

SECURING PEACE

STATE-BUILDING AND ECONOMIC DEVELOPMENT
IN POST-CONFLICT COUNTRIES

EDITED BY RICHARD KOZUL-WRIGHT
AND PIERGIUSEPPE FORTUNATO



UNITED NATIONS



B L O O M S B U R Y

Securing Peace

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Editors

Richard Kozul-Wright
Piergiuseppe Fortunato

B L O O M S B U R Y A C A D E M I C

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Preface

Warfare has changed dramatically over the last decades. Armed conflicts between states have given way to civil wars fought mainly within national borders, and likely to threaten the institutions and social norms which constitute the foundations of a modern state. As the conflict spreads increased destitution and poverty are likely to follow, while the destruction of capital, in all its dimensions, threatens long-term development prospects, deepening the divisions and insecurity that fuelled the conflict in the first place and establishing what many now describe as a conflict trap.

Even when the fighting stops post-conflict countries remain deeply fragile and lack the institutional infrastructure needed to maintain a stable social contract and ensure a rapid and lasting recovery. Usually, such societies do not have the luxury of meeting the goals of security, reconciliation and development in a measured or sequenced manner: to avoid an immediate return to violence they must begin the recovery process on all fronts simultaneously.

This enormous policy challenge generally requires a mixture of political and economic mechanisms to facilitate the creation of a social contract to set priorities among a fractured civil society, oftentimes involving deep ethnic divisions, the establishment of an effective central authority to manage inter-regional transfers and resources, and an array of policy instruments to help meet the priorities and to manage the trade-offs they inevitably entail. These challenges are likely to vary from case to case but common to all is the urgent challenge of state building which must take place against the threat of a return to conflict. Furthermore, given that aid in post-conflict countries is likely to account for a substantial share of GDP, the policy formulation will inevitably involve, along with the national authorities, a number of different international actors.

This volume brings together new contributions from economists and political scientists, including from within the United Nations system, who have been closely following conflict and post-conflict situations. These studies cast light on the processes which lead to explosion of civil strife and try to spell out the policy options, at both the national and, particularly, at the international level, available to address the challenges faced by post-conflict economies. It calls for a more integrated policy approach which can gradually re-establish the social contract on which any sustainable development process depends, by repairing trust in public institutions, as well as mobilizing the resources needed to address the vulnerabilities and grievances that more often than not help start the process.

A number of the chapters in this volume served as background papers to the World Economic and Social Survey 2008 on Overcoming Economic Insecurity. These papers were discussed at a UN-DESA workshop in November 2007, at which time the remaining papers in this volume were also conceived. A number of colleagues helped to organize these activities and provided comments on the papers collected in this volume. In particular, we would like to thank the contributions of Rob Vos, Eloho Otobo, Carl Gray, Karen Ballentine, K. Maeve Powlick and Laura Bailey.

*Richard Kozul-Wright
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Chapter 1

Introduction

RICHARD KOZUL-WRIGHT AND PIERGIUSEPPE FORTUNATO

THINGS FALL APART: THE SPREAD OF CIVIL STRIFE

Civil wars are deeply disruptive of social and economic life. They endanger personal security and civil liberties, seriously damage the environment and create health crises and famines. Furthermore, being principally fought inside national borders, they generate deep and cumulative divisions that undermine social cohesion, threaten the norms and institutions of the State, and create a sense of fear and distrust among citizens. As the World Bank recently suggested (World Bank, 2003: 32), civil strife can be well described as a process of “development in reverse”: in most cases output stagnates or shrinks along with productive investments, trade flows are massively disrupted, state finances are undermined and public services are curtailed. This process is likely to continue well after the fighting stops.

Post-conflict countries are, as a consequence, particularly fragile societies, where deep social and economic vulnerabilities come with the added threat of a return to full scale civil war. Afghanistan is a prominent case in point. Conflict there has been a way of life for three decades, the compounded result of economic stagnation and repeated socio-political shocks. The swift overthrow of the Taliban regime in 2001 raised hopes of a rapid and sustained recovery, as military and civilian aid poured in to the country. However, as a recent report by the International Committee of the UK House of Commons (2008) makes clear, while there have been some real improvements on the ground, especially in repairing the country’s social infrastructure, the gap between the expectations of the Afghan people of a more secure and prosperous future and the capacity of the state to deliver on a wide array of social and economic services, appears to be growing. Under these circumstances, hard-earned gains can be quickly wiped out by even a small escalation of conflict.

Civil wars have been on a sharply rising trend since the mid-1970s, accounting for the vast majority of total conflicts. The related fighting has

been much more irregular than more traditional (interstate) forms of warfare and most of the victims have been non-combatants. These civil conflicts peaked in the early 1990s, but continued for the remainder of the decade at a high level, two or three times the number recorded in the early 1970s, before dropping off at the start of the millennium: an estimated 5.5 million people were killed in 35 civil wars during the 1990s, making it the deadliest decade since the 1940s (Figure 1.1).¹

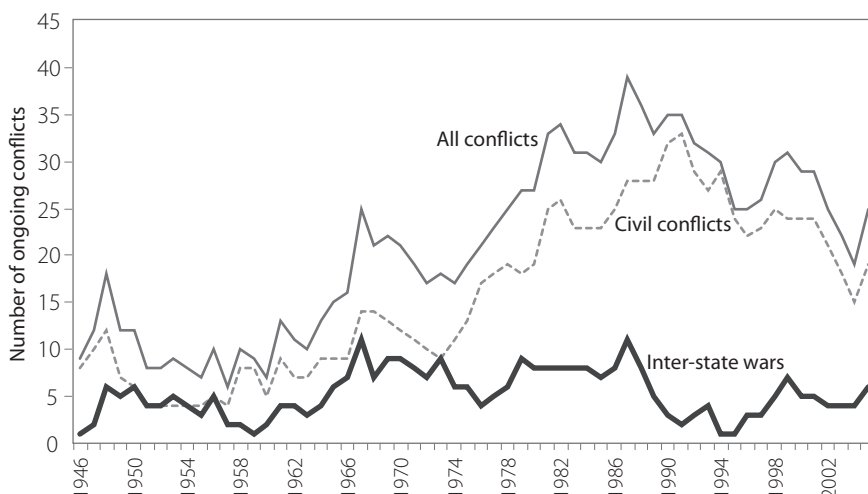


Figure 1.1: **Trends in armed conflicts since 1945**

Source: UCDP/PRIO Armed Conflict Dataset (2007), Uppsala, Sweden and Oslo, Norway.

The increased *protractedness* of ongoing civil conflicts, rather than any substantial increase in the number of new wars, explains this trend (Figure 1.2). In the early 1970s, civil conflicts lasted on average for just 2½ years, by the mid-1980s that had lengthened to four years and by the early 1990s had more than doubled to a peak of over nine years; by the start of the millennium, conflicts were, on average, still lasting around seven years.

Protracted conflicts have been most common in Asia. These have involved full-scale civil conflicts as well as secessionist struggles confined to geographical sub-regions. Africa has also been a region of long-lasting violence, more so since the early 1980s, when protracted inter- and intra-state struggles, going back in some cases to the post-independence period,² were compounded by new conflicts fought mainly inside national borders and along “ethnic” lines³ (Figure 1.3).

Over two-thirds of Sub-Saharan African countries have experienced a civil war episode during the past 25 years. Elsewhere, conflicts that might have been expected to diminish with the end of the Cold War have persisted and even intensified, most notably in the Middle East. Civil war also returned to

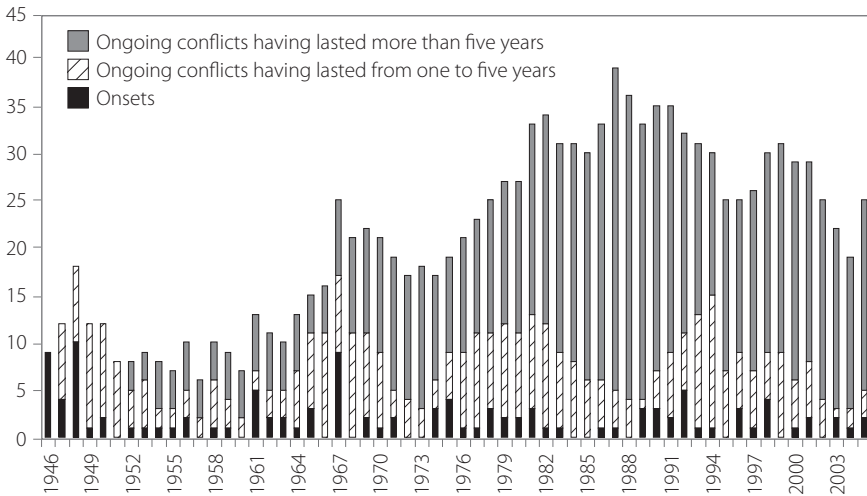


Figure 1.2: **Annual onsets of armed conflicts versus long-lasting crisis since 1945**

Source: UCDP/PRIO Armed Conflict Dataset (2007), Uppsala, Sweden.

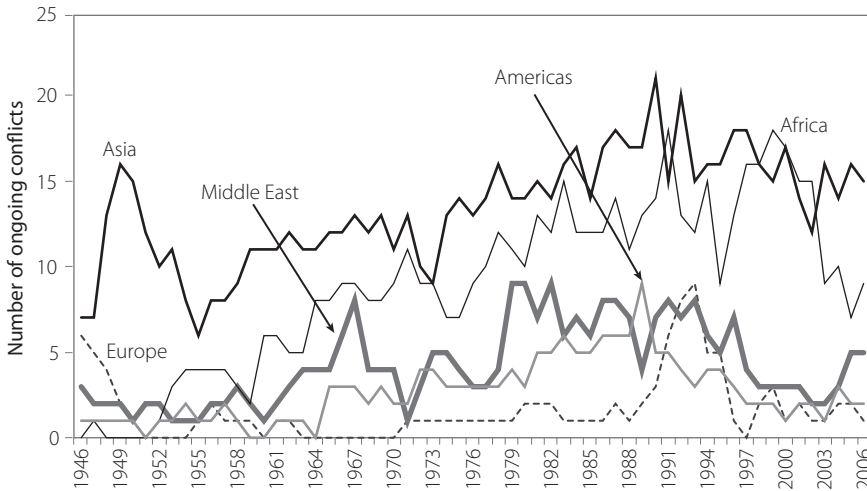


Figure 1.3: **Regional trends in armed conflicts since 1945**

Source: Political Instability Task Force (PITF, 2006), Center for Global Policy, George Mason University.

Europe in the late 1980s, as a result of the break-up of Yugoslavia and the dissolution of the Soviet Union, but this proved short lived. Latin American conflicts peaked in the late 1980s, with a heavy concentration in Central America, but have been on a steadily declining trend ever since.

The declining incidence of inter-state wars has coincided with a declining trend in the annual average number of battle-related deaths. As can be seen in Figure 1.4, that decline has been associated with four (progressively less

intense) peaks at the end of the 1940s, the 1960s, the 1970s and the 1990s, respectively.⁴

Although the number of deaths on the battle fields have been on a declining trend, the impact of civil conflicts measured in terms of transnational refugees (including asylum seekers) and internally displaced civilians has risen sharply, since the early 1980s (Figures 1.5 and 1.6). No less than 24.5 million people were displaced in 2006, half of them in Africa (UNHCR, 2007).

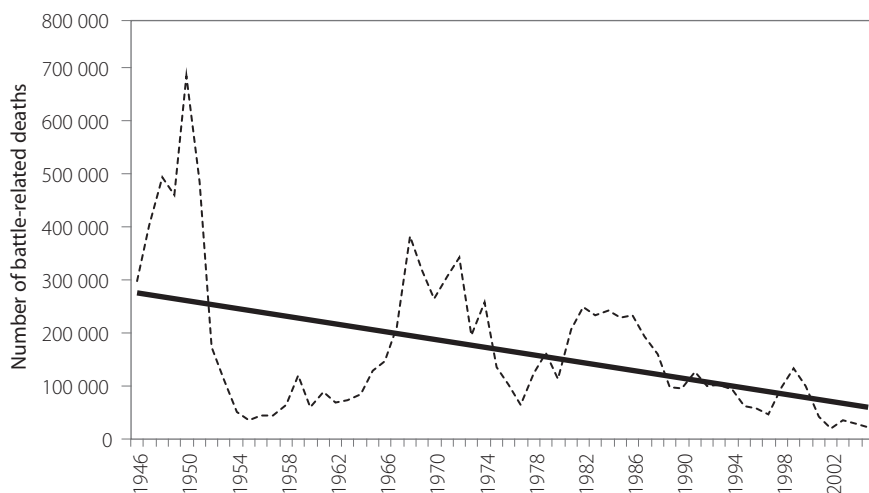


Figure 1.4: **Battle-related deaths in civil conflicts in post-WWII period**

Source: UCDP/PRIO Armed Conflict Dataset (2007), Uppsala, Sweden.

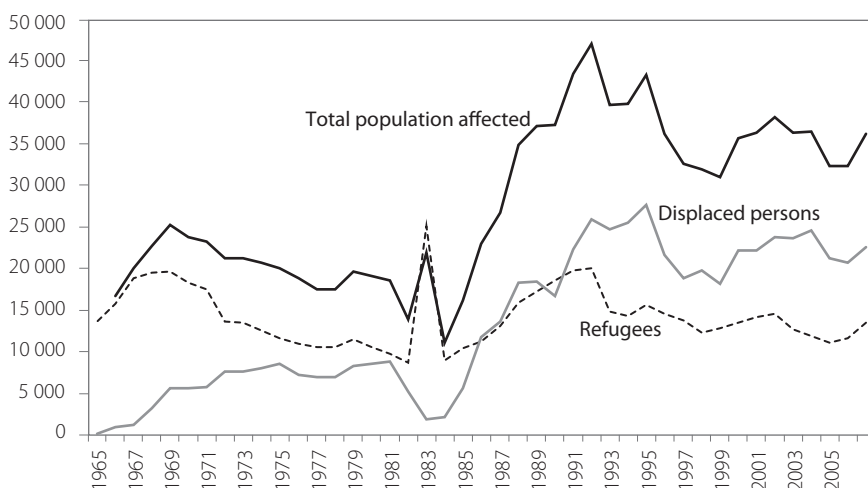


Figure 1.5: **Transnational refugees and internally displaced civilians (thousands)**

Source: World Refugee Survey (USCRI, 2007), United States Committee for Refugees, New York.

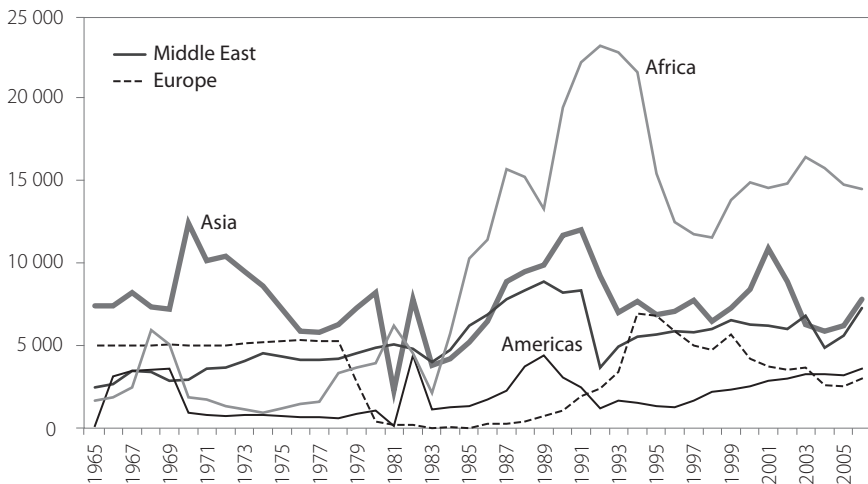


Figure 1.6: **Transnational refugees and internally displaced civilians by region (thousands)**
 Source: World Refugee Survey (USCRI, 2007), United States Committee for Refugees, New York.

The picture of contemporary warfare emerging from these broad trends is one of the increasingly *protracted* and disruptive civil conflicts able to generate profound and long-lasting divisions in the society. This, in turn, further exacerbates internal tensions and violence making such conflicts strongly path dependent. According to World Bank estimates, a country with a record of conflict is 2 to 4 times more likely to experience a subsequent war than one without, and the risk may be 10 times for a country that has just ended a war (World Bank, 2003).

All civil conflicts are, of course, shaped by local conditions and particular histories. This is the reason why case study evidence is so important to understanding the cause and persistence of conflict, as well as to finding appropriate policy responses (Ballentine and Sherman, 2003). However, there appears to be a number of broad characteristics, in addition to a prior history of conflict, that make countries more vulnerable to civil wars. On the economic side, these include a low level of income, a slow pace of economic growth and a weakly diversified economic structure, but there is strong evidence also suggesting that highly unequal societies are more prone to lasting violence (see Chapter 2; Collier, 2006). Vulnerability to conflicts, in other words, seems to correlate well with poverty and low levels of human development (Figure 1.7).⁵

There is a real and persistent threat in these states that economic shocks can trigger a vicious circle of falling state revenues and human development, expanding illegal and informal activity, increasing inequality,

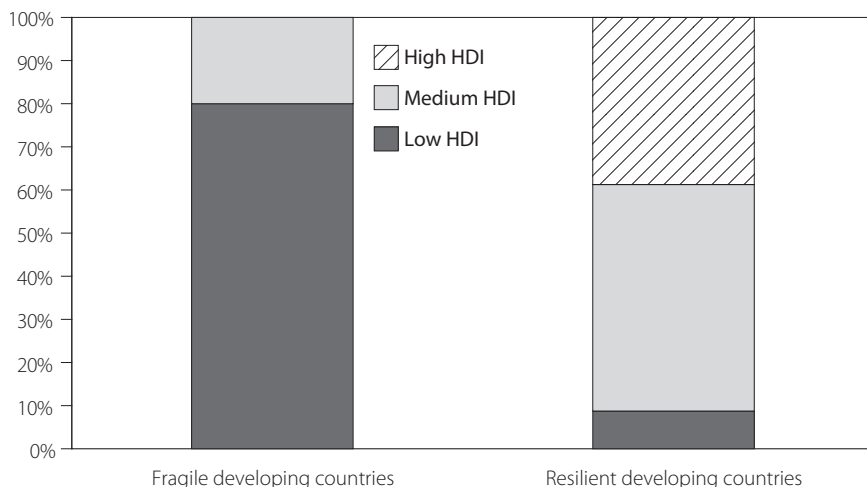


Figure 1.7: **The vicious circle of conflict and vulnerability**

Source: Rice and Patrick (2008).

declining political authority and a growing threat of political violence, leading to further declines in fiscal revenue and human development. This is what some commentators have called “the conflict trap”. Heavy reliance on natural resources as a source of income and export earnings has been seen as one important indicator of vulnerability to conflict, whether as a direct trigger of the fighting or a means of perpetuating a conflict once it has started. The relation need not be direct. Downturns in the price of international commodities, for example, which are usually the result of distant economic factors, have been associated with the increase in the probability of civil war in countries that are highly export dependent.⁶ The link between natural resources and conflict is, however, a contentious issue of research, and many of the empirical studies are fraught with serious problems of model specification, endogeneity and measurement error. As suggested by Fearon (2004), for example, mineral resources may not be the initial cause of civil wars, but once started these wars tend to persist for a long time, as the rents from these commodities help to finance war besides being a source of profit. Snyder and Bhavnani (2005) argue instead that natural resource abundance may feed conflict only under very specific circumstances: when they represent the main source of government revenues and the mode of extraction is artisan.⁷ Finally, there is a reverse causality issue; civil wars might well be the “cause” rather than the effect of resource dependence by, for example, undermining investment in the manufacturing sector and underlying structural features such as a weak state or failed diversification strategies, might lead to both resource dependence and conflict.

Political changes provide another possible trigger of conflict. In particular, the risk of conflict appears to be at its highest during transitions to and from democracy, when state capacity is weak, and also in fledgling and imperfect democracies. Conversely, that risk is lower in both well-established democracies and autocracies, perhaps because of greater state capacity (Hegre, *et al.*, 2001). Others suggest that it is not just state capacity that matters but whether or not ruling elites can reach a compromise with wider sections of civil society which can underpin institutional stability and economic efficiency (Lynn, 1990; Sorenson, 1993; Cervellati, *et al.*, 2007 and 2011). This is shown in Figure 1.8, which plots the relationship between the level of civic participation along the transition to democracy and the quality of democratic institutions in the new democracies in 2006 for the 67 countries that have been involved in the so-called “third wave”.^{8,9}

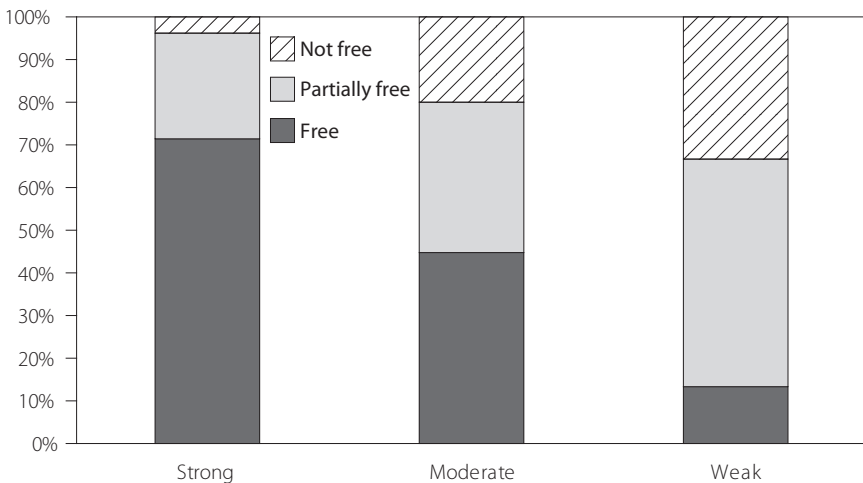


Figure 1.8: **Third-wave democracies: Kinds of transition and political rights**

Source: Freedom House (2005).

Furthermore, as plotted in Figure 1.9, those countries characterized by weaker civic societies along the transition tend to be associated with governments incapable of effectively enforcing the law and creating an environment where parties can negotiate and avoid destructive confrontations.^{10,11} Such an environment is particularly vulnerable to seeing the everyday (manageable) disputes and tensions associated with the development process generating abnormal levels of social discontent which, in turn, may trigger political violence.

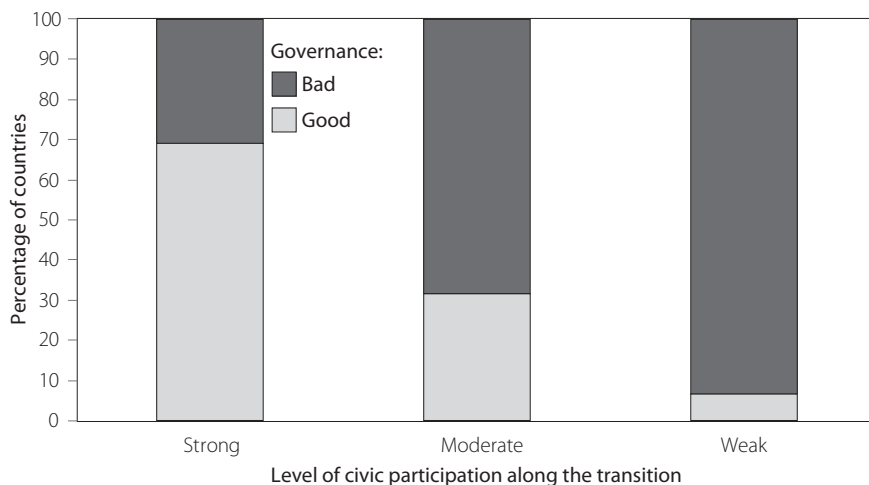


Figure 1.9: **Third-wave democracies: Kinds of transition and property rights protection**

Source: Freedom House (2005).

THE VICIOUS CIRCLE OF ECONOMIC UNDERDEVELOPMENT, INSTITUTIONAL FAILURE AND CIVIL CONFLICT

The Conflict Trap

The previous section has emphasized that the presence of certain social, political and economic vulnerabilities make some countries more susceptible to armed civil conflict. Moreover, once the conflict begins, the short- and long-term depletion of social, physical and human capital is bound to intensify existing vulnerabilities and create forms of destitution from which households will find it difficult to recover. **Patricia Justino (Chapter 2)** surveys the direct and indirect costs that strongly affect the conditions of households at the time of the conflict and for many years thereafter. Moreover, the various coping strategies employed by households during periods of conflict often lead to new forms of vulnerability and exclusion which persist into the recovery period threatening the norms and institutions of the state and creating a sense of fear and distrust among the citizens. Justino maintains that dealing with these legacies must be a crucial part of any effective post-conflict recovery strategy.

Graham K. Brown (Chapter 3) suggests that countries vulnerable to conflict can become trapped in the kind of vicious circle familiar from the development literature, whereby interdependent and cumulative processes work to reinforce existing vulnerabilities. Much of the pioneering work emphasized the central role of capital accumulation in breaking these development traps. In more recent interpretations, however, the constraints

on growth resulting from limited human development and the lop-sided distribution of productive assets and capabilities have also been emphasized (Stewart and Ranis, 2007). In most conflict situations, such traps usually have multiple dimensions. Capital flight, both human and financial, is exacerbated by the shortening of investment horizons in the face of uncertainty. Furthermore, the negative impact of conflict on health and education, particularly during childhood, can readily reinforce the structural vulnerabilities behind conflict (see Miguel and Kremer, 2004; Bleakley, 2007), as can the rising incidence of hunger and falling nutritional levels which tend to be marked features of conflict environments.

Brown sees the capture of political institutions by cultural, religious, linguistic, regional or ethnic groups and the resulting threat of widening “horizontal inequalities” as a significant cause of violent conflict and its persistence. Horizontal inequalities are multidimensional. The economic dimension involves more than income differences but also access to employment and to a variety of assets (e.g. land, finance). The social dimension concerns access to services (e.g. health, water), housing and education; while the political dimension includes access to power at the top (presidency, cabinet) and at lower levels (parliamentary assemblies, local governments) as well as at the bureaucracy, the army and the police. These inequalities are likely to be more dangerous where they are compounded across all three dimensions simultaneously.

Armed civil conflict also crucially alters the structure of political institutions, both local and national, as well as their ability to provide even basic social services and guarantee the establishment of property rights, the rule of law and security. Violent conflicts frequently result from and/or lead to forms of state and governance failure (e.g. Zartman, 1995; King and Zheng, 2001), but they also offer opportunities for new classes of local and regional leaders to challenge political powers (e.g. Reno, 2002). In most conflicts, a number of actors (militia-leaders and members, political elites, businessmen, petty traders, but also households and groups) have tried to improve their position and to exploit the opportunities offered by a context of internal conflict. The result can be a process of social and political transformation involving a profound reshaping of the legal and judiciary structures (see Vlassenroot and Raeymaekers, 2004). One way in which those processes occur is through the emergence of “ethnic entrepreneurs” who exploit inter-communal distrust as a means of building and consolidating political support (Paris, 2004: 161–162) or through the emergence of local “governance” structures in places where “government” is absent. In the literature, such circumstances are referred to as state “collapse” (Zartman, 1995).

Reappraising the Greed Hypothesis

One possible explanation for why these traps have tightened in recent years involves the choices made by calculating rebel leaders about whether to maximize their profits through normal lines of production or the violent appropriation of existing assets. According to this view, the combination of economic failure along with the presence of valuable natural resource rents provides a fertile environment for conflict, as well as the financial means by which rebel organizations can maintain their activities.

The greed hypothesis has an intuitive appeal and has been extremely influential in donor policy circles; civil wars occur in poverty stricken, failed states characterized by venal, corrupt and inept regimes, which underinvest in social protection and the rule of law, and are sustained by a kind of behaviour akin to banditry. This suggests how a conflict trap can persist but also provides an agenda for breaking that circle once the fighting ends, through direct intervention to prevent failing states from completely collapsing, combined with measures to strengthen property rights, root out past corrupt practices, establish (or repair) safety nets and get price incentives back to normal (World Bank, 2003).

However, the evidence mustered in support of this approach as well as its tendency to confuse correlation and causation has cast serious doubts about its value for policy makers (United Nations, 2008: 126). As Mkandawire (2002) points out, the desire to impose a one-dimensional and static analysis on what is an inherently complex and dynamic problem leaves it particularly insensitive to the origins of most rebel movements in Africa, provides few clues to the structural vulnerabilities around which conflict pressures have deepened in recent years and ultimately hinges on such *deus ex machina* influences as leadership quality, propaganda and the irrational behaviour of combatants to explain why conflict persists.

Since conflicts typically do involve a large cost in terms of lost and wasted resources, the opposing parties, if operating on “rational” principles, should be able to find an agreement that satisfies all sides. The inability to find such an agreement is therefore an essential ingredient to explain the emergence of armed conflicts. Modern states typically have built up a collection of rules and institutions for conflict management and dispute resolution, including constitutions, courts and arbitration bodies, as well as fostering a set of values such as compromise and trust which keep the costs of such management in check. Such institutions channel contests for power through economic competition and political bargaining instead of through political violence and armed conflicts, give legitimacy to the distribution of the rewards, and generally

give people the expectation that problems will be resolved without recourse to violence. In most stable societies, these institutions have evolved in response to an array of pressures and tensions, including many thrown up by market forces. As Albert Hirschman (1994) has observed, conflict can be either a “glue” or a “solvent”, depending on whether or not society learns to manage it.

Many economic threats and conflicts should be manageable because they are of the “more-or-less” variety (i.e. caused by vertical inequalities) and therefore open to negotiation and bargaining. Thus, even if large resource rents do constitute a sizeable prize, violent conflict is unlikely to take hold as long as the country has a framework of viable rules, both formal and informal, that govern the allocation of resources and the peaceful settlement of any kind of potential grievances. In the end, the absence of such rules cannot be explained by economic motive or opportunity alone, but involve the complex interplay of political, social and cultural factors.

The Breakdown of the Social Contract

Any stable socio-economic system seeking to advance to higher levels of development must rely to some degree on “an implicit understanding, agreement by members of a community to co-operate for mutual benefit” (**Panić, Chapter 7**), a *social contract*, to which the great majority of the population finds in its best interest to abide. This, in turn, gives rise to more formal rules and regulations (and accompanying institutional mechanisms of protection, adjudication and enforcement) that facilitate the adaptation to change without serious disruption or violent upheaval. In doing so, at least three key demands must be satisfied: these are for legitimacy, order and fairness (Kozul-Wright and Rayment, 2007). The demand for *legitimacy* refers to the basic justification of a government’s authority over its citizens, the procedures by which that authority is created and exercised, and more generally the manner in which political, social and economic institutions are rooted in and reflect the values and traditions or, in the words of Adam Smith, the “moral sentiments” of the population or community concerned. The justification of authority has obviously changed over time and still varies among communities. The dominant principle of modern politics is that legitimate authority is based in some way or another on discussion with and approval by those over whom it is exercised. Although this democratic principle is core, there is still plenty of scope for variation in the ways in which this is put into practice and, indeed, for disagreement as to how far it should go in emphasizing the principle of individual liberty and free choice or that of equality.

The demand for *order* concerns the agreed laws, rules, social norms and informal conventions that govern relations among the various members of a society, or independent states in their international relations whether within or outside of formal institutions. The structure of incentives embedded in these laws, norms and standards defines the acceptable forms of behaviour throughout the system and provides for sanctions against the unacceptable. Clearly, for laws to be observed and for citizens to be able to pursue their legitimate aims, appropriate and effective institutions of enforcement must be in place. Well-ordered and effectual legislative and judicial systems are crucial for meeting this requirement of stability. But, more fundamentally, laws and rules will only stand when a majority of those subject to them agree to observe them voluntarily because it is in their interest to do so, not because of the threat of being caught or sanctioned for breaking them.

Finally, the demand for *fairness* refers to the capacity of the system to meet the needs of all its members. It recognises that popular support for institutions and the system as a whole will not be sustained if economic performance fails to generate an adequate standard of living, if it falls persistently below expectations or if too many citizens are left behind in poverty or regard the distribution of the benefits and costs of economic change as unjust.

Together these three components form the basis of a “social contract”. As described by **Mansoob Murshed (Chapter 4)**, such a contract contains three broad sets of governing rules, political (representation, consultation and decision making), moral (personal conduct and a sense of justice) and economic (resource allocation, production and exchange). Whatever the particular rules in place at any given time, adherence to them is necessary for peace and stability, and is based on a mixture of power, consent and self-interest. The relationships are complex and almost certainly non-linear. A sharp deterioration in economic wellbeing, for example, may not threaten the stability of the system if popular support for institutions remains strong and if policies and institutions are capable of responding to social distress. In contrast, a smaller deterioration in the three criteria all together might pose a much greater threat to stability, and seriously escalate if institutions prove themselves incapable of finding an effective response. There are also possible offsets: rapid income growth may distract attention from institutional failings or, more ominously, nationalism may be used to distract attention from deficiencies in legitimacy and economic performance. But in the medium and longer run, all three requirements must be met. According to Murshed, in countries coming out of conflict where the underlying rules have essentially broken down, the essential struggle will be to recover a fair division of power and resources. He suggests that the initial stages of recovery

will be characterized by a delicate balance between the recovery of central state authority and some degree of political and economic decentralization.

Focusing attention on the breakdown and repair of the social contract in conflict and post-conflict societies is closely linked to contemporary debates about market-led development. The self-regulating market was very much the *idée fixe* of the late 20th century. Dismantling the checks and balances that had emerged to curb what an earlier generation of policy makers had seen as the self-destructive tendency of unregulated markets became a global trend, whereby many of the stresses and burdens of those markets have been unloaded onto individuals and households, with diminished or only limited offsetting government responses. Pushing this idea was—as more advanced economies have now found out—always a gamble. Competitive markets do not arise spontaneously as the default position of social organization, they are above all social constructs and, as Adam Smith recognized, can never be disembodied from the political, social and legal structures from which they arise. Nor are market forces pre-programmed to generate stable equilibria, let alone social harmony, but rather tend to be caught up in processes of cumulative causation which can certainly give rise to rising incomes for some but can just as easily confine others to low levels of security and well-being, thereby threatening the very foundation of social stability. That “good economic governance” should necessarily involve the centrality of market forces has unfortunately been a core point in the IFIs’ agenda even in post-conflict environments.

The combination of market forces and public interest needed to establish the right balance between economic progress and social cohesion is very much a political question which hinges on effective redistributive institutions, those related to conflict management and those that extend participation in the decision-making process. When such institutions exist and function well, the legitimacy, order and fairness of social outcomes will be guaranteed. But problems will arise if social contestation becomes so intense that it cannot be channelled through the existing institutions.

Particularly where the tensions and grievances among groups that make up the state are compounded along exclusionary rather than overlapping lines, the potential for internal violence is likely to increase. Available empirical evidence, as discussed earlier, confirms that horizontal inequalities can give rise to political mobilization and that levels of dissatisfaction turn more quickly to violence than is the case with purely vertical inequalities.¹² Violence is likely to intensify when competition and conflict reinforce deep and cumulative social cleavages of an exclusionary kind, and individuals and households are compelled by social pressure or threats to give up normal multiple identities

and “take sides”. In this vein, some researchers have suggested that conflict is being driven by *polarization* rather than inequality *per se*. Income polarization, for example, is higher when the gap between rich and poor is greater (resulting in greater alienation between the two) and when income inequalities inside each one of the group lower, resulting in greater identification with others in the same income group (**Boyce, Chapter 6**). Furthermore, when economic polarization (in the distribution of income, wealth or other attributes such as employment, education and health) aligns with social polarization (in the distribution of the population into identity groups based on race, ethnicity, language, religion or region), the potential for violent conflict may be multiplied. Duclos, Esteban and Ray (2004) speculate that a “hybrid” measure of polarization, that combines social and economic considerations, may be a better predictor of social conflict than “pure income” or “pure social” measures confined to distribution measured on a single attribute; and Montalvo and Reynal-Querol (2005a, b) offer empirical support for the proposition that what they term “ethnic polarization”—which attains a maximum when the population is divided into two ethno linguistic groups of equal size—is a statistically significant predictor of the likelihood of civil war.

STATE-BUILDING AND POST-CONFLICT RECOVERY

The dramatic weakening of social cohesion and institutions due to a protracted civil strife make a sustained recovery all the more difficult once the fighting stops. Drawing on the experience of many post-conflict countries and *fragile* states, the second part of the volume studies the economic, social and political challenges faced by war-torn societies along the transition from violent conflict to durable peace. It is clear that repair of the social contract is closely linked with state-building in post-conflict countries. In recent years, the international community has been drawn in to that process. **Susan L. Woodward (Chapter 5)** examines some of the, often conflicting, underpinnings on which that involvement has been based and why it has not been very successful. She suggests that the international community fails to grasp that, rather than being an independent political umpire and supporter of capacities that the local population need, it is all too often part of an ongoing contest for state power once the fighting stops. Consequently, outsiders need to be much more cognisant of the way their actions impact on the process by which a new political leadership is seeking to win over rivals, establish authority and regain the trust of the population through its own behaviour and the policies it adopts.

A crucial issue during post-war transitions is the building up of state capacities to collect and effectively employ domestic revenue. The size of government revenue relative to gross domestic product (GDP) in war-torn societies is, in fact, typically far below the average for other countries with similar per capita income, while the need of funding for new institutions and for expenditures to improve human well being, strengthen public security and ease social tensions remains extremely high for years. **James K. Boyce (Chapter 6)** tackles this issue, and offers some thoughts as to how aid can effectively support efforts to build a durable peace. In particular, he considers how aid can support efforts to build the fiscal basis for a sustainable state and suggests that the priorities and policies traditionally pushed by the international financial institutions and the wider donor community need to be rethought in the light of post-conflict challenges.

In a closely related contribution, **Mića Panić (Chapter 7)** devotes special attention to the institutional aspects under which external economic and technical assistance is given and implemented, and proposes concrete measures to raise the effectiveness of international action. These include: the division of responsibilities between the recipient country and its donors; the timing and duration of disbursement of aid flows; sensitivity to a country's traditions in any reforms of its labour relations; capacity of individual countries to manage and supervise new financial institutions; and the factors that need to be taken into account in monitoring and assessing the effectiveness of foreign aid. Panić offers a series of recommendations that would make external economic assistance more effective in bringing about a sustainable peace.

Richard Kozul-Wright and Paul Rayment (Chapter 8) put these policy recommendations in to a more general framework, inspired by the Marshall Plan, intended to ensure that aid is used more effectively and to encourage policy makers to forge a new kind of social contract in post-conflict economies. They argue that the attraction of the Marshall Plan is that it addressed many of the issues that have been subsequently raised anew in the recent debates on aid effectiveness. From this experience, Kozul-Wright and Rayment identified a set of general and operational principles that remain highly relevant to the problems of post-conflict countries today, even though their security, reconciliation and development challenges are a good deal more demanding than those facing war-torn Europe after 1945.

NOTES

- 1 The World Bank (2003) suggests that the decline from the peak of the early 1990s reflects a surge of peace settlements with the end of the Cold War, possibly due to a drying up of finance and greater scope for peace keeping mission. But it also worries that this may have been a one-off drop.
- 2 Very few wars were ended by negotiated settlement during the Cold War period.
- 3 The classification of conflicts as “ethnic” is widespread in the literature but does raise difficult conceptual issues. According to the Center for Systemic Peace, a conflict can be classified as ethnic when “the mobilization of violence is largely exclusive to a particular social identity group that desires to change its political status, either through greater autonomy or separatist goals or competition with another identity group, or groups, over capture and control of the central state apparatus”. This obviously differs from more prosaic uses of the term.
- 4 The first two peaks were generated by increased deaths in Asia (the Chinese Revolution and Korean War followed later by the conflicts in South East Asia), the third by rising tensions in the Middle East, and the final peak by an intensification of conflicts in Africa.
- 5 Figure 1.7 considers the least and most secure states according to the Index of State Weakness in the Developing World, a measure developed by the Brookings Institution. This measure evaluates whether a state is able to provide physical security for its citizens according to five different indicators (occurrence and intensity of violent conflict, illegal seizure of political power, widespread perceptions of political instability, territory affected by conflict and gross human rights abuses).
- 6 See Brückner and Ciccone (2008) for a more detailed analysis.
- 7 In this case, their argument goes, government revenue tend to be extremely low crucially affecting state capacity.
- 8 The “third wave of democratization” refers to the third major surge of democracy in history which has seen more than 60 countries experience democratic transitions since April 1974 (i.e. the end of Salazar’s regime in Portugal).
- 9 Freedom House (2005) classifies the transitions of the third wave according to the intensity of the participation of the civil society in the democratization process (strong, moderate and weak participation). The new democracies are also classified as “Free” (where a wide array of political rights and civil liberties are guaranteed), “Partly Free” (where some significant limitations on rights and liberties persists) or “Not Free” (where basic rights are systematically denied).
- 10 The measure of quality of governance is the fourth cluster of the indicators of rule of law proposed by Kauffman *et al.* (1999). That indicator “measures the success of a society in developing an environment in which fair and predictable rules form the basis for economic and social interactions and the extent to which property rights are protected”. The countries in the sample are classified into two groups, Good- and Bad-Governance, depending on whether they perform better or worse than the average. This is intended simply as an indicative exercise.
- 11 See Cervellati *et al.* (2007) for a detailed analysis of the relationships between the characteristics of a democratic transition and the institutional quality in the new democracy.
- 12 See, for example, Mancini (2005) on Indonesia and Gates and Murshed (2005) on Nepal.

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Chapter 2

The Impact of Armed Civil Conflict on Household Welfare and Policy Responses

PATRICIA JUSTINO

INTRODUCTION

Armed civil conflicts carry various costs which strongly affect the living conditions of households at the time of the conflict and for many years thereafter. Most households affected by armed conflict live in poor countries in Africa, Asia and Latin America, in conditions of extreme destitution, poverty and misery. Armed civil conflicts are likely to add new forms of vulnerability and exclusion, which in turn may feed into future outbreaks of violence even after the initial conflict has subsided. But while the household impact of shocks such as price changes, sudden climatic changes, loss of work or illness is the subject of an extensive literature, the impact of political shocks caused by the outbreak of armed civil conflicts is much less well-understood.

Outbreaks of armed conflict are likely to have severe effects on household welfare and the security of livelihoods. Violent conflict is typically associated with the destruction of essential infrastructure and social services, the breakdown of the rule of law, as well as with significant reductions in private and public investment.¹ Armed conflicts kill and displace populations, often limiting the access of households to employment and earnings (due, for instance, to the death or recruitment of young adult males) and increasing levels of instability and loss of trust. This situation can be aggravated once displaced and refugee populations and demobilized combatants return to their communities in post-conflict situations, particularly when food aid and medical help (at least for those that were in refugee camps) may no longer be available. Conflict, and subsequent times of insecurity and fear, may impact on the ability of individuals and households to fall back on known survival strategies. In poorer, more vulnerable areas, or amongst the poorest, more vulnerable households, these consequences of conflict add to already

difficult circumstances. Those who were not poor may well become so due to reductions in food security following market disruption, increased difficulties in getting to markets to sell and buy goods, and the loss of earnings capacity, savings and formal and informal risk-sharing networks.

Recent empirical literature has begun to document the costs that armed conflicts impose on the countries and the communities involved.² Those costs encompass the most immediate and observable consequences of war like damages to the national productive structure and the redirection of resources from productive to military uses, as well as the potential impact on the future production capacity of a country (via capital flights and emigration of skilled labour force). Considerable effort has also been put in to estimating mortality rates in conflict situations (e.g. de Walque, 2006; Guha-Sapir and Degomme, 2006; Lacina and Gleditsch, 2005), as well as the incidence of poverty (e.g. Justino and Verwimp, 2006). Comparatively less attention has been devoted to the estimation of the direct effects of violent conflicts on household welfare. This is to a large extent due to a paucity of useful, reliable data enabling researchers to explore the relationship between armed conflict and household welfare in a rigorous fashion and beyond either discussions of state agency or broad macro analysis.³

The overall goal of this chapter is to analyse key transmission mechanisms linking armed conflict and household welfare and discuss effective local, national and international policy options that focus on the improvement of the lives of those routinely affected by conflict-related violence. The chapter is divided in three sections. The first section discusses the impact of conflict-induced violence on household welfare, by identifying household-level variables that are shaped by conflict processes.⁴ The second section explores ways in which households respond to changes in their own characteristics and surrounding institutions, in other words the coping strategies undertaken by households affected by armed conflict. The final section explores and assesses the effectiveness of policy responses implemented, or that could be implemented, by local and national governments and the international community in post-conflict settings both to support effective strategies adopted by households as a response to the simultaneously idiosyncratic and covariant nature of conflict shocks and to mitigate their negative effects.

THE IMPACT OF ARMED CIVIL CONFLICT ON HOUSEHOLD WELFARE

Armed civil conflict affects households—both living in areas of combat or in areas indirectly affected by the fighting—through the intensity and types of violence it sets in motion (Kalyvas, 2006). The violence that results from

armed civil conflicts can affect directly certain households (for instance, those that supply fighters to different armed factions or household that are directly targeted by acts of violence). It can also affect households in both combat and non-combat areas through changes in economic, social and political institutions. These changes will impact on household welfare through a complexity of inter-related channels. Armed conflicts are rarely one-off shocks and often result from slower, structural processes of social transformation. They occur in non-linear cycles, where conflict and peace do not represent opposite ends of a continuum, but rather coexist in different degrees of intensity in different time periods. Individuals and households living in conflict settings often find themselves responding, acting and being affected by stages in between and must therefore adapt their livelihoods and build coping strategies to (re)build their social, economic and political capital accordingly.

Household welfare is affected by a myriad of factors and it is often very difficult to isolate the impact of a specific shock. Effects may depend on each household's initial welfare position (e.g. initial asset endowments will determine the household's capacity to respond to economic slowdown or reduced market access), but are also related to households' specific characteristics that may make them more likely to being a target of violence, being recruited into armed groups or being forced to leave their area of residence (e.g. belonging to a specific ethnic group, own targeted land holdings or property) (see Justino, 2009). These effects are unpacked below. This discussion does not intend to be an exercise in measuring the costs of armed conflict, but rather proposes a framework to think systematically about important channels through which armed combat impacts on civilian non-state actors living in conflict settings.⁵ Direct effects of armed conflict on the household being considered include changes in household composition due to killings, injuries and recruitment of fighters by either the government or the rebel groups, changes in the household economic status due to the direct destruction of assets and effects caused by forced displacement and migration.

