

Peace and Development Research Workshop, 7-8 November 2008

McGill University, Montréal (Québec) Canada

Rapporteurs Report, by Dr. Monica Treviño Gonzalez

Abstract: The social sciences literature and policymakers often take for granted that positive developmental outcomes, including poverty reduction, risk mitigation and democratization, are mutually reinforcing. Yet the empirical evidence is still ambiguous, particularly for post-conflict and fragile states. To help fill this void, the study will address three sets of related issues: 1) Participatory Governance and Service Provision; 2) Powersharing for Peacebuilding and Development; and 3) The Economic Agenda for Post-Conflict Reconstruction. The project will consist of two component parts: The first will consist of 6 papers exploring the three sets of issues, with a focus on their larger theoretical aspects and empirical trends. The second component of the project will consist of detailed case studies that also address the same sets of issues in eight cases: Bosnia, Colombia, Iraq, Lebanon, Mozambique, Rwanda, Sri Lanka and Sudan. Each case study will be written by a multidisciplinary team consisting of an economist and a political scientist or sociologist. The two components will be fully integrated to ensure that that the case studies inform the development of macro-level theory, at the same time that the theory provides a strong foundation to maximize the coherence of the overall study and the comparability of findings from the six case studies. The project has the particular strength of developing a new, multi-disciplinary, cross-regional research network that will have the additional benefit of using both sophisticated quantitative and rigorous qualitative research methodologies. The group of Southern and Northern researchers involved in the project also has considerable ties with the policy communities, both nationally and internationally, increasing the project's potential for generating policy change by helping to ensure that the project's findings are relevant to potential stakeholders and more politically viable in Southern countries. Ultimately, the project will serve as a model for developing effective North-South and South-South research collaboration. This report reflects accurately the discussions of the first workshop held under the auspices of this research project.

Peace and Development Research Workshop, November 7 and 8, 2008

Friday, November 7

Opening Remarks: *P. Oxhorn (CDAS, McGill University)*

This workshop represents the midpoint in a two year project. It also marks an important time in the evolution of the Centre of Developing-Area Studies (CDAS), whose renewal is predicated on the idea of playing an important bridging role between researchers in the South and North in order to create policy that is relevant to developing countries. An important element in this strategy is the good working relationship that exists between CDAS and International Development Research Centre (IDRC), which is a major funder for this project. We welcome Elissar Sarrouh, from IDRC, who has played an important role in making this happen.

E. Sarrouh (IDRC, CDAS, McGill University)

The Peace, Conflict and Development programme at IDRC is delighted to be a part of this project. Our purpose is to provide research to support our four thematic areas: Democratic processes and governance and peace-building; violence, justice and reconciliation; security and insecurity; and political economy of peace and conflict. The final objective is to increase accountability and to support peace-building projects, with actors from the South being conceived of as generators of knowledge, rather than as objects of research.

The major aspects of the PCD programme are to generate evidence-based findings for policy creation; to build domestic processes of peace; and to promote accountable processes at the level of the state and governance. For this purpose, we fund research on regional and global processes in order to inform policy. Finally, we aim to build capacity for rigorous research and action through our collaboration with Southern NGOs and other organisations.

This project is of particular importance due to its key objective of creating South-South and South-North dialogue on this topic. IDRC is also putting in place a Peace Building Roundtable to be held in Ottawa on December 10 and 11, to link this project with other similar projects funded by IDRC.

Opening Session: “The Goals of the Peace and Development Project: A Multi-disciplinary, New Form for North-South Dialogue”

I. Elbadawi (World Bank)

This workshop is part of a collaborative project responding to the need to create knowledge and research to make an impact on policy with regards to a growing impediment to development, namely conflict and violence. This transformation in the constraints on development has also influenced research at the World Bank. Starting in the late 1990s, director Paul Collier put in place an effort to help research dealing with political and criminal violence in order to understand the causes and effects of civil war and other political violence.

The next phase constitutes an analysis of processes of transition towards peace. This change has taken place in the context of a larger process of interaction and collaboration with the academic community, which has led to the production of over 50 papers and two symposia in the *World Bank Economic Review* and the *Journal of Peace Research*. As a result, there has been cross-fertilization with other colleagues, and this has led to the development of a core group in the World Bank's research department that is interested in the issue of democracy and its relationship with development and conflict. This is the basis of an ambitious project to explain the democratic deficit in the Arab World, which is also funded by IDRC.

This phase focuses more on the institutional and policy dimensions of peace-building, peace and development. CDAS constitutes an ideal place to undertake this work, due to its multidisciplinary nature. It is a leading centre because of its regional focus and its emphasis on non-economic social science perspectives, which complement well the World Bank's economics focus.

For this particular project, we are looking to develop creative research along three main themes: power-sharing, service delivery, and the economic agenda with regards to fundamental macro-economic issues (aid, fiscal, and monetary policies). The research design for this project has two dimensions. It combines thematic papers with the country-specific characteristics of six representative case studies. The purpose is to engage the case studies with the framework of the thematic papers presented by the authors today. That is to say, to create a coherent plan for putting together the case study research, benefitting from the techniques and analysis of the thematic papers.

In terms of the execution and managerial aspects of the project, it is a truly collaborative endeavour from CDAS and the Development Economics Research Group at the World Bank. The Development Economics Research Group has secured the support of the World Bank for the thematic papers, and CDAS has worked with IDRC for the case studies. This is a challenging but rewarding task, considering the richness of the case studies and the various approaches from the thematic papers.

P. Oxhorn (McGill University)

The approach of the project is to combine the themes and the case studies to create new, useful insights, by explicitly combining methodologies that are often seen as mutually exclusive. For example, we seek to combine macro and micro approaches, through a cross section of cases to represent a variety of post-conflict outcomes. At one end of the spectrum, we are looking at two cases that are more or less past the conflict period, Bosnia and Rwanda. At the other extreme, we have Sudan, in the midst of conflict. And we are including various cases more or less in the middle of the spectrum, with varying contexts: Colombia, with the winding down of a prolonged conflict; Lebanon, with low level but increasing conflict; and Sri Lanka, with a similarly low level conflict, although it is hard to say if things are getting better or worse. These cases represent different stages, but also different problems, with a deliberate cross-regional effort.

The case studies are undertaken by teams of distinguished scholars, but the important innovation in this project is that they pair an economist with a political scientist or sociologist. We are thus hoping to enrich

the studies in a way that is different from what single-discipline researchers or teams traditionally produce. This approach should also increase the possible dialogue between macro and micro perspectives.

