

Profiting from Peace

Managing the Resource
Dimensions of Civil War

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Development Assistance, Conditionality, and War Economies

James K. Boyce

Official development assistance (ODA) usually comes with strings attached. Multilateral and bilateral donors use conditionality to advance a variety of goals, some noble, others not so noble. Sometimes the conditions are spelled out in formal performance criteria, as in the economic policy targets in International Monetary Fund (IMF) loan agreements. Other times, the conditions are communicated informally in a process known as “policy dialogue.” Whether formal or informal, conditionality makes access to assistance contingent on actions by the recipient. Foreign aid is seldom a blank check.

The objectives of conditionality typically do not include the prevention or resolution of armed conflict. The IMF and the 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 U.S. government’s efforts to enlist support for the war in Iraq.¹ Donors have also attempted, albeit rather sporadically, to use conditionality to promote political reforms under the rubric of “good governance.”²

These conditionalities may affect the likelihood of war or peace indirectly. Proponents of conventional macroeconomic conditionality sometimes claim, for example, that neoliberal 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, thus, social tensions.³ At the same time, trade liberalization—a standard reform pressed by the international financial institu-

tions—and the resulting loss of tariff revenues can squeeze the fiscal capacity of governments to fund peace-related programs.⁴

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.

In practice, such efforts 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 peace promoting 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.

This chapter considers the scope for using development aid conditionality to promote peace in an especially challenging terrain: settings where natural resources—such as oil, minerals, timber, and illicit drugs—play an important role in both instigating and sustaining violent conflict. In such settings, donors can make aid conditional upon improved government policies for natural resource management. For example, they can insist that natural resources be exploited wisely and that the proceeds be used to fund equitable development rather than armed conflict. Yet large-scale natural resource revenues tend to undermine donor leverage, since this leverage depends on the magnitude of conditional aid relative to other funds available to the recipient. Moreover, because official development assistance is generally provided only to governments, donors have few opportunities to use conditionality to influence rebel groups that generate funds by exploiting natural resources. Nevertheless, there are times and places when and where conditionality can prove useful, particularly if it is applied in concert with other policy instruments discussed in this volume.

The chapter begins by briefly reviewing the relevance of aid conditionality for conflict prevention, conflict resolution, and peace implementation. This is followed by a discussion of some of the special challenges in applying conditionality in conflict settings where natural resources provide major income to combatants. Three case studies are presented to illustrate these dynamics: logging in Cambodia, the oil sector in Angola, and opium and customs revenues in Afghanistan. The chapter concludes with some observations on both the potential and the limits of applying development aid conditionality to address the conflict-resource nexus in what have come to be known as “war economies.”

Peace Conditionality

The term *peace conditionality* was coined in a UN-sponsored study of economic policy in El Salvador in the mid-1990s.⁵ The study recommended that in “postconflict” settings, following a negotiated peace accord, donors 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 former combatants and the creation of a national civilian police force—jeopardized the peace process.⁶ Hence the study recommended that the international financial institutions (IFIs)—the World Bank, IMF, and Inter-American Development Bank—should apply peace conditionality to encourage the government to mobilize domestic resources to fulfill its commitments.

In a sense, the aid pledged at international donor conferences after the signing of a peace accord is conditional from its inception, in that the accord is necessary to unlock the pledges. Subsequent aid disbursements are inherently conditional, too, insofar as the 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.” It seeks to calibrate the flow of support more closely to the peace process by tying specific aid agreements to specific steps to build peace.

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 cutoffs, 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.⁷

Aid officials sometimes disclaim responsibility for engaging with the political issues of war and peace. At the World Bank, for example, officials frequently 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.”⁸ Yet violent conflict is not only a political matter: it has profound economic implications, too. 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.”⁹

The application of peace conditionality to fiscal policy is not a great stretch for the IFIs, which have 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.¹⁰

Donors occasionally have pushed the envelope further, applying peace conditionality in arenas beyond their usual concerns. At a donor conference on aid to Bosnia, a few months after the 1995 Dayton Peace Accord, 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."¹¹ In keeping with this stance—and spurred by U.S. legislation that instructed the U.S. representatives on IFI executive boards to oppose loans to countries or entities not cooperating with the International Criminal Tribunal for the former Yugoslavia—the World Bank and IMF held up loans to Croatia in 1997, until the Tadjman regime turned over ten indicted war crimes suspects to stand trial in The Hague.¹² This remarkable episode showed that where there is the will to apply peace conditionality, even for unconventional purposes, ways to do so can be found.

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.¹³

Similarly, the U.S. Agency for International Development requires banks and loan recipients in its private-sector lending program in Bosnia to certify that none of their officers, directors, or principal shareholders have been indicted for war crimes by the Hague tribunal. The contrast between the congressionally mandated support for war crimes prosecutions in the Balkans and subsequent U.S. pressures on aid recipients around the world to exempt U.S. personnel from the jurisdiction of the International Criminal Court illustrates the plasticity of conditionality: its aims reflect the diverse, and not always consistent, objectives of donor governments.¹⁴

In addition to supporting "postconflict" 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. The following discussion considers the scope for “peace conditionality” in this broader sense of the term as well. There is an important difference, however, between the situation following a peace accord and cases where violent conflict is actively under way or where there is a high risk of its breaking out. In “postconflict” settings, the peace accord furnishes a set of benchmarks that the warring parties have formally accepted, against which donors can judge performance. In preconflict or conflict settings, donors do not have ready-made criteria on which to base conditionality, so they must develop conflict-related benchmarks themselves.

Conditionality and the Resource-Conflict Nexus

When natural resources provide a motive or fuel for violent conflict, the use of aid conditionality for conflict prevention, conflict resolution, and peacebuilding faces special challenges. Three broad tasks can be distinguished: (1) the need to ensure that the benefits and costs of natural resource exploitation are distributed so as to ease social tensions rather than exacerbating them; (2) the need to ensure that revenues from natural resources are used for peaceful and productive purposes rather than being used to fund armed conflict; and (3) in support of the first two objectives, the need to promote accountability and transparency in natural resource management. In examining the scope for aid conditionality to help address these issues, it is useful to distinguish among countries that are at risk of conflict, actively engaged in conflict, and emerging from conflict.

Aid Before Conflict: Conditionality for Conflict Prevention

In countries at risk of violent conflict, the critical issue is how to prevent natural resource abundance from creating or exacerbating social tensions that could lead to civil war. This requires careful attention to how the benefits and the costs of resource exploitation are distributed across the population, in terms of both “vertical equity” between rich and poor and “horizontal equity” across ethnic, religious, and regional lines.¹⁵ Natural resources are often concentrated in certain regions of a country, as in the case of oil in Nigeria or minerals in the Democratic Republic of Congo (DRC). If residents of these regions do not receive a fair share of the benefits of resource extraction yet are burdened with its environmental costs, resentments can fuel violence.¹⁶ At the same time, if the other regions do not receive some share of the benefits, this too can give rise to tensions.

Aid conditionality can seek to ensure a transparent and equitable distribution of the benefits and costs of resource extraction. The scope for condi-

tionality is greatest when aid is needed to finance public infrastructure, such as roads for access to the resources, or when private-sector firms are unwilling to invest without the guarantees and legitimacy provided by donor involvement, as in the case of the World Bank-supported Chad-Cameroon pipeline project. As this case illustrates, however, even when agreements are reached on the distribution and uses of resource revenues, the enforcement of these agreements can prove difficult.¹⁷

Aid During Conflict: Conditionality for Conflict Resolution

In wartime, a key issue is how to curtail the use of natural resource revenues to fund armed groups, including both government and rebel forces. The potential for conditionality to address this is limited, however, since during conflicts the volume of development aid relative to other resources tends to be small. Apart from humanitarian assistance, flows of aid are typically disrupted by hostilities. At the same time, conditions of war offer combatants greater opportunities to generate resources by seizing assets, including natural resources. Yet opportunities for conditionality can arise, especially in times of declining resource prices, as was the case in Angola in the late 1990s, discussed below.

