 'peace dividend' to the local population that the policy literature since 1995 declares essential to get the peace process going and keep on track, but also as economic incentives to leaders – selective rewards and punishments of external aid – to induce cooperation.

The key debates in the literature on international assistance focus on less than half the total, however: the 30–40 per cent, at most, for all humanitarian, economic, and political goals. Why the far more costly component, between 60 and 70 per cent for the military, gets little or no attention or critical research is not debated, although the increasing militarization of aid decisions and delivery since the mid-1990s and especially since 2001 has provoked concern from the humanitarian community and should be the subject of critical analysis in the peacebuilding and development communities.

This chapter first traces the evolution of economic assistance to peacebuilding since the early 1990s, and then turns to the main subject of debates, the research findings on the effects of aid on peace. Three main debates are then outlined. It concludes by proposing that both the debates and the aid policies themselves assume a world that does not exist. If the goal is to explain and improve outcomes, we need a political economic understanding of aid, its providers, and the peace process itself.

Evolution of the aid for peace regime

Aid for peacebuilding has evolved over the past two decades in three phases, with a fourth now on the horizon. As with peacekeeping in general, the first phase reflected the profound change in the strategic environment with the end of the Cold War. Not only was the UN Security Council freed to mandate an ever-larger number of peacemaking and peacekeeping operations, but aid donors could also begin to address the needs of the populations themselves, independently of strategic interests and calculation. While the United Nations Development Programme (UNDP) and middle powers such as Norway and Japan attempted to shift attention away from state security and military budgets to human development and human security, aid focused on human rights (soon to be called 'rule-of-law' assistance) and humanitarian relief.

The mounting experience of this period of unplanned activism provoked a new phase beginning in the mid-1990s of a more conscious articulation of goals, policy frameworks, and bureaucratic specialization, what we might call the institutionalization of an aid regime. The now classic article by the head of the UN mission in El Salvador, Alvaro de Soto, and its chief economic advisor, Graciana del Castillo, appeared in 1994, and its analysis of the tensions and even contradictions between the peacebuilding mandate and its necessary political objectives, on the one hand, and the orthodox economic policies of the Bretton Woods institutions (the World Bank and International Monetary Fund (IMF)), on the other, set the main lines of the aid debate even today. At the same time, however, the World Bank was defining the concepts and policy framework that would guide their aid and that of most development donors ever since. A 1995 task force to identify what might distinguish war-torn countries from other kinds of emergency decided it was being 'failed states', that the primary problem they posed for the Bank, that 'the majority of countries in arrears to the Bank are countries in conflict' (World Bank 1998: 8), required an explicit recognition of the link between security and development and a new aid framework for 'post-conflict reconstruction'. The new framework was not driven, as de Soto and del Castillo proposed, by special economic policies attuned to peacebuilding, but the operational difficulties of working in these conditions. The technology of aid delivery deemed appropriate to the first years after war, they concluded, was greater speed, flexibility, transparency, aid coordination among donors, and more targeted conditionality.

It was growing Bank assertiveness in particular cases, however, that most influenced the emerging aid-for-peace regime. Already during the Bosnian war, Bank staff began planning a multi-year postwar reconstruction strategy and aid program for Bosnia-Herzegovina and within a month of the signing ceremony for the 1995 peace agreement, organized the first of four annual donors' aid pledging conferences and a now universal practice. To influence fiscally responsible political decisions (especially governmental design), the Bank also began to participate in peace talks starting with Bosnia and Guatemala. The Bank also assumed management of the 1994 multi-donor Johan

Jørgen Holst Fund for Start-up and Recurrent Costs to finance the new Palestinian authorities after the Oslo Accord, the first of the now hundreds of specialized trust funds for countries donors do not trust, above all, beginning in Kosovo in 1999 for general budgetary support (such as civil servant salaries, including police and teachers). In-country assessment missions prior to planning a country's postwar reconstruction strategy soon followed, eventually including others such as UNDP, and thus called joint assessment missions (JAMs).

This influential role of the World Bank meant, necessarily, a growing role for the IMF because the Bank cannot lend to a country that is not first a member of the IMF and such membership requires negotiation of a prior IMF agreement for payment of the country's foreign debt. An early macroeconomic stabilization program to repay debt is thus an inevitable component of the aid-for-peace regime, and although bilateral development donors have their own funding interests and mandates, in practice, they do not challenge, but work within, the terms of aid and conditionality set by that IMF agreement. As a result of the compromise between the International Financial Institutions (IFIs) and the Jubilee 2000 debt relief campaigners, since 1999 post-conflict countries – which are all Highly Indebted Poor Countries (HIPC) – must also first write a Poverty Reduction Strategy Paper (PRSP) to access IMF and World Bank credits and loans. Although done under strict and voluminous World Bank guidelines and subject to veto by either, this PRSP is considered the postwar government's national development strategy and the basis on which donors from the OECD Development Assistance Committee (DAC) commit to align their aid under their 2005 Paris Declaration on aid effectiveness.