We are also integrating great new mechanisms for North-South dialogue. In the spring of 2009, our next workshop will take place in Rwanda; this is because we are trying to create a situation where we can bring the perspectives from the North and South on these issues creatively and collectively. The South is not often included, and therefore new perspectives from the ground are left unheeded. We want to maximise new channels of dialogue across disciplines and across regions. Hence the two components of macro-level, large scale empirical papers to create a framework for the discussion along the three themes. The papers to be presented here are drafts, and they are intended to grow along with the project. They will serve as the basis for the case studies to follow the same basic theoretical framework.

Then the coordinating committee will go back to the basic questions of social science with new insights from diverse experience, creating new networks, identifying best practices and making policy recommendations reflecting the needs of the beneficiaries and the priorities of those who are working for it.

Q&A

To a question of clarification as to how the three themes are brought together, specifically with regards to service provision and its link to governance, the coordinating committee responded that the choice of themes was made on the basis of trying to identify the comparative advantages of the research team. The choice of themes started with democracy and service provision, as well as the political economy aspects of power-sharing and peace. It is expected that the themes will evolve and mature as the study develops, looking for ways to say something useful and to draw lessons from the case studies. With specific regards to service provision, the thinking is to consider the nexus of security and development and ways to operationalize it. How do governments in a context of conflict fail to deliver services and how does that impact sustainable peace? How does it feed back into the weakness of the state?

In addition, it was noted that the literature on this topic doesn't look at the trade-offs involved. On service provision, the literature looks at local democracy, but little is said about what happens in the absence of local democracy. The question is how to provide these services in less open systems that do not offer inclusion.

It was remarked that, with regards to the aid regime, there is still an ongoing debate about what to do in post-conflict situations. The idea of independent service agencies is often floated quite successfully in terms of health and education. The case studies may give us some valid experiences. For some, from a macro perspective, post-conflict aid should target the price of food because it is understood that agents tend to conceal their wealth and relapse into subsistence, but it is important to increase transaction activities, which requires a competitive exchange rate, so targeting the non-monetary cost of food should be privileged. However, this approach tends to work for low income economies, but not for middle income economies.

It was noted that the issue of service provision is important both from a macro-economic and from a peace-building perspective, as it helps to build trust between the government and its citizens. It is also part of the expectation of the so-called peace dividend that basic services will be provided.

The point was made also that there is a lot of history of conflict arising because of basic services were not provided. There is therefore a need to create a “preventative” infrastructure, which will be central to long term stability.

A question was raised with regards to the case studies, in terms of whether or not each case study is expected to cover all three themes, as this was considered perhaps too ambitious. Also, it was noted that the timeframe for each case study needs to be clarified, as for instance in Colombia where there is a long history of power sharing explicitly to prevent conflict, whose consequences may merit detail analysis.

The response to this question was that the expectation is indeed that all cases will cover the three themes, which is important for the internal coherence of the project. The timeframe, however, will be dependent on the specific country covered. These details are to be covered in the closed section of the workshop in more detail, but the expectation is that some of these parameters will be determined ad hoc. The principle will be for the case studies to look at the useful experiences, rather than at a pre-set timeframe.

To another question on the relative weight of each theme in each case study, the response was that while each case is expected to address all three themes, each country has a different experience and therefore the emphasis on one or other theme will shift accordingly. Because this project will take place over two years, these issues are intended to be resolved through an ongoing dialogue.

The issue of the absence of non-conflict cases, from a methodological perspective, was also raised. It is expected that this will partially be addressed in the large-N studies on the thematic papers. This limitation of the project was partly attributed to the understandable absence of the study of non-conflict multi-ethnic societies in the conflict literature that the project is engaging.

Power-sharing, Service Delivery and Peace

Chair: F. Montambeault (McGill University)

G. Milante (World Bank) and S. Skaperdas (University of California, Irvine): “Power-sharing under the Threat of Conflict”

The underlying question in this project is why there is conflict. This paper focuses on the problem of incomplete contracting, as it is known from the perspective of economics, or a commitment problem as it is conceived from political science. It assumes two main conditions:

- contracts on arming are imperfectly enforceable, and contracting on other issues is conditional on whether or not there is trust between the parties regarding arming contracts; and
- conflict and settlement (or power sharing) imply different paths for the power of each side, in that there will be a winner and a loser.

In power-sharing situations there will be a less extreme distribution of power. However, it is possible for one side or the other to take a chance on the possibility of “winning” in the future and therefore decide they might as well fight it out now.

This model emphasises the role of the “shadow of the future” (insofar as the future matters). In this context, the rational choice approach is based on the problem of cooperation, and suggests that for power-sharing to succeed it is important to make the future matter a great deal. The problem is that it is also possible to make the future matter too much to be willing to power-share, as valuing the future more than the self may make people unwilling to compromise. So our model also emphasises the degree of destructiveness of the conflict, as well as the degree of commitment, governance and security provisions in relation to investments in conflict management.

The model therefore considers the case of two groups, each contesting a rent in each period, over an indefinite time horizon. In each period, the choice is between war and power-sharing, and the winner of a war will win forever. Both war and power-sharing involve arming.

In each period, there is:

- some predetermined level of security or commitment capability;
- a choice of level of guns;
- a choice between war and power-sharing, with the latter being possible only if both sides agree.

In this model, each side chooses its arming level. Given these levels of arming, each side makes a decision whether to accept the power-sharing agreement or not. Power-sharing takes place only if the payoffs over the horizon of their interaction for both sides are greater than those under war. In turn, the payoffs depend on the destruction parameter, the probability of winning and the degree to which the future is discounted.

Power-sharing is more likely:

- the higher is the probability of destruction in the event of war;
- the less the future is valued;
- the higher is the governance parameter.

The governance parameter can be considered a function of investments in governance and property rights, as well as other factors such as outside forces (whether “good” or “bad”), the history of past interactions (or the capital in commitment and governance inherited from the past), and the actual choices of investment by the parties (either non-cooperative or socially optimal choices).

Q&A

A brief question and answer period raised the following issues: if the cost of institutions is not very high, according to this model, how determining is it? Is the model adaptable to conflicts with more than two parties? And how can the model be explored empirically, if it rests on the assumption that power-sharing essentially means an infinite number of bargains which requires infinite instances of investment in guns?

In response, the authors noted that the cost of institutions should also be weighed in terms of time and capacity-building, and warned that the intervention of external actors may not always be desirable in this respect. The empirical aspects of number of parties involved and the infinite horizon were clarified by reference to the case of Lebanon, where a large number of parties involves, in this model, a larger public good problem of coordination, and increases the incentive to spend resources on arms. The continued power-sharing arrangement in parallel with the maintenance of armed militias in that same country exemplifies the empirical form of the infinite horizon assumption.

