

UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE

**Putting
Economic Governance
at the Heart of
Peacebuilding**

**PEACE
BUILDING**



UNITED NATIONS

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Putting Economic Governance at the Heart of Peacebuilding

Geoffrey Hamilton and Brinda Wachs



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Foreword

The establishment of the United Nations Peacebuilding Commission on 20 December 2005 was an important evolution in the vital role that the United Nations plays in assisting post-conflict countries emerge towards recovery, reconstruction and development, and in mobilizing sustained international attention. The Commission brings together all relevant actors and helps post-conflict countries to develop effective coordinated, coherent and integrated peacebuilding strategies.

While the work of the Peacebuilding Commission focuses on individual countries, there is a clear recognition of the need to consider these in a wider regional perspective. Both causes and consequences of conflict are often embedded in a complex regional context. While national ownership and initiative in the peacebuilding process are critical to success, nationally-driven processes can be significantly enhanced when complemented by regional approaches. Sharing experiences across regions is a valuable contribution to strengthening this key regional dimension of the peacebuilding response.

Drawing on the long-standing, wide-ranging expertise of the United Nations Economic Commission for Europe (UNECE), this publication shows the importance of establishing a well-governed economy, with adequately functioning institutions and public administration, for ending violence and ensuring lasting peace. Building on practical experience, the compilation fills a gap in our collective knowledge about how to break the pernicious link between ill-developed economies and entrenched conflict, and how to enable governments to play an effective role in economic decision-making after conflict.

As demonstrated through the UNECE's activities, regional economic integration and trade can reinforce long-term stability. The five key principles for sound economic governance distilled from UNECE's work and outlined in this publication can help to inspire and focus peacebuilding efforts in regions other than Europe, by forming the basis of post-conflict economic strategies.

This publication is a good illustration of the commitment of the United Nations to advancing the conceptual understanding of the challenges before us, and to sharing lessons. I trust that the wealth of information in this book will provide a strong basis for further reflection on how the international community may help to manage effectively the transition from violent conflict to a sustainable peace, and finally contribute to a more stable world.



Sergei A. Ordzhonikidze
United Nations Under-Secretary-General
Director-General of the United Nations Office at Geneva

Preface

It has only been a few years since the United Nations emphasized the clear link between sustainable peace and development at its 2005 World Summit. But the correlation between security and economic prosperity goes back much further, to the Charter of the United Nations, which was signed in 1945.

If poverty and economic instability are so often the root causes of war, then getting the economics right is key to sustainable peace and to preventing countries from falling back into conflict. Effective governing institutions are also critical to building a lasting peace.

And this is where the UNECE, an economic organization, can play a role.

By facilitating regional cooperation and economic integration, the UNECE has contributed to consolidating peace and security in its region, which has experienced a number of violent conflicts. Its work on norms and standards and its multilateral agreements, many of which are adopted beyond the UNECE region, promote good global governance and provide a solid backdrop for conflict prevention, preventative diplomacy and post-conflict peacebuilding.

They do so by bringing countries together over matters ranging from air pollution reduction to energy efficiency, transport and trade facilitation. The UNECE's technical and scientific work thus indirectly promotes regional cooperation and mutual understanding on a range of policy issues.

Drawing on selected activities of UNECE, this book sets out five principles of economic governance to which governments should adhere in the post-conflict phase. These principles may set the stage for future work on a framework agreement on good governance.

I hope this work will offer a useful contribution to the debate on the economic dimensions of security and the importance of good governance, to ensure viable institutions and a credible regime in the post-conflict phase, leading to a revitalized economy and a sustainable peace.



Paolo Garonna
Officer-in-Charge

United Nations Economic Commission for Europe

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Abbreviations

CIS	Commonwealth of Independent States
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IMF	International Monetary Fund
ISAF	International Security Assistance Force
IT	Information Technology
NATO	North Atlantic Treaty Organization
NESC	National Economic and Social Council
NGO	Non-Governmental Organization
OECD	Organisation for Economic Co-operation and Development
OSCE	Organization for Security and Cooperation in Europe
PBC	Peacebuilding Commission
PPP	Public-Private Partnership
SPECA	United Nations Special Programme for the Economies of Central Asia
THE PEP	Transport, Health and Environment Pan-European Programme
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe

The purpose of this report is two-fold. First, the report seeks to demonstrate how effective economic governance provides a critical foundation for peace and state effectiveness. Second, the report proposes how existing UNECE programmes, projects and priorities can contribute to the work of the newly formed United Nations Peacebuilding Commission (PBC) as well as to wider peacebuilding efforts. The report overall seeks to place economic governance at the heart of peacebuilding.