Any donor leverage is mainly on the government side, since governments receive ODA while rebels typically do not. There may be some scope for conditionality in curtailing resources-for-arms deals by rebel forces too, when neighboring countries are involved in the trade, particularly if the governments of these countries value good relations with the donor community. As discussed below, in Cambodia, international pressures on the Thai government played an important role in curtailing timber revenues to the Khmer Rouge after the latter defected from the Cambodian peace accords. Similarly, the UN Panel of Experts on the Illegal Exploitation of Natural Resources and Other Forms of Wealth in the Democratic Republic of Congo called for reductions in budget support and stabilization lending to neighboring governments that host individuals, firms, and financial institutions involved in the illicit exploitation of the DRC's natural resources.¹⁸

Aid in "Postconflict" Settings: Conditionality for Peacebuilding

A negotiated peace accord can chart the transition from war to peace, but whether the country will reach this destination remains uncertain. The contests for power and wealth that precipitated war do not disappear with the signing of an accord, and the risks of renewed violence can remain high for many years.¹⁹ At best, a peace accord marks the beginning of the peacebuilding process. At worst, it achieves only a temporary cease-fire.

In such settings, optimistically called “postconflict” transitions, conditionality can play a particularly important role. The large sums of aid pledged for postconflict reconstruction and development—often billions of dollars—give the donors considerable leverage. Conditionality can help to address all three natural resource management issues: distributional equity, the use of revenues for peaceful development rather than military purposes, and the promotion of greater transparency and accountability.

The case studies presented in the following sections illustrate both the potential and the limitations of aid conditionality in addressing the resource-conflict nexus. They also illustrate the slipperiness of the distinction between conflict and “postconflict” settings, as all three countries studied here, Cambodia, Angola, and Afghanistan, saw peace accords followed by renewed outbreaks of violence.

Cambodia: The “Logs of War”

Cambodia’s natural resources—rubies, fish, rubber, and above all, timber—were an important source of funding for three main combatant groups, the Cambodian People’s Party (CPP), the royalists, and the Khmer Rouge, that contended for power for two decades after the 1979 Vietnamese invasion installed the CPP in Phnom Penh. As external military aid to the opposing sides was withdrawn after the 1991 Paris peace agreement, the export of logs for guns and profit became particularly central to the dynamics of conflict and the financing of armed groups.

The scale of Cambodia’s timber trade and the identities of its key players have been carefully documented over the years by Global Witness, a London-based nongovernmental organization (NGO) dedicated to investigating the links between natural resource exploitation and human rights abuses. In the mid-1990s, Global Witness reported on the tacit cooperation in logging operations between government authorities and the Khmer Rouge, which had repudiated the peace agreement and returned to war. These reports, and lobbying efforts based on them, prompted the aid donors to attempt to curb logging by both sides.

The logging operations of the Khmer Rouge were conducted in partnership with powerful elements in Thailand’s military forces.²⁰ While the donors lacked direct leverage vis-à-vis the Khmer Rouge, they could bring pressure to bear on the Thai government to take steps to end the trade. After the U.S. Congress passed legislation that threatened to terminate military assistance to Thailand in 1996 and to terminate all assistance in 1997, and the IMF canceled part of a loan to Thailand, the Thai government moved to close the border and block further trade with the Khmer Rouge, steps that “significantly contributed to the demise of the Khmer Rouge movement.”²¹

Aid donors also have attempted to curb nominally "illegal" logging activities on territories controlled by the Cambodian government, not only because logging revenues continue to finance quasi-autonomous military units and because deforestation imposes high human and environmental costs but also because the donors are understandably reluctant to provide budgetary support to the government while substantial forestry revenues remain off the books.

"Overall, the diversion of public resources has probably reached the same amount as actual budget revenue collections," IMF representative Hubert Neiss informed the donors' Consultative Group for Cambodia in July 1997. Neiss claimed that illegal logging was responsible for "well over \$100 million" in lost revenues in the previous year and declared this to be "the single most critical issue in Cambodia."²² The IMF had demonstrated its displeasure over the forestry issue by repeatedly delaying and freezing loan disbursements. Ultimately, loans were suspended altogether. Although this action was primarily in response to the Cambodian government's failure to meet the revenue targets specified in its loan agreement, Neiss made clear that IMF aid would be resumed only when the government took steps to halt illicit logging and bring legitimate logging revenues into the government budget.

Other donors offered verbal support to the IMF's concerns, but they did not follow suit by cutting aid. Their timidity can be explained, at least in part, by their desire to maintain cordial relations with the Cambodian government. After criticizing the government for human rights abuses, the Australian ambassador had become the target of a scurrilous rumor campaign in Phnom Penh; more important, Australian firms were cut out of business deals. The lesson was not lost on other members of the diplomatic community. "What is important for many of these ambassadors is to defend their few miserable contracts," a senior UN official in Cambodia complained. "It is as if they represent their companies rather than their countries."²³ In donor priorities, short-run commercial interests can loom larger than the long-run goal of building a durable peace.

In mid-1997, violent clashes broke out between the CPP and the royalists, and their coalition government collapsed. More aid cutoffs soon followed. Global Witness reported that this "coup d'état" was "primarily funded by logging revenue" and that, for the next two years, militias allied with the ruling party "were given carte blanche to log anywhere they chose and keep the money."²⁴

After a Japanese-brokered agreement led to fresh elections in mid-1998 and a new coalition government, the donors pledged renewed aid to Cambodia in 1999. In response to continued donor pressures, the government launched a crackdown on illegal logging. But the crackdown primarily targeted "small loggers and unruly political clients, rather than key forest

concessionaires.”²⁵ In an unusual arrangement backed by the donors, the government contracted Global Witness to act as an independent forestry monitor, funded by the British government’s Department for International Development. Despite repeated declarations of good intentions by the authorities—including an official suspension of all logging operations in late 2001—Global Witness reported in mid-2002 that illegal logging was “still taking place throughout Cambodia.”²⁶

Senior Cambodian leaders have been unhappy about these pressures for reform. At times, they have openly played the commercial-relations card in an effort to pit bilateral donors against each other. “Japan is taking a lead,” a Cambodian commerce ministry official declared in 1999, while denouncing conditions on U.S. aid. “By the time the US shapes up, if a US company is bidding on a contract against a Japanese company, do you think the US will win? I don’t think so.”²⁷

The efforts of aid donors to rein in the “logs of war” in Cambodia, through formal performance criteria in the case of the IMF and through informal policy dialogue in the case of bilateral agencies, have not been a resounding success. But neither have they been a complete failure. The IMF’s leading role in this effort was made easier by the fact that the logging-revenue issue could be packaged as a matter of fiscal responsibility rather than as a political question. Yet the political ramifications are obvious, given the close interconnections between incomes from the timber trade and political power backed by arms. In the case of the Khmer Rouge, third-party conditionality helped to cut off their sales of timber to the Thai market. On the government side, progress has been slow, often frustratingly so. In April 2003, the Cambodian government terminated Global Witness’s official role as independent monitor.²⁸ Yet without the restraining influence of international pressures, backed by formal and informal conditionality, the pillage of Cambodia’s forests might have been even more rapacious.

