
Aid Conditionality as a Tool for Peacebuilding: Opportunities and Constraints

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ABSTRACT

Over the past decade, aid donors have pledged billions of dollars to support peacebuilding efforts in collapsed states and war-torn societies. Peace conditionality — the use of formal performance criteria and informal policy dialogue to encourage the implementation of peace accords and the consolidation of peace — could make aid a more effective tool for building peace. In Bosnia, for example, donors have attempted to link aid to the protection of human rights, co-operation with the international war crimes tribunal, and the right of people displaced by ‘ethnic cleansing’ to return to their homes. Yet the conventional practices and priorities of aid donors pose constraints to the exercise of peace conditionality. This article examines several of these constraints, including the reluctance of donors (particularly the international financial institutions) to acknowledge responsibility for the political repercussions of aid; the competing foreign-policy objectives of donor governments; the humanitarian imperative to aid people whose lives are at risk; and the incentive structures and institutional cultures of donor agencies.

INTRODUCTION

Foreign aid is not always like water, which sprayed on the flames or embers of conflict helps to extinguish them. Instead, it can be more like oil. Appropriate aid can help to build peace, but inappropriate aid can fuel war by deepening the social fault lines of conflict and by tilting power balances in favour of those inclined to resolve conflicts by violent means. The net impact of aid depends first, on whether the donors embrace peacebuilding as their overriding aim, and second, on how effectively their assistance serves that aim. This article explores both issues, focusing on the potential role of ‘peace conditionality’ — the use of formal performance criteria and informal

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policy dialogue to encourage the implementation of peace accords and the consolidation of peace.

In the past decade, negotiated peace accords in countries such as Cambodia, El Salvador, Mozambique, Bosnia, and most recently Afghanistan have unlocked billions of dollars in pledges of international aid (Forman and Patrick, 2000). Such settings present particularly favourable opportunities for peace conditionality, since the accords embody a set of commitments to which the parties have agreed, and against which their subsequent actions can be measured.

The opportunities to use conditionality to support peacebuilding are constrained, however, by conflicting interests on both the recipient and donor sides of the foreign-aid coin. In discussing conventional macro-economic conditionality, Paul Streeten (1987) poses a 'double paradox': why should a donor need to impose conditions that are in the recipient's best interests, and why, instead of paying for good advice, must the recipient be paid to take it? In the case of peace conditionality, these questions are not difficult to answer. The crux of the peacebuilding challenge lies in the fact that not all parties to the peace accord are committed unequivocally to the consolidation of peace; if they were, peacebuilding would be an easy task. By altering the incentives faced by the parties, peace conditionality can strengthen the momentum of the peace process.

However, another, more stubborn question lurks in Streeten's paradox: why should donors spend money to serve the interests of aid recipients, rather than spending it to advance their own interests? In discussions of aid to collapsed states and war-torn societies, it is often assumed that donors are motivated by 'good intentions', their decisions guided by sheer altruism or enlightened self-interest. Yet, there are diverse actors with multiple objectives on the donor side as well as the recipient side, and peacebuilding is not always the overriding aim. To assess the scope for effective peacebuilding assistance, we must jettison the assumption that the obstacles lie entirely on the recipient side, and recognize that the policies and practices of aid donors can be part of the problem as well as part of the solution.

PEACE CONDITIONALITY: TRIAL AND ERROR IN BOSNIA

Aid donors have not formally embraced peace conditionality as a policy, nor has it been implemented systematically in efforts to rebuild collapsed states and war-torn societies. Yet, practical exigencies on the ground have prompted experimentation and some tentative moves in this direction. Bosnia is a case in point.

In December 1995, one week after the signing of the Dayton Peace Agreement, international aid donors met in Brussels to discuss Bosnia's post-war reconstruction. From the beginning, some officials pressed to link aid to peace implementation. European Commissioner Hans van den Broek

voiced the European Union position that reconstruction aid to the former Yugoslavia would be conditional on the implementation of peace agreements, respect for human rights, the right of refugees and displaced persons to return to their homes, and the surrender of indicted war criminals. At a follow-up conference that they co-chaired in April 1996, van den Broek and World Bank president James Wolfensohn wrote in the official conclusions: '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 co-operation with the international tribunal for the prosecution of war criminals' (European Commission and World Bank, 1996).

In subsequent months and years, this rhetoric at times has been translated into specific actions. An early display of donor resolve came in the first year of the Dayton agreement. In September 1996, national elections were held under Bosnia's new constitution, and Momcilo Krajsnik, a close associate of indicted war criminal Radovan Karadzic, was elected as the Bosnian Serb member of the country's three-person collective presidency.¹ Soon afterwards, in a gesture of continuing defiance toward the Dayton goal of a united Bosnia, Krajsnik announced that he would refuse to attend the presidential swearing-in ceremony in Sarajevo, a move that threatened to undermine the fragile new state from its very inception.

Carl Bildt, the international community's High Representative in Bosnia, responded by dispatching his senior deputy for economic reconstruction to the Bosnian Serb leaders' headquarters in Pale, accompanied by the resident representatives of the World Bank, the European Bank for Reconstruction and Development, the European Union, and US president Clinton's envoy for reconstruction. Together they delivered a stern warning: not one penny of reconstruction aid would flow to Republika Srpska (Bosnia's Serb Republic) if Krajsnik failed to appear. Four days later, he was in Sarajevo to attend the ceremony. The significance of this episode went beyond the modest victory of persuading a reluctant president to attend his own inauguration. It demonstrated that aid conditionality can furnish political muscle to a peace process, even when dealing with the most recalcitrant of parties.