As our collective understanding of what contributes to effective peacebuilding has evolved in recent years, The United Nations Economic Commission for Europe (UNECE) has had an opportunity to examine its role and identify the organization's unique value in this complex area. With more than six decades of work promoting pan-European integration, UNECE can bring a wealth of understanding. With a unique network of expertise and a track record of achievement in promoting normative standards, based on national and regional cooperation, UNECE delivers policy guidance and technical protocols that, as this report will show, contribute to the economic and social drivers for successful peacebuilding.

In reviewing its works and experiences, notably during the period of transition when countries from Central Europe and the Commonwealth of Independent States (CIS) evolved from state planning to market economies, UNECE has identified a set of five principles of economic governance. The five principles presented in this report provide a robust foundation for effective peacebuilding and enable a better understanding of the organization's on-going contribution to peace and security.

It is important to explain the context that links the PBC with the United Nations

regional organizations such as UNECE. The PBC brings together the broad capacities and experience of the United Nations in conflict prevention, mediation, peacekeeping, human rights, the rule of law, humanitarian assistance, reconstruction and long-term economic development. But it also seeks to raise the capability of regional organizations in the realm of peacebuilding. Both the Security Council and General Assembly resolutions establishing the PBC refer to the importance of regional and subregional organizations in the work of the Commission and in the participation of its meetings.¹

What is the role of the UNECE in peacebuilding?

As one of the United Nations five regional commissions, UNECE is neither a security organization nor a conflict prevention organization. Nonetheless, from several perspectives, its experience is highly relevant in maintaining peace in its region.²

¹ The General Assembly Resolution (A/60/180) establishing the Peacebuilding Commission stipulates that "the Commission shall, where appropriate, work in close consultation with regional and subregional organizations to ensure their involvement in the peacebuilding process in accordance with Chapter VIII of the Charter [of the United Nations]".

² UNECE has 56 member States and is one of the United Nations' regional commissions along with the Economic Commission for Africa, Economic Commission for Latin America and the Caribbean, Economic and Social Commission for Asia and the Pacific and Economic and Social Commission for Western Asia. UNECE's member States are in Eastern and South-East Europe, Western Europe, Central Asia and the Caucasus and include Canada, Israel and the United States.

Promoting regional economic cooperation

Primarily, UNECE is a pan-European regional economic organization³. As a region, Europe has made a significant contribution to peacebuilding ever since the end of the Second World War, when UNECE was established. During the Cold War, for example, UNECE was the only intergovernmental economic organization where representatives of countries from Eastern Europe could meet their counterparts from Western Europe. As a result, the Commission has developed skills and sensitivity in bringing together countries in conflict, using both its neutral framework and technical experts to approach problem solving in economic matters. This technical work often constitutes the first steps to building trust and healing rifts between former belligerents or between states that are ideologically at odds. A regional approach is increasingly seen as instrumental in building the peace.

Supporting the transition to market economies

Second, in recent times, UNECE has played a significant role in promoting the transition to market economies among almost half of its member States and learned a number of important lessons for peacebuilding. Post-conflict and transitional economies share several traits. For example, both require systemic change, new institutions and new capacity in the reform of public administrations. Insights from the transition process in Europe over nearly two decades – remarkably achieved with little social and political violence – contain important lessons for strategies to build peace.

³ Along with the Council of Europe and the Organization for Security and Cooperation in Europe (OSCE) UNECE is one of three pan-European institutions.

Box 1: UNECE and peacebuilding

“While UNECE does not practice high politics, it contributes in its own way to sustainable peace and development, post-conflict peacebuilding and preventative diplomacy through principles of good economic governance and by bringing experts and scientists together for a common purpose.”

Marek Belka, UNECE Executive Secretary, in a speech to a conference on Peacebuilding convened by the United Nations Office at Geneva and the Geneva Centre for Security Policy, November 2007

Third, UNECE demonstrates the importance of the economic and environmental dimensions to peacebuilding. There is a clear correlation between conflict and poverty, income disparity and rent seeking. Discrimination of groups over their access to factors of production is typically an early warning sign of impending conflicts. The economic basis of wars has also been underlined by globalization. This has opened markets and generated huge benefits but also led to the trade of illicit, undesirable goods and practices, such as drugs, money laundering, pirated goods and human trafficking⁴. The nature of war has also become less ideological with more narrow but clear, criminal and financial objectives.

⁴ Heiko Nitzschke/Kaysie Studdard, *The legacies of war economies: Challenges and options for peacemaking and peacebuilding*, in: *International Peacekeeping*, vol. 12, No. 2, Summer 2005, pp. 226.