P. Keefer (World Bank): "Foreign Assistance and the Political Economy of Post-Conflict Countries"

This paper looks at the issue of aid to post-conflict countries. The possible objectives of aid in this context are humanitarian or reconstructive; long term economic development; and long run peace. Military intervention has rarely happened benignly in these contexts, so it will not be considered here.

The usual strategy of donors is to start with reconstruction, human and economic development groundwork. Economic development is seen as an important prerequisite for long-term peace. However, this strategy tends to ignore the political economy constraints on translating development assistance into long-term development.

The programmes of the World Bank in the Congo and of USAID in Afghanistan do place some emphasis on aid, focusing primarily on health and somewhat on education. There is some effort on economic development through the provision of loans to farmers, for example. These programmes provide some post-conflict aid on the rationale that there is less conflict when income is relatively equally distributed.

Aid programmes in post-conflict contexts give combatants some veto on the mechanisms of government. The idea is that aid will lead to reduced conflict. There is little evidence for this, and what evidence we have points to the fact that this does not work for the poorest half of countries, which are also the most conflict prone. Increasing income alone does not lead to a reduction of conflict. Institutional guarantees to ex-combatants tend to undermine development for non-combatants, especially if the conflict takes place in countries that were poor in the first place.

Both conflict and underdevelopment have common political causes that are not usually addressed by aid. These causes are associated with political market imperfections. Politicians who have weak incentives to pursue the broad public interest, such as development, are more vulnerable to insurgencies. In all poor countries, politicians are unable to make credible promises to broad groups of citizens (except their clients), and citizens are uninformed about what the politicians are really doing. The limited interest of

politicians in providing citizens with benefits is obvious; there is little or nothing to be gained for them in making such investments.

In addition to these problems, it must be considered that assistance and advice from the aid community can go astray. Other issues that are especially bad in post-conflict contexts are ethnic hatred, violence as a tool of political competition or intimidation, and low capacity (which is not often recognised as a political economy problem). All of this makes it impossible to promise to provide government services.

There are both development and conflict consequences for all of these items. There is a credibility problem that affects the state's ability to counter insurgency. The information problem affects the citizens' willingness to be recruited in a conflict situation, although uninformed citizens are more likely to be recruited in the case of ethnic conflict.

Hatred and violence in politics have political economy problems, in that they make the state and citizenry unwilling to support universal policies. This situation makes conflict more likely and reduces accountability, making citizens more interested in security than in other services.

These imperfections hurt both democracies and autocracies. At the same time, institutionalised political parties solve the credibility and information problems in both situations as well. In autocracies, institutionalised political parties allow insiders to engage in collective action against the ruler if he reneges on his promises, thus making credible promises necessary for the ruler to avoid insurgency. In democracies, institutionalised parties allow competitors to make credible promises on their future policies. This suggests that controlled liberalisation (with no electoral competition but with significant freedom of expression and other civil liberties) is the best option for peace.

The first lesson is that aid should privilege development and peace over reconstruction, since the most important issue is the underlying condition that led to slow development with high conflict risk in the first place. In fact, generally speaking, the key indicators are no worse post-conflict than they were pre-conflict. This of course does not hold true for really bad conflicts like Rwanda. So aid is best spent if it focuses on development issues rather than on conflict issues.

The second lesson is that development assistance should be adapted to the political market imperfections. There are weak political incentives for services like building capacity, improvements to the financial management of the public sector, or building large-scale infrastructure. There are, however, strong political incentives to provide jobs, targeted infrastructure and tangible hand-outs, which are fast-return activities.

The third lesson is that donors can target these political market imperfections, by increasing information and credibility; providing -rather than supporting- capacity over a credibly long period. People must believe that capacity will be in place when the politicians implement their promises. Aid should encourage even flawed but concrete and observable action over public sector management.

In these circumstances, however, we need to ask who provides social services? The case studies might also be able to test this hypothesis, by looking at what are the political market imperfections in these cases, how they influence government choices on social service delivery, and how social service delivery affects political market imperfections.

P. Oxhorn (CDAS, McGill University): "Patronage or Empowerment: The Dilemma of Service Decentralization"

The solutions to the problems of service delivery will have to come from the local level. In this context, the question we need to ask is whether decentralisation works.

There are three types of decentralisation: administrative (the most minimal form), limited delegation (an intermediate level with some local discretion) and full delegation (which decentralises the design and implementation of policy). Another, special form of decentralisation is the privatisation of services to reduce the size of the state.

Regardless of the type of decentralisation, there are four principal justifications for it, which are not necessarily mutually exclusive:

- Efficiency, on the grounds that the services are thus closer to the end user;
- Democratic accountability, in so far as citizens determine which services they want and how they will be provided;
- Privatisation as an alternative mechanism for achieving efficiency and reducing rent-seeking behaviour; and,
- In some cases, decentralisation is justified on the grounds that it increases the state's penetration throughout its territory.

In what respect can decentralisation contribute to lessening conflict? Generally speaking, it could create citizenship ownership, by identifying the people's own priorities and by giving them influence on these decisions. It could also create equity since it can allow the marginalised to be included in the service. Perhaps it could depoliticise service provision by reducing the opportunities for rent-seeking. It is possible also that, with more efficiency, decentralisation can satisfy the citizens' expectations and thus decrease conflict.

This paper is based on a twofold premise, on which rest the incentives for political actors to decentralise. First, long-run stability requires successful democratic decentralisation, That is to say, decentralisation must be inclusionary in order to contribute to stability. It must also be founded in a strong civil society. This is because civil society is a good arena for resolving conflict and for building consensus, and thus it mediates conflict before it turns into violence. At a minimum, civil society also encourages respect for the right of different groups to exist. Furthermore, civil society constitutes a good counterbalance to the power of the state, since a strong civil society can demand transparency and accountability. At the same time, it represents a partner for the state in resolving development challenges. In this way, decentralisation is a potential mechanism for the state to work with civil society, thus achieving a mutual strengthening.

In this context, decentralisation is an issue of redistribution, along a number of different lines. Indeed, decentralisation redistributes resources from the national to the regional and local levels; from richer to poorer segments of society. But it can also serve as a mechanism to preserve hierarchy and inequality. It

is therefore important to consider how this redistribution of resources takes place, and who benefits from it.

Decentralisation can also redistribute power or authority, and in this sense a key distinction between types of decentralisation revolves around how much effective redistribution of power or authority actually takes place. The most sustainable redistribution here is one that moves power from the national to the local level. But it can also redistribute authority from the states or public sector to the market, or even from national states to international actors, with the latter being the least sustainable form.