Changes in Household Composition

The most visible direct impact of armed civil conflict on household welfare is the destruction of human lives. Violent conflicts kill and injure civilians and combatants alike and cause severe psychological damage to those involved in fights, to those living in war-torn communities and to displaced populations. These are often young men in prime working age, though violent conflicts are

typically accompanied by large violence against civilians, including children, women and the elderly (e.g. Lacina and Gleditsch, 2005). However, the levels of mortality and morbidity associated with armed conflict are explained only partly as outcomes of fighting. As illustrated in Table 2.1, the larger fraction of deaths associated with armed conflict result from indirect effects such as the spreading disease and malnutrition.⁶ These effects are often aggravated by a variety of factors, even after the end of the initial conflict. These include the breakdown of health and social services (which increase the risk of disease transmission such as HIV/AIDS, particularly in refugee camps), decreases in food security (possibly resulting in famines), increased insecurity in living conditions and the loss of social capital and political trust (Grein *et al.*, 2003).

Table 2.1: War deaths and battle deaths

Country	Years	War deaths (estimated)	Battle deaths	
			Number	Percentage
Angola	1975–2002	1.5 million	160,475	11%
Ethiopia (without Eritrea)	1976–1991	1–2 million	16,000	<2%
Mozambique	1976–1992	500,000–1 million	145,400	15–29%
Somalia	1981–1996	250,000–350,000	66,750	19–27%
Sudan	1983–2002	2 million	55,500	3%
DR Congo	1998–2001	2.5 million	145,000	6%

Source: Lacina and Gleditsch (2005).

There is, however, surprisingly little evidence-based analysis of the health consequences of violent conflict on household welfare. Some institutions such as Médecines Sans Frontières have conducted localized field surveys. But, in general, research on health issues in conflict areas is difficult to undertake due to limitations on the movement of researchers, the destruction of registration systems and the possible misrepresentation of politicized information on the true levels of mortality (Grein *et al.*, 2003). The direct impact of armed conflict on mortality and morbidity is further clouded by the simultaneous proliferation of malnutrition and epidemics in fighting areas and in refugee and IDP camps, due to food shortages and living under unsanitary conditions. Though research is sparse, major advances have been made during the past decade in the way the international community responds to the health consequences of complex emergencies. In particular, epidemiology has become an important tool for assessing health impacts during and after natural disasters and complex emergencies.⁷

In general, the death of household members of working age means that the household will be left with severely depleted earning capacity. This is

often enough to push previously vulnerable households into extreme forms of poverty (particularly amongst households with widows, orphans and disabled individuals), which may well become persistent if the household is unable to replace labour (see Justino and Verwimp, 2006; Brück and Schindler, 2006). Increased number of injuries, the spread of infectious disease and increases in permanent disabilities caused by violence and conflict may also result in large decreases in household welfare. Households may have to draw on existing savings to pay for medical bills, which will impose severe financial burden on already vulnerable households. Consequences in terms of household labour decisions can be equally dramatic and long-lived. In many circumstances, the household may choose to replace dead or injured males with children. Children are then removed from school, which may in turn restrict the future household stock of human capital.⁸ This is made worse when the health status of children is badly affected by the conflict. These effects may result in forms of poverty trap and contribute towards the reinforcement of structural, persistent forms of poverty since negative health and education shocks during childhood have significant negative impacts on the long-term performance of individuals. They can also be aggravated by the severe mental health and the psychosocial consequences of disasters and conflicts (amongst adult and children fighters, raped women, abused children and old age people), though these have not yet received as much attention in the relevant literature.

Destruction of Assets

During violent conflicts assets get lost or destroyed through heavy fighting and looting. These include houses, land, labour, utensils, cattle, livestock and other productive assets. The very poor are likely to be the worst affected. For instance, Verpoorten (2003) reports that the 12 per cent of households lost their house during the 1994 Rwandan genocide while cattle stock on average decreased by 50 per cent. Shemyakina (2006) finds that the homes and livelihoods of around 7 per cent of households were damaged during the 1992–1998 civil war in Tajikistan. The Burundi conflict in the 1990s was associated with severe asset depletion (Bundervoet and Verwimp, 2005). In Latin America, violence has significantly affected the efficiency of farm holdings due to the disruption of rural labour markets and limits imposed on the operation of larger farms (see Gonzalez and Lopez, 2007 for Colombia; Wood, 2003 for El Salvador). The number of deaths and injuries in these conflicts were extremely high (see Verwimp, 2005; Bundervoet and Verwimp, 2005; Shemyakina, 2006), with unaccountable impacts on individual livelihoods.

The destruction of assets by armed conflict, in addition to creating unstable economic, social and political environments, will impact significantly on the ability of affected households to recover their economic and social position in post-conflict settings. But armed civil conflicts take place because there is something worth fighting for. Some groups and individuals will benefit from violence through looting (e.g. Keen, 1998), redistribution of assets during conflict,⁹ and privileged access to market and political institutions for those that 'win' the conflict or support winning groups during the conflict. These effects are as important in understanding processes of armed civil conflict as other more negative effects since both will impact significantly on the effectiveness of peace agreement negotiations and post-conflict reconstruction policies.

Forced Displacement

Armed conflicts are typically accompanied by large population movements. Civilians are often targets for both armies and rebel groups trying to expand their territorial control, weaken population support for the opponents, increase their own support base and/or add to their resources through looting and appropriation of valuable assets and sites (see Kalyvas, 2007; Weinstein, 2007). This leads to population flights from areas of more intense fighting or areas where the outbreak of violence is expected. In 2002, almost 34.8 million people across the world were forced to seek asylum in another country or within the national borders due to violent conflicts (USCR, 2004). Twenty-five million people were displaced in 2004 (UNHCR, 2005), many within their own country (IDMC, 2006) (see Table 2.2).

By cutting off large numbers of people from economic opportunities, internal conflict can lead to a vicious cycle of displacement and poverty. This is made worse by the destruction of social networks and the consequent depletion of important elements of the social, economic and political capital of the poor. Refugees from conflict areas and displaced populations are found amongst those living under the most difficult conditions of socio-economic exclusion and deprivation (Chronic Research Centre, 2005).

The literature has distinguished between different types of displacement including forced migration, asylum seeking and refugees. Asylum seekers and forced migrants are, to a large extent, young and economically active household members. These have always been traditionally the most likely members in society to migrate. In conflict settings, this effect is compounded by the fact they are also the most probable targets for violence and forced recruitment

Table 2.2: Internally displaced and refugees populations

Internally Displaced Populations (in millions)						
	2002	2003	2004	2005	2006	2007
Africa	12.8	12.7	13.2	12.1	11.8	12.7
Americas	2.9	3.3	3.7	4.0	4.2	4.2
Asia	4.6	3.6	3.3	2.8	3.0	3.1
Europe	3.2	3.0	3.0	2.7	2.8	2.5
Middle East	1.5	2.0	2.1	2.1	2.7	3.5
Global Total	25.0	24.6	25.3	23.7	24.5	26.0
Number of Refugees in Destination Regions (in millions)						
	2002	2003	2004	2005	2006	2007
Africa	3.0	3.2	3.3	3.2	2.9	2.8
Americas	0.8	0.5	0.5	0.5	0.6	0.8
Asia	3.0	2.8	2.8	3.0	3.9	3.5
Europe	0.9	0.8	0.6	0.5	0.6	0.5
Middle East	5.3	4.3	4.3	4.9	5.9	6.4
Global Total	13.0	11.6	11.5	12.1	13.9	14.0

Note: Refugee numbers include those whom officials recognized as refugees, asylum seekers awaiting initial determinations, beneficiaries of more general forms of protection granted for similar reasons, and others.

Sources: www.internal-displacement.org and www.refugees.org, respectively.

into armies or rebel groups (see Czaika and Kis-Katos, 2007). Other displaced groups such as the elderly, women and children are overrepresented amongst refugees from conflict areas.

Despite the magnitude of population movements in conflict areas, there is little empirical evidence available on the effects of violent conflict on the experience of displaced households and individuals, the breakdown of societies and the destruction of social networks. Most research so far has focused on collecting event data based on counting numbers of refugees (but not necessarily internally displaced populations), or numbers of deaths amongst these groups (e.g. USCR, 2004). This is because most individual- and household-based datasets tend not to follow migrants, and even less internally displaced populations. Exceptions are Ibáñez and Moya (2006) and Kondylis (2007). Ibáñez and Moya's results, based on the analysis of household level data for 2322 Colombian displaced households, indicate that forced displacement entails significant asset losses, limits the ability of households to generate new sources of income, disrupts risk-sharing mechanisms amongst affected communities and forces households to rely on costly strategies in order to smooth consumption. Displacement entails in addition significant labour effects, which further limit the capacity of households to recover

from welfare losses during the conflict. In the context of displaced Bosnians during the 1992–95 war, Kondylis (2007) shows that displaced populations are less likely to work in the post-conflict period: during that time, displaced men and women were less likely to be in work by 7 and 5 percentage points, respectively, in relation to the remaining population.

These effects have important long-term impacts. The establishment of sustainable patterns of peace and conflict resolution depend largely on the successful integration of displaced populations into society (Walter, 2004; Sandler and Enders, 2004; Steele, 2007; see also section 4 below), as displaced populations (as well as demobilized combatants) may provide the basis for opposing political factions to continue expanding violence. The demobilization of troops and returned refugees and displaced populations may also exacerbate competition for available scarce resources (such as jobs, land, assets, available services like health care and so forth), which may, in turn, create new forms of exclusion and renew sources of instability.

Slowly emerging evidence has shown that productivity levels of returnees tend to be lower than those that stayed, which may cause difficulties in terms of reintegration of these individuals back in to their original communities (Kondylis, 2005), if their original communities exist at all after the conflict. In contrast, in the context of young Congolese men in Ugandan refugee camps, Clark (2006, 2007) shows that conflict may offer the opportunity of access to new forms of household dynamics, social decision-making and livelihood strategies as these young people were no longer bound by tradition and ways imposed by older generations. There is, however, no study that calculates the impact of these changes on household welfare.

In a pioneering study using a unique dataset, Deininger, Ibanez and Querubin (2004) analyse return patterns of displaced populations during the Colombian conflict. Their results show that the desire to return is very much influenced by particular characteristics of the household and the displacement process. In general, agricultural employers, in the origin and reception site, families with access to land or households with a dense social network in the origin will be more willing to return to their village. On the other hand, vulnerable families such as households with one parent, with female heads or large dependency ratios (often found overrepresented amongst the chronically poor), show a strong preference for settling in the reception site. Households tend to be less willing to return to their place of origin when displacement was caused by distressing events or if security fears are still present. These emerging results show a pattern of welfare fragility and high socio-economic vulnerability amongst displaced populations including amongst those that decide to return to their site of origin. This has enormous

implications for post-conflict reconstruction policies suggesting that these must not only be concerned with the adequate reintegration of these groups in society (either in new relocation regions or in sites of origin), but also need to create forms of assistance aimed to help returnee populations access new or renewed markets and employment.

HOUSEHOLD RESPONSES TO ARMED CIVIL CONFLICT

The very visible impacts of armed conflicts discussed above are likely to change the economic and social behaviour of households affected by violence. There is a large development economics literature on coping strategies adopted by households in times of economic crises. The literature has shown abundant evidence that households living in risky environments generally develop a complexity of (ex-ante) risk-management and (ex-post) risk-coping strategies. Townsend (1994) outlines five common strategies followed by households in developing countries¹⁰: the diversification of land holdings into several spatially separated plots and into various crops, the storage of grain from one year to the next, resorting to purchases and sales of assets such as bullocks and land that could have been accumulated as a precaution against the occurrence of a shock, borrowing from village lenders or other moneylenders and the use of gifts and transfers from informal mutual support networks (e.g. family, friends, neighbours, funeral societies, etc). Dasgupta (1993) reports increases in fertility amongst households living in uncertain environments. The increase in fertility rates is thought to compensate for the loss of children in the early years, as well as increasing household labour and creating an insurance mechanism for old age. Morduch (1990, 1995) and Dercon (1996) describe how households in risky environments choose to undertake economic activities with lower return but likely to involve a lower economic risk, such as subsistence agriculture or cultivation of safer traditional crop varieties rather than riskier but higher return varieties. This strategy is also popular amongst households with little assets that could serve as collateral for credit access. Dercon (2005) identifies the following coping strategies during the 1984–85 Ethiopian famine: cutting meals and portions, selling valuables, relying on wild foods and moving to feeding camps. Lokshin and Yemtsov (2004) show that in times of financial crises, the choices of survival strategies are determined by the level of human capital in the household. The higher the household human capital, the more likely is the household to choose active strategies. Households with low human capital, households headed by pensioners, and low-educated households

will face greater difficulties in responding to shocks implying that poverty is likely to be entrenched amongst these groups. Kazianga and Udry (2004) analyse strategies followed by households to smooth consumption during a period of severe drought between 1981 and 1985 in rural Burkina Faso. These include livestock, grain storage and inter-household transfers. They find that households rely almost exclusively on self-insurance in the form of adjustments to grain stocks to smooth out consumption, with little reliance on risk sharing or the use of buffer stocks such as livestock.

These strategies adopted by households in response to economic risks and shocks in peaceful regions may differ from those used in conflict settings. However, there is currently little understanding of differences between war-time and post-war coping strategies of households, though evidence is slowly accumulating.

Armed conflicts are distinguished from other shocks by their deliberately destructive nature, including the intentional destruction of common coping strategies adopted by households in economically insecure environments, such as social networks and family ties, accumulation of agricultural assets and land and so forth (see de Waal, 1997). Political shocks such as civil war have a covariate character, but households with characteristics that are salient to the conflict may be particularly badly hit by violence. For instance, while a high level of education may be a secure source of income in times of peace, it can become a liability in times of violence as was the case during the Cultural Revolution in China or the Khmer Rouge regime in Cambodia (e.g. de Walque, 2006), in which educated population groups were specifically targeted. As a result, males of school age during the period have lower educational level than previous or subsequent cohorts. Other known household insurance mechanisms and consumption smoothing strategies may fail in a situation of conflict (see below). These perverse effects of conflicts are likely to have severe negative long-term impacts on the accumulation of human capital and assets in households and communities affected by violence. This section analyses some of the slowly accumulating empirical evidence on coping strategies adopted by households in conflict settings when facing the loss of household members, the destruction of assets or forced displacement. In many instance, households in conflict areas face these effects simultaneously. We consider five main household coping strategies: accumulation of savings and buffer stocks, return to subsistence agriculture and low-risk activities, reallocation of labour supply amongst household members, self-recruitment of household members into armed groups and voluntary migration.

Accumulation of Savings and Buffer Stock in Conflict Settings

The ability of households to adapt their welfare status to shocks typically depends on the level of savings of the household and the efficacy of local insurance and credit markets. If the household is not able to insure its income against shocks or is not able to borrow when a shock takes place, it must resort to savings. As a consequence, households may fall into poverty or become severely destitute when accumulated savings are not sufficient to cover the shortfall in income.

Livestock is one common form of savings accumulation amongst rural households in developing countries (e.g. Binswanger and McIntire, 1987). During armed conflicts, livestock can however become a very risky form of savings since it can be easily stolen or killed. Bundervoet (2006) reports that during the Burundi conflict in the early 1990s the total number of livestock was reduced by 30 per cent, while almost 20 per cent of households in conflict areas reported to have lost livestock due to theft and pillaging. As a result, households in conflict areas do not resort to the accumulation and sales of livestock to protect their welfare levels in times of difficulty. They are rather more likely to adopt the cultivation of low return (and also low risk) crops that can feed their families. Verpoorten (2005) reports that, in Rwanda, households did not, in general, sell cattle in response to conflict as they would do as a response to other shocks (see Fafchamps, Udry and Czukas, 1998). This is because lack of road safety prevented the households most targeted by violence from accessing markets where cattle could be sold, and at the same time that cattle was seen as an insecure asset, likely to be targeted by violence. Households less affected by violence sold their cattle but suffered from overall lower prices (Verpoorten, 2005). This may in turn affect the ability of households to accumulate sufficient assets to escape poverty and reduce their economic vulnerability.

Return to Subsistence Agriculture and Low-Risk Activities

Minimizing risky activities is probably the most widely observed effect in times of conflict, in the run-up to a war as well as in the post-war period (see Brück, 2004; Bozzoli and Brück, 2009). Ex-ante, households that expected an occurrence of political violence—and the consequent potential loss of household members and assets and increased probability of displacement—will tend to hold a lower risk/lower return portfolio of activities in order to minimize their risk of serious income shortfall, even at the price of a lower average return. Similarly to the mechanisms outlined in Morduch (1995)

and Dercon (2002), in times of violence, rural households tend to return to subsistence farming (see Brück, 2004a; Deininger, 2003; McKay and Loveridge, 2005). This is true for both households that typically hold little or no liquid assets such as livestock and for those whose members are specifically targeted by armed groups as victims (to be killed or forced to displace or both) or potential recruits. Increased levels of socio-economic instability and loss of trust between different individuals and groups accentuate these mechanisms. Deininger (2003), for instance, shows that civil strife in Uganda during the 1990s reduced the propensity of individuals to start up new enterprises and increased the likelihood that those which had already been established had gone out of business, possibly back into subsistence forms of agriculture.

Brück (2004a, 2004b) discusses how war-time activity choices such as subsistence farming during the Mozambican civil war may improve the welfare status of vulnerable households living in extreme poverty when market and social exchange limit any welfare gains. McKay and Loveridge (2005) report that, in Rwanda, during the genocide in 1994 and subsequent insecure years, the retreat to more autarkic modes of production and the focus on subsistence crops was associated with the improved nutritional status of children in the post-conflict period. Reductions in income do not necessarily imply a worsening of the nutritional standard when the farm household substituted food crops for cash crops (McKay and Loveridge, 2005). Evidence on the potentially positive effects of autarkic modes of production in conflict and post-conflict situations must of course be balanced against the extent of income and asset losses due to the destruction of markets and market access.

Intra-Household Reallocation of Labour

The direct impact of conflict on the composition of households and social relations due to killings, injuries, recruitment of fighters and forced displacement can lead to severe human capital depletion resulting in significant changes of labour allocations within the household. Deaths, injuries and large population movements are some of the most visible effects of violent conflicts, requiring significant adaptation within the household. Donovan *et al.* (2003) analyse the effect of adult death on Rwandan households using self-reported coping strategies collected in interviews with 1500 rural households. They found that some households sell assets, adjust their crop mix, adjust area planted and hire more labour. The effect on farm labour supply was dominant: 6 out of 10 households reported a reduction in farm labour due to a male adult death and

5 out of 10 for a female adult death. Half of the households reported no effect on other income generating activities for a male death and 80 per cent did so in the case of a female adult death. In the case of Tanzania, Beegle (2005) did not find any increase in hours farmed by surviving household members after an adult death, but found decreased activity in the farming of maize, cassava and beans. She draws attention to the fact that households experiencing decreased income or farm output after an adult death do not necessarily experience a reduction of income, production or consumption per capita, as other household members may replace lost labour. These household members are typically women (widows) and children.

In times of stress, children are often needed for other activities. In particular, older children may be required to replace adult males that have become fighters, died or have been injured. Or they may be required to become fighters themselves. Deininger (2003) calculates that an increase of 10 per cent in the proportion of households affected by civil strife in a given community in Uganda decreased investment in schooling by about one year. This effect is due to a complexity of reasons, amongst which are labour substitution effects, feelings of fear and insecurity and changes in household preferences. Shemyakina (2006) reports a drop in female enrolment rates following the onset of the 1992–1998 civil war in Tajikistan, and throughout the conflict. At the end of the war, in 1999, school enrolments were lower for girls aged 12–16 living in high conflict intensity areas. The main reason was a decrease in returns to education of girls (but not boys) in high conflict zones, leading to an increased preference for educating boys rather than girls. Interestingly, school enrolments of girls were higher in rural areas where access to subsistence agriculture implied less reliance on outside income.

Self-Recruitment into Armed Groups

Given the high personal risks associated with fighting, recruitment into armed groups (including the state military apparatus) is not usually viewed as a natural welfare coping strategy. However, armed conflicts may forge new opportunities for many and a number of actors have used conflict and violence as a means to try to improve their position and to take advantage of potential opportunities offered by conflict. Despite the potentially high individual costs, many choose to participate in fighting due to the presence of significant selective incentives (Olson, 1965).¹¹ In several instances, becoming a fighter may be seen as a means to try to improve welfare and has been

used as a form of livelihood coping strategy. Individuals may be attracted to militias and armies by the possibility of looting and other material gains. Recruitment may also be viewed as a viable alternative to unemployment by many. When joining militias or military groups, young men may get access to food and clothing as well as recognition and sense of becoming valuable which may not be available otherwise. Low returns to agriculture and high rates of unemployment may push young men into militias but may also be used as a strategy for risk diversification for households that anticipate being affected by armed violence. They secure themselves by supporting the militias and benefit from possible economic benefits offered by the militias.

Some studies have shown that socio-emotional motivations (e.g. following community social norms or personal sense of justice) may matter as much or more than selective incentives in explaining individual participation in collective acts of violence (see Petersen, 2001; Wood, 2003). This has not ruled out strong evidence for individuals responding to economic incentives in armed conflict, particularly when such incentives act as a form of coping with economic, social and political insecurity (Justino, 2009), and of protecting those that join acts of violence and their families (Kalyvas and Kocher, 2006). Collier and Hoeffler (1998) stress the gap between the returns from taking up arms relative to those from conventional economic activities, such as farming, as the causal mechanism linking low income to the incidence of civil war. Humphreys and Weinstein (2008) report how RUF fighters during the recent Sierra Leone conflict were promised jobs and money as a form of alluring recruits. Another militia group, the CDF, helped to meet the basic needs of their members and provided increased security for their families. Material benefits were generally sufficient to satisfy basic needs but not much else, which may have attracted those individuals with little other livelihood options. Humphreys and Weinstein's analysis of fighters' profiles shows that more than 60 per cent of fighters belonging to both CDF and RUF reported 'improve the situation in Sierra Leone' as their main motivation to join the militias, followed by improved prospects of getting a job, more money and food in the case of RUF and protecting their families, jobs and money in the case of CDF.

In one of the few existing empirical analyses of economic profiles of conflict perpetrators, Verwimp (2005) shows that perpetrators of the 1994 Rwandan genocide are over-represented amongst the educated population of Rwanda, amongst those with a part-time or full-time off-farm activity and amongst those households with higher incomes and those eat more meat, milk and eggs. But they are also over-represented amongst the unemployed and quasi-landless households. In the words of the author: 'the interests for

members of both these groups to participate in the genocide is to be found in their respective relation to the land and labour markets. The landlords or employers had “something to defend”, meaning their job, their land, their farm or farm output and their overall privileged position in Rwandan society. The poor, landless group on the other hand, whose livelihood crucially depends on the availability of off-farm low skilled jobs (mostly working on someone else’s farm) and/or the chance to rent land from a landlord, were in a very vulnerable position. They *could expect to gain from participation* [author’s italics]: it has been widely documented that a large number of participants, mainly the rank and file among the perpetrators were very interested in the property of the murdered Tutsi. Among the property, land was a much desired asset’ (Verwimp, 2005: 29).

Voluntary Migration

Collier (2000) suggests that diasporas in OECD countries increase the risk of a post-conflict country falling back into conflict largely due to their funding of armed factions. This and similar evidence has resulted in large efforts being put into monitoring and limiting the international transfer of funds to conflict regions. But at the micro-level it is likely that at least some financial resources originating from nationals living and working outside the country may play a key role in mitigating some of the negative effects of armed conflict on livelihoods and household welfare.

Migration has been arguably the most common form of household coping strategy in times of distress. The development literature has long recognized the importance of migration (and resulting remittances) as a mechanism used by households in non-conflict settings to secure an income and improve their welfare (e.g. Taylor, 1999; House of Commons, 2004; OECD, 2005). Evidence on the importance of migration in contexts of armed civil conflict is scarce. Violence is a significant motivation for migration, specially forced migration (Moore and Shellman, 2004). But even in conflict areas economic incentives may lead households to migrate (Engel and Ibanez, 2007), either as an ex-ante reaction to the threat of conflict or an ex-post response to unstable economic and political conditions. Households with less outside options or households that value less the welfare benefits of potential reception sites are less likely to migrate (Czaika and Kis-Katos, 2007).

In recent years, there has been a large increase in remittances originating from economic and political crises in migrant- and refugee-exporting countries (Goldring, 2003). Yet little is known about the impact of these on

recipient households that return or are left behind in those countries. One reason is the difficulty in determining how migration and remittances are used as deliberate economic strategies on the part of households facing the outbreak of armed conflict (Lindley, 2007), either as an *ex-ante* security management mechanism or an *ex-post* reaction to violence. Other reasons are related to usual difficulties of doing research in conflict contexts: lack of data, insufficient official information on the flow of payments and transfers and difficulty of tracking remittances that are made through informal channels, such as *hawala* networks, or sending money through friends and relatives (Lindley, 2007). Remittances have, however, the potential to be important mechanisms of household security both during and after conflict. Justino and Shemyakina (2007) show that following the Tajikistan civil war in the 1990s, households in conflict affected areas are more likely to receive remittances as compared to the households in the lesser affected areas (40 versus 36 per cent), while the mean value of annual remittances is 12 per cent higher in regions of Tajikistan most affected by the civil war. Lindley (2007) examines the case of Hargeisa, Somalia. Her study also reveals that large-scale migration triggered by armed conflict has resulted in a valuable source of income for those left behind. A large fraction of these remittances are used for general living expenses and human capital investments, helping slowly to mitigate some of the economic and social effects of the conflict such as lack of access to markets, loss of livelihoods and removal of children from school. Remittances seem to play a particularly important role in women-led households where the breadwinner was lost to conflict (or migrated himself) (Justino and Shemyakina, 2008). In many circumstances, remittances can act as the channel through which otherwise vulnerable households may avoid the traps of poverty and destitution following the direct and indirect impacts of armed civil conflict on their welfare.

POLICY INTERVENTIONS AT HOUSEHOLD LEVEL IN CONFLICT SETTINGS

The micro-level processes of the type described in the previous sections are generally absent from most policy programmes aimed at preventing, managing, transforming and resolving violent conflicts. The difficulties associated with micro-level research processes of armed conflict and the resulting scarcity in empirical analyses means that such policies are being designed on the basis of very little hard evidence. There have been a few efforts to fill this gap but with little political impact thus far (see World Bank, 2005). The international development community has largely focused its attention on reactive, damage-limiting policy frameworks to reduce insecurity, bring

violent conflicts under control, and minimize their negative impacts on development (see Addison and Murshed, 2002; DFID, 2005). It has been less good at thinking strategically about how to cut through and reverse vicious cycles of armed conflict, how to build pragmatic and durable systems of local development and global peace that incorporate real assessments of individual and group behaviour and how to assemble synergies between local, national and international coalitions to support real change (see OECD, 2005). The ability to clearly identify how individuals and households behave, react and relate to other households and communities in armed conflict settings and a sound understanding of the consequences of resulting violence on their welfare and adjustment behaviour are critical to the design of effective post-conflict recovery policies, and essential to promote more proactive strategies amongst the development community in formulating adequate strategies to end armed conflicts, as well as prevent the eruption of new cycles of violence.

How can local, national and international policy interventions support and strengthen the positive aspects of coping strategies undertaken by households affected by violent armed conflicts and minimize the negative effects of such socio-economic choices? An emerging literature has argued for the need to combine traditional post-conflict policies, mostly concerned with state security, with structural development programmes that address important issues of human and economic security of individuals and groups, such as those examined in the sections above (see Addison and Brück, 2008; Picciotto, 2007). These measures are particularly important to reduce the risk of renewed conflict (Collier, 2000), as they can be designed to address social, economic and political risk factors—such as reduction in household welfare, changes in household behaviour, changes in social norms and local political alliances—that resulted in the outbreak of conflict in the first place and do not necessarily disappear after the conflict has ended. At the same time, successful poverty reduction policies, need to be conflict-sensitive by recognizing the specific conflict factors present in each country and attempting to redress these factors (see World Bank, 2005). These proposals are, however, still in an early stage of development. This section aims to provide a starting point for further discussions on post-conflict policies that may potentially have important effects on the welfare of households affected by violence. A large literature already exists that discusses reconstruction policies from a macro-level perspective. This section focuses on particular policies targeted at households, and intends to complement that literature.

We discuss the importance of two types of policies, which we have designated as *reconstruction policies* and *assistance policies*. Both types of

policies must recognize the fact that conflict entails both idiosyncratic risks for those intentionally or unintentionally selected as targets of violence, and covariant risks across communities selected as specific targets for killings, theft and displacement or as victims of indiscriminate violence. Reconstruction policies are intentionally aimed at strengthening or rebuilding the capacity of households to protect their welfare through processes that will encourage household and community cohesion and recover market access once violence has ended. This chapter considers two types of reconstruction policies:

- Policies aimed at restoring household and community cohesion, including the economic, social and political integration of ex-fighters and displaced populations, and the assimilation of young people and refugee populations as social and political actors.
- Policies to support market recovery, including income generation activities, strengthening of property rights and the regulation and reconstruction of credit and insurance markets.

Assistance policies, on the other hand, include safety net instruments and social protection mechanisms aimed at individuals, households and groups that were not able to rely on any form of welfare coping strategy during conflict, typically orphans, widows, old age people living in IDP or refugee camps, and at individuals, households and groups unable to adapt to new social, economic and political environments in the post-conflict period due to being severely affected by violence (e.g. injured and disabled people, households without access to productive labour supply and so forth) or are constrained by the new institutional processes from accessing livelihoods and socio-economic security (e.g. households with working-age members in prison, widows, orphans and other vulnerable groups).

Household-Level Reconstruction Policies

Despite the various strategies adopted by those living in areas affected by armed conflict, vulnerability, poverty and deprivation remain high amongst large numbers of households. This is to a large extent caused by a combination of the breakdown of households and of social, economic and political relations caused by fighting and displacement and severe market imperfections, such as limited opportunities to use assets and savings as insurance due to violence, as well as constraints in credit and insurance markets. It is also caused by restrictions to adopting effective forms of income diversification due to poor property rights, limited or no access to existing and new market opportunities, the breakdown of the rule of law and increases in physical security.

In the post-conflict period, the challenges of reintegrating ex-fighters and displaced populations, and of rebuilding institutions and infrastructure in communities torn by violence hinder further the process of reconstructing household welfare. We examine two types of household-level reconstruction policies: restoration of community relations and market recovery programmes. These policies combined may address the shortcomings of some coping strategies adopted by households in times of violence, and strengthen the positive outcomes of other economic decisions.

Restoring household and community cohesion. Policies aimed at promoting sustainable peace structures must address seriously the breakdown of families and communities caused by armed conflicts through localized fighting, (forced and voluntary) recruitment and forced displacement. While there is some research done on these issues at the community level, in terms of rebuilding institutions and infrastructure, less work exists at the individual and household levels. We discuss here policies aimed at four groups: ex-fighters, displaced people, young people and refugees. Successful integration of these groups into society is a key precondition to avoid the economic decline that makes it more difficult to bring civil unrest to an end (Walter, 2004) and that may provide the basis for rebels to recruit fighters or the incentives for self-recruitment into armed groups in the future. It is also a fundamental condition to support successful strategies to secure livelihoods and improved welfare as it is likely to promote community-level insurance mechanisms, mitigate the long-term effects of labour and production decisions within the households and channel more effectively the use of outside financial support such as remittances.

The restoring of social cohesion at the household and community level will have to be built upon a better comprehension of the strategies of fighters recruitment (see Weinstein, 2007) and the dynamics of displacement, as well as the resettlement patterns during and after conflicts (Deininger, Ibáñez and Querubin, 2004; Czaika and Kis-katos, 2007). In particular, the demobilization of troops and return of refugees and displaced populations to sites of origin (or their resettlement in new sites) may create competition for available scarce resources (such as jobs, land, assets and available services like health care). As discussed earlier, this may also create new forms of exclusion and sources of further instability.

While discussions on demobilization and reintegration of ex-soldiers feature prominently in the post-conflict literature, there is little evidence-based information on the processes that have led men, women and children to become soldiers, on forms of self-recruitment and abduction and on how

fighting and recruitment strategies have impacted on their lives, well being and the lives of their families during the conflict. While some emerging literature has started to address these important issues (see Weinstein, 2007; Blattman and Annan, 2007; Humphreys and Weinstein, 2008), these findings are only slowly being translated into effective policies of reintegration.

Similarly, very little evidence-based information exists on the choices (or lack of thereof) of displaced populations. Not everyone is willing to return to their regions of origin, either because they have lost all links to their former relations or because they still fear violence and criminality in the immediate post-conflict period. Deininger *et al.* (2003) in a pioneer study of displaced populations note that 'return programs should be particularly targeted to households with access to land, agricultural employers or families with strong links to collective actions organizations. Such households are less equipped to face the conditions of urban areas. Return programs should also focus on recently displaced households. As the displacement period increase, households adapt to the reception site and, therefore, may rather settle in the new place of residence than face an uncertain situation in their villages of origin. On the other hand, vulnerable households or families that flee after being the victim of a violent event reveal a lower disposition to return. Policies for this group of the displaced population should concentrate on supporting the settlement process in the reception place' (Deininger, *et al.* 2003: 26). Similar empirical evidence in other conflict contexts would be invaluable for the success of post-conflict policies of reintegration, the re-building of destroyed societies and networks and the prevention of new conflicts.

One issue of particular concern for post-conflict policies is the importance of young people as key actors both in peace and war times, and the need to channel their energy into productive activities (e.g. Urdal, 2006). Young people constitute an important target group for post-conflict reconstruction policies. Although large attention has been given to the thorny issue of child soldiers, less attention has been paid to the potential impact of young people's political views and activities, and the role of young people as political actors in the post-conflict period, with highly developed political views and experiences of politics (Clark, 2007).

The final group of interest addressed here is that of refugees who either remain in their new locations or return to their former communities. Their status often brings about tensions with those who stayed behind. At the same time, different experiences by different refugee groups can contribute to different conceptions of how to build or re-build citizenship (Clark, 2007). In addition, the increase in asylum applications and refugee populations from conflict zones since the late 1980s has led to considerable public

concern within the European Union. Their influence can be positive, through providing capital, skills and leadership for peace building. But many refugees and migrants from conflict zones suffer social exclusion in their resettlement regions, which can lead to radicalization and criminalization. This has been observed both in receptor countries in Europe (van Hear, 2003) and also in areas within the country where refugee and displaced population moved into new communities (see Steele, 2007 for Colombia). The success and sustainability of post-conflict reconstruction policies will depend greatly on the meaningful participation of these groups in decision- and policy-making processes.

Market recovery programmes. Post-conflict policies must create mechanisms to support those that suffered the greatest welfare losses, generate sustainable income generation processes, strengthen property rights and regulate (and in many circumstances rebuild) credit and insurance markets. The reconstruction of former and the support of new processes of income generation are fundamental to bringing households affected by armed conflict on to sustainable paths of recovery and to remove households from poverty traps. Of key importance for the reconstruction of household welfare is the generation of employment opportunities and the enhancement of the productive capacity of those households that lost productive members (such as those led by widows) and those that need to rebuild themselves once ex-fighters (including children) are demobilized and refugees return to original communities. This requires a strong focus of post-conflict reconstruction policies in guaranteeing the well-functioning of property rights and of credit and financial institutions. More effective property rights and credit and financial institutions may in turn play a considerable role in the welfare improvement of people affected by violence by strengthening their capacity to save and insure against risk through better regulated financial institutions, by facilitating employment and agriculture production options beyond subsistence activities (and self-recruitment into armies) and providing effective and secure means to channel remittances and other forms of public and private transfers and assistance.

Economic analyses have shown extensively how well-defined property rights influence significantly the potential for economic growth in any given country through investment incentives (resulting from larger certainty in future returns to capital and labour), improved credit market access and increased land productivity (see Deininger, 2003). The role of property rights in both the onset of armed conflict and in the post-conflict period is less well-understood. Accounts of recent civil wars have put land appropriation at the

heart of the main motives for the onset of violence (see discussion in Brockett, 1990; Wood, 2003 and Verwimp, 2005). Access to land is important for both rebel groups and state actors as it provides territorial control of populations and resources. For instance, massacres in Colombia often take place in order to terrorize the population into giving up land titles. Therefore, weak institutions may facilitate the appropriation of land titles, open opportunities for the capture of resources and ease the displacement of households and communities. Velasquez (2007) shows that in Colombia the introduction of greater formality of property rights led to an immediate increase in attacks by armed groups; but it reaches a point where the greater formality dissuades the presence of armed actors. This is because legality over land plots hinders military strategies of appropriation by armed actors, therefore deterring military attacks and decreasing the intensity of the conflict. In contrast, Velasquez's statistical analysis shows that the informality of property rights in key areas of combat in Colombia has influenced positively the decision to attack by armed groups, as well as the intensity of the attacks. Evidence-based research is still incipient but results show strongly that the implementation and strengthening of institutions that guarantee the formalization of land titles is crucial to the establishment of sustainable peace in post-conflict periods (see Ibanez and Moya, 2005; Velasquez, 2007).

Strengthening property rights is not a linear process that results inevitably in lower conflict. In a recent study, Butler and Gates (2007) show that simply increasing property rights without addressing equity issues can in fact increase the level of conflict in society, since it may add to existing grievances. Successful efforts to strengthen property rights in post-conflict settings must comply with issues of fairness and equity in order to address potential bias that either existed or may arise in property titles (for instance, granting land titles to small farmers that work the land but do not hold formal titles). This finding has significant implications for international organizations and peace treaties that encourage state governments to focus on strengthening property rights institutions without addressing central issues of equity, fairness and social justice (see Butler and Gates, 2007).

In addition to property rights, market recovery programmes must also address the challenge of rebuilding credit and other financial markets. A large literature has shown the importance of access to credit for households in developing countries and how credit constraints hinder development and contribute to the establishment of pockets of structural long-term poverty. Building credit market recovery into post-conflict policies to support incipient forms of economic activity is therefore of key significance to lift households affected by armed conflict from potential poverty traps and to avoid further

marginalization of excluded groups. Microfinance services, including savings, credit and insurance facilities, have been used in specific circumstances to address the economic security of households in the post-conflict period, support the return to farming of rural populations that may not have access to the formal financial sector (which may itself have been destroyed by the conflict), and aid the reconstruction of key financial institutions and capital and insurance markets at the community level. Venkatachalam (2006) shows evidence for the success of these policies in the period after the civil war in Tajikistan. The main findings of this research show that microfinance services have generated significant additional business income that enabled household members (particularly women) to spend more on meeting the basic needs of their household. Household-level post-conflict policies must consider the central role that this and other financial instruments can play in reconstructing livelihoods and spurring economic activity.

One of those additional instruments is remittances. Remittances can play a crucial role in rebuilding credit and other financial markets. The international community has paid enormous attention to limiting international income transfers in order to limit the funding of armed groups or terrorist groups by Diaspora. However, income or in-kind transfers from migrant, refugee or asylum-seeking populations may play a significant role in helping populations in post-conflict settings rebuild their livelihoods and recover their pre-war consumption levels, as well as moving out of poverty traps. Although the international community has focused on the role of aid in rebuilding livelihoods, the role of remittances should not be overlooked. It is clear that in many circumstances remittances are channelled towards supporting specific political and developmental agendas. However, establishing appropriate institutions to encourage the channelling of remittances to social services, and rebuilding of household capital (physical and human) and infrastructure may overcome other social and political constraints, may stimulate local credit and financial markets (when remittances are channelled through local banking systems) and may even allow access to new employment opportunities by those released from farm work, as well as encourage the creation of new jobs through the establishment of new economic activities.

Household-Level Assistance Policies

The standard approach to the provision of assistance to countries in conflict has been to focus on humanitarian assistance and emergency relief, while less effort has been put into more developmental approaches. In particular, the

potential use of compensatory policies, including social protection policies and safety nets has been largely ignored in post-conflict reconstruction programmes. Walter (2004) finds that higher life quality and greater access to political participation reduce considerably the likelihood of a renewed conflict in a sample of countries where a civil war ended between 1945 and 1996. Justino (2007), using state-level empirical evidence for India, shows that in the medium term (i.e. over a period of five years), public expenditure on social services and improvements in education enrolments are an effective means to reduce civil unrest and prevent the outbreak of violence, as they affect directly the level of poverty across Indian states. But little empirical evidence exists on the role of social assistance policies in re-establishing livelihoods and social cohesion in post-conflict settings.

The role of social protection policies and safety nets in supporting household welfare in stressful circumstances is well-known (see Dercon, 2004). Safety nets can be effective in lifting trapped households out of poverty, in particular those with enough capacity to accumulate assets but that were pushed into poverty by several factors including the direct effects of armed conflict (such as displacement, death of household members, and so forth). Their pre-conflict welfare could potentially be recovered by well-designed net asset transfer schemes. These can be combined with productive safety net policies to prevent them from falling below the poverty trap threshold (see Barrett and Carter, 2006). Social assistance programmes can promote risk-taking strategies which have the potential to boost production (Dercon, 2002). The increased viability of agricultural production also has the potential to reincorporate those individuals who have become dependent on the local war economy (e.g. cocoa in Colombia) and other harmful livelihood strategies.

Most conflict-affected countries that have successfully implemented peace processes have typically in place programmes of vocational skills training and demobilization allowances for ex-combatants, pensions for widows and orphans and compensation schemes for the disabled and ex-fighters. While important, these programmes are often criticized in terms of their coverage and effectiveness (see Darcy, 2004). These shortcomings could potentially be addressed by other instruments being implemented in developing countries affected by a variety of socio-economic risks including cash transfers, food security programmes and cash-for-work programmes. In particular, cash transfers can play a critical role not only in helping households to smooth consumption, but may also assist household in enhancing agricultural production (see Devereux, *et al.*, 2008). For instance, the *Oportunidades* (former *Progresa*) programme in Mexico and the *Bolsa Familia* in Brazil have had a substantial influence on investment in the productive activities of

participants including investment in animal production, increased land use, and increases in the number of agricultural products produced and consumed. These cash transfers are typically conditional on returning children to school (see Schultz, 2004), therefore reducing (even if partially) critical long-term consequences of household coping strategies in times of crises when children are removed from school to help with household chores or work in off-farm or on-farm employment. Conditional cash transfers may therefore constitute a way of reintegrating children in schools, both those children that were removed from school to work and those that were used as soldiers. In this latter case, conditional cash transfers may provide enough incentives to encourage a return to school rather than employment in low-productive activities or joining gangs. Conditional cash transfers can have a particularly strong effect on the education of girls, which are less likely to return to school after the conflict due to higher increase in returns to schooling to boys (see Shemyakina, 2006).

Similar forms of conditional cash transfers could help rural households affected by violence restore their productive capacity.¹² Evidence from cash transfer programmes in Africa reveals that such instruments are able to assist households in restocking household assets, which, as noted above, would have become seriously depleted during the conflict period. For example, a small cash-based programme in southern Somalia has increased significantly household investment in productive assets (see Mattinen and Ogden, 2006). In Kalomo District, Zambia households, on average, have invested almost 30 per cent of the cash they have received by purchasing goats for breeding, oxen to help with ploughing and seed for planting (GTZ, 2005). Guenther (2007) also finds evidence of substantial investment of cash transfers in his study of Ethiopia's Productive Safety Net Programme.

Though cash transfers may be helpful in smoothing consumption and engendering productive activity, if markets are weak as a result of high transaction costs due to underdeveloped financial institutions and the destruction of infrastructure, alternative measures such as public works schemes should be considered. Cash/food-for-work programmes can assist in the (re)construction of rural infrastructure, such as irrigation and water services, in addition to the construction of transportation infrastructure. These measures can contribute to increased income and the lowering of transaction costs for rural residents. They are usually useful in providing short-term relief against negative economic shocks at both community and individual level and helping long-term development recovery (see Barrett, Holden and Clay, 2004). Food programmes are likely to work better when targeted at areas affected by famine, where local markets are unable to

provide alternative employment or are non-existent. When employment opportunities are available, free distribution of food appears to perform better and creates lower market disincentives.¹³ Free food distribution may also be preferred in areas with high rates of chronic illness and injury as food-for-work programmes require able-bodied workers (Barrett, Holden and Clay, 2004). Cash transfers and similar programmes may only work if the funds are effectively invested in productive activities and not used to further support illegal activities or the continued support (voluntary or forced) for armed conflict. This requires close monitoring and careful targeting of the programmes. Also most of these programmes are short-term relief actions and there is a need for long-term safety nets as the end of the programme may re-create the incentives for further conflicts.

This of course raises less than comfortable questions on how best to support government social interventions when budgets are depleted, organizational infrastructure is weakened or non-existent, citizenship rights are not supported and state governments must compete in many areas of dispute with organizational arrangements established by rebel groups amongst communities that they controlled during the conflict. This is important though neglected area of focus for post-conflict policies as household insecurity and competition for local governance in the supply of local public goods may well influence the sustainability of peace and the potential for further rebellion in the future.

NOTES

- 1 See Collier (1999), Collier *et al.* (2003), Fearon and Laitin (2003), Stewart, F., Fitzgerald, V. and Associates (2001a, 2001b).
- 2 See Bilmes and Stiglitz (2006), Knight, Loayza and Villanueva (1996), Collier (1999), Stewart, F., Fitzgerald, V. and Associates (2001a, 2001b), Hoeffler and Reynal-Queirol (2003).
- 3 Significant evidence-based studies have slowly started to surface prompted by recent research programmes such as MICROCON (www.microconflict.eu), the Households in Conflict Network (www.hicn.org), the Program on Order, Conflict and Violence at Yale University (<http://www.yale.edu/macmillan/ocvprogram>), Centre for Research on Inequality, Human Security and Ethnicity (<http://www.crise.ox.ac.uk>) and the Survey of War Affected Youth (www.sway-uganda.org).
- 4 A more formal analysis is provided in Justino (forthcoming), where longer-term indirect effects are also discussed.
- 5 For an example of a comprehensive analysis of costs of conflict, see Bilmes and Stiglitz (2006). Bozzoli *et al.* (2008) propose an integrated framework to analyse the costs of conflict that combine both macro and micro units of analysis. For a more general discussion on macro and micro effects and causes of civil wars, see Blattman and Miguel (forthcoming).