Angola: Oil for Blood

Angola’s natural resource revenues played a key role in sustaining the decades-long war between the ruling Movement for the Liberation of Angola (MPLA) and the National Union for the Total Independence of Angola (UNITA). The conflict, which began before Angola’s independence from Portugal in 1975, reflected class and ethnic divisions, particularly between the Luanda-based *mestiço* elites who dominated the MPLA and the impoverished Ovimbundu of the central highlands, where UNITA found support.²⁹ The fighting continued—with brief interruptions by abortive peace accords—until the death of UNITA leader Jonas Savimbi in 2002. To fund the war, the MPLA relied on oil revenues along with backing from the

Soviet Union and Cuba; UNITA relied on diamond revenues along with backing from the United States and South Africa. With the end of the Cold War and the fall of South Africa's apartheid regime, support from these foreign sponsors dried up, making oil and diamond revenues all the more crucial. "The relative value of the controlled resources," a World Bank report observes, "largely explained the relative strength of the opposing armies."³⁰

UNITA reportedly obtained at least \$3.7 billion from diamond sales between 1992 and 1998. Oil revenues received by the MPLA government are estimated to have ranged from \$1 billion to \$3 billion per year in the 1990s, the exact amount being unknown since much of it escaped recording in the government's books.³¹ Oil revenues take three main forms: (1) oil taxes, which reached about \$3 billion per year in 2000 and 2001; (2) "signature bonuses," onetime payments by oil companies in return for development rights, which reportedly totaled \$879 million in 1999; and (3) oil-backed loans, whereby the government in effect mortgages its future oil revenues, which reportedly amounted to \$3.5 billion in 2000–2001.³²

The rest of the Angolan economy is a shambles. "Over the last 35 years, economic activity collapsed in almost all sectors except oil and diamonds," the World Bank reports. "As a result, the non-mineral economy virtually disappeared as a contributor to national output and a source of foreign exchange."³³ For example, the production of coffee, Angola's principal export before the war, has plummeted from 400,000 to 2,000 tons per year.³⁴ The country's per capita income is less than half its preindependence level. The human toll of the conflict has also been huge: roughly 750,000 deaths, 445,000 refugees, and 4.1 million internally displaced persons in a total population of about 12 million.³⁵ In 2000 the Save the Children Fund called Angola "the worst place on earth to be a child."³⁶

In addition to funding for arms purchases and payments to combatants, Angolan oil and diamond revenues allowed senior leaders to amass great personal wealth. Global Witness traced \$1.1 billion, apparently derived from Angolan oil revenues, to a single bank account in the British Virgin Islands.³⁷ A March 2003 World Bank document provides this frank assessment:

Since independence, the availability of oil and diamond revenues in a conflict environment has created tremendous opportunities for corruption. Privileged access to state contracts, regulatory agencies, foreign partnerships, elite health and education facilities, privatized state assets, and subsidized credit and foreign currency enriched a few at the expense of the many. It also resulted in a hugely inefficient allocation of resources; high levels of consumption; and a business climate characterized by favoritism, kickbacks, connected transactions, and other distortive and non-transparent practices. In addition, severe weaknesses in Angola's fiduciary framework have led to the occurrence of very large unexplained discrepancies

in the country's fiscal accounts, varying from 2 to 23 percent of GDP between 1997 and 2002. It has been estimated that total unexplained discrepancies in 2001 amounted to 10% of GDP, or more than \$900 million.³⁸

The international campaign against "conflict diamonds," and the 1998 expansion of the UN Security Council-mandated sanctions regime against UNITA to include a ban on their import, impeded UNITA's access to international markets and thereby reduced its ability to generate resources to sustain its armed campaign.³⁹ Other policy instruments are required, however, to address the issue of "conflict oil," which provided large revenues to the MPLA government. Aid conditionality is one such instrument, but it is not a terribly potent one since Angola's oil revenues greatly exceed the amount of aid on offer.

The World Bank began lending to Angola in 1991, after the signing of the Bicesse peace agreement, which broke down the following year. In 1995, after the new Lusaka agreement, an international donor conference for Angola was held in Brussels, yielding pledges of more than \$1 billion in development assistance. "These funds were subsequently held back," the World Bank reports, "due to insufficient progress in the peace process and lack of a clear reform agenda."⁴⁰ In July 1995 the IMF began a Staff-Monitored Program (SMP), a move that could pave the way for IMF lending, but it was "seriously off-track" by the end of the year.⁴¹

To obtain financing from private-sector creditors, the Angolan government has relied on oil-backed loans, a practice that dates from the mid-1980s. The state oil company, Sonangol, set up offshore "escrow" accounts, into which income from oil shipments is deposited; oil-backed loans are repaid from these accounts, bypassing the Angolan financial system.⁴² "Because of high interest rates, typically 2 percentage points above Libor [the London interbank offer rate], and safe repayment structures," the *Financial Times* reports, "the banks' appetites for these oil-backed loans are voracious."⁴³ The IMF estimates that oil-backed loans composed one-third of Angola's total debt at the end of 1999. The government has limited its debt-service payments to these private loans and some of its debts to multilateral creditors; new lending from bilateral and multilateral creditors is "virtually shut off" due to accumulated arrears of more than \$4 billion.⁴⁴

The world oil price slump in 1998-1999 made the Angolan government more receptive to donor pressures for reform, at least temporarily. The IMF launched a new SMP in April 2000, under which the government agreed to increase expenditures on education (from 4.8 percent of total spending in 1999 to 12.5 percent in 2000) and health (from 2.8 percent to 9.3 percent) and to hire an international auditing firm to undertake a "diagnostic study" of the oil sector.⁴⁵ Successful completion of these steps

reportedly would have opened the door to a \$75 million emergency loan from the IMF and to a rescheduling of external debts to bilateral creditors, permitting new borrowing on terms more favorable than those of the oil-backed private loans.⁴⁶

The international accounting firm KPMG was awarded a \$1.6 million contract to conduct the oil diagnostic study, funded jointly by the Angolan government and the World Bank. The aim of the study was simply to examine discrepancies between projected oil revenues and the revenues actually deposited in Angola's central bank over the eighteen-month period from mid-2000 to the end of 2001. KPMG's mandate did not extend to monitoring the actual use of revenues, nor to a retroactive accounting of oil revenues in the 1990s.⁴⁷ In these respects, the study represented only a small step toward greater transparency.

The Angolan government's willingness to accommodate the donors faded as oil prices rebounded. A 2002 IMF report, leaked to the press after its publication was blocked by the Angolan government, found that more than \$900 million in oil revenues was missing from state coffers in 2001—roughly three times the total value of humanitarian aid to Angola—and that \$4 billion had gone missing over the previous five years.⁴⁸

Savimbi's death in February 2002 opened the way for the signing of a memorandum of understanding between the government and UNITA representatives two months later, in which both sides agreed to a cessation of hostilities. This agreement appears to have marked the end of the road for UNITA, but whether it will provide the basis of a lasting peace remains to be seen. Resources are desperately needed to address the needs of former combatants, internally displaced persons, and other vulnerable groups and to redress the historic disparities between the Luanda-based elite and the rest of the country, particularly the Ovimbundu in the central highlands. "If these disparities are not dealt with," a report by the International Crisis Group warns, "more organised and strident opposition may eventually coalesce, whether through UNITA or some other political group."⁴⁹

With the end of the war, the government may be somewhat more inclined to undertake reforms, both to enhance its public image in advance of elections and to induce donors to convene an international conference to pledge aid for reconstruction and development. An agreement with the IMF on a reform program is widely seen as a precondition for significant reconstruction aid.⁵⁰ Reflecting this generalized though informal conditionality, a report by the UN Secretary-General to the Security Council observes that "a redirection of expenditures by the Government towards the social sectors will make it easier to advocate for complementary funding from the international donor community."⁵¹

More specific conditionalities have been set out in the World Bank's "transitional support strategy" (TSS) for Angola, initiated in March 2003.