In assessing the effects of decentralisation, it is informative to look at Pinochet's Chile, which exemplifies the potentially negative consequences of decentralisation. This was a radical programme of regional and local decentralisation that was not intended to include people. Its purpose, in fact, was the fragmentation of political power to prevent the rise of another Allende, by reducing the influence of the presidency. It was put in place under the guise of increasing efficiency, by leaving service provision to the market, supplemented by targeted assistance to those most in need. Therefore, it took primarily the form of privatisation. This had the effect of limiting linkages across classes. More importantly, it allowed the state to penetrate society in order to control the opposition.

Finally, decentralisation can redistribute resources either for the purposes of inclusion, or for the purpose of creating new clientelistic networks and so-called authoritarian enclaves. So when evaluating the effects of decentralisation, it is important to ask whether it is creating inclusive politics or social apartheid. Ideally, decentralisation should bring people in. Two examples can illustrate how the process itself has an impact on this.

The Popular Participation Law in Bolivia was an unprecedented reform of the state in 1994, through which the government was "municipalised". The decentralisation involved included both financial resources and authority. The idea was to build the state through a massive decentralisation of power to participatory local governments, intended to create a mixed democracy combining elements of Western political democracy with traditional institutions of local governance. In that sense, it was intended to create a mechanism of inclusion. The law created Base level Territorial Organisations (OTBs), legally recognised institutions with strong powers of oversight. The trade-off was that this system explicitly excluded functional organisations.

This was a well-intentioned but flawed process. It was intended to include indigenous people by bringing government to people in regions where it was previously absent. But it was a fundamentally top-down process, with no consultation of society. Furthermore, the advocates of decentralisation within civil society were excluded, and those that were included were suspicious of the intentions of the central state. In order to create an incentive for them to participate, up to 40% of the country's budget was redistributed to these OTBs. As a result of these flaws, the "authentic" indigenous organisations were captured by political parties, thus creating the worst of both worlds, by helping corruption and rent-seeking penetrate the local level, and decreasing the "authenticity" of these organisations. In addition, the most dynamic civil society organisations were left out.

This example shows the limits of decentralisation. The "one-size fits all" approach reduces the scope of local autonomy. It was also an incomplete decentralisation, since key areas of policy were still left to the

central government. The programme also was unable to live up to expectations because of a lack of local capacity and/or of political will to implement the items included in the participatory budgets. Furthermore, the oversight committees were dependent on the local governments and political parties they were supposed to oversee. As a result, the OTBs ended up weakening their own social base, as they are seen to be at best ineffective and, at worst, sources of rents. Women were the biggest losers in the process, even though one explicit goal was gender equality. The number of women participating as mayors and city council members actually declined as a result. This was because women's organizations were excluded, since they were not territorially based, and also because now that cities had significant economic resources, men were more interested in participating and displaced women. Rather than serve as a mechanism of social inclusion, this decentralisation project polarised society increasingly, with a resulting instability that still endures today.

A different example is offered by the participatory budgeting in Porto Alegre, Brazil. The 1988 constitution opened the door for participatory governance at the local level and encouraged local determination of the specific mechanisms of this participation. The participatory budgeting in Porto Alegre was the result of a repudiation of the incumbent party, whose place was taken by the emergent Workers' Party (PT). In addition, a relatively strong civil society was very much in favour of this mechanism.

The PT saw participatory budgeting as a means to win positive support. The initial mechanisms it proposed for this were imposed and had many problems that led civil society to reject them. However, the PT was willing to bargain with civil society to perfect the system, negotiating with various actors to create mechanisms that would be acceptable to civil society and increase participation. As a result, civil society became actively involved and the resulting expenditures reflected civil society's priorities. This had the effect of making participation seem effective, and therefore more people started to participate as new organisations were created. As a result, civil society became even stronger than it initially was.

This shows that the process of decentralisation is key. In contrast to Bolivia, it is not the amount of money involved in the programme that determines its dynamic. While most of the discretionary budget is now participatory, it only amounts to about \$200 per capita. The key to Porto Alegre's success is the combination of state-society compromise, accountability and responsiveness, as well as efficiency and effectiveness.

In order for decentralisation to be useful in reducing the risk of conflict, it needs therefore to be democratic, and local democracy needs to be a foundation for broader, national processes of inclusion. Such a process increases the efficiency of the state as well as the strength of civil society.

Power-sharing, Service Delivery and Peace Discussion Session

Chair: M. Mattner (McGill University)

Discussant: E. Kuhonta (McGill University)

The previous session raised a number of issues: the importance of institutions, the relationship between state and civil society, the sequencing in post-conflict contexts, and the relationship between peace and development.

Institutions are one of the most important issues in development. In particular, political parties matter for stability, as they constitute a foundation for public goods delivery, as well as a channel for communication with the state, and a mechanism of democratic representation. Without them, systematic violence can take place, as there are no viable mechanisms for redress. Political parties, in post-conflict situations, can temper violence, but only if they are more programmatic and collective than clientelist.

The importance of political parties in post-conflict situations can be emphasised by analysing what happens in cases when they have not been given priority. In Iraq, for example, many analysts now make the argument that it was a mistake to allow the Ba'ath party to dissolve, as it deprived the authorities of an existing structure to penetrate the grassroots of society, which would have increased stability and created a means of communication with the occupiers. In contrast, in Cambodia, UNTAC largely left intact the People's party in the role of a benevolent hegemon. The downside in that case was that Hun Sen was able to prevent reforms that the UN wanted to enact.

Regarding the relationship between state and society, it is clear that civil society and NGOs are important actors for the provision of public goods, especially where states are weak, and for ensuring accountability and transparency. But they are only useful to some extent. It is important to note that the real answer is not bypassing the state or establishing a direct relationship between donors and social forces, but rather to create public private partnerships; with more stakeholders, there is a positive sum game, in which both sides benefit in the long term.

The problem of sequencing in post-conflict contexts is essentially the question of what to do when there are many problems and we need to prioritise? Since we can't do everything at once, the argument is often made that elections are the goal in re-establishing control or order. But it may not always be the first goal. Historically, there are lessons for policy in post-conflict situations. The development of institutions and democracy in the Philippines began with electoral institutions before a central bureaucracy had been put in place. This had very negative effects on democracy, as local oligarchs were able to take control early on and there was no increase in the quality of democracy. The existence of central institutional structures would have been able to constitute a check on these provincial elites.