- 6 See WHO (2002); Roberts *et al.* (2003); Guha-Sapir and Degomme (2006); Verwimp and van Bavel (2004).
- 7 See reviews in Roberts *et al.* (2003) and Guha-Sapir and Degomme (2006).
- 8 For evidence, see Ghobarah, Huth and Russett (2003), Alderman *et al.* (2004) and de Walque (2006).
- 9 For instance, Wood (2005) discusses the extent of land redistribution to rebel groups during the El Salvador conflict in the early 1990s.
- 10 See also Barrett, Reardon and Webb (2001), Eswaran and Kotwal (1989), Fafchamps, Udry and Czukas (1998), Grimard (1997), Hagglade, Hazell and Brown (1989), Rosenzweig and Binswanger (1993) and Rosenzweig and Wolpin (1993).
- 11 Mancur Olson (1965) lists the main selective incentives for participation in forms of collective action such as armed conflict as coercion, monetary incentives, insurance, price discounts, erotic incentives, psychological incentives and moral incentives.
- 12 Mesnard and Attanasio (2006) find an interesting side-effect of conditional cash transfers in Colombia: they seem to discourage household from migrating out of their municipality when violence is not too high. When violence is high, the costs associated with staying are higher than the benefits of the programme. An interesting implication of these findings is that perhaps conditional cash transfers could be used to retain populations in their communities or encourage them to return in post-conflict period.
- 13 Dercon and Krishnan (2004) provide a review of the effects of food aid on household consumption after economic crises.

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Chapter 3

Development and Conflict: Theoretical and Empirical Linkages

GRAHAM K. BROWN

INTRODUCTION: DEVELOPMENT AND THE 'CONFLICT TRAP'

Escaping the 'conflict trap' is one of the most critical challenges facing the least developed nations today. Countries with low levels of development experience more civil conflict than those with higher levels of development, but conflict itself retards human development thus, for some countries, generating a cycle of violence and developmental failure. The association between low levels of national income and the incidence of violent conflict is probably one of the most firmly established findings of the economic literature on conflict (Hegre and Sambanis, 2006). Figure 3.1 shows the strength of this link over the decade of the 1990s. More than half the countries with a GDP per capita of US\$2000 or less in 1990/1991 experienced some form of civil war between then and the year 2000; less than one-fifth of countries with GDP per capita over this mark experienced conflict. Moreover, conflict in poorer countries has typically been longer lasting and more intense than in countries with higher levels of GDP; on average, each country below the \$2000 mark in 1991 spent an average of a third of the subsequently ten years in conflict; countries above this mark, spent on average less than one year of the decade in conflict.

The causal chain from low human development to conflict is difficult to unpick, but the range of impacts of conflict on human development are well-established, although it is important to note that these impacts vary markedly in their magnitude between cases. Much of the literature on the economic and developmental consequences of conflict has focused on major civil war, although recent econometric studies confirm the negative economic impact of a range of types of political violence, from riots up to civil war (Bodea and Elbadawi, 2008).

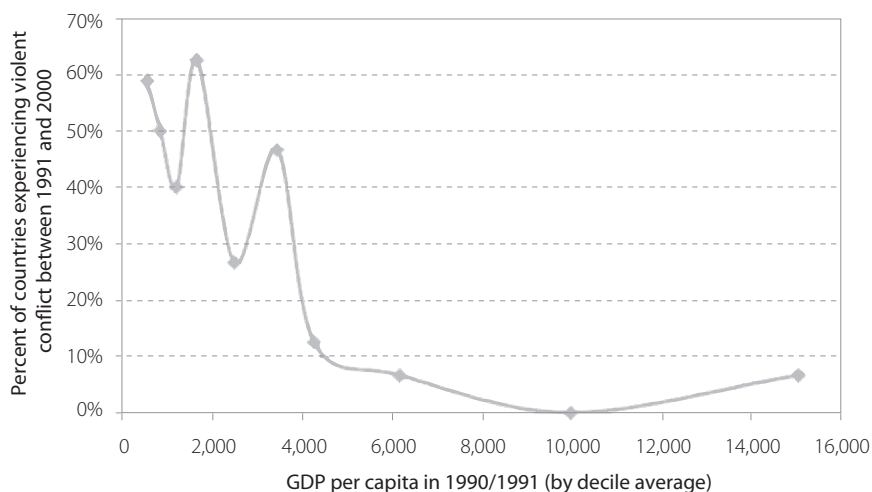


Figure 3.1: **The GDP-conflict link in the 1990s**

Source: Calculated from Fearon and Laitin (2003) dataset.

Some of the direct impacts of conflict on human development are obvious: loss of life and injury reduce life expectancy and quality of life, often considerably. Nutrition typically suffers as a consequence of reduced incomes and agricultural outputs; estimates of average calorie consumption in the countries worst affected by conflict between 1970 and 1995 show a decline of up to 70 per cent (Stewart, *et al.*, 2001). Infant mortality rates rise by an average of around 13 per cent (Hoeffler and Reynal-Querol, 2003). Health can also be adversely affected by the spread of disease, including in some cases HIV/AIDS; the negative impact of conflict-induced disease on disability-adjusted life years often persists long after fighting ceases (Ghobarah, *et al.*, 2003).

Less immediate impacts on human development arise from distortions in development strategies and opportunities imposed by the conflict. Conflict erodes the tax base and often diverts expenditure away from service provision in education and healthcare, towards security and defence spending; government spending on health and education fell by over 40 per cent in Angola, Liberia, Uganda and El Salvador over the course of their respective conflicts (Stewart, *et al.*, 2001).

THEORIES OF CONFLICT

As mentioned above, the impacts of conflict on development are relatively clear and there is also a clear *association* between low levels of development

and a high risk of conflict, but the causal mechanisms on this side are much less clear, and subject to some serious contestation. Stewart and Brown (2007) usefully categorize the political economy literature on conflict into three major approaches:

- Theories that emphasize the failure of the social contract as the prime driver of conflict;
- Theories that emphasize ‘group motivations’, which see conflict as driven primary by disparities in the distribution of social and political resources between groups usually bonded by a common identity such as religion, ethnicity or regional affiliation. This view is mostly associated with the ‘relative deprivation’ theory of Ted Gurr and the ‘horizontal inequalities’ hypothesis of Frances Stewart (Gurr, 1970, 2000; Stewart, 2008); and,
- Theories that emphasize ‘private motivations’, which see conflict as driven by private agendas of people, or groups of people, who hope to profit personally from conflict. This view mostly associated with the work of the economist Paul Collier, but also David Keen and, to an extent, Mark Duffield (Duffield, 1994; Keen, 2001; Collier and Hoeffler, 2004).

It is clear that all the three accounts of violent conflict have something to offer in explaining civil unrest, and hence developing policies to minimize that risk, but that conversely none of the three offers a complete explanation of civil conflict.

The Social Contract

The idea of a ‘social contract’ between society at large and the state that rules over it is, implicitly or explicitly, a fundamental building block of many theories of government. Since the ancient Greeks, different interpretations have been forwarded of the social contract idea, but the central idea has remained the same: the ultimate right to legitimate rule (‘sovereignty’) lies with the broad populace of a territory, but this right is ceded to the state in return for guaranteed observation of civil and political individual rights. In extremely pessimistic formulations such as that of Thomas Hobbes (1996), the state is required to prevent a ‘war of all against all’, but a more general contention of social contract theories is that while the state is a practical necessity in a society of individuals and groups with differing interests and desires, this does not mean that the state has *carte blanche* to act as it will.

Social conflict—including violence—in this view emerges primarily from the failure of the state to make good on its side of the social contract. Crudely

put, social contract theories of conflict suggest that when states rule, or are perceived as ruling, unjustly or when states fail to provide the conditions for development, they forfeit their right to power and if they do not give up power willingly, society may mobilize violently against the state to oust it. What kind of features, then, might we expect to see in states that are failing in social contract terms? High levels of poverty, low levels of GDP per capita and high levels of inequality might all be taken as indicators of a failed social contract and, indeed, econometric testing suggests that countries that exhibit such characteristics are indeed more likely to experience conflict than other countries (Auvinen and Nafziger, 1999; Nafziger and Auvinen, 2002), although the link between overall inequality and conflict is a highly contested one (Lichbach, 1989; Cramer, 2003).

But while low developmental levels are statistically strong indicators of conflict liability, there are also many countries with low levels of human development that do not experience social conflict or civil war. Rather than taking a statistical approach, then, some economists have examined the social contract using formal economic modelling to identify important features of a social contract that may affect the ability of the state to maintain conditions for peaceful development (Addison and Murshed, 2001; Azam and Mesnard, 2001). The details of their models need not detain us too far here, but they point to two important conclusions:

- A functioning fiscal system that is seen as fair and inclusionary. Where fiscal distribution is seen to privilege particular groups over other, an effective social contract is unlikely to be (re-)established. The demand here is for a 'broad-based' development focused not only on GDP growth but also on service delivery and poverty reduction, and for an effective taxation system that raises a significant proportion of GDP as state revenue in a progressive manner; and,
- Credible government commitments to maintaining this system. So long as the state is perceived as lacking commitment to these goals, an effective social contract may not be established. Cautionary lessons can be drawn here from Guatemala's post-conflict experience. In Guatemala, a comprehensive peace process between 1994 and 1996 saw the signing of total of 12 different accords covering areas as diverse as indigenous rights, agrarian reform and the electoral system. Under-pinning these accords, however, was the commitment to reform the tax structure and increase tax revenue to 12 per cent of GDP (still a relatively low figure for a country such as Guatemala) in order to finance these new accords. As Rodas-Martini (2007, p. 117) notes, however, 'the country's economic elite did not embrace this agenda unequivocally, and the leverage for the

international community and former guerrillas to press for compliance was modest at best. As a result, the Guatemalan government has largely failed to make good on these commitments. While major violent conflict has not returned to Guatemala, the country has also failed to move forward significantly from the tense post-conflict environment of the mid-1990s.

Taken together, these economic conditions for a functioning social contract can be reinterpreted as the need for states to focus on achieving the broader demands of human development than narrow economic growth. In this context the mixed blessings of revenues from substantial deposits of natural resources, including gas and oil, can be better understood. On the one hand, such sources of revenue provide 'windfall' income that can be (although by no means has always been) used for service delivery and improved human development. On the other hand, however, natural resource revenues arguably lack credibility and are easily diverted for corrupt accumulation, undermining the social contract.

Thus far we have focused on the economic conditions for a secure and stable social contract that promotes human development and mitigates the risk of conflict. Political institutions are also important, however. Political legitimacy and the ability of the state to protect its citizens from violence (state 'authority') are crucial to the functioning of an effective social contract. Political legitimacy can take a wide range of institutional forms and should not be seen as the exclusive domain of one particular set of institutions. Nonetheless, there is clear empirical evidence that substantively democratic political institutions tend to enhance the conditions for peaceful development. Extreme autocracies also typically experience low levels of civil conflict, but for rather more negative reasons—simple repression, conditions which hardly favour human development. From an institutional perspective, then, it is middling regimes or 'anocracies'—those which are not fully democratic, but not extreme autocratic either—which are most susceptible to civil conflict, as they do not have the same level of political legitimacy of full democracies but are not sufficiently oppressive to override the social contract (Hegre, *et al.*, 2001). Even democracy, however, takes time to embed itself within political culture and countries that have undergone a recent transition to democracy are often at higher risk of civil conflict (Snyder, 2000; Gates, *et al.*, 2006).

We started out from the observation that the absolute level of development in a country is one of the strongest indicators of civil conflict and that, empirically, countries with lower levels of development are more at risk of conflict and that conflict itself retards development, fostering the vicious cycle

of a 'conflict trap' for some poor countries. This observation, however, is of only limited use: many poor countries do *not* experience conflict and, moreover, there are few clues to useful policy implications in bald developmental associations. By progressing through a social contract argument, however, we have seen that a possible 'virtuous cycle' scenario exists, which we can term the 'democratic developmental state' (Robinson and White, 1998; Mkandawire, 2001), whereby democratic political institutions combined with a credible state commitment to developmental goals create the conditions for the emergence of a strong social contract and broad-based economic growth.

A great deal of analysis has been devoted to delineating the conditions for widely shared growth. Economic growth requires sustained investment in physical and human capital, political stability and a fair international system, including flows of aid to poor countries, modest debt servicing requirements and stable terms of trade. It also requires political stability and a reasonably responsible and effective government. Equitable growth requires a fair distribution of assets, especially land, a comprehensive educational system, a robust employment situation and a variety of safety nets. In practice, very few poor countries do attain these requirements, particularly those falling into the 'vulnerable to conflict' category.

In addition, the universal and effective provision of basic services is a critical requirement of the social contract, and one that is clearly not being fulfilled in many developing countries (UNDP, 2004). Yet this aspect of the contract is probably the easiest to achieve since the cost of basic services represents just a small fraction of the national income even in poor countries.

Disparities in Development and Conflict

While the 'social contract' theory of conflict posits a link between absolute levels of human development and conflict, an alternative, complementary perspective highlights the extent to which sub-national *variations* in the level of human development can be an important driver of conflict. In particular, the 'relative deprivation' theory of Ted Gurr, and Frances Stewart's concept of 'horizontal inequalities' have drawn attention to the extent to which developmental disparities between ethnic, religious and culturally defined groups generate political tensions that can ultimately lead to conflict (Gurr, 1970, 2000; Stewart, 2002, 2008). These theories draw on the 'group motivation' approach identified above. Cross-sectional econometric studies (Østby, 2008; Brown, 2009) and country case studies (Gates and Murshed, 2005; Langer, 2005) have confirmed the extent to which such disparities can drive conflict.

Groups engaged in internal conflict are often united by a common ethnic or religious identity. Since 1945, the proportion of conflicts attributable to ethnic violence has been steadily increasing (Figure 3.2). Such conflicts are generally presented as religious (e.g. the Philippines or Thailand, where, in both cases, the rebels are Muslims and the national government non-Muslim) or ethnic (as in Rwanda or Burundi); such identities provide a powerful source of mobilization and unity. Yet, many multi-ethnic and multi-religious societies live relatively peacefully, and in many situations, ethnic or religious identities are not perceived as of overriding importance by the majority of people. Hence we need to look beyond religion or ethnicity, as such, to find the causes of 'ethnic' conflict. One plausible hypothesis is that it is where there are significant underlying differences in access to economic or political resources, providing both leaders and followers with a strong motive to fight, that ethnic or religious differences can lead to violent mobilization. Gurr (1970, 1993) terms such group differences 'relative deprivation' and Stewart defines differences in groups' access to economic, social and political resources as 'horizontal inequalities'. In contrast to the traditional 'vertical' inequality that ranks individuals in measures such as the Gini coefficient, the horizontal inequalities explanation of conflict is based on the view that when cultural differences coincide with economic and political differences between groups, this can cause deep resentments that may lead to violent struggles. These inequalities may involve regional differentiation, in which case they often lead to separatist movements (as in Aceh, Indonesia and the Tamil

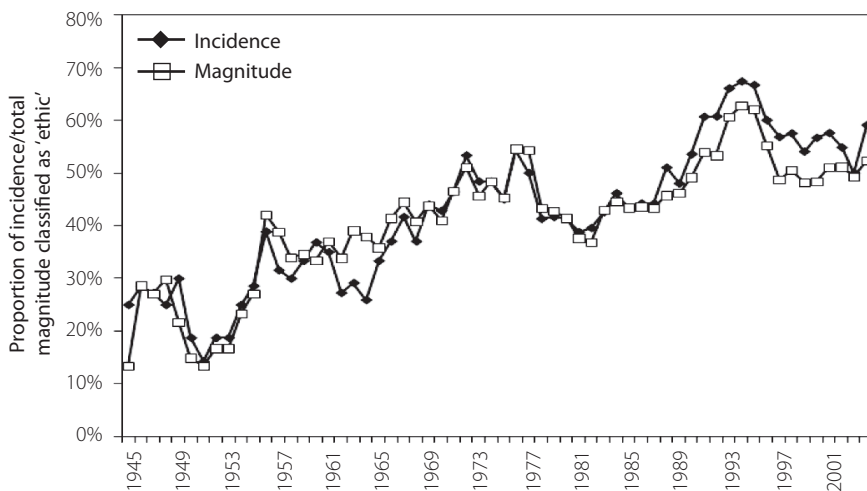


Figure 3.2: **Trends in ethnic conflict, 1945–2004**

Source: Marshall (2005).

regions of Sri Lanka); or the different identities may occur within the same geographic space (such as in Rwanda, Northern Ireland or Uganda), when political participation and economic and political rights are at stake.

Empirical evidence is accumulating that severe horizontal inequalities do indeed constitute a significant cause of violent conflict. In the socio-economic dimension, cross-sectional quantitative analyses, both across districts within a single country and across countries, have shown a significant relationship between various dimensions of socio-economic inequality and conflict. Mancini (2008), for instance, shows that differences in infant mortality rates—which can be taken as a broad proxy for baseline levels of socio-economic deprivation—between ethnic or religious groups within the 300 districts of Indonesia help explain the location of the wave of communal conflicts that occurred after the fall of Suharto's New Order regime in 1998. Gates and Murshed (2005) found a significant relationship between 'spatial' horizontal inequalities and the intensity of the Maoist insurgency in Nepal. Although multi-countries studies have been hampered by a lack of consistent and comparable data, some supporting evidence has been found by Østby (2008) in a multi-country multi-regional study, while Barrows (1976) found similar evidence across African countries. There is also a large amount of case study evidence—for example, Stewart's (2002) review of the experiences of nine countries shows not only that increasing socio-economic horizontal inequalities have preceded the emergence of violent conflict, but that reductions in socio-economic horizontal inequalities—such as occurred in Northern Ireland during the 1980s—may contribute to the conditions for a peaceful resolution of such conflicts. However, the connection between horizontal inequalities and violent conflict is not an automatic one, and some societies show severe horizontal inequalities without experiencing conflict (e.g. Bolivia, Brazil or Ghana). Political inclusiveness is one reason that some societies avoid conflict despite severe economic horizontal inequalities; for example, Ghana has included political representation of all major groups in government. Equally Nigeria has managed an uneasy peace (post-Biafra) by following the federal principle of incorporating people from all regions in government at every level, while horizontal inequalities were not consistent—most political power was in the hands of northerners, but the southern parts of the country were better off from an economic and social perspective.

Political horizontal inequalities—the exclusion or under-representation of groups within the political structure of a state—can provoke violent conflict, when they change abruptly. In the former 'African Miracle' of Côte d'Ivoire, three decades of post-independence rule by Felix Houphouët-Boigny avoided significant conflict, largely due to the policy of balancing representatives of the

major groups in positions of importance in the government and bureaucracy. Following Houphouët-Boigny's death and the introduction of multi-party elections in the early 1990s, political leaders sought to mobilize ethnic sentiments to enforce their grip on power and thus undermined Houphouët-Boigny's careful balancing act, leading to a spiral of ethnicization, xenophobia and, ultimately, civil war (Langer, 2005).

Much of the work on horizontal inequalities has focused on ethnic disparities in human development, but an important additional aspect relates to the political geography of inequality. Spatial disparities in human development are a common feature of many developing countries, particularly in Asia (Kanbur and Venables, 2005; Kanbur, *et al.*, 2006). Intuitively, the intersection of regional inequalities with ethnic diversity is likely to be particularly incendiary for a number of reasons. First, where ethnic groups are regionally concentrated, the visibility of relative deprivation is likely to be greater. Second, regionally concentrated ethnic groups often have differing (pre-colonial) historical experiences, which can be—and often are—drawn upon in mobilizing separatist movements (Brown, 2008). Finally, for disaffected regionally concentrated ethnic groups, secession could be seen as a viable option—although in fact it is very rarely entirely successful, largely because of the broad opposition of the international community to claims for separation except in the most brutal cases of state oppression (Fearon, 2004).

Quantitative analysis suggests that there is indeed a systematic relationship between spatial-ethnic inequalities in human development and the incidence of secessionist and regionalist violence. Østby's (2008) quantitative cross-sectional analysis of the incidence of civil conflict in 55 developing countries tests a range of models of horizontal inequality and does indeed find the strongest explanatory power in a model that interacts levels of regional horizontal inequality with the degree of political exclusion imposed by the state. Within the specific institutional context of federal systems, Bakke and Wibbels' (2006) quantitative analysis also finds that the level of ethnic contestation is conditionally linked to the interaction between regional inequalities and ethnic diversity of the sub-national regions.

To some extent then, the horizontal inequalities explanation of the link between human development and civil conflict can be seen as a particular type of social contract failure, where the state fails to deliver the social contract for a geographic, ethnic or religious subsection of the population. But it is important to recognize that, particularly in the case of secessionist violence, relatively well-off groups can also be the instigators of civil conflict (Hechter, 2000).

Political institutions again play a crucial role in mediating and mitigating the potency of horizontal inequalities for violent rebellion. The peaceful management of horizontal inequalities is largely linked to different forms and degrees of decentralized government. The term 'decentralization' covers a wide range of institutional arrangements. Treisman (2007) distinguishes between 'administrative decentralization', where the implementation of centrally-determined policy is undertaken by local agents; 'political decentralization', which involves a degree of policy-making authority at lower levels and may or may not include 'appointment decentralization'—local elections—and 'constitutional decentralization', where local bodies are given a constitutional say in central policy making as well; and, 'fiscal decentralization', where sub-national tiers of government have some responsibility for tax and expenditure decision and/or constitute a significant proportion of total government revenues and spending.

Different forms of decentralization appear to be more successful in different contexts. Full federalism, with extensive political and fiscal decentralization, appears to have played a mitigating role in places like Nigeria (Suberu, 1998) and Malaysia (Brown, 2005), for instance, but has also been more problematic in other contexts. An important dimension here appears to relate to the *number* of sub-national administrative units (e.g. states, provinces, etc.). Federal systems with a small number of states have typically experienced political instability at the national level resulting either in shift away from federalism towards a unitary state, as happened in Cameroon, or else the break-up of the federation either peacefully (e.g. Senegambia) or violently (e.g. East Pakistan's secession in 1971). More generally, Brendan O'Leary has suggested that federalism is most stable where the country has what he terms a *Staatsvolk*, 'a national or ethnic people who are demographically or electorally dominant'. O'Leary's logic here is straightforward: 'an ethno-national group with a decisive majority of the federal population has no reason to fear federation. A *Staatsvolk* may be more willing to have its own national territory divided up into multiple regions, states or provinces, knowing that it is not likely to be coerced by minority peoples at the federal level' (O'Leary, 2001).

Much of the recent scholarly attention that has been paid to decentralization rather than federalism has been driven by the rapid spread of decentralized forms of government, particularly in Latin America, parts of Africa and South Asia (World Bank, 2003). Largely supported by international organizations, including the World Bank, this turn to decentralization has been primarily a vehicle for poverty-reduction efforts. Decentralized institutions are thought to encourage political participation, and hence make government more accountable and improve service

delivery (Seabright, 1996; Bardhan and Mookherjee, 2006), as well as to allow for 'policy differentiation' according to 'heterogeneous tastes' between different local communities (Treisman, 2007).

This suggests that fiscal decentralization should mitigate the chances of civil conflict in conditions of horizontal inequality. Empirical studies broadly confirm this. Murshed and Tadjoeeddin (2008) argue that fiscal decentralization may alleviate 'pent up frustrations' with the central state through the kind of localization and accountability processes outlined above, and find econometric support for this in a cross-district study of districts in Java, Indonesia, with a particularly strong impact in relatively wealthy districts. Their study, however, is of relatively small-scale 'everyday' violence in a largely ethnically homogenous setting and may not be generalizable in other contexts. Bakke and Wibbels (2006) do provide cross-country econometric evidence that fiscal decentralization, contingent on the level of regional inequality and ethnic diversity, can help dampen protest and conflict potential, but their study is limited only to countries with federal constitutions. Jean-Pierre Tranchant's study arrives at similar conclusions, but that the impact of fiscal decentralization is mediated by the quality of institutions (2008). He finds systematic evidence of a conflict-mitigating impact of fiscal decentralization, but that this is mediated by institutional quality and state capacity.

Private Motivations and the 'Greed' Hypothesis

People who fight are, of course, individuals with their own private motivation as well as being members of a group. War confers benefits as well as costs on some individuals. Political sociologists, such as Keen (1998) and Duffield (1994); and economists, such as Collier and Hoeffler (2004) have emphasized private or individual motivation as the fundamental cause of conflict. The private motivation hypothesis has its basis in rational choice economics, arguing that the net economic advantages of war to some individuals motivate them to fight (Hirshleifer, 1994). In this approach, group identities are not regarded as an independent factor but are instruments, created to help fulfil the private motives of those who fight (especially leaders).

Keen lists many ways in which war confers individual benefit on particular categories of people: it permits people, especially uneducated young men, to gain employment as soldiers; it offers opportunities to loot, to profiteer from shortages and from aid; to trade arms; and to carry out illicit production and trade in drugs, diamonds, timber, etc. Where alternative opportunities are few, because of low incomes and poor employment, and the possibilities of

enrichment by war are considerable, wars are likely to be more numerous and longer. Conflicts may persist because some powerful actors benefit through the manipulation of scarcity, smuggling and so forth and have no interest in resolving the conflict. An often cited case used to support this argument is the role of 'conflict diamonds' in the protraction of the civil war in Sierra Leone (Collier, 2000: 5). Private motivation seems also to be a predominant factor behind the persistent conflict in the Democratic Republic of Congo, where abundant natural resources offer big rewards to those who control them.

Collier and Hoeffler (2004) put forward econometric evidence to support the 'greed' hypothesis, arguing that the observation that conflict incidence increases as the share of primary products exports in GDP rise (up to a point), supports the view that conflict is caused by individual greed. However, the share of primary products exports in GDP is a very crude approximation of 'greed', and the results have been shown not to be robust to alternative specifications (Fearon, 2005). There is stronger evidence that oil resources are associated with conflict, but this too depends on the model specification and exclusions of outliers (Fearon and Laitin, 2003; Humphreys and Varshney, 2004). Case studies suggest that even where natural resources are abundant, private maximizing motives are rarely the full explanation. A study of seven countries in conflict concluded:

Very few contemporary conflicts can be adequately captured as pure instance of 'resource wars' [...] Economic incentives have not been the only or even the primary causes of these conflicts. (Ballentine and Sherman, 2003: 259–260)

It is difficult to accept that rational choice can explain the extreme case of suicide attacks, although Mark Harrison (2005) has recently developed a model that attempts to explain these attacks by appealing to a person's sense of identity and self-worth. However, in so doing, the explanation moves right away from individual aggrandizement to community injustices and community constraints and incentives which influence individual's perceptions of their own identity. Although suicide attacks account for only a small proportion of violence, and can be argued to be unrepresentative, most cases of conflict involve a high risk of death or debilitating injury, which, from a rational choice perspective, would seriously hamper future opportunities for utility, so that 'rational' actors might be likely to choose another option before engaging in rebellion. However, while this argument seems relevant to those directly involved in fighting, it may have less force when applied to leaders who are rarely killed or injured. Hence leaders could be motivated by self-aggrandizement while their followers may not follow maximizing logic but

be coerced into fighting, or persuaded to fight by leaders playing up religious or ethnic differences and grievances:

Grievance is to a rebel organization what image is to a business. In the economist's view of conflict, grievance will turn out to be neither a cause of conflict, nor an accidental by-product of it. Rather, a sense of grievance is deliberately generated by rebel organizations... [rebel supporters] are gulled into believing the discourse which self-interested rebel leaders promote. (Collier, 2000: 5)

At this point, the group explanation and individual explanation of conflict come together. Grievances are hard to sell to the extent of people risking their lives if they are not genuine (i.e. unless there is some sort of exclusion or economic horizontal inequalities), while it seems that leaders may be, at least in part, motivated by personal ambition in both the horizontal inequalities and the individual maximizing paradigms. In both cases, it is argued that they are motivated by political exclusion (i.e. political horizontal inequalities) which denies them access to resources and power.

While generally not a sufficient explanation of conflict, it is clear that the expected rewards sometimes play a role in the decision to rebel. As Collier notes, citing the cases of Aceh (Indonesia), Biafra (Nigeria) and Katanga (Zaire), separatist rebellion often emerges in resource rich areas of a country, leading him to conclude that rebellion is 'the rage of the rich' (2000, p. 10). However, there are also examples of separatist movements in regions with poor resource endowment—for example, the Muslim rebellion in Thailand, the Tamils in Sri Lanka or the cases of Eritrea and Bangladesh. In resource rich areas, the gains (and motivation) may be individual or group, or both. However, in many cases, the leaders of the rebellions left lucrative and safe positions to instigate rebellion. Hassan di Tiro, for example, left a secure position at the United Nations in New York to instigate the Acehnese uprising. In the case of Colombia, often depicted as a 'greed' motivated conflict, interviews with both leaders and those who were mobilized to fight, show that generally their economic position worsened as a result of participating in the conflict—most put forward ideological reasons, including the issue of land reform (Sanín, 2004). Thus, short-run aggrandizement does not seem to be uppermost as a motive for these leaders. Moreover, the conflicts in the natural resource rich areas were framed in ethnic terms—the Acehnese in Indonesia, the Igbo in Nigeria and the 'authentic' Katanga groups (as opposed to migrant communities) in Zaire. It seems that promoting the objective of political and cultural autonomy for the ethnic group was also an important source of mobilization.

Hence, while individual maximization is undoubtedly part of the story, it is clearly not the whole story. Group identities and group mobilization is also generally present. While leaders undoubtedly often do sell identities as a way of securing support, they cannot create an identity out of nothing: 'the [past] acts as a constraint on invention. Though the past can be read in different ways, it is not any past' (Smith, 1991, pp. 357–358). A common history, language, culture or religion is generally required to generate felt identities powerful enough to mobilize people for conflict. Nor can leaders expect support unless there are genuine grievances among those who follow them—political, economic, social or cultural.

CONCLUSIONS

In this chapter, we have reviewed explanations of societal conflict and violence located within the broad concept of a failed social contract, both in terms of a systemic failure of the social contract across the entire state, and in terms of a partial failure of the social contract in its extension to a particular group or groups in society. It is important to remember, however, that not all violent conflicts can be understood entirely or predominantly in terms of a failed social contract, and that some conflicts are substantially driven by predation and private interest.

It was also noted, however, that the challenges of developing a functioning social contract are likely to be particularly challenging for newly independent countries. Countries or regions that have gained independence in the aftermath of protracted conflict are often left with conflicting legacies. On the one hand, shared experiences of oppression and resistance can generate strong associational bonds and the basis of an 'imagined community' (Anderson, 1991), from which the sense of mutual association vital for the effective functioning of a social contract can emerge. On the other hand, however, conflict legacies create significant problems for new nations to negotiate. Firstly, as we have discussed above, conflict typically impacts the economy severely, leaving behind, in the case of newly independent countries, a dual challenge of economic reconstruction and political construction. Secondly, and somewhat perversely, the very attainment of independence in the face of oppression can legitimize violence as a means of achieving political ends—one of the reasons theorists of international law are often reluctant to accept normative arguments for secession in all but the most extreme cases of oppression (Buchanan, 2004).

Nonetheless, we have seen that broad socio-economic characteristics associated with 'under-development' constitute conditions conducive to

the emergence of violent conflict. But, where a functioning social contract exists that extends to the whole population, poor countries have been able to avoid conflict and embark on developmental programmes. Crucial here is the building of inclusive political institutions, backed up by an effective and fair fiscal system. Yet this institution building has both subjective and substantive dimensions. While real progress needs to be made in representative democracy and equitable sharing of economic development, the perception of these dynamics is partially based on public expectations. This represents an opportunity for while expanding and developing public institutions is a time consuming undertaking other avenues exists to impact the lives and perception of communities.

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Chapter 4

Peace-Building and the Social Contract

SYED MANSOOB MURSHED

DEVELOPMENT AND THE 'CONFLICT TRAP'

The rational choice approach to conflict has put forward two competing hypotheses to explain civil war in developing countries: greed and grievance; see Murshed and Tadjoeddin (2008) for a survey. They, however, suggest that neither of the two is sufficient for the outbreak of large-scale violence. There must be other factors at work, mechanisms in the middle related to the institutional failure to peacefully resolve conflict. Addison and Murshed (2006) describe these mechanisms as the 'social contract'. Thus, even if capturable resource rents constitute a sizeable prize, violent conflict is unlikely to take hold in states with a framework of widely-agreed rules, formal and informal, that govern the resource allocation and the peaceful settlement of grievances. Such a viable social contract can be sufficient to restrain conflict, and following its collapse on the road to large-scale conflict, reconstructing a new social contract is key to long-term conflict resolution.

Addison and Murshed (2006) indicate that a social contract contain three dimensions. The first is political (the rules that govern political representation, consultation and decision making). The second consists of moral values (the rules that govern personal conduct and society's sense of justice) and the third is economic (the rules that govern production, market exchange and government intervention). This social contract is codified partly, but not exclusively, in the country's written constitution. There are other norms of behaviour that are not in any way formalized, but which nevertheless constitute a strong element of how society functions.

Turning to the history of notions of the social contract in political philosophy, Thomas Hobbes characterized the state of nature as anarchical, akin to perpetual war, with each man taking what he can and no legal basis for right or wrong (see Sabine, 1961). Consequently, it was in the interest

of individuals to collectively surrender their personal freedom of action to a ruler (absolute monarch) in return for personal security and rule-based interactions in society. If Hobbes regarded war as the natural state of man, John Locke (Sabine, 1961) had a more felicitous view of the state of nature. Locke regarded the right to life and property (often just access to common resources) as natural rights, which existed in the state of nature. These rights could not be properly enforced in the state of nature, except through mutual self-help. In civil society, it was the duty of the sovereign to enforce these natural rights; rule ought to be based on consent; society should have the right to oust a tyrant or failing ruler. In general, political theories of the social contract base authority and the exercise of power on rational self-interest, as well as consent, and as such their aim is the avoidance of large scale violence in a well-ordered society.

Contemporary civil wars are more often related to the breakdown of explicit or implicit mechanisms to share power and resources, rather than the complete absence of an agreement to govern these. Among the various factors in question, two domestic reasons may be highlighted. The first has to do with breakdowns in the agreements to share resources in the context of economic decline, and the second refers to the malfunctioning of political institutions. Both of these factors produce what Ghani and Lockhart (2008) describe as the sovereignty gap (the wedge between the state's legal status and its ability to provide basic public goods such as security), and the accountability gap (when the government is unaccountable to the people).

The first point refers to the resource sharing agreements the state, or those in power, have with various stakeholders, and to the breakdown of these arrangements that can produce greed and/or grievance. Within nation states, the fiscal system will secure a workable social contract if the allocation of public expenditures and the distribution of taxes are judged to be fair, or at least not so unfair that some groups judge taking resources by force the better option. Disputes over the distribution of revenues from natural resources are especially common and, as in Nigeria or Indonesia, take on ethnic and regional dimensions. One reason that a contract to share revenues encounters difficulties is the imperfect credibility with which the side that controls the 'pot' honours its commitments.

Secondly, there is the political system. Hegre, *et al.* (2001) point out that the risk of conflict is lower in both well-established democracies and autocracies. They suggest that conflict risk is at its greatest during transitions to and away from democracy, when state capacity is weak, and also in fledgling and imperfect democracies (anocracies). This is when the violent expression of grievance is most likely. Autocracies are adept at suppressing dissent, and

established democracies deal with the same problem in a more peaceful fashion. Also, state capacity (its ability to both police citizens and provide public goods) is greater in established autocratic or democratic societies. The functions of the state are important in maintaining the cohesiveness of society, which in turn is central to a functioning social contract. Besides its legitimate Weberian monopoly over violence, a functioning state must be able to enforce laws, property rights and contracts, as well as have the fiscal capacity to raise revenues and provide public goods (Mill, 1848). The list grows longer with economic prosperity and progress; more affluent nations have bigger governments (as measured by the share of government consumption in national income). Economic decline in 'failing' states severely undermines the state's fiscal capacity, something which can make them aid dependent (Ghani and Lockhart, 2008). Aid dependency, in turn, further diminishes state capacity. Furthermore, a 'failing' state's ability to guarantee personal security, property rights and laws is often limited, leading to the gradual privatization of violence between predatory and defensive elements within society. All of these circumstances combine to produce a degenerating social contract, where individuals rely on kinship groups and local warlords for security and public good provision; this heightens the risk of civil war as society descends towards an anarchical, Hobbesian, state of nature.

The rest of this chapter is organized as follows: in the next section, distributional theories related to conflict resolution arising from the social choice literature are discussed; the following section is concerned with the difficulties of maintaining power sharing agreements that end civil wars in the long run which may require power dividing structures; the penultimate section deals with issues related to federalism (mainly fiscal) that are crucial for solutions to the material basis for greed and/or grievance motivations for conflict; finally, the last section provides a brief synthesis of the diverse issues discussed.

FAIR DIVISION

The post-war or post-agreement economic, political and territorial pie needs to be fairly divided among erstwhile protagonists if the agreement is to be sustainable. A necessary condition for the viability of a peace treaty lies in meeting the participation constraints of those involved, and ensuring that its stipulations are enforced. But it will never fulfil incentive compatibility constraints, which are to do with the exercise of effort to ensure that the accord lasts, unless it is perceived to be just, fair and equitable. If a peace agreement, and the divisions and compromises it entails are perceived to be

unfair then the deal itself will not be robust. The social choice theoretical literature on mechanisms for sharing and division offers us several insights on how to sustain peace agreements. For example, Brams (2006) points out several allocation rules for a single divisible good, many divisible goods and several indivisible goods. All of these have implications for durable peacemaking involving compromises over issues and post-war economic stakes. Sharing in this regard must be equitable as well as efficient. That is why envy-free allocative outcomes are so important. In an envy-free outcome each participant does not regard the allocation achieved by another player to be superior to what he has achieved.

In the case of a single divisible good the analogy with cake cutting is applicable. This may, for example, concern the division of the post-war peace dividend. The application of the envy-free criterion may entail several slices or divisions that may be inefficient and in excess of the number of parties taking part to the conflict. This will be all the more true if what is being divided up is not homogenous. One can visualize situations to do with the division of the expenditure of post-war aid, and the dividing up of land that may require a great deal of parcelling.

A second situation considered by Brams (2006) entails several items to be divided, each of which is in principle divisible. Peace negotiations usually involve several issues, including regional autonomy, sharing of resource rents (such as oil revenues in the Sudan), constitutional changes, power sharing in the federal government and so on. Typically, these issues will involve a long period of extended bargaining. The procedure behind the settlement, if reached, is described as the adjusted winner mechanism. Negotiations on the issues may involve placing upper and lower bounds on the values of each issue, bearing in mind that assigning pecuniary values is more amenable in quantifiable matters such as resource rents rather than for non-monetary matters involving status such as who should be president. Each side will allocate weights on the different issues at hand, and given that each side has a similar number of bargaining chips, each party will win on some of the disputed issues. These will tend to be in areas most highly valued by the concerned protagonist. So if regional autonomy is more highly prized by a rebel group compared to resource rents, they will put a higher weight on it and secure that goal under the adjusted winner mechanism. But one side can end up with wins on many high valued issues, and the consequent allocation could be inequitable to the other side. So this mechanism requires an equitability adjustment. Basically, this means sharing on high valued issues where the two sides preferences are close, or the weights assigned to them out of their bargaining chip allocation are similar. So if the government and the rebels assign a close and high weight to resource

rents, they must share these. In other words, if the government and the rebels both value resource rents highly, one side cannot equitably be allowed to be a sole winner. There has to be a revenue sharing mechanism on this issue. Other issues, where values diverge considerably, tend to be winner take all based on which side places the higher bid. This adjusted winner mechanism gives both sides an allocation which is roughly equal, and more than 50 per cent of the assigned weights from the bargaining chip pile. The problem with applying this equitability included adjusted winner mechanism is that many issues are not easily divisible, such as which side first occupies a rotating Presidency. A further difficulty can arise if the two sides do not have similar bargaining power.

Thirdly, and most importantly, Brams (2006) considers mechanisms for allocating several indivisible issues, such as cabinet positions. The allocation of indivisible goods requires the application of the envy-free principle for any allocation to endure. And, a unique envy-free allocation may not be Pareto efficient. Pareto efficiency means that one side cannot be made better off without making another side worse off. One can make an envy-free allocation Pareto efficient by improving the utility of one side without lowering the utility of the other. But such allocations may not remain envy-free as one side could have a lower allocation of relatively more highly prized items (yielding the same utility) that are being allocated, and consequently resent the other sides allocation. Generally, allocations involving indivisible items are more difficult to achieve. The answers, in the most intractable cases, must lie in sharing: joint access, equal user rights and other 'federal' constructions, as the recent arrangements between the North and South in the Sudan, and immediate post-apartheid South African dispensation (with a rotating presidency) suggest.

POWER SHARING AND POWER DIVISION

Power sharing is an important part of framing any peace agreement that ends civil war. Peace is incentive incompatible if leaders of warring groups do not get positions of power in the settlement that follows. Power sharing can take several forms (political, territorial, military and fiscal). It is a way of re-assuring weaker parties after a conflict via a signal of inclusiveness (see Rothchild, 2008). A lot of thought and attention goes into designing post-war power sharing mechanisms, where the principles behind fair division can be applied. A successful mechanism brings about a balance of power among former belligerents. At first a transitional government and legislature is devised, with shared cabinet positions and even rotating Presidencies on occasions, as was the case in South Africa. Its success or failure rests on the individual parties commitment to the stipulations and mechanisms of

power sharing (i.e. the rules of the game), as well as the presence of external mediation and guarantees for these. A road map is usually prepared with mechanisms that devise a more lasting political and governance structure. The ultimate aims are democratization and economic reconstruction. Is it a good idea that power sharing agreements remain in place in the longer-term political dispensation, particularly in ethnically fractionalized societies, which is the case in most civil war countries?

In the longer run, power sharing by being inclusive (consociationalist as described by Lijphart, 1977, 1999), may be a preferable form of workable democracy to majoritarianism, which is a system where the winner takes all. Power sharing is not only inclusive, as minorities are part of government, but may dampen harmful and potentially conflict producing elite competition. It has been argued to be a superior mode of government (with proportional representation in elections) to the more traditional Westminster style majoritarian systems, as the majority has to accommodate the minority. This is certainly relevant to ethnically fragmented developing countries, and historically supported peace and democratic development in fragmented, yet industrialized, societies like the Netherlands.

While power sharing is necessary for the peace agreement initially, there may be a trade-off between short-term power sharing and long-term institution building which leads to a stable peaceful democracy. This has been described by Rothchild and Roeder (2005) as the *power sharing dilemma*. Rothchild (2008) cogently demonstrated that while power sharing may constitute a convenient short-term mechanism for achieving a peace accord that ends hostilities, it may become a source of long-term tensions. Power sharing arrangements crafted together with the best of intentions may go through an uneasy post-war phase, eventually descending to a stage where they are only partially inclusive (as is the case in the Sudan with the Darfur dispute unresolved at the same time as there is a North-South peace accord; or in Rwanda prior to the genocide of 1994 with Habyarimana playing a mixed strategy of simultaneously working with Hutu moderates as well as pandering to extremist elements). The ultimate denouement could be the collapse of power sharing and a return to violence (Ivory Coast in 2003, say).

The factors that contribute to the demise of power sharing formulas include firstly the problem of asymmetric information in the peace accord. Each side to the peace treaty may have private information regarding their own strengths, the presence or absence of spoiler groups within, as well as its own military capabilities; information that is unknown to other parties and external guarantors of the agreement. This includes some groups or militias attempting to retain an outside option of returning to war by only partially

disarming. Secondly, there may be an imperfect commitment to the treaty, because of the paucity of domestic and international anchors to the peace. To this list we may add the all pervading atmosphere of mutual mistrust and suspicion that characterizes many fragmented societies. Thirdly, we have the underproduction of external sanctions and guarantees of the peace accord, including inadequate external assistance to augment the peace dividend in war-torn societies where the economic pie has shrunk considerably as a consequence of war. Power sharing may also break down if external guarantors are biased, and show excessive favour to one group (the French in the Ivory Coast or erstwhile Zaire). Fourthly, the power sharing deal may be incomplete and not include all relevant groups, as in the case of the Sudan at present. In the Ugandan case, the leader of the rebel Lord's Resistance Army's (LRA) initial motivation may have been related to his non-inclusion in the arrangements following the struggle against Idi Amin. Power sharing may not, therefore, prevent the formation of splinter groups who acts as spoilers towards the peace process.

Fifthly, Roeder (2005) argues that leaders of certain ethnicities have an incentive to escalate the tensions and disputes along ethnic lines that are bound to reappear at some future juncture, thereby undermining the federal government. Various parties to a power sharing deal could try to act as veto players, thereby undermining the system. The stability of power sharing relies on a delicate balance of power. Each side must be deterred from using violence by the belief that it will bring about retaliation or through a cost-benefit calculus which informs their minds that the costs of violence exceed potential gains.

Sixthly, power sharing based on ethnicity is bad for long-term democratization because all the issues tend to 'ethnicized'. Power sharing formulas may even become obsolete if the population's ethnic compositions change over time (Jarstad, 2006). Most societies are dynamic, and the ethnic mix is subject to change. For example, in the Lebanon the allocation of seats in Parliament reflects an obsolete ethnic composition dating back to the 1920s.

Finally, power sharing formulas may give too much weight to those enamoured of violence, and place too little emphasis on moderate voices. This not only endangers the peace accord, but may also retard the future evolution of democracy.

For all these reasons, power sharing formulas need to be carefully designed. One way forward is to have temporary power sharing mechanisms that are dismantled later as democracy takes root. Secondly, mechanisms to prevent opportunistic behaviour by one party or the formation of violent splinter groups have to be considered. Thirdly, the voice accorded to moderate elements has to be increased. Cognizance also needs to be taken of the fact

that a future democratic system may have to take on a different configuration to an immediate post-war power sharing agreement.

The long-term solution, according to Roeder (2005) lies in 'power dividing' institutions, akin to the constitution of the USA. Its characteristics include first, certain limitations on the power of government. So, for example the USA has a Bill of Rights which the state cannot tamper with, and Europe has a Human Rights convention. Secondly, it is important to devise multiple majorities. This, in turn, entails the separation of decision making at various levels. This may include a federated form of governance. But power division can take place even without a politically federal structure in smaller nations. For example, even in city government, one committee decides on finance, another on education policy, another on police and yet another on street lighting. Power division occurs if the composition of each of these bodies is different leading to varying decisive majority configurations, so in one committee one group may have a majority, but not at all levels. Power division also means the separation of powers, as first discussed by Montesquieu (Sabine, 1961), and later by James Madison in his Federalist papers (1787–88). This means the separation of executive, legislative and judicial branches. Thirdly, none of the multiple majorities should have veto power. This means checks and balances (also proposed by Madison in the Federalist Papers of 1787–88) and constraints on the executive power. Constraints on the exercise of executive power are highly important.

