

Building Peace and Stability through Economic Reconstruction

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Two decades have passed since Cold War-related confrontations wended down and a large and diverse group of countries, at low levels of development, came out of war or other civil conflict and embarked in a multi-faceted transition to peace and stability. The need to support countries in this transition put the United Nations temporarily back in fashion in the early 1990s. Despite the peculiarities of each particular case, when war or other conflict ends, countries face the difficult challenge of addressing the root causes of conflict in order to make the transition irreversible.

All aspects of the transition to peace are closely interrelated and reinforce each other: Crime and violence must give rise to public security, and adequate institutions for enforcing it need to be built (security transition). Lawlessness, political exclusion and violations of human and property rights must give way to the rule of law, inclusive and participatory government, and respect for basic human rights (political transition). Ethnic, religious, sectarian, class or ideological confrontation that led to internal conflict, often with regional implications, must give in to national reconciliation so that former enemies can live again with each other and address future grievances through peaceful means (social transition). In addition, war-ravaged, mismanaged and illicit economies must be transformed into stable and functioning economies that enable ordinary people to have jobs and earn a decent and licit living (economic transition). Failure in any one of these areas will put the others at risk.

Much attention has been given in public debate, in the media, and in the academic literature to the political, security and social transitions, to the neglect of the economic one, which is fundamental for the others to succeed since peace has serious economic consequences.² I have long argued³ that the

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 - 2 See John Maynard Keynes, *The Economic Consequences of the Peace*, 1920. This book was written following the Paris Conference of 1919. Because peace at that time involved advanced states coming out of an external conflict, the transition was fundamentally different. Nevertheless, the financial consequences of peace apply to both contexts.
 - 3 See, for example, Graciana del Castillo, "Post-conflict peace-building: a challenge for the United Nations", *CEPAL Review*, no. 55, 1995.

economic transition in countries at a low level of development coming out of civil war or other internal conflict—which I also refer to as economic reconstruction or the economics of peace⁴—is an intermediate and distinct phase between the economics of war or chaos (that is, the underground economy of illicit and rent-seeking activities that thrive in these situations) and the economics of development—which I also refer to as normal development or development as usual.⁵

ECONOMICS OF WAR → ECONOMICS OF PEACE → ECONOMICS OF DEVELOPMENT

While at the time of the Marshall Plan, the term “economic reconstruction” referred basically to the rehabilitation of infrastructure and services in countries at low levels of development, with weak policies and institutions, the term needs to be defined more broadly. Thus, I use the term economic reconstruction in a broad sense, to include not only the rebuilding of physical and human infrastructure per se, but also the stabilization and structural reform policies and the appropriate legal and regulatory framework necessary to create a functioning economy and reactivate broad-based economic growth. It is particularly important in post-conflict transitions that growth be employment creating and that it leads to improvements in livelihoods.

During the intermediate economic reconstruction phase countries face a “development-plus” challenge: in addition to the normal challenge of socioeconomic development, they must accommodate the extra burden of economic rehabilitation and national reconciliation so that former enemies can live again with each other. This intermediate phase should aim at reactivating the economy while making peace irreversible. The latter is not possible unless the political or peace objective prevails at all times, even if it delays economic stability and development. This often means accepting that optimal and best-practice economic policies are not attainable—or, indeed, even desirable.⁶

Unless the economics of peace succeed, war-affected countries will not be able to move into a development-as-usual phase in which they will confront the normal socioeconomic challenges facing countries at low levels of development but not affected by conflict or chaos.

Critical activities during the economics of peace include the delivery of emergency aid to former conflict zones (many of which may not yet be under state control); the disarmament, demobilization, and reintegration (DDR) of former combatants; the clearance of mines; the return of refugees and internally displaced groups; the reform of the armed forces; and the creation of a national civilian police. It also includes the

4 The Government of the United States refers to this as “stabilization and reconstruction operations” and RAND refers to it as “the economics of stabilization and reconstruction”. See, for example, Stuart Bowen, “No more adhocracies: Reforming the management of stabilization and reconstruction operations”, *Prism*, vol. 3, no. 2, 2012. See also Claude Berrebi and Sarah Olmstead, “Establishing desirable economic conditions”, in Paul K. Davis (ed.), *Dilemmas of Intervention: Social Science for Stabilization and Reconstruction*, RAND National Defense Research Institute, 2011.

5 To avoid repetition, the terms “development as usual”, “normal development” and “long-term development” are used interchangeably. The terms “economic transition”, “economics of peace”, “economic reconstruction” and “reconstruction” are also used interchangeably.

6 See Graciana del Castillo, “Post-conflict peace-building: a challenge for the United Nations”, *CEPAL Review*, no. 55, 1995; and Graciana del Castillo, “Auferstehen aus Ruinen: Die besonderen Bedingungen des wirtschaftlichen Wiederaufbaus nach Konflikten”, *der Überblick*, no. 4, 2006.

rehabilitation and reconstruction of economic assets destroyed because of the conflict and the stabilization and reform of mismanaged economies.

The effective DDR of former combatants into society is a condition sine qua non for a successful transition to peace and will not be possible in stagnant and mismanaged economies. Furthermore, DDR requires advance planning, bold and innovative solutions, large financial resources, and staying the course with the right policies, frequently for many years. The experiences of El Salvador⁷ and Afghanistan⁸ provide stark evidence of things that work and those that are still missing in how the international community supports DDR programmes.

With few exceptions, the record of countries that moved from conflict to a fragile peace during the past two decades—either through negotiated settlements or military intervention, both in United Nations-led and US-led operations—is indeed dismal: roughly half of them moved backwards and reverted to conflict within a few years.⁹ In many cases, a major reason for this reversal was the failure of countries to reactivate the economy in a dynamic, inclusive and sustainable way that would allow former combatants and other groups affected by the conflict to have a stake in the peace process.

Peace agreements and regime change following military intervention or political settlements create great expectations. A peace dividend in terms of better living conditions and a rewarding job are necessary conditions for peace to be long lasting. If governments fail to reactivate the economy in such a way as to allow for the viable and long-term reintegration into productive activities of former combatants and other conflict-affected

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- 7 In addition to the economic and financial implications of DDR, this process involves many other issues that need to be well integrated. For detailed evidence on the problems and relative success of the DDR programme in El Salvador, see Graciana del Castillo, *Rebuilding War-Torn States: The Challenge of Post-Conflict Economic Reconstruction*, 2008, chp. 7; Graciana del Castillo, "Post-conflict reconstruction and the challenge to the international organizations: the case of El Salvador", *World Development*, vol. 29, no. 12, 2001; and Graciana del Castillo, "Arms-for-land deal: lessons from El Salvador", in M. Doyle and I. Johnstone (eds.), *Multidimensional Peacekeeping: Lessons from Cambodia and El Salvador*, 1997.
 - 8 For a comprehensive analysis of past and present unsuccessful efforts with DDR programmes in Afghanistan, see Michael Semple, *Reconciliation in Afghanistan*, United States Institute of Peace, 2009. See also Graciana del Castillo, "Peace through reconstruction: an effective strategy for Afghanistan", *Brown Journal of World Affairs*, vol. 16, no. 2, 2010. For evidence of failure with earlier efforts, see Simonetta Rossi and Antonio Giustozzi, *Disarmament, Demobilization and Reintegration of Ex-Combatants (DDR) in Afghanistan: Constraints and Limited Capabilities*, working paper no. 2, series 2, Crisis States Research Centre, Development Studies Institute, London School of Economics, 2006. For an analysis of the political difficulties of carrying out these programmes, see Barnett R. Rubin, "Disarmament, demobilization and reintegration in Afghanistan", mimeo, 2 December 2004, and Barnett R. Rubin, *Identifying Options and Entry Points for Disarmament, Demobilization, and Reintegration in Afghanistan*, Center on International Cooperation, New York University, 2003. Larry P. Goodson, "The lessons of nation-building in Afghanistan", in Francis Fukuyama (ed.), *Nation-Building: Beyond Afghanistan and Iraq*, 2006, pp. 145–169, discusses the failure in linking reconstruction to security in the earlier period and argues in favor of a "RDD" process where reintegration precedes and paves the way for their eventual demobilization and disarmament. This is something that should be seriously considered in new plans for national reconciliation.
 - 9 In fact, in the report of the High-Level Panel on Threats, Challenges and Change (see General Assembly, *Transmittal letter dated 1 December 2004 from the Chair of the High-level Panel on Threats, Challenges and Change addressed to the Secretary-General*, UN document A/59/565, 2004a, 2 December 2004, p. 70), the United Nations estimates that roughly half of the countries in the multifaceted war-to-peace transition revert to conflict, and that it is at the early stages of peace implementation that societies are most vulnerable. For this reason, the report concluded that the resources spent on implementation of peace agreements and peacebuilding are one of the best investments that can be made for conflict prevention. Analysts, using a wider sample than the one defined here, have estimated probabilities of relapsing into conflict ranging from 40% to 50%. The exact figure is irrelevant. What matters is that countries not only have a large probability of going back to war or other conflict—but those that do not are likely to become highly aid dependent. Thus, the United Nations conclusion about the high return of investing in countries in this transition is quite valid.

groups, disgruntled members of these groups will often take up arms again. Reintegration through short-term employment that is not sustainable has been associated with either a relapse into conflict or large public insecurity.

At the same time, of the countries that managed to keep a fragile peace and moved forward into a normal development path, most have also failed to reactivate their economies productively, which has led to large aid dependencies. Moving countries out of the “aid trap” is particularly critical to Africa, a conflict-prone region where conflicts are on the rise and aid dependencies are huge.

Many countries in Africa continue with aid dependencies of 20% to 50% of GDP (and higher in Liberia), even after many years in the transition to peace. The same is true of Afghanistan. This situation is hardly sustainable in the context of the global financial crisis and its fiscal repercussions on donors that need to deal with their own ills, including high unemployment, poor infrastructure and other social needs. Large aid dependencies are also unsustainable in light of the increased financial global demand to deal with climate change, with HIV/AIDS and other pandemics, and with the normal development needs of a large number of poor countries.

Since 2012 marked the 20-year anniversary of the creation of the United Nations Department of Peacekeeping Operations and of the Department of Political Affairs, as well as of the signature of the peace agreements in El Salvador and Mozambique, it seems like the perfect time to ask: What have we learned? What has gone right and what has gone wrong? What can be done to improve the dismal and expensive record of aid and economic reconstruction?

One of the most notorious failures relates to the reintegration of former combatants and other war-affected groups into civilian and productive life. Reintegration becomes particularly difficult in economies that lack viable employment opportunities except in the short run, through aid-financed public works or through employment with aid agencies and non-governmental organizations (NGOs). Thus, while disarming and demobilizing former combatants has often proceeded satisfactorily, the lack of sustainable opportunities for these groups has been a major factor for the poor record with economic reconstruction.

It is important to analyse what has changed in the last two decades with regard to countries in the transition to peace, and how the multilateral and/or bilateral framework for international assistance for the reactivation and reconstruction of war-torn economies has helped or hindered the transition. The objective is to draw some lessons and make policy recommendations on how to move forward in a more cost-effective way.¹⁰

10 I have analysed elsewhere the impact (both positive and negative) of the main actors—the United Nations system and the international financial institutions—on economic reconstruction, and past and current reforms to improve their capacity in this field. I have also made specific recommendations for strengthening their performance further. See Graciana del Castillo, “The Bretton Woods institutions, reconstruction and peacebuilding”, in Mats Berdal and Achim Wennman (eds.), *Ending Wars, Consolidating Peace: Economic Perspectives*, International Institute for Strategic Studies, 2010; Graciana del Castillo, “Economic reconstruction of war-torn countries: the role of the international financial institutions”, *Seton Hall Law Review*, vol. 38, no. 4, 2008; and Graciana del Castillo, *Rebuilding War-Torn States: The Challenge of Post-Conflict Economic Reconstruction*, 2008, chp. 5. For a comprehensive analysis of the role that the United Nations Security Council gives the Bretton Woods institutions in peace and security, see Kristen E. Boon, “Coining a new jurisdiction: the Security Council as economic peacekeeper”, *Vanderbilt Journal of Transnational Law*, vol. 41, no. 4, 2008; and Kristen E. Boon, “Open for business: international financial institutions, post-conflict economic reform and the rule of law”, *Journal of International Law and Politics*,

ECONOMIC RECONSTRUCTION FOLLOWING PEACE NEGOTIATIONS OR MILITARY INTERVENTION

As the United Nations was back at centre stage in the early 1990s, complex “peacebuilding” missions—encompassing both military and civilian operations—were established to facilitate the transition to peace. Such operations engaged a wide range of programmes and agencies of the United Nations system and were established in various countries including Angola, Cambodia, El Salvador, Guatemala, Haiti and Mozambique.

In some of these countries, the United Nations had participated in the “peacemaking” phase—as either facilitator or mediator—documenting the deals in complex and comprehensive peace agreements such as those of El Salvador and Guatemala. In others, another country and/or religious group played a key role, as it was the case in Mozambique. In addition, the United Nations often played the role of honest broker at a later stage, verifying peace agreements and facilitating and promoting their operational implementation, mostly under mandates of the Security Council, such as in Cambodia and El Salvador, although in a few cases, such as Guatemala, the mandate was from the General Assembly. In cases such as Haiti, the United Nations had actively participated in the restitution of democratic rule in 1994.

In most cases, the United Nations participated in the “peacekeeping” phase, which involved overseeing cease-fire, disarmament and demobilization arrangements through the deployment of Blue Helmet forces, whose role was to help keep former belligerents apart.¹¹ It felt almost natural that the United Nations would become involved in the “peacebuilding” phase as well. Not much consideration was given at the time to the issue of whether the United Nations was capable or had the financial and human resources to get effectively involved in peacebuilding, which comprised new challenges, including those related to economic reconstruction, strikingly different from those faced in traditional peacekeeping missions.

Peacebuilding was critical to prevent the recurrence of violence by addressing the root causes of the conflict. It involved ensuring that political, social, economic and institutional reforms agreed to during the negotiations were implemented. In addition to disarming and demobilizing former combatants and insurgent groups, United Nations activities included the controlling of small arms, establishing and training civilian police forces, monitoring and promoting human rights, overseeing judicial and other institutional reforms, providing electoral assistance and monitoring, and promoting landmine removal. But the United Nations was also involved in supporting socioeconomic activities such as emergency humanitarian assistance, rehabilitation and reconstruction. The latter, for what the Organization was ill prepared, has proved to be key to a successful transition to peace and to the avoidance of aid dependency.

At the request of the Security Council, Secretary-General Boutros Boutros-Ghali presented to the membership *An Agenda for Peace* (1992), a set of recommendations on how to

vol. 39, no. 3, 2007.

11 While only 13 operations were established during the first 40 years of United Nations peacekeeping from 1948, in the last 24 years there have been 54 new operations. As of September 2012, the total deployment of United Nations military and civilian personnel is roughly 100,000, including troops, police and military observers from 116 countries, in 16 missions directed by the Department of Peacekeeping Operations (see <www.un.org/en/peacekeeping/resources/statistics/factsheet.shtml>).

strengthen the ability of the United Nations to cope with the unfolding post-Cold War challenges. In it Boutros-Ghali argued that the political and economic realities of the time required “an integrated approach to human security”. His approach called for humanitarian, political, military and socioeconomic problems to be addressed jointly by the various United Nations agencies and international financial institutions, in order to avoid potential clashes of competence and the waste of resources. In his view, while an integrated approach to human security was important as a rule, it was imperative in peace transitions as a means to avoid the recurrence of major crises or violence.

In a 1994 *Foreign Policy* article entitled “Obstacles to Peacebuilding”, Alvaro de Soto and I posited that, as a general rule, it was the role of sovereign governments to harmonize policies and set priorities.¹² We argued that “an arbitrary model of nation building” should not be imposed on reluctant countries, often far away from the centres of power where decisions were made. Thus, we envisaged war-to-peace transitions in which the sovereign government would be in the front seat designing and implementing policies, with the United Nations system and the international financial institutions¹³ in the backseat, facilitating, coordinating and monitoring the international community’s technical and financial support. This was clearly the pattern of the 1990s in countries such as Angola, Cambodia, El Salvador, Guatemala, Mozambique and Namibia.

Soon the nature of conflict and the ability to deal with it took a turn for the worse, which changed the operational nature of peace transitions. By the mid-1990s, conflicts were often interrupted through military intervention rather than negotiation. After the human tragedies in Rwanda and Srebrenica, Boutros-Ghali’s *Supplement to An Agenda for Peace* (1995) noted that a new breed of intrastate conflicts presented the United Nations with operational challenges not encountered since the Congo operation in the early 1960s.

A key feature of these conflicts was the collapse of state institutions, especially the police, the judiciary and the institutional capacity for economic policymaking and management. As a result, international intervention had to extend beyond military and humanitarian tasks to include the re-establishment of effective government and the promotion of national reconciliation. This was the case in Rwanda and Burundi, where France led military interventions in the mid-1990s, and by the turn of the century in Kosovo and Timor-Leste, where NATO and Australia, respectively, led interventions.

In Kosovo and Timor-Leste, the United Nations performed civil administration functions that are normally the sole prerogative of sovereign governments. At the time of the transition, Kosovo and Timor-Leste were not independent states and the Security Council put the United Nations transitionally in charge. In fact, in both cases, the Security Council mandated the Special Representative of the Secretary-General to exercise all executive and legislative power through the issuance of regulations. As a result, the United Nations,

12 See Alvaro de Soto and Graciana del Castillo, “Obstacles to peace-building”, *Foreign Policy*, no. 94, 1994. At the time, we both were at the Office of the Secretary-General, de Soto as Assistant Secretary-General and special political adviser to the Secretary-General and I as Senior Officer in charge of economic matters and post-conflict reconstruction.

13 These include the International Monetary Fund (IMF), the World Bank and the regional development banks. Although the IMF and the World Bank are part of the United Nations system, these institutions, which are also referred to as the Bretton Woods institutions, have a specific role in financing, as the regional development banks do. The latter include the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank.

supported by other bilateral and multilateral organizations, performed, for the first time, macroeconomic management, civil administration, and economic reconstruction functions, which it had never performed before and for which it had neither the economic expertise for policymaking nor the management capacity. These two United Nations protectorates,¹⁴ however, had different destinies, which affected policymaking: while the independence path was clear for Timor-Leste from the very beginning and the country became independent and assumed sovereignty in 2002, Kosovo could only declare its independence unilaterally many years later in 2008, since the Security Council had established an interim open-ended protectorate.¹⁵

Transitions to peace confronted another twist after the terrorist attacks of 11 September 2001, which gave rise to the US government's "war on terror" and to US-led military interventions in Afghanistan in October 2001 and Iraq in March 2003. At the time of our *Foreign Policy* article, de Soto and I did not envisage this later type of operations, in which the United Nations would assume "corner positions" in peace transitions—that is, either a very intrusive role (transitional United Nations administrations in Kosovo and Timor-Leste) or a marginal one in 2003–2004 in the aftermath of US-led military intervention in Afghanistan and Iraq.

The marginal role of the United Nations in supporting economic reconstruction was particularly true in Iraq where the Security Council did not approve of the military intervention and where the United Nations presence, which the Security Council had mandated following the intervention, soon ended after a devastating bomb attack in August 2003. Iraq became a US protectorate, with the Coalition Provisional Authority making all policy decisions on economic reconstruction until June 2004, when an interim government was formed, and Iraq resumed sovereignty. However, the United States continued to be active in all reconstruction matters.

In Afghanistan, the United Nations played a limited role, opting for a "light" operational approach. With an interim government installed in Kabul soon after the military intervention, and with the United Nations and the United States both involved, Afghanistan was allowed to make sovereign decisions concerning economic matters—although clearly constrained by a lack of resources and the large presence of the international community. With the US military and civilian surges starting in 2009 as security deteriorated, the United States started playing a much more active role in Afghanistan's reconstruction. Because a large part of the economic reconstruction of both Iraq and Afghanistan was led by the US military, and because of their recognition that military operations alone would not achieve stabilization objectives,¹⁶ civilian experts were imbedded in the Provincial Reconstruction Teams to work with the military in economic reconstruction. Thus, the

14 Rob Jenkins, in "Collateral benefit", *Dissent*, Spring 2006, refers to these as "neotrusteeship". In his view these are arrangements whereby multilateral institutions temporarily govern states that have collapsed in spasms of misrule and violent conflict.

15 Both Kosovo and Timor-Leste transitions are discussed in Graciana del Castillo, *Rebuilding War-Torn States: The Challenge of Post-Conflict Economic Reconstruction*, 2008. Chapter 8 has a detailed analysis of the shortcomings of the United Nations in supporting effective economic reconstruction in Kosovo and the problems with DDR programmes. The discussion on Timor-Leste in chapter 12 focuses on the creation of a Norwegian-style petroleum fund for oil and gas revenue, and on the pros and cons of such decision.

16 See Jeff Peterson and Mark Crow, "Expeditionary economics: towards a doctrine for enabling stabilization and growth", introductory paper for US Military Academy Conference on Expeditionary Economics: Towards a Doctrine for Enabling Stabilization and Growth, 2011, <www.expeditionaryeconomics.org/Files/slc-conference/Peterson-Crow_TowardsaDoctrine.aspx>.

term “expeditionary economics” came to denote economic reconstruction activities at the local level led by expeditionary military forces.¹⁷

In addition to the roles played by the United Nations and the United States, economic reconstruction has also involved a wide variety of other international actors, ranging from the international financial institutions, development organizations, bilateral and regional donors, and often a large number of NGOs.¹⁸

To add to all these stakeholders, the 2005 Summit adopted a new peacebuilding infrastructure consisting of an inter-governmental “advisory” subsidiary organ, the Peacebuilding Commission, a Peacebuilding Support Office within the United Nations Secretariat to service the Commission, and a Peacebuilding Fund, launched in 2006, to support countries in the early transition to peace, when other financing mechanisms are not yet available. As an advisory body, this new infrastructure could play a key role in calling attention to the United Nations and other stakeholders, at the highest level, of shortcomings in ongoing operations that are likely to derail the economics of peace.¹⁹

The role that different international actors have played and should play in reconstruction is a matter of great debate, as is the relationship they should have with local actors in developing strategies and establishing priorities. External support is essential for war-torn countries, but creating aid dependencies is counterproductive and discourages sustainability. Providing aid in a fragmented, rather than integrated way has resulted in large inefficiencies and waste. Reactivating growth through the divisive policies of the past, including growth that benefits only small national elites and foreign investors, is likely to bring the country back to conflict.²⁰

Irrespective of the role international actors play, and whatever their relationship with national policymakers, the participation of so many international actors creates serious operational and logistical challenges. Furthermore, the large involvement of the international community in countries undergoing reconstruction normally causes

17 See Carl J. Schramm, “Expeditionary economics”, *Foreign Affairs*, vol. 89, no. 3, 2010, and Carl J. Schramm, “Institutionalizing economic analysis in the U.S. military: the basis for preventive defense”, *Joint Force Quarterly*, no. 61, 2011. See also, Graciana del Castillo “The economics of peace: military vs. civilian reconstruction—could similar rules apply?”, paper for US Military Academy Conference on Expeditionary Economics: Towards a Doctrine for Enabling Stabilization and Growth, 2011, <www.expeditionaryeconomics.org/Files/slc-conference/delCastillo_EconomicsofPeace.aspx>.

18 Some foreign and local NGOs are important sources of humanitarian assistance and have increasingly become involved in reconstruction over the years. See, for example, Francis Kofi Abiew and Tom Keating, “Defining a role for civil society”, in Tom Keating and W. Andy Knight (eds.), *Building Sustainable Peace*, 2004; and, for the role of NGOs, Paul O’Brien, “Old woods, new paths, and diverging choices for NGOs”, in Antonio Donini, Norah Niland and Karin Wermester (eds.), *Nation-Building Unraveled? Aid, Peace and Justice in Afghanistan*, 2004.

19 Shortcomings of the new peacebuilding infrastructure with regards to mandates and resources are well analysed in the literature. See for example, Graciana del Castillo, *Rebuilding War-Torn States: The Challenge of Post-Conflict Economic Reconstruction*, 2008, chp. 5; and Mats Berdal, “The UN Peacebuilding Commission: the rise and fall of a good idea”, in Michael Pugh, Neil Cooper and Mandy Turner (eds.), *Whose Peace? Critical Perspectives on the Political Economy of Peacebuilding*, 2008.

20 For the experience of Afghanistan and Haiti in this regard, see Graciana del Castillo, *The Economics of Peace: Five Rules for Effective Reconstruction*, special report #286, United States Institute of Peace, September 2011; and Graciana del Castillo, *Reconstruction Zones in Afghanistan and Haiti: A Way to Enhance Aid Effectiveness and Accountability*, special report #292, United States Institute of Peace, October 2011. For the experience of Liberia, see Graciana del Castillo, *Aid, Employment and Inclusive Growth in Conflict-Affected Countries: Policy Recommendations for Liberia*, working paper no. 2012/47, World Institute for Development Economics Research, United Nations University, 2012.

numerous distortions and coordination problems. In such countries, the main source of growth is often the bubble created by huge volumes of humanitarian aid and by the large presence of the international community and foreign troops, including United Nations peacekeepers, in the country. But bubbles are, by definition, not sustainable. The international presence also creates price and wage distortions that discourage investment and work. More troublesome, a large international presence deprives the national civil service of needed expertise since professionals and other skilled people often prefer to work as drivers, interpreters and secretaries in higher-paying multilateral and bilateral agencies and NGOs. This affects not only the government's capacity to provide services and security, but it also affects the current and future productive capacity of the country, since the few skilled people are not using their skills and will lose them over time.²¹

The lack of readiness and insufficient human resources, particularly to deal with economic reconstruction in an effective and rigorous way, has been a factor common to different United Nations-led reconstruction efforts as it has been in US-led ones. Despite reforms aimed at improving the capacity of the United Nations for supporting countries in the transition to peace and stability, its bureaucratic procedures and mandates, financial and legal constraints, or professional staff limitations continue to present serious challenges.²² A lack of clear leadership, inadequate expertise, confusing mandates and poor coordination has also been a problem in US-led economic reconstruction in Afghanistan and Iraq. This problem is well documented by various studies,²³ including in various reports by US oversight bodies such as the US Government Accountability Office and the Special Inspector General for Afghanistan Reconstruction and for Iraq.

As discussed earlier, the inability of the international community to effectively support countries during economic reconstruction has been, and continues to be, a major factor behind the failure of DDR programmes, particularly due to a lack of adequate job opportunities that would allow for sustainable reintegration of former combatants and other conflict-affected groups into economic activities. The inability to successfully reintegrate these groups through sustainable employment has been one of the major factors driving countries back to conflict. The United Nations, the international financial institutions, major donors and other stakeholders should make this their priority if they really want to improve the dismal record of war-torn countries in the transition to peace.

21 Ibid.

22 In the case of the United Nations, Graciana del Castillo, *Rebuilding War-Torn States: The Challenge of Post-Conflict Economic Reconstruction*, 2008, chps. 7 and 8, provides evidence on the problems with the United Nations in carrying out economic reconstruction in countries in which she was closely involved such as El Salvador and Kosovo. Since then, neither the Department of Peacekeeping Operations nor the Department of Political Affairs has built special expertise or a unit to support field operations in economic reconstruction, and neither has the Peacebuilding Support Office, created in 2005. In fact, peacekeeping operations and political missions such as the one in Afghanistan continue with the "development as usual" approach to reconstruction, under United Nations Development Programme leadership.

23 See, for example, Stuart Bowen, "No more ad hoc agencies: Reforming the management of stabilization and reconstruction operations", *Prism*, vol. 3, no. 2, 2012.

PROPOSALS FOR EFFECTIVE ECONOMIC RECONSTRUCTION

Anniversaries provide an opportunity to reflect on the lessons of the past, as well as on setting new paths for the future. This is particularly critical in light of the large number of countries that have been unable to carry out economic reconstruction without reverting to war or becoming highly aid-dependent.

An important lesson from the Salvadoran experience, one of the most successful United Nations operations, is that the design of the economic and social sections of a peace agreement is critical to its successful implementation. For this reason, careful thought and appropriate professional and technical expertise at the United Nations, as well as on all negotiating teams, are needed in order to facilitate the elaboration of realistic peace agreements. In cases where peace does not follow a formal agreement, the same considerations should apply to the elaboration of the strategy for economic reconstruction.²⁴

In designing agreements or strategies, states and the international community supporting them need to keep in mind the following considerations, based on hard-learned lessons from the past.

First, peace agreements and reconstruction strategies need to be designed in accordance with the countries' financial and technical capacity to implement them. This requires reasonable projections for domestic tax revenue and aid, which can only be obtained through a mix of local skills and foreign expertise to ensure that best possible estimates are achieved. Furthermore, national policymakers and the international community that support economic reconstruction must make an effort at communicating to the population what can be expected in the short, medium and long term. Projections should avoid overly optimistic figures that lead to unworkable plans and unreasonable expectations of what peace may bring, which the government will not be able to fulfil, as happened in Guatemala, for example, when its civil war ended. By contrast, the peace agreement in El Salvador, which limited the beneficiaries to former combatants and supporters of the insurgency who had occupied land in the war zones, was more realistic of local conditions and expected international support.

Strategies for economic reconstruction should also take into account various constraints imposed by donors and opportunities created by geopolitical forces in a realistic way. In Kosovo, as in other war-to-peace transitions, donors showed a clear reluctance to finance current expenditure (wages and pensions), except in the very short term.²⁵ Moreover, bureaucratic restrictions and complicated bidding procedures in the European Union, the main donor, also affected negatively the design and implementation of the reconstruction strategy, particularly in its early period. On the positive side, however, its strategic position in Europe gave Kosovo access to large financial and technical resources as well as

24 For specific examples of how the design of the agreements can affect post-conflict reconstruction, see Graciana del Castillo, "Post-conflict peace-building: a challenge for the United Nations", *CEPAL Review*, no. 55, 1995.

25 See European Union, "Kosovo: donors pledge \$1 billion in support of the reconstruction and recovery programme", press release, 17 November 1999, <<http://ec.europa.eu/enlargement/archives/seerecon/press/pr991117.htm>>. As is often the case, only a small portion of those pledges had been disbursed a year later.

to regional markets for its exports, and resulted in remittances that would be unavailable to other countries going through similar transitions.

While the issue of the countries' financial capacity is of concern in the creation of all programmes and institutions for economic reconstruction, it is also relevant to the security forces. This will clearly be a problem going forward in Afghanistan where it has been estimated that the security forces will cost close to \$5 billion a year for the next 10 years, after NATO military forces leave in 2014. In a country with a GDP of \$20 billion in 2012, and with production likely to fall as the military withdrawal takes place, resources needed to maintain the security forces would amount to roughly one fourth of GDP, clearly an unsustainable level. The financial sustainability of maintaining security is also a concern in Liberia, where the United Nations peacekeeping operation, in existence since 2003, costed the international community \$600 million on average in 2009–2011, which amounts to approximately two thirds of Liberia's GDP during that period. Only more effective economic reconstruction can help consolidate security and reduce its cost (both in nominal terms and as a share of GDP) going forward.

Second, it is important for international actors to apply the dictum of T.E. Lawrence (Lawrence of Arabia) that it is better to let national actors take the lead, rather than to try to "do it better" for them. Thus, national negotiators, local leaders and communities should determine what their economic needs and priorities are, and former insurgents should determine their preferred venue (medium) for reintegration.²⁶ Unless local participants themselves are empowered and take ownership, programmes will not be sustainable, resources will go to waste and peace will not endure.

Third, the pros and cons of specificity versus vagueness must be weighed. The letter of the agreement and of the strategy itself, particularly concerning the national reconstruction plan, can determine the ease or difficulty with which the resulting programmes will be implemented. The operational difficulties encountered in the implementation of the "arms-for-land" programme²⁷ in El Salvador, for example, stemmed from both the specificity and the vagueness regarding economic and social issues in the Chapultepec Peace Agreement, which gave rise to differing expectations on the part of the many players. For example, the agreement stipulated that private land to be transferred had to be "voluntarily offered for sale by its owners" and that transactions had to be concluded at market prices, which created tremendous difficulties for both the acquisition and financing of land purchases. Despite the precision on this and other issues, the agreement completely ignored crucial parameters such as the total number of potential beneficiaries, the size of the plots to which they would be entitled, and the amount of credit that the government would make

26 We have learned from experience that higher-level commanders have different expectations from the troops and that programmes for them providing more orientation, training, credit and technical assistance can be more effective. The United Nations acknowledged better results from the "Plan 600" in El Salvador than from programmes for lower-ranking combatants, which lacked such support. See Graciana del Castillo, *Rebuilding War-Torn States: The Challenge of Post-Conflict Economic Reconstruction*, 2008.

27 Although the Peace Agreement made references to this programme as a simple "land transfer", it was much more complex than that. It involved providing credit (and hence creating indebtedness) to former combatants on both sides and landholders who had illegally occupied the land during the conflict to provide them with a viable livelihood and a stake, however tiny, in the country's wealth. Because it involved "disarmament and demobilization" of combatants as a precondition for eligibility, this programme was characterized as an "arms-for-land" exchange. See Alvaro de Soto and Graciana del Castillo, "Obstacles to peace-building", *Foreign Policy*, no. 94, 1994.

available to them. Nor did the agreement determine the practical arrangements under which the transfer of land would take place.

By the end of September 1992, these problems were so contentious that the arms-for-land programme would not start, which led the Farabundo Martí National Liberation Front (FMLN) to unilaterally halt the third phase of its five-phase demobilization (each phase was to demobilize 20% of its forces), bringing the country back to the brink of war. The FMLN's negotiating position in resolving this controversy was quite strong, since its supporters occupied the land in question and the Chapultepec Agreement protected them from eviction.²⁸ Bringing the peace process back on track required a renegotiation of the arms-for-land programme, via a supplemental land agreement.²⁹ This agreement removed a major roadblock to the demobilization of the FMLN and hence to the reform of the armed forces and the implementation of the agreements as a whole.³⁰

Fourth, it is important to ensure integration—rather than merely coordination—of economic factors into the political and security agenda. Credible commitment by the government and the international community to support effective reintegration programmes for former combatants and other war-affected groups through sustainable jobs should be used as a carrot to support peace negotiations and to create stability in the long run. In Afghanistan, the inability to integrate the US strategy of “peace through security” followed since 2007 (and the military surge that followed starting in early 2010) with a strategy of “peace through reconstruction” clearly failed in stabilizing the country despite the high human and financial military cost. The civilian surge was not coordinated enough—let alone integrated—to make a difference. At the same time, had the process of reintegration of the Taliban that President Karzai announced at the London Conference on Afghanistan in January 2010 been started, the unsustainable expense in creating and maintaining the security forces of Afghanistan could probably have been significantly reduced.

Fifth, peace agreements and reconstruction strategies should be designed to ensure that aid moves quickly from short-run humanitarian purposes—to save lives and feed those giving up war—to reconstruction activities aimed at creating investment, productivity growth and the licit and sustainable employment that will enable people to live dignified lives. What needs to be avoided is a failure—such as it occurred in Haiti following its devastating earthquake or in Afghanistan following 30 years of war and the large involvement of United Nations agencies and NGOs to provide basic services—to move from the first stage to the second. As important as integrating and finding a balance

28 An important lesson from the Salvadoran experience is that careful thought and the right kind of expertise on both sides of the negotiation are needed to facilitate the elaboration of peace agreements that can be realistically implemented. For a detailed analysis of the many problems resulting from the design of peace agreements, see Graciana del Castillo, “Arms-for-land deal: lessons from El Salvador”, in M. Doyle and I. Johnstone (eds.), *Multidimensional Peacekeeping: Lessons from Cambodia and El Salvador*, 1997.

29 See Security Council, *Report of the Secretary-General on the United Nations Observer Mission in El Salvador*, UN document S/25812/Add.2, 26 May 1993, containing the full text of the 13 October 1992 Land Agreement.

30 By contrast, the difficulties of implementing the accords in Guatemala had not to do with the issue of vagueness or specificity but to the fact that it contemplated a major reform of the national economy. In this regard, experts note that the agreements were unusually sweeping in their identification of key national issues to be addressed in them, and the fact that they proposed few concrete measures to facilitate their implementation. See William Stanley and David Holiday, “Broad participation, diffuse responsibility: peace implementation in Guatemala”, in Stephen Stedman, Donald Rothchild, and Elizabeth M. Cousens (eds.), *Ending Civil Wars: The Implementation of Peace Agreements*, 2002.

between security and economic issues is to move away from humanitarian aid to economic reconstruction as soon as feasible to allow the country to stand on its own feet.

Although many NGOs administer humanitarian assistance through their own staff and channels, with little capacity-building for the local population, a few have a successful record in working with local staff and in creating entrepreneurs in rural development, carpet weaving, jewellery design, or other productive activities. Support for active policies to promote new start-ups and local companies' expansion through credit, training and technical support are imperative. Without such a move, foreign forces—national or NATO forces, or United Nations peacekeepers—will not be able to withdraw from the country leaving behind a stable and sustainable situation.

Last but not least, peace agreements and reconstruction strategies should focus on reactivating the economy through policies that are not likely to incite new conflicts. To reactivate the economy rapidly, however, governments often revert to their production patterns of the past, which might be what led them to conflict in the first place. This is generally the case with natural resource concessions and with free trade or special economic zones for production of low-skilled manufacturing.

These growth-creating activities often operate as “enclaves” within the country producing for export, without a positive impact on the domestic economy or on the population at large. Governments and the development partners that support their efforts often focus on improving infrastructure for enclave production, to the neglect of creating a level playing field for local companies, particularly small- and medium-sized enterprises. In these circumstances, government policies, aid and foreign investment benefit “elite groups”—both national and foreign—to the detriment of the large majority of the local population that remains largely unemployed and excluded from any peace dividend. Just as troublesome, this production model often neglects local food production and countries become highly import-dependent for food, even in countries where the large majority of the population is rural. Rapid economic growth through enclave production on its own can, and often has, led to new conflicts.

Not surprisingly, enclave production has led to “growth without development”,³¹ which has not only exacerbated economic problems by failing to create links to the domestic economy, but has often become a serious threat to human security. Enclaves are generally a source of labour or gender exploitation, and often displace indigenous communities while endangering their livelihoods and land as well as destroying the natural resources upon which they depend.

Enclave-type production for export often represents a major source of foreign exchange for the country, and of tax revenue for the government in the case of natural resource-based concessions, and of employment for unskilled labour in the case of free trade or special economic zones. Thus, the issue is certainly not to restrict this type of production but to decrease its negative side-effects and maximize the positive ones that they can have by creating links to the local economy.³²

31 See Robert W. Clower et al., *Growth without Development: An Economic Survey of Liberia*, 1966. For recent experience of “growth without development” see Graciana del Castillo, *Aid, Employment and Inclusive Growth in Conflict-Affected Countries: Policy Recommendations for Liberia*, working paper no. 2012/47, World Institute for Development Economics Research, United Nations University, 2012.

32 To achieve this, a proper legal and regulatory framework for concessions and free trade of special economic

To jump-start sustainable economic activity, create jobs and export earnings, improve aid effectiveness and accountability, and avoid aid dependency, I have proposed the creation of “reconstruction zones”—combining an export-oriented and a local-production zone. The international community should open its markets to goods processed in these zones.³³ I have made specific proposals for reconstruction zones in highly aid-dependent conflict-prone countries such as Afghanistan, Haiti and Liberia, each based on different local production patterns. It is important that countries explore such a strategy—or any other one that would link enclaves to local production in ways that could help states to stand on their own feet while building peace and stability.

BUILDING PEACE AND STABILITY GOING FORWARD

Twenty years of analysing experiences with fragmented and unaccountable aid, uncoordinated programmes leading to waste and inefficiency, lack of government legitimacy as a result of the inability to provide security and services, a United Nations system in disarray and often working at cross-purposes in reconstruction matters, and bilateral donors that have been often critical but have found the challenge of economic reconstruction just as overwhelming as it has been to the United Nations system, have led me to believe that special efforts should be made at improving the framework for the economics of peace in formal peace agreements or in national strategies going forward.

Because disarmament and demobilization have proved inadequate in keeping the peace without effectively reintegrating former combatants and other conflict-affected groups—including returnees and internally displaced populations—it is important that reintegration efforts be approached in new and innovative ways. The proposal for reconstruction zones is one way in which war-torn countries could create dynamic, inclusive and sustainable economies. By focusing on policies that are both economically sound and conflict-sensitive, that is, tailored to do minimal harm to the fragile peace and to rein in spoilers, these zones could become instrumental in building peace and stability in war-torn countries.

In designing peace agreements and reconstruction strategies for these countries, governments and their foreign supporters should take into consideration that the former can only achieve legitimacy by the proper provision of security and services to the large majority of their people;³⁴ that national reconciliation requires an improvement in the lives and livelihoods of the population at large and not only of the elites; that the creation of a level playing field for micro and small enterprises and small farmers, as well as gender equality, are essential for creating inclusive and sustainable employment; that an integrated rural development project can contribute to food security and promote environmental sustainability and the preservation of biodiversity; and that improving aid

zones is necessary. For a discussion of a proper framework, see Graciana del Castillo, *The Economics of Peace: Five Rules for Effective Reconstruction*, special report #286, United States Institute of Peace, September 2011.

33 The zones could combine, for example, integrated rural development and basic manufacturing for domestic consumption and labor-intensive manufacturing, agro-businesses or mining for export.

34 For this, it is important that donors channel aid through the central government budget, or through local authorities, so that officials can acquire legitimacy by providing services and infrastructure, and provide subsidies and price-support programmes to achieve food security or to replace drug production. See Graciana del Castillo, *The Economics of Peace: Five Rules for Effective Reconstruction*, special report #286, United States Institute of Peace, September 2011; and Graciana del Castillo, *Aid, Employment and Inclusive Growth in Conflict-Affected Countries: Policy Recommendations for Liberia*, working paper no. 2012/47, World Institute for Development Economics Research, United Nations University, 2012.

effectiveness and accountability is key to moving these countries out of the present traps in which they find themselves.

In an ailing global economy, the situation of aid and food-import dependency, as well as the low-wage and conflict traps that have plagued the transition to peace of war-torn countries during the last two decades, is no longer sustainable. Governments, donors and development partners need to think outside the box to eschew the pattern of misguided policies, unkept promises and fragmented aid that has bedevilled reconstruction in the past. Without a dramatic change in course, war-torn countries will fail to develop the sustainable employment that is necessary to improve livelihoods, decrease the allure of insurgencies and illegal activities, sustain the peace, and avoid aid dependency. Without that, all military and peacekeeping efforts—despite their high human and financial costs—will not suffice to build peace and stability.

Note

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