This phase of operational and bureaucratic expansion was taking place, however, at the time when these rich donor countries were in the throes of political debate about aid ineffectiveness in general. The growing sense of overload, donor fatigue, and recognition that external assistance could as likely be 'redundant, harmful, or squandered' (Forman and Patrick 2000: 30) as palliative was matched in the humanitarian community with a crisis over the appearance of Mary Anderson's critique of the way that aid could promote more violence. Her call for *Do No Harm* led donors to begin developing conflict impact assessments of their aid and aid planning, while the UN High Commissioner for Refugees, Sadako Ogata, in January 1999, convened a Brookings forum to address the 'gap' between relief and development, that is, the absence of financing mechanisms and operational mandates for the transition between relief and the more stable conditions suited to development, a period now called 'early recovery'. This second phase culminated in the admonition in the Brahimi Report of 2000 of the Panel on UN Peace Operations that the Security Council and Secretary-General match mandates and resources, even to the point of saying 'no' to a request for peacekeeping if member states did not provide the resources necessary to implement it effectively.

What should have been a new era of reform following this Report was pre-empted, however, by another change in the strategic environment after September 11, 2001. During the decade that followed, up to 90 per cent of the aid monies for peace from the OECD DAC donors, at least, was redirected to Iraq and Afghanistan.[4] Use of peacekeeping troops to deliver aid in the first years after war, a technique pioneered in Bosnia-Herzegovina and then Kosovo in 1996–99, metamorphosed to ever greater militarization of humanitarian and development assistance, including for parallel counterinsurgency operations. Aid instruments to protect donors' 'fiduciary risk' were now compounded by concern for 'risk protection' of their staff. At the same time, the IFIs became ever more intrusive in drafting laws, designing government ministries and procedures, and administering aid as a component of the peacebuilding process, bordering as Boon says on the 'legislative' (Boon 2007: 515).

A fourth phase is possibly beginning. Reacting against donors' calls for country 'ownership' (government responsibility) to make their aid more effective, recipient countries have begun to join their forces to negotiate with donors over their common complaints about the lack of genuine ownership in the design of aid, the excessive fragmentation and volatility of aid to post-conflict countries, and the administrative burden of hundreds of distinct aid missions and their conditions.[5] An 'International Dialogue on Peacebuilding and Statebuilding', a standing forum of donors and recipients, and the g7+, a coalition of seven, now 19, post-conflict countries led by Timor-Leste emerged from the Third High-Level Forum on Aid Effectiveness at Accra in 2008.[6] Arguing 'Work with us, not against us' (Crook 2010), the expanded g7+ proposed at the Fourth High-Level Forum in Busan, South Korea, in late 2011, a 'New Deal for Engagement in Fragile States'. A 'New Global Partnership for Effective Development Cooperation' also formed among 'emerging donors',[7] the many countries which choose not to join the DAC because they have different agendas, interests, and aid modalities and whose percentage of total aid is rising. Although it is too soon to say how they and the increasing number of private donors will change the aid regime for peacebuilding or its outcomes, the g7+ have succeeded at least in changing the rhetoric from aid to development and cooperation (with increased emphasis on South–South cooperation and its premise of horizontal rather than hierarchical relationships).

Outcomes

Before discussing the debates around international aid to peacebuilding, a caveat is in order. These debates focus almost entirely on current outcomes and proposals for changes in policy and practice. Yet our knowledge about the effects of aid is severely constrained by donor practices and the characteristics of aid: the woeful lack of transparency, particularly by the IMF and World Bank; the absence of baseline statistics in war-torn countries; the allergy to bad news that limits evaluations, if they are done at all, to financial accounts and positive reports; and the predominance of individual and sectoral projects that do not combine to an overall effect that could be studied. Although four multilateral banks, three global funds, four UN agencies, the European Commission, and 14 bilateral donors have signed the International Aid Transparency Initiative (IATI) formed in 2006, Publish What You Fund documented in late 2011 a decline in transparency (Beattie 2011). Data, whether they ever existed, were destroyed by war, or statistical agencies were closed by IFI structural adjustment policies in the 1980s. Donors could have placed a priority on creating necessary baseline data with early funding, but they do not.