One interpretation of the above idea is that there should be more layers of political and economic decision making than there are ethnicities. This is likely to lead to more cooperative behaviour and several overlapping coalitions between groups. Decentralization of the decision-making processes may be relevant here. A federalist construction with provinces or states, rather than a unitary system could be desirable. A bicameral rather than unicameral legislature would be superior. The electoral system whether proportional or majoritarian, should succeed in returning representatives of different ethnicities.

Crucially, Roeder (2005) argues that the very long-term survival of power sharing mechanisms in ethnically divided societies requires the construction of power dividing rules, as described above. Only then it will be stable in the long run. So, power division is essential to the sustainability of power sharing. Roeder (2005) provides empirical evidence in support of his argument.

FEDERALISM

The term federalism usually denotes a system of the government in which sovereignty is constitutionally divided between a central governing authority

and constituent political units like states or provinces. Much of the historical analysis of federalism surrounded the federalist construction of the USA in the 1780s (see the *Federalist Papers*, 1787–88).

Classical liberals argued that federalism could prevent internecine warfare within the federation; Mill (1861), for example, argued that federations created stronger states, reducing the temptation towards aggression and allowed for the maximization of the gains from trade within the federation. He, too, favoured allowing the centre sufficient power to secure the benefits of union, particularly powers to prevent internal cross-border duties that could diminish inter-regional trade. His necessary conditions for a successful federation include overlapping characteristics in race, language, religion, political institutions and rough parity among sub-units to prevent excessive domination by any. Following his logic, modern day ethnically fragmented federations in developing countries should encounter difficulties on account of their seemingly irreconcilable ethnic diversity, and the vested economic interests of some sub-units (locally generated resource rents or apprehensions of its industries being eliminated by larger competition) might make it wish not to join a federation. Tackling these problems will require judiciously designed fiscal federalism and resource sharing when forming federations. It should be pointed out that free trade and financial flows can produce highly integrated economies (globalization) without political union, however, it is difficult to imagine political federation without a degree of greater economic integration.

More recently, three processes of federalism have been identified by Stepan (1999): (i) independent states may ‘come together’ by ceding or pooling sovereign powers in certain domains for the sake of benefits otherwise unattainable, such as security or economic prosperity; (ii) ‘holding together’ federations developed from unitary states, as governments respond to alleviate threats of secession; and (iii) ‘put together’ federations by a strong centre like the former Soviet Union. The ‘coming together’ federations are typically arranged to constrain the centre and prevent majorities from overriding a sub-unit, as in the USA, Switzerland and Australia. These may be more relevant to developed countries. ‘Coming together’ federations are largely irrelevant in poor developing countries where the gain from shared sovereignty seem limited. ‘Holding together’ federations often grant particular sub-units particular domains of sovereignty over language and cultural rights in an asymmetric federation, while maintaining broad scope of action for the central government and majorities (India, Indonesia and Spain). They may be regarded as cases where the object is to appease certain minorities and prevent secession in an otherwise powerful centre, with relevance for most contemporary developing country situations. ‘Put

together' federations are also of importance to post-conflict countries, where external powers interested in the peace often behave like the powerful centre, devising federal arrangements (Iraq, Afghanistan) that become unstable over time because of the absence of sufficient power dividing mechanisms and the general paucity of public goods, which intensifies the competition over scarce resources.

Federalism implies decentralization of powers and functions of the state; the degree of decentralization may be at issue (a strong centre in holding together federations or a weaker centre in coming together constructions), but its salience in ensuring lasting peace through power sharing and dividing is almost indisputable. This is not to deny that flawed federations cannot implode, as the recent examples of the disintegration of Yugoslavia and the USSR painfully demonstrate. Certain federal constructions can become very unstable, if local majorities have interests in undermining federal government, in the absence of stable dividing mechanisms.

The linking of decentralization to conflict is a fairly new area of research, with the international donor and policy community strongly in favour. From an academic viewpoint, Brancati (2006) summarizes two contrasting political arguments about the effects of decentralization in general on secessionist ethnic conflict. On the one hand, decentralization may curtail ethnic tensions and secessionism by bringing the government closer to the people, increasing opportunities to participate in government and ultimately giving groups control over their political, social and economic affairs. On the other hand, decentralization may exacerbate ethnic conflict and secessionism for the following reasons. First, decentralization reinforces ethnic identities by recognizing certain groups in countries, and giving them a sense of legitimacy. Secondly, it enables groups to enact legislation that discriminates against regional minorities. And thirdly, it provides regions with mechanisms, such as regional legislatures, local media and regional police that make engaging in ethnic conflict and secessionism easier. Brancati (2006) conducts a cross-country statistical analysis and concludes that decentralization is a useful device for reducing both ethnic conflict and secessionism, but the effect is undermined by the growth or emergence of regional parties. Roeder (2005) also points out that the risk of conflict escalation (from ethno-politics to national crises) is not diminished in territorial federations. What is missing in many of these studies is the economic dimension, specifically the fiscal devolution of powers to local authorities, which can be argued to be of greater significance than the mere creation of democratically elected sub-national legislatures where greater local competencies are meaningless without economic teeth.

Fiscal federalism means decentralized government expenditure decisions and/or revenue raising powers to sub-national entities. The revenue aspect may be important, particularly for regions with natural resources as in Indonesia or Nigeria, as it appeases local discontent about regionally generated revenues being siphoned off to central government. Other regional governments may be better able to raise local revenues, or even conduct their own borrowing. Decentralization may also increase the utility of regions that can take their own decisions about local public expenditure. It is important, therefore, to distinguish between the revenue and expenditure side of fiscal decentralization and its relation to conflict, although the two are always connected in practice. Note, one can have fiscal decentralization without elaborate political federation and vice-versa; however, a modicum of local decision making has to be in place for fiscal decentralization, be it solely administrative.

On the expenditure side, a citizen is normally indifferent to who (federal, state or city government) provides public goods, as long as provision is adequate. Citizens may care about the type of provision in some instances, say about what languages are taught in school, which might vary over different education authorities. Nevertheless, many expenditure priorities are the subject to political processes and the formation of public policy. Then, it may matter which executive authority (regional or national) or what legislature (regional or national) decides on public finance and spending priorities.

Related to this is the theory of club goods (see Cornes and Sandler, 1996 for a succinct survey). As the name suggests, club goods are excludable and voluntary. Only members can benefit from the club good, and membership is voluntary. The provision of club goods does not always require state intervention, as members incentives do not lead to under-provisioning. As with a public good, members of a club do share something, so the rule for the optimal provision for public goods based on the vertical summation of individual preferences for the common good or service applies. But here, there is an additional requirement, related to membership. This is to do with the fact that on the one hand increased membership can reduce per-unit costs (because of economies of scale or scope); but on the other hand, more people sharing leads to congestion and may crowd out benefits. So, both of these factors need to be taken into account in the pricing and provision of club goods. The important point here is that many government services are closer to the characteristics of club goods (or at least they are impure public goods) compared to pure public goods, particularly at the local level. Furthermore, an outcome closer to the club goods optimum may be achieved with greater local control over public expenditure. Since this implies volition, it may be conflict reducing.

What role does fiscal federalism have for ethnic conflict resolution? Besides outright war involving the state, ethnic violence can also take the form of peaceful protest by ethnic groups, or sectarian violence that is not targeting the state or rebellion against the state.

Tranchant (2007) points out that fiscal federalism, by decentralizing public expenditure decisions, is in principle violence reducing if different ethnicities are concentrated in different geographical entities of the federation. In other words, if each group is the majority in one of the sub-national units that make up the federation, the likelihood of peace is increased. This still leaves the problem of their conflict with remaining minorities inside the sub-national unit and violence risk is increasing in the number of minorities. Fiscal federalism, however, will not reduce conflict if minorities are thinly spread across the whole country because these minorities are not a majority anywhere. More generally, there are other problems as well, fiscal federalism can cement ethnic cleavages, it can act as a method of appeasement only for resource rich regions, and fiscal federalism can generate veto-player functions where blocking by a region does not abate conflict.

What is the empirical evidence across countries? Tranchant's (2007) empirical strategy looks at the risk of conflict onset, and also its intensity, once there is onset. Fiscal decentralization increases the intensity of protest, but not the risk of protest onset for dispersed groups. As far as rebellion is concerned, decentralization reduces the risk as well as the intensity of this phenomenon when minorities are a majority in some jurisdictions of the federation, and even reduces rebellion in some dispersed cases. Sectarian violence is also reduced by fiscal decentralization. By contrast, Alemán and Treisman (2005) in their case studies of four countries (India, Pakistan, Nigeria and Yugoslavia) find no systematic evidence to support that fiscal decentralization lowered the risk of secessionist violence, but fiscal appeasement (which allows some regions more resources or to keep more locally generated revenues) may help in conflict abatement. Fiscal appeasement may have more to do with the revenue or income side compared to decentralized expenditure decision making.

Badly conceived fiscal federalism, or the failure to adapt federalist rules to new and emerging situations (such as natural resource discoveries or debt burdens) can exacerbate latent conflictual tendencies in federations. In countries where minorities are dispersed, other forms of functional federalism or power dividing mechanisms are necessary in addition to fiscal federalism. Fiscal decentralization might work better in middle income countries with greater revenues to spend on public goods, and in countries where resource rich regions demand financial autonomy. Indeed, Tranchant (2008) empirically demonstrates that fiscal federalism is more successful at reducing conflict

risk in countries with superior institutions using the international country risk guide (ICRG) data, implying that better institutional quality means the country has superior governance, and more durable political institutions. In particular, nations with malfunctioning institutions often have weak central governments, which encourages violent challenges and fiscal decentralization may fail to mollify potential rebels.

SYNTHESIS

The preceding sections have identified three factors that contribute to long-term peace and the reconstruction of the social contract. These also correspond to the three dimensions of the social contract, identified by Addison and Murshed (2006). The first is an equity consideration, or a dimension of distributive justice. Here we draw on the social choice literature on fair division. Fair division can be across a single divisible, several divisible and several indivisible issues or items. In each case equity considerations apply, especially the principle of envy-free allocations. Without it, any post-war settlement is unlikely to endure.

Secondly, we have a more realistic vision about the balance of power which maintains peace among potential protagonists. In ethnically divided societies, power sharing may be insufficient to sustain peace if the leaders of different ethnicities have incentives to escalate conflicts, or ‘ethnicize’ future conflicts. In some cases, power sharing may become the source of future conflict. In these circumstances, power dividing formulas that devise multiple decision-making layers, with no single veto player, may be necessary. These arrangements point to a federal political system, although federalism is not essential to power division. In the end, multiple sources of power (power division) may facilitate and stabilize power sharing among different ethnicities. Many federalist constructs are imposed by outside powers or donors following a conflict. These arrangements may not hold together, unless they are domestically incentive compatible. A similar argument applies to agendas for democratic development. Unless democratization and power sharing (dividing) formulas are *sui generis* (endogenous), they will not withstand the test of time.

The third aspect concerns decentralization in the allocation of public expenditure and revenues, fiscal decentralization. Revenue sharing can be important to many settlements following civil war, particularly when there are valuable local resource rents at stake, and certain groups are disaffected by their inability to effectively control what they regard as rightfully theirs. Equally, expenditures may be important, and decentralized decision making

about public expenditure may yield greater utility to local communities. So, potentially we have two issues here concerning peace building. The first is to do with appeasing potentially disaffected groups about controlling locally generated revenues; giving these groups greater fiscal powers over revenue amounts to fiscal appeasement via increased regional public sector income, and this may be necessary to avoid conflict. Secondly, there is local control on the nature of public expenditure in ethnically divided societies. This is, broadly speaking, conflict reducing if each fiscal sub-unit has a substantial and different majority ethnic group. If ethnic minorities are thinly spread across the federation, other means of addressing potential public expenditure grievances have to be devised by the central government, leading to a broad-based and inclusive provision of public goods with the special needs of certain groups (language, say) met. Decentralized decision making about public expenditure may be more relevant for middle-income developing countries, as there the share of government consumption as a proportion of GDP is greater and more significant than in low-income developing countries.

Finally, the social contract is among citizens, individually or in groups, with the state or sovereign authority. Consequently, the failure of the state to fulfil its functions leads to the breakdown of the social contract, and in many instances to civil war. Once an uneasy peace is established, besides the restoration or reconstruction of the social contract state capacity needs to be rebuilt. Of the functions of the state, four areas may be highlighted, the first two of which constitute the primary functions of the state in classical liberalism.

First, the state must be able to enforce laws, contracts and ensure the personal security of its citizens. Otherwise violence becomes privatized, and the state loses its legitimate Weberian monopoly over violence. In many failing states, people have to rely on kinship ties to fill the sovereignty gaps left behind by a failing state. Secondly, the state must have fiscal capacity, both at the central and decentralized levels, to raise revenue and provide public goods. In states, which are at a post-conflict reconstruction phase, this hugely important task of rebuilding state capacity is often thwarted by the manner in which external assistance is provided (see Ghani and Lockhart, 2008). The state's role is often supplanted by donor provision of public goods (including particularist procurement practices), and the presence of financial aid stunts the development and need for domestic resource mobilization. Besides official aid donors, the activities of development non-governmental organizations (NGOs), both domestic and foreign, retard the development of state capacity.

Thirdly, the state has to provide the framework within which long-term economic growth is made possible. Long-term growth may depend

on institutional quality, but more immediately the right policies have to be followed. These could include addressing inadequate infrastructure, the paucity of financial capital, restrictive trade policies and so on. Sound macroeconomic management that results in sustainable fiscal deficits, inflation control and balance of payments equilibrium is also part of a growth enhancing strategy.

Finally, the state needs to be able to regulate the market. Just as the market can provide the basis for prosperity that ultimately diminishes the chances of conflict, the unregulated activities of the market can not only produce major economic downswings (the prime example of which are financial crises, which inordinately impinge on the real economy), but the workings of the free market can enhance conflict risk. Also, the government needs to ensure that growth needs to be broad-based in order for it not to ignite conflict. Despite the fact that growth ultimately reduces conflict risk, the road to prosperity along its path increased risk of conflict, unless measures are taken to address poverty and inequality, which in turn breed the greed and grievances (resource rents, polarization, horizontal inequality and relative deprivation) that produce conflict. The inevitable structural changes to the economy that emerge in the wake of growth always produce winners and losers, a some become richer and others become relatively poorer. For conflict to be avoided, the losers must not be allowed to fall too far. Thus, the current donor focus on poverty reduction is simply not enough, the presence of conflict risk enhancing inequalities also need to be addressed.

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Chapter 5

State-Building for Peace-Building: What Theory and Whose Role?

SUSAN L. WOODWARD

INTRODUCTION

It is now widely agreed that the primary cause of civil war, poverty, underdevelopment and humanitarian crises is state failure. Thus, to end civil wars, reduce poverty and promote economic growth, and protect civilians, states must be built, or rebuilt. Foreseen by UN Secretary-General Boutros Boutros-Ghali in his 1994 *Agenda for Peace* and declared by the OECD Development Assistance Committee (DAC) in its 2005 Paris Principles to be its “central objective”, state-building is now the primary focus of a wide range of international actors in both development and security communities.

Neither the empirical or analytical basis for this consensus is clear, however. Both practitioners and the research communities also agree that the results from international assistance to state-building are discouraging, yielding no examples of success from which one might learn. Astri Suhrke’s conclusion for Afghanistan is echoed throughout the case study literature: “aid has overwhelmed and marginalized the Afghan state, thus undermining the very state-building process it supposedly is designed to promote”.¹ Comparative case studies identify long lists of what does not work as currently practiced and recommendations for change, not evidence of what does (e.g., Call, 2008). One finds little discussion, moreover, of the causal reasoning behind specific state-building policies and their presumed outcomes with which one might analyze such results. The policy literature provides no theory of state-building, only many partial explanations, major disagreements and debates, and concern for the lack of policy coherence.

The academic literature raises even more fundamental questions about this consensus. In the literatures on civil war and on economic development,

the causal direction is the *reverse* of that presumed by the policy consensus: state-building (a contest between a government and its rivals or among rivals over who rules) is what civil wars are about and thus why they start, and state failure or strength is the outcome of a chosen strategy of economic development, not its cause. The idea that state-building can be an international policy undertaken in a discrete period of assistance, moreover, violates all academic knowledge on what is called state formation. State-building is a long historical process, specific to each country, and the product of decisions by local rulers when their power and authority are under threat from domestic challengers or due to changed economic or security conditions, usually as a result of exogenous shocks.

This chapter proposes, accordingly, that international policies of state-building and their consequences are better understood and analyzed in any particular country as a part of its longer historical process of state formation and transformation. State-building as an *international* objective of assistance policies to prevent or end armed conflict should be seen in context as external resources that will influence the political balance among these domestic actors in their contest over the state and its transformation at that historical moment. Assistance policies may also have acted as exogenous shocks that destabilized the domestic political equilibrium in the first place, thus part of the cause of armed conflict. Similarly, if international assistance policies during a period of ceasefire do not help to restore a political equilibrium but, instead, continue the political contest, they become endogenous to that contest and can prolong the war rather than supporting its end.

Two aspects of current state-building policy make such an analysis difficult, however. The first is that state-building as a goal of international assistance actually comprises a set of many different international policies and actions, each with its own separate rationale, and linked only by the target of their policies and projects. There is no overall strategy of state-building. The particular components of concern for each actor do not follow from an agreed theory of state-building—major debates exist among these external actors. And the separate theories of state-building at least implicitly guiding assistance policies are not theories of peace-building—why state-building as thus conceived should lead to a sustainable peace. Most policies were developed for other purposes and circumstances and have evolved in the past two decades as they adjusted to these different conditions, but in a piecemeal and ad hoc manner.

The second aspect is that international state-building, as with peace-building more generally, tends to be “narcissistic” (Fortna, 2008, p. 175). Policy design, needs assessment, and evaluation are all done by outsiders.

They view their actions as exogenous to local politics, but paradoxically assuming little influence while expecting much. Countries and local actors are viewed largely as aid recipients whose actions are relevant only in terms of outsiders' policies and expectations, as captured in terms such as "political will", cooperation, obstruction and absorption capacity. We know very little about what Fortna calls the "peacekept," that is, "the decision-makers within the government and rebel organizations".²

Because state-building as a policy of international assistance is, this chapter argues, only part of a larger context of state transformation in each specific instance, then its goal of "a durable exit from poverty and insecurity" (OECD, 2005, Preamble) requires a reassessment of current policy. The question is not whether the state is central to peace and development, but what aspects of state-building are necessary to end civil wars, and secondly, what role international assistance and external actors can and should play in that state-building process.

The goal of this chapter is to elaborate these two aspects of current policy as background to urge such a reassessment. It turns first to the many different components of the current consensus on state-building and then to fundamental debates within the literature. The chapter turns second to the efforts in the academic- and policy-oriented literature to explain the inadequate results of existing policy and practice: for some, the problem lies with the theoretical framework and model of state-building, but for most, the problem lies with operations. The chapter concludes with a brief discussion of the very different nature of the state-building problem in countries emerging from civil war then is presumed by current international policy and practice and its implications for a reorientation of international assistance.

COMPONENTS OF THE CONSENSUS

As a policy, state-building is composed of many separate agents and their policies and respective conceptual and theoretical underpinnings. It is an agglutinative field, adding new components over time without rejecting previous policies, and it continues to evolve. Its constituent communities remain distinct and bureaucratically autonomous, and their convergence on the importance of the state and the goal of state-building is not reflected in a common policy or even common motives. I suggest there are currently six components; others might divide the field differently. In analyzing the influence of these policies on peace and development in a particular country, what matters is to distinguish among them.

Good governance. The idea that economic development (most often called “post-conflict reconstruction”) is essential to a sustainable peace after civil war is quite recent. When international assistance in peace-building begins in the early 1990s, there are references to the need for a national reconstruction plan in some peace agreements, such as that for Cambodia, but it is only with the extensive involvement of the World Bank in designing a post-war recovery and reconstruction programme for Bosnia-Herzegovina, in 1994–96, that the argument on the existence of a “peace dividend” of early economic recovery begins to be made. Because World Bank assistance requires a prior agreement with the International Monetary Fund (IMF), and an IMF agreement requires a prior settlement of a country’s debt arrears, economic policies for peace are not formulated in terms of their contribution to peace but in terms of policies necessary for aid—beginning with IMF-designed macroeconomic stabilization and related policies to pay the debt arrears and manage future foreign debt and trade deficits. The addition of a development component, similarly, arose in relation to humanitarian relief and its limits, thus the appropriate timing for its reduction and by default, the start of normal development assistance. Again, the relation between development and peace was assumed.

The focus on the role that the state should play in this peace-oriented economic development, similarly, originates outside the peace and conflict literature in the emphasis emerging during the 1990s at the World Bank and the development assistance community more broadly on the necessity to economic growth in general of what it calls “good governance”. Thus, without much reflection, economic growth was assumed necessary to peace, and whatever role the state should play in achieving economic growth was thus necessary, too.

Given the particular importance of an IMF programme in the initial period after a ceasefire or peace agreement, it is perhaps ironic that the emphasis on good governance at the World Bank was actually a response to the acknowledged failure of structural adjustment programmes and their associated aid conditionality in the 1980s to generate growth in poor countries. The diagnosis was that governments had been unwilling or unable to implement the necessary policies. The Bank refocused, thus, onto political reform to obtain policy makers and states that would. Unrelated to war, the shift began in the Bank’s 1989 report on Africa with a call for democracy (Abrahamsen, 2004; Harrison, 2004; World Bank, 1989). The assumption, apparently, was that democracy meant greater influence of citizen participation on government policy and democratization of what were generally considered neopatrimonial, rent-seeking political regimes would, thus, give greater influence to the private-sector, middle class and

its economic interest in liberalization. Worried that this call for democracy would appear to violate the Bank's charter, the Bank's lawyers required a change in language. The more neutral term *governance*, as is manifest in the 1992 study *Governance and Development*, was chosen. By the mid-1990s, econometric studies by bank researchers, such as David Dollar and Craig Burnside (Burnside and Dollar, 1997, 2000, 2004), demonstrated, it was said at the time (a large critical literature has emerged since³), that government and government policy, a factor that they labelled institutions, was critical in explaining variations in economic growth. The influence of new institutional economics was also being felt simultaneously on policy debates within both the World Bank and the IMF over the cause of failure in the economic transitions in eastern Europe and the former Soviet Union of shock-therapy (radical macroeconomic stabilization, liberalization and privatization) to generate predicted results in all but Poland (the Czech Republic was said to have followed these prescriptions, but it did not, in fact) (Selowsky, 1998). By 1997, the Bank devoted its annual development report to *The State in a Changing World*. Neither the institutional bases of economic growth nor the debates among economists about economic reforms in transition countries, however, concerned peace or peace-building.

The role of "good governance" assumed even greater importance in the late 1990s when the aid community, and above all bilateral donors, turned their attention to measures of aid effectiveness and, as with structural adjustment, the discouraging evidence on the contribution of aid to economic growth or poverty reduction emerged. The chosen solution was to be more selective by directing aid only to those countries with governments that demonstrated political will and institutional capacity to implement the necessary policies. Already in 1996, World Bank researchers developed indicators to measure these "good governance" standards (the Worldwide Governance Indicators [Kaufmann, Kraay and Zoido-Lobaton, 1999; Kaufmann, Kraay and Mastruzzi, 2008] and related CPIA⁴ at the World Bank), which were soon followed by related global indicators such as measures of corruption used as a precondition for US aid through the Millennium Challenge Account of the Bush Administration and lists of countries likely to be "bad performers" or "difficult partnerships", such as poor, highly indebted countries (Low-Income Countries Under Stress [LICUS] and Highly-Indebted Poor Countries [the HIPC Debt Initiative]) for the World Bank. Although the World Bank developed a separate unit for post-conflict countries, the purpose was to create a dedicated fund for (small) post-conflict-related projects, not to support the development of a separate theory about the relation between development and peace-building. The decision by 2004 of both the Bank and

the OECD DAC to combine units on post-conflict countries with those on highly indebted, poor, difficult partnerships, calling them all “fragile states” would appear to substantiate this analysis, that of a shared assumption that aid for development in general was simultaneously aid for peace.

Similarly, the interest among bilateral development agencies in developing conflict assessment strategies so as to reduce the role that aid was seen by some to be playing in *generating* conflict in 1999–2004 had ceased by 2006. The problem of poor economic indicators, whether measured by growth rates, ability to service debt or poverty measures such as poor performance on the Millennium Development Goals established by the UN in 2000, was even more explicitly said to be states and the lack of good governance.

Nonetheless, the *1997 World Development Report* was followed immediately in 1998 by a World Bank policy on post-conflict reconstruction. The Bank designed such policies, based increasingly on a needs assessment mission in the country which it did jointly with the United Nations Development Programme after 2003, and every peace agreement with any international assistance in its implementation was followed rapidly by a donors’ conference (led by the World Bank alone or together with the relevant regional development bank and interested major powers) to pledge aid for specific components of the programme. Although primarily infrastructural reconstruction and development, the need for speed was increasingly emphasized on the grounds that a visible peace dividend was essential to sustain the peace process.

State-building in such a programme meant what the *1997 World Development Report* did, that is, reducing the activities of the state to those functions (it names five) necessary for markets to work; secondly to make the state more economically efficient such as ways to reduce transaction costs, attack corruption and introduce cost-savings incentives through competition with the private sector; and third to lower social and political expectations to be more in line with existing capacity. Moreover, in some cases, beginning with Guatemala and Bosnia-Herzegovina, the World Bank participated in peace negotiations directly to ensure that institutional choices made by the parties were fiscally responsible and primarily “agencies of restraint” (Collier, 1996, pp. 282–283). Although this growing focus on the state by the development community did generate a substantial debate about whether it reflected a new appreciation for the developmental role of the state and its very rich literature and practice in the 20th century or a move to consolidate the same neoliberal, pro-market policies through governmental reform (Abrahamsen, 2000; Crawford, 2006; Doornbos, 2003, 2006; Orford and Beard, 1998), the Bank itself acknowledged the latter position with its 2002 Development Report, *Building Institutions for Markets*.

Aside from its assumption that economic growth was necessary for peace, and good governance was necessary for growth, as Merilee Grindle argues in her 2004 plea for “good enough governance”, the state-building agenda of goals and tasks was “overwhelming”, “unrealistically long and growing longer over time”, with no priorities identified or guidance on what is essential, on sequencing or on feasibility. In the 1997 report, Grindle counted 45 aspects of good governance that “must be done”; by 2002, “the list had grown to 116 items” (Grindle, 2004, pp. 526–527). The 2005 “Post-Conflict Reconstruction: Essential Tasks Matrix” of the US Office of the Coordinator for Reconstruction and Stabilization in the Department of State consists of 359 pages of tasks with temporal sequencing for each, although no priorities among them. The narrowly conceived “economic stabilization and infrastructure” section (separate from governance and social well being, for example) takes up nearly one-half (170 pages).

Peacekeeping operations. A second component of the consensus on state-building in international assistance policies emerged during the 1990s in response to a momentary but unexpected spike in the trend of armed conflict globally and its related international response, an era of activism, particularly by the United Nations, to end the civil wars of the early 1990s and their associated violence, atrocities, genocides, ethnic cleansing and war crimes. These actions were two-pronged: to help negotiate an end to the civil war and then to deploy peacekeeping operations to help implement the agreements made. The first is said to begin in 1989 with Namibia, although this operation was actually authorized in 1976, on the basis of a 1967 assumption of UN “legal responsibility”, but delayed by South Africa for more than a decade (Chesterman, 2004, pp. 58–59). The framework and term (peace-building) for what became 33 peace operations deployed between 1989 and 1999 alone (many more after 2000) under ever more complex mandates is presented by UN Secretary-General Boutros-Ghali in his January 1992, *An Agenda for Peace*. A far more sober Supplement in 1995 and the actual evolution of UN peace operations during the 1990s reveal, in fact, a more modest and less comprehensive practice.

Because it is generally accepted that UN peacekeeping operations now are the heart of state-building activities, it is important to notice that this component, while clear about peace-building, does not yet have an explicit theory of state-building or agreed definition of the concept. Nor does it have an agreed rationale for state-building as key to peace-building. Instead, as Simon Chesterman (2004) demonstrates, the trajectory of peacekeeping generations, from traditional to second-generation to complex,⁵ has not been

driven by theory but by practice. Some argue that this absence of explicit reference to state-building parallels the debate within the World Bank over the legal limits of its Charter on activities that might appear to be political and thus a violation of the principle of non-intervention in the domestic affairs of a sovereign state. In the case of the United Nations, the principle is reinforced by the sensitivity of its member states and thus greater reluctance even to suggest a term. But this does not fully explain the reluctance to equate peace-building and state-building or even to give state-building highest priority.

This practice has been defined instead by the mandate that the Security Council defines for each operation. Because that mandate is defined, in turn, by the specific terms laid out in the negotiated political settlement to the war, when there is one, although limited by the resources which Council members are willing to commit, and because civil war is about the state, however, the role of the peacekeeping mission is state-building in some form in all but name. Initially, that role was simply to facilitate the political equilibrium established by the ceasefire or third-party negotiated peace agreement, through monitoring whatever components of disarmament and demobilization are agreed among the parties and elections to a post-war government (but also to help organize them by the time of the Cambodian mission in 1993). Already by 1993–1995, it is possible to argue that their role in implementing the human rights provisions of the El Salvador agreement, in assisting RENAMO in standing for elections as a nascent political party instead of a rebel army in Mozambique, and in implementing the judicial reforms intended as confidence measures for disarmament in Guatemala did contribute to governmental change, if not state-building itself.

By 1994, however, human rights field officers had begun to promote what by the end of the decade was called the “rule of law”—“to engage in institutional reform that would buttress respect for human rights, enhance accountability for perpetrators, and seek to involve nongovernmental organizations so that they would have a say in how their state operated . . . [including] the judiciary, the police, the military, and the prisons” (O’Neill, 2008, p. 94). By 1999, peacekeeping operations had even been tasked to assume the authority of transitional administration in Kosovo and East Timor for the purposes of building states where there had been none before.

Causes of civil war. Although the relation between the state and peace was assumed by the good-governance agenda of development donors and automatic in the mandate of peacekeeping operations, theorizing about peacebuilding did emerge during the 1990s among researchers studying the causes of civil war. Two schools of thought dominated, one from the

development community and the other from the scholarship on rebellion and revolution. Although these researchers' focus was to explain the onset of civil war and to identify risk indicators that could be used as early warning indicators for policy action, their research coincided with the growth in international activism to negotiate an end to the violence of civil war and assist in implementing the resulting peace agreement. The research thus became influential on these policies.

The first of the two schools was actually led by World Bank research economists who focused on the motivation for rebellion. Rejecting wholesale a long-standing academic school in political science that focused on insurgents' political grievances, such as perceptions of injustice, actual discrimination and repressive government, the team led by Paul Collier argued in their research that the causes were economic, but not inequality and poverty, rather opportunities for looting and illegal profit by greed-oriented rebels and the unemployed young males they could recruit. Economic growth in general was the solution, together with careful controls by both the government and the international community over the management of natural ("lootable") resources, such as diamonds, sharp cuts in the military budget to release funds for investment and the good-governance reforms sought by the development community to increase the "absorption capacity" for aid in the post-war state so that growth would occur.

The second of the two schools in what was labelled a debate between "greed and grievance" (Berdal and Malone, 2000) was promoted by those who explained rebellion as a response to discrimination, particularly toward minorities, and especially by dictatorial regimes. Democracy and minority rights were the solution. This school was particularly influential in the United States, where it reinforced commitment to democracy promotion, but it also encouraged non-governmental organizations, such as the foundations created by political parties in the United States and Germany, and official ones, such as the Organization for Security and Cooperation in Europe (OSCE), to use the security umbrella of peacekeeping operations to provide assistance for political development of political parties, legislatures and legislators and the civil service. It is worth noticing, however, that their emphasis on political rights, participation and inclusion was a narrowing of the older school's emphasis on (locally defined) social justice.

By the late 1990s, growing criticism of the economic arguments promoted by the World Bank coincided with the emphasis on legitimacy in the second school to produce a kind of consensus that civil war was caused by governments that had lost legitimacy (the "grievance" school) or were insufficiently strong to deter or defeat rebels (the "greed" school) (Fearon

and Latin, 2003). The solution was state capacity to be militarily effective against potential rebels while becoming democratic so as to reduce the risk of rebellion and regain legitimacy.

The return to questions of legitimacy in the research community also coincided with developments in the policy community in its search for legitimate bases for intervention to protect civilians, whether in humanitarian emergencies such as Sudan or by ending wars in Bosnia, Liberia and Somalia. If governments failed to protect their citizens, as the 2000 report of the International Commission on Intervention and State Sovereignty formulated an emerging consensus, there was an international responsibility to do so. Any such intervention would then, necessarily, oblige actions to build states in their place that could provide order, services and rights effectively and were, thus, legitimate.

Although these arguments provided a more explicit theoretical grounding for state-building, to restore or build a government capable of governing, their analysis was presented and tested at such a high level of aggregation that they did not generate actionable prescriptions beyond very vague policy recommendations about “capacity-building” to “deliver services” and create a “rule of law.” The concepts of “political will” and “capacity” were often not distinguished, nor were the specific capacities and institutions that matter most.

Peacemaking. As the previous section on peacekeeping operations argued, state-building emerges most explicitly from the diplomatic process and subsequent Security-Council mandate given to peacekeeping/peacebuilding missions. Over the 1990s, peace negotiations ended an ever larger percentage of civil wars, in sharp contrast to the cold-war era (ending 38 of 54 civil wars, or 70 per cent in the period 1990 to 1999 [Fortna, 2004b]). The resulting written, signed document, in turn, came to include ever more details about the post-war state beyond the holding of elections and the principles of a post-war security structure (such as a unification of armies or a demobilization of insurgents). Diplomatic practice had begun to converge, Chandra Lekha Sriram (2008) argues, on a set of what she calls “governance incentives” that third-party negotiators “commonly [offer] to induce armed groups to negotiate peace agreements, and to implement peace agreements”. She identifies four types of such governance incentives: power-sharing, inclusion of former combatants in security forces, resource-sharing (direct economic benefits or a share in the governance of resources), and territorial autonomy. These are explicitly state-building commitments. Although the Dayton peace agreement for Bosnia-Herzegovina under US leadership was an explicit, early

state-building constitution and strategy, peace negotiations in general become ever more detailed on the constitutional provisions and state transformation which peacekeeping missions are sent to help implement.

As other analyses (e.g. Curtis, 2005) of the effect of peace-agreement terms on the post-war state (many of them based on highly developed theories of conflict resolution) also find, however, Sriram's comparative analysis demonstrates that these diplomatic incentives to end the conflict "frequently generate institutional arrangements and political dynamics that are unstable in the medium to long term". Because each negotiated settlement is a joint product of the warring parties at the negotiating table and their external mediators and because the context in which each settlement must be implemented includes a country's pre-war political institutions and those that warring parties developed to wage war and administer territory they controlled, the result varies as great as there are cases, despite the common principles that negotiators take from one case to the next. The evidence of outcomes, however, is sufficiently common to suggest strongly that theories of war termination or conflict resolution are not theories of peace or the relation between state-building and sustainable peace.

Security and justice. In 2000, the Brahimi Panel Report on United Nations Peace Operations called for a "doctrinal shift" on security in peacekeeping operations. While peacekeeping troops and UN civilian police had been monitoring the implementation by militia and leaders of the armed forces of their commitments in a peace agreement to cease fighting and demobilize and in some cases, as El Salvador, the commitment by the government to respect the human rights of all its citizens, the result was not an end to violence but a shift from wartime violence to new sources of post-war violence against civilians that was often even greater in levels than during the war. The panel's call for a doctrinal shift was to recognize that post-war civilian security—establishing "the rule of law", transforming police forces from agents of state security to protectors of individuals and their human rights, and building the components of judicial systems necessary for enforcement of the civil and criminal law (such as trained and apolitical judges and prosecutors, administrative staff of a court system, intelligence activities, in addition to trained police)—were also essential to peace.

Two additional pressures for this doctrinal shift on security occurred at the same time. Peacekeeping forces sent to monitor peace agreements that did not have the full support of the population and provoked new violence, such as in the return of refugees to their pre-war homes in Bosnia-Herzegovina or the continuing fight in Kosovo for independence, began to insist that they were not trained or suited to "policing" tasks. Greater effort needed to be put

on the development of local police forces, not just demobilization of armed groups. Second, by 1998, the Canadian and British development agencies began a major focus on military expenditures and the need for security sector reform as critical to a shift in fiscal resources to post-war development and, simultaneously, civilian (democratic) control over the security apparatus (particularly the military) in post-war countries.

These pressures reinforced the explicit state-building components initiated earlier by the human rights community and the growing focus among human-rights activists on the necessity to peace, in their view, of “transitional justice”. They argued, that is, that no peace is sustainable without full accountability for crimes committed during the war as defined by the international laws of war. International criminal courts established for the Yugoslav, Rwandan and Sierra Leone cases required assistance from police and courts within these countries and, subsequently, the assumption by a domestic judicial system of this responsibility.

Regime change. Finally, the policy consensus on state-building cannot be separated from three explicit state-building projects of contemporary international intervention aimed not at peace but at regime change. These American military interventions and imposed constitutions, with or without UN assistance, in Bosnia and Herzegovina, Afghanistan and Iraq, are now identified as state-building (in American jargon, inappropriately labelled nation-building). Although an explicitly conflict-provoking strategy and not driven by any theory of the relation between state-building and a lasting peace, their failures to stabilize politically have generated pressure for change in most other contemporary cases of peace-building.

FOUR FUNDAMENTAL DEBATES ON STRATEGY

Each of these components of the consensus on state-building in practice are only pieces of the totality of state-building activities. To add them up to a strategy in which these separate activities can be complementary, on the assumption of those promoting policy coherence that this would make such assistance more effective, requires confronting a second problem: fundamental disagreements about strategy which deeply divide camps of researchers and practitioners. I suggest that four debates currently dominate.

The most fundamental debate is about whether a strategy of state-building is even possible. Two of the most influential works in this policy agenda illustrate the two poles. On one side are those, with Francis Fukuyama in his 2004 *State-Building: Governance and World Order in the 21st Century*,

who insists that failure currently flows from a lack of respect for context, for historical and cultural difference, and for the essential role of local “ownership” to success. Fukuyama provides three reasons. First, a very small part of what he calls the four nested dimensions of “stateness” is transferable knowledge at all. Second, in no aspect of state-building, including the only dimension that he considers susceptible to being transferred, that of public administration or management, are there theories, principles, or optimal sets of institutions to guide state-builders. Third, all external efforts at state-building in any part will fail if they are not preceded by domestically generated demand.

The opposite position is best represented by Ashraf Ghani and Clare Lockhart (2008) who argue that the problem is not theory but insufficient agreement among state-builders on what state-building entails. In *Fixing Failed States: A Framework for Rebuilding a Fractured World*, they write that “The key to state building is first to agree on a goal and the functions of the state to support this objective . . . a strategic framework for defining the functions of the state, designing the organizational structure necessary for the performance of those functions, and aligning actors to the goal of state building”. Unless one accepts their list of ten functions, however, this criticism is effectively no different than that of Fukuyama’s insistence on context because there are almost as many proposed frameworks and templates or best-practices codes as there are critics urging such agreement and policy coherence.

A second debate concerns the position that international state-builders should take in the field. Should the international community be more assertive—more colonialist as Chesterman says⁶—or should it have more of a “light footprint”, in Lakhdar Brahimi’s unsuccessful effort to put the Afghan authorities in the driving seat in 2002? Although all studies on post-conflict state-building emphasize the necessity of what they call local ownership, the concept itself is rarely defined operationally. In theory, a middle position appears possible as in the proposal developed by Ghani and Lockhart for a negotiated partnership between international actors and national authorities from the beginning. Balance of opinion and practice weigh on the directive side, however, on the argument best represented by Stephen Krasner’s claim that “Left to their own devices, collapsed and badly governed states will not fix themselves because they have limited administrative capacity, not least with regard to maintaining internal security” (2004, p. 86). The preference is for transitional administration, “neotrusteeships” (Fearon and Laitin, 2004), and a variety of forms of “shared sovereignty” (Krasner, 2004) such as the Governance and Economic Management Assistance Programme (GEMAP) in Liberia (Dwan and Bailey, 2006).

A third debate does not challenge the list of tasks identified by the multiple components but disagrees on their sequencing. The order matters substantially to success according to Paul Collier, *et al.* (2003), Collier and Hoeffler (2004), and Roland Paris (2004) for both of whom governmental institutions must be built before democratic reforms, including elections. In contrast, Ohiorhenuan and Kumar (2005) of the Bureau for Crisis Prevention and Recovery at UNDP argue that all components of peace-building must occur simultaneously.

Most of the sequencing debate, however, distinguishes economic from political components. Among development actors, the key questions are when aid can shift from humanitarian relief to economic reconstruction, when normal development policy should begin, whether macroeconomic stabilization must occur first or priority should be placed instead on a peace dividend and social equity, and how to time aid flows in relation to the local government's "absorption capacity". Among peace-building actors focused on political tasks, there are three positions, according to Hampson and Mendeloff (2007, p. 671): the "fast track democratizers", the "security firsters", and the "slow democratizers".

The fourth debate regards the state-building components for economic development. What is the proper economic role of the state and thus *which* institutions should be built for post-war economic policy? This debate has two components, also, one related to development and the other to peace-building. As is the case in the field of development economics, so in peace-building, there is a fundamental disagreement over the appropriate institutions for economic development between neoclassical growth theorists, whose perspective and policies currently dominate state-building practice (as led by the World Bank, IMF, UNDP and most bilateral development agencies), and a school of heterodox economists to be found in universities, such as Mushtaq Khan (2002) 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 (UNCTAD), who argue for institutional and policy choices that currently wealthy countries used successfully to develop or the lessons of the effective post-war reconstruction of the Marshall Plan in western Europe.

Behind this debate is a more basic disagreement, however, over whether "development as usual" (either neoliberal or developmental) is appropriate to the needs of peace-building. Should development institutions, as currently, lead the post-war reconstruction process at all? Or are there fundamental differences between a normal development process and post-conflict conditions and the "decisive importance" of political factors in the latter that

should be driving decisions on economic policy and institutions and thus should also relegate development institutions such as the World Bank, IMF and UNDP into a supporting, not leading, role as they now have (del Castillo, 2008, pp. 26, 45)?

ATTEMPTS TO EXPLAIN CURRENT RESULTS

The case-study literature on countries emerging from civil war almost universally finds that as currently practiced, state-building policies actually undermine the state, making it weaker than it was or than it would have been if left alone. In contrast to the model said to guide these policies of a market economy, liberal democracy, human rights, and transitional justice, the empirical evidence is that international aid policies strengthen the domestic political position of conservative oligarchies at the centre and traditional authorities locally (Kahler, 2008, p. 7; Nakaya, 2008; Curtis, 2005 and 2007). In place of economic growth and development, the data show growing unemployment, post-war violence explained by growing economic inequality and poverty, increased concern among outsiders with widespread public corruption and rent-seeking, including in military and police forces expected to manage post-war violence, astonishing levels of aid dependence over a long period, even in cases considered relative successes as Mozambique, and little or no new local governmental capacity despite capacity-building assistance. Indeed, Fukuyama argues, donors are actually “complicit in the *destruction* of institutional capacity” (Fukuyama, 2004, p. 39).

Explanations for these discouraging results focus almost entirely on the policies and actions of outsiders, the international state-builders. In line with the nature of these policies, the explanations do not follow from a general theory of state-building for peace or of peace-building. Some criticisms address the theoretical assumptions of these policies; most focus on the effect of international operations.

Operations of State-Building

Most efforts to explain the discouraging outcomes of current state-building focus on the way international state-builders go about their task. As the debate over the appropriate role of international assistance in state-building reflects, there is a clear tension between the goal of state-building and the means used. As Chesterman summarizes, the goal of creating a legitimate and sustainable government with the means of a “benevolent foreign autocracy”

is a contradiction (Chesterman, 2004, p. 1; see also Paris and Sisk, 2007, p. 4). As conventional wisdom during the 1990s settled on the importance of speed in providing what both peace-building and development communities call a peace dividend, the actor most responsible for initial state-building activities, in fact, became the military forces. Because they deployed first and fastest, donors looked to soldiers to deliver economic aid for this peace dividend in the form of small projects of repair and quick impact projects to “jump-start” recovery. Their role grew as the “security firsters” gained the upper hand in the debate on sequencing such that units of local government were also being organized by the military, as in the provincial reconstruction teams in Afghanistan or Iraq and their equivalent in Colombia. The consequence, however, is to militarize the fundamental tasks of government (public goods and economic recovery) at the very moment when the fundamental principle of peace-building is to “demilitarize politics” (Lyons, 2005) by transforming militia into political parties and combatants into civilians.

The tension between goal and means is reinforced by outsiders’ impatience and short-term focus. International actors have short time horizons and focus their policies and choices on what they consider necessary in the short run, with little regard for the often counterproductive effects in the long-run (Sriram, 2008; Paris and Sisk, 2008). Despite the substantial criticism of the international emphasis on holding elections before the necessary institutional conditions have been laid and the clearly counterproductive priority on the creation of an army over police, judges and local conflict-management institutions, these policies remain because their purpose is not sustainable state-building but allow the “exit” of internationals.

Impatience also leads to a third operational problem: unrealistic expectations and timelines. At least two consequences regularly follow. One is that such impatience leads state-builders not to build the capacity they say is their policy. As Fukuyama argues and many cases confirm, “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. . . . [and] almost always undermines the local government’s capacity to provide them once the aid program terminates” (Fukuyama, 2004, p. 40). The other consequence is that local actors are then held responsible for any failure to meet these expectations and timelines, rather than their unrealistic origins. The result is to sacrifice the crucial ingredient to all social change of political efficacy—the belief by individuals that their actions can have an effect.