The TSS seeks to promote greater transparency and efficiency in public resource management, to support the delivery of services to war-affected groups and vulnerable populations, and to prepare the ground for “pro-poor economic growth.” The World Bank’s strategy explicitly incorporates conditionality in support of this agenda:

Further lending in outer years would be triggered by decisive progress against selected indicators, including satisfactory implementation of the demobilization program, completion of the oil sector diagnostic study, and a substantial reduction in extra-budgetary and quasi-fiscal outlays. Alternatively, in the event that conflict re-emerges or governance deteriorates, impeding service delivery and even modest economic reform, the Bank would continue to support AAA [analytical and advisory activities] but new lending would cease and a gradual disengagement would begin.⁵²

Although the scope for aid conditionality in Angola has improved since the cessation of hostilities with UNITA, the leverage that donors can bring to bear on the government continues to be constrained by the availability of easy oil money. “The IMF is holding out carrots,” explains one observer, while the “industry is holding out T-bone steaks.”⁵³ If there is to be any realistic prospect of significant reform, complementary international actions are clearly needed. These include efforts to promote greater transparency on the part of oil companies doing business in Angola, such as the Publish What You Pay campaign launched by Global Witness and the Extractive Industries Transparency Initiative (EITI) sponsored by the UK government.⁵⁴ As always, however, the willingness of donors and investors to press for reforms is tempered by considerations of “commercial expediency.”⁵⁵ Angola is now the seventh largest source of oil imports to the United States, and soon the country is expected to rival or surpass Nigeria as Africa’s top oil exporter.⁵⁶ Profits from the country’s oil are partitioned between domestic and international actors. It would be misleading simply to identify the former with the problem and the latter with the solution.

Afghanistan: Aid on the Margins of a War Economy

In Afghanistan, too, natural resource revenues have played an important role in financing armed conflict, particularly after the 1989 Soviet pull-out.⁵⁷ The UN Office on Drugs and Crime (UNODC) reports that the opium trade has become “an integral part of Afghanistan’s war economy, with opium going out of the country and arms coming in.” The UNODC estimates that farmers and local traders earned about \$180 million annually from opium in 1994–2000. Afghan traffickers, who buy opium in local bazaars and then export raw opium and processed opiates, received even

larger incomes, estimated at a total of \$720 million in 2000.⁵⁸ During its five-year war against the Taliban in the late 1990s, the Northern Alliance exported gemstones—emeralds, rubies, aquamarines, and lapis lazuli—mined in the slice of Afghan territory it controlled, and used the proceeds to buy “guns, ammunition, rocket launchers, and second-hand helicopters.”⁵⁹ Meanwhile, millions of acres of Afghanistan’s forests were “stripped bare” to export timber to Pakistan.⁶⁰

If we expand the definition of “natural resources” to include all wealth bestowed by virtue of location, then the customs revenue derived from Afghanistan’s “transit trade”—the smuggling of goods overland from the Persian Gulf to South Asia—should also be counted. The profitability of this trade arises mainly from “policy-induced price differentials” among countries in the region, notably between duty-free Dubai and high-tariff Pakistan.⁶¹ The transit trade was estimated at \$2.5 billion per year in the late 1990s, with the Taliban deriving at least \$75 million annually from informal duties.⁶² Today, both customs revenues and opium profits appear to be substantially higher.

To date, the potential for aid conditionality as an instrument to curb these resource flows has been quite limited. Three key prerequisites for effective conditionality, as noted earlier, are (1) domestic parties who wield authority with enough legitimacy to serve as interlocutors for aid agreements, (2) a “carrot” of reconstruction and development aid that is big enough to provide an incentive to shift from the war economy to a new peace economy, and (3) an accompanying determination among international actors to assign priority to the goals of conflict resolution and peacebuilding. In Afghanistan, all three have been in short supply. Rather than being able to reduce the profit margins of the war economy, aid has operated at the margins of that economy. At best, it has helped to mitigate the human costs of conflict.

To some extent, the first prerequisite—the presence of a party with whom to negotiate—was met in the years of Taliban rule (1996–2001), although fighting persisted and the Taliban never controlled the entire country. But with its repressive internal policies, willingness to host foreign terrorist groups, and close ties to Pakistani intelligence agencies, the Taliban never won international recognition as the legitimate government of Afghanistan. The country’s seat at the United Nations remained in the hands of the Northern Alliance. This choked off access to reconstruction and development aid; what foreign aid the country received was almost entirely humanitarian assistance.

During this period, tensions arose within the international community over whether aid should be used in an effort to modify Taliban policies. The “Six plus Two” group, consisting of government representatives from the six neighboring countries plus the United States and Russia, established

under UN auspices in 1997, pressed for changes on the political front. The Afghan Support Group, an interdonor body also formed in 1997, was divided between those donors advocating a hard line—notably the United States and the United Kingdom—and others advocating greater engagement, such as the Scandinavians.⁶³ Similar divisions existed within the UN.

The “Strategic Framework for Afghanistan,” adopted by the UN Secretariat in 1998, was intended as a pilot effort to foster greater “coherence” among the activities of UN agencies by attempting to reconcile political objectives with aid objectives. It would have been hard to choose a less promising terrain for such an initiative. The preponderance of humanitarian relief in aid to Afghanistan meant that many donors and NGOs considered it unethical to apply conditionality. Moreover, it was doubtful that threats to withhold humanitarian aid would have much impact on the Taliban, for whom the well-being of vulnerable populations did not seem to be an overriding concern. After much debate, the Strategic Framework adopted a compromise whereby “life-saving” aid was exempt from conditionality, while “life-sustaining” aid could be subject to conditionality, a tenuous distinction that prolonged the controversy rather than resolving it.⁶⁴

In the end, the Strategic Framework was widely regarded as a failure. Conditionalities “did little to change the Taliban,” one observer concluded, but they “undermined the effectiveness of the assistance programme.”⁶⁵ In addition to the paucity of aid to which conditionality could be applied, reasons advanced for this failure include the business-as-usual mentality at the aid agencies, which led to the “triumph of project over plan and agency over agenda”⁶⁶; the relatively large scale of other resource flows, including opium and transit trade revenues and financial aid the Taliban received from Saudi Arabia⁶⁷; and the fact that the bulk of aid was channeled through UN agencies and NGOs that often were reluctant to apply conditionality, rather than being administered directly by the donors.⁶⁸

Seeking a more substantial “carrot,” Francesc Vendrell, the head of the UN Special Mission to Afghanistan (UNSMA), asked the World Bank to begin reconstruction planning for Afghanistan.⁶⁹ Several prominent experts on Afghanistan similarly argued, in a paper issued by the Swiss Peace Foundation in June 2001, that “conditional planning for reconstruction can function as an incentive for both Afghan and regional actors.” They urged the UN, World Bank, and major donor governments to launch a “public diplomacy process” that would stake out the conditions for reconstruction assistance and suggested that aid money be placed in an escrow account pending an agreement.⁷⁰ Whether such moves could have borne fruit in the course of time remains an open question.