Yet, such a strong and united stance among donors has been the exception in Bosnia, rather than the rule. Around the same time that the envoys visited Pale, a telling example of donor disunity was unfolding in Mostar, the Bosnian city where the wartime destruction of the magnificent medieval bridge across the Neretva River came to symbolize the country's ethnic fragmentation (Silber and Little, 1996: 291–302). During the war, Bosnian Muslims (or Bosniaes, as they are now called) were driven into east Mostar, while Bosnian Croats took control of west Mostar. The European Union

1. In April 2000, Krajsnik was arrested by NATO troops and flown to The Hague to face war crimes charges at the International Criminal Tribunal for the former Yugoslavia.

Administration for Mostar (EUAM) assumed responsibility for the city's reconstruction shortly after the creation of Bosnia's Muslim-Croat Federation in 1994. As a precondition for repairing the city's two main hydroelectric power stations, the EUAM insisted that both sides agree to share the electricity. Before an agreement could be reached, however, the World Bank concluded a unilateral deal with the Bosniac side to repair one of the power stations. The infuriated Croats proceeded to repair the other, with the result that Mostar today has the dubious distinction of being the only city in the world with *de facto* apartheid in its electricity grid.

Local-Level Conditionality

The local-level authorities in Bosnia vary greatly in their commitment to the principles of the Dayton agreement. During the war, some of them protected minority residents even at the risk of antagonizing the dominant nationalist politicians on 'their' side; others led and profited personally from ethnic cleansing, and now seek to block minority returns; and many local leaders today sit on the fence, neither actively promoting nor obstructing minority returns, but worried that any efforts to help minorities could jeopardize their popularity in the majority community. In this setting, donors have opportunities to allocate local aid selectively, to reward those who are seeking to implement the Dayton accord, penalize those who are obstructing its implementation, and encourage vacillators to get off the fence. The foreign ministers of the major external powers endorsed this principle in 1997, stating that 'assistance for housing and local infrastructure should be dependent on the acceptance of return' of refugees and displaced persons.²

The office of the UN High Commissioner for Refugees (UNHCR) has pioneered such a strategy in its 'Open Cities' programme, targeting aid to municipalities whose officials publicly declare their willingness to welcome minority returns. Where such public pronouncements are followed by actual returns, UNHCR provides reconstruction aid not only to the returnees but also to the majority community (UNHCR, 1997). The UNHCR tailors the conditions for qualifying as an open city to local circumstances — in one municipality, the key issue may be processing the paperwork to return apartments to their former occupants, in another it may be school enrolment for minority children, or the removal of wall posters inciting ethnic hatred. If the local authorities fail to fulfil their commitments, open-city status and its attendant rewards can be rescinded.

Implementation of the Open Cities programme has been imperfect, in part due to inadequate enforcement of the conditions. A 1999 evaluation concluded that open-city municipalities 'were rewarded for promises and stated

2. *Political Declaration from Ministerial Meeting of the Steering Board of the Peace Implementation Council*, Sintra, Portugal, 30 May 1997, paragraph 46.

intentions, rather than results' (Dahrendorf and Balian, 1999: para. 104). Moreover, the localities that have achieved open-city status are not necessarily those to which displaced persons themselves are most eager to return (International Crisis Group, 2000). Despite these flaws, the UNHCR programme is a creative initiative that could inspire similar experiments with local-level conditionality elsewhere.

The World Bank has shunned explicit municipal-level conditionalities in Bosnia, but it has sometimes engaged in quiet screening in consultation with the Office of the High Representative (OHR). The director of the World Bank's resident mission explains: 'There might be a community in Bosnia that does not want to accept refugees, and every time refugees come back, people in that community blow up houses. The High Representative may alert donors to the fact that building a house in that community is unlikely to have a lot of success'.³ This *ad hoc* approach has not always shielded the World Bank from controversy. In January 1998, for example, it announced a US\$ 17 million loan for reconstruction projects in Bosnia's Serb Republic. About 15 per cent of the money was slated for areas under the control of hardline nationalists based in Pale, Karadzic's stronghold (O'Connor, 1998). After an outcry from human rights groups and US legislators, the World Bank excluded one particularly notorious town from the project: Foca (or Srbinje, as it was renamed by the Bosnian Serb authorities), a site of wartime atrocities where indicted war criminals continued to live with impunity (Smith, 1998). This decision demonstrated that when it is pressed to do so, the World Bank could find a way to target its aid explicitly.

There is also scope for peace conditionality in donor relationships with the private sector. The US Agency for International Development, for example, requires banks and loan recipients in its private-sector lending programme to certify that none of their officers, directors, or shareholders has been indicted or is currently being investigated for war crimes. Similarly, banks participating in the programme must pledge not to discriminate against loan applicants on the basis of ethnicity or religion.

The International Crisis Group (1998a) has proposed that donors go further, by adopting a set of Minority Employment Principles in all contracts with Bosnian enterprises and government agencies, akin to the Sullivan Principles that were developed for firms doing business in South Africa in the 1980s. These principles would go beyond non-discrimination in employment (which presupposes that minorities will apply for jobs) to something closer to affirmative action. To qualify for contracts, employers would be required to hire minorities based on OHR guidelines, taking into account factors such as the current and pre-war composition of the municipality's population and the amount of aid involved. In the first year

3. Interview with Rory O'Sullivan, *War Report* No 51 (London: Institute for War & Peace Reporting), May 1997.

of a contract, for example, a firm might be required to hire 10 per cent more minorities than are currently represented in the local population, with higher targets in successive years until the pre-war demographic balance is restored. The aim would be to make minority returnees an economic asset to local communities.

This proposal drew a cool response from a senior World Bank official for Bosnia, who maintained that private entrepreneurs should base employment decisions on 'commercial grounds only', and that it would be difficult to enforce such hiring requirements. But aid donors are not investing in Bosnia on commercial grounds: they are investing to build peace. And although perfect enforcement of minority-hiring rules may be prohibitively costly, decisions as to whether and how rigorously to implement such principles should weigh their potential benefits against the administrative costs.