Q&A

The question and answer period raised the issue of the importance of distinguishing between programmatic parties and sectarian parties in assessing their potential for democratic development and stability in post-conflict situations. More importantly, institutions as well as political parties should not be considered in isolation, but should be coupled with local capacity and local knowledge. The point was also made that, although elections can seem like an important milestone to reach early, they can lead to disillusionment if strong institutions are not built at the same time.

A different question concerned the existing evidence in regards to the effects of community development programmes. The evidence is mixed, in some cases creating satisfaction with local government and agencies but not linking those with the actions of the national government in the minds of the population. This also raised the issue of whether community development programmes contribute to the development of the national state, for which the evidence is more negative, given a tendency to use such programmes as tools to divide and conquer by dispersing resources among local communities individually. It was

noted that this problem is more acute in non-democratic contexts, as well as in areas with fixed-point resources such as oil. The point was raised also that the relationship between political parties and other civil society actors needs to be examined more closely in the theoretical framework of the project.

Regarding the issue of prioritising aid and the role of external actors, the idea was brought up that there should be a closer look at the political economy of the donors themselves, in so far as they are exposed to a moral hazard in working with local actors that are not necessarily well-known to them. Furthermore, they may have interests that are different or even contrary to those of the recipients.

Macroeconomic Agenda for Peaceful Post-conflict

Chair: Samer Atallah (McGill University)

Discussants: S. Laszlo (McGill University) and S. Makdisi (American University of Beirut)

J.-P. Azam (Toulouse University): “Macroeconomic Agenda for Fiscal Policy and Aid Effectiveness in Post-Conflict States”

This paper considers the link between the theories of conflict and development, including aid effectiveness. The key challenge is to avoid restoring pre-conflict situations that led to violence in the first place. Successful reconstruction rests on establishing a conscious conflict-prevention strategy. In this regard, peace is the key public good that governments must provide in order for economic development to happen. Indeed, investment will not take place without a reasonable expectation that property will not be destroyed. A good example of this is the fact that oil discoveries made in Chad in 1974 were only exploited in 2003, because only then were local factions able to solve their political problems. The reduction of the probability of war is what allows for economic growth

The aim of this paper is to take the lessons of conflict theory to fiscal policy and operationalise them. It will also discuss the elements of institutional theory on the base of empirical cases. The basic lesson from conflict theory is that two costly inputs are needed to produce peace: redistribution (through social expenditures in health and education in particular) and deterrence (military expenditures and sometimes violence against civilians to decrease the ability of potential rebels to mobilise and thus make the costs of rebellion higher).

The key condition is a credible commitment to peace, through institutional checks and balances and agencies of restraint. Although a ruler’s personal reputation can serve this purpose, it dies with the ruler and is therefore not sustainable in his absence. Special challenges are created when oil exports undermine a government’s credibility and thus increase the risk of civil war. Corruption at all levels of government may also make redistribution more expensive than conflict and undermine the political will for peace, as was the case of the Niger Delta states in Nigeria. Beyond credibility, whether institutional or personal, there is the problem of actual delivery of the resources.

The model on which this paper is based sees a government with a choice of engaging in war (violating the participation constraint) or peace (respecting the participation constraint). If peace is chosen, there is a need for a policy mix of redistribution and deterrence.

Deterrence is about increasing the cost to rebels. If the government chooses peace, it needs to minimise, for itself, the cost of both deterrence and redistribution. This is because the cost of buying peace by redistribution alone is higher than that of buying it by a mix of redistribution and deterrence.

We need to consider the social cost of peace. It is not Pareto-preferred to war, unless there is zero deterrence, so peace is not “natural” and it requires the investment of resources. Peace is, however, privately preferred, and it has a positive social cost. The transaction cost of deterrence is generically higher than that of redistribution.

Peace is chosen if its cost is lower than that of war, including its transaction costs. War happens when the government is unable to frighten its opponents and particularly unable to “bribe” them. To solve these inabilities, the government needs to increase its administrative and war efficiency. The risk of war is most cheaply reduced by investing in both administration and war, rather than by making large investments in one or the other alone.

It is also important to consider the scope of peace-inducing foreign aid in this context. It can be used to reduce transaction costs by strengthening a country’s institutional framework for efficient redistribution. At the same time, aid can be used to make deterrence more effective.

To be conflict-preventive, institutions need to take the following four factors into consideration:

1. The institutional framework needs a balance of forces to make it credible. This is because majority rule may easily entail a dictatorship of the majority and the exclusion of minorities.
2. Power-sharing can make redistribution credible. This is demonstrated by the case of Chad in 1993. The incumbent chose the leader of a rebellion for the second most powerful position in the new government and did not dismantle all the rebel troops. As a result, the rebels had the possibility of striking back at the government if they felt cheated in the power-sharing arrangement, and therefore the arrangement was more credible.
3. Federalism is an attractive power-sharing solution, as it gives local elites some power, and therefore is supposed to ease tensions, mediating the relationships between the local groups and the central government. But there are additional institutional constraints, namely the absence of corruption.
4. For credible power-sharing institutions, the armed forces need to be mixed, including members of all the parties involved in the conflict, as demonstrated by the Chadian example. Conflicts or potential rebellions involving unorganized ethnic groups pose a special problem in this context, because they are more difficult to “bribe” into peace.

S. Laszlo (McGill University): Discussion

This paper raised the question of how governments can prevent civil war, and whether to use carrots or sticks. It also offers an alternative answer, which is to build up the quality of institutions. Taking a game theory approach, the paper posts institutions as one transaction cost of both redistribution and deterrence.

The model proposed constitutes an internal solution to the problem, with some combination of carrot and stick.

It makes a compelling argument and its policy importance is obvious. One might suggest, however, relating institutions more explicitly to policy reforms. It might also be useful to explain what exactly are the institutions involved, especially regarding the reduction of corruption and on property rights. It might also be helpful to look more closely at fiscal policy in terms of the relative merits of transfers and taxes.

The paper does have important implications for aid effectiveness. Because donor agencies tend to prefer peace, the idea of increasing military power will need to be justified more strongly to them. We also need to conceptually clarify whether donor agencies are always considered to be external agents, as this premise seems to be brought into question in the cases of France's role in Côte d'Ivoire and Belgium's role in the Congo.

Finally, it would be useful to clarify how the model would work in a context with three parties, rather than two.

Q&A

The argument that armament and political violence may play a part in maintaining peace raised a lively discussion. According to the model, the point is that the relative costs of conflict and peace need to be taken into consideration to create an incentive for the preferred outcome. The fact that resources are limited in most post-conflict contexts means that it will be more cost-effective to invest in both redistribution and institutionalisation on the one hand, and the instruments for deterrence on the other. Indeed, investing in redistribution alone would be prohibitively costly, whereas the proposed model would still achieve the desired outcome of potentially sustainable peace.