What we do know comes from country and project case studies. A consistent theme is the stark contrast between what is needed in the first years after war and what is actually funded and done. The reasons are many. Aid is supply-driven according to a range of organizational, political, and strategic interests of the donor's home country or organization. It has a short time horizon and impatience for 'results' that can be

reported, ignoring the requirements of sustainability or the long time necessary to accomplish those results (Pritchett and de Weijer 2010). However worthy the goals, such as minority and women's rights, anti-corruption, or capital infrastructure, their linkage with the goal of peace is rarely articulated explicitly.

Instead, the goal they all share is statebuilding because without a state as sovereign partner, institutional capacity to 'absorb' (use) aid, and a reform-oriented (market-friendly and democratically accountable) political leadership, aid cannot be given. The alternative, which characterizes most international aid practices to peacebuilding countries, is to do it themselves, that is, to bypass governmental authorities, create parallel budgets, administrations, and implementing agencies (a situation of 'dual legitimacy' [Rubin citing Ghassan Salamé 2005: 97; also Goodhand and Sedra 2010]), and use international non-governmental agencies and externally convened community participation forums (as opposed to local governments) to make decisions on aid and deliver it. Between 40 and 70 per cent of all aid to post-conflict countries goes to salaries for foreign consultants (Kahler 2008: 15). Only 10 per cent of the budget of a UN peacekeeping operation is spent locally (Carnahan et al. 2006). The result is what the literature now calls the 'aid-institutions paradox' (Pettersson et al. 2006) whereby aid actually undermines the capacity and quality of government institutions. A downward spiral of lack of trust, ever smaller lack of capacity, and ever less trust then ensues. As Francis Fukuyama (2004: 40) writes, 'outside donors want both to increase the local government's capacity to provide a particular service … *and* to actually provide those services to the end users. The latter objective almost always wins out because of the incentives facing the donors themselves'. The one exception, documented by the OECD-DAC country surveys after 2005, is public financial management – not, one might suggest, what the literature on peacebuilding would consider a priority.

Additional ways that aid can work at cross purposes to peace appear to be common across nearly all cases. Aid concentrates in the capital city where the peacekeeping mission and donors reside, creating new inequalities between city and country, center and regions even if they were initial causes of the conflict. The 'economic impact of peacekeeping operations' (Carnahan et al. 2006) is hugely distorting of local markets, production, and salary scales with which the government and local businesses cannot compete. The focus on political elites, the executive branch, and closed-door negotiations, distancing the very civil society participants that donors rhetorically value and excluding parliamentarians, political parties, trade unions, women, and marginalized groups from participation in key decisions about the economic (and thus social and political) direction of their country, has a conservative effect, reinforcing the power of those who first emerge dominant from the war and the existing structure of political and economic power in localities (often in reaction to external efforts to upset those local structures). Economically for post-conflict countries, of truly worrisome proportions is the growing aid dependency over time; very high unemployment and rising inequality (across individuals, groups, and regions); and worsening material conditions for the population in contrast to the promised peace dividend. Despite the new forms of civil and criminal violence provoked by this inequality, joblessness, and growing poverty that led the Brahimi Panel to call for a new doctrine of peacebuilding focused on civilian security, funds for police reform and training and judicial institutions remain proportionally very small, perhaps because neither the World Bank by mandate nor the US by Congressional decision can work in this sector, leaving it to the UN and an alarming proliferation of bilateral donors, each seeking to reproduce its own institutions in one segment of what should be an integrated whole.

Debates

Debates in the literature on international assistance to peacebuilding all share the judgment first identified by de Soto and del Castillo. The debates are about the explanation: why is aid so antagonistic to the goal of a sustainable peace? Three reasons dominate: institutions, statebuilding, and economic development strategy.