Balancing Acts

During the Dayton agreement's first year, the donors responded to the obstructionist stance of the Serb Republic's hardline leadership by channeling 98 per cent of Bosnia's total reconstruction aid to the Muslim-Croat Federation. At the end of the year, High Representative Carl Bildt called on donors to rebalance this flow of aid. 'Frankly, conditionality hasn't been working on either side', he explained. 'The Federation is convinced money will flow to it no matter what, and Republika Srpska is convinced it won't receive aid under any circumstances' (quoted in Schork, 1996).

In the following year, the trickle of reconstruction funds to Bosnia's Serb Republic grew to about 10 per cent of total disbursements, still well below the 27.5 per cent earmarked in the donors' original reconstruction plan. The pitfalls of providing aid to the Serb Republic at this juncture in Bosnia's post-war history were dramatized in a Human Rights Watch report (1997), which documented how British aid in the town of Prijedor had bolstered the economic and political power of local political bosses who had directed ethnic cleansing operations during the war. In the absence of strict conditionality, the report's author warned, the hardliners in the Serb Republic 'will laugh all the way to the banks we have reconstructed for them' (Paul, 1997).

The international pressure on the Bosnian Serb leadership began to show results in mid-1997, when Serb Republic President Biljana Plavsic broke with Karadzic and his hardline associates. Plavsic was an unlikely convert to Dayton principles — she too supported ethnic cleansing during the war — but she evidently concluded that accommodation was preferable to continued isolation and the denial of aid.⁴ Aid conditionality was not the only factor in

4. In January 2001, Mrs Plavsic surrendered to face war crimes charges at the Hague tribunal.

her decision. Geography favoured this stance, since the Muslim–Croat Federation and Croatia encircle the Banja Luka region, her territorial base, and its economy historically is tied to theirs. The flow of military aid to the Federation's army also may have contributed to her change of mind.⁵ In January 1998 Milorad Dodik, a supporter of the Dayton accords, was elected as the Serb Republic's new prime minister by a razor-thin margin (with the decisive votes cast by deputies elected by displaced Croat and Muslim residents). Over the next two years, the Serb Republic's share of Bosnian reconstruction aid rose to 27 per cent.

The donors' tough posture toward the Bosnian Serb leadership had been juxtaposed to a relatively liberal stance toward the Bosniac and Bosnian Croat leaders of the Federation, who (in Bildt's phrase) believed they could count on aid 'no matter what'. The emergence of pro-Dayton leaders in the Serb Republic changed this situation. Perhaps the most dramatic signal of a tougher donor stance vis-à-vis hardline nationalist leaders on the Federation side came in the fall of 1997, when the US led a successful move to block loans to Croatia by the International Monetary Fund (IMF) and World Bank until the Tudjman government handed over ten Bosnian Croat war-crimes suspects for trial in The Hague. This remarkable step followed the passage of Congressional legislation requiring the US representatives on the boards of directors of both institutions to oppose loans to countries or entities whose authorities fail to co-operate with the war-crimes tribunal.⁶

The Bosniac leadership also came under greater pressure to comply with the Dayton agreement. Meeting in Bonn in December 1997, the Peace Implementation Conference voiced 'disappointment' at the failure of Federation authorities to facilitate minority returns to Sarajevo, and US president Clinton reiterated this message when he visited Sarajevo two weeks later (Silber and Clark, 1997). In February 1998, a high-level conference in Sarajevo made future reconstruction aid to city officials conditional on meeting targets for minority returns. When in subsequent months the targets were not met, the US suspended roughly US\$ 5 million of aid, although the impact of this move was blunted by the fact that other donors did not follow suit (Dahrendorf and Balian, 1999: paras. 129–33).

Several lessons can be drawn from the Bosnian experience. First, it is indeed possible to use aid conditionality as a tool for peacebuilding. Its usefulness will vary depending on the circumstances in the recipient country; opportunities may be greater in what Ottaway (this volume) terms 'open' power situations, where several groups are contending for power, than in monolithic 'closed' power situations, where one group dominates; and

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5. Plavsic's break came on the heels of a visit to Banja Luka by US Secretary of State Madeleine Albright, who pointedly warned that the Dayton agreement's collapse could have disastrous military consequences for the Serbs (Hoagland, 1997).
 6. Section 568 of the Foreign Operations Appropriations Act of 1997, known as the 'Lautenberg amendment' after its principal sponsor, US Senator Frank Lautenberg.

conditionality may be least feasible in 'fragmented' power situations where there are no state-level authorities with whom to bargain. Even in fragmented settings, however, there may be some scope to apply conditionality at the local level.

Second, although peace conditionality can be a useful tool, it is not a 'magic bullet'. It is only one of several instruments that external actors can use to support a peace process. Others include diplomatic pressure, trade sanctions, and the deployment of peacekeeping forces. These instruments can be complementary, as demonstrated in the Serb Republic, where aid conditionality was accompanied by arrests of indicted war criminals and the seizure of hardliner-controlled television transmitters and police stations. By helping to erode political support for the hardliners, aid conditionality lowered the costs of using force; at the same time, the threat of force eroded the fallback position of the Bosnian Serb leadership, increasing the attractiveness of the aid-for-peace bargain. The use of 'sticks' as well as 'carrots' is particularly important in dealing with 'spoilers' — leaders who regard peace as a threat to their power and interests, and who are willing to use violence to undermine it (Stedman, 1997).

Finally, the scope for peace conditionality has been constrained not only by political circumstances in recipient countries, but also by the policy priorities of the aid donors themselves. Even in Bosnia, the scene of unprecedented efforts to link aid to peace implementation, inconsistencies among donors have often undermined these efforts. The remainder of this article explores some of the reasons for these donor-side constraints.