Introduction and main thesis

The establishment of the United Nations Peacebuilding Commission in 2005 signified an important evolution in the vital role that the United Nations plays in assisting post-conflict countries. UNECE, as part of the United Nations, also plays a significant role in the examination of the actions and conditions that build peace in societies.

The experience of Europe in post-war recovery and in the transition process from central planning to market economies offers an important approach to peacebuilding. Based on these experiences, UNECE has set forth principles of economic governance, designed to make states more effective in building peace. As such, this report argues for placing economic governance at the heart of peacebuilding initiatives and proposes the establishment of an internationally-agreed convention or a compact on economic governance norms or standards in a peacebuilding context.

Defining peacebuilding

The challenge for the United Nations in peacebuilding operations around the world is to develop clear strategies that can offer integrated solutions on the ground that will prevent a relapse into violence. The term “peacebuilding” has evolved from meaning avoidance of conflict in a negative sense to promoting social justice and equity in a positive sense with associated commitments to eliminating the root causes of conflicts such as poverty and inequality. Accordingly, the term has taken on a stronger economic and environmental dimension. However, although there is a clear direction in thinking now, the precise meaning of peacebuilding as an operational concept has yet to be defined.

As the international community seeks to define peacebuilding, an academic interest in the term “state-building” has also developed. A consensus has been reached that states have certain functions and if these are not fulfilled the state loses legitimacy, becomes fragile or has “failed” or “collapsed”. Building on these core functions, others have spelt out in more detail the specific roles a state should play. For example, some authors argue that the state has a number of functions such as the legitimate monopoly on the means of violence; administrative control; and the management of public finances, rule of law, etc. Using such functions as a basis, the strategy for building peace thus becomes a capacity building programme with timelines, benchmarks and indicators that serve both as goals towards which the public can be mobilized, and also as a means of accounting by which the momentum and achievements of the programme can be reported to the public.

However, in practical terms, peacebuilding is not state-building. Under complex state-building schemes, there are too many tasks and extremely high costs. Therefore, the United Nations should neither define peacebuilding too narrowly or too broadly – although we need to include real solutions to the problems we face. The goal should be to define what has worked and what can be delivered. Ultimately, peacebuilding should be a process to ensure strategic coherence of many activities aimed at addressing sources of conflicts, reducing risks of violence and building national capacities and institutions to sustain peace.

Experience of transition and lessons learned

Following this perspective of defining what has worked and what can be delivered, we have looked closely at the experiences of countries whose economies have been rebuilt from the ruins of central planning into modern, democratic, market economies or countries. From economies which have, or are making, substantial transition in economic and social change, we are able to draw some lessons. We have taken the cases of Poland, Ireland and Northern Ireland to show how economic governance played a part in their transformation. Lessons learned include: the importance of effective institutions, especially in relation to the protection of property rights; the importance of enforcement and micro-reforms to ensure the attraction of foreign direct investment (FDI); the need to deal with corruption early on; the challenge of human insecurity; and the vital role played by regional organizations such as the European Union in establishing a “road map” for change and support for sustaining the reform.

Clearly, transition and post-conflict reconstruction is not the same thing. Some even argue that the shock therapy of economic governance may be dangerous to apply where states are weakened after conflicts, or that a privatization and liberalization recipe for building market economies may be too difficult for low-income countries. Nevertheless, the model of market economies is now universally accepted in the UNECE region where it has been shown that the transition to a stable and prosperous economy need not be preceded by a deep recession.

Principles of economic governance

On the basis of these lessons from transition, a number of principles have emerged that are relevant for peacebuilding in post-conflict reconstruction. These principles are:

1. Support for building effective institutions
2. Promoting public participation and a bottom up approach to policymaking
3. Fostering strict transparency in financial management
4. Addressing human insecurity by promoting environmentally sustainable development and
5. Pursuing a regional approach to peacebuilding

UNECE contribution to the principles

UNECE contributes to peacebuilding through its actions that support the five principles of economic governance. These “actions that build peace” address real challenges faced by those currently working in peacebuilding operations on the ground. The following examples show that UNECE contributes to actions that build peace under the five principles:

- Principle 1 (Effective institutions): UNECE’s programme of formalizing property rights and creating institutions in titling land creates the basis for creating value for assets of the poor and creates a more stable environment for investment. Moreover, UNECE Conventions set standards for public administrations in a number of technical areas. By training administrations to implement the Conventions, they provide a benchmark by which to measure progress.