It was also suggested that a critical and contextual view of aid should be maintained, as the role of external agents and donors has not always been, historically, in favour of preventing political violence.

R. Soto (Pontificia Universidad Católica De Chile) and I. Elbadawi (World Bank): "Exchange Rate and Monetary Policy for Sustainable Post-Conflict Transition"

Since the 1960s, a vast literature has developed regarding the "optimal" exchange rate and monetary policies. The question here is: why can't we use these "standard recipes" in post-conflict contexts? Are the stylised facts different? Are the initial conditions different? Are the dynamic constraints different?

For this project, we are reviewing the existing literature on the determinants, processes and aftermaths of civil wars. Through this process, we intend to collect the stylised facts. We find that, before civil wars, countries tend to have low levels of development, high levels of polarisation and ethnic fractionalisation, low levels of economic liberalisation, an abundance of natural resources and a reliance on those primary exports, weak central governments (financially, organizationally and politically), and they also tend to be located in areas that are prone to conflict spill-overs.

During civil conflicts, there is a deterioration of key macroeconomic policy variables (high inflation, high government spending and high fiscal deficits), lower monetization levels and currency substitution. On average, annual real GDP growth declines by about 2 percentage points. The length of the conflicts is linked to what led to them in the first place. Conflicts from coup attempts and popular revolutions tend to be short and intense conflicts, whereas those that are based on claims on land or natural resources tend to be prolonged but mild.

In the post-conflict period, there seem to be strong economic recoveries, although less so after prolonged conflict. There are normally increases in investment rates, and sometimes improved productivity, an expanded absorptive capacity, a decline in inflation as well as in fiscal expenditure, coupled with a realignment away from military expenditure. Generally, we also see a moderate real exchange rate overvaluation, and substantial aid flows.

We have developed some additional stylised facts, given the little existing evidence on exchange rate regimes, from a database of thirty economies covering the 1970-2004 period, focusing on exchange rate regimes. In each case, we are focusing also on a short period before and after the conflict. So far, it seems that these cases are not really different from other economies.

The database reveals that there is persistence in exchange rate regimes, as 21 of 30 countries maintained or adopted for the transition to peace exactly the same system they had before the onset of the armed conflict. However, there are differences in economic performance before, during, and after the conflict depending on the exchange and monetary regime in place in these economies. All countries afflicted by civil wars were growing very slowly immediately before the start of the conflict, due to long-term macroeconomic problems and policy mismanagement. Countries that adopted a flexible exchange rate after the conflicts exhibit far more rapid recovery than those that had chosen a fixed exchange rate, whereas Countries entering peace with flexible exchange rates show less productivity growth than those that selected fixed exchange rates.

Furthermore, the retrench in fiscal expenditures after conflicts is substantially larger in countries adopting or continuing floating exchange rate regimes. Also, tax collection declines during conflict and remain depressed in the beginning of the peace process, with no differences being observed between countries with fixed or floating exchange regimes.

There is also significant appreciation of the RER during conflicts. Countries that entered the conflict with fixed exchange tend to display substantially more appreciation than floaters. After the conflict, countries that chose to fix the exchange rate saw their currencies depreciate, while those of floaters remained virtually constant. We also see no evidence of a recovery in investment immediately after conflicts end, with substantial monetization after the conflict, equally strong under fixed or floating exchange rates.

External aid after conflicts increases only for economies suffering from long-term conflicts. Economies with fixed exchange regimes receive substantially more external aid than floating exchange economies. After conflicts, there is usually vigorous and significant expansion in exports (in US\$). Countries with fixed exchange rate also record a much larger recovery in exports. Meanwhile, debt service is substantial but does not change significantly between war and peace.

Based on this evidence, we are trying to establish whether there can be Optimal monetary and exchange rate policies. The choice is about not policies but exchange rate and monetary regimes (as institutions). The questions we need to ask are the following: Should a country attempt to peg an exchange rate, directly or with a currency board? Should it give up completely monetary policy (e.g., dollarize)? Should it allow the currency to float, and if so, what monetary regime best suits its needs? Should it adopt an interest rate rule? A nominal income target? Full-fledged inflation targeting?

We thus require considering the setup, the initial conditions in which monetary and exchange-rate regimes would operate, as well as the challenges they have to overcome. We also require criteria to evaluate (1) the ability of the regimes to reduce exchange rate risk; (2) their ability to provide a nominal anchor to the economy; (3) their ability to pursue an independent monetary policy; (4) their ability to avoid large misalignments in the real side of the economy; (5) their vulnerability to external shocks and their proneness to balance-of-payment crises; (6) the existing institutional constraints; and (7) the regime persistence (acquired knowledge).

It is clear that regimes cannot be set in isolation, as monetary and exchange rate policies cannot be selected or successfully implemented in isolation of each other. Indeed, fiscal considerations and commitments may drive the choice of the monetary policy regime, and cooperation between fiscal, monetary and exchange rate regimes is indispensable.

The choices available are alternative exchange regimes; fixed rates, free floating rates and intermediate regimes (band or managed floats). IF the exchange rate is not fixed, there are two dominant monetary regimes: monetary aggregates or inflation targeting.

Flexible exchange rate regimes are characterised by the presence of a central monetary institution, like a currency board. In these cases, the exchange rate is defined by law and unchangeable except by changing the law itself. The conditions for implementing such a regime are a small open economy, in which the bulk of trade is with the trading partner to whose currency it plans to peg, and the macroeconomic policy must aim at a similar inflation rate with that country. The country considering the adoption of this regime should be prepared to adopt institutional arrangements that will assure the continued credibility of the fixed rate commitment.

There are advantages and disadvantages to such a regime. On the positive side, it provides a credible nominal anchor and is very useful for stabilizing high inflation. In addition, it reduces exchange rate risk and neutralises the poor credibility of central banks. It also has the advantage of needing a short process of building institutions. On the negative side, such a regime cannot inhibit speculative attacks. Also, by reducing the volatility of the nominal exchange rate, it may induce severe misalignment. It also requires that the convergence be implemented very quickly, while there is no clear guidance for the appropriate level of the nominal exchange rate. Ultimately, giving up control of monetary policy reduces the government's ability to steer the economy.

Free floating exchange rate regimes, on the other hand, are characterised by a situation in which the authorities make no attempt at managing the exchange rate. Therefore, there is no peg, and there is no intervention in the form of changes in interest rates or monetary policy to influence the exchange rate,

along with no controls on capital movements. In this context, in principle, it does not require significant credibility of monetary authorities (central banks).