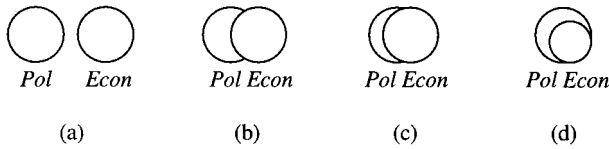
THE POLITICAL REPERCUSSIONS OF AID

Many donors are reluctant to acknowledge the political impacts of their aid. This is especially true of the international financial institutions (IFIs), where divergent views among member governments often make political issues particularly controversial. The Articles of Agreement of the World Bank, for example, specify that the Bank shall make loans 'with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations'.⁷ Yet, aid inevitably has political impacts. Aid does not flow to 'countries' in the abstract, but rather to specific groups and individuals within a country. In so doing, it affects balances of power.

Consider, for example, the impact of aid to Rwanda in the years preceding the 1994 genocide. From the late 1980s to the early 1990s, the annual flow of aid to the Rwandan government rose by 50 per cent, notwithstanding the regime's complicity in inciting violence by Hutu extremists

7. International Bank for Reconstruction and Development, *Articles of Agreement*, Article III, Section 5(b).

Figure 1. Intersections between Political and Economic Considerations



Econ = considerations of economy and efficiency.

Pol = political and other non-economic considerations.

against the Tutsi minority.⁸ ‘In so doing’, Peter Uvin (1998: 237) observes, ‘the aid system sent a message ... and it essentially said that, on the level of practice and not discourse, the aid system did not care unduly about political and social trends in the country, not even if they involved government-sponsored racist attacks against Tutsi’.

A British parliamentary report notes that in Rwanda the World Bank and IMF clung to a narrow view of ‘economy and efficiency’. It observes that, ‘As two of the most powerful international institutions in contact with the Rwandan Government, their concerns if expressed early enough might have proved important interventions. Neither organization recognized the direct link between growing social tension, human rights abuses and the subsequent destruction of the entire economic infrastructure’ (House of Commons, 1999: para. 59). In the period leading up to the genocide, a few bilateral donors publicly criticized the government’s flagrant human rights abuses, but they did not cut aid on this basis, sending ‘the message that human rights conditionality was preached but not practiced’ (Joint Evaluation of Emergency Assistance to Rwanda, 1996: 32).

In practice, ‘economy and efficiency’ often intersect with ‘political considerations’. Nowhere is this intersection larger than in societies torn by violent conflict. Figure 1 depicts a range of possibilities. At one extreme is Figure 1a, a hypothetical world where there is no overlap whatsoever between the economic and the political. The usual reality is better depicted by Figure 1b, where the two spheres intersect. In war-torn societies, the overlap tends to be larger, as depicted in Figure 1c. Indeed, in collapsed

8. Aid to Rwanda rose from US\$ 235 million annually in the late 1980s to US\$ 355 million in the early 1990s (Uvin, 1998: 91).

states the reality may be closer to Figure 1d, where the economic is merely a subset of the political.

Given the overlap between economic and political considerations, the exclusionary clause in the World Bank's charter can be read in two ways: either as (i) excluding all political considerations, regardless of their economic importance, a reading that would effectively preclude any World Bank involvement in many places; or (ii) ruling out only those political considerations that are economically irrelevant. The absurdity of the first reading is particularly evident in settings where political considerations can make the difference between peace and war.

Donor Interests

Building peace is seldom the sole interest of donor governments, nor is it necessarily the dominant one. Geopolitical aims, economic interests, and refugee repatriation also count among their objectives. To be sure, peace may serve these aims in the long run, but in the short run policies that are most effective for building peace may diverge from those that are most expedient in pursuit of other foreign-policy goals.

Geopolitical Aims

During the Cold War, the rivalry between the industrial democracies and the Soviet bloc helped to fuel conflicts across Asia, Africa, and Latin America. Aid donors often applied political conditionality not for peace-building but for Cold War aims. In the 1980s, for example, the United States government sought to block all international aid to the Vietnamese-backed government in Cambodia, going so far as to insist that the country's United Nations seat remain in the hands of the anti-government Khmer Rouge (Kiernan, 1991).

Although the IFIs are not directly subordinated to the geopolitical interests of a single donor government, they are by no means wholly insulated from them. The influence of the most powerful donor states — institutionalized via their preponderant voting power on the IFI boards — makes itself strongly felt. 'Between 1970 and 1993', a recent World Bank study acknowledges, 'aid allocations — by bilateral and multilateral donors — were dominated by politics — both the international politics of the Cold War and the internal politics of aid agencies' (World Bank, 1998: 40).⁹

9. The World Bank (1998: 1, 16) study cites aid to the Mobutu government in Zaire as an example of aid driven by the strategic aims of key donor states, remarking that this was 'just one of several examples where a steady flow of aid ignored, if not encouraged, incompetence, corruption, and misguided policies', but claims that 'political and strategic

The end of the Cold War opened new opportunities for using aid to build peace, by eliminating a powerful competing foreign-policy objective. Nevertheless, geopolitical considerations continue to impede the exercise of peace conditionality. The United States, for example, has been notably reluctant to condition its bilateral assistance to Israel — the world's largest recipient of US aid — on steps to advance the Israeli–Palestinian peace process.¹⁰ In an effort to maintain the precarious balance underpinning the peace process, donors also have been unusually willing to relax some of their standard economic conditions on financial backing to the Palestinian Authority.¹¹

Commercial Motives

One need not be an economic determinist to recognize that commercial motives can exert a strong influence on foreign policy. Securing access to key raw materials, such as petroleum, has long been regarded as a major foreign-policy concern (see, for example, Krasner, 1978). More surprising, perhaps, is the extent to which more mundane commercial interests — for example, the pursuit of contracts for laying sewerage pipes — can impinge on donor decisions.