International pressures on the Taliban did score one eleventh-hour triumph. In mid-2000 the Taliban issued a decree banning poppy cultivation, in advance of the October planting season. The ban was remarkably effec-

tive, virtually eliminating the crop in provinces under Taliban control and causing great economic hardship for farmers who depended on it. The country's opium production plummeted from 3,300 tons in 2000 to 185 tons in 2001.⁷¹ The Taliban's prime motive was probably not to attract aid but rather to bolster its campaign for official recognition at the UN.⁷² The move was followed, however, by \$43 million in additional emergency aid from the United States and by a pledge by U.S. secretary of state Colin Powell to explore ways to help farmers hit by the ban.⁷³

The terrorist attacks in New York and Washington, D.C., on September 11, 2001, starkly exposed the inadequacy and perils of the policies pursued by the international community in Afghanistan in the previous two decades—policies that can be summed up as opportunistic support for armed groups in the 1980s and malign neglect in the 1990s. After the Taliban's refusal to hand over individuals implicated in the attacks, the U.S.-led coalition intervened militarily, paving the way for the interim Afghan administration and culminating in the election of Hamid Karzai in the country's first presidential election in 2004. Yet the international community has yet to break definitively with past policies. Once again, armed Afghan groups have been enlisted opportunistically, this time to fight Al-Qaida and Taliban forces. And despite pledges of aid for reconstruction and development, little has materialized, raising fears that Afghanistan will remain trapped in a war economy.⁷⁴

In November 2001 the major parties to the Afghan conflict—apart from the Taliban—agreed at a conference in Bonn to establish an interim administration, to be followed by a new constitution and elections to form a new national government. Rather than a peace accord, the Bonn agreement represented “a power-sharing agreement brokered by the United States and the United Nations,” one that “put control of the security forces in the hands of one political group in Kabul, marginalized the largest ethnic group in the country, and left local commanders and other ‘warlords’ to rule their districts with impunity.”⁷⁵ In the absence of a central government with an effective monopoly of legitimate force and fiscal capacity, efforts to use aid conditionality for conflict resolution and peacebuilding in Afghanistan would have to involve bargains with local military commanders and with governments of neighboring countries that support rival Afghan factions.

So far, the needs of state building have been subordinated to short-term military objectives. In the first year after the Bonn agreement, 84 percent of international spending on Afghanistan went to the fight against Al-Qaida and the Taliban, 9 percent to humanitarian assistance, 4 percent to the International Security Assistance Force (ISAF) mandated by the UN Security Council to provide security in the capital, and only 3 percent to reconstruction.⁷⁶ Not only has the reconstruction aid “carrot” remained small, but it also has been heavily concentrated in Kabul and its environs.

due not only to the urban bias of aid agencies but also to prevailing insecurity in the countryside. The “bubble economy” in the capital and the resulting exacerbation of rural/urban dichotomies threaten to replicate features of the prewar “rentier state” that helped to precipitate the Afghan conflict.⁷⁷

The interim administration collected some \$80 million in customs duties—its only significant source of domestic revenue—in 2002. In the same year, regional commanders are estimated to have collected more than \$500 million in customs duties. In May 2003 the administration launched an effort to persuade the latter to remit revenues to the central government. President Karzai and Finance Minister Ashraf Ghani threatened to resign over this issue, a threat perhaps directed as much at the international community as at the regional warlords. U.S. deputy secretary of state Richard Armitage warned that the warlords would face “some rocky times” if they refused to comply. Initial efforts focused on Ismail Khan, who controls the country’s most lucrative border post in Herat, and Rashid Dostum, who controls northern oil fields and Soviet-built fertilizer and electricity plants.⁷⁸

Lacking the means of violence to force regional leaders to hand over the revenues, the central administration must rely on its “moral authority” to secure compliance.⁷⁹ Its moral clout is circumscribed, however, by its own failure to accomplish visible reconstruction and deliver government services. Observers compare the situation in Kabul unfavorably to the success with which Ismail Khan has rebuilt roads and bridges in Herat.

Revenues are needed to build state capacity, but state capacity is needed to gain revenues. In principle, foreign aid can help to provide a way out of this chicken-and-egg dilemma, providing external resources so that the government can demonstrate its capacity to deliver goods and services. In practice, however, the donors have channeled less than 20 percent of their aid through Afghanistan’s new administration, preferring to manage the spending themselves or through subcontracts with NGOs.⁸⁰

Meanwhile, opium production has rebounded. The UNODC estimates the total value of the 2002 crop at a record \$2.5 billion.⁸¹ This figure, equivalent to more than one-third of Afghanistan’s gross domestic product, is probably an overestimate, since it was obtained by valuing the crop at the high price of the preceding year, but there is no doubt that the opium economy is again in full bloom. The U.S. and UK governments sought to use aid conditionality to curb the trade in spring 2002, delivering an ultimatum to the Karzai government “to cut off the drug trade” to start the flow of reconstruction and development aid. Given the administration’s limited power, this had a predictably modest impact. The United States, United Kingdom, and World Bank earmarked \$80 million to compensate poppy farmers for eradicated crops, but much of the money reportedly was pock-

eted by warlords who “fabricate reports of the crops destroyed” and have “a strong interest in seeing that the eradication program remains a job only partly done.”⁸²

In March 2003, at meetings of the Afghan Development Forum in Kabul and the Afghan High-Level Strategic Forum in Brussels, Finance Minister Ashraf Ghani sketched three possible future scenarios. The first, the creation of a stable and relatively prosperous Afghanistan, would require, he estimated, about \$15–20 billion in international aid over the next five years. The second, in which the country would become “another failed development project” lurching from crisis to crisis, would cost about \$7.5 billion in the same period, a level of annual expenditure roughly comparable to that in 2002. The third, in which Afghanistan would degenerate into a “narco-mafia state” run by criminal syndicates, would have the lowest short-term cost but the highest cost in the long run.⁸³

By thus reminding the donors of their own incentives to provide aid, Ghani effectively stood the conditionality debate on its head. In Afghanistan, as elsewhere, the problem is not only for aid donors to induce recipients to put peace at the top of their agendas. It is also for aid recipients, and others committed to conflict prevention and peacebuilding, to persuade donor governments to do the same.

Conclusion

Conditionality is seldom popular. Recipients naturally would prefer aid without strings attached. Among aid donors, too, conditionality has fallen into disfavor in recent years. Several studies have questioned its efficacy in promoting conventional economic objectives such as budget deficit reduction and trade liberalization and have called for a shift from conditionality to “selectivity,” the preferential allocation of aid to governments that demonstrate domestic “ownership” of the desired policies.⁸⁴ At the same time, there have been calls to retreat from extending conditionality to non-traditional issues. Citing IMF interest in poverty alleviation, for example, the Meltzer Commission, appointed by the U.S. Congress, warned in 2000 against “mission creep,” and in response the IMF announced moves to “streamline” its conditionality.⁸⁵

Whatever their merits, the selectivity and the back-to-basics movements are ill suited to addressing the challenges posed by violent conflict. To allocate aid only to “good performers,” in the name of efficiency, would be to deny it to many of those countries most at risk of conflict. To await domestic ownership of policies that promote peace in a society torn by conflict may mean waiting a very long time. And simply to ignore the risks of violent conflict, in the name of sticking to the “core competencies” of

donor agencies, is a recipe for wasting scarce aid resources, since war can destroy the best-laid economic plans.

Opportunities

Experiences in Cambodia, Angola, and Afghanistan suggest that aid donors can use conditionality to support peace, even where links between natural resource revenues and conflict make this task especially challenging. In such settings, conditionality is one tool by which the international community can seek to address several critical issues.

Management of natural resource revenues by governments. In places at risk of an outbreak or renewal of violent conflict, a key task is to ensure that the benefits and costs of natural resource exploitation are distributed so as to ease social tensions rather than exacerbate them. As we have seen, this could turn out to be a make-or-break issue in Angola and Afghanistan, where disparities between urban elites and rural populations could interact with ethnic divisions to reignite conflict. During conflicts, a key need is to curtail the use of resource revenues to finance war, although there is little scope for conditionality when conflict has blocked flows of aid other than humanitarian assistance. After the signing of a peace accord, a key task is to encourage governments to channel natural resource revenues into peace implementation. In these settings, conditionality can be used to encourage greater transparency and accountability in revenue management, as the IFIs have attempted to do in Cambodia and Angola. Indeed, it is hard to make a convincing case for unconditional aid to governments whose leaders keep substantial resource revenues off the books.

