

Are IFIs Adapting to Post-Conflict Environments?

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Adapting to Post-Conflict Environments: The Bretton Woods Institutions Since the Mid-1990s

Introduction

After the end of the Cold War, the world seemed to enter a new era of opportunities. The East-West divide that for decades had been the frame through which international politics were played out, including proxy conflicts in the developing world, was replaced by a narrative of hope. However, by the mid-1990s, optimism had subsided and the situation in many conflict areas and poor states had become worse (World Bank, 1997, p.139).

Two of the most important institutions tasked with improving this situation are the World Bank and the IMF, also known as the Bretton Woods institutions. Originally created to assist in rebuilding Europe, the World Bank quickly became a financier for developing countries' governments, while only in recent years adding a focus on Global Public Goods (GPGs) such as climate change, environmental degradation, and communicable diseases (Phillips, 2009, p.8-10). The IMF was created for the preservation of macroeconomic stability. Its policies have reflected a change in thinking about macroeconomic management from more Keynesian to 'Washington Consensus' policies in the 1980s, characterised by a focus on fiscal discipline and market fundamentalism (Berdal, 2002, p.164). With the change from fixed to floating exchange rates in the 1980s the IMF did not have much of a purpose in developed countries anymore and changed its focus to poor states (Kapur, 1998, p.115-6). Together the IMF and the World Bank are the most important International Financial Institutions (IFIs).

The central criticism this paper focuses on is that the IFIs lacked sensitivity to the realities of post-conflict situations before the mid-1990s (Pastor and Boyce, 1998; de Soto and de Castillo, 1994; Stevenson, 2000). The World Bank and IMF were accused of blindly following economic agendas while ignoring the political implications of their policies. For a long time they considered issues of conflict as being outside their mandate (Pastor and Boyce, 1998, p.43). In the case of the World Bank, its Articles of Agreement specify that it should provide support "with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations". The IMF has a similar clause in its Articles of Agreement. However, Pastor and Boyce argue that this does not exclude the possibility of addressing conflict considerations. They believe it is most sensible to leave out "only those political considerations that are economically irrelevant" (1998, p.44).

Economic reconstruction in a post-conflict state goes beyond typical development efforts. The added burden that the reconstruction of infrastructure, reconciliation and other conflict-related issues create makes it a much more costly and complicated process (del Castillo, 2010a, p.79). Del Castillo argues that the short run requires a focus on reconciliation and consolidation of peace. As the absorptive capability of the state is still low directly after conflict, the IFIs play an important role in managing this process. Del Castillo further argues that this makes it necessary that decisions about priorities should not be made by the IFIs but rather at the highest UN level (ibid, p.82).

In this essay I will first briefly outline the history of criticisms towards the IFIs and when they came to include post-conflict settings into their policies. Then, I will look at specific ways in which IFIs did or did not adapt to the demands of the post-conflict context. I will first look at the use of peace conditionality, specifically in Palestine and Sri Lanka. Secondly, I will look at DDR efforts by the World Bank in the Great Lakes Region in Central Africa, with an emphasis

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on the DRC, after which I will consider co-ordination issues with UN agencies. Lastly, I will have a look at several case studies in which the IFIs have lacked conflict sensitivity. All in all, I will answer the following question: has the performance of international financial institutions in dealing with “post-conflict” societies improved since the mid-1990s?

The IFIs in Post-Conflict States

Several major criticisms of the IMF in the last decades focused on its lack of attention to appropriate policies by recipient governments during the 1970s and 1980s (Kapur, 1998, p.117); its pushing of liberalisation, especially in the context of the crises in Mexico and Asia in the 1990s (ibid, p.120-3, Berdal 2002); and its creation of a moral hazard by effectively removing any investment risk where it provided support (Pastor and Boyce, 1998, p.47-8). Criticisms of the World Bank have focused on its organisational setup; reforms to improve project effectiveness; later on its environmental impact; and its involvement in the agenda of liberalisation, in which the IMF was also involved (Phillips, 2009, p.24-41). The IMF and the World Bank have shown an ability to adapt and have repeatedly changed their approach to tackle new challenges or criticisms (Phillips, 2009, pp.18-20).