The short-term quest for commercial advantage can undermine the political will of donors to exercise peace conditionality. When criticized by the Australian government for its human rights record in the mid-1990s, the Cambodian government retaliated by cancelling business deals with several Australian firms. The lesson was not lost on other donor governments. 'What is important for many of these ambassadors is to defend their few miserable contracts', remarked a United Nations official interviewed in Phnom Penh in November 1998. 'It is as if they represent their companies, rather than their countries'.

considerations were not significant' in the allocation of multilateral as opposed to bilateral aid. Yet the World Bank was among the biggest lenders to the Mobutu regime, accounting for US\$ 1.4 bn of Zaire's US\$ 12.3 bn external debt in 1994 (Ndikumana and Boyce, 1998), and at the IMF, the pressures to lend to such regimes led a senior official to warn that the Fund's balance-of-payments assistance was in danger of becoming 'indistinguishable from political support' (Finch, 1988: 127).

10. 'If in the end Israel cannot accept our ideas, we will respect that decision', US Ambassador Edward Walker assured leaders of the American Israel Public Affairs Committee in 1998, 'and it will not affect our fundamental commitment to Israel by a single jot or tittle' (quoted in Gellman, 1998).
11. For example, the donors have agreed to provide direct budget support to the Palestinian Authority (PA), even as PA revenues from petroleum taxes flowed into an account whose expenditures were revealed neither to donors nor to the public. The donors also have been willing to tolerate, albeit grudgingly, the quasi-public import monopolies established by PA chairman Yasser Arafat's associates in basic commodities — including flour, sugar, petroleum, concrete, steel, and tobacco — whose revenues and expenditures are also non-transparent. For discussion, see Roy (1998) and Brynen et al. (2000).

Recipient governments usually play on these fears quietly, but occasionally they do so quite openly. 'Japan is taking a lead', a Cambodian official (quoted in Piore, 1999) told the press in October 1999, while denouncing the US government's efforts to put political conditions on its 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'.

Repatriation of Refugees

The desire to repatriate refugees also can figure importantly among the donor objectives — particularly when refugees are living in the donor country. By the time the Dayton Peace Agreement was signed, for example, more than 300,000 Bosnians had found refuge in Germany, costing state and local governments approximately 1,000 DM per refugee per month, or US\$ 2 billion per year (International Crisis Group, 1998b: 10). To expedite their return to Bosnia, the German authorities deployed incentives, repatriation assistance, and deportation threats.

There is often a tension, however, between the aims of returning refugees to their original homes and repatriating them quickly. It is easier to send Bosnian Muslims, Serbs, and Croats to new homes in territories controlled by 'their side', rather than to places from which they were expelled by nationalist hardliners who continue to wield power. As a result, war-damaged houses rebuilt with donor aid often are not restored to their original owners, but instead occupied by returnees of the 'right' ethnicity, who are thereby transformed from refugees into internally displaced persons. This not only fails to advance the Dayton goal of ethnic reintegration, but also makes future minority returns even more difficult, as that now requires relocating the new occupants. In such instances, reconstruction aid can serve to reinforce the demographic results of ethnic cleansing.

Ethics and Public Opinion

Advocates of *realpolitik* often dismiss proponents of ethical considerations in foreign policy as soft-headed idealists. Yet the repeated efforts of world leaders to justify their actions in ethical terms — however tortuous or hypocritical their claims sometime may seem — testify to the enduring relevance of morality in international affairs. If ethical concerns matter to constituents to whom policy-makers are ultimately accountable, then they matter to policy-makers. In effect, public opinion can make a 'necessity of virtue' (Sherman, 1998).

With the end of the Cold War, aid donors have shown a greater willingness to apply conditionality to objectives such as 'good governance' and respect for human rights. The impact of this 'second-generation' condi-

tionality has been limited both by resistance from recipient governments and by its fitful application by donors, whose commitment to these goals is circumscribed by their own economic, political, and institutional agendas (Hook, 1998; Stokke, 1995). Nevertheless, this experience suggests that ethical considerations may be gaining some ground in the shaping of donor policies.

Peacebuilding is particularly suited to ethically based aid conditionalities for several reasons. First, there may be less friction with competing foreign-policy aims, since commercial ties are weakened by war and state collapse, and the security objectives of donor governments may be advanced by the consolidation of peace. Second, peace accords contain specific benchmarks by which to judge performance, and experience with second-generation conditionality suggests that the more specific the conditions, the greater the probability of success (Crawford, 1997). Third, peace conditionality is not a matter of the donors 'imposing' reforms for which there is little if any internal support, but rather of using the donors' leverage to support reforms that already enjoy substantial domestic backing. Finally, as noted above, public opinion in the donor countries can help to make peacebuilding the dominant aim of donor policies.

THE HUMANITARIAN DILEMMA

In the long run, peace is crucial to reduce human suffering in war-torn societies. In the short run, however, tradeoffs may arise between humanitarian aid and conflict resolution. If peace conditionality entailed the withholding of aid to vulnerable populations, it would pose such a tradeoff. In such cases, the priority given to peacebuilding must be tempered by the humanitarian imperative of assisting people whose lives are in imminent danger.

Smart Aid

When faced with tradeoffs, one decision-making strategy is to weigh the good against the bad and to choose the best (or 'least bad') alternative. This approach resembles benefit-cost analysis, but in the case of war and humanitarian emergencies, the benefits and costs include human lives. In choosing how much and what types of aid to provide, to whom, and with what conditions attached, the donors must weigh how their aid will affect vulnerable populations on the one hand and political leaders on the other. Peace conditionality can be applied selectively to the aid that is most beneficial to leaders and political elites, and least vital to the well-being of poor civilians.