Containment of "spoilers." In many places, a key issue is how to deal with spoilers, leaders of government or rebel forces who oppose peace agreements and are willing to use violence to undermine them.⁸⁶ In some cases, conditionality can help to induce such individuals to cooperate with the peace process, a strategy that scored some success in Bosnia.⁸⁷ In other cases—particularly where the spoiler "sees power as indivisible, holds immutable preferences, and will take strategic advantage of any inducement"—the challenge is containment rather than cooperation.⁸⁸ Here, too, conditionality can play a role when spoilers rely on support from neighboring governments, as illustrated by the Thai government's curb on log exports by the Khmer Rouge.

Construction of alternative livelihoods. When the goal is not to redirect natural resource revenues but to reduce or eliminate them—as in the case of opium production—then a critical issue is the provision of alternative

livelihoods. Again, there can be a role for conditionality, as when donors provide aid to farmers on the condition that they stop growing poppies—the obvious caveat being that the aid must actually reach the farmers, rather than being pocketed by local power brokers as appears to be the case in Afghanistan. Conditionality could also be used to encourage governments to create a favorable economic environment for alternative livelihoods—for example, by supporting remunerative prices for legitimate crops. The latter would require an about-face on the part of some donors, notably the IFIs, whose economic policy conditionalities often have precisely the opposite effect, requiring the lifting of trade barriers and removal of price supports to farmers in developing countries, even in the face of competition from subsidized producers in the industrialized countries.

Curtailment of private loans backed by future resource revenues. The role of oil-backed loans by private creditors in Angola poses the issue of how to handle debts that were contracted not to benefit the populace but rather to finance warfare and feather the nests of powerful leaders. It would be a sad irony if aid to postwar Angola were used to repay these debts. Yet given the fungibility of aid—the fact that external resources free up domestic resources for other purposes—the only way that donors can prevent this outcome would be to condition their aid on the repudiation of such debts. Selective debt repudiation would have a legal basis in the doctrine of “odious debt” in international law, particularly if done by a successor government to the regime that contracted the debts.⁸⁹ Again, support for such a policy would represent a marked departure from past donor policies. But it would have two salutary effects: in the short run, it would conserve natural resource revenues for reconstruction and development needs, and in the long run, it would serve as a warning to creditors that such loans are not risk free.

Challenges

At the same time, the cases discussed in this chapter illustrate the constraints on both the ability and the willingness of aid donors to use conditionality to promote peace. There are serious obstacles on both the recipient side and the donor side of the aid relationship.

Limited leverage. The extent of donor influence on the parties to a conflict depends on the volume of aid relative to other sources of income. Given the practical and ethical objections to conditionality on humanitarian aid, the relevant sort of aid is development and reconstruction assistance. In wartime, official development assistance is often minimal, so there is generally less scope for conditionality than in preconflict and postconflict set-

tings. And since ODA goes to governments (or, with government permission, to NGOs), conditionality generally offers little scope for influencing antigovernment rebel groups, unless they receive support from neighboring governments to whom conditionality can be applied.

Lack of authorities with effective control. A further constraint is that aid recipients may lack sufficient power to implement the conditions. In Afghanistan, for example, donor threats to make reconstruction aid to the Karzai administration conditional on poppy eradication are not likely to have much impact in the field, where real authority is in the hands of autonomous regional commanders. More generally, as also illustrated in Afghanistan, state capacities in postconflict settings are often constrained by a lack of revenues, while revenue collection is in turn constrained by the lack of state capacities.

Competing priorities of donor governments. History makes it all too clear that peace is not invariably the highest priority of donor governments. They may espouse conflict prevention as “a flag of convenience” but pursue other aims in their deeds.⁹⁰ Thus conflict resolution in Afghanistan has taken a backseat to the “war on terror,” much as it was subsumed by superpower rivalry during the Cold War. Commercial interests also can exert a powerful influence in donor decisionmaking, as noted in the Cambodian case. Worldwide, roughly half of all bilateral aid is tied to exports from the donor countries.⁹¹ Conditionality is not welcomed by firms seeking to win contracts, particularly if other donors do not follow suit and thereby give their own firms a competitive edge. Similarly, when foreign firms are engaged in natural resource exploitation—as in the case of the oil industry in Angola—their short-term interests may lead them to oppose conditionality on the part of donor governments, even where this could help to foster a more stable environment for long-term investment.

Business as usual at the aid agencies. Within the aid agencies, a similar business-as-usual ethos can pose a further obstacle to conditionality. Individual aid officials typically are rewarded for making loans and disbursing grants, not for holding them up by seeking to impose tough conditions. In the annual budget cycles of donor governments, agencies that fail to “move the money” often find themselves penalized by reduced allocations in the following year. Conflict-related conditionality requires an overhaul of these bureaucratic incentive structures. The performance of both individuals and agencies must be judged not in terms of how much money they spend but rather in terms of how effectively their aid supports the goals of building and sustaining peace.

Given these constraints, it is evident that aid conditionality cannot

offer a panacea for violent conflict. No matter how favorable the setting, and no matter how committed the aid donor, conditionality is not a magic "antibullet." Aid is at best one instrument in the international community's toolkit for promoting peace, and not always the most potent one.

The absence of conditionality, however, can undermine efforts to prevent or resolve conflict by other means. In the months before the 1994 Rwandan genocide, for example, the international community was pressing the government to implement the Arusha peace agreement, signed the previous year. Yet the donors failed to cut aid in response to mounting human rights abuses, leading the Steering Committee for the Joint Evaluation of Emergency Assistance to Rwanda to conclude that "donors collectively sent the message that their priorities lay elsewhere."⁹²

The question is not whether donors will send a message with their aid but what that message will be. It is not tenable to pretend that economic performance and foreign aid can be divorced from questions of war and peace. Nor can aid donors disclaim responsibility for the impact of their actions—or inaction—on the dynamics of conflict. Although aid conditionality seldom will be sufficient to prevent violent conflicts, end wars, or guarantee the success of peacebuilding efforts, it may be a necessary element of broader international strategies to bring about a more peaceful world.

Notes

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1. There is ample precedent. For example, in 1990 the United States retaliated for Yemen's vote against UN Security Council Resolution 678 authorizing force against Iraq by cutting off aid. See Tom Zeller, "How to Win Friends and Influence Small Countries," *New York Times*, March 16, 2003, p. 3-WK.

2. For discussion, see Gordon Crawford, "Foreign Aid and Political Conditionality: Issues of Effectiveness and Consistency," *Democratization* 4, no. 3 (1997): 69–108; and Martin Doornbos, "Good Governance: The Rise and Decline of a Policy Metaphor?" *Journal of Development Studies* 37, no. 6 (2001): 93–108.

3. For discussion, see Manuel Pastor and Michael E. Conroy, "Distributional Implications of Macroeconomic Policy: Theory and Applications to El Salvador," in James K. Boyce, ed., *Economic Policy for Building Peace: The Lessons of El Salvador* (Boulder: Lynne Rienner, 1996), pp. 155–176.

4. See James K. Boyce, *Investing in Peace: Aid and Conditionality after Civil Wars*, Adelphi Paper no. 351 (Oxford: Oxford University Press, 2002), chap. 3; and Barsha Khattray and J. Mohan Rao, "Fiscal Faux Pas? An Analysis of the Revenue Implications of Trade Liberalization," *World Development* 30, no. 8 (2002): 1431–1444.

5. James K. Boyce et al., *Adjustment toward Peace: Economic Policy and Post-war Reconstruction in El Salvador*, report prepared for the UN Development Programme, San Salvador, May 1995. A revised version of this study was published as James K. Boyce, ed., *Economic Policy for Building Peace: The Lessons of El Salvador* (Boulder: Lynne Rienner, 1996).