A different kind of tension between external expectations and local realities is particularly common in relation to resources. As the economists’

debate over institutions includes, international demands expect the target country to meet the highest international standards for institutions and service delivery and even to do so rapidly, without regard to the resources necessary to achieve, let alone sustain, such standards. However laudable or theoretically persuasive are these expectations, if a country is too poor or too politically constrained, for example, to realize those standards and sustain them financially once donors and international organizations depart, then the question inevitably arises as to motives. For example, as Mushtaq Khan (2008) explains, “stable property rights and a political process based on accountability that does not depend on patron-client networks assumes the existence of substantial fiscal resources to make these processes work. These are not available in any developing country”.

Critics tend to explain this disregard for what is locally possible by the parallel absence of evaluation; donors do not know (and do not ask) what the outcomes of their programmes are. The consequence for the recipients, however, is a serious local opportunity cost, that such policies crowd out consideration of local alternatives that might be in their reach and sustainable.

International assistance also, however, worsens the relative inadequacy of local resources to implement their policies. As studies of the economic impact of peacekeeping show (Carnahan, *et al.*, 2006), international operations compete with local governments for staff. Not only are the levels for professional education and training necessary to internationally promoted institutions most often unrealistic, but the local governments cannot compete with the salaries and work conditions offered by international actors for such scarce educated labour. At the same time as this upward pressure on local wages and salaries, outsiders (especially the IMF but without opposition from multilateral banks and bilateral donors) require macroeconomic stabilization policies in exchange for credits and loans that impose strict limits on the public expenditures needed to finance governmental ministries, a professional civil service and institutions that provide law and order. Insistence on the rapid privatization of state assets and trade liberalization then deprives the government of traditional domestic revenues. Donors in general also insist on control over their aid in separate, parallel budgets and in choosing their own, non-local implementing agents (Ghani and Lockhart, 2008; Boyce and O’Donnell, 2007; Rubin, 2005). Because from 40 to 70 per cent of all economic assistance in post-conflict settings goes to salaries for foreign consultants and advisors, in fact, “donor agents”, writes Miles Kahler, have “few incentives to improve government capacity, since improvement would mean their slow replacement” (Kahler, 2008, p. 15).

A different kind of imbalance in state-building, finally, occurs between the overall goal of state-building and the actual distribution of donor aid among

its specific components. International assistance is not distributed evenly but in relation to external priorities and interests. The effect is always to create a highly imbalanced state. Thus, for example, donors tend to fund generously a new or reformed army while little attention or finance goes to the institutions of civilian oversight (the parliament or judiciary). Certain executive branch institutions are given priority attention in building capacity and autonomy (a central bank, the ministry of finance), and the legislative branch is routinely neglected and even marginalized. Even within programmes, such as security sector reform, some elements are funded, as increasingly police training and reform, while other necessary components in a system of law and order, such as the courts, prisons and judges' salaries, receive little or no funding at all.

Models and Theories of State-Building

Criticism of the theoretical assumptions underlying state-building policies occupies far less space in the literature than that of operations, as if the theories are correct but the practice problematic. It has two main arguments: a model of the state (and of state-building policies) that is inappropriate or even counterproductive to the task of building peace, and the inadequate or even faulty knowledge of policies.

Most dramatic, perhaps, is the criticism lodged against programmes to promote democracy and the rule of law by Thomas Carothers and against those promoted by public-choice economists for the state by Fukuyama. As mentioned above, Fukuyama argues that neoclassical economic theory wrongly presumes there is an optimal model of public administration and that the key measure of a state is its scope as opposed to its strength (Fukuyama, 2004). In fact, he argues, there is no optimal set of institutions for most aspects of the state, little if any transferable knowledge, and the role of cultural norms and specific histories are far more important than formal institutions and efficiency calculations in making states effective. Carothers argues persuasively that the core assumptions of democracy-promotion programmes are also simply wrong. The democracy-promotion community “embraced an analytical model . . . derived principally from their own interpretation of the patterns of democratic change taking place [in the 1980s]” and “to a lesser extent from the early works of the emergent academic field of ‘transitology,’ based on the work by Guillermo O’Donnell, Philippe Schmitter, and colleagues on the transition from authoritarian [military] regimes to democracy in Latin America and Southern Europe in the 1980s (Carothers, 2002, p. 6). Neither pattern included civil war conditions and

both have been empirically discredited in the meantime. As for rule of law, which is increasingly seen by international actors as a “solution to the world’s troubles” (Carothers, 2006, p. 3) because it is said to be necessary to both economic development and democracy, the empirical evidence suggests that the causal relationship may well be in the opposite direction than posited (Carothers, 2006, pp. 18–19). Moreover, these programmes are “operating from a disturbingly thin base of knowledge”. They conceive of the rule of law in institutional terms whereas “law is a normative system” and this institutional approach consists of “simply rewriting another country’s laws on the basis of Western models”—which “achieves very little”.

All three sets of policies—for economic development, for democracy and for the rule of law—also share a fundamental flaw in relation to civil war. Despite their label of state-building, these policies presume that a state exists. Development agencies aim to reform or strengthen an existing state, not to create it from scratch. Most commonly, as discussed above and Fukuyama emphasizes, the aim is to reduce the scope of the state such as through early privatization of state assets and liberalization. Democracy-promotion programmes, “with their frequent emphasis on diffusing power and weakening the relative power of the executive branch” are also “more about the redistribution of state power than about state-building” (Carothers, 2002, p. 17).

The model of the state promoted by international policies may even work against the goal of peace. The priority on building democracy and a market-friendly government, Paris (2002) argues, is actually destabilizing because both democracy and markets presume and reinforce competition and conflict whereas peace-building requires the reverse. They inject more conflict when conflict reduction and management are needed if peace is to hold. Others argue through case studies that the constitutional design of the state proposed by outsiders frequently generates resistance and new violence (Call, 2008, pp. 374–375). The meritocratic principle of state-building may well be in conflict with the confidence-building goals of state-building (Call, 2008, p. 377). State-building may even be war in those cases where international intervention includes counterinsurgency, since the theory of current US doctrine of counterinsurgency is “competitive state-building” (Kalyvas, 2007).

STATE-BUILDING FOR PEACE-BUILDING

The evolution towards an international consensus that states are central and state-building the priority, this chapter has argued, has occurred within separate policy domains that remain separate in policies of international assistance and their particular goals. Although each is said to contribute to

peace, the reasoning is also particular to each domain and its theoretical framework, specifying laws and institutions which, if adopted, should have certain expected outcomes, but which is based, more often than not, on conditions unrelated to the transition from civil war to peace. Moreover, such state-building is an international activity, from policy to implementation and evaluation. Even the explanations for the overwhelmingly negative results, in terms of the expected outcomes of particular state-building policies and their contribution to peace, focus entirely on the theoretical frameworks of international policies, their operational methods, and lively debates about their role, power, policy sequence and coordination.

A more plausible explanation, however, for the failure of current state-building policies to contribute positively to peace and to the expected outcomes of a more effective and legitimate state in the transition from war to peace is a profound misunderstanding of the nature of the “post-conflict” period and the extent to which local actors and international actors have opposite, and conflicting, agendas.

Whatever the causes of a civil war, the war itself is a contest among rival parties over the state. For these warring rivals, state-building does not begin after a ceasefire agreement. It is what the war is about. Whose interests and power will be represented, protected and institutionalized in the authority and rules of the post-war state? All parties do state-building during the war and bring those wartime proto-states and their resources (constituents, administrations, skills and so forth) to the bargaining table when international actors intervene to seek a settlement. Their goal in negotiations and the period of implementation is to consolidate the gains of war through their institutionalization—or, for the less successful in war, to gain protections that evaded them through armed conflict.

Because definitive victories for one side are increasingly rare, due in large part since 1990 to international activism aimed at stopping the violence as soon as possible, the period which outsiders label post-conflict is a continuation of the war to define the new state and its political uncertainty. Only the means shift (if a peacekeeping deployment occurs) from military to political, economic and symbolic, while international actors and their resources, which may also have been significant in the war itself, become more legitimately a part of the domestic contest. Each specific “state-building” policy—the choices of a peacetime constitution, governmental institutions, laws, rules and policies—is a part of the ongoing contest over the future distribution of political and economic power in the country.

For international actors, in contrast, the immediate “post-conflict” period is not viewed as one of consolidation and institutionalization of the wartime political contest but as a rare opportunity to be seized for fundamental

transformation. The fluidity of the political moment and its heightened uncertainty about the future are conditions ripe to accomplish what cannot be achieved in more stable circumstances. For international actors as well, therefore, state-building is about interests and power and a contest to institutionalize their own policies and preferences through domestic laws and procedural rules, technical assistance, support for particular local leaders and direction of financial aid. Yet the consequence is most often to prolong the local political contest and insecurity when the bases of peace require the opposite.

“Post-conflict” state-building is currently, therefore, not about building peace but a major political struggle among multiple parties on the future distribution of political power in a country—between warring parties for international support and for domestic support, between those with economic power and those claiming political power in their mutual constitution of the state, between international preferences and local preferences. Until this political-economic contest reaches some domestic equilibrium, the war is not over—particularly for citizens who must continue to find ways to survive and who actually do most of the peace-building work and thus need to know who has authority and what rules will be enforced.

Whereas international debates on state-building tend to focus on particular institutions and human resources, together called capacity building, however, the crucial element of stabilized state-building is deference to the new authorities and compliance with their rules and decisions, in sum, the state’s authority. In this aspect of state-building, too, the period of transition from civil war to peace has particular characteristics unrelated to other state-building conditions—the required complement of nation-building. International policy tends to view this task of compliance in military terms, that a new state must re-establish a monopoly over the use of force in its territory, which is a misunderstanding of Weber’s definition of the modern state. No state survives on the resort to military force to obtain compliance domestically.

The creation of a new state’s authority in immediate post-war conditions is a symbolic contest of nation-building—to create a political community (who belongs, is included or excluded, on what criteria, on what bases of identity, political loyalty, and common interest to replace the divisions of war) and its implied obligations. It is a necessary component of state-building. Calling this reconciliation between warring parties, or confusing state-building and nation-building as if they are the same, or discounting the importance of this process (and thus the time needed for it and that only locals can do it)—all of which are common—repeats the outsiders’ misunderstanding of the

particular nature of state-building after civil war. In time, output legitimacy (government effectiveness in terms of, for example, service delivery) will matter to the stability of the new state, but in the short run, the more important issue is trust: to what extent and how does the new political leadership and its institutions rebuild the trust of the population through its own behaviour and that of public employees such as the police?

If state-building policies and assistance are aimed at building a sustainable peace, therefore, the particular characteristics of this period—the intense and as yet unsettled political contest to create a state and its local authority—need to define those international policies. There is much to be learned from the literature on peacekeeping operations which demonstrates that there are some significant roles that external parties can play that make peace more likely and more sustainable (Fortna, 2008). In contrast to the more common requirements of a separation of combatants, monitoring of demobilization, and confidence-building between armed parties through neutral information, however, the task of state-building, and thus the political bases of peace, are always specific to the country and conflict. No two civil wars are alike. This does not mean that outsiders cannot play an essential role in moving a country from war to peace. Quite the contrary, we do not yet know what those roles are, however. It is time that research focuses on local processes of post-war state-building and the ways that international assistance can promote or obstruct peace and political stabilization.

NOTES

- 1 Comment at Workshop on “Economic Strategy, Aid Policy, and the State in Countries Emerging from War”, The Graduate Center, City University of New York, 3–4 April 2008.
- 2 Even though the outcome would seem to depend on them; as Fortna adds, these “are the people who decide whether to maintain peace or return to war” (Fortna, 2008, p. 8).
- 3 The primary criticism is methodological, that the Burnside-Dollar results are shown to be extremely vulnerable to the specification of the econometric model, including definitions of aid and policy and the dataset used. For examples of this large literature, see Dalgaard and Hansen (2001), Dalgaard, *et al.* (2004), Easterly, Levine and Roodman (2004), and Hansen and Tarp (2001).
- 4 A Country Policy and Institutional Assessment, an in-house, confidential rating used for loan decisions that, under repeated public pressure on the World Bank for transparency, became public in 2006.
- 5 For the many labels and components of this evolution of peacekeeping operations, see Durch (2006), pp. 5–9.
- 6 The problem “is not that transitional administration is colonial in character; rather, the problem is that sometimes it is not colonial enough” (Chesterman, 2004, p. 12).

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Chapter 6

Post-Conflict Recovery: Resource Mobilization and Reconstruction

JAMES K. BOYCE

DEVELOPMENT AND THE 'CONFLICT TRAP'

War-torn societies embarked on the fragile transition from violent conflict to a durable peace face enormous economic, social, and political challenges. In attempting to support this transition, the international community often provides substantial amounts of external assistance. This assistance can play an important and constructive role in meeting pressing social needs and building a durable peace, but it would be naïve to assume either that positive effects are the automatic result of good intentions or that donors are motivated entirely by the objective of peace-building. This chapter reviews evidence on the impact of aid in what are optimistically called 'post-conflict' settings, and offers some thoughts as to how aid can more effectively support efforts to build a durable peace.

The chapter is divided in three parts. The first part, 'Aid for Peace', examines the interaction between the twin objectives of building peace and fostering economic recovery. The two objectives are mutually supportive: without a successful transition from war to peace, economic recovery is unlikely or impossible; and without economic recovery, a successful war-to-peace transition is less probable. Yet, it would be a mistake to infer from this complementarity that political efforts to implement peace accords and economic efforts to promote reconstruction and recovery can proceed along separate tracks, oblivious of each other and secure in the knowledge that each assists the other. Experience demonstrates that effective aid for peace requires that economic reconstruction and recovery efforts explicitly address the political imperatives of peace-building. At the same time, peace keeping and peace-building efforts must explicitly address economic imperatives. The first part of the chapter focuses on the first issue: how economic assistance can be

tailored to the special challenges of war-to-peace transitions. In particular, I discuss how aid conditionalities can be realigned to better serve peace-building objectives.

The second part, ‘Building Fiscal Capacity’, considers the other side of the coin: how peacekeeping and peace-building assistance can better support economic recovery. In particular, I focus on measures to build the fiscal basis for a sustainable state—that is, capacities to mobilize domestic revenue, allocate resources through the budget, and manage public expenditure. All too often, members of the international community have regarded the building of fiscal capacities as a specialized ‘niche issue’ that can be left to the international financial institutions (IFIs)—notably the International Monetary Fund (IMF) and World Bank—to address through technical assistance. This stance of benign neglect can have malign results, if external assistance ‘crowds out’ domestic fiscal capacities rather than helping to build them.

Finally the third part, ‘Interrogating Donor Behavior’, examines the motives and *modus operandi* of external assistance actors in post-war countries. Donors often assume that ‘the problem’ is located entirely in the recipient country, and that they themselves are intrinsically part of ‘the solution.’ Experience provides good reasons to question this comfortable assumption. The motives and priorities of donor governments are not always congruent with the objective of building peace, and the incentive structures within the aid agencies themselves are not always conducive to making aid an effective instrument for this purpose. Donor behavior can be part of the problem, too.

AID FOR PEACE

Official development assistance (ODA) generally comes with strings attached. Multilateral and bilateral donors use conditionality to advance a variety of goals, some noble, others less so. The conditions sometimes are spelled out in formal performance criteria, as in the economic policy targets in IMF loan agreements. At other times, the conditions are communicated informally in the process known as ‘policy dialogue.’ Whether formal or informal, conditionality makes assistance contingent on actions by the recipient. Aid seldom is a blank check.

The objectives of conditionality typically do not include the prevention or resolution of violent conflict. The IMF and World Bank primarily use conditionality to pursue short-term macroeconomic stabilization and longer-term structural adjustment. Bilateral donors often use conditionality for

commercial purposes, as when aid is tied to purchases of goods and services from the donor country. They also may use it to advance geopolitical aims, as illustrated in the US government's efforts to enlist support for the war in Iraq.¹ In addition, donors have also attempted, albeit rather sporadically, to use conditionality to promote political reforms under the rubric of 'good governance.'

Such conditionalities may affect the likelihood of war or peace indirectly. Proponents of conventional macroeconomic conditionality sometimes claim, for example, that neo liberal policies serve the cause of peace by fostering economic growth. On the other hand, critics argue that these same policies not only often fail to promote growth, but also exacerbate income disparities and social tensions (Pastor and Conroy, 1996). At the same time, trade liberalization—a standard reform pressed by the IFIs—results in the loss of tariff revenues, squeezing the fiscal capacity of governments to fund peace-related programs.²

In principle, conditionality can also be harnessed directly to the objective of promoting peace. Where there is a risk of violent conflict, the aid 'carrot' can be designed to provide incentives for steps to reduce social tensions. In war-torn societies, aid can serve as an inducement for conflict resolution. And where a negotiated settlement has been achieved, donors can use 'peace conditionality' to encourage the implementation of peace accords and consolidation of peace, outcomes that are far from a foregone conclusion.³

In practice, efforts to reorient conditionality to these ends have been the exception rather than the rule, and where attempted, the results have been mixed. Three constraints have contributed to this spotty record. First, domestic parties may not wield sufficient authority, or enjoy sufficient legitimacy, to strike and implement aid-for-peace bargains. Second, the amount of aid on offer may be inadequate to provide a compelling incentive for the adoption of pro-peace policies. And finally, donor governments and agencies themselves may not put peace at the top of their agendas, ahead of other geopolitical, commercial, and institutional objectives.

Economic versus Political Stabilization? Balancing the Budget Deficit

Attempts to build a durable peace often require fiscal measures that fly in the face of conventional IFI policies. For example, the IMF, in its pursuit of the objective of macroeconomic stabilization, often requires the borrower government to cut its budget deficit to specified percentages of GDP before successive instalments of an IMF loan can be disbursed. Whatever the wisdom of these deficit-reduction targets—itsself often a matter of debate⁴—in regions

emerging from civil war their feasibility and desirability must be viewed through the distinctive lens of the requirements of establishing a viable peace. Insofar as the IMF's usual macroeconomic prescriptions clash with the aim of building peace, there is a compelling case for rethinking those prescriptions.

The need to rethink conventional wisdom emerged quite clearly during the early years of Cambodia's reconstruction efforts. Following the initial period of UN administration, the IMF and World Bank pressed the country's new coalition government to downsize the civil service by 20 per cent. A senior UN official explained:

The IMF just applied its standard ratio: your population is 11 million people, so the size of your civil service should be x. But the historical circumstances here are almost unique. In 1979 Cambodia was a wasteland. It had no civil service, no banking, no money. Ninety per cent of the intelligentsia was dead. The new government put together a system, starting from nothing. They paid people in rice to teach. The fact that these people were not trained teachers is not their fault. You can't tell them now, 'You're useless,' and throw them on the scrap heap. It's not decent, and it's not possible politically.⁵

Instead of cutting public employment, the coalition government expanded it by about 15 per cent to accommodate jobseekers from the erstwhile opposition. In an effort to appease the donors, the government trimmed the budget deficit by cutting non-salary expenditures. The outcome was 'remarkable progress' on the macroeconomic balances, a subsequent World Bank evaluation dryly observed, 'combined with continued erosion of non-maintained infrastructure and of health, education and other services' (World Bank 1998a, emphasis in original). Similar tensions between fiscal austerity and reconstruction efforts arose in post-war Mozambique. Asserting that macroeconomic stabilization was an 'absolute prerequisite,' the IMF pressed in 1995 for spending cuts and a rollback in a scheduled increase in the minimum wage. Fearing that these moves would jeopardize the long-term goals of economic recovery and political stabilization, the ambassadors of the United States, the Netherlands and Canada, and the resident representatives of the EU, UNDP, Finland and Switzerland, took the unusual step of writing a joint letter to the Fund to voice their concerns (Hanlon, 1996; Ball and Barnes, 2000).⁶ In the end, a compromise was hammered out: the spending cutbacks were slowed and the minimum wage increase remained in place.

Proponents of macroeconomic discipline argue, quite rightly, that rampant inflation can undermine political stability as well as economic recovery, and that inflation often hits especially hard at the real incomes of the poor.

These are good reasons to control inflation by means of fiscal and monetary discipline. But policy makers do not face an all-or-nothing choice between hyperinflation and draconian austerity: fiscal and monetary stringency is invariably a matter of degree. It is true that beyond a certain point, profligate spending and soaring deficits could trigger rapid inflation and spark economic distress and political unrest. In the range between moderate deficits and none at all, however, a trade-off often exists between the size of the deficit on the one hand and the social tensions generated by inadequate public expenditure on the other. Within this intermediate zone, higher government budget deficits can *reduce* social tensions by financing peace-related expenditures (Pastor and Boyce, 2000). In other words, the relationship between the macroeconomic and the political stability may take the shape of an inverted 'U', rather than that of a straight line. This is depicted in Figure 6.1. The horizontal axis represents price stability, with movement away from the origin denoting lower inflation. The vertical axis represents political stability, with movement away from the origin denoting lower social tensions. Supporters of stringent anti-inflation policies assume that the country is on the upward-sloping part of the curve where greater macroeconomic stability fosters greater political stability. On the other hand, in asserting that there is a trade-off between the two, critics of these policies assume that the country is on the downward-sloping segment.

Both scenarios are plausible. Research at the interface between macroeconomics and conflict impact assessment is needed to estimate where the turning point is located in any given time and place. Equally important

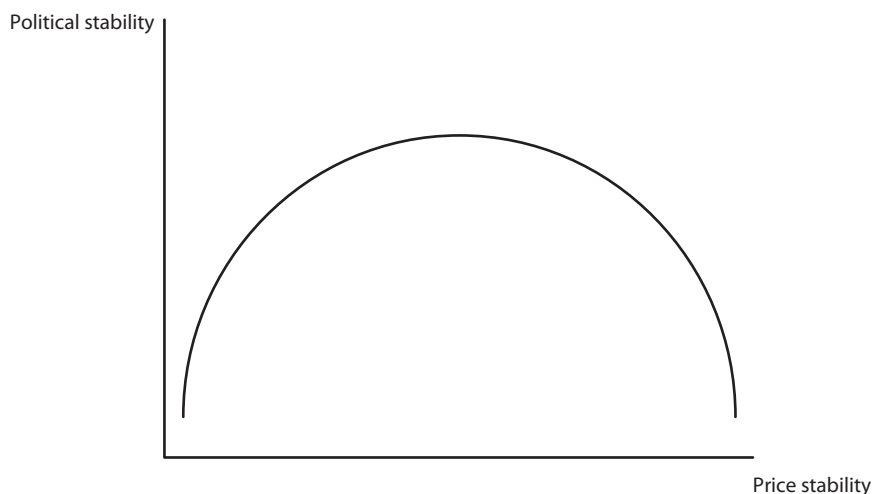


Figure 6.1: Price stability and political stability

is to explore policies that might shift the curve, easing potential trade-offs between macroeconomic and political stability. If, for example, there is scope for shifting public expenditure from items that do little to consolidate peace to other uses that are central to this goal, this would help to reconcile the two stability objectives.

Although a relaxation of budget-deficit targets may be needed to advance the goal of political stabilization, the scope for financing public spending by this route is limited: at some point, price instability will feed into political instability. Printing money may increase the government's room for maneuver at the margin, but it is not a 'soft' substitute for domestic revenue mobilization. As Coats (2007, p. 215) remarks, 'the possibility of central bank lending to the government historically has often proven an irresistible temptation'. Opening the door a crack can let in flood of inflationary finance. Moreover there are some cases in which very strict monetary policies—or even a straightjacket on the central bank's ability to print money, in the form of 'dollarization' or a currency board—can enhance political stability, by taking a bone of contention off the table. Coats (2007) argues that was the case in Bosnia, where a currency board arrangement was mandated in the Dayton peace agreement. There may be good arguments for recalibrating monetary discipline in light of the political demands of war-to-peace transitions, but there is no good argument for abandoning it.

Peace Conditionality

The term 'peace conditionality' was coined in a UN-sponsored study of economic policy in El Salvador in the mid-1990s (Boyce, *et al.*, 1995).⁷ The study suggested that in 'post-conflict' settings, following a negotiated peace accord, donors can and should tie reconstruction and development aid to concrete steps to implement the accord and consolidate the peace. In the case of El Salvador, the government's failure to implement key aspects of the 1992 peace accord—including the provision of adequate funds for high-priority peace programs, such as the land transfer program for ex-combatants and the creation of a national civilian police force—jeopardized the peace process (de Soto and Castillo, 1994).⁸ Hence the study recommended that the IFIs should apply peace conditionality to encourage the government to mobilize domestic resources to fulfil its commitments.

The aid pledged at international donor conferences after the signing of a peace accord is conditional from its inception, in the sense that the accord is necessary to unlock the pledges. Subsequent aid disbursements are inherently

conditional, too, insofar as resumption of violence would trigger suspension of aid, and failure to make progress toward building peace would jeopardize future aid commitments. Peace conditionality moves beyond these all-or-nothing choices, in which the aid tap is either 'on' or 'off'. Instead it seeks to calibrate the flow of support the peace process by tying specific aid agreements to specific steps to build peace.⁹

Peace conditionality can be applied to reconstruction and development aid, but most observers agree that it should not be applied to humanitarian assistance for both ethical and practical reasons. Ethically, it would be untenable to punish vulnerable people for the sins of their leaders. And practically, the leaders may not be terribly sensitive to humanitarian needs. Since conditionality usually involves specific aid agreements rather than across-the-board cut-offs, there is room for flexibility in deciding what types of aid will carry what conditions. A starting point for the application of conditionality is those types of aid that are most valued by political leaders and least crucial for the survival of at-risk populations (Boyce, 2002a).

Aid officials sometimes disclaim responsibility for engaging with the political issues of war and peace. At the World Bank, for example, officials at times invoke their mandate to make loans 'with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.'¹⁰ Yet violent conflict has profound economic implications. For this reason, in the case of El Salvador an internal World Bank evaluation concluded that 'if tax effort and the pattern of public expenditures have a direct bearing on post-conflict reconstruction, as they did in El Salvador, it is legitimate to include these parameters in the conditionality agenda' (World Bank, 1998b, p. 51).

The application of peace conditionality to fiscal policy is not a great stretch for the IFIs, institutions with a long history of applying conditionality to issues such as budget deficit reduction and trade liberalization. In the fiscal arena, peace conditionality simply involves a reorientation of objectives toward the goal of building peace. In some cases, this may mean relaxing budget deficit targets to permit governments to finance high-priority peace programs. In others, it means paying more attention to the composition of public expenditures, the level of tax revenues, and the distributional impacts of expenditure and taxation (Boyce, 2002a, Chapter 3).

Donors occasionally have pushed the envelope further, applying peace conditionality in arenas beyond their usual concerns. At a donor conference on aid to Bosnia, soon after the 1995 Dayton Peace Agreement, European Commissioner Hans van den Broek and World Bank president James Wolfensohn declared:

Developments on the ground should be constantly reviewed to ensure that aid is conditional on the thorough implementation of the obligations undertaken by all parties, in particular, full cooperation with the international tribunal for the prosecution of war criminals. (European Commission and World Bank, 1996)

In keeping with this stance—and spurred by US legislation that instructed the US representatives on IFI executive boards to oppose loans to countries or entities not cooperating with the International Criminal Tribunal for former Yugoslavia—the World Bank and IMF blocked loans to Croatia in 1997 until the Tudjman regime turned over ten indicted war crimes suspects to stand trial in the Hague (Boyce, 2002a; Dinmore, 1997), an episode that demonstrated that when the will to apply peace conditionality is present, even for unconventional purposes, ways to do so can be found. In recent years, formal and informal conditions attached to the European Union accession process have emerged as another powerful lever for political reforms and peace implementation in the former Yugoslavia.¹¹

In some quarters, ‘conditionality’ is a dirty word. It is portrayed—sometimes with good reason—as an intrusion on national sovereignty, a device for powerful aid donors to impose their preferences upon hapless aid recipients. Partly for this reason, and partly for the pragmatic reason that experience shows that externally imposed conditions often fail to produce real reform, many donors, including the IFIs, now embrace the need for domestic ‘ownership’ of reform agendas. The practical counterpart to this shift in rhetoric has been a move from conditionality to ‘selectivity’, whereby aid is preferentially allocated to governments that already have embraced the policies preferred by the donor.¹²

Whatever the merits of this stance, it fails to come to grips with the challenges often posed in post-conflict settings for two reasons. First, in the aftermath of violent conflict, ‘good policies’ and state capacities to implement them tend to be in short supply. If donors choose simply to wait until these emerge, they may have to wait a very long time. In the meantime, a wait-and-see attitude could impose high costs on innocent people within these societies, and on others if renewed violence spills beyond national borders.

Second, once we recognize that countries are comprised of diverse individuals, groups, and classes with divergent interests, it is impossible to speak unequivocally of ‘country ownership’ of policies. Instead we find a variety of policy alternatives supported by contending forces, both inside and outside the government. The ownership and implementation of any given policy mix requires a political process of domestic coalition building. External assistance

widens the scope of the coalition-building process to include international allies.¹³ The challenge for donors, therefore, is not to select which *countries* should receive aid, but rather to select *who* within the recipient countries should receive aid, and *what* policy objectives the donors should support.

In Liberia, the Governance and Economic Management Assistance Programme (GEMAP), initiated under the transitional government in 2005, addressed the problem of mismanagement of public finances and the attendant threat to peace implementation by providing international representatives with co-signatory authority in selected ministries and state-owned enterprises (an example of 'dual control' as a strategy to address problems of corruption, an issue discussed below in the context of building fiscal capacity). This unusual external intervention was a response to malfeasance in the Liberia's transitional government; as such, as Dwan and Bailey (2006, p. 21) remark, it was 'unlikely to be wholly "owned" by it'. Conditionality played a key role in persuading the government to accept GEMAP: the United States threatened to withhold security sector reform assistance, the European Union warned that it would shelve a planned aid package, and the World Bank threatened to follow the IMF which had already pulled out of the country; and the threat of a travel ban on top officials under UN Security Council sanctions provided further leverage.¹⁴

Peace conditionality can be applied at the local level, too. In its 'Open Cities' program in Bosnia, for example, the UN High Commission for Refugees allocated reconstruction aid to municipalities that demonstrated a commitment to the right of refugees and internally displaced persons to return to their homes. The aim was to use aid to reward local authorities who sought to implement the Dayton accord, penalize those who obstructed implementation, and encourage vacillators to get off the fence (Boyce, 2002a, p. 18).¹⁵

In addition to supporting 'post-conflict' peacebuilding, conditionality can be used in efforts to promote the resolution of ongoing conflicts and to prevent conflict from breaking out in the first place. There is an important difference, however, between the situation following a peace accord and cases where violent conflict is actively underway or where there is a high risk of it breaking out. In 'post-conflict' settings, the peace accord furnishes a set of benchmarks that have been formally accepted by the warring parties. Donors can judge performance against these benchmarks. In pre-conflict or conflict settings, donors do not have ready-made criteria on which to base conditionality, so they must develop the benchmarks themselves. In this respect, countries with negotiated peace agreements are especially suitable for the application of conditionality for peace-related ends.

BUILDING FISCAL CAPACITY

External assistance during the war-to-peace transition can help to finance economic recovery, social expenditures, and peace implementation programs including the establishment of new democratic institutions. Sooner or later, however, the flow of aid will diminish, and responsibility for ongoing public expenditures must be shouldered by the government. A crucial issue during post-war transitions is the building of state capacities to mobilize domestic revenue and to allocate and manage expenditure.

In this part, I analyze four issues at the interface between external assistance and the public-finance dimensions of post-war state-building: (i) Can the pathologies of a ‘dual public sector’—one funded and managed by the government, the other by the aid donors—be surmounted by channeling external resources through the government, with dual-control oversight mechanisms to curtail corruption? (ii) Can post-war external assistance do more to prime the pump of domestic revenue capacity? (iii) How should distributional impacts enter into revenue and expenditure policies? (iv) Lastly, how should long-term fiscal sustainability enter into short-term expenditure decisions?

*Dual Public Sector or Dual Control?**External Support for Domestic Expenditure*

The international community often seeks to help post-war governments to develop fiscal capacity to allocate and manage expenditure by providing technical assistance. More could be done, however, if donors were to channel a greater share of their resources through the state rather than bypassing it. Key stumbling blocks to doing so are the problems of combating corruption and need to ensure fiduciary responsibility.

The current practice of routing the lion’s share of external assistance outside the government gives rise to a ‘dual public sector’: an internal public sector that is funded and managed by the government, and an external public sector that is funded and managed by the donors. In sheer money terms, the latter frequently dwarfs the former. This has several adverse consequences:

- Most evident is the opportunity cost of failing to tap these resources to build state capacities to allocate and manage public expenditure.
- Less obvious, but no less serious, is the ‘crowding-out’ effect as professionals are recruited into the external public sector, often at salaries that the government cannot match.¹⁶ Ironically, aid donors

then point to lack of capable government personnel as a rationale for continuing to bypass the state.

- The fact that the external public sector is managed by numerous agencies, each with their own priorities, poses enormous coordination problems. This leads to the waste of scarce administrative resources, as government ministries cope with the different reporting systems of multiple funders.
- Last but not least, there are no institutional mechanisms that make donor agencies accountable to the local citizenry.¹⁷ No matter how imperfect the degree of democratic governance, the state arguably has a comparative advantage in this respect.

When pressed on this issue, donors maintain that they (and the non-governmental organizations and private contractors on whom they often rely) do a more effective job than the government in delivering goods and services. This is not an argument that can be dismissed lightly. There undoubtedly are situations in which the short-run advantages of circumventing the state are compelling. But once we recognize that the long-run aim of aid is—or ought to be—to *build state capacities* as well as to deliver services, the argument loses at least some of its force.

Moreover, experience shows that the ‘short run’ invoked by donors can last a long time. In Cambodia, where more than a decade has elapsed since the United Nations transitional administration handed power to a new government, Smoke and Taliercio (2007, pp. 69, 81) observe that the donors’ focus on delivering results still leads them to ‘bypass when possible—and capture when not—the Cambodian civil service, and that spending on technical assistance remains two to three times greater than the total wages paid to government civil servants. One cannot help feeling that something is wrong with this picture.

Concerns about corruption in the internal public sector are often a significant impediment to channeling more external assistance through the state. Corruption saps the delivery of public services, deters private investment, and fuels popular discontent (Rose-Ackerman, 1999). But efforts to combat it are complicated where corruption helps to maintain political cohesion by redistributing resources through informal channels. Not all corruption is equally corrupt or equally corrosive: in some it is driven entirely by individual greed, but in others it provides patronage resources for wider networks. An example of the latter is the use of government revenues and profits from state-sanctioned monopolies to lubricate ‘neo-patrimonial’ governance in the Palestinian Authority under Yasser Arafat (see Brynen, 2000, 2007).

Donors often adopt an avoidance strategy for dealing with this problem: avoid ‘leakages’ by bypassing the government, and avoid public discussion of the topic for fear of ruffling political feathers. This strategy is dysfunctional for three reasons. First, aid that is routed outside the government is insulated from neither the perception nor the reality of corruption.¹⁸ Indeed, the lack of transparency and accountability mechanisms can fuel public perceptions that externally administered projects are even more prone to corruption than government projects.¹⁹ Second, the avoidance strategy fails to harness aid to build state capacity to budget and manage public expenditure effectively. Third, the refusal of donor agencies to route resources through the government sends an unmistakable signal to the populace: the government cannot be trusted. This has a negative feedback effect on domestic revenue mobilization, insofar as willingness to pay taxes hinges on perceptions that the state will deliver services in return.

An alternative strategy for addressing problems of corruption would have two prongs. The first is to devise transitional adjustment assistance programs for people who have been dependent on patronage networks, recognizing that corruption for such ‘neo-patrimonial’ purposes differs from personal corruption. Such assistance would be analogous, in a sense, to job training programs for workers displaced by the effects of trade liberalization in industrialized countries, and—closer to home—to the disarmament, demobilization, and reintegration (DDR) programs for ex-combatants that are often implemented in post-war countries.

The second prong of an alternative anti-corruption strategy is the use of dual-control systems to build institutions for accountability and transparency alongside public expenditure capacities. The Afghanistan Reconstruction Trust Fund (ARTF), a World Bank-administered account through which donors help to fund to the government’s recurrent budget, offers an instructive model for how donors can route aid through the government—in effect, helping to internalize external resources (Ghani, *et al.*, 2007). The Afghan government allocates these external resources through its internal budgetary process, reinforcing the budget as the central instrument of policy. When the ministries spend the money—for example, paying teachers—an external monitoring agent appointed by the World Bank verifies that the accounting standards of the ARTF and government (which are the same) have been met, and releases the funds. The ARTF thus is like a bank account with a fiduciary screen, similar in this respect to the dual-control arrangements established in Liberia under GEMAP. Approximately two-thirds of the Afghan government’s non-security recurrent budget is now being funded by the ARTF, although this amount remains small relative to total external assistance (Scanteam, 2005).

Channeling aid through the government in this fashion does not imply that the donors abdicate control or responsibility for how their resources are used. The ARTF does not issue blank checks. Two signatures are required to release funds, one from the government and one from the external monitoring agent. The result is a dual-control system—a setup analogous to the dual-key system used to prevent an accidental launch of nuclear missiles.²⁰

Priming the Pump? External Support for Domestic Revenue Mobilization

In many post-war settings, a central task is to raise domestic revenue to provide sustainable funding for new democratic institutions and for expenditures to improve human well being, strengthen public security, and ease social tensions. The size of government revenue relative to gross domestic product in war-torn societies typically is far below the average for other countries with similar per capita income.²¹ Yet the needs for government expenditure are, if anything, greater. Hence concerted efforts are needed to increase revenues.

Experience has shown that aid can ‘crowd out’ domestic revenue mobilization, reducing the incentive for the government to tax its own populace.²² If aid instead is to ‘crowd in’ domestic revenue, conscious efforts are needed to this end. The international community can support government efforts to mobilize domestic funds in four ways: (a) by providing technical assistance; (b) by linking some of its aid to progress in domestic revenue performance; (c) by helping to curb extra-legal revenue exactions; and (d) by reducing tax exemptions on postwar aid.

(a) *Technical assistance* (TA) is the most common type of support. The IMF, World Bank, and bilateral donors have helped to develop revenue capacities, ranging from drafting tax codes to setting special tax administration units within finance ministries with special training and higher pay in an effort to insulate them from corruption.

In some cases, TA providers have shown an impressive ability to cast aside orthodoxies and adapt their policy advice to local realities. For example, despite the aversion of the IFIs to trade taxes, import duties were recognized as the most feasible source of revenue enhancement in Timor-Leste, Kosovo, and Afghanistan. In the case of Timor-Leste, the IMF even supported introduction of a levy on coffee exports (see Pires and Francino, 2007, p. 131), a policy that verges on the heretical. In other cases, however, orthodoxy has triumphed over pragmatism. In Guatemala, for example, even as the IMF gave rhetorical support to the revenue-enhancement goal mandated by the peace accords, the Fund’s staff urged the government to cut tariffs.²³

The effectiveness of TA could be further strengthened by efforts to adopt technologies and procedures that build on existing capacities, rather than opting for off-the-shelf imported solutions. In Afghanistan, for example, Ghani, *et al.* (2007, p. 175) recall that computerized information systems introduced at the Ministry of Finance were unsuitable in terms of complexity and language, prompting subsequent efforts to retool with Persian-language systems from Iran. More attention to training local personnel, rather than simply substituting for them, could also foster capacity building. In Timor-Leste, Pires and Francino (2007, p. 147) remark that the concentration on expatriate advisory services was accompanied by ‘some neglect for formal training programs for national staff’. The ultimate goal of technical assistance is to become redundant.

(b) *Conditionality* is a second way for donors to encourage domestic resource mobilization. On the expenditure side of fiscal policy, it is not unusual for donors to require ‘counterpart funding’ by the government as a condition for aid to specific projects, a strategy intended to ensure domestic ‘buy-in’ and to counteract fungibility (whereby aid merely frees government money for other uses). But on the revenue side, conditionality of this type has been rare. It would be a straightforward matter to link certain types of aid—notably budget support—to progress in meeting domestic revenue targets. Such a policy is akin to the provision of ‘matching grants’ by private foundations. In both cases, the aim is to strengthen incentives for aid recipients to seek further resources, counteracting the disincentive effects of unconditional aid.

Visiting Guatemala in May 1997, a few months after the signing of that country’s peace accords, IMF Managing Director Michel Camdessus took a broad step in this direction when he stated that the Fund’s only condition for a stand-by agreement would be that the government comply with its peace-agreement commitments, including a 50 per cent increase in the revenue-to-GDP ratio.²⁴ Making a tighter linkage, the European Union conditioned its budget support to the government of Mozambique in 2002 on increases in domestic revenue.²⁵ One of the benchmarks in the Afghanistan Compact signed in London in early 2006, which sets out the framework for international assistance to that country over the next five years, is to increase the revenue/GDP ratio from 4.5 per cent in 2004/05 to 8 per cent in 2010/11.²⁶ But conditionality with respect to revenue mobilization remains the exception, not the rule (for discussion, see Carnahan, 2007).

(c) *Curbing extra-legal revenue exactions* is a task located on the cusp between public finance and security. When profits from the exploitation

of nominally public resources, like Cambodia's forests, flow into private pockets, this not only deprives the state of revenues but also often finances quasi-autonomous armed groups that threaten the peace (Le Billon, 2000). When local warlords levy 'taxes' on trade, sometimes including trade in narcotics, as in Afghanistan, they undermine the state's monopoly not only on revenue collection but also on the legitimate exercise of force. Curtailing such activities may require international assistance. Yet, peacekeeping forces, even those with a relatively expansive mandate like the International Security Assistance Force (ISAF) in Afghanistan, typically have not seen this as a part of their job.

Even more problematic, powerful members of the international community may be reluctant to crack down on extra-legal revenue exactions when they regard those involved as political allies. In Afghanistan, for example, efforts to consolidate revenue in the hands of the state and to fight drug trafficking have been complicated—to put it lightly—by the decision of the US government to enlist anti-Taliban warlords as partners in its 'global war on terror'. Such marriages of convenience, reminiscent of US support to the anti-Soviet *mujahadeen* in the 1980s, may serve short-run security objectives, but do so only at the expense of undermining the legitimacy and effectiveness of the state—and ultimately security too—in the long run (for further discussion see Sedra and Middlebrook, 2005; Ahmad, 2006).

(d) *Reducing tax exemptions on post-war aid flows* could do much to prime the pump of domestic revenue-collection capacity. In the first post-war years, aid often is the single biggest component of the formal-sector economy. Yet today aid flows, and many of the incomes generated by them, are tax-exempt. The incomes of expatriate aid officials and aid workers are often tax-free.²⁷ The incomes of their local staff, often quite high by local standards, are often tax-free too. The goods imported by the aid agencies, ranging from Toyota land cruisers to cases of Coca-Cola and whiskey, are often tax-free. The rents paid by expatriates for office space and housing—again, often exorbitant by local standards—are often tax-free. So are other services provided to them, such as hotels and restaurants.

These pervasive exemptions have several adverse consequences. Most obvious is the opportunity cost of foregone government revenues. In addition, scarce administrative capacity is devoted to administering different rules for different people. Goods that enter the country as aid may wind up on sale in local markets, undercutting legitimate competitors who pay import duties. Last but not the least, the special treatment accorded to expatriates again sends an unmistakable message to the local populace: rich and powerful people

do not have to pay taxes. The result can be ‘the creation of a culture of tax exemptions’, in the words of a recent IMF review of post-conflict experiences (Gupta, *et al.*, 2005, p. 12). This demonstration effect runs precisely counter to efforts to establish effective and progressive revenue collection systems. It also undermines the credibility of international agencies when they argue that governments should reduce tax loopholes and ‘tax incentives’ for local businesses.

Efforts to tax aid bonanzas have run into adamant resistance from aid donors. In Timor-Leste, efforts to tax the floating hotels in the Dili harbour that accommodated the post-war influx of foreigners were rebuffed by lawyers at UN headquarters in New York, on the dubious grounds that diplomatic ‘privileges and immunities’ extend to those who provide services to UN personnel (Pires and Francino, 2007, p. 136). In Afghanistan, the introduction of a tax on rental incomes generated by expatriates in Kabul likewise met resistance; as Ghani, *et al.* (2007, p. 174) remark, ‘the international community’s declarations on the importance of enhancing domestic revenue mobilization have not been matched by willingness to consider new initiatives to tap the revenue possibilities generated by their own presence’.

This issue has often pitted the IMF and World Bank, along with national officials, against other donor agencies. In Timor-Leste, Pires and Francino (2007, p. 136) recall ‘bitter fights between international officials at the Ministry of Finance and international officials of donor organizations with the latter winning’:

Generally the donors and the UN, who disagreed about many things, were as one on their inviolable right to a complete exemption from taxes, not only for themselves as individuals or for goods imported for their direct use, but also on their contractors and goods imported for reconstruction.

Similarly, non-governmental organizations (NGOs) ferociously defended every inch of ground in resisting taxation of even their local employees: ‘Even when UNTAET offered to pay the taxes of international staff working with NGOs provided they were prepared to declare the income they were receiving, the answer was still “No”’.

Donor officials make three arguments against paying taxes. The first is that this would be equivalent to budget support. This is true. But its implicit premise—that the government cannot be trusted to use tax revenues well—again sends a clear message to the local populace. The second argument is that expatriates were already paying taxes in their countries of origin. In cases where this is so, existing tax treaties allow credits for taxes paid elsewhere, avoiding the problem of double taxation. The third argument is that other

countries do not tax them, so why should any country be different? The answer to this objection is that all desirable changes have to begin somewhere.

Income tax payments by expatriate or local aid personnel would need not to come from their own pockets. Those who pay taxes could be given salary 'top-ups' to maintain their after-tax incomes. This is the current practice for US citizens employed by the United Nations, World Bank, and IMF, who must pay income taxes (unlike their non-US co-workers) but who then receive compensating pay increments in interest of horizontal equity.

Initiatives to tap aid inflows for domestic revenue could also take the form of 'payments in lieu of taxes' (PILOTs), a solution that has been adopted in many college towns in the United States where municipal governments understandably want tax-exempt institutions of higher education to contribute to funding public schools, police and fire protection, and other local services. PILOTs maintain the legal privileges of those who make them. At the same time, they open the door for those donors who are serious about building domestic revenue capacity to act without waiting for across-the-board solutions.

Who Pays Taxes and Who Benefits from Expenditure? Fiscal Policy Through a Conflict Lens

Fiscal policy making in postwar settings requires careful attention to questions of *what* and *to whom*.

The 'what' question is about priorities. Faced with many pressing needs—for spending in areas such as public safety, the demobilization and reintegration of ex-combatants, health, education, and the rehabilitation of economic infrastructure—how should scarce resources best be allocated? The aim must be not simply to maximize returns defined in terms of conventional development indicators, but also to get the most 'non-bang for the buck' in terms of building a durable peace.