Towards the end of the 1990s there was a realisation that conflict and development are strongly interrelated and that it is not possible to treat the two issues separately. Within the World Bank, conflict sensitivity was promoted by one of its own researchers, Paul Collier, who wrote about the possible links between economics and conflict in his contributions on greed and grievance and later publications (e.g. Collier and Hoeffler, 2000). In 1995, President Wolfensohn of the World Bank announced a focus on post-conflict economic development. In 1997, the Bank established a post-conflict unit (Boyce and Pastor, 1998, p.43). Ten years into the 21st Century this culminated in a speech by new World Bank President Robert Zoellick in which he called for security and development to be brought together, as well as the World Development Report in 2011 entitled ‘Conflict, Security and Development’ (World Bank, 2011).

Peace Conditionality

One way in which IFIs have adapted to post-conflict demands is through the use of conditionality. The fact that the IFIs are often the biggest donors and bring crucial advice gives them important influence in recipient states (Krueger, 1997, p.35-7). Conditionality was originally used to push governments to change their economic policies, especially by the IMF (Mussa and Savastano, 2000), but critics argued that the IFIs should broaden the concept of conditionality to apply to conflict considerations (e.g. Stevenson, 2000, p.12-13). We can call this ‘peace conditionality’: ‘the use of aid as a lever to persuade conflicting parties to make peace, to implement peace accords, and to consolidate peace’ (Frerks, 2006, p.1). A well-known example is the successful threat of revoking aid to Bosnian Serbs in order to force President Krajisnik to the table (Boyce and Pastor, 1998, p.42). However, after the civil war in El Salvador, the government was delaying the introduction of a neutral police force and a land transfer programme, both essential to the peace accords. The IFIs could have used conditionality as a tool to push the government to speed up this process, but they did not, arguing that it did not fit with their apolitical nature (ibid, p.43). In the context of the Rwandan genocide, a multi-donor evaluation has argued that peace conditionality could have helped to stop it (ibid, p.45).

Since the mid-1990s, with the IFIs more focused on their role in post-conflict reconciliation, it would be expected that they would use conditionality more often. The record has been mixed. In the Arab-Israeli conflict, conditionality towards the Palestinian authority led to some internal reforms but was overshadowed by the fact that Israel’s restrictions on the Palestinian economy do more damage than what aid can compensate for (Brynen, 2008, p.76-7). In Sri Lanka, after a peace treaty was signed in 2003, IFI funding greatly increased in an attempt to give a positive incentive. However, the subsequent renewal of conflict was not followed by IFI condemnation. Funding did drop, but only because of a lack of government planning for new development projects, which prevented aid provision. It did not drop in rebel areas (Frerks and Klem, 2006, p.55-9). Stevenson (2000, p.29-49) argues that the IFIs should focus on making spending conditional on the basis of military expenditure, even though he identifies several caveats. In the case of Sri Lanka, the IMF-imposed spending cuts did not function in the way that Stevenson had called for. Even worse, the government avoided cuts to the military budget and instead made cuts in areas that undermined the

Are IFIs Adapting to Post-Conflict Environments?

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peace process (Venugopal, 2009, p.13).

This tendency of the IFIs to implement their economic policies as usual in post-conflict areas can be harmful. On the other hand, peace conditionality should not be seen as a silver bullet as it can also be counter-productive, e.g. by allowing governments to blame IFIs for policy choices (Marchesi and Sabani, 2006, p.5). In addition, we must not forget that IFIs can in some cases be seen to serve Western strategic interests (Copelovitch, 2010), which makes it likely that conditionality is selectively applied to aid Western allies.