6. See Alvaro de Soto and Graciana del Castillo, "Obstacles to Peacebuilding," *Foreign Policy* no. 94 (1994): 69–83. Some observers attributed funding shortfalls to fiscal austerity measures demanded by IMF and World Bank conditionalities. See, for example, Robert C. Orr, "Building Peace in El Salvador: From Exception to Rule," in Elizabeth M. Cousens and Chetan Kumar, eds., *Peacebuilding as Politics: Cultivating Peace in Fragile Societies* (Boulder: Lynne Rienner, 2001), pp. 167–168. 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 Elisabeth J. Wood, "The Peace Accords and Postwar Reconstruction," in Boyce, *Economic Policy for Building Peace*, pp. 73–105; and James K. Boyce, "External Resource Mobilization," in Boyce, *Economic Policy for Building Peace*, pp. 129–154.

7. For discussion, see Boyce, *Investing in Peace*, chap. 4.

8. International Bank for Reconstruction and Development, *Articles of Agreement*, art. III, sec. 5(b).

9. World Bank, *The World Bank's Experience with Post-conflict Reconstruction*, vol. 3, *El Salvador Case Study* (Washington, D.C.: World Bank, 1998), p. 51.

10. For discussion, see Boyce, *Investing in Peace*, chap. 3.

11. European Commission and World Bank, "Chairman's Conclusions of the Second Donors' Conference on the Reconstruction of Bosnia and Herzegovina," Brussels, April 13, 1996.

12. See Boyce, *Investing in Peace*, p. 10; and Guy Dinmore, "Croats Surrender to War Crimes Tribunal: Tudjman Bows to U.S. after Assurances on Trials," *Financial Times*, October 7, 1997.

13. See Boyce, *Investing in Peace*, p. 18. 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, May 30, 1997, para. 46.

14. On the U.S. position on the International Criminal Court, see Geoffrey Bindman, "Washington and the International Court," *International Herald Tribune*, July 16, 2003.

15. See Frances Stewart, "Crisis Prevention: Tacking Horizontal Inequalities," *Oxford Development Studies* 28, no. 3 (2000): 245–262.

16. On Nigeria, see Human Rights Watch, "The Price of Oil: Corporate Responsibility and Human Rights Violations in Nigeria's Oil Producing Communities," January 1999, available at www.hrw.org/reports/1999/nigeria; and Jędrzej George Frynas, "Corporate and State Responses to Anti-oil Protests in the Niger Delta," *African Affairs* 100, no. 398 (2001): 27–54. On the DRC, see Léonce Ndikumana and Kisangani Emizet, "The Economics of Civil War: The Case of the Democratic Republic of Congo," Political Economy Research Institute Working Paper no. 63 (Amherst: University of Massachusetts 2003), available at <http://www.umass.edu/peri/pdfs/WP63.pdf>.

17. See Ian Gary and Terry Lynn Karl, *Bottom of the Barrel: Africa's Oil Boom and the Poor* (Baltimore: Catholic Relief Services, 2003), chap. 5, available at www.catholicrelief.org/africanoil.cfm; and Daphne Eviatar, "Striking It Poor: Oil as Curse," *New York Times*, June 7, 2003.

18. See United Nations Security Council, *Final Report of the Panel of Experts on the Illegal Exploitation of Natural Resources and Other Forms of Wealth of the Democratic Republic of Congo*, S/2002/1146, October 16, 2002. For a discussion of this and other examples of conditionality applied to third parties, see Philippe Le Billon, "Getting It Done: International Instruments of Enforcement," in Ian Bannon and Paul Collier, eds., *Natural Resources and Violent Conflict: Options and Actions* (Washington, D.C.: World Bank, 2003), pp. 215–286.

19. A World Bank study estimates that in the first five years after a peace accord, a country has a 44 percent chance of reverting to war. Paul Collier, Lani Elliott, Havard Hegre, Anke Hoeffler, Marta Reynal-Querol, and Nicholas Sambanis, *Breaking the Conflict Trap: Civil War and Development Policy* (New York: Oxford University Press, 2003).

20. See Global Witness, "Forests, Famine, and War: The Key to Cambodia's Future," March 1995, available at www.globalwitness.org/reports/show.php/en.00037.html; and Global Witness, "Thai–Khmer Rouge Links and the Illegal Trade in Cambodia's Timber," July 1995, available at www.globalwitness.org/reports/show.php/en.00036.html.

21. Le Billon, "Getting It Done," p. 251. See also Mats Berdal and David Keen, "Violence and Economic Agendas in Civil Wars: Some Policy Implications," *Millennium: Journal of International Studies* 26, no. 3 (1997): 795–818. Berdal and Keen report that Thai traders shifted their timber dealings to elements of the Cambodian government.

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23. Personal interview by the author, Phnom Penh, November 1998.

24. Global Witness, "The Logs of War: The Timber Trade and Armed Conflict," March 2002, p. 20, available at www.globalwitness.org/reports/download.php/00044.

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26. See Global Witness, "Deforestation without Limits: How the Cambodian Government Failed to Tackle the Untouchables," July 2002, available at www.globalwitness.org/reports/show.php/en.00007.html.

27. Adam Piore, "Some in U.S. Say Prime Minister Was behind Cambodia Attack," *Boston Globe*, October 10, 1999, p. A35.

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37. Global Witness, "All the Presidents' Men," p. 22.

38. World Bank, "Transitional Support Strategy," pp. 6–7. See also Jędrzej George Frynas and Geoffrey Wood, "Oil and War in Angola," *Review of African Political Economy* 28, no. 90 (2001): 587–606; and Assis Malaquias, "Making War and Lots of Money: The Political Economy of Protracted Conflict in Angola," *Review of African Political Economy* 28, no. 90 (2001): 521–536.

39. Global Witness, "A Rough Trade: The Role of Companies and Governments in the Angolan Conflict," December 1998, p. 4, available at www.globalwitness.org/reports/show.php/en.00013.html. See also Chapter 3 by Ian Smillie in this volume.

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41. *Ibid.*, p. 11.

42. Global Witness, "A Crude Awakening: The Role of the Oil and Banking Industries in Angola's Civil War and the Plunder of State Assets," December 1999, pp. 15–18, available at www.globalwitness.org/reports/show.php/en.00016.html.

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45. International Monetary Fund, "Angola: Memorandum of Economic and Financial Policies," April 3, 2000, available at www.imf.org/external/np/loi/2000/ago/01/index.htm.

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47. For discussion, see Human Rights Watch, "The Oil Diagnostic in Angola: An Update," March 2001, available at www.hrw.org/background/africa/angola.

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50. *Ibid.*, p. 4.

51. UN Security Council, "Report of the Secretary-General to the Security Council on Angola," S/2002/834, July 26, 2002, p. 7, available at www.angola.org/referenc/reports/unrep072602.pdf.

52. World Bank, "Transitional Support Strategy," p. 2.

53. Quoted in Carola Hoyos and John Reed, "Angola Forced to Come Clean," *Financial Times*, October 2, 2003, p. 14.

54. Similarly, the World Bank's "Transitional Support Strategy" (p. 22) proposes a study on corporate responsibility "to sensitize oil companies to the importance of transparency and good governance with a view to reducing the collective action problem that currently discourages greater transparency by any individual company (if any one company attempts to implement more transparent policies, its competitive position may be compromised)." The importance of the latter issue was underscored in 2001, when the Angolan state oil company retaliated against British Petroleum's announcement that it would publicly disclose its payments by threatening to cancel its contract. See Global Witness, "All the Presidents' Men," pp. 41-42. For more on the Publish What You Pay campaign and the EITI, see Chapter 11 by Gavin Hayman and Corene Crossin in this volume.

55. International Crisis Group, "Angola's Choice," p. 13.

56. For discussion, see Jon Lee Anderson, "Letter from Angola: Oil and Blood," *New Yorker*, August 14, 2000.

57. External resources nevertheless continued to play an important role after the Soviet pullout. See Human Rights Watch, "Afghanistan: The Crisis of Impunity; The Role of Pakistan, Russia, and Iran in Fueling the Civil War," July 2001, available at www.hrw.org/reports/2001/afghan2.