This approach can be termed 'smart aid'. In the same way that 'smart sanctions' target the international economic assets and activities of political

rulers, smart aid would aim for ‘greater political gain and less civilian pain’ (Lopez and Cortright, 1997: 329). Among the measures proposed by advocates of smart sanctions are freezes on the foreign bank accounts of individual leaders, restrictions on their ability to travel abroad, and the withholding of loans from IFIs. In the latter measure, smart sanctions shade into smart aid.¹²

Humanitarian Exemptions

Although smart aid is attractive in principle, it would be imprudent to assume that in practice the aid donors consistently will make smart decisions that aim to minimize human suffering. Not only do the donors lack perfect foresight, but also decisions may be affected by other foreign-policy objectives (such as those mentioned above), and by the institutional incentives and cultures of the aid agencies themselves (discussed below). In gauging both the willingness and ability of donors to implement this approach, caution is therefore in order, especially since the costs of wrong decisions are likely to include the suffering of other people.

Given the fallibility of donors, a compelling case can be made for a ‘second-best’ approach in which humanitarian aid is simply exempted from conditionality. In this approach, the smart aid strategy, with its careful weighing of benefits and costs, would apply only to non-humanitarian reconstruction and development aid. Humanitarian aid would not be subjected to this test. This approach raises a further problem, however: how to draw the line between humanitarian and non-humanitarian aid.

Donors have confronted this question in Bosnia. In 1997, an inter-agency Economic Task Force (ETF), chaired by the High Representative, was established to develop guidelines for the application of peace conditionality.¹³ In drafting these guidelines, the ETF adopted a selective approach that included exemptions for ‘projects of a humanitarian nature, e.g., food, basic medical care, sanitation and a minimum supply of power’ (see Appendix). Yet commodities such as food and medicine are not intrinsically ‘humanitarian’.

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12. In a similar vein, Paul Richards (1996: 157–9) has proposed that ‘smart relief’ during wartime would put less emphasis on increasing the overall supply of commodities, and more on improving the access of vulnerable groups to available resources. For example, smart relief would seek to provide information, seeds, and other aid that passes the ‘roadblock test’, meaning it cannot be readily taxed by combatants.
 13. This followed the Peace Implementation Council steering board’s declaration that ‘international economic aid is conditional upon compliance with, and implementation of, the Peace Agreement’ (political declaration from the Ministerial Meeting of the Steering Board of the Peace Implementation Council, Sintra, Portugal, 30 May 1997, para. 45). In addition to the High Representative, members of the ETF include the resident representatives of the World Bank, European Union, European Bank for Reconstruction and Development, and US Agency for International Development.

tarian'; it depends on the uses to which they are put. Food aid consumed by soldiers, for example, might not qualify as humanitarian assistance. By the same token, the reconstruction of power plants might qualify as humanitarian aid if the electricity goes to hospitals, but not if it goes to factories or to government offices.

Faced with the pitfalls of a commodity-based definition, donors often opt instead for an agency-based definition: that is, aid delivered by humanitarian agencies is, *ipso facto*, 'humanitarian' aid. For example, aid through the European Community Humanitarian Office is classed as humanitarian, while other aid from the European Union is not. While this definition has the merit of administrative convenience, it too provides a rather crude approximation of the distinction between humanitarian and non-humanitarian aid.

In principle, a better basis for distinguishing humanitarian aid is in terms of *effects*: does the aid relieve suffering by meeting basic human needs? By this definition, food aid is humanitarian if (and only if) it reaches people at risk of starvation. Even then, some difficult questions persist. What if the food aid reaches some hungry civilians, but also some well-fed civilians or some hungry combatants? If the distribution is mixed — so that some of the aid meets basic human needs, but some does not — is it the ratio between the two that matters, so that must it be at least 50:50, for example, to qualify for the humanitarian exemption?

Moreover, what if the delivery of humanitarian aid is politically manipulated for ends that are contrary to peacebuilding? In Bosnia, for example, some relief aid has been channelled through local Red Cross branches controlled by hardline Bosnian Croat nationalists. These local officials have withheld aid from non-Croat 'minorities' (some of whom were demographic majorities in the same localities before the war) who have attempted to return to their former homes. These same officials have used relief aid to discourage displaced Croats now living in these communities from returning to *their* former homes elsewhere in Bosnia. Such families have been told that they will receive aid only if they register to vote in their new place of residence; if they exercise their right under the Dayton agreement to register in their former communities, instead — thereby signalling an intention to return — they too are denied relief.¹⁴

These questions bring us back to the balance between good and harm, the very challenge the humanitarian exemption is meant to circumvent. But the fact that such judgements can be difficult does not obviate the need to make them.

14. Personal interviews with NGO fieldworkers in Bosnia, June 1998; see also International Crisis Group (1998b). Similar manipulation has been reported in Bosnia's Serb Republic; see Kumar (1997: 123–4).

RECONSTRUCTING AID

Effective peacebuilding aid requires more than the reconstruction of collapsed states and war-torn societies: it requires the aid agencies to reconstruct themselves. In the early decades of foreign aid, inadequate investment in physical and human capital was widely regarded as the main obstacle to economic development. 'If money was the problem', a recent World Bank (1998: 10) study remarks, 'then moving the money was an appropriate objective for aid and aid agencies'. In the 1980s, with the ascendancy of neo-liberal ideology, the prevailing philosophy shifted from public investment toward greater stress on policies that were supposed to stimulate private investment. In practice, this often meant downsizing the state and curtailing its role in the economy. Both institutional legacies — the identification of aid disbursements with success, and ideological antipathy to the state — need to be re-examined in light of the requirements of building peace.

Incentive Structures

The aim of 'moving the money' gave rise to an incentive structure within aid agencies that emphasizes the quantity of aid disbursed, rather than the quality of results achieved. Notwithstanding growing acceptance of the need for outcome-based performance measures and incentives, the baneful effects of the 'approval and disbursement culture' have yet to be exorcised from many aid agencies. The World Bank study (1998: 142) reports, for example, that project managers at the Bank continue to view the quantity of disbursements as an end-in-itself, and that they are 'prepared to allow a substantial reduction in program quality in return for only a small increase in [loan] commitments'.