- Principle 2 (Public participation and bottom-up approach): The most far-reaching example of an initiative under the auspices of UNECE that contributes to principle two is the Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters. Known as the Aarhus Convention, this initiative strengthens vertical relationships by providing a framework that links the top level of government to the level of ordinary citizens.

- Principle 3 (Transparency in financial management): UNECE's statistical work fosters transparency in financial management by assisting governments to improve data collection and to diffuse information on government performance. By boosting the capacity associated with country statistical capability, UNECE develops a vital ingredient of sound financial system management and performance.

- Principle 4 (Environmentally sustainable development): Sustainable development requires the integrated effort of different ministries, organizations and departments. The UNECE/World Health Organization Pan-European Programme on Transport, Health and Environment (THE PEP) offers an integrated approach to combating the negative environmental and health impacts of transport, with a particular focus on the countries of Eastern Europe, the Caucasus and Central Asia, and South-East Europe (EECCA/SEE).

- Principle 5 (Regional focus): The regional work of UNECE provides a useful model for post-conflict countries working towards peace and stability. The United Nations Special Programme for the Economies of Central Asia (SPECA) has recently come to strengthen subre-

gional cooperation in Central Asia and its integration into the world economy.

Conclusions

There have been several attempts to elaborate best practice principles in conflict prevention and peacebuilding. However, most of these principles have not in fact been acted upon. It is therefore important in this report to develop in addition to the principles a means for their implementation. UNECE's knowledge and experience in promoting regional economic cooperation in its norms, standards and conventions can help provide security to countries suffering from internal tensions. Furthermore, building on the principles, it could be argued that an internationally accepted compact could be agreed upon during the process of negotiating the peace. Such a framework could provide a number of critical elements for peacebuilding, such as improved regional economic cooperation, a greater involvement of society in peacebuilding and improved financial transparency.

Even if these aspects are only a start, they are nevertheless the essentials for building successful post-conflict regimes and can serve as confidence-building measures, not only among former belligerents within a state but also among neighbouring states.

ORGANIZATION OF CHAPTERS:

Chapter I sets the scene, arguing that economic governance is an important instrument for peacebuilding and machining post-conflict intervention more effectively.

Chapter II defines the concepts of economic governance and peacebuilding and how they are used in practice. It makes the case for a more substantive role for economic governance in order to achieve more effective peacebuilding.

Chapter III draws on the lessons of transition to determine the main principles underpinning economic governance for peacebuilding.

Chapter IV identifies the five principles of economic governance: institutional reform, social consensus, transparency in financial management, sustainable development and a regional focus for cooperation.

Chapter V discusses the nature of the “new wars” and how the principles are salient to addressing the conditions that breed these wars.

Chapter VI discusses how UNECE contributes to economic governance through actions building peace.

Chapter VII concludes on how to make the principles more than recommendations – as a framework for a possible international agreement or a compact of post-conflict norms or standards.

Chapter

I

CHAPTER I:

SETTING THE SCENE – THE WORLD WE LIVE IN

The world today is full of threats of an unprecedented nature

We are living in an unprecedented period of tension and conflicts. There is a view that conflicts today are small, internal, dominated by inter-ethnic disputes, that these “brush fires” can be contained and that the era of inter-state wars which dominated the previous century is at an end⁵.

Another perspective, in contrast, sees the current situation as characterized by ever increasing tensions and instability as the world undergoes a fundamental transformation. These changes and threats arise from *inter alia*, energy insecurity, natural disasters, and conflicts over access to natural resources. Amidst these transformations are also sweeping social changes brought about by globalization and migration. As a result, populations and individuals are forced to adapt and integrate. Distant from their former surroundings, many people, especially the young, risk a loss of identity⁶. Accompanying this is an upsurge in religious fundamentalism linked to terrorism in some countries. Indeed, the threats from terrorism since September 11 continue. Moreover, the tensions in the Caucasus demonstrate that the era of inter-state wars is sadly not an end.

The revolutionary change in information technology is an integral component of the new world. The dominance of the Internet allows for the dissemination of information to a large and highly receptive audience. Global communications spread ideas and bring people together, but they also serve to divide and separate. Globalization has brought enormous benefits but also new challenges that put pressure on nation-states to respond. At the same time, power is moving away from the nation-state as many of the global challenges – climate change, energy security, and the effective use of international financial flows – cannot be dealt with by individual nations.

The international community is increasingly intervening to deal with threats and to build peace

The international community is however not shirking its task. In response to new threats of genocide, inter ethnic tensions and natural disasters, the United Nations has sanctioned one intervention every six months since 1992. In fact, contrary to what might be expected, countries are demonstrating a readiness to act where they see grave threats of escalated war and human destruction.