The advantages of such a regime are that they allow a country to maintain an independent monetary policy, which responds appropriately to external shocks and leaves no room for speculative attacks on the currency. In this context, monetary policy sets the nominal anchor, and is unlikely to induce large misalignments. However, it allows for higher exchange rate volatility and strong balance sheet effects. The independence of the policy can be threatened by a desire to monetize the public debt.

There are a myriad of intermediate regimes, seeking the benefits of both fixed and flexible regimes without the weaknesses. These systems include bands (stationary or crawling), and managed floats (clean or dirty). These intermediate regimes were quite popular in the 1980s, but are increasingly being discarded, as they are prone to crises.

In exchange rate bands, the exchange rate is allowed to freely float with a wide band. The band is defined to keep the effective exchange rate roughly constant, and parity and band should be adjusted to avoid any substantial misalignment. This regime requires sophisticated analysis to determine parities, width, active market intervention rules when approaching the edges, etc. It stabilizes the currency but it does not provide for a nominal anchor. The active monetary policy enacted to establish the band usually results in high interest rates, which hurt private investment and exports, at least while the monetary authority gains credibility and the system becomes firmly established. In addition, exchange rate bands are quite vulnerable to crises.

Managed floating regimes are essentially a band with mechanics that are hidden to the public. The authorities do not announce objectives for exchange rate. They intervene with a view to having an impact on the exchange rate when certain (vague) conditions are met. This management may be a "fixed but adjustable-under-market-pressure peg", which yields to pressure; or a "lean against the wind" approach, buying/selling reserves against the market waves. These regimes achieve more stability in the nominal exchange rate in the short run, but they may induce real exchange rate misalignment and costly realignments.

Except for dollarization or super-fixed nominal exchange rates, a question that must be addressed is that of the management of monetary regime. Successful monetary policy depends on several elements: commitment and time-consistency; alignment of private sector expectations and fiscal considerations are crucial for monetary policy rules; rules for monetary policy conduct must be developed; and the evaluation of the regime by the public requires transparency. In addition, the regime must select instruments of monetary policy and determine intermediate targets on money, inflation, nominal income and interest rates.

The framework we will use for modelling optimal exchange rate and monetary regimes would ideally count on a "first principles model" capable of reproducing the salient features of post-conflict economies and being a useful to guide the empirical analysis. The model should identify the different transmission channels, allowing for a direct evaluation of the different elements that affect the desirability of the different exchange rate and monetary regimes. However, numerous idiosyncratic elements suggest otherwise for cross-country analysis. Idiosyncratic elements are quite difficult to model.

Therefore, we will concentrate on reduced-form models, which allow estimable empirical functions, supplemented by an adequate identification strategy, which guarantees a reasonable interpretation of the empirical results. For this purpose, one alternative is a structural vector autoregressive model (SVAR), in which the parameterization of the dynamics is free to reflect the reduced-form structure of the economy, but where the simulation and the interpretation of the results is guided by an exogenous –yet testable— identification structure.

In order to create a VAR model, we need an analytical framework, which will be quite simple. It requires an objective function to give a concrete measure to the notion that some exchange rate and monetary regimes are more conducive for transitions. It considers conditioning variables that act as constraints to the dynamics of the endogenous variables. Considering the weak political and institutional starting point, the success and sustainability of a transition depends crucially on improving the welfare of the population.

There are four possible objectives. The first objective of exchange rate and monetary regimes must be to induce and secure sustained growth in real GNP per working-age person, with growth in total factor productivity, net of consumption booms. The second objective of exchange rate and monetary regimes must be the stabilization of the economy, since instability affects the poor most. A simple and direct indicator of success would be a lower inflation rate. Third, the regime should avoid large and persistent imbalances that hamper recovery and sustained growth. We suggest including the misalignment of the real exchange rate. Fourth, it must avoid currency crises, which are a reflection of the lack of credibility and trust in monetary and exchange rate regimes. The degree of currency substitution is a good indicator of the recovery of credibility and long-run prospects of the monetary regime.

There are conditioning variables. The literature and experience on the optimal choice of exchange rate regimes indicates that fiscal policies (in particular, lowering fiscal deficits) are crucial for the success of any monetary regime policy. This is because fiscal policy shocks are largely the result of changes in tax collection, more than of innovations in expenditure levels. The second conditioning factor is the dependency of post-conflict economies on natural resources and primary exports, as it creates a need for controlling for terms of trade shocks. A third conditioning factor is the inflow of external aid and unrequited workers' remittances.

The proposed reduced form of the VAR model includes data on a set of n variables that are to be modeled could be well represented by a VAR(p) process. These variables are of two types: those being determined by domestic agents, and those determined in the "rest of the world" or in advance of domestic decisions. In a structural VAR some of these parameters are imposed *ex-ante*, based on available information on the working of the economy, initial conditions, and/or some theoretical notions. We use the information collected above to suggest some elements of the identification strategy. This would include two "external" variables (the terms of trade and foreign aid). Also, based on previous findings, we suggest that currency substitution and inflation can be safely excluded from the RER misalignment equation.

Finally, we must keep in mind that there are some estimation issues: stationarity; cointegration; impulse response functions; and decompositions.

S. Makdisi (American University of Beirut): Discussion

Just a few remarks on the received literature, the choice of exchange rate mechanisms, and the framework of the paper.

On the received literature, it would be interesting to clarify: if flexible exchange rates are considered to be superior; how flexible a flexible regime is, or whether the comparison is rather between managed and fixed exchange rate regimes; and whether the nature and duration of the conflict impacts on the preferred or most desirable exchange rate regime.

On the choice of exchange rate regimes, it would be useful to clarify which type of exchange rate regime has done better in post-conflict situations with regards to inflation. Also, regarding currency substitution, aren't there many dual monetary regimes? Should monetary supply evaluation be based solely on the national currency? Also, the issue of political stability is not really discussed in the paper.

With regards to the framework, would it be possible to define the optimal fixed exchange rate system as a currency board? Does it follow that such countries have had superior experiences?

Q&A

In response to these comments, it was noted that in the context of the civil war in Lebanon there was a fiscal and monetary collapse. Political credibility was also identified as a structural conditioning factor for monetary regimes. Regarding currency substitution, it will be difficult to find a reasonable proxy. But for the purposes of the case studies there are often good examples, such as the use of the Ugandan and Kenyan currencies in Sudan. The authors are interested to examine the shift in the diversity of the monetary base, increasing the credibility of a national currency.