58. UN Office on Drugs and Crime (UNODC), *The Opium Economy in Afghanistan: An International Problem* (New York: United Nations, 2003), pp. 8, 12, 67, available at www.reliefweb.int/library/documents/2003/unodc-afg-31jan.pdf.

59. James Kirkup, "Gemstones Finance Afghan Rebels," *International Herald Tribune*, November 14, 2001, p. 12.

60. Ahmed Rashid, *Taliban: Militant Islam, Oil, and Fundamentalism in Central Asia* (New Haven, Conn.: Yale University Press, 2000), p. 192. Despite a nominal ban on logging, timber exports from eastern Afghanistan continue: in September 2003 a road to Nangarhar province on the Pakistan border was "bumper-to-bumper with timber-laden 16-wheelers." Kathy Gannon, "Afghans See U.S.-Backed Warlords as Enemy," Associated Press, September 7, 2003.

61. Barnett Rubin, "The Political Economy of War and Peace in Afghanistan," *World Development* 28, no. 10 (2000): 1790.

62. *Ibid.*, p. 1795; and UNODC, *Opium Economy*, p. 128, citing World Bank estimates.

63. Haneef Atmar and Jonathan Goodhand, "Coherence or Cooption? Politics, Aid, and Peacebuilding in Afghanistan," *Journal of Humanitarian Assistance*, July 30, 2001, p. 25, available at www.jha.ac/articles/a069.htm.

64. For discussion, see Konrad Von Brabant and Tony Killick, "The Use of Development Incentives and Disincentives in Influencing Conflict or Civil Violence: Afghanistan Case Study," paper prepared for the OECD Development Assistance Committee, Paris, March 1999; Mark Duffield, Patricia Gossman, and Nicholas Leader, "Review of the Strategic Framework for Afghanistan," paper commissioned by the Strategic Monitoring Unit, Afghanistan, October 2001; and Jonathan Goodhand, "Aiding Violence or Building Peace? The Role of International Aid in Afghanistan," *Third World Quarterly* 23, no. 5 (2002): 837-859.

65. Goodhand, "Aiding Violence or Building Peace?" p. 847.

66. Duffield, Gossman, and Leader, "Review of the Strategic Framework," p. 38.

67. Von Brabant and Killick, in "Use of Development Incentives and Disincentives" (para. 122), report that Saudi support amounted to \$2 billion, compared to \$300 million in other aid.

68. Von Brabant and Killick, "Use of Development Incentives and Disincentives," para. 168.

69. Barnett Rubin, Ashraf Ghani, William Maley, Ahmed Rashid, and Olivier Roy, "Afghanistan: Reconstruction and Peacebuilding in a Regional Framework" (Bern: Center for Peacebuilding [KOFF], Swiss Peace Foundation, 2001), p. 34, available at www.institute-for-afghan-studies.org/afghan%20conflict/analysis/t_2001.pdf.

70. *Ibid.*, pp. 6, 41–42.

71. UNODC, *Opium Economy*, p. 28. Skeptics note that the ban did not apply to the activities of traders, whose stocks from the previous year's crop soared in value after the ban on new cultivation was imposed.

72. Barbara Crossette, "Taliban Open a Campaign to Gain Status at the U.N.," *New York Times*, September 21, 2000.

73. Barbara Crossette, "Taliban's Ban on Poppy a Success, U.S. Aides Say," *New York Times*, May 20, 2001.

74. See Barnett Rubin, Humayun Hamidzada, and Abby Stoddard, "Through the Fog of Peace Building: Evaluating the Reconstruction of Afghanistan" (New York: New York University, Center on International Cooperation, 2003), available at www.cic.nyu.edu/pdf/through%20the%20fog2.pdf.

75. Patricia Gossman, "Elusive Peace: Afghan Pointers for Iraq," *International Herald Tribune*, February 5, 2003.

76. CARE International, "Rebuilding Afghanistan: A Little Less Talk, a Lot More Action," CARE Policy Brief no. 8, Kabul, Afghanistan, October 1, 2002, available at www.reliefweb.int/library/documents/2002/care-afg-6dec.pdf. See also Rubin, Hamidzada, and Stoddard, "Through the Fog of Peace Building."

77. See Barnett Rubin, *The Fragmentation of Afghanistan: State Formation and Collapse in the International System* (New Haven, Conn.: Yale University Press, 1995).

78. See Carlotta Gall, "Kabul Announces Push to Gain Revenue and Combat Corruption," *New York Times*, May 24, 2003; and April Witt, "U.S. Official Reaffirms Pledge to Aid Afghans," *Washington Post*, May 10, 2003.

79. See Finance Minister Ashraf Ghani's remarks quoted in Vanessa Gezari, "Kabul Acts to Enforce Customs Deal," *Chicago Tribune*, May 25, 2003.

80. See Rubin, Hamidzada, and Stoddard, "Through the Fog of Peace Building."

81. UNODC, *Opium Economy*, p. 69.

82. John F. Burns, "Afghan Warlords Squeeze Profits from the War on Drugs. Critics Say," *New York Times*, May 5, 2002, p. 22.

83. Ghani's remarks are reported in Rubin, Hamidzada, and Stoddard, "Through the Fog of Peace Building," pp. 6–7.

84. See, for example, Christopher L. Gilbert, Andrew Powell, and David Vines, "Positioning the World Bank," in Christopher L. Gilbert and David Vines, eds., *The World Bank: Structures and Policies* (Cambridge: Cambridge University Press, 2000), pp. 39–86; and Paul Collier, "Conditionality, Dependence, and Coordination: Three Current Debates in Aid Policy," in Gilbert and Vines, *World Bank*, 299–324.

85. See International Financial Institution Advisory Commission (Meltzer Commission), *Report of the International Financial Institution Advisory*

Commission (Washington, D.C.: U.S. Department of the Treasury, 2000), pp. 39–40; and “IMF Seeks to Streamline and Focus Conditions for Lending to Member Countries,” *IMF Survey*, September 2001, available at www.IMF.ORG/external/pubs/ft/survey/sup2001/index.htm 7.

86. Stephen John Stedman, “Spoiler Problems in Peace Processes,” *International Security* 22, no. 2 (1997): 5–53.

87. For example, conditionality coupled with the threat of force prompted Serb Republic president Biljana Plavsic to break from the hard-line Bosnian Serb leadership in 1997, a move that was followed by the election of a pro-Dayton prime minister in the Serb Republic in 1998. See Jim Hoagland, “Success in Bosnia Awaits a Persistent Clinton,” *International Herald Tribune*, August 21, 1997.

88. Stephen John Stedman, introduction to Stephen John Stedman, Donald Rothchild, and Elizabeth M. Cousens, eds., *Ending Civil Wars: The Implementation of Peace Agreements* (Boulder: Lynne Rienner, 2002), p. 12.

89. For discussion, see James K. Boyce and Léonce Ndikumana, “Africa’s Debt: Who Owes Whom?” Political Economy Research Institute Working Paper no. 48 (Amherst: University of Massachusetts, 2002), available at www.umass.edu/peri/pdfs/wp48.pdf.

90. Barnett Rubin, *Blood on the Doorstep: The Politics of Preventive Action* (New York: Century Foundation Press, 2002), pp. 127, 130.

91. See “Gifts with Strings Attached,” *Economist*, June 17, 2000.

92. Steering Committee for the Joint Evaluation of Emergency Assistance to Rwanda, *The International Response to Conflict and Genocide* (Copenhagen: Danish Foreign Ministry, 1996), p. 18. See also Peter Uvin, *Aiding Violence: The Development Enterprise in Rwanda* (West Hartford, Conn.: Kumarian Press, 1998), p. 237.