DDR in the DRC and UN-World Bank Co-ordination

Another way in which the IFIs have changed their involvement in post-conflict states since the mid-1990s is through Disarmament, Demobilisation and Reintegration (DDR) projects (Klem and Douma, 2008, p.8). In 2001, the World Bank became the coordinating body of the Multi Country Demobilization and Reintegration Program (MDRP), which would deal with seven states in the Great Lakes region (Edmonds, Mills, McNamee, 2009, p.41). Its task was to demobilise – i.e. to take people out of their role as combatant, and to reintegrate them into society by providing an alternative livelihood. In its design, the programme focused on local ownership and providing a coherent link to more political peace initiatives (Klem and Frerks, 2007, p.64). As the World Bank argues that its statutes do not allow it to become actively involved in the disarmament phase of DDR (Klem and Douma, 2008, p.16), the UN peacekeeping mission MONUC was responsible for that task. However, this aspect was neglected in the programme and there was a lack of co-ordination between the UN agencies and the World Bank (Klem and Frerks, 2007, p.64-6), an issue which will be further addressed below. The programme is also criticised for declaring citizens as demobilised when they had no work opportunities and were still regarded with hostility by the rest of the population. Furthermore, concerns for gender issues were not put into practice. Additional problems perceived by other donors were the slow World Bank procedures which were applied to the MDRP, the lack of local presence of World Bank staff, and the equivocation of local ownership with government ownership – thereby missing out on reaching other groups and allowing the government to use the programme for its interests (Development Alternatives Inc., 2005, p.iv, 7-8).

Nevertheless, the World Bank showed an ability to adapt, and the evaluation of later phases of the project is more positive, indicating that steps have been taken to address the problems. While major issues remain, they are not necessarily due to the unwillingness of the World Bank. Rather, they are related to the lack of an accountable local government and problematic efforts to reform the security sector. The major criticism that remains towards the World Bank is its lack of co-ordination with the UN, with which it seems to continuously be at odds (ibid, p.66-9).

Lack of Co-ordination

It is important to realise that post-conflict situations are not solely the domain of the IFIs. Another criticism that was made against the IFIs was their lack of co-ordination with other actors, particularly UN bodies. An example is El Salvador in 1991-4, where the UN undertook the negotiation of a peace treaty, while the IFIs separately implemented economic stabilisation and a structural adjustment programme (de Soto and del Castillo, 1994, p.74). El Salvador was faced with a choice: implementing the economic reforms, which would undermine the peace accords, or focusing on the peace accords and ignoring the IFIs. While IFI policies might have made sense from an economic perspective, the political dimension to the conflict changed the calculations for the state.

Again signalling its awareness of criticisms, the International Development Association (IDA), the constituent organisations of the World Bank focusing on the poorest states, wrote a report in October 2006 dealing with its cooperation with UN institutions and agencies in post-conflict states. In 2008 these developments culminated in the signing of a 'Partnership Framework for Crisis and Post-Conflict Situations' between the UN and the World Bank. In it, both institutions acknowledge shared objectives and the need to cooperate in post-conflict situations. However, the report seems to overlook the problem of "who does what". This is the main issue that causes problems of co-ordination (Development Alternatives Inc, 2005, p.12): which areas are coordinated by the World Bank and which by the UN? The exact co-operation is decided on a case-by-case basis, depending on the strengths and weaknesses of both institutions in the specific case. While it is important to recognise the context-specific demands, it also leaves space for the type of turf wars between UN institutions and the World Bank that took place in the case of the DRC,

Are IFIs Adapting to Post-Conflict Environments?

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about project funding and control. It seems too early to analyse whether this agreement has successfully trickled down to the level of implementation, and whether it has helped to overcome the differences of interest between UN agencies and the World Bank. According to an earlier report, it is the World Bank that was blocking a clearer distribution of tasks, while UNDP supported such a division (Development Alternatives Inc., 2005, p.27).