The issue of the currency peg versus hard fixing on a currency board or other similar mechanism still needs to be elaborated in the paper. As for the received literature, the authors plan to look at the first two post-conflict cycles. They expect to see different patterns especially with regards to exchange rate regimes. In the post-Soviet period, there were short, intensive and inflationary conflicts, so the authors will need to check the role of the exchange rate regime in that context and examine its performance.

Saturday, November 8 (closed session)

The agenda for the closed session of the workshop was to allow the authors of the case studies to discuss with the other members of the project the basic issues they are facing/considering, and check what the authors of the theoretical papers expect from the cases, and vice-versa. In addition, the discussion aimed at discussing the challenges raised by the multidisciplinary of the project; attempt to establish the best way to maintain dialogue and how to build on this session. It was also noted that the next phase of the project will include a second workshop where the drafts of the cases would be presented.

The issues raised by the authors of the case studies included what to do with cases with distinct periods of conflict and differing types of power-sharing solutions at different times, with different outcomes, particularly with regards to Colombia but also in the case of Lebanon. This was particularly important in

deciding which period might be most fruitful from the perspectives of the different theoretical frameworks. It was agreed that there should be some flexibility depending on the cases and what the authors of the case studies find most feasible and most fertile. This flexibility should include the option of looking at the different periods in comparative perspective when feasible, or focusing on a particular period, as appropriate.

The framework for power-sharing agreements was also the source of much discussion, with regards to the notion of the short versus long horizon. The consensus was that the goal of the discussions on power-sharing agreements should be to identify the threats to such agreements in general terms, be they pre- or post-facto, or endogenous to the framework of an agreement itself. The idea is to ask similar questions in the different contexts to try to determine the commonalities and differences between the cases. Another objective of the project is to challenge the assumption that peace-building and development go together, and to try to determine whether or not this is in fact the case, that is, does peace-building lead to development or not.

Based largely on the complexities of the Lebanese case, it was suggested also that external factors and actors be examined in relation to the feasibility and outcomes of power-sharing agreements. This case also raised the issue of the potential difficulty of testing, empirically, some of the components of the framework for power-sharing agreements presented in the theoretical paper. It was suggested that these issues be contemplated along three axes: the game between the leaders and their followers, the collective action problems facing the partners in the agreement, and the relationship between the partners to the agreement on one hand and outsiders on the other. The notion that external shocks can be a significant problem for power-sharing agreements also brought about the suggestion that the case studies and the theoretical papers consider the mechanisms that may allow external shocks to be absorbed better, since they are always likely to occur.

It was noted that the Rwandan case could provide a case to interrogate the dynamic of conflict and post-conflict with more historicity; with a power-sharing agreement that should have worked yet did not. It also brings up the question of whether it is possible to enter into a power-sharing agreement in the wake of genocide and the consequences of understanding the outcome in Rwanda for the resolution of similar conflicts in the region.

The case of Bosnia and Herzegovina also seems to highlight the importance of regional dynamics in the likelihood of conflict, its duration and the possibility and outcomes of power-sharing agreements. Similarly, this case highlights the role of third party involvement in the power-sharing agreement, as exemplified by the role of the European Union. The question is to what extent the current peace in Bosnia can be attributed to the autonomy of Srbska, to the power-sharing agreement and to the special representative of the European Union, respectively.

It was also noted that the case of Sudan shared the characteristic of the importance of international actors and regional dynamics, although these are less conducive to a resolution of the conflict. In addition, it was noted that the presence of oil creates both favourable and unfavourable dynamics for the likelihood of an agreement, as well as for the issue of service delivery.

On service delivery, it was agreed that it was a useful subset of the development orientations of the post-conflict government. The main question in this respect is what are the incentives to pursue such policies? What has been the contribution of service delivery to the sustainability of peace agreements? This involves looking at two sets of issues: the formal institutions of decision making and their representativeness. This can link directly to the issue of power-sharing. The authors should also look at the political composition of post-conflict governments and ask what might make democracy fail? In other words, why might politicians competing for votes pursue suboptimal policies for the majority? This is also closely linked to the political market inefficiencies referred to in the thematic paper.

Again, this highlights the importance of political parties as a vehicle for the expression of preferences and for creating credibility for the promises of governing bodies/groups. There was a proposal to attempt to create a typology or categorization of political parties according to how well they can fulfill such a role, such as personalistic, grassroots, etc. The authors should look at how much a party stands to lose as a result of bad government, how valuable the party brand is to the candidates, etc., as indicators of credibility.

The authors of the case studies were also urged to look at decentralisation and other arrangements for power-sharing and service delivery in terms of distributional issues, how they can compensate for the necessary exclusions intrinsic to power-sharing, as well as how much of a buffer they may represent in the face of future shocks. Specifically on decentralisation, the question of how much it can mitigate for the problems leading up to the conflict or create increased local fragmentation should be considered as well.

The question was also raised as to whether the case studies needed to consider the different components of the conceptual framework independently or whether they should always necessarily be linked to one another. The most difficult issue to integrate appeared to be the notion of service delivery. It was suggested that these various themes are present and interlinked in all cases, and the intent of the project is to see what is different about post-conflict societies and/or power-sharing agreements. These links do not have to be explicit in all cases.

With regards to the fiscal and aid components of the macro-economic themes, it was noted that a theoretical choice was made in which the key criterion is whether policy choices in these fields make the country more investor-friendly or not, and it is with this in mind that a credible peace becomes central. The fiscal policies adopted can contribute, or not, to this credibility. Indeed, there are fiscal implications in terms of expenditures on deterrence and redistribution, for example.

It was also noted that economic policies can be thought of as institutions that may or may not be conducive to peaceful economic development. It is worth considering the extent to which the history or set-up of the peace agreements impacts on the type of economic policy that can be put in place. The authors of the case studies were therefore requested to try to find an account not only of how economic policies are put in place, but also of their results. The idea is to find out what has worked and what hasn't.

This also applies to external aid, as it generally floods in during the post-conflict period. The question to be answered is how much of this aid is (or should be) allocated for directly increasing the welfare of the population, how much to the demobilisation of combatants, how much to the building of public goods,

etc. Some of these decisions can be made through exchange rates and monetary regimes. This should then link to power-sharing and/or decentralisation by asking what is the coalition or the group behind those policies. The World Bank, it was noted, may have a competitive advantage in collecting information on aid, which it could make available to the authors of the case studies.

It was agreed that project members with access to such resources should make them available to others, be it through the provision of the relevant references or through the actual circulation of books or articles.

In closing this session, it was noted that the next workshop was planned for April or May of 2009. In the meantime, the participants were informed that a listserv for the project was being put in place, with the intent that all participants should use it not only to communicate with one another, but also to share questions and challenges, as well as potential solutions on a regular basis.