The first camp argues that current policies are destabilizing because they create new conflicts when conflict reduction and management are needed. For Roland Paris (2004), the priority on building liberal democracy and market economies ignores the fact that both presume and reinforce competition and conflict whereas peacebuilding requires the reverse. Institutions must be built first. Charles Call (2008: 374–7), however, argues that outsiders do focus on institutions, but their design is the source of conflict. The outsiders' constitutional design of the state generates resistance and new violence while the meritocratic principle, in particular, may well be in conflict with the confidence-building goals of conflict transformation. Studies of community driven development (CDD) programs based on local councils of externally created participation so popular among donors and the World Bank document in detail the intense local struggles they generate over power, bases of authority, and resources (e.g., Hohe 2005). Outsiders' institutional templates, argue Dani Rodrik (2007) and Lant Pritchett (Pritchett and de Weijer 2010), actually defy the economic literature proving that economic outcomes, at least, can be achieved equally well by a variety of institutional forms; in addition, imposing one set ignores that institutions are socially embedded and require local legitimacy to work. Thomas Carothers argues the same in regard to rule-of-law programs, said to be so necessary to both economic development and democracy. 'Operating from a disturbingly thin base of knowledge', the empirical evidence suggests that the causal relationship may well be in the opposite direction. They conceive of the rule of law in institutional terms whereas 'law is a normative system': 'simply rewriting another country's laws on the basis of Western models … achieves very little' (Carothers 2006: 18–19). In sum, what it means to 'build institutions' becomes very unclear, as does an accompanying debate on sequencing, that building these institutions should precede, by a decade or more, the democratic reforms, including elections, that currently come very early (Paris 2004; Collier et al. 2003; World Bank 2011).

The second debate emerges from a separate debate over whether statebuilding is destabilizing and undermines peace. Regardless of its effect on peace, is a strategy of statebuilding even possible? For Fukuyama (2004), failure is inevitable if a country's cultural norms and specific history, the little, if any knowledge on statebuilding that is transferable, and the necessity for success of domestically generated demand are not recognized. He is joined by a series of papers commissioned by the OECD Fragile States Group which emphasize that resilience against conflict depends on local legitimacy. No matter what model outsiders consider most effective and legitimate, their intervention will have a 'negative impact' if 'the content of a state's policies is heavily influenced by external actors' and does not respond to citizens' expectations of their government

(Bellina et al. 2009: 4). Ashraf Ghani and Clare Lockhart (2008) disagree, arguing that the problem is not theory or imposition, but disagreements among external actors on what statebuilding entails. This can easily be resolved by forging an international consensus among these actors on their strategic framework of ten core state functions and an organizational structure necessary for their performance.

The Ghani–Lockhart framework belies a far deeper debate from the field of economic development, however. As Tony Addison and Tilman Brück (2009) remind us, the process of economic development necessarily generates conflict and social turmoil, creating a blatant tension with peacebuilding. But if peace requires economic growth, what is the appropriate economic role of the state and postwar economic policy? This debate pits the World Bank orthodoxy of neoclassical growth theory and 'good governance' as measured by its Country Policy and Institutional Assessment (CPIA) against heterodox economists to be found in universities, such as Mushtaq Khan (2010) and Ha-Joon Chang (2002) or in UN agencies such as the Department for Economic and Social Affairs or the UN Conference on Trade and Development, who argue that the Bank's 'market fundamentalism' (Kozul-Wright and Rayment 2007) and campaign against rent-seeking (Khan 2010) run directly counter to the policies used successfully by currently wealthy, developed countries – and even the lessons of effective postwar reconstruction in Europe under the Marshall Plan.

All of these debates on the appropriate strategy for economic development are beside the point, argues del Castillo (2008), because they are debates from the literature on 'development as usual'. The far larger problem is the absence of debate about the appropriate economic strategy for post-conflict conditions and the needs of building a sustainable peace. The 'decisive importance' of political factors in a peacebuilding process must drive decisions on economic assistance and policy. In place of the organizational separation of decisions on strategy and aid between peacebuilding and economic development, the development institutions such as the World Bank, IMF, and UNDP must take a supporting, not leading (let alone confounding) role, to the political objective.

In this light one can also see why there is also no debate over proposals for peace conditionality, conditioning aid on implementation of the peace agreement, and on odious debt, that countries emerging from war must first pay the debts of the prewar regime before any aid can flow. Both silences reflect the resistance and power of the IFIs. The motives and interests of bilateral donors may, in turn, explain the apparent lack of concern about the very high levels of aid dependency, over long periods, of postwar countries when the goal of aid should be to become superfluous. Local pleas for space to focus first on nation-building and reconciliation before governments embark on debt negotiations, formulating a national development strategy, and building market-based financial institutions also fall on deaf ears.