Underscoring this point, the synthesis report emerging from the World Bank's research program on violent conflict observes that this 'creates the potential for trade-offs between policies that promote growth and those that promote peace' (Collier, *et al.*, 2003, p. 166). In particular, a strategy focused exclusively on short-term economic returns might concentrate spending on the capital city and developed regions, leading to 'a trade-off between the growth-maximizing geographic distribution of public expenditure and a distribution that might be regarded as fair.' Where such trade-offs exist, the report concludes, 'the government may need to give priority to policies for peace building.'

When viewed through a conflict lens, the 'what' question in public expenditure cannot be divorced from the 'to whom' question. As Murshed

and Tadjoeeddin (2007, p. 35) observe, not only are grievances rooted in distributional inequalities often important drivers of conflict, but also inequalities often worsen during conflict:

The already poor often lose the few assets they have, and looting adds to the number of poor. In contrast, warlords and their followers accumulate assets, and so while the early years of peace may see quite rapid growth it can be very narrow in its benefits—unless policies are put in place to restore the productive assets and human capital of the poor.

Two sets of distributional issues are particularly relevant in public expenditure. The first is how to incorporate vertical and horizontal equity concerns into spending decisions. The second is how to allocate expenditures across the political landscape so as to bolster incentives for the implementation of accords and the consolidation of peace.

Conflict impact assessments could address both sets of issues. These are analogous to environmental impact assessments, first introduced in the 1970s, with the difference that here the concern is the social and political environment rather than the natural environment. Just as environmental impact assessment aims to incorporate ‘negative externalities’ of pollution and natural resource depletion into expenditure policies, so conflict impact assessment aims to incorporate the ‘negative externalities’ of social tensions and violent conflict.

International aid agencies increasingly recognize the need for conflict impact assessment as an input into policy making and project appraisal, and some have begun to put this recognition into practice (see, for example, World Bank, 2002; DFID, 2003; USAID, 2005; SIDA, 2006).²⁸ Yet, efforts to incorporate distributional considerations into expenditure decisions in post-conflict countries are still at a very early stage. Information on vertical equity—the distribution of benefits across the poor-to-rich spectrum—is sometimes collected and sometimes used as an input into policy making. In many cases, however, even such basic data are not available.

In the case of horizontal equity—distribution across regions and groups defined on the basis of race, ethnicity, language, or religion—the paucity of information is even more severe. In the past decade, researchers have analyzed the role of horizontal equity in the genesis of civil wars (Stewart, 2000, 2002; Østby, 2004), and economists have begun to think hard about how to measure it, starting with spatial inequalities across regions (Kanbur and Venables, 2005; Stewart *et al.*, 2007). But at best, conflict impact assessment today is roughly where environmental impact assessment was three decades ago, its

importance accepted in principle, but with a long way to go in developing the tools and capacities for implementation in practice.

The collection of regional data on expenditures in administrative units (such as states, provinces, or districts) would seem to be relatively straightforward, both on practical (since ministries often allocate their funds across regional units) and political grounds (since regions often can serve as a proxy for more sensitive categories such as ethnicity). Yet today, even such data are remarkably few and scarcely reliable.²⁹ Afghanistan's former finance minister and his colleagues recount their experience:

Obtaining the figures on provincial expenditures from line ministries required months of intense discussion and analysis of manual systems of recordings. When the figures were first presented to the Cabinet, it came as a shock that the ten poorest provinces of the country were receiving the smallest amounts of allocation. (Ghani, et al., 2007, p. 179)

The only unusual feature of this experience is that the finance ministry went to the trouble to request this information.

The 'who' questions that need to be addressed by conflict impact assessments of fiscal policies may involve more than inequalities. Some researchers have suggested that conflict is better understood as being driven by *polarization* rather than inequality *per se*. Polarization refers to the interaction between alienation across groups and identification within groups; income polarization, for example, is higher when the gap between rich and poor is greater (resulting in greater alienation between the two), and when income inequalities among the rich and poor are lower (resulting in greater identification with others in the same income group). More generally, polarization is greatest under a symmetric bimodal or 'twin-peak' distribution. Esteban and Ray (1999, p. 401) make this argument on theoretical grounds:

Polarization, not inequality as it is commonly measured, holds the key to our understanding of social tension and conflict. Briefly, polarization is a feature of distributions that combines elements of equality and inequality in a particular way... Intra-group homogeneity, coupled with inter-group heterogeneity, lies at the heart of a polarized society, and this feature is correlated with social conflict.

Montalvo and Reynal-Querol (2005a, 2005b) offer empirical support for the proposition that what they term 'ethnic polarization'—which attains a maximum when the population is divided into two ethnolinguistic groups of equal size—is a statistically significant predictor of the likelihood of civil war.

When economic polarization (in the distribution of income, wealth, or other attributes such as employment, education, and health) aligns with social polarization (in the distribution of the population into identity groups based on race, ethnicity, language, religion, or region), the potential for violent conflict may be multiplied. Duclos, Esteban and Ray (2004) speculate that a ‘hybrid’ measure of polarization that combines social and economic considerations, may be a better predictor of social conflict than ‘pure income’ or ‘pure social’ measures confined to distribution measured on a single attribute. Ravi Kanbur (2007, p. 3) remarks:

Polarization of society into a small number of groups with distinct identities is an incubator of conflict on its own. But add to this the dimension of average income differences between the groups, and a combustible mix is created.

This insight brings us back to the importance of horizontal inequality, a concept that, as noted above, is distinct from vertical inequality, or ‘inequality as commonly measured’ in Esteban and Ray’s phrasing.

The phenomena of between-group alienation and within-group identification also have implications for the role of ‘social capital’ in the dynamics of conflict and peace-building. Social capital—trust, norms, and networks that facilitate coordination and cooperation—is often regarded as an entirely wholesome and beneficial thing. But social capital can also have a ‘dark side,’ insofar as it enables some groups to cooperate more effectively to the detriment of others. Drawing a distinction between ‘bonding’ social capital that promotes trust and cooperation within groups and ‘bridging’ social capital that promotes these between groups, Putnam (2000, p. 362) acknowledges that ‘some kinds of bonding capital may discourage the formation of bridging social capital and vice versa.’³⁰

During civil wars, bonding social capital can be deployed for purposes of expropriation, pillage, rape, and murder. Meanwhile, bridging social capital is destroyed, with consequences that can be just as serious as losses of physical capital.³¹ During war-to-peace transitions, therefore, an important aim of public expenditure, and of public policies more generally, is not simply to build generic social capital but rather to build specifically those types of social capital that reduce inter-group alienation, or what Putnam (1993, p. 175) terms ‘networks of civic engagement that cut across social cleavages.’ The potential importance of this bridging social capital is illustrated by Ashutosh Varshney’s (2002) analysis of Hindu-Muslim tensions in urban India, which points to the role of associational ties across communities in reducing the likelihood of communal violence.

As Kanbur (2007, p. 6) observes, tensions may be present between the goal of promoting cross-group associational ties and other goals of economic policy. To illustrate, he notes that labor unions can serve as important arenas for cooperation across ethnic and religious cleavages; hence 'reducing the power of trade unions is an example of a policy that is often put forward in the name of increasing efficiency, but could have the long run result of increasing group tensions.' Where trade-offs exist, once again there are compelling grounds 'to give priority to policies for peace-building' (Collier, *et al.*, 2003, p. 166).

A further dimension of the 'who' question in post-war settings relates to balances of power among and within competing political parties and their supporters. This requires attention not only to community-wide characteristics such as living standards and ethnicity, but also to the stances of individual political leaders who often vary in their commitment to peace. Some leaders are enthusiastic about implementing peace agreements, others are lukewarm, and still others are prepared to resume war rather than make concessions for peace. Selective allocation of public spending can be one instrument to reward those who are committed to peace, penalize spoilers, and encourage the undecided to back peace implementation.³² If, instead, public spending strengthens the hand of hardliners, this can contribute to an unravelling of the peace process.³³

Distributional impacts need to be considered on the revenue side of fiscal policy, too. This issue sometimes is slighted by economists who were taught in graduate school that distributional objectives are tackled most efficiently on the expenditure side of fiscal policy. Inattention to 'who pays?' questions in revenue policy is dysfunctional, however, for the three reasons: first, the axiom that distribution can be relegated to expenditure alone rests on a textbook 'optimal planner' model that does not fit the real world; second, even optimal planners would need full information on the distributional impacts of revenue policies to achieve their targets; and third, if the public believes that the distributional effects of revenue policies matter, then politically they do.

Yet, little has been done to bring distributional concerns to bear on revenue policies. The primary revenue goal of post-war government authorities, and of the international agencies that seek to assist them, has been to increase the volume of collections; the secondary goal has been to do so as 'efficiently' as possible. To be sure, increasing the volume of revenue is no small task. And efficiency—if understood in terms of the realities of war-torn societies, as opposed to textbook axioms—is desirable. But neglect of the distributional impacts of taxation can subvert both of these goals.

The starting point for any effort to address this lacuna must be careful documentation of the distributional incidence of revenue instruments both vertically and horizontally. Collecting the necessary data will be a non-trivial task, for today there is a paucity of such information even in ‘normal’ developing countries, let alone in war-torn societies.³⁴ This can be contrasted with the situation in the industrialized countries, where the distributional impacts of proposed taxes typically are subjected to intense scrutiny by politicians and policy makers alike. Ironically, it is precisely where the need for such analysis is greatest—in societies embarked on the fragile transition from war to peace—that these issues receive the least attention. Technical assistance from the international community could play a valuable role in filling this information gap.

Documentation is only the first step. The second is to incorporate this information into policy making. In choosing the mix of revenue instruments—the balance between tariffs, value-added taxes and income taxes, for example—their distributional incidence must be considered alongside their revenue potential, administrative feasibility, and efficiency effects. One option that would be likely to receive much more attention, once revenue is seen through the distributional lens, is luxury taxation. Taxes on items such as private automobiles and private aircraft can combine the attractions of administrative ease, distributional progressivity, and substantial revenue. Remarkably, these rarely feature in discussions of post-war revenue policies.

Finally, information on the distributional impacts of revenue instruments, and on the ways that government policies are taking these into account, must be disseminated widely to the public, so as to guard against misperceptions and facilitate compliance by legitimizing the policies. The importance of this was demonstrated vividly in Guatemala, where the peace accords set explicit targets for increasing government revenue and social expenditure. To this end, the first post-war government attempted to increase the tax on large property owners. This effort was scuttled, however, in the face of protests not only from estate owners but also from small-scale indigenous farmers who thought that the tax would burden them (Rodas-Martini, 2007, p. 90; Jonas, 2000, pp. 171–172). The lesson is clear: successful revenue policy making cannot be a purely technocratic preserve; it must be part and parcel of the democratic process.

Thinking about Tomorrow, Today?

Getting Serious about Fiscal Sustainability

External resources that are spent today—regardless of whether they are channeled through the state or around it—often have implications for how

domestic resources must be spent tomorrow. This is true both for recurrent expenditures, including salaries, and for capital expenditures that will require spending for operation and maintenance in future years. Hence there is an evident need to think about the long-term fiscal implications of current decisions.

In the aftermath of war, attention to pressing short-term needs is perfectly natural, and perfectly valid. But this does not imply that the future consequences of today's decisions can or should be shunted aside for others to handle later. The long run begins in the short run. Myopia not only postpones getting serious about long-run problems, but also can make them worse.

Although much can be done to enhance domestic revenue capacities, the sky is not the limit. Prudence demands recognition that budget constraints will always be a fact of life. When building new government institutions and infrastructure, this reality must be borne in mind. It would be a mistake to rely on a transitory flush of external funds to create structures that are not fiscally sustainable. The point may seem obvious, but past experience suggests that it is often ignored.

Consider, for example, security spending in Afghanistan, where the Afghan National Army has been built with large-scale funding from the US government. Security-sector expenditures in the three-year period from 2003/04 to 2005/06 were equivalent to 494 per cent of the Afghan government's revenue, or roughly one-third of the country's GDP (World Bank, 2005a, p. 42).³⁵ 'Total security expenditures will exceed forecast domestic revenues for some years to come,' warns a recent World Bank study (2005a, p. 47) that describes the situation as 'unaffordable and fiscally unsustainable'. As Ghani, *et al.* (2007, p. 182) remark:

Even under very optimistic projections for domestic revenue, such an expenditure on security would imply a totally inadequate allocation of resources for human capital, infrastructure, and other vital functions of government.

Even from a security standpoint, unsustainable expenditures are short-sighted. A well-equipped army that is not getting paid ceases to be a security force. Instead, it becomes an insecurity force. A recent operational note prepared jointly by the United Nations Development Group and the World Bank (2005, p. 4) draws the clear lesson from such experiences: 'It is important to ensure that security issues are treated as an integral part of the national planning and budgetary process, rather than through separate forums which may lead to a lack of transparency or the taking of decisions which are fiscally unsustainable or undermine other reconstruction efforts.'

The problem of unsustainable expenditure is not confined to the security sector. Salary supplements for civil servants—including ‘sitting fees’ for attending donor-funded workshops, where ‘the daily rates can exceed regular monthly salaries’ (Moss, *et al.*, 2005, p. 7)—likewise can create problems for fiscal sustainability. Citing studies showing that additional remuneration to civil servants in Cambodia far exceeds their regular salaries, a recent UNDP study concludes that ‘the principal incentive to work in public employment is the prospect of access to external salary supplements’ (Beresford, *et al.*, 2004, p. 33).

Capital investments with high operation and maintenance costs also generate fiscal burdens down the road. In Palestine, Brynen (2007, p. 199) reports, aid donors have often ignored the development plans of the Palestinian Authority (PA), ‘undercutting any PA effort to monitor the cumulative long-term costs of donor-financed investments’. Again he points to the resulting distortion in incentives: the ‘lure of donor money’ encouraged government officials to put forward projects ‘not because they were a real priority, but because they seemed most likely to attract some external funding’.

A famous example of a costly, donor-driven project with high ‘flagpole value’ but problematic fiscal implications is the Gaza hospital financed by the European Union (Brynen, 2000, pp. 196–197). Donor-driven investments in public hospitals are sometimes referred to as ‘Trojan horses’, notes a recent World Bank report (2005b, p. 52), because of their large operating costs which crowd resources out of priority areas such as the basic package of health services.

Closely related to this problem is the bias of many aid-funded projects in favour of excessive reliance on imports. In deciding the extent to which the goods and services purchased for relief, recovery, and reconstruction should be imported, as opposed to being procured locally, donors face another tension between short-run expediency and long-run capacity building—the capacity in this case being in the private sector. Again, there are undoubtedly cases where the former trumps the latter: for example, where local sourcing would require large investments with long gestation periods. But there are also cases where local procurement could do more to stimulate economic recovery, and perhaps save money in the process.³⁶

To cite an example of the pervasive bias against local suppliers, during the United Nations Transitional Administration in East Timor, some quarter of a million desks and chairs for local schools were purchased with money from the World Bank-administered Trust Fund for East Timor. At the time, some officials suggested that some of these be procured locally to spur the growth of small and medium woodworking enterprises. Others rejected this on the

grounds that local procurement would be too slow (Pires and Francino, 2007, pp. 141–142). This was not a life-or-death case of emergency food supplies where time was of the essence; the goods in question were school furniture.³⁷

The interwoven challenges of building an effective state, a robust economy, and a durable peace all require thinking about tomorrow, today. Post-war inflows of external assistance cannot be sustained indefinitely. The success of this aid ultimately will rest on whether the structures built with it can be sustained without it.

INTERROGATING DONOR BEHAVIOR

Efforts to make external assistance a more effective tool for peace-building face two sorts of obstacles. First, peace is not the sole objective of donor governments, nor is it always the dominant one in shaping their interventions in war-torn societies. Competing objectives can not only divert attention and resources in other directions, but also pose obstacles to building a durable peace; in other words, policy objectives may be not only divergent but contradictory. Second, aid agencies have their own internal dynamics shaped by incentive structures, ideological biases, and inter-agency rivalries. These can undermine agency effectiveness even in pursuit of more familiar development objectives, let alone in responding to the novel challenges of building peace. This part of the chapter examines these issues.

Competing ‘National Interests’

In addition to peace, donor governments often pursue other objectives in war-torn societies. These include (i) geopolitical aims, (ii) economic and commercial interests, (iii) the repatriation of refugees, and (iv) responding to public opinion.

(i) *Geopolitical aims*: The Cold War rivalry between industrial democracies and the Soviet bloc helped to fuel violent conflicts across Asia, Africa, and Latin America. Aid was one weapon in this global contest. For example, because Cambodia’s government in the 1980s was backed by the Soviet Union and Vietnam, the United States not only withheld aid and diplomatic recognition, but went so far as to insist that the country’s UN seat should remain in the hands of the murderous Khmer Rouge. Former UN Secretary-General Kofi Annan (2002, p. 8) described the situation candidly: ‘Corruption and waste—indeed, results of any kind—were secondary to what donor countries wanted most, namely political allegiance.’

Despite the end of the Cold War, geopolitical considerations continue to exert profound impacts on the policies of external assistance actors, particularly those of bilateral donors. For example, the French government's willingness to support the Habyarimana regime in the crucial months preceding the 1994 Rwandan genocide appears to have been driven, in no small measure, by the aim of backing the 'Francophone' Hutu against the 'Anglophone' Tutsi (see, for example, Prunier, 1995).

Such biases have affected the policies of the IFIs, too. A World Bank study concludes: 'Between 1970 and 1993 aid allocations—by bilateral and multilateral donors—were dominated by politics—both the international politics of the Cold War and the internal politics of aid agencies' (World Bank, 1998c, p. 40). The study cites aid to Mobutu's Zaire as 'just one of several examples where a steady flow of aid ignored, if not encouraged, incompetence, corruption, and misguided policies'. The World Bank itself was among the biggest lenders to the Mobutu regime, accounting for \$1.4 billion of Zaire's \$12.3 billion external debt in 1994 (Ndikumana and Boyce, 1998). Indeed, in the late 1980s the pressure from powerful governments with a preponderant share of voting power in the IFI boards to lend to corrupt allies was so intense that a senior IMF official warned that the Fund's assistance was in danger of becoming 'indistinguishable from political support' (Finch, 1988).

(ii) *Economic and commercial interests*: Economic interests routinely influence foreign policy. For example, securing access to key raw materials, such as oil, has long been seen as a major concern of the industrialized countries. More surprising, perhaps, is the extent to which more mundane commercial motives—for instance, the pursuit of contracts for building bridges or leasing aircraft—can drive donor decisions. A substantial proportion of bilateral aid has been 'tied' to imports of goods and services from the donor country (de Jonquières, 1996). In effect, tied aid is a vehicle by which donors subsidize overseas sales by their domestic private-sector constituents. Defenders of the practice argue that this builds 'essential political support' for foreign aid back home (Rothkopf, 1998). At the same time, aid becomes a means to win foreign political support for business constituents in the donor country.

This quest for short-term commercial advantage can erode the willingness of donors to exercise peace conditionality. In the mid-1990s, for example, the Cambodian government retaliated against the Australian government's criticism of its human rights record by canceling business deals with several Australian firms. The lesson was not lost on other donors. 'What is important for many of these ambassadors is to defend their few miserable contracts', a

UN official in Phnom Penh observed. 'It is as if they represent their companies rather than their countries.'³⁸

Recipient governments play on these fears, at times quite openly. 'Japan is taking a lead,' a Cambodian commerce ministry official declared in 1999 when denouncing political conditions on US aid. 'By the time the U.S. shapes up, if a U.S. company is bidding on a contract against a Japanese company, do you think the U.S. will win? I don't think so' (quoted by Piore, 1999, p. A35).

More recently, the rise of China as Sub-Saharan Africa's single largest aid donor—with its policy of 'no political strings'—has sparked new concerns as to potential tensions between economic and commercial objectives and peace-building and 'good governance' objectives.³⁹

(iii) *Refugee repatriation*: The desire to repatriate refugees can be another important objective of aid donors—particularly when refugees are living in the donor countries. For example, some 345,000 Bosnians had taken refuge in Germany by the time of the Dayton peace agreement, and their support was costing German state and local governments approximately 1000 DM per refugee per month, or four billion DM (more than \$2 billion) per year (International Crisis Group, 1998). To expedite refugee returns, the German authorities deployed incentive packages, repatriation assistance, and threats of deportation. There is a tension, however, between this objective and the aim of consolidating a lasting peace. The quickest way to repatriate refugees to Bosnia was not to return them to their former homes, where those who expelled them often continued to wield power, but instead to send them to territories under the control of their 'own' people. As a result, war-damaged houses rebuilt with donor aid are often occupied not by their original owners, but by returnees of the 'right' ethnicity—a practice that, in effect, converted refugees into internally displaced persons. This not only failed to advance the Dayton principle of ethnic re-integration, but also made this goal still more difficult to achieve, since the return of the original owners to their homes now would require relocating the new occupants. Instead of using aid to encourage local authorities to accept minority returns, repatriation-driven reconstruction aid helped consolidate the demographic results of ethnic cleansing.

(iv) *Public opinion*: Donors respond, to some extent, to public opinion within the donor countries. In some cases, public opinion pushes donors to support peace-building, but in others it may operate against this goal. The US government, for example, has been reluctant to exercise conditionality in its dealings with Israel—the top recipient of US foreign aid—in order to encourage progress toward a peace settlement with the Palestinians. 'If

in the end Israel cannot accept our ideas, we will respect that decision,' US Ambassador Edward Walker assured leaders of the American Israel Public Affairs Committee (AIPAC) in 1998, 'and it will not affect our fundamental commitment to Israel by a single jot or tittle' (quoted in Gellman, 1998). This unconditional support is often ascribed to the power of the pro-Israel lobby in the United States, and AIPAC in particular, which *Fortune* magazine rates as the second most influential lobbying group in Washington (Erlanger, 1998; Mearsheimer and Walt, 2007). But the deep-rooted antipathy toward the Palestinian side among some US politicians has acquired a momentum of its own. This was demonstrated in the mid-1990s, when in keeping with the official Israeli policy immediately after the Oslo accords, AIPAC arranged for senior international officials to brief key US Congressmen to urge them to fund the newly created Palestinian Authority. Despite the fact that AIPAC itself was lobbying on behalf of the funding, Congress refused. 'We're not paying those terrorists!' an influential Congressman exclaimed to his visitors.⁴⁰

On other occasions, public opinion has been a force for interventions in the name of peace. When his aides brought him news of the Srebrenica massacre in July 1995, US President Bill Clinton reportedly exploded, 'I'm getting creamed!' A few days later, he complained to his foreign-policy advisers that the war in Bosnia was 'killing the US position of strength in the world' (quoted in Woodward, 1996, pp. 260–261; see also Danner, 1997). Ending the war had become identified with the president's own stature and with the US national interest. Yet, this same example suggests that it would be a mistake to overstate the impact of the so-called 'CNN effect'. For three years prior to Srebrenica, the international news media had carried vivid news reports of the carnage in the former Yugoslavia, yet this failed to prompt decisive action by the international community. It is not raw images that drive policy, Michael Ignatieff (1988) observes, but the 'stories we tell' about these images. Political will to intervene in Bosnia emerged only when the war came to be seen not just as a story of human suffering, but as one of failed American and European leadership.

Nevertheless, the Bosnian case showed that when public opinion is sufficiently mobilized—and political leaders are sufficiently accountable—it can lift peace to the top of the policy agenda. In the wake of a negotiated ending to a civil war, this can translate into backing for proactive peace-building assistance, helping to overcome the obstacles posed by competing geopolitical and economic objectives. In effect, public opinion can make a 'necessity of virtue' (Sherman, 1998).

Reforming Donor Agencies

Even if governments make peace-building their overriding priority in war-torn societies, the internal dynamics of the aid agencies themselves can pose additional impediments to the effective use of aid for this purpose. Peace-building requires aid agencies to move beyond business-as-usual practices in several ways. First, they must reorient their internal incentive structures to reward performance not in terms of the quantity of aid disbursed, but rather in terms of the effects of aid on the objective of building peace. Second, they must overcome ideological biases that single-mindedly favour 'efficiency' over equity and the 'free market' over state interventions. Third, they must work to achieve greater coordination with other donors, tempering their impulse to protect their own autonomy. Finally, they must become more transparent and accountable to the public.

(i) *Changing incentive structures:* Aid donors often measure their own success in terms of the amount of money they disburse. More aid is axiomatically better than less. In the early decades of foreign aid, inadequate investment in physical and human capital was widely seen as the main barrier to economic development. 'If money was the problem,' a recent World Bank study observes, 'then "moving the money" was an appropriate objective for aid and aid agencies' (World Bank, 1998c, p. 10). This translated into internal incentive structures that emphasized the quantity of aid disbursed over the quality of results achieved. Despite much discussion of the need to shift to outcome-based performance measures, the baneful effects of the 'approval and disbursement culture' persist. The World Bank study concluded, for example, that project managers continue to see the volume of loan commitments as an end in itself and appear to be willing to permit 'substantial' sacrifices in quality in return for modest increases in the quantity of lending (World Bank, 1998c, p. 142).

The incentives facing individual staff members often reflect those facing their employers. 'Both donor and recipient have incentive systems that reward reaching a high volume of resource transfer, measured in relation to a predefined ceiling,' a study for the Swedish International Development Authority remarks. 'Non-disbursed amounts will be noted by executive boards or parliamentary committees and may result in reduced allocations for the next fiscal year' (Edgren, 1996, cited in World Bank, 1998c, p. 117). The result is sometimes characterized as a 'use-it-or-lose-it' syndrome.

When aid is provided in the form of loans, as opposed to grants, there is an added incentive: new lending helps ensure that recipients continue to service

past debts. In December 1995, for example, the IMF heralded a \$45 million loan to Bosnia—the first loan issued under the Fund’s new emergency credit window for ‘post-conflict’ countries—as ‘a new beginning’ (IMF Survey, 1996). But the loan’s purpose was simply to allow the new Bosnian government to repay a bridge loan from the Dutch government, which in turn had been used to repay Bosnia’s assessed share of the former Yugoslavia’s arrears to the IMF. Old Yugoslavian debt was thereby transformed into new Bosnian debt. A similar exercise has been repeated in other post-war countries. In 2002, for example, the Democratic Republic of Congo’s arrears to the World Bank were cleared through a bridge loan from Belgium and France that was repaid with an Emergency Recovery Credit provided by the Bank (Alvarez-Plata and Brück, 2007, p. 266).

Peace conditionality, in particular, does not fit happily into these incentive structures. If institutions face penalties for withholding aid, but not for disbursing it unwisely, they can be expected to put a premium on ‘moving the money’. If individual staff members are rewarded for saying ‘yes’ but not for saying ‘no’, they will act accordingly. Effective peace-building assistance requires the performances of individuals and agencies be judged not in terms of how much aid they disburse, but in terms of how effectively this aid supports the goal of building a viable peace.

(ii) *Overcoming ideological biases:* Ideological fashions within the aid agencies can pose an additional impediment. In keeping with the precepts of neoclassical economics, for instance, donors frequently focus narrowly on the goal of economic ‘efficiency,’ neglecting distributional issues. This approach is singularly ill-suited to war-torn societies, where the prospects for peace often hinge on fragile balances of power. In assessing development projects and economic policies, donors must ask not only whether total benefits will exceed total costs—the usual bottom line in terms of efficiency—but also how the distribution of these benefits and costs will affect vertical disparities of class and horizontal cleavages of ethnicity, religion, race, and region. These distributional consequences may be hard to measure, as noted above, but this does not mean that they can be safely ignored.

The ideological antipathy in some donor agencies to state interventions in economic affairs can also prove to be counter-productive in the wake of a civil war. If, for example, donors insist on tariff reductions in pursuit of the Holy Grail of free trade, this may reduce government revenues that are urgently needed to finance the costs of peace. Moreover, in some cases tariffs can help ease social tensions by protecting the livelihoods of vulnerable domestic producers. In post-war El Salvador, for example, producer prices for maize

and beans, the mainstays of peasant farming, were undercut by cheap imports. Nevertheless, the World Bank lauded the government's steep reductions in agricultural tariffs, arguing that 'to reintroduce protection could set precedents that could be extremely difficult to reverse in the future' (World Bank, 1998b, p. 41). This doctrinaire stance not only ignored the possibility that tariffs can be a 'second-best' remedy for market imperfections (including foreign agricultural subsidies and overvalued exchange rates that artificially depress world market prices), but also ignored the importance of an economically viable small-farm sector for the sustainability of the country's peace process. Policies ought to be judged in light of their impact on economic and political reconstruction, not on the basis of *a priori* ideological dogma.

(iii) *Improving inter-donor coordination*: Effective aid for peace also requires donors to grow beyond business as usual by improving coordination among themselves.⁴¹ If one donor insists, for example, that local authorities take steps to encourage minority returns in order to receive housing reconstruction aid, while another offers similar aid with weaker conditions or none at all, the lowest common denominator will prevail.

Inter-donor coordination may be more feasible following a civil war than in 'normal' circumstances. In addition to the potential rewards being higher, international engagement in the peace process often leads to the creation of some coordination mechanisms inside and outside the country. The most ambitious examples of in-country coordination to date have been the Office of the High Representative (OHR) in Bosnia, and the Joint Liaison Committee and Local Aid Coordination Committee in Palestine. These were complemented by external coordination via the Peace Implementation Council steering board in the case of Bosnia, and the Ad Hoc Liaison Committee (AHLC) in the case of Palestine. The establishment of these coordination mechanisms was far from smooth, however, and their success in overcoming inter-donor rivalries has been a matter of degree.

Although the OHR's powers in Bosnia are about as close as the contemporary world comes to a colonial administration, its ability to impose consistent policies on the donors is quite limited. The Dayton Peace Agreement specified that in dealing with aid agencies, the High Representative shall 'respect their autonomy within their spheres of operation, while as necessary giving general guidance to them about the impact of their activities on the implementation of the peace settlement'.⁴² In other words, the OHR must rely on persuasion, not authority.

The difficulty in creating the AHLC to oversee aid to the Palestinian Authority is another telling example. The major powers decided to establish

the committee in October 1993, shortly after the Oslo accord between Israel and the Palestine Liberation Organization (PLO). Intense rivalries immediately emerged over the make-up of the committee. Tensions over who would chair the AHLC became so acute that at one point the Israelis and Palestinians jointly offered to mediate between the United States and the European Union—a rather striking turn of events. The battle ended with a compromise: Norway became the chair.

In choosing the extent to which they will coordinate their programs and policies, donors must weigh the benefits of greater coherence against the costs of reduced autonomy.

(iv) *Increasing donor transparency and accountability*: The reforms in donor practices that are suggested above could be facilitated by moves toward greater transparency and accountability in decision making. The credibility of donor calls for ‘good governance’ in aid-receiving countries will be strengthened if they practice what they preach. Stronger public oversight could encourage the agencies to elevate results above disbursements, question ideological presuppositions, and better coordinate their activities. Increased transparency and accountability will not guarantee these reorientations, but they could help them along.

Priorities and Sequencing

Policy coherence requires not only inter-agency coordination but also agreement on common goals and priorities. This requires agreement on ends of policy as well as harmonization of the means. Policy coherence at this deeper level poses profound challenges.

Much policy discourse about war-to-peace transitions centers on two policy goals: ‘security’ and ‘development’. The relation between the two has attracted a great deal of attention in the wake of the September 2001 attacks in New York and Washington, DC, but the issue has a much longer history. In his memoir *The Essence of Security*, published as he left the helm of United States Department of Defense to assume the presidency of the World Bank, Robert McNamara (1968, p. 149) argued that development is crucial for security. ‘In a modernizing society security means development’, he wrote. ‘Without internal development of at least a minimal degree, order and stability are impossible. They are impossible because human nature cannot be frustrated indefinitely.’

Yet, a recent operational note on policies in ‘fragile states’, prepared jointly by the United Nations Development Group and World Bank (2005, p. 4),

points out that a single-minded focus on economic development ‘has in cases led to serious shortfalls in funding for critical interventions in the political and security spheres, interventions that are critical to creating an environment for economic and social programs to deliver benefits for the population’. Moreover, not all development policies are equally supportive of security: ‘Well designed economic and social programs can contribute to political stabilization; ill-timed or badly targeted programs can undermine it.’⁴³

By the same token, a single-minded preoccupation with security can undermine development. In Afghanistan, as discussed above, fiscally unsustainable security expenditures threaten to overwhelm long-term development needs. In Palestine, Brynen (2007) depicts the tensions between efforts to short up the PA’s patronage-based political order and the need for an economic environment conducive to investment and growth. In Cambodia, Smoke and Taliercio (2007) similarly delineate a divergence between a ‘peace and security’ approach to public finance, which regards the existing patronage system as necessary for political stability, and a ‘developmental’ approach that advocates reform in the name of economic growth and poverty reduction.

At first blush, these examples simply pit short-run expediency against longer-run goals. But there are deeper contradictions that are grounded in competing visions of both security and development. Is security merely the absence of violent conflict, sometimes termed ‘negative peace’? Or is it the absence of social tensions that threaten to precipitate conflict, sometimes termed ‘positive peace’? The former often can be achieved, at least for a time, by means of repression and intimidation. The latter demands political inclusion and shared perceptions of justice. Similar questions can be posed about development. Is this defined simply as economic growth? Or to qualify as genuine development, must growth be inclusive?

A further source of divergence arises from the differences between the priorities of donor governments and those of the people who are on the receiving end of aid. When international actors intervene in the name of security, whose security is paramount: the ‘human security’ of the populace, the ‘national security’ of the government, or the ‘security interests’ of the donor governments? Similarly, is success on the development front to be measured in terms of local livelihoods, or GNP, or benefits to external commercial interests?

Once we recognize the divergences among these goals, getting priorities right cannot be seen as merely a technical challenge. It is a political challenge too, posing fundamental choices about values and the kind of world in which we want to live. The premise of this chapter is that the top priority for public policy in war-torn societies should be the building of a durable peace: this is the single key objective around which diverse policies must cohere.

Yet, even if there is general agreement on this premise, there is considerable disagreement as to the proper sequencing of policies, or what might be termed prioritization amongst priorities. These disagreements do not simply reflect the great uncertainties and lack of adequate information that characterize post-conflict environments; they also reflect the competing interests within donor governments and the prevailing incentive structures within aid agencies that have been described above. Three systematic features of donor behavior contribute to poor sequencing:

(i) *Coordination failures*: Some sequencing problems result simply from the division of labor amongst multiple agencies and the failure to share information and coordinate actions. A recent study offers the common-sense recommendation that donors should ‘pay attention to vital prerequisites before launching any ambitious reform programs’, noting as an example that ‘sweeping civil service reform and rapid military downsizing can be counterproductive if effective compensation and assistance packages are not in place’ (Timilsina and Dobbins, 2007, p. 3). The problems of inter-agency coordination are compounded, however, by inter-agency competition and rivalry. A recent review of post-conflict needs assessments, conducted jointly by the United Nations and the World Bank, observes that ‘the dramatic needs in post-conflict settings generate pressure towards a comprehensive rather than a strategic approach’, generating over-ambitious plans and unrealistic expectations (United Nations and World Bank, 2007, p. 5). The review calls for steps to ‘re-engineer’ the needs assessment process ‘by building in mechanisms, clearly articulated criteria, and incentives for “real” prioritization and sequencing’ (United Nations and World Bank, p. 12). Yet, it recognizes that political timing ‘puts a premium on the assessment generating a costed report that carries an impressive “price tag”’ so as to ‘harvest significant support from donor countries while the “CNN effect” is still active’ (United Nations and World Bank, p. 31). The result is a scramble to stake claims in the post-conflict aid rush, a dynamic that militates against selectivity and sensible sequencing.

(ii) *Misplaced priorities*: The competing interests of donor governments and the ideological biases of aid agencies further compound the problem. An example of competing interests is the current policy of putting a high priority on poppy eradication in Afghanistan in the name of combating the illicit narcotics trade. As Richard Holbrooke (2008) recently wrote, eradication ‘pushes farmers with no other source of livelihood into the arms of the Taliban without reducing the total amount of opium being produced’. By putting

the eradication cart before the security horse, the drug-control policy yields perverse results. An example of ideological bias is the over-zealous promotion by international financial institutions of privatization and 'liberalization' (e.g., sharp reductions in tariffs), which as Timilsina (2006, p. 91) concludes, on the basis of case studies of Haiti, Mozambique, and Cambodia, 'may not be an immediate priority in every post-conflict country'.

(iii) *Myopia*: Sequencing problems are also exacerbated by the tendency to let short-run demands crowd out long-run needs. This helps to explain the bias against local suppliers, illustrated earlier by the example of foreign sourcing of school furniture in East Timor. It helps to explain the 'dual public sector' syndrome, in which the bypassing of the state is rationalized on the basis of short-run efficiency while neglecting the longer-term tasks of building the capacities needed for an effective and legitimate state. It also helps to explain the common failure to engage with civil society and enlist broad public participation in decision-making processes that are seen as desirable in theory but too time-consuming to implement in practice.⁴⁴

In sum, the obstacles to successful post-war reconstruction and peace-building are not only located within the war-torn societies themselves. There are also deeply rooted obstacles located in the policies and priorities of the international community and the donor agencies. More effective aid for the reconstruction of war-torn societies requires the reconstruction of aid itself.

NOTES

- 1 There is ample precedent. For example, in 1990 the United States retaliated for Yemen's vote against a resolution authorizing force against Iraq by cutting off aid. See Zeller (2003).
- 2 It is now widely recognized that other revenue sources (e.g., value-added taxes) seldom succeed in replacing lost tariff revenues on a one-for-one basis. See Khattry and Rao (2002) and Baunsgaard and Keen (2005).
- 3 A World Bank study estimates that in the first five years after a peace accord, a country has a 44 per cent chance of reverting to war (Collier, *et al.*, 2003, p. 83).
- 4 'The neoliberal recommendation to national policy makers is that they should insist on maintaining inflation rates of 3–5 per cent', writes McKinley (2006, p. 352), 'even though there is little empirical evidence to suggest that inflation rates above that level, or even above 10 per cent, have an adverse effect on growth'. For discussion of alternatives to inflation targeting, based on 'real-economy' targets such as employment, see Epstein (2003).
- 5 Personal interview, Phnom Penh, November 1998.
- 6 'Donor Statement' dated 6 October 1995, cited by Christian Michelsen Institute, *Evaluation of Norwegian Assistance to Peace, Reconciliation and Rehabilitation in Mozambique* (Oslo: Ministry of Foreign Affairs, 1997), p. 49.

- 7 A revised version of Boyce, *et al.* (1995) was published as Boyce, ed., *Economic Policy for Building Peace*.
- 8 Some observers attributed funding shortfalls to fiscal austerity measures demanded by IMF and World Bank conditionalities (see, for example, Orr, 2001, p. 167). A careful analysis of policy formation in the early years of the Salvadoran peace process suggests, however, that the core problem was the unwillingness of the government to fund these programs, rather than its inability to do so (see Wood, 1996; Boyce, 1996).
- 9 For further discussions of peace conditionality, see Frerks (2006) and Goodhand (2006).
- 10 International Bank for Reconstruction and Development, *Articles of Agreement*, Article III, Section 5(b).
- 11 In November 2007, for example, the carrot of EU accession helped persuade Bosnian Serb leaders to accept new parliamentary voting rules, resolving 'the most serious political crisis since the end of the 1992–1995 war' (Associated Press, 2007).
- 12 For discussion, see Pronk (2001) and Boyce (2002b).
- 13 For an analysis that represents IMF conditionality as an alliance in which the Fund supports a reformist government in the face of domestic interest groups opposed to reform, see Drazen (2002). More generally, these donors also could ally with like-minded domestic groups outside the government or within a heterogeneous government. For further discussion of aid and cross-national coalitions, see Milder (1996).
- 14 See the UN-DPKO/World Bank joint review of GEMAP by Dwan and Bailey (2006, pp. 20–21). Referring to the issue of domestic allies, the authors argue that more could have been done to engage with civil society in Liberia: 'While caution in appearing to circumvent national authorities is an important consideration, international partners could have done much more to facilitate public debate on economic governance as well as to build more informal, off-line strands of support among key actors.'
- 15 A ministerial meeting of the Peace Implementation Council endorsed this principle in May 1997, recommending that 'assistance for housing and local infrastructure should be dependent on the acceptance of return' of refugees and displaced persons (*Political Declaration from Ministerial Meeting of the Steering Board of the Peace Implementation Council*, Sintra, Portugal, 30 May 1997, paragraph 46).
- 16 In the case of Rwanda, for example, Obidegwu (2003, p. 20) observes, 'With the flood of international NGOs, relief and development agencies into Rwanda after the genocide, the government service could not compete for the few qualified people available'. In the case of Afghanistan, Ghani, *et al.* (2005, p. 10) contrast the salaries of \$1000 per month paid by donor agencies to \$50 per month paid by the government, and remark: 'Unsurprisingly, there has been a brain drain from the managerial tier of the government to menial positions in the aid system. The people might have judged it to be fair had the disparity in wages resulted from a competitive market; however, the problem is that both bureaucracies are funded from the resources of the aid system and the rules for remuneration are arrived at by bureaucratic fiat rather than by open processes of competition.'
- 17 Voicing the last two of these concerns in an analysis of aid to Mozambique, Arndt, *et al.* (2006, p. 1) conclude: '[T]he proliferation of donors and aid-supported interventions has burdened local administration and there is a distinct need to develop government accountability to its own citizens rather than donor agencies.'
- 18 In USAID's program for building schools and health clinics in Afghanistan, for example, 'Employees of a Maryland-based nonprofit relief agency hired to monitor construction quality demanded a \$50,000 payoff from Afghan builders—a scene

- captured in a clandestine videotape obtained by *The Washington Post*' (Stephens and Ottaway, 2005).
- 19 In Afghanistan, the former planning minister 'has become one of the most popular politicians in the country by campaigning against NGOs (non-governmental organizations), which he has said are more dangerous than al-Qaeda' (Rubin, 2005, p. 101).
 - 20 In exceptional circumstances, dual-control systems can also be applied to domestic revenues (for discussion, see Le Billon, 2003). An example is the Governance and Economic Management Assistance Program (GEMAP) instituted in post-war Liberia in 2005.
 - 21 Gupta, *et al.* (2004) find a negative relationship between government revenue and conflict in a sample of low- and middle-income countries. Addison, *et al.* (2004) report that the intensity of conflict, as well as its presence, negatively affects the tax/GDP ratio.
 - 22 Examining evidence from a large sample of developing countries, Gupta, *et al.* (2003) find that grant aid, in particular, tends to lower revenue efforts; in countries with high levels of corruption, 'the decline in revenues completely offsets the increase in grants.' A recent IMF study (Heller, 2005, pp. 4, 21) cites disincentives to mobilize domestic resources as a 'moral hazard' of external aid flows, observing that 'some African countries with among the highest ratios of aid to GDP are also those that have stubbornly low tax ratios.'
 - 23 Thus at the 1998 meeting of the Consultative Group for Guatemala, the IMF representative urged the government to 'resist pressures to increase import duties or delay the scheduled reduction in customs tariffs, arguing that 'these actions will have adverse effects on output growth' (quoted in Boyce, 2002a, p. 47).
 - 24 Camdessus warned that without a significant increase in the tax effort Guatemala could not expect to receive substantial international aid, and noted that the IMF would have preferred an even more ambitious revenue target. See Boyce (2002a, pp. 41–42) and Jonas (2000, pp. 185–186).
 - 25 Thus among dozens of examples of EU budget-support conditionality listed in a report by the European Commission (2005), the Mozambique case is the sole example of revenue-side conditionality.
 - 26 'The Afghanistan Compact', London Conference on Afghanistan, 31 January–1 February 2006, p. 12. Available at http://www.unama-afg.org/news/_londonConf/_docs/06jan30-AfghanistanCompact-Final.pdf.
 - 27 Under the Convention on the Privileges and Immunities of the United Nations, UN officials are 'exempt from taxation on the salaries and emoluments paid to them by the United Nations' (United Nations, 1946, sec. 18b). The United States did not sign the Convention (whereas virtually all other member states did so), and hence US citizens and permanent residents employed by the United Nations are liable for US income taxes. To redress the resulting disparities, a 'staff assessment' is deducted from the nominal gross salaries of UN employees and paid into a Tax Equalization Fund. The Fund is used for two purposes: (i) to reimburse income-tax payments by US citizens employed by the United Nations, so that net salaries of UN personnel are unaffected by the employee's US tax status; and (ii) to offset the UN budget dues of the other member states that are signatories to the Convention, while the US government receives no offset by virtue of the fact that it taxes UN employees. The staff assessment is sometimes characterized as an 'internal tax' administered by the United Nations, a description that is misleading in that its purpose is 'to place United

- Nations staff members subject to taxation (i.e., US citizens and permanent residents) in the position they would have been if their official emoluments were not taxed' (United Nations Secretariat, 2007, p. 5).
- 28 For an example of an assessment, see Goodhand (2001).
- 29 For an exception, see the data on the provincial distribution of revenue and expenditure in Burundi that are presented by Ngaruko and Nkurunziza (2005).
- 30 For further discussion of the 'dark side' of social capital, see also Putzel (1997), Ostrom (1999), and Field (2003, ch. 3).
- 31 The two can go together. In the war in Bosnia, the destruction of the magnificent medieval bridge between east and west Mostar came to symbolize the breakdown of trust between Muslim Bosniaks and Catholic Bosnian Croats.
- 32 For a discussion of 'spoilers', including the distinction between 'limited' and 'greedy' spoilers who are responsive to changing incentives and 'total spoilers' who are not, see Stedman (1997, 2002).
- 33 For discussion, see Boyce (2002a).
- 34 For a review of the rather sparse literature on the distributional impacts of taxation in developing countries, see Gemmill and Morrissey (2005).
- 35 This figure excludes counter-narcotics expenditures, which would push the ratio closer to 600 per cent.
- 36 The supposed efficiency advantages of foreign sourcing can be illusory. In Afghanistan, for example, where USAID funds for rebuilding schools and health clinics were routed through a New Jersey-based private contractor, press reports have revealed inordinate delays, shoddy construction, and 'extraordinary costs' in the words of a USAID official (Stephens and Ottaway, 2005; see also Rohde and Gall, 2005).
- 37 In the end, some of the school furniture was procured locally, albeit with delays. For discussion of the scope for greater local procurement in post-conflict operations, see Carnahan, Gilmore and Rahman (2005).
- 38 Interview with a UN human rights official, Phnom Penh, November 1998.
- 39 For discussions of Chinese aid to Africa, see Davies (2007), McGreal (2007), Zafar (2007), and Huse and Muyakwa (2008). Similar issues have arisen in Cambodia, where Chinese aid in 2006 undermined an initiative by other donors to attach anti-corruption conditions to a new aid package (Hauter, 2007). For recent signs of shifts in Chinese policy, see Kleine-Ahlbrandt and Small (2008).
- 40 Personal interview with a senior international official who participated in these meetings, Gaza City, March 1998.
- 41 In addition to coordination across different donor governments, there are often serious coordination problems among the various agencies of any single donor government; see, for discussion, Patrick and Brown (2007).
- 42 *The General Framework Agreement for Peace in Bosnia and Herzegovina*. Annex 10, Article II, Sections 1(a) and 1(c).
- 43 In a similar vein, Smith (2004, p. 44) warns: 'It is, unfortunately, likely that where development cooperation is the default conceptual and planning mode, the specifics of peacebuilding—the war-defined context—will slip out of focus. The results of that could be serious.'
- 44 Underscoring this point, a recent critique of security sector reform programs concluded, 'As difficult or seemingly counterproductive as it may seem in the short-term, participatory reform processes involving a broad range of local actors with a stake in security governance are critical in order to embed reform in wider social structures' (Bryden, Donais and Hanggi, 2005, p. 29).