Changing the incentives for individual staff members is difficult as long as the institutions themselves face similar pressures to move the money. 'Both donor and recipient have incentive systems that reward reaching a high volume of resource transfer, measured in relation to a predefined ceiling', a study for the Swedish International Development Authority observes. 'Non-disbursed amounts will be noted by executive boards or parliamentary committees and may result in reduced allocations for the next fiscal year' (Edgren, 1996: 11, cited in World Bank, 1998: 117).

The fact that IFIs provide aid in the form of loans, as opposed to grants, gives them an added incentive to push the money out the door: new lending helps to ensure that the recipients will continue to service past debts. Indeed, in some cases the new loans directly finance repayments. Such 'defensive lending' will persist as long as there are not adequate provisions to write off IFI debts incurred in the past — even if those prior loans not only failed to

promote sustainable development, but actually exacerbated tensions that led to state collapse.¹⁵

In December 1995, for example, the IMF lent US\$ 45 million to Bosnia — the first loan issued under the Fund's new emergency credit window for post-conflict countries. The IMF publicly heralded this loan as 'a new beginning' (IMF, 1996). But its purpose was simply to allow the Bosnian government to repay a bridge loan from the Dutch government, which in turn had been used to repay Bosnia's assessed share of the former Yugoslavia's arrears to the IMF. Old Yugoslavian debt was thus transformed into new Bosnian debt.

Such creative accounting devices create a moral-hazard problem: when insured against a risk, an individual (or an institution) has less incentive to take precautions against it. In commercial banking, the fact that repayment is tied to performance gives the creditor an incentive to take account of all relevant information — including the risk that the value of the asset will be impaired or destroyed by violent conflict — before making a loan. This incentive is lacking at the IFIs, where loans are repaid or rescheduled regardless of their effects. The IFIs therefore face few penalties for failure to exercise due diligence in conflict prevention. This is not to say that they should operate just like commercial banks: the IFIs need incentives to take risks for peace, as well as to reduce the risk of war. But there is a large middle ground between the extremes of full-risk commercial lending and risk-free IFI lending. An appropriate incentive structure would lie somewhere in that intermediate terrain.

Conditionality — for whatever purpose — does not fit well with an incentive structure that puts a premium on aid disbursements.¹⁶ If institutions face penalties for withholding aid, but not for disbursing it, they naturally will make every effort to 'move the money'. If individual staff members are rewarded for saying 'yes', but not for saying 'no', they will act accordingly. Peace conditionality requires that both institutions and individuals be assessed not in terms of the volume of aid they manage to disburse, but rather in terms of how effectively their aid supports the goal of building peace.

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15. The IFIs also face pressures to provide new lending to finance debt service to other creditors. During the debt crisis of the 1980s, for example, the World Bank was 'faced not only with the spectre of default on its own loans, but also with insistent appeals from the US government, among others, to relieve financial pressure on the IMF and American commercial banks by lending into the arrears of the most heavily debt-distressed developing countries' (Mosley et al., 1991: 302–3). See also Ndikumana and Boyce (1998).
 16. For discussions of the tensions between disbursement-oriented measures of performance and macroeconomic conditionality, see Mosley et al. (1991: 47–8, 71–3, and 299–303), and Collier (1997).

Ideology

Ideological fashions within aid agencies can pose another impediment to effective peacebuilding assistance. For example, a narrow focus on the goal of 'efficiency' — neglecting the 'political' question of who gets what — is singularly ill-suited to war-torn societies where the prospects for peace rest on fragile balances of power. In assessing projects and policies, aid donors must ask not only whether the total benefits will exceed the total costs — the usual 'bottom line' in benefit-cost analysis — but also how the distribution of benefits and costs will affect vertical disparities of class and horizontal cleavages of ethnicity, religion, race, and region. These distributional impacts are often hard to measure, but this does not imply that they can be ignored.

Ideological antipathy to state interventions in the economy can also lead to policy prescriptions that are at odds with the requirements of peacebuilding. For example, in recent years the privatization of state enterprises has been promoted enthusiastically by the World Bank, the IMF, and the US government. Instead of the vaunted efficiencies of a 'level playing field' for market forces, this policy has often led to rising unemployment, poverty, and social polarization (United Nations Development Programme, 1999). Moreover, the liquidation of state properties at bargain-basement prices has often augmented the wealth and power of politically powerful individuals who have little, if any, commitment to peacebuilding. The nepotism practised by the Tudjman government in post-war Croatia is one good illustration (Gall, 2000). Another is the privatization of Aluminum Mostar, the biggest firm in Hercegovina, which was taken over by hardline Bosnian Croat political leaders in a transaction denounced as 'criminal' by the British ambassador to Bosnia (Kebo, 2001).

Similarly, the single-minded pursuit of tariff reductions in the name of trade liberalization may reduce government revenues that are desperately needed to finance the costs of peace. In Rwanda, for example, where the ratio of government revenue to national income is barely 10 per cent, the IMF has pressed the government to cut trade taxes. The Rwandan government cited 'a significant tariff reduction' as a reason for revenue shortfalls in a November 1999 Letter of Intent to the IMF, but proceeded to promise further reductions via the elimination of temporary import surcharges and all intra-regional tariffs.¹⁷ Even in the wake of genocide, free-trade orthodoxy apparently trumped the fiscal needs of reconstruction.

17. *Memorandum of Economic and Financial Policies of the Government of Rwanda for 1999/2000 (July–June)*, 2 November 1999: para. 5 and box 3 (<http://www.imf.org/external/np/loi/1999/110299.htm>).

Inter-Donor Co-ordination

Effective peace conditionality also requires that donors move beyond business as usual in another respect, by increasing the degree of co-ordination with each other. If one donor presses for specific peace-related actions in return for aid, while another offers aid without similar conditions, the lowest common denominator will prevail.