Failures to Adapt: Uganda, Rwanda, Chad, Iraq, Afghanistan

The IFIs still do not always make conflict considerations a prominent part of their decision-making. In this section I will look at some examples where the IFIs have not dealt adequately with post-conflict demands. First of all, in Uganda and Rwanda, funding by the World Bank continued into the 21st Century, even though there was strong proof that they were benefiting from the conflict in neighbouring DRC. In Uganda specifically, a large increase in gold exports and the sudden commencement of diamond exports – which did not exist in the country before – were explained to the Bank as ‘leakage from across the border’ (Horta, 2002, p.232). To an extent it can be argued that ending support for development in Uganda could do more harm than good to the local population. However, the World Bank could at least lobby the government to change its policies towards the DRC. The World Bank did not do that, and even praised both Uganda and Rwanda for their economic policies (United Nations, 2001, pp.38-9).

Similarly, in Chad, where a civil war has been ongoing in the south of the country for years, the World Bank provided funding for an oil project that turned out to not only adversely affect living standards in both Cameroon and Chad, but also became a major source of arms funding for the Chadian government. Separately, the World Bank continued to provide direct funding to the government (Horta, 2002, pp.233-236). Even though in the case of Chad conflict has not ended, it is an example that issues of conflict as well as political repression cannot be seen as separate from economic investment. With all its good intentions, the side-effect of World Bank policies in Chad is that its funding gives a measure of disproportional political power to the regime, which is then able to wage its war in the south more effectively and, as happened in 2001, suppress any democratic elements in society (ibid, p.236). The fact that support continued shows that conflict sensitivity is still limited within the IFIs.

Additionally, after the Iraq war, the IMF pushed for increased oil prices, as that was the most sensible thing to do from an economic perspective. However, from the perspective of social stability, it was necessary to keep prices low to allow Iraqi consumers access to cheap oil (Looney, 2006, p.40). When the IMF was successful and prices were raised, this led to mass protests in the country (ibid, p.36). In this case, peace conditionality instead of economic conditionality would have been more appropriate. The same criticism was made in the context of El Salvador in the early 1990s (Berdal, 2002, p.166) and fits with Stiglitz’ criticism that the IMF should become better at sequencing its reforms (Stiglitz, 2002, p.73). Unfortunately the IMF chose ‘business as usual’ in Iraq by focusing on economics. Lastly, del Castillo (2010b, p.200) argues that a similar strategy was adopted in the reconstruction efforts in Afghanistan, where a complex institutional and policy framework was set up that made it impossible to provide the flexibility needed for post-conflict development.

Conclusion

In their rhetoric, the IFIs seem to have become fully aware of, and committed to, the demands of post-conflict settings. However, in practice, the record of the last fifteen years seems mixed, at least based on the cases studied above. The case of Sri Lanka shows that in a major peace negotiation the IFIs still opted for business as usual, thereby missing an opportunity to positively influence the peace negotiations. In Uganda and Rwanda, the IFIs have continued support even though the government is allowing the continuing existence of a war economy in the Great Lakes Region that relies on natural resource exports. And in post-war Iraq, the IFIs pushed economic policies that undermined the consolidation of a legitimate new government apparatus.

In response to criticisms of UN-IFI co-ordination, the World Bank seems to have made efforts to streamline its interactions with the UN, but it is questionable whether these initiatives will solve the disagreements about agencies infringing on each other’s turf. Furthermore, in a clear commitment to deal with the post-conflict reality in the Great Lakes Region, the World Bank made a big step by committing itself to Demobilisation and Reintegration. Its success in the DRC was initially very limited, but the Bank once again showed an ability to learn and greatly improved during

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the later phases of the project. The DRC case still showed that co-ordination with UN bodies is very difficult. In conclusion, the IFIs have taken some steps to improve their post-conflict programmes, but many points of improvement still remain.

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Are IFIs Adapting to Post-Conflict Environments?

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Are IFIs Adapting to Post-Conflict Environments?

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