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Chapter 7

Post-Conflict Recovery: Aid Effectiveness and Permanent Peace

MICA PANIĆ

INTRODUCTION

Few aspects of international economic policy have received so much attention or provoked as much controversy as international development assistance. This chapter analyses some of the key issues in the debate, drawing on the experience of many countries.

Most of the analysis is confined to fragile states, the states that have either been through or are highly vulnerable to serious forms of internal violence, including civil wars. It is also deliberately general and normative. The aim is to consider some of the broad, widely applicable, principles that ought to guide the creation of institutions and policies in this area, not specific policies that reflect the needs and priorities of individual countries.

There are many reasons why fragile states deserve special attention. Civil wars do more than inflict heavy human and material costs. They also diminish the capacity of a country to deal effectively with their underlying causes, increasing the risk of future, even more costly and debilitating, conflicts. What is more, the longer they persist the greater the danger that they will destabilize, even spill over into, other states, making in the process whole regions vulnerable to intercommunal divisions, violence and wars. This makes the objectives of foreign aid and the conditions under which it is provided and implemented in post-conflict countries of critical importance because of their effect on the distribution of gains from any improvements in economic performance that external assistance makes possible. The reason for this is that most civil conflicts are caused by great, persistent inequalities (economic, social and political) that create irreconcilable divisions within a country. Foreign aid will do little to solve these underlying problems without an institutional framework with the responsibility and capacity to reduce the inequalities to the levels that are generally regarded as “fair”.

Consequently, it is the institutional framework created after the conflict and the nature of economic reconstruction and development that follow, all of which can be influenced by the donors, that will determine whether the root causes of past divisions and violence have been eradicated permanently. As sustainable, permanent peace is the most important goal that foreign aid can help post-conflict countries achieve, the effectiveness of all forms of external assistance has to be judged by how far they contribute towards achieving that overriding objective.

The overall cost of civil wars is such that institutional reforms, post-war reconstruction and the early stages of economic development become, in many respects, a shared responsibility between the receiving country and its donors. The ultimate success or failure will be determined, therefore, by how each side discharges its part of that shared responsibility.

The sections that follow pay special attention to institutional aspects under which external economic and technical assistance needs to be given and implemented. These include short- and long-term costs of conflict; some essential preconditions for permanent peace; main responsibilities of the recipient country and its donors; the role of aid effectiveness and its monitoring in a world of more stringent performance-related standards in the allocation of official development assistance (ODA); and factors that need to be taken into account in assessing the effectiveness of foreign aid.

A distinction is made in each case between the ultimate goals and matters of principle (where generalizations are possible) and action programmes and policies necessary to achieve them (where, invariably, country-specific solutions are required). As no two countries are identical, even when they pursue the same ends the means to achieve these ends will differ, often significantly in the case of post-conflict countries. Moreover, no matter how successful institutions and policies are in one period of a country's history, they cannot be expected to remain so indefinitely under dynamic economic and social conditions. New problems and priorities will require changes in the existing institutions and policies. The "permanence" of permanent peace will be determined in the end by the timing of these changes and their sensitivity to the needs and aspirations of the whole population, not just a privileged minority.

THE COST OF CONFLICTS AND THE CAPACITY TO USE EXTERNAL AID EFFECTIVELY

There were over 220 armed conflicts in the world between 1946 and 2001, half of them since the end of the Cold War in 1989/90 (Gleditsch, *et al.*, 2002,

pp. 620, 616). The overall figure includes more than 140 civil wars, with 20 million casualties and 67 million displaced persons (Sambanis, 2003, p. 1). These figures are equivalent to half of the casualties and more than double the number of displaced persons in Europe during the Second World War (Panić, 2005a, pp. 59–60)—the bloodiest war in the continent’s long history of conflicts.

The number is even higher today as a result of a combination of interstate, internal and internationalized internal wars in countries such as Iraq, Afghanistan, Sudan and the Democratic Republic of Congo (see Small and Singer [1982, chapter 2] for a classification of different types of state conflict). The human cost of armed conflicts is, in fact, even greater than the data suggest because civil wars are not the only form of organized aggression and brutality. Inter-communal violence, coups and high levels of organized crime, even genocide, have occurred in many countries.

Moreover, in addition to military casualties, many lives are lost during and after armed conflicts through famine and the lack of essential medical services. Not surprisingly, spread of disease has been associated throughout history with wars. However, changes in the nature of recent internal conflicts have made the link between the two even stronger because of “the deliberate targeting of civilians and the widespread use of rape as a systematic tool of warfare” (World Bank, 2004, p. 25). According to one estimate, the HIV/AIDS virus is killing more than ten times as many people in Africa as the armed conflicts (Elbe, 2002).

Civil wars, in particular, also leave a substantial part of the population with serious physical and psychological disabilities. For instance, many people lost their limbs in Sierra Leone during the conflict, joining an already large group suffering from other physical disabilities, such as those related to leprosy and polio (Date-Bah, 2001, p. 3). There is also evidence of a high incidence of mental disorders among displaced population. Some estimates put the proportion of refugees suffering from “acute clinical depression and post-traumatic stress disorders” at between 40 and 70 per cent (World Bank, 2004, p. 26). All these problems and the capacity to deal with them are made worse by the loss during and after conflicts of some of the key sections of the population.

The direction of labour migration at the beginning of the new millennium is no different from that during the last two centuries: predominantly from low- to high-income countries; and, among developing countries, from slow to fast growing economies. The attraction of prosperous, politically stable countries will be particularly strong for residents of fragile, conflict prone states. Emigration provides them with the only opportunity to escape

the world of abject poverty, personal and economic insecurity and little or no prospect of breaking out of the poverty-conflict trap in their lifetime. For some, conflicts make emigration a necessity, even a matter of life and death. This is particularly true of those with special skills and professional qualifications who are often targeted by the warring factions.

Advanced or fast growing economies also contribute to the exodus of key personnel from fragile states, as they have always actively encouraged immigration of labour with special skills. For example, many OECD countries amended their legislation in the 1990s to make immigration relatively easy for certain types of labour, especially those with IT skills, medical personnel, teachers, scientists and engineers (Dumont and Lemaitre, 2004). It is not surprising, therefore, that the highest proportion, ranging from over 30 to 80 per cent, of highly skilled and qualified immigrants living in OECD states is found among the expatriates of some of the poorest countries in the world (Dumont and Lemaitre, p. 15), many with a history of conflicts.

The long-term cost of emigration of those with professional qualifications is considerable to all low-income countries. Unable to keep them, the countries are forced to concentrate on economic activities that rely on semi skilled and unskilled labour, not exactly the way to improve productivity and income levels and thus make the prospect of staying in their home country more attractive to those that they desperately need. According to one estimate, “each emigrating African professional represents a loss of \$184,000 to Africa”. The loss to South Africa alone from emigration of highly skilled labour between 1997 and 2001 is put at “more than \$5 billion” (UN/DESA, 2006, p. 64).

Although the shortage of highly skilled and professional personnel is a major obstacle to economic development in all low-income countries, it is the post-conflict countries in this group that are likely to feel their absence most acutely. The reason is that, because of their social standing and influence, these individuals could make a major contribution to the process of reconciliation and reconstruction and in this way increase the likelihood of sustainable peace.

More difficult to quantify, or to assess its long-term impact, is the effect of radical changes in the social cohesion of a war-torn country: its social structures, responsibilities and norms—as family and community ties of loyalty, friendship and support break down or are irretrievably lost (see Justino, Chapter 2). The changes will affect especially some of the most vulnerable members of society: children separated from their families, often traumatized by war and sexual abuse; old people left without material and other help by the loss of their families and traditional community systems of support; and many widows with young children to care for and without

financial help. As a result, the state in post-conflict countries finds itself with much greater social responsibilities than before the conflict at a time when it is least able to discharge them.

In addition to their heavy human cost, civil wars, especially those of long duration, also destroy and make obsolete physical capital, reducing further productive capacity of a post-conflict country. Typically, the country will emerge from the war with a lower level of GDP and a lower rate of growth (see Lindgren, 2005). Unemployment levels will be high and employment opportunities will remain limited for some time, as it may take post-conflict countries up to five years, even longer in some cases, to become able to use external assistance effectively (World Bank, 2004, p. 27; McKechnie, 2003). Other things remaining the same, the result is further increases in inequality and poverty, as both are strongly associated with unemployment. In other words, all the economic conditions that play a major role in causing internal and interstate conflicts will be even more serious at the end of a civil war than before.

The material damage can be extensive making, as West European experience after 1945 shows, economic recovery without foreign assistance difficult even in highly industrialized economies where the stock of human and physical capital is far greater than in the developing world (cf. Panić, 1992a). A high proportion of dwellings will be damaged and destroyed. Most public buildings and the infrastructure will be in a similar state: hospitals, schools, water treatment and sanitation plants, roads, railways, bridges, manufacturing and energy plants and others (McDonald, 2005).

Food is in short supply, malnutrition widespread and anti-personnel mines make much of agricultural land unusable. For instance, as much as 35 per cent of the land in Cambodia could not be used after the conflict for this reason. Similar problems have been experienced by Angola, Mozambique and several other African states regarded generally as being “among the most landmined countries in the world” (Date-Bah, 2001, p. 36). Roads, bridges, railways and ports will present similar mine hazards, making the distribution of agricultural and other goods and services, as well as exports, both difficult and risky.

The experience of Rwanda, a country that has received much international attention since the genocide in 1994, encapsulates many of the costs of conflict and their effects on the capacity of a post-conflict country to recover. According to World Bank estimates, at least 800,000 people (around 10 per cent of the population) died during the conflict and 3 million fled to neighbouring countries (Lopez, *et al.*, 2004, p. 1). Children were left with the responsibility of caring for 85,000 households. There were also a large number of orphans and widows. The effect on health was equally devastating. Widespread rape led to “the spread of HIV/AIDS, and victims of rape and

violent crimes suffered extensive trauma”. Infant mortality went up from 85 to 137 per thousand and the child mortality from 150 to 247 (Lopez, *et al.*, 2004).

Economic effects of the conflict are still felt. Ten years after the genocide, it was estimated that Rwandan GDP was 30 points lower than it would have been if the genocide did not happen. The level of poverty was well above what it would have been without the conflict: 60 per cent instead of 42–47 per cent for the population as a whole and 42 per cent instead of 26–28 per cent for those living in extreme poverty, struggling to satisfy their basic needs (Lopez, *et al.*, 2004). Despite “steady growth” since the mid-1990s the country’s Human Development Index (HDI) ranking is lower now than it was in 1993, even though it has received considerably more external aid per capita than a number of post-conflict countries. Yet, some of these countries have managed to improve their HDI ranking over the same period (Suhrke and Buckmaster, 2005, p. 22).

The sheer scale and complexity of problems in post-conflict countries is such that the risk of another civil war in these states is fairly high, around 50 per cent according to some estimates (McDonald, 2005, p. 3; World Bank, 2004, p. 8). Half of those that flare up again do so within five years after the end of the last conflict (UN/DESA, 2006, p. 143).

SHARED RESPONSIBILITY: PRECONDITIONS FOR SUCCESS

Most fragile, war-torn, states are at a low level of economic development; many of them are among the least developed countries in the world. Hence, even at the best of times, they will lack physical and human capital to prevent economic failure and social divisions that can easily provoke costly conflicts. Civil wars, as the previous section shows, will reduce further their already limited capacity to achieve and sustain social cohesion and peace.

As a result, every conflict increases the dependency of a fragile state on foreign aid, both material and technical. An important consequence of this is that the effective use of external assistance becomes, especially in the early stages of the post-war reconstruction and development, a *shared* responsibility between the receiving country and the international community. The blame for failure cannot be attributed, therefore, exclusively to one side—even though the main responsibility for what happens in a sovereign state rests with its population and institutions.

As UNCTAD (2006, p. 36) reminded the international community in a recent report, “development aid can never be a lasting substitute for the mobilisation of domestic resources”. Its aim “is to break some of the economic

and social constraints on such mobilisation and to bridge some of the gaps that might otherwise hinder or undermine the progress”.

This is as true of post-conflict countries as it is of developing countries in general—except for one important difference: the need for success in “bridging the gaps” is much greater and more urgent in their case. That, in turn, increases the responsibilities of both the recipients and donors well beyond that of helping to mobilize domestic savings and investment. The task is nothing less than to make it possible for post-conflict countries, over 80 per cent of which are poor and highly vulnerable to external shocks (Panić, 2005a, p. 63; Guillaumont, 2007) to break out of the poverty-conflict trap in the long term by achieving economic progress, political stability and sustainable peace. The extent to which the recipients and donors cooperate towards that goal will be of critical importance in determining the success of external assistance.

This, in turn, will depend on at least three preconditions that have to be satisfied if post-conflict reconstruction and development are to have any chance of success.

First, there has to be a strong and broadly based consensus in the countries concerned that armed conflict is unacceptable as an instrument for solving disputes within and between states. Equally essential, the system of government must be such as to allow the general desire for peace to be reflected in popular support for the political organizations and leaders with a programme of reforms and policies that will prevent future wars. It was the existence after 1945 of such a consensus and democratic institutions in Western Europe that proved to be one of the key factors behind the extraordinary effectiveness of the Marshall Plan (Panić, 1992a; Keegan, 1999), “perhaps the most successful aid exercise in history” (UNCTAD, 2006, p. 4).¹

Second, the recipients and providers of external assistance must have very similar long-term objectives and priorities. When this is not the case, the volume of aid and the conditions attached to it will often promote donors’ geopolitical or corporate interests with little regard for the impact that these will have on the receiving country. Even international aid giving agencies may, under the pressure from their most powerful member(s), subordinate the needs of developing, even post-conflict, countries to the interests of their wealthy donors (cf. Alesina and Dollar, 1998; Barro and Lee, 2002).

Close international cooperation to realize important objectives in post-conflict states is relatively easy to achieve when, as was the case with Marshall Aid, there is one dominant donor whose long-term objectives and priorities happen to be virtually identical with those of the receiving countries. The problem is that the consensus that existed in the late 1940s in Western Europe

and the United States—a small group of countries with similar institutions, interests and at a comparable level of economic development—is very difficult to replicate in a world divided into three times as many states as there were in existence at the time (cf. Gleditsch, *et al.*, 2002, p. 621).

What is more, differences between sovereign states have never been greater in virtually every aspect that tends to determine international relations: their size, level of development, political system, social values, military power and national respect for human rights, justice, rule of law and environmental sustainability (see Maddison, 2001, 2003; Bourguignon and Morrison, 2002 for long-term changes in international economic inequalities). The number of donors, official and private, has also proliferated since the 1940s.

To prevent development assistance from promoting economic and social divisions and conflicts rather than peace, these important changes demand now a more formal approach: an internationally agreed code of behaviour that applies equally to recipients and donors.

The ‘International Code for the Provision of Development Assistance to Post-Conflict States’ would exclude short-term humanitarian aid which tends to be provided automatically where and when required. Its main concern would be with reconciliation, reconstruction and sustainable development of fragile states (see Panić, 2005a.)

The Code would define clearly the overriding objective: permanent peace to be achieved through close cooperation, national and international, and widely shared benefits from improvements in the standard of living and social wellbeing. To that end, post-conflict states would have to commit themselves—with help from the international community—to a new, irreversible “social contract” that embraces *all* their citizens: equal rights and opportunities, personal security and economic (employment and income) security—irrespective of their ethnic origin, race, religion, gender or class. By defining each of these goals, the new contract would also provide clear criteria to judge the extent to which a post-conflict country is taking the steps to implement them, and the role played by the international community.

Third, external assistance to post-conflict countries can be effective only if it is based on a pragmatic assessment of what needs to be done and how, not by ideologically motivated dogmas. As Myrdal (1960) pointed out at the time, an important reason for the success of economic policies in industrial countries after the Second World War, especially those in Western Europe, was the fact that they reflected each country’s needs and priorities, not ideological preferences of those in power. Contrary to proponents of the ‘Washington Consensus’, it is impossible to achieve prosperity and

peace with an identical, universally applicable, ‘blueprint’ of institutions and policies.

Post-conflict countries may share many important characteristics. But the exact origin of their problems, needs and priorities will tend to be specific to each. The reconstruction and development tasks and the scale and nature of external assistance can only be determined accurately after careful assessment of the conditions, including the institutional framework, specific to a country and the divisions that provoked violent conflict.

Not surprisingly, it is increasingly recognized now that the process of post-war reconstruction has to start with reconciliation at the socio-political level (see Collier, 2002; Sardesi and Wam, 2002; McKechnie, 2003). According to Collier (2002), preferred ordering of the “key priorities” has changed radically: “social policies first, followed by sectoral policies and macro policies last”.

It is important, however, not to be too rigid or dogmatic about the new “ordering” either. Social policies and institutional reforms *are* essential in post-conflict countries. However, they will achieve little reconstruction, even less development and, certainly, no lasting peace without social reconciliation (Panić, 2005a). Equally important, for reasons given later in this chapter, there will be little social reconciliation and no sustainable development if inappropriate macroeconomic policies increase economic insecurity and socio-economic inequalities. Neglect of the macroeconomic stabilization policies can be as destabilizing and costly as ideological zeal of the “shock therapy”.

SHARED RESPONSIBILITY: FORGING A NEW SOCIAL CONTRACT

All this makes “reconstruction” of the *state* at all levels one of the most important and urgent tasks in post-war rebuilding in countries that have experienced civil wars. No major economic reconstruction and development are possible without it; and without them future conflicts are unavoidable. Civil wars, the ultimate consequence and proof of institutional failure, do not take place in well-governed, prosperous states. Countries that emerge from internal conflicts will, therefore, need to reform fundamentally their institutional framework.

The importance of this stems from something that tends to be overlooked in economic debate. As Woodward (2002, p. 4) has pointed out, experience in the 1990s “suggests that economic factors have far more to do with the failure, or severe retardation of the peace process, than they do with the success of [peace] initiatives” (see also Suhrke and Buckmaster, 2005). In other words,

although important, the rate of economic growth does not in itself guarantee prosperity and social wellbeing and, therefore, peace.

Post-Conflict Countries

At the end of civil war, confidence in government is low—particularly if members of the post-conflict government are associated with the discredited regime that was in power before and during the war. The whole political, administrative and judicial class will be regarded as untrustworthy, incompetent, corrupt and far more concerned with personal aggrandisement than with wellbeing of the country. Confidence in the military, police and the existing legal framework will be at least as low. Politicians at all levels are blamed for the injustices, exclusion and divisions that led to the civil war. The legitimacy of the government, even that of the state, is questioned.

For all these reasons, it is essential for the new, post-conflict government to justify its own legitimacy and, as it is its most important organ, that of the state. The extent to which it succeeds, or even tries to succeed, will be determined by the manner of its accession to power, which defines its constitutional accountability, and on its willingness and ability to carry out the required institutional changes for the benefit of the whole community. The two are closely related. Of the three most likely ways of achieving power in post-conflict states—genuinely free and democratic elections, military coups, governments imposed on the population by domestic and/or foreign vested interests—only the first will owe its existence to a commitment to implement the necessary, widely supported changes. The main task of authoritarian governments in this case is to use coercive power of the state to prevent such changes.

To be effective, the reforms demand nothing less than what European political philosophers in the 17th and 18th centuries (notably Hobbes, Locke and Rousseau) called “social contract” or “social compact”: an implicit understanding, agreement by members of a community to cooperate for mutual benefit. Such an understanding is essential because a modern state cannot advance to high levels of economic and social development, internal order and peace without cooperation. Moreover, the higher the level of development the more complex the collaborative effort has to be to safeguard the past achievements and use them as a springboard for further progress.

What makes the idea relevant now, especially in post-conflict countries, is the fact that it originated in Europe during a period of almost continuous armed conflicts and lawlessness, and the beginning of the formation of new nation states. The “contract” has been “revised” and “updated” many times

since then in all highly advanced countries following major socio-economic transformations, revolutions and wars. In that sense, Barbera (1998) is right: armed conflicts, especially civil wars, often lead to profound social and institutional changes.

The experience since then, particularly since the Second World War, has shown that in modern states economic prosperity, social cohesion, personal safety and political stability depend critically on the three conditions that, universally, form the basis of their legitimacy. The social contract, as mentioned earlier, has to reflect this.

First, the state must respect human rights—with *equal rights and equal opportunities* for all, irrespective of their ethnic origin, race, religion, gender or social class. This requires that all forms of discrimination be outlawed, with the new laws implemented strictly and fairly. That can be achieved in post-conflict countries only with reconciliation that makes possible participation of all sections of the community in the collective effort.

Second, the state has to ensure *personal security* for all, a priority in post-conflict countries. One of the reasons for this is that in many of them criminals are freed and used by the warring factions to terrorize the population into submission. According to a UK government paper, the poor in these states regard the absence of internal security to be as major a threat to their existence as “hunger, unemployment and lack of drinking water” (quoted in McDonald, 2005, p. 29). The threat can be eliminated only with the creation of an impartial, well-trained judiciary and police force that enjoy the trust and respect of the whole community.

Third, the state needs to have the means to provide *economic security* (in employment and income) for all, so that they can, as the UNDP (2004, p. 127) put it, “lead a long and healthy life, ... be knowledgeable, ... have resources needed for a decent standard of living and [be able] to participate in the life of the community” (see also ILO, 2004). That demands rapid, effective post-war reconstruction and development providing: employment opportunities for the unemployed on important public and other projects; food, shelter, clothing, medical services and education; clean water and sanitation; infrastructure; mine clearing; and growth and diversification of the productive potential.

Although the whole community has to participate actively in achieving these goals, it is the role of the central government and parliament that is of critical importance. It is their duty to represent the community as a whole not a particular social group, private interests, locality or region. It is also their responsibility to define the character and goals of the state and to make sure that everyone is working towards the same widely desired aims. The last is particularly important in fragile states where the lack of social responsibility,

corruption and negligence tends to be common and, therefore, not confined to the organs of central government.

Even when this is not the case, the danger is that a highly decentralized effort in post-war reconstruction and development will concentrate on local issues, ignoring wider problems that affect the country as a whole. As the resources are scarce and unequally distributed between the regions and localities, some of these will make much greater and faster progress in the reconstruction than others.

In the absence of an effective central authority to manage inter-regional transfer of resources, the disparities could do more than make it virtually impossible to create a feeling of national unity and purpose, with everyone making a contribution towards achieving the same goals. Horizontal inequalities would sooner or later trigger further conflicts, especially if the regions differ significantly in their ethnic, racial or religious composition. It would not take long in this case for the disparities to be regarded as a deliberate act by the state, designed to favour interests of certain groups at the expense of others. When this happens, civil conflicts tend to turn into wars for national independence, as one or more groups become convinced that they would be better off by forming their own independent, sovereign state.

Delegating a major responsibility for the reconstruction and development to NGOs and civil society organizations may lead even faster to armed conflicts and the break up of countries. By their very *raison d'être*, most of these organizations concentrate on specific issues that promote interests of particular groups only. In other words, they tend to lack the impartiality as well as the resources which are essential to achieve a permanent solution of the problems common to post-conflict countries.

For similar reasons, it is impossible to solve one of the most serious problems in all fragile and post-conflict states, that of lawlessness and lack of personal safety, by delegating the matters of internal order to private organizations. The reason for doing this is usually either widespread lack of confidence in the police or because the government's financial resources are inadequate to train and run an effective, impartial police force. This is unlikely, however, to achieve a satisfactory, lasting solution to the problem of personal security. Private provision of 'security' is completely at odds with one of the most important conditions that makes the maintenance of internal order a public good: it excludes the vast majority of people in these countries, those who cannot afford to pay for private protection.

In fact, it is clear from the preceding analysis that many of the most important changes that fragile states need to achieve concern public goods. As these "goods" are normally provided most effectively by the state, the

strengthening of state institutions is of paramount importance—a fact that is now widely acknowledged by major international organizations (UN/DESA, 2006; UNCTAD, 2006; OECD, 2007; World Bank, 2004). Moreover, as Kindleberger (1996, p. 220) concluded after a lifetime of studying the experience of countries at different stages of development, when economies are “moving on trend”, a decentralized form of economic organization is likely to be more effective. But in times of crises, when fundamental changes are required, it is centralization and coordination of economic activity that is essential (see also Panić, 2003, part II).

It is for this reason that one of the most damaging long-term effects of the neo-liberal counter-revolution in the 1980s and 1990s is likely to be the deliberate weakening of state institutions in both developing (Schiavo-Campo, 1996) and developed (Panić, 2003, chapters 3 and 9) countries. It takes considerable time and effort for the capacity of the state to be restored to deal effectively with the highly complex economic, social and political issues that confront modern countries.

Donors of Official Aid and Monitoring

The potential donors need to take into account all these factors in formulating their actions and conditions under which they are willing to provide technical and financial assistance, making sure that the conditions are consistent with the goal of achieving permanent peace and that they will be observed. That was, in fact, another aspect of the Marshall Plan that made it such a success (Panić, 1992a). US assistance was conditional on active cooperation between the countries receiving it, judged, correctly, to be the most effective way of preventing future wars in Europe (see also Kozul-Wright and Rayment, 2007).

In the case of countries emerging from *civil* war, the overall “conditionality” must pay special attention to the three “pillars” of the new social contract. Donors whose objective is to help these countries avoid future conflicts cannot afford to compromise on any of them.

It is also important that, instead of imposing their own institutional models and policy preferences on the receiving countries, the donors help them utilize “local knowledge and perceptions and listen to the needs that are articulated by conflict affected countries and their ideas about what can be done to address them” (UN, 2004). They should also assist the countries to “build on the capacities that exist” rather than try to duplicate “or displace locally developed initiatives” (UN, 2004).

To ensure that all these conditions are met, it is essential that progress in each be monitored carefully. Given the past record in this area, the responsibility

for monitoring should be assigned to independent assessors working for or on behalf of international organizations not directly involved in providing external assistance to the country concerned. The need for careful monitoring and the way that it is organized will depend also on who is providing foreign aid and how.

An important problem with bilateral assistance, for example, is that it may be used in support of special interests in either receiving or donor countries. If that is the case, those providing the aid are likely to give control over its implementation to individuals and groups who support their aims. Bilateral aid needs, therefore, to be monitored carefully by independent assessors.

The problem may be even more serious under multilateral aid if donors have very different objectives and are more concerned with long-term benefits of external assistance to their powerful interest groups than the needs of post-conflict countries. The advantage of multilateral aid is that, apart from avoiding the multiplication of effort and waste caused by uncoordinated aid, “multilateral organisations may be in a better position to ... induce collective action among members and, in general, achieve objectives that individual members would not be able to achieve on their own” (Martens, *et al.*, 2002, p. 188). Nevertheless, with many donors and the risk of major differences in their motives for providing assistance, multilateral aid may require even more careful monitoring and an independent assessment of its effectiveness than bilateral aid.

Governments, International Organizations and Transnational Corporations

Special monitoring arrangements and close cooperation between the receiving country, donor governments and international aid agencies will be needed in those economic and social activities in which transnational corporations or NGOs play an important role, especially if significant exploitation of natural resources is involved.

The so-called “natural resource curse” and the “Dutch disease” (see UN/DESA, 2006; UNCTAD, 2006) have received considerable attention, often for the wrong reason. Generally, misunderstandings of the experience of a few countries have led some analysts to the conclusion that seems to imply that the worst thing that can happen to a country is to be rich in natural resources. The problem is that if that were the case Scandinavian countries, Canada and the United States, to give a few examples, would still be poor, conflict-ridden

states instead of belonging to that exclusive club of countries with the most advanced economies in the world.

The “curse” and the “disease” are, in fact, something quite different: the result of institutional failure, wrong policies, corrupt governments and/or inability of a small or poor country to defend its interests against powerful, predatory foreign corporations and their governments (see also Korten, 1995). It would not take long for a more equitable share of the revenues between the two sides to dispel the “curse”.

That would require an agreement between governments of post-conflict countries and foreign corporations to avoid myopic approaches to the exploitation of natural resources that ignore long-term development of the countries concerned and the consequences of its failure. This has proved far from easy to achieve. An effective agreement of this kind is possible only if private corporations, their governments and governments of post-conflict countries regard peace as a public good in which all of them have an important stake.

The basis for full cooperation between governments of the countries of origin of transnational corporations and governments of developing countries already exists in international agreements and national laws—provided, of course, that the governments observe and enforce them. For example, the Antiterrorism, Crime and Security Act of 2001 gives UK courts the power to prosecute “UK registered companies and UK nationals ... in the UK for any act of bribery or corruption committed overseas” (McDonald, 2005, p. 15). A couple of years earlier, in 1999, OECD member states agreed that “they would all legislate to make bribery of a public official in a foreign country an offence” (Collier, 2007, p. 137).

As a number of well-publicized cases show (Collier, 2007, chapter 9), adverse publicity is another powerful weapon in making transnational corporations and banks act in a way that promotes peace rather than causes conflicts. But to be effective, the publicity must also include suppliers of these corporations. Otherwise, there is nothing to prevent transnationals from outsourcing, as many of them do, the worst aspects of irresponsible, exploitative behaviour to small firms in post-conflict countries and disclaiming any responsibility, or even knowledge, for actions of these firms.

Sustainable peace in fragile, conflict-ridden states cannot be achieved until the international community is prepared to deal with these problems. Corruption and other malpractices are not confined to political leaders in developing countries.

MONITORING AND ASSESSMENT OF FOREIGN AID EFFECTIVENESS

There are two reasons why the international community needs to approach the problems identified in the previous section with much greater urgency than has been the case so far. First, their solution is essential if the world is to eradicate some of the most common causes of national and, potentially, international conflicts. Second, this could be much more difficult to achieve in the coming decades as the means to do so may not be as readily available as they are now (see, for instance, Schwartz and Randall, 2003).

The projected increase in world population, climate change, ecological degradation and the threat of growing shortage of strategically important natural resources are expected, other things remaining the same, to reduce markedly over the next few decades growth potential of the world economy (Stern, 2006; UNEP, 2007). If that happens, past experience suggests that it will have an important effect on the volume and stability of financial and technical assistance to developing countries, particularly those with a record of failing to use it effectively. All fragile states fall into that category.

Humanitarian versus Development Aid

The expected deterioration in the global economic environment may not change significantly international readiness to provide humanitarian, emergency aid. Most of it is given in response to natural disasters that affect a large number of people, making it virtually impossible for the region or country affected to cope with the consequence without external assistance.

There will always be a strong feeling of compassion for victims of major, unforeseen disasters. The objective is clear: to save lives by providing food, medical assistance and shelter, enabling the affected area to recover sufficiently to function as a viable entity again. As the effectiveness of emergency aid becomes apparent within a short period, it is relatively easy to monitor and evaluate. Moreover, a far from negligible proportion of this aid is financed by voluntary contributions from individuals, charities, other NGOs and, often, from private corporations and banks.

Development assistance differs in a number of important respects from emergency aid. The resources required are larger, the commitment longer, the objectives broader and, as a result, less clearly defined. In many cases the real effectiveness of aid may not be apparent for many years and is, therefore, difficult to evaluate correctly.

Normally, development assistance provided by the developed world accounts for a minute proportion of the countries' national income and

not a much larger proportion of their government budgets. Nevertheless, the resources allocated to foreign aid will be competing directly with those required for important national causes that the electorate tends to rank much higher on its list of priorities.

This is unlikely to be a major threat to foreign aid commitments when donor countries are enjoying high levels of economic security and social wellbeing and expect to do so in the foreseeable future. The same will be also true if an important and clearly identifiable national interest makes it necessary for them to provide assistance for post-war reconstruction and development, as was obviously the case with Marshall Aid.

The willingness to assist the development of other countries, no matter how deserving, is likely to change radically following a serious deterioration in the economic environment and prospects, especially of the kind described briefly above. When there are limited resources to satisfy important domestic needs public attention will focus increasingly on the size and effectiveness of external assistance. Has it made any noticeable difference in the receiving countries, especially fragile states, and, if not, should it be continued?

In other words, the question of selectivity cannot be avoided for long in such an economic environment. If allocation of diminishing (relative to the needs) resources has to be made selectively within countries according to where they are likely to be most effective—it becomes increasingly difficult to justify a different approach in allocating resources, such as financial aid, between countries.

Hence, the Burnside and Dollar (2000) paper that suggested selectivity in the allocation of external aid should not come as a surprise. It attracted a good deal of attention and criticism. Much of this concentrated on their methodology and ethical problems associated with the discrimination in the provision of foreign aid against some of the poorest countries in the world. There is also concern that, if implemented, much more stringent selectivity than at present would make it impossible to achieve the Millennium Development Goals to which the international community has committed itself.

The criticisms are relevant and would, most likely, attract considerably sympathy and support in the developed world. But that does not necessarily mean that at least some of the countries in this group will hesitate to reduce their contributions to external assistance, both bilateral and multilateral, if the economic environment deteriorates sufficiently to pose a serious threat to their own social stability and political order.

There is a recent precedent for this. Although the most advanced economies agreed in the 1970s to contribute annually 0.7 per cent of their gross national

income (GNI) to aid only five of them are honouring the agreement: Norway, Sweden, Denmark, the Netherlands and Luxembourg. Another country to meet the target for a short time, France, has almost halved its contribution (as proportion of the GNI) since the end of the 1980s, following rapid deterioration in its economic performance. In fact, with very few exceptions, all the “rich countries” (including Norway, Denmark and the Netherlands) are contributing a smaller proportion of their national income to aid now than they did in 1990 (cf. Panić, 1992b; UNDP, 2007, Table 17).

In other words, unless scientific assessment and predictions of ecological degradation and its socio-economic consequences turn out to be widely off the mark, the question is not whether but how soon is greater selectivity in the allocation of foreign aid going to happen. Given the importance, economic and geopolitical, that the effectiveness of external assistance is going to assume in this case, it becomes imperative to avoid the use of simplistic, ideologically motivated criteria in assessing it. The accumulated evidence since the 1940s makes it abundantly clear that few of the standards or “conditions” used commonly in development literature and programmes can be accepted with confidence as a reliable indicator of aid effectiveness without a careful scrutiny of the institutions, policies and actual developments in a particular country.

The *raison d'être* of economic development is to improve the standard of living, economic security and social wellbeing of all, not just a small minority. The important implication of this is that although none of these improvements can be achieved without economic development, even sustained economic growth is not sufficient in itself to bring about lasting social stability, internal order and peace to fragile and post-conflict countries. That requires specific measures to solve permanently the problem of the deeply ingrained inequalities that are the main cause of internal violence and civil wars.

To set fragile states on the path towards achieving this goal, external development assistance, both financial and technical, has to satisfy four conditions. First, it has to be adequate to meet the objectives for which it is intended. Second, it has to be provided over a sufficiently long period to achieve its aims. Third, it needs to be managed effectively. Finally, the conditions attached to it, and the policies pursued to meet them, must be appropriate to each country's needs and priorities. Properly executed, the four should fulfil what UNCTAD (2006, p. 37) has called “one of the primary functions of all aid [which] is to give governments time ... to tackle serious structural problems without imposing excessive social and economic costs on the population”.

Reducing aid to a developing country, particularly to a fragile or post-conflict state, will impose precisely such costs on the population. It is the

duty of the international community, therefore, if it is planning to withhold aid from a country because of its failure to use it effectively, to take special care to establish, first, reasons for the failure. Do they originate in the country itself, its institutions and the policies that it has pursued? Or is the main reason for the failure the combined result of actions of donor governments and international aid agencies, especially the inappropriate conditions and policies that they have imposed on the country?

International experience over the last sixty years provides important lessons for the future.

Disbursement and Timing of Development Assistance

The first important fact to establish in assessing effectiveness of external assistance is the amount of aid that a post-conflict country has actually received and how much of it has been used for activities other than institutional reforms and economic development.

It is a well-known fact that aid disbursements are often smaller than the commitments made by donors (Riddell, 1987). Different institutions are involved in making the commitment, approving aid and disbursing it. Some projects are complex and take a long time to complete, making it virtually impossible to assess accurately ex-ante the exact requirements, or to foresee important changes in the supply conditions and costs during their period of gestation.

Besides, for a number of reasons, only part of the received aid may be used for development. Some of it may go towards debt relief, or to prevent costly exchange rate volatility. Transaction costs associated with external assistance are far from negligible. Much of it tends to be wasted on “over-priced and ineffectual technical assistance”, duplication of effort, countless missions and meetings (UNCTAD, 2006, pp. 15, 47). The cost of tied aid is estimated to be in the region of \$2.6 billion, equivalent to a tied aid “tax” of 8 per cent (UNDP, 2005, p. 76). For these and similar reasons, aid that developing countries receive is “too often ... unpredictable, hedged with conditions, uncoordinated and tied to purchases in donor countries” (UNDP, 2005, p. 76). Not surprisingly, the amount of aid given to a country may turn out to be insufficient to do as much for the transformation of its economic and social conditions as originally expected.

Finally, irrespective of how large aid given to these countries is it will do little to help their long-term development, needed to eradicate the underlying causes of conflict, if it is provided over a short period only. Yet this is far from

being uncommon. Over the last 20 years foreign assistance declined sharply 3–4 years after the conflict in a number of countries (Suhrke and Buckmaster, 2005). Even when this is not the case, some projects will turn out to be unsustainable because the original assessment underestimated seriously their operational costs or overestimated the country's capacity to run them without external assistance.

Among the leading providers of official development assistance, Scandinavian countries (Sweden, Norway and Denmark) are, as already pointed out, most generous. Virtually all of their bilateral aid is untied and goes to countries that try to create conditions which are of critical importance for their long-term development and conflict prevention (Gates and Hoeffler, 2004).

Universal Indicators of Progress Towards Permanent Peace

The most important objective of all fragile states and the essential requirements for achieving it, sketched roughly in the preceding sections, provide also the criteria by which to judge progress (economic, social and political) that a country is making towards achieving the ultimate goal. As emphasized earlier, specific actions to that end will vary from country to country depending on its needs, priorities and available resources. But the basic principles and requirements that a successful social contract has to satisfy are equally relevant for all of them.

Given the sensitivity and complexity of changes that a post-conflict country has to undertake, together with the fact that they are highly interconnected (Panić, 2005a), it will take time, normally a very long time, before its achievements become comparable to those of a successful middle- or high-income country. What matters in the case of these states in the short to medium term, therefore, is the *progress* that they are making towards their primary objectives. Fortunately, there is enough evidence on most of the relevant indicators in this category for an evaluation of the improvements that a particular country is making with the help of foreign aid and the reasons behind the success or failure.

For instance, effectiveness of constitutional changes made to achieve *equal rights and opportunities* tends to become apparent within a short period. It does not take long to find if a post-conflict country is taking steps to outlaw discrimination against all social groups and, equally important, whether it is using vigorously and effectively law-enforcing organs of the state to implement the new laws.

At the same time, it is essential to bear in mind that, unlike legal and social barriers to equality of opportunity, the barriers created by economic inequalities will take much longer to overcome. That requires sustained effort over a long period. The time that this takes depends, among other things, on the rate of economic development, distribution of personal income and wealth, general provision of education and improvements in health, and the resources that a government is willing and able to transfer from high to low income individuals, families and regions.

Likely progress in achieving better *personal security* can be judged from the measures that governments take to stomp out the endemic lawlessness, made worse by civil conflicts. These will include new laws, resources devoted to the recruitment and training of the police, and efforts to eliminate corruption and incompetence from the legal system.

Even if the governments are making a genuine progress in all these areas it will take time for the public to gain confidence in the impartiality, integrity and competence of the judiciary and the police. How long this takes will depend on the speed of sustained improvements in increasing conviction and lowering crime rates, especially in the poor areas. Social surveys of the general feeling concerning personal security are also important in detecting the extent to which such changes are reflected in everyday experience of the population.

It takes much longer in poor, fragile states to attain satisfactory levels of *economic (employment and income) security*. Nevertheless, even here lower poverty levels and widely shared improvements in the standard of living and social wellbeing tend to become apparent already during the post-war reconstruction and in the early phases of development.

International organizations provide enough relevant and reasonably comparable information that can be used to monitor these and similar changes. Whatever the country's circumstances, better performance in the following normally indicates economic and social progress: nutritional and poverty levels; income and wealth equality; social services; health and safety regulations, hiring and firing of labour and hours of work; agricultural and industrial production; infrastructure; education; investment risks and FDI. In other words, it is not impossible to establish with considerable confidence from available information if a fragile state is breaking out of the poverty-conflict trap.

As all these improvements are extremely unlikely without a major reconstruction of the state, they also provide indirect evidence of the extent to which such a country is implementing, with external assistance, the new social contract needed to transform a fragile into a stable, viable modern state.

Nordic countries (the Scandinavians plus Finland) provide in many ways an example of what other official donors could do to improve long-term prospects of post-conflict countries and the developing world in general. According to Gates and Hoeffler (2004, p. 14), they “do not give more aid to political allies”. The main aim of their assistance is to help the receiving countries achieve “their stated objectives of poverty alleviation, the promotion of democracy and human rights”. In fact, their aid “seems remarkably free from self interest” (Gates and Hoeffler, 2004, p. 14).

Country Specific Indicators of Aid Effectiveness and Progress

In principle, the two indicators included in this category—“democracy” and “economic growth”—are among the most important criteria for judging aid effectiveness and progress. In practice, however, they may hide repression, impoverishment and, consequently, major causes of further conflicts. Seemingly identical political reforms and rates of economic growth may produce very different outcomes.

In its modern meaning, democracy (almost invariably *representative* democracy) is normally taken to refer to the form of government that respects and safeguards human rights and functions for the benefit of *all* people, not only of a particular group of them. As John Stuart Mill argued in his *Representative Government*, there must be “no pariahs in a full grown, civilised nation, no persons disqualified, except through their own default”. The ideal is a democratic form of government that is fully accountable to the people and guarantees liberty and equality, in their broadest sense, for all. The last two are essential for a true democracy to exist because (as Kant, Mill and others have emphasized) people who have no economic independence from the will of others cannot exercise genuine political freedom.

Yet, this is not necessarily what the introduction of “democracy” will bring to all fragile, post-conflict states. For instance, far-reaching constitutional changes that appear to introduce a democratic form of government may do nothing of the kind unless they are backed by specific measures to eliminate, or at least alleviate significantly, inherent inequalities. For instance, if one ethnic, religious or racial group is dominant, and people who belong to it vote for those representing their group in the expectation that they will protect their interests, all that an outwardly democratic constitution is likely to achieve will be, in effect, a continuation of an autocratic or oligarchic form of government. As the largest group is unlikely to give up its dominant position and privileges unless it has to do so—the deep-rooted divisions and the potential for conflict will remain.

A similar problem arises when donor governments and international aid giving agencies include “democracy” as one of the conditions for providing assistance not for the benefit of post-conflict countries but of powerful economic interests. The main objective of the assistance in this case is to manipulate the elections in order to install and keep in power subservient (“friendly”) governments—irrespective of the long-term human and other costs that this might inflict on fragile states. Hence, the written constitution and the outwardly “free” and “fair” elections are not necessarily a reliable proof of a country’s democratic credentials.

Nordic countries apart, there is no evidence that official donors, governments or international aid agencies, treat differently democratic from autocratic states in allocating development aid. Nor is there evidence that they insist on the achievement of a genuinely democratic form of government as one of the conditions for providing such assistance (Gates and Hoeffler, 2004; Alesina and Weder, 2002; Aghion, *et al.*, 2004).

For similar reasons, the rate of economic growth and GDP per capita cannot be regarded as reliable indicators of economic progress that will secure permanent peace. They may show sustained increase in the productive potential of a country. However, without supporting evidence from other economic and social indicators that these changes are equitably shared—impressive increases in either may provoke rather than prevent further violence and civil wars. As evidence from advanced economies shows, although the United States has one of the highest levels of GDP per head in the world its levels of economic security and social wellbeing are well below those of a country like Sweden whose GDP per head is appreciably lower (Panić, 2007).

As a result, rapid economic growth without improvements in the standard of living and economic security of the whole population, especially those whom Collier (2007) has called “the bottom billion”, is creating precisely the conditions that lead to increases in crime, intercommunal or class violence and eventually civil wars.

Failure and Conflict: Economic Policies that Fragile States Should Avoid

The four neo-liberal policy prescriptions included in this category, all of which have featured prominently in the “Washington Consensus” and IMF “conditionality” for aid allocation, are predicted by their proponents to improve the standard of living of all countries irrespective of their level of economic development. The problem is that the prediction is difficult to justify either analytically or by reference to historical experience (see also Kozul-Wright

and Rayment, 2007). Far from being “good policies”, the four, as major economists over the last two centuries have warned, may, when implemented indiscriminately or prematurely, slow down economic development, increase poverty and widen the existing inequalities. All of these, as pointed out earlier, happen to play a prominent role in turning a fragile into a conflict state.

The idea that general *trade liberalization* and specialization could increase “the wealth of nations” has never been disputed in its normative sense: as a desirable long-term goal. However, even Adam Smith and David Ricardo, who developed analytically the case for free trade more than two centuries ago, warned that the argument applied only to advanced economies. Unlike economies at lower levels of development, they have the capacity to adjust rapidly to adverse effects of a more liberal trading regime on their employment and standard of living (see Panić, 1988, chapter 7).