The most ambitious co-ordination effort to date is that undertaken by the Office of the High Representative (OHR) in Bosnia, an institution that comes as close as any in the contemporary world to a colonial administration. Nevertheless, the OHR's ability to impose its will on the aid donors is strictly limited. The Dayton Peace Agreement specifies that in dealing with the aid agencies, the High Representative shall 'respect their autonomy within their spheres of operation, while as necessary giving general guidance to them about the impact of their activities on the implementation of the peace settlement'.¹⁸ In other words, the OHR's ability to co-ordinate rests on persuasion, not authority.

As always, this task is made difficult by institutional rivalries and divergent views among donors. 'Here in Sarajevo', a senior UN envoy explains wryly, 'everyone wants co-ordination, but no one wants to be co-ordinated' (personal interview, September 1997). Yet in choosing the extent to which to synchronize their policies with those of others, each donor must weigh the benefits of greater coherence against the costs in autonomy. Opportunities for peace conditionality may tip the scales in favour of co-ordination.

Transparency and Accountability

Peace conditionality would not alter the reality that aid donors wield power. This is a fact of international life, as large-scale infusions of aid affect the balances of power and shape economic outcomes in recipient countries for better or worse. Peace conditionality would simply orient the donors' power more systematically toward the aim of building peace. Yet a plausible objection to peace conditionality is that we cannot count on the donors to 'get it right'. Indeed we may expect them frequently to get it wrong, due either to simple ineptitude or to the biases described above.

In general, there are two broad lines of response to the imperfections of governments and international institutions. One seeks to minimize the size and scope of these institutions so as to limit the damage they can inflict — a 'rejectionist' stance shared by neoliberal economists of the Chicago school

18. *The General Framework Agreement for Peace in Bosnia and Herzegovina*. Annex 10, Article II, Sections 1(a) and 1(c).

and by some non-governmental organizations.¹⁹ The other seeks to improve the performance of official institutions by democratizing the distribution of power, so as to minimize the extent to which they cater to the interests of the powerful at the expense of the broader public good.

Once we recognize that 'being ruled is an unpleasant necessity' (Przeworski et al., 1999: 22) — among other reasons, because we need governments and international institutions to build peace — the inescapable importance of the second line of response becomes clear. The new directions in donor policies outlined here would be facilitated by greater transparency and accountability in donor decision-making. The IFIs are particularly important in this regard, since while in principle they are accountable to their member states, in practice they are largely insulated from oversight by national legislatures, unlike bilateral aid agencies. World Bank president James Wolfensohn's (1999) recent call for the establishment of 'independent verification and evaluation systems open to civil society' reflects a growing recognition of the need to move in this direction.²⁰

CONCLUSION

War and state collapse compel donors to recognize that aid inevitably has political effects. In the short run, aid can alter the balances of power within and among opposing groups in the recipient country. In the long run, aid can either exacerbate social cleavages, or help to bridge them by fostering inclusive economic growth and an inclusive political environment. The pursuit of these goals requires careful attention not only to the quantity of aid, but also to its qualities: the types of aid, to whom it is provided, and the conditions attached.

Peace conditionality — tying aid to steps by the recipients to implement peace accords and consolidate peace — can make aid a more effective instrument for peacebuilding. Notwithstanding experiments with peace conditionality in countries such as Bosnia, however, donors have yet to incorporate it systematically into their policies. Just as the need or 'demand' for peace conditionality arises from the presence of multiple actors with competing interests in the recipient countries, so too the 'supply' of peace conditionality is constrained by the presence of multiple actors with competing interests on the donor side. Peace conditionality cannot be simply added to the existing menu of policy choices, leaving all else unchanged: it requires profound reforms among aid donors. The challenges of building peace extend beyond the reconstruction of war-torn societies to the reconstruction of aid itself.

19. For a Chicago-school perspective, see Becker (1983). On the parallels between neo-liberal views and some NGO views, see Milder (1996).

20. For a discussion of the Bank's recent record in this respect, see Fox (2000).

APPENDIX

Excerpts from the Economic Task Force's 'Draft Guideline on the Application of Political Conditionality in Reconstruction Aid', August 1997

Donors and members of the Peace Implementation Council have taken the position that political conditionality should be applied in the implementation of the reconstruction aid program. The objective is to give a new impetus to the peace process by rewarding those who cooperate and depriving from reconstruction aid those who obstruct the application of the Dayton Agreement . . .

The purpose of the present note is to set the basic rules which, according to the ETF [Economic Task Force], should govern the application of political conditionality . . .

1. There will be no political conditionality for projects which are of a humanitarian nature, e.g., food, basic medical care, sanitation and a minimum supply of power.
2. The following types of projects are to be privileged:
 - a) projects promoting common and joint institutions and cooperation between the institutions of both entities . . . ;
 - b) projects fostering free movement within the country, e.g., basic repairs of roads and bridges;
 - c) projects improving communication between people, e.g., media (if not government-controlled) and telecommunications;
 - d) projects favoring the voluntary return of refugees . . .
3. For the projects mentioned in paragraph 2 above, political conditionality will be limited to excluding as beneficiaries:
 - a) municipalities which actively obstruct the peace process, unless projects are specifically designed to foster cooperation in peace implementation;
 - b) institutions (as project intermediaries) and companies (as contractors or credit takers) controlled by indicted war criminals or persons actively involved in obstructing the peace process.
4. For other projects (i.e., non-humanitarian and non-privileged projects), the political conditionality described in paragraph 3 will apply. In addition, donors are advised to:
 - a) limit housing reconstruction to municipalities in priority return areas as designated by the RRTF [Reconstruction and Return Task Force], and/or participating in the Open Cities programme, and/or allowing significant minority returns; and
 - b) consult with the ETF on the appropriate timing of projects exceeding US \$10 million in aid prior to project approval or suspension on non-economic grounds.

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