Political economy

The literature on international assistance to peacebuilding contains a puzzle. The funding actors, especially the IFIs and many bilateral donors, are engaged in notable, ongoing efforts to improve the effect of their aid, often in response to their critics, yet evidence about outcomes reveals little or no change at all. The criticisms and lines of debate also have changed little since 1994. How can we explain this puzzle? To do so, I propose that we need a political economic analysis of peacebuilding assistance. The image of neutral actors external to a conflict providing assistance does not fit reality, nor does that of passive recipients in dire need of aid. As Hanafi and Tabar write, 'aid is not a single transaction, but a complex relationship embedded in and shaped by multiple, overlapping interests, agendas, and practical considerations' (2004: 218). All relevant actors, both external and domestic, are political animals with economic and strategic interests. All are interacting, and the aid relationship is replete with competition among donors, implementing agents, and recipients for money, leadership, and policy preferences. Calls for aid coordination and coherence on strategy ignore this competition while the process of implementing a peace agreement is a contest among parties to the agreement and among donors to shape the postwar state and the economic and political interests it institutionalizes as much toward their own economic and political benefit as possible.

The premise of critics, debaters, and aid reforms is that the goal of such aid is peace, but that might not be the case. We should ask what the goals of those who provide financial resources are first. This provides a very different perspective on the general debate in the literature on peacebuilding between an orthodox, problem-solving approach and a critical, conflict transformation one.

Behind each ostensibly technocratic project is a political choice, even if the organizational and budgetary politics are hidden from view. For example, why do the IFIs and some bilateral donors such as USAID focus so much attention on institutions for public financial management or early privatization including of land? Why are resources for creating a new or reformed army so disproportionate in relation to the stark underinvestment in community police and the judicial system? Why do donors neglect aid to parliaments, political parties, local governments, and, more generally, what citizens say they actually want in public opinion surveys? Why does competition appear especially intense in rule-of-law or telecommunications sectors? If employment is so critical to peace and the dominant aid powers insist that job creation is the responsibility of the private sector, particularly small and medium enterprises, why do they neglect domestic (private) entrepreneurs and even insist on policies that demonstrably lead to their destruction? The studies we do have show that donor countries' strategic and foreign policy interests always trump aid effectiveness and peacebuilding principles (Suhrke and Buckmaster 2005: 744; National Academy of Public Administration 2006: 3–5, 15, 29; Goodhand and Sedra 2010; Bradbury and Kleinman 2010; Hanafi and Tabar 2004: 222–3).

Donors and especially the IFIs also have a transformation agenda, but it is in competition with the critical, conflict transformation approach to peacebuilding and its reform. This well-resourced agenda views the 'post-conflict' period as a rare, golden opportunity to be seized, not to build peace but to achieve the fundamental economic and political transformation that is far more difficult to achieve politically in more stable conditions – to build market economies and market-friendly states through domestic laws and procedural rules, technical assistance, and identification of and support for 'reform leaders'. Yet its purpose, as Ngaire Woods (2006) demonstrates persuasively, is to protect the stability of the international monetary and financial system and ensure the very survival of the IMF and World Bank as financial institutions. This agenda is conflict-transforming but rarely peace-promoting, as the literature demonstrates fully.

Notes

1 For further elaboration of the discussion in this chapter, see Woodward (2002; 2010; 2011; 2012).

2 Doyle and Sambanis (2006) and the many RAND publications on nation-building by James Dobbins are most associated with this argument, but it is also the core theme of all United Nations documents on peacebuilding, from Secretary-General Boutros-Ghali's *Agenda for Peace* (1992) and the Brahimi Panel Report on UN Peacekeeping (2000) to the creation of a Peacebuilding Commission and a Peacebuilding Fund by the 2005 World Summit Outcome Document and resolutions of the General Assembly and Security Council.

3 Andrew Mack has made this point in every Human Security Report and Brief since the first in 2005.

4 An Oxfam briefing paper of 10 February 2011 states: 'Since 2002 one-third of all development aid to the 48 states labeled "fragile" by the OECD has gone to just three countries: Iraq, Afghanistan and Pakistan. During this period aid to Iraq and Afghanistan alone has accounted for over two-fifths of the entire $178bn global increase in aid provided by wealthy countries' (p. 2). Separating out post-conflict countries from these categories brings the proportion by general estimates to 90 per cent.

5 In Cambodia alone, there were 400 donor missions, reviews, and studies per year (Ek and Sok 2008: 2).

6 The seven founding members were Afghanistan, Central African Republic, Democratic Republic of Congo (DRC), Liberia, Sierra Leone, South Sudan, and Timor-Leste; attending their Dili meeting in April 2010 were Burundi, Chad, DRC, Nepal, the Solomon Islands, Sierra Leone, southern Sudan, and Timor-Leste.

7 This current label is a misnomer because most have been aid donors as long or longer than the OECD-DAC donors, but their importance is now being recognized and thus, their aid analyzed.

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