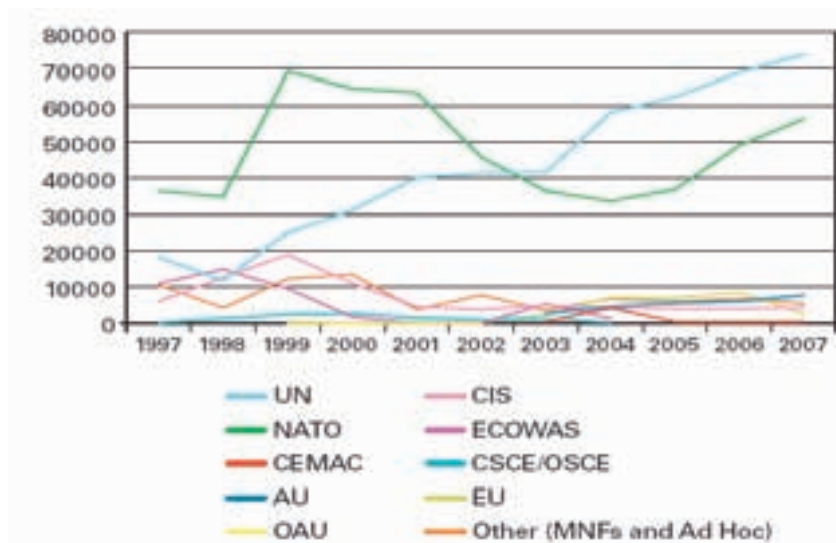
However, with limited success...

The interventions and post-conflict reconstruction in disparate places, such as Iraq,

⁵ Lord Ashdown of Norton-sub-Hamdon GCMG KBE PC, lecture to the London School of Economics (LSE), Swords and Ploughshares, 21 May 2007.

⁶ Mary Kaldor, *New and Old Wars: Organized Violence in a Globalized Era* (Cambridge: Polity Press, 2006.)

Figure 1: Military Deployments (Troops and Military Observers) in Global Peace Operations 1997-2000



Afghanistan and Darfur, are enormously difficult tasks with no easy solutions. There have been few successes and for several reasons. First, peacebuilding is often imposed by force – not an effective way to build peace and often contributes to a vast pool of recruits to militant gangs. Soldiers make bad peace builders.

...due partly to an overemphasis on regime change...

Second, peacebuilding is also seen as being synonymous with democracy. Yet, an exclusive emphasis on imposing democratic institutions and holding elections often proves misplaced. The desire for post-conflict democratization is a legitimate aim – populations usually prefer to elect their leaders; democratic states accountable to their people are less likely to go to war than autocratic ones, and democracies tend to fare better when they are based on economic prosperity and sound institutions. However, where economies are in ruins there lacks a strong basis for democratic systems to emerge. For example when elec-

tions are held quickly, many of the persons of the former regime are re-elected; those who created the problems merely re-emerge in new clothes. In divided societies, especially those divided along deep ethnic cleavages, elections can become a zero-sum game exacerbating existing conflicts. Western democratic values are not necessarily conducive to good governance on a universal basis.

...and a lack of emphasis on human security in its economic, environmental and social dimensions...

Often there is a sense that what matters first in post-conflict situations are emergency shelter, rural reconstruction and refugee return. While humanitarian concerns are important, they provide only immediate assistance and not the real conditions for a sustainable recovery. There is a need rather for a new concept that focuses on the long term social and economic aspects of human security (e.g. health, employment and environment).

How can we advance a more effective form of peacebuilding?

What then should be the different elements of peacebuilding in advancing human security and what actions should take place? What approach should be advised? Can we learn from recent events in Iraq and Afghanistan, and develop a strategy for peacebuilding that can be more effective? Where should we look for answers and find the practical and beneficial solutions that can offer more hope for a peaceful world?

Our argument

The experience of Europe in post-war recovery and also in the transition process from central planning to market economies – accomplished relatively peacefully – offers an important approach and new thinking to peacebuilding. Both these experiences were immensely successful because governments changed the way they worked with their populations and among other governments. Governments became more responsive to their citizens, and in turn became more effective at delivering essential services and welfare. Institutions also evolved and became effective conduits for successful policy implementation. Our argument, therefore, is that the promotion of a new type of “economic governance” – the capacity of governments and their institutions to turn “swords into ploughshares” – offers the best path to peacebuilding. Five fundamental principles of economic governance can help pave the way.

Chapter



CHAPTER II:

PEACEBUILDING, STATE-BUILDING AