Program on States and Security

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Economic incentives for peacebuilding

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What does social science literature tell us about economic incentives for peacebuilding? A variety of such incentives exists in post-civil war situations. This synthesis reviews academic research on economic incentives for peace that relates to foreign aid and state building, to allocations to conflict-affected groups such as ex-soldiers and war victims, and to aid coordination. It also identifies implications from this literature for peacebuilding policy.

Introduction

Peace consolidation after civil wars partly hinges on economic factors. It is often assumed that the promise of wealth or the threat of withdrawal of funding will act as incentives for peace in post-war contexts. Economic incentives are assumed to help appease military actors and to enable poor people to resist recruitment attempts by armed groups, and thus to reduce the likelihood for resumed violence. Such assumptions have influenced important decisions in post-conflict policy, but they have rarely been checked against available academic knowledge.

This synthesis gives an overview of key findings in the social science literature about economic incentives for peacebuilding. It focuses on three types that are particularly salient for policymakers and practitioners in post-conflict environments: aid and state building; allocations to conflict-affected groups such as ex-combatants and war victims; and coordination. Implications for peacebuilding policy are singled out in each section.

Foreign aid and state capacity

Academic research suggests a number of issues to keep in mind if aid to post-conflict countries is to work for peace:

- to provide the rights *amounts* of aid;
- to *sequence* the aid correctly over time;
- to tailor the aid to recipient *states' capacity* to absorb it and convert it into outputs;
- to make the aid *conditional* in the right way;
- to make aid and domestic tax and spending policies *conflict sensitive*;
- to ensure aid does not stand in the way for *improved domestic tax collection;* and
- to *coordinate* the aid well.

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As yet the literature is inconclusive on the best ways to deal with these issues.

Regarding the sequencing and size of aid, some scholars have found that post-conflict aid should peak not immediately after the end of the war but rather in year four and five after the end of the conflict, since that will have the best impact on economic growth (Collier et al. 2003). Other research has rebutted this, finding that for pro-peace priorities other than growth to be realized, such as humanitarian relief, peace deal implementation, security, reintegration of displaced people and former combatants, and democratization, considerable aid amounts are needed in the first post-conflict years (Doyle and Sambanis 2006; Stedman et al. 2002; Suhrke and Buckmaster 2006). Recent research further suggests, however, that even though an early peak of aid may be good for keeping the peace initially, it is not necessarily good for making it last. Boyce and O'Donnell (2007) identify a number of detrimental effects of a big inflow of aid soon after the war is over: the setting of standards for public service provision that are unsustainable in the longer run; corruption and inflation; and the creation of disincentives among recipients against mobilizing domestic resources.

In recent years, research on post-conflict aid has stressed the importance of an efficient and legitimate state (see, for example, Boyce and O'Donnell 2007; Call and Wyeth 2008; Paris 2004; Paris and Sisk 2007). The literature suggests, however, that this priority presents post-war policymakers and practitioners with a dilemma. While the aim of efficient service delivery may induce these actors to carry out projects themselves or partner with non-state actors to do so, state building requires that they do not bypass the state. There is, indeed, increasing recognition that bypassing the state contributes to the building of an unsustainable peace. An emerging conclusion is that in spite of – and because of – the post-war state's initial weak capacity for revenue collection and expenditure management, donors should seek to engage with that state by providing technical assistance, "crowding in" instead of "crowding out" local capacity, and thus signal that the government is to be trusted (Boyce and O'Donnell 2007). To do so, donors should, for instance, pay tax to the host government on their aid projects, and consider making continued aid contingent on government progress in strengthening its own domestic resource base.

Other studies find that aid should be contingent on peacebuilding progress (Boyce 2002; Boyce and O'Donnell 2007; Frerks 2006). Yet the "peace conditionality" recommendation goes against the common practice of disbursing aid with fewer strings attached in the early post-conflict phase, when donors want to signal trust in the initially fragile peace, and after some time categorizing the recipient no longer as a "post-conflict" but rather as a "normal" country. This latter status tends to come with higher demands upon the recipient state, related to its presumably enhanced capacities for resource management and for converting inputs into outputs. This practice, however, may also function as a penalty for peacebuilding: the country is not rewarded for having been able to build peace, but rather penalized—as a result of its relative success it is faced with more demanding conditions for the continued access to foreign aid.

Regarding domestic management of public resources, Boyce and O'Donnell (2007) argue that post-conflict governments should seek to increase the domestic share of revenues through taxes, but that tax policies and public spending should be conflict sensitive. Revenue should be collected and distributed in ways that do not exacerbate vertical inequalities between rich and poor, and horizontal inequalities between groups antagonized by the past conflict. Donors are thus advised to assist not only in

developing conflict sensitive tax and spending policies, but also in enabling the recipient government to halt non-state groups' tax evasion or collection.

Group allocations

Post-conflict aid is a complex process of supporting different political, socio-economic and cultural groups, some of which may have been antagonized by the previous conflict. Two groups that recent research suggests are vital to take note of in a peacebuilding perspective are the victims of the violence of the war and the perpetrators of that violence. At the end of armed conflict, the perpetrators are often seen as potential "spoilers" due to their ability to resort to organized violence (Stedman 1997). Programs of disarmament, demobilization and reintegration (DDR) are designed to neutralize such spoilers, and earlier research suggested that DDR should be the top priority of post-conflict policy (Stedman et al. 2002). In recent years the idea of spoilers has been challenged, however, as has the perceived usefulness of DDR programs (see, for example, Greenhill and Major 2006/07; Newman and Richmond 2006).

One paradox pointed out in a recent study is that while DDR programs can be seen as rewarding those who used violence during the war, those who were victimized by that violence are often left with little or no material compensation (de Greiff 2007). The study compares allocations to ex-combatants through DDR programs and to victims through reparations programs, and finds the former to be clearly favored in comparison to the latter. The question is whether the economic imbalance this likely implies between perpetrator and victim creates perverse incentives for violence, as aggrieved victims realize that those who resorted to violence in the past are now better off than themselves.

This largely remains an open question, however, since there is little research on exactly how DDR programs affect perpetrator-victim or perpetrator-community relations. Yet there is evidence that internationally funded DDR programs may not make much of a difference for reintegration. A recent micro-level study of Sierra Leone examines determinants for ex-combatants' reintegration, and finds that "[c]ombatants not exposed to the DDR program appear to reintegrate just as successfully as those who participated" (Humphreys and Weinstein 2007: 533). Evidence also suggests that DDR programs can have detrimental effects for peace. Muggah (2006: 199) finds that in many programs, "combatant numbers are inflated in order to claim benefits. In such scenarios, not only can DDR and weapons reduction turn into 'reward' programs, but also they can fuel an illegal and trans-national weapons market," which in turn, puts civilian security and possibly the peace at risk. For DDR programs to work, this study holds, they should "endorse normative compliance – by building on existing customary institutions" and "acquire greater appreciation of the values and standards of particular societies so that appropriate disarmament incentives and deterrents can be elaborated" (Muggah 2006).

In light of these growing concerns about the efficiency of DDR programs, a purely economic approach to possible spoilers seems less advisable. A policy implication of this research is that the application of economic incentives to particular groups in a post-conflict context should follow a more integrated approach, with due consideration of how the application of incentives towards one group may encourage other groups to use more or less violence. Care should also be taken that the use of economic incentives is not undermined by simultaneous action taken on the judicial, political and social front.

Coordination

A shared denominator in the research reviewed in this synthesis is a call for a more integrated approach to the economics of peacebuilding. The use of different economic incentives must be part of a broader strategy where the incentives are seen in relation not only to one another, but also to non-economic measures. Coordination of activities and plans among local and international policymakers and practitioners, including between the humanitarian, development, and security fields, is thus essential. However, research on the history of foreign aid suggests that such coordination has hardly improved over time. According to one study, in recent decades the average donor increased the number of target countries, and did not specialize more by sector (Easterly 2007: 9-11). Another and more in-depth study confirms this pattern, finding that "the aid effort is remarkably splintered into many small efforts across all dimensions – number of donors giving aid, number of countries receiving aid from each donor, and number of sectors in which each donor operates" (Easterly and Pfutze 2008: 51).

This proliferation of different actors involved in different sectors, and within those in different projects and programs with different time frames and reporting mechanisms, is known to be particularly acute in post-war contexts. Under such conditions, designing and implementing an overall strategy of post-conflict policy, which is key for economic incentives for peace to work, certainly becomes a tall order. Yet some promising developments are underway. Attempts in recent years to harmonize aid, use trust funds or pooled funds, and strengthen cooperation between state, business and civil society actors can be pursued further in post-conflict contexts. The establishment of the UN Peacebuilding Commission in 2006 might also facilitate the coordination exercise in war-ridden areas. This synthesis suggests that for such coordination to contribute to lasting peace, it is particularly important that it balance rewarding peace in the short term against making the aid redundant in the longer term by supporting state building.

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Recommended further readings

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