In that sense there was no difference between them and those, like Alexander Hamilton in the United States and Friedrich List in Germany, who argued at the time for protection until a country reached the level of development that would enable it also to benefit from freer trade (Panić, 1988, chapter 7). Hence, as Samuelson (1939, p. 195—italics in the original) has pointed out, it is not possible to demonstrate “rigorously that *free* trade is better (in some sense) for a country than *all* other kinds of trade”.

Policy makers in the now advanced economies obviously thought the same. All these countries liberalized their trade only after reaching the level of development and competitiveness that would protect them against the loss of important sectors, high unemployment and poverty that premature liberalization could cause (Panić, 2003, chapter 5). Those who insist on “reciprocity” in trade liberalization between advanced and developing economies, especially in the case of fragile and post-conflict states, are clearly not doing so for the benefit of the latter.

Liberalization of capital exports may be even more damaging to long-term prospects of a developing country. Ricardo summarized succinctly the reason for this in a memorandum written two centuries ago when Britain was still in the early stages of its Industrial Revolution. He regarded “the migration of capital” as something that could not be “beneficial to a state” until it reached an advanced level of development. “A loss of capital may immediately change an increasing state [i.e., a growing economy] to a stationary state. A nation is only advancing whilst it accumulates capital” (see Panić, 1988, p. 134).

Most developing countries share a number of characteristics, all highly interrelated: low levels of income and domestic savings, political instability or the threat of such instability, uncertain growth prospects and low levels of investment. These are serious disadvantages that make them much less

attractive than advanced economies to international investors, including those domiciled in these countries. As a result, fragile and post-conflict countries are particularly vulnerable to flights of capital. For instance, capital liberalization by several African states in the 1990s has led to a marked increase in capital outflows from these countries and much greater volatility of their exchange rates (UNCTAD, 2006, p. 39).

The danger with premature capital liberalization in post-conflict countries is, therefore (a) that it will make them even more dependent on external financial aid and (b) that, unless compensated by a comparable increase in aid, it will reduce (relative to their needs) effectiveness of the development assistance that they receive.

Deregulation of financial and labour markets, driven by ideological dogmas rather than by the requirements of economic progress and social cohesion, can easily become a threat to conflict prevention even in relatively affluent and outwardly stable states.

Internationally deregulated financial services have always been prone to instability and crises, as banks and other financial institutions expand their operations in increasingly risky areas in search of higher returns (cf. Kindleberger, 1989; Reinhart and Rogoff, 2008). According to an IMF study, in a little over a decade after 1980 (a period of considerable deregulation of financial services) three-quarters of its members experienced financial problems. The problems reached crisis proportions in one-fifth of the member states (see Panić, 2003, chapter 9).

Thanks to their economic and social consequences, the cost of resolving financial crises can be huge. It includes almost invariably prolonged periods of lower output, high unemployment, loss of income, lower investment and, as a result, economic decline instead of development. For example, the overall cost of the financial crisis in Argentina towards the end of the last century is thought to have been equivalent to 55 per cent of its GDP (Goldstein, 1997). Following the Asian financial crisis in 1997, the ILO estimated that 10–20 per cent of the population in the worst affected countries would fall into poverty, causing major social problems in the long term (Lee, 1998).

Deregulation of labour markets is having potentially even more serious economic and social consequences. It has already been responsible in many countries for lowering health and safety standards, increases in income instability and wage differentials, lower benefits and higher levels of unemployment, including hidden unemployment (ILO, 2004). In many developing countries, millions of women and children in particular are working for barely subsistence wages, often under unhealthy and dangerous conditions—all reminiscent of the worst forms of exploitation and abject

poverty common in the 19th century in some of the now highly industrialized countries.

The result then was widespread internal unrest and conflicts, including revolutions (Hobsbawm, 1962). It was this threat to the existing order that forced a conservative government in Germany to lay down in the 1880s foundations of the modern welfare state (Panić, 2005b; Flora and Heidenheim, 1981; Kleinman, 2002), as a bulwark against irreconcilable social divisions, political instability, civil wars and revolutions.

Finally, the neo-liberal package of *low public expenditure and restrictive fiscal and monetary policies*, far from improving economic and social conditions in a country, has played historically a major role in achieving exactly the opposite.

The policy rules that elevate inflation to the overriding objective of government economic policy and insist on balanced budgets and restrictive macroeconomic policies even in conditions of economic stagnation rest on the belief that “the markets” will “automatically” bring the economy back to full employment. That, as Keynes warned (with the Great Depression in mind), is a dangerous “delusion which disregards the lessons of historical experience without having behind it the support of sound theory” (quoted in Van Dormael, 1978, p. 32).

A rigid adherence to these rules within the European Monetary Union has been an important reason for the slow growth and persistently high unemployment in the countries that joined it (Panić, 2007). In the early 1980s, the same policies more than doubled within a short period levels of unemployment and poverty in the United Kingdom, causing riots in several cities. Similar policies, with similar effects, preceded civil wars in Sierra Leone, Nigeria and Indonesia. The experience was repeated in Yugoslavia “following the liberal reforms of 1989” (Sambanis, 2003, p. 20) imposed by the IMF, leading a few years later to armed conflicts and the country’s disintegration.

Cuts in public expenditure, as part of a deliberate policy of limiting the role of the state, exacerbate further these problems. Lower public expenditure makes it increasingly difficult for governments to keep, through resource transfers, income and other inequalities within socially acceptable levels; limits their ability to improve public goods; and prevents them from pursuing industrial, regional and other policies necessary for sustainable economic development, not least by helping attract foreign direct investment into low-income countries.

The experience of advanced economies (cf. Mathias and Pollard, 1989) shows all these policies to be essential for creating the conditions that ensure widely shared improvements in the standard of living, social cohesion and

political stability—the only way, as emphasized earlier, for war-torn countries to achieve a lasting break in the poverty-conflict cycle.

CONCLUSION

All internal conflicts, especially civil wars, involve serious costs: human, social and material. All wars also leave a legacy that the countries that have experienced them share: weakening of the capacity to eradicate their causes without external assistance, both financial and technical. As a result, the donors as well as the recipients have a stake in the objective for which the assistance is given and the responsibility for ensuring that it is used effectively.

This does not, of course, absolve the receiving countries from the primary responsibility for implementing the institutional changes required to achieve the necessary reconciliation, reconstruction and development goals. The important contribution that the donors can make lies in the influence that they can exert through the amount of aid that they are prepared to give, the period over which they commit it and the conditions that they attach to it. Each of these can make an important difference to the ultimate success or failure of the assistance.

Based on the experience of many countries over a long period of time, this chapter develops a general analysis of the causes and costs of internal conflicts, responsibilities of the recipients and donors in ensuring that the aid is used effectively, and a critical evaluation of some of the criteria used widely to monitor and evaluate the outcome. As all the criteria are not equally reliable, the chapter suggests a distinction between those that are universally valid, those that may be valid in some cases and misleading in others, and those policy prescriptions that, if implemented indiscriminately, invariably result in serious failure and should therefore be avoided, especially by fragile and post-conflict states.

The last suggestion is particularly relevant, as inappropriate conditions attached to the assistance, or its deliberate misuse, can exacerbate, even create, the very problems that foreign aid is supposed to help eradicate permanently.

NOTE

- 1 The lessons from the Marshall Plans are discussed in detail in Chapter 8.

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Chapter 8

Post-Conflict Recovery: Lessons from the Marshall Plan for the 21st Century

RICHARD KOZUL-WRIGHT AND PAUL RAYMENT

INTRODUCTION

Previous chapters in this book have outlined the heavy human, material and financial costs that result from violent inter- and intra-state conflicts. They have also shown how the state, and the resources it can mobilize, becomes a contested terrain not only during the conflict but also in the period of post-conflict recovery. In many post-conflict countries there is an immediate threat of a return to violence, which constrains policy choices and trade-offs as efforts begin to repair the social contract and build legitimate state structures. Given the severe constraints on mobilizing domestic resources in most post-conflict countries or regions, particularly in the initial stages of recovery, managing external assistance is difficult to separate from these choices and trade-offs that make up a domestic economic policy agenda.

Foreign aid, however, will do little to remove the underlying causes of conflict without the presence of an institutional framework which can help to repair the social fabric and to reshape the structure of economic incentives towards the promotion of productive economic activities. Given the initial significance of aid flows, donors may be tempted to impose their own notion of a good institutional framework through the conditionalities attached to aid flows. However, attempts to transplant such a framework from one environment to another are unlikely to be successful if they ignore local conditions and suppress the processes of trial and error that have been the hallmark of successful institutional development and economic recovery episodes.

Recognizing the need for a framework of organizing principles to ensure that aid is used more effectively and to encourage policymakers to forge a new social contract in post-conflict economies, a number of writers have returned

to the Marshall Plan as a model that can still be usefully employed by the international community. This chapter examines that approach. It begins by looking at the way the Marshall Plan has been used and abused as an example by supporters and detractors alike. Next it examines the debate on aid effectiveness which has been going on ever since Joseph McCarthy dismissed the Marshall Plan as a “massive and unrewarding boondoggle”. The following section argues that the debate on aid effectiveness in post-conflict societies is difficult to separate from the concomitant process of state building. The final section draws what we see as the real lessons of the Marshall Plan in the light of today’s need to build a more integrated approach to mobilizing resources and strengthening the institutions of the state in a post-conflict environment.

REDISCOVERING THE MARSHALL PLAN

Faced with complex and apparently intractable problems or with the consequences of major disasters, politicians, particularly those in Western Europe, have increasingly called for a “Marshall Plan” as part of the response. The UN’s Economic Commission for Europe (UNECE) seems to have started the fashion in the early 1990s when it argued the need for a programme on the scale of the Marshall Plan to assist the countries of Eastern Europe in their transition from centrally planned to market economies (UNECE, 1990). This was taken up by German Chancellor Helmut Kohl and his Foreign Minister, Hans-Dietrich Genscher, who called for a Marshall Plan for Russia in 1992. In 1997 the then European Commission President, Jacques Santer, described the programme and costs of EU enlargement as “a veritable Marshall Plan” for Eastern Europe. In April 1999 British Prime Minister Tony Blair called for a “Marshall Plan” for the Balkans, and in October 2001 the Italian Prime Minister, Silvio Berlusconi, proposed one for solving the economic problems of the Palestinians on the West Bank. None of this rhetoric came to very much, partly because finance ministers in the rich countries in the 1990s were grappling with fiscal deficits, many of them trying to meet the Maastricht criteria for entry into the European Monetary Union, and the last thing they wanted to hear were proposals for large increases in aid budgets. Moreover, the resurgence of neo-liberal ideas from the early 1980s meant the developed world was more in favour of free markets and foreign private investment than official aid or anything that resembled planning as the remedies for the problems of transition and underdevelopment.

The terrorist attacks in the United States on 11 September 2001, however, led to another wave of rather more urgent calls, at least in Europe, for action on

the scale of the Marshall Plan to deal with the problems of underdevelopment and their links to political insecurity. Within a few weeks, Mr. Blair was citing the North-South divide between rich and poor as a fundamental factor in the growth of terrorism and in December 2001 British Chancellor of the Exchequer Gordon Brown proposed a “New Marshall Plan” which would double the aid provided by the rich countries to the poor ones. Both Blair and Brown stressed the security objectives of such an initiative. Three years later, on 17 December 2004, Brown, speaking in New York, continued to stress the tensions between the rich and the poor and argued that if the West failed to open its markets to developing countries, forgive debt and provide more generous aid, there was a real risk of “permanent guerrilla war fought not by conventional armies or nation states but by cliques and factions”. Having implicitly condemned the idea that the “war against terror” can be won by the military, he declared: “We need to make an offer as bold as the offer that was made in the Marshall Plan of the 1940s.” Prime Minister Blair and Chancellor Brown again called for a “Marshall Plan approach” in the run-up to the G8 summit in Scotland in 2005.

It is never clear, however, whether those proposing “new Marshall Plans” see them as anything much more than a goodwill financial gesture to countries in need, and indeed there are many critics who dismiss such ideas on the ground that such large sums cannot be absorbed efficiently by the receiving countries and that they are likely to fall into the hands of corrupt politicians and government officials. Still, more often than not, these two sides of the debate quickly came to an agreement on a common policy agenda which aims essentially to tackle the problems of post-conflict economies by integrating them into the global economy by rapidly opening them up to market forces, that is by adopting the standard globalization agenda of liberalizing trade and removing controls on international capital movements.

The Marshall Plan, however, was much more than just a financial package and it is far from clear that those attached to neo-liberalism and the idea of the irresistible and beneficent march of market forces will be keen to embrace its other features. The Plan, launched in 1947, was certainly generous, providing Western Europe with some \$12.4 billion over a four-year period, most of it in the form of grants rather than loans. The programme amounted to just over 1 per cent of the US's GDP and over 2 per cent of the recipients'. The Marshall Plan did much more, however, than supply Europe with large amounts of dollars; it also introduced a framework of organizing principles intended to ensure that the aid was used effectively and to encourage policy makers to forge a new kind of “social contract” that would be radically different from the deflationary and divisive actions of the inter-war period (Mazower, 1998,

p. 299). These aspects of the Marshall Plan are almost entirely absent from current suggestions for a “new” version, but it is precisely here that useful lessons can be drawn for development policy.

It is also relevant, in light of the experience with structural adjustment programmes since the early 1980s, to recall that the Marshall Plan was actually a belated recognition of the fact that policy makers in the United States, especially in the US Treasury, had been far too optimistic about the time it would take to return to “normality” after the cessation of hostilities. By this was meant a return to a system of multilateral free trade and payments, in accordance with the rules of the new Bretton Woods institutions which were to provide the basic architecture of the post-war economic system. The attempt to put these new arrangements into place rapidly, an early example of “shock therapy”, had foundered in a series of European dollar crises and particularly the sterling convertibility fiasco of 1947. Large amounts of relief assistance had been pouring into Europe before 1947 and members of the US Congress were complaining about their taxpayers’ dollars disappearing down a European “rat-hole”, a story with a familiar ring today.

When the United States Secretary of State George Marshall made his famous speech at Harvard in June 1947, the economic and political outlook for Europe was far from encouraging. The post-war recovery in output appeared to have stalled and there were fears of rising social unrest and of communist parties winning elections in several countries. Marshall was explicit that the economic dimension of security was uppermost in his mind : “Our policy is directed against hunger, poverty, desperation and chaos ... so as to permit the emergence of political and social conditions in which free institutions can exist.” Marshall would thus have agreed with Chancellor Gordon Brown in seeing poverty, not a hatred of freedom, as an incubator of terrorism and conflict.

It is also notable that Marshall saw free institutions emerging from “economic health”, not the other way round. When critics object to proposals for “new” Marshall Plans for certain countries on the grounds that they are not democracies or do not possess market economies, they forget that Marshall Aid was not so demanding: Italy and West Germany adopted democratic institutions only in 1948 and 1949, and in Italy many of their provisions were ignored as part of the strategy to keep the communists out of power. Although most of the institutions of a market economy did not have to be built from scratch, the various European economies had been highly regulated and subject to direct controls for the best part of a decade, and with large sections of the population still suffering considerable privations, quick fixes and shock therapy for a return to “normal” market conditions were

considered neither economically feasible nor politically acceptable. Once again there is a sharp contrast between the policies rich countries adopted for themselves and those they subsequently considered appropriate for others. It is true that the Marshall Plan was ultimately directed at keeping the Soviet Union out of Western Europe and communist parties out of West European governments, and the US administration may not have been too particular about the democratic credentials of some of the recipients of aid. But it would anyway have been unwise to have set stringent democratic preconditions for receiving economic assistance. If the lack of assistance were to have made the economic situation worse, the outlook for developing democratic institutions would have been likely to deteriorate.

AID EFFECTIVENESS: WHAT WE HAVE LEARNT IN 60 YEARS?

While the Marshall Plan contained elements which would later become standard features of modern aid programmes, its purpose was the reconstruction of war-torn Europe and not the economic development of poor, non-industrialized countries. However, the links between Marshall aid and development aid were quickly made. The needs of developing countries were more openly acknowledged in the inaugural address of President Truman in 1949, when he declared the objective of “making the benefits of our scientific advance and industrial progress available for the improvement and growth of underdeveloped areas” (Kanbur, 2003). This was followed by the 1950 Act of International Development which established “the policy of the United States to aid the efforts of the peoples of economically underdeveloped areas to develop their resources and improve their living conditions” (Ohlin, 1966, p. 25).

The growing willingness to extend aid to developing countries coincided with a flurry of new ideas about why the management of economic activity should not be left entirely to market forces. Much of this thinking was developed around the policy challenges facing the more advanced industrial economies, but it was soon infused with the specific challenges facing poor countries, as their new found political independence exposed gaping social and economic gaps inherited from the colonial era. Albeit with subsequent modifications and embellishments, the case for extending aid to poorer countries rested, over the next quarter century, on the growth and development models developed at that time.

Essentially, these suggested that the most pressing constraint on growth in poorer countries was a shortage of capital and that aid, by providing an initial boost to domestic capital formation, would not only help build productive

capacity and increase incomes, but would also raise domestic savings in both the corporate and household sectors, thereby promoting a growth process that over time would become self-sustaining with the need for aid diminishing. The effectiveness of aid was expected to be greatest when it was targeted at the industrial sector where large externalities and scale economies held out the prospects of a strongly cumulative pattern of development, encouraging the idea of a “big push” along a broad front of activities, including transportation and power.

Accompanying this thinking was the general conviction that aid (as part of a wider commitment to development planning) would be most effective if donors and recipients alike were guided by enlightened self-interest—whereby the former would enjoy positive spill-overs from strong industrial growth in developing countries through increased trade and investment opportunities and the latter would forego short-term increases in consumption, both public and private, in favour of long-term productive investment. The best way to channel such aid was through multilateral structures both because of the need to concentrate flows on a “big push” to break the constraints on sustained growth and to avoid wasteful competition among the donor community.

While the United Nations was in the vanguard of this early thinking about the role of aid in supporting economic development, its role in financing that development was taken away at a relatively early date and handed to the World Bank (Toye and Toye, 2004). But in reality, aid to poorer countries all too often became a tool of “statecraft” rather than an instrument of development planning, deployed to encourage or reward politically desirable behaviour on the part of recipients (Lancaster, 1999, p. 1) and, mainly for that reason, most of it was (and remains) stubbornly bilateral. While this is not necessarily incompatible with achieving economic recovery and establishing broader development goals in countries emerging from conflict, as was clearly the case with the original Marshall Plan, a growing number of voices, beginning in the early 1970s, has argued that the resulting politicization of aid has often led to a “softening” of state structures and a perpetuation or worsening of highly inegalitarian economic and social structures in the recipient countries (Myrdal, 1970 and Boyce, Chapter 6).

After the international debt crisis of the early 1980s, aid was used more aggressively to encourage specific economic reforms in the context of structural adjustment programmes, and this effort intensified at the beginning of the 1990s. With the collapse of the Soviet Union, hopes were raised that increased aid would be part of the “peace dividend” from the end of the Cold War and that geo-political calculations would at last begin to be subordinate to economic assessments of the most effective use of aid. What actually

occurred, however, was that the removal of the underlying strategic rationale for providing aid coincided with an ideological shift in the major donor countries which, among other things, sought to diminish the role of the state in managing economic activity, and this led to a significant decline in the volume of aid. This was partly justified by drawing on the earlier arguments of aid skeptics but there was also a strong neo-liberal conviction that private foreign investment would be a much more powerful and efficient driver of economic growth.

Despite the early optimism of development planners, a number of high profile studies had argued, even as aid flows began to rise, that, because of its perceived tendency to distort or circumvent market forces, the crowding out of private investment and the misallocation of resources were the more likely outcomes of increased aid. There was also criticism of the implied bias towards industrial development and the neglect of agriculture, which was seen as weakening export performance. Moreover, the pattern of industrialization raised concerns about the appropriateness of capital-intensive techniques which, it was argued, gave rise to high rates of urban unemployment and increased inequality.

These early debates on aid effectiveness were set against a generally low volume of aid flows which never, with one or two exceptions, matched the commitments made under the Marshall Plan and where assessments of their impact were often hampered by missing or unreliable data. A multitude of studies have since been undertaken, drawing on a large sample of countries and covering longer time periods. Most of these studies use econometric techniques to analyze both cross-sectional and panel data on economic growth and aid commitments or disbursements in order to explore the relation between them. Aid sceptics have tended to dominate these more recent studies. One reading of the evidence contrasts the micro-level effectiveness of aid in terms of meeting welfare goals and achieving acceptable economic returns with its macro-level ineffectiveness in terms of overall economic growth (Mosley, *et al.*, 1987). On the latter, the argument has increasingly turned to the contingent nature of the link between aid and growth, be it focused on getting policies right (openness) or location right (outside the tropics) or competitiveness right (Burnside and Dollar, 2000; Roodman, 2004; Rajan and Subramanian, 2005). Others, who see the divide less in terms of a micro-macro split and more in terms of isolated success stories amid generalized failure, emphasize getting institutions right so as to avoid a culture of aid dependency (World Bank, 1998; Azam, *et al.*, 1999).

These studies, however, have faced serious methodological criticisms arising from their heavy reliance on econometric analysis. One of the principle

problems is endogeneity: aid may influence growth but it is also possible that the amount of aid received by a country in any given year is influenced by current or expected growth rates. Also, insofar as it is often contingent on a country implementing key institutional reforms, aid, like foreign investment, may actually lag the initial take-off to economic growth. Another problem is that extreme observations (outliers) often have a strong bearing on the results. To take just one prominent example, the conclusion of Burnside and Dollar (2000) that a positive impact of aid on growth is contingent on good policies hinges on just seven outliers whose removal from the cross-country regressions used to substantiate this conclusion actually reverses the finding (Roodman, 2004, p. 36). Moreover, the empirical evidence is often a good deal less conclusive than many aid sceptics maintain. In a recent survey of some 64 cross-country regressions on the link between aid and growth, 38 had a significant and positive relation, 25 were insignificant and in only one was the relation significantly negative (Hansen and Tarp, 2000). There is also plenty of evidence suggesting that development aid still has advantages over private capital flows, including FDI, in poorer countries, not least because private investors usually wait for growth to take off before moving into an emerging market economy (UNCTAD, 2000, 2005).

Behind the latest round of debates about the effectiveness of aid is a recognition that aid is a good deal more multifunctional and fungible than was presumed in the early debates, and that consequently its impact on growth is unlikely to be mapped through simple linear relationships. With this in mind, Hansen and Tarp (1999) have introduced unobserved country-specific effects, conditional convergence, and the endogeneity of aid and policies into their cross-country analysis: they nevertheless still find a positive and significant impact of aid on growth for a sample of 56 countries over the period 1973–1993. Along with other studies, they also find that this impact weakens beyond a certain level of aid. A more recent study by Clemens, *et al.* (2004) draws a more favourable conclusion on aid effectiveness by disaggregating aid into “short-impact aid”, associated with budget support and project aid for the real sector, “long-impact aid”, associated with technical cooperation and investment in the social sector, and humanitarian aid. They find a strong, positive, causal relationship between short-impact aid and economic growth, a relation that holds independently of the institutions and policies in place. According to their estimates, aid may have raised the growth of GDP per capita in Sub-Saharan Africa, a region plagued by conflict during this period, by as much as half a percentage point between 1973 and 2001. There are plenty of individual country experiences, including in Africa, which appear to support this conclusion.

That said, longer-term growth effects, which should ultimately decide the value of development aid, are a good deal more difficult to detect, particularly on the basis of cross-country regression equations. One possible channel for a positive (negative) effect is through the influence of aid in accelerating (or inhibiting) structural change in an economy. In this respect, sceptics have long warned of an “aid curse” similar to the Dutch Disease. The evidence for this, however, is inconclusive. A recent study by Reddy and Minoiu (2006), for example, separated aid into its different components in order to assess their individual long-term impact on growth in the recipient countries using a standard cross-country growth model. With average per capita income growth in the 1990s as the dependent variable, the relevant explanatory variables are averaged and the regression equations estimated for four different time periods: 1960–2000, 1970–2000, 1980–2000 and 1990–2000. The result was that the lagged aid variable was a significant factor explaining growth in the 1990s: an increase in aid during the earlier periods by 1 per cent of GDP raised the average growth rate of GDP per head by as much as 0.01 percentage points in the 1990s.

Evidence about the positive long-term effects of aid on growth is important given the renewed commitments being made by the donor countries, particularly to post-conflict economies. Nevertheless, even the most ardent supporters of increased aid flows recognize that it has generally been a secondary factor in explaining economic growth, and its impact has clearly been insufficient in many cases to counteract other unfavourable influences. Recognizing this underscores the importance of identifying the possible channels through which aid can be more effective. A growing body of evidence suggests that the aid-investment nexus remains key to unlocking sustainable growth. Hansen and Tarp (1999) found that 15 of 16 studies examining this nexus report a positive connection, with only one showing evidence of crowding-out. Their own cross-country regressions for 56 countries between the mid-1970s and early 1990s confirm a significant and positive impact of aid on fixed investment (Hansen and Tarp, 2001). A more recent study of 25 SSA economies over the period 1970–1997 found strong evidence of an aid-investment-growth nexus (Gomanee, *et al.*, 2005).

These findings provide encouragement to those calling for a renewed attempt to support a “big push” for development backed by significant amounts of properly targeted aid (Sachs, *et al.*, 2004). Still, extending this big-push logic to post-conflict economies should be done with some caution. There are certainly common development aims that concern policy makers in post-conflict countries as much as in more stable ones. The conflict trap, however, introduces distinct constraints and challenges which differ from

those that characterize the more familiar poverty trap. In particular, when viewed through a conflict lens, public expenditure cannot be divorced from the issue of grievances rooted in distributional inequalities which are often important drivers of conflict, which often worsen during conflict and which, if left unaddressed once the fighting stops, raise the threat of the resumption of conflict. As discussed by Keith Boyce in Chapter 6 of this book, this is likely to tie aid disbursement to what he calls “peace conditionalities”.

Ensuring the presence of “growth enhancing governance capabilities”, needed to manage domestically or externally generated resources in such a way that cumulative income and productivity gains are assured, is not a challenge peculiar to post-conflict economies (Kahn, 2006). However, the steady erosion of state capacities under conditions of conflict, and the brain drain that this often triggers, are likely to intensify the challenge (Mkandawire, 2001). No major economic reconstruction and development effort is possible without the strengthening of State institutions; and without reconstruction and development, future conflicts are probably unavoidable. However, at the end of civil war, confidence in government is likely to be low and any recovery must be designed with this legitimacy deficit in mind. How that is done will depend not only on the manner of the Government’s accession to power, its constitutional accountability, and its willingness and ability to carry out the required institutional changes for the benefit of the whole community, but also on the priorities it sets for itself and its citizens and whether or not those are fulfilled within a reasonable time frame (Kozul-Wright and Rayment, 2007, Chapter 8).

STATE-BUILDING AND ECONOMIC RECONSTRUCTION

The process of economic recovery begins with efforts to consolidate the gains achieved in the early phase of transition from war to peace and progresses through the gradual rehabilitation and reconstruction of the economy and supporting institutions. It continues until the country establishes a development path determined largely by its own priorities and resources. After the Second World War, post-conflict countries were urged to strive to achieve high levels of employment and job security; to maintain adequate levels of growth to sustain the employment levels achieved; to maintain macroeconomic stability through reasonably stable prices and low inflation; to achieve a fair distribution of the gains from economic progress and maintain a minimum level of standard of living that would be socially acceptable for everyone in the society; and, finally, to maintain sustainable external balances

primarily to preserve the country's economic sovereignty and to support the other goals. It was the inclusion of these economic goals as a formal part of the post-conflict security agenda that distinguished the period after 1945 from that after 1918 and the speed with which they were achieved was one of its great triumphs (Panic, 2005).

In light of the fact that most of the post-conflict countries in recent years have very low levels of per capita income and heavily distorted economic structures, it is likely that they will take much longer to attain satisfactory levels of economic security than did the countries of western Europe in the late 1940s. This suggests that today's post-conflict states are even less likely to attain such levels by relying solely on free market forces. Indeed, the absence of the requisite framework of incentives, rules and regulations needed for markets to work effectively and to make their operation compatible with social stability and cohesion means that they will likely have to play a subordinate role in the initial recovery period (see also, Panić, 2003, part II).

At the same time, the state particularly following civil conflict is, as noted earlier, very likely to be a weak and contested institution, facing an enormous security challenge stemming from the fact that rather than "moving back to trend" many if not most post-conflict societies are seeking a new growth path, a "new trend", and this must be done simultaneously with efforts to create or repair trust in public institutions and authority, and to re-establish a wider institutional framework of customs and laws, not just to enforce contracts and protect private property, but to fashion a view of the national interest that is broader and longer-term than that held by those with privileged positions rooted in the past. Doing so will require an integrated recovery strategy, including an explicit role for distributive policies. Failure to address the grievances that persist in a society after the fighting ends may quickly lead to renewed social and political unrest and a reversion to violence. This has been the experience of many countries that have remained trapped in vicious cycles of conflict, deprivation, despair and persistent insecurity.

Meeting these challenges cannot rely on transplanting existing institutions from one environment to another. Attempting to do so is based on the misplaced assumption that it is possible to circumvent the processes of trial and error, of institutional and policy experimentation, that have characterized all previous examples of what Graham Brown in an earlier chapter calls "democratic developmental states". It is certainly inconsistent, many would say hypocritical, for developed countries (along with the international financial institutions) to promote on the one hand, the principles and institutions of democracy in post-conflict countries and then, on the other, seize every opportunity to force them to adopt the institutional arrangements, particularly in relation to

the economy, that have evolved in response to the conditions and preferences of the countries and populations of North America and Western Europe in the period since the late 1970s. This is not to deny that successful open market economies tend to share a basic core of institutions, capacities and objectives, but only to insist there is no unique mapping from these to specific arrangements in individual countries.

Although there has been some slight softening of the neo-liberal stance on certain issues—following the 1997 financial crisis, the IMF, for example, became a little less insistent on rapid liberalization of the capital account—the emphasis on “second-stage” reforms reveals another bias in the direction of institutional arrangements, essentially towards a stylised “Anglo-Saxon” model. This is the origin of the good-governance debate mentioned by Susan Woodward in Chapter 3. There are no more grounds, however, for assuming that institutions can follow a common trajectory than there are for policies. This simply exchanges one Procrustean bed for another. Rodrik (2002) has suggested that governments face a constant trilemma in choosing two priorities from among national sovereignty, deeper economic integration and democracy. If, as he suggests, and we would concur, the nation state remains the locus of democratic and developmental politics, then it is necessary for policy makers to settle for a less muscular version of globalization and a much more strategic approach to integration with the global economy. This again simply underscores the fundamental point that there are institutional and political limits to how far recovery can and should go and that governments should be free to reassess and rethink their actions in this regard without prejudice or opprobrium.

The real issue that emerges from this debate is not a matter of choosing between extreme options but of judging correctly the time required for a particular policy or strategy to be successful and being able to select among a suitable range of objectives and to experiment with policies and channels of implementation. Even when large, rapid changes are desirable in principle, in practice the feasible rate of change in any country depends largely on the nature and strength of its economic and political institutions, on its social cohesiveness, on the ability of its political leaders to maintain that cohesion during a period of radical and often painful adjustment, and on the resources available to help manage those adjustments. Political leaders can influence the pace of reform, although not always by as much as many of them like to imagine, if they can establish credibility in their programmes and create and sustain a popular consensus for change behind a positive vision of the society at which they are aiming. They will also need to make candid estimates of the likely short-run costs involved, not promising a “blooming

landscape” in a very short time, and prepare measures to ensure they do not fall disproportionately on the most vulnerable sections of the population.

Filling the institutional gaps in post-conflict economies requires sufficient time and (policy) space for undertaking appropriate reforms and adjustments in the light of specific circumstances. In this respect, insistence by international institutions and donor countries on a “correct” content and sequencing of reforms runs the risk of substituting general technocratic solutions for political choices shaped by local values and conditions. Rather, what is needed is recognition of the need for “democratic gradualism” which will allow political and economic mechanisms to be developed to underpin a broad national agenda to handle the adjustment costs that will necessarily accompany the reforms and policy choices required for economic recovery, and to establish a tradition of conflict management and peaceful dispute resolution. The results may not always be economically or socially optimal according to some preconceived criteria of efficiency and there is always the danger of capture by specific interests; but these problems can be dealt with, in part, through the accompanying evolution of transparency in the policymaking process, the setting of credible adjustment targets and the design of effective sanctions if those targets are not met.

Creating a sense of national identity that encompasses the community as a whole, and not just a particular social group, locality or region, is the responsibility of the central government and, more broadly, of political leadership. It is also the responsibility of the government to articulate the character and goals of the state and to create a popular consensus behind a broad set of social and economic goals. This is particularly important in fragile states where a lack of social responsibility and widespread corruption are not confined to the organs of the central government. Even when this is not the case, there is a danger that a highly decentralized effort towards post-war reconstruction and development will concentrate on local issues, ignoring the wider problems which affect the country as a whole.

As resources are scarce and unequally distributed, some regions and localities will make much faster progress in reconstruction than others. In the absence of an effective central authority to manage interregional transfers of resources, such disparities could do more than just undermine attempts to create a feeling of national unity and purpose: Horizontal inequalities may, sooner or later, trigger renewed conflicts, especially if regional economic differences are correlated with variations in ethnic, racial or religious composition. It would not take long for such disparities to be regarded as the result of a deliberate act by the government to favour the interests of certain groups at the expense of others. Delegating a major responsibility

for reconstruction and development to non-governmental and civil society organizations may also hinder the re-establishment of central authority. By their very *raison d'être*, most of these organizations concentrate on specific issues that promote the interests of particular groups. In other words, they tend to lack the focus as well as the resources that are essential to achieving a broader sense of the public good or national interest that is essential for a lasting solution to the problems common to post-conflict countries.

Perhaps the key idea to be kept in mind when thinking about the links between state-building and economic recovery in post-conflict situations is that of “adaptive efficiency”, the capacity to develop institutions that provide a stable framework for economic activity but at the same time are flexible enough to provide maximum leeway for policy choices at any given time and in any given situation in response to specific challenges. The emphasis on flexibility and the need to experiment reflects the realities of operating in a fragile and uncertain context typical of post-conflict situations. This certainly rules out the wholesale adoption of a set of predetermined policy instruments (be they rapid trade liberalization and privatization, on the one hand, or high tariff protection and nationalization, on the other) to be employed in post-conflict situations regardless of actual circumstances.

REVISITING THE MARSHALL PLAN

With this background in mind, there are at least seven major virtues of the Marshall Plan which provide useful lessons for rebalancing the policy environment in developing countries today. First, it set a time frame for the post-war adjustment process that was more realistic than that envisaged by the US Treasury or, subsequently, by IMF programmes. Instead of thinking in terms of eighteen months, the time scale was changed to four to five years. Second, Marshall made it clear that there was to be an end to the piecemeal assistance of 1945–1946 which had suffered from a lack of coordination and had less impact than expected in stimulating economic recovery. A key requirement, therefore, was that each state receiving aid had to produce a four-year outline plan for recovery, setting out targets for the main economic variables and providing an account of how the government intended to achieve its objectives. Third, Marshall insisted that these plans, together with estimates of the need for assistance, had to be drawn up by the West Europeans themselves: “It would be neither fitting nor efficacious for [the United States] to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of Europeans ...

The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program ...” Marshall thus acknowledged national sensibilities, admitted that the recipient countries were better informed about the facts of their situation than outsiders, and generally showed a deference towards European traditions and preferences that has often been conspicuously absent in the subsequent attitudes of the rich countries and international institutions towards the rest of the world.

A fourth feature of the Marshall Plan was that aid was released in tranches that depended on the countries’ intermediate targets being met. The removal of the recovery programme from the Bretton Woods framework did not therefore imply an escape from conditionality, but the Marshall Plan conditions were different, more flexible and were to be met over a longer period than allowed by IMF rules. Conditionality was important not simply to ensure that the aid was being used effectively but also to gain, and sustain, the support of the American taxpayer.

Fifth, the Marshall Plan acknowledged that the damage to European productive capacities and the great disparity in economic strength between the United States and Europe meant that rapid liberalization of trade and payments would quickly lead to European payments crises. It was accepted that Europe would gradually dismantle a wide range of direct and indirect controls on its trade according to an agreed timetable within the framework of the European Payments Union between 1950 and 1958. This gradual liberalization of trade provided European producers with protection against American competition and gave them time and encouragement for the reconstruction of enterprises capable of producing competitive substitutes for dollar imports. At the same time, the United States agreed to a more rapid improvement in access to its own market for European exports, a policy of asymmetric liberalization that stands in marked contrast to the present approach of the EU and the United States which insists on a rapid opening of developing countries’ markets and on restricting the range of policy options available for their development. Another, largely forgotten aspect of American restraint towards the relative economic weakness of Europe in 1947 was a moratorium on foreign investment in Germany until monetary equilibrium had been more or less achieved (Kindleberger, 1989). The prospect of US capitalists buying up Mercedes, Siemens and other major companies at derisory prices did not appear to the State Department as a useful contribution to winning the “hearts and minds” of a defeated population and a future ally.

Sixth, effective leadership requires generosity. Marshall Aid consisted largely of grants and the small proportion of loans contained a large element of grant: they were usually for 35 years at 2.5 per cent interest with repayments

starting in 1953. It is worth emphasizing this structure of financial help at a time when “aid” and “assistance” are used loosely to cover everything from gifts to loans at market (or above-market) rates of interest. The wisdom of adding to the debts of already heavily indebted economies is highly questionable, the more so when they are grappling with economic restructuring and institution-building, which is typically the case for countries trying to accelerate their development or to recover from the chaos that normally follows the end of violent conflict. A generous supply of grants, monitored within and conditional on a coherent economic programme on the lines of the Marshall Plan, can be more effective than loans in lifting countries out of a “stagnation trap” where heavy debt-servicing obligations hold back the domestic and foreign investment that could improve the longer-run performance of the economy, including its capacity to service debt. Another advantage of grants is that they are not usually subject to the long and complex negotiations, legal and financial, associated with loans. This is important because another lesson of the Marshall Plan is that prompt assistance at the start of a promised programme can help to sustain positive expectations, which most likely will have been raised by politicians, and instigate a momentum for change that will stand a chance of becoming self-reinforcing.

Aid is usually provided with a close eye on the interests of the donor, to strengthen a bilateral alliance, secure supplies of raw materials, boost exports and so forth. That is to be expected, but a lot depends on whether donors see their interests narrowly or broadly, short term or long term, and whether larger public interests prevail over narrower corporate ones. There are public-goods aspects to aid if it succeeds in raising the prospects for growth and development and thereby reducing threats to regional and global security, easing the pressures for migration and so on. Grants may therefore generate higher rates of return, in terms of the donors’ larger interests, than loans. Marshall Aid grants were arriving in Europe in well under a year from General Marshall’s speech in June 1947, a painful contrast with the assistance efforts of the G7 over the last few decades which have been dominated by loans and characterized by large discrepancies between pledges and deliveries, long delays in disbursement, and weak coordination among a large number of donors with often competing interests.

Finally, the seventh virtue of the Marshall Plan that we consider relevant to current problems was its insistence that there should be a degree of united and cooperative effort among the Europeans themselves, and that the plans of the 16 recipient countries and the allocation of aid should be coordinated in a regional body. This requirement partly reflected US foreign-policy objectives for a more integrated Europe, but it provided a structure for cooperation in

areas where there are significant externalities, economies of scale and other trans-boundary issues. The peer review of national programmes within the OEEC provided national policy makers with a regional perspective for their own policies and encouraged a culture of regular contact and cooperation among national bureaucracies which today is taken for granted in Europe.

The creation of new, or the expansion of, existing regional bodies has often been opposed by the G7 countries, which tend to prefer global institutions where they can assert more control over decisions. That of course is one reason in favour of them from the standpoint of countries in a region, an advantage that many members of the EU frequently stress. But for most countries, most of the time, many of their pressing everyday problems involve their neighbours. Regional cooperation to lower trade barriers and other obstacles to doing business within the region can provide larger markets for small, low-income countries and make it easier for them, if it suits their development strategies, to attract FDI. For small, fragmented economies infant-industry policies may be more effective in a regional than a small national market. Regional cooperation can also make it easier to deal with black markets, organized crime and other activities which have the power to undermine democratic and market institutions. The very fact of increased efforts at such cooperation is itself a sign of increasing stability and security in a region and that can be an important influence on economic activity in general and fixed investment in particular.

One of the important aspects of post-war regional cooperation in Europe, in institutions such as the OECD, the UNECE and the EU, is that it encouraged a focus on “nuts and bolts” cooperation in resolving possibly mundane but nevertheless important practical problems, such as trade facilitation, harmonizing standards for various traded products, trans-boundary air and water pollution, and so on, where all the parties can see that they will gain from agreed rules or norms and therefore have an incentive to cooperate. The practical consequence, however, is the gradual evolution of a form of regional or international governance as countries seek ways to reconcile their pursuit of national objectives with international constraints, an activity based on local knowledge that can also contribute to developing the autonomous learning capabilities that we identified earlier as crucial for promoting both development and democracy. This suggests that the necessity and benefits of collective action, on the one hand, and the evident desire of peoples to preserve as far as possible their autonomy to decide national policy, on the other, can be balanced in many areas without the need for overarching global bodies.

What we are suggesting is that the processes of the Marshall Plan can help to provide a coherent framework for coordinating national economic-development

plans with international assistance. Without an articulate account of a government's macroeconomic objectives and their relation to detailed programmes for infrastructure investment, education, health, housing, etc., it is difficult to see how limited supplies of foreign assistance, financial and technical, can be really effective. Official assistance is essentially a form of intervention to ease shortages, bottlenecks and other constraints on growth and structural change, but it is difficult to target aid to where it will be most effective without some idea of priorities and the potential marginal effect of removing one bottleneck, say, before another. Similarly, the impact of assistance will be reduced if complementarities are overlooked: the value of funds for treating the victims of HIV/ AIDS and other major diseases, for example, will be diminished if the planning and funding of health support services is neglected or underestimated.

Despite the demonstrated success of the Marshall Plan framework in Europe in the 1940s, "aid" has developed over the years into a mixture of assistance for an assortment of specific projects and ad hoc responses to unexpected shocks with little apparent coherence, either in the countries that receive it or in its global distribution. Donor conferences are more like bazaars, driven more by what donors want to promote than by the desire to support specific multi-year, national programmes. It is difficult to see how aid can ever be really effective without an articulation of macroeconomic objectives and detailed programmes for infrastructure investment, etc., and without a coherent account of priorities—what should be done in what order—and a sense of the necessary complementarities among different investments and projects.

National development programmes along the lines of the Marshall Plan would also make it easier to provide general, non-project assistance to government budgets or the balance of payments, as was done for a number of European countries under Marshall Aid. Development (even more than reconstruction) programmes essentially deal with deep-rooted structural problems and both fiscal and current-account deficits are usually unavoidable if constructive, long-run adjustment is to be achieved. The need to provide financial assistance to deal with long-term imbalances is usually seen by the international financial institutions as evidence of a weak commitment to reform and as encouraging a slackening of discipline by postponing necessary adjustment. This was not the view of the Marshall Planners, who regarded such assistance as an investment in structural change and as providing governments with the breathing space required to bring difficult and often painful policies to success. When such policies threatened to cause social upheaval on a scale that might upset the adjustment process, as was the

case in post-war Italy at one point, Marshall Aid was available to support the government budget in order to cushion the social costs.

Another major attraction of a Marshall Plan framework is that it can serve an important political function. A multi-year programme of economic and social objectives, setting out their interrelationships, the means to achieve them and their contingency on outside assistance, effectively sets out the government's vision of the structure of society at which it is aiming. That is highly political, and so the proposed programme provides a basis for the democratic discussion and the negotiation between competing views that should take place. This is not an easy task, as the history of French indicative planning shows (Cohen, 1977), but obtaining popular support for such a programme can be a major stimulus for change. This will not always result in what the international financial institutions regard as the "best" policies, but the advantage of democratic processes, as we have suggested elsewhere (Kozul-Wright and Rayment, 2007), is that they generate pressures to correct mistakes: they may reach the "best" policy more slowly than if driven by autocratic outsiders, but politically the slow route may be superior. A "new Marshall Plan" could thus be a way to provide a concrete operational basis for such ideas as "ownership" and "partnership", which otherwise risk degenerating into empty slogans. Moreover, a coherent national programme with popular support, indicating where outside assistance could be most effective, ipso facto becomes a powerful argument for persuading potential donors to respond to national priorities rather than following their own preferences from a basket of seemingly unrelated projects. The emphasis on national programmes is deliberate because the problem with recent suggestions for a new Marshall Plan for Africa, for example, is that they seem to imply that the continent is homogeneous, which is very far from being the case. The approach in Europe in the late 1940s was to treat each country as a specific case but to bring them together in a regional framework of cooperation that would support both national objectives and regional coherence.

CONCLUSION

A crucial issue during post-war transitions is the building of State capacities to mobilize domestic revenue to provide sustainable funding for new democratic institutions and for expenditures to improve human well-being, strengthen public security and ease social tensions. Depending on the overall cost of the conflict, reconstruction and the early stages of economic development will be heavily dependent on external resources. Ultimate success or failure will

be determined, therefore, by how each side discharges its part of the shared responsibility for recovery. On the recipient side, innovative policy responses to fiscal management will be required. The donors must resist imposing their own institutional and policy preferences on the receiving country.

The Marshall Plan actually addressed many of the issues that have been subsequently raised anew in the recent debates on aid effectiveness—it placed great emphasis on governance, on the need for well-articulated policies and coherent objectives, and it stressed the importance of regional cooperation on both economic and security grounds. It had a “short-term” impact on economic recovery, not least because the very short interval between the commitment of aid and its delivery had a positive impact on morale and expectations in the receiving countries; and although it was by no means the only factor at work, it had a “long-term” impact both in easing the balance of payments constraint on the recovery and by strengthening business expectations and the propensity to invest. Although difficult to assess econometrically, it also contributed to political stability in post-war Europe with its long-term commitment to economic recovery and its efforts to avoid increasing the austerity to which the populations of the region were already subject. The Marshall Plan was rooted in a set of general and operational principles that remain highly relevant to the problems of post-conflict countries today, even though their security, reconciliation and development challenges are a good deal more demanding than those facing war-torn Europe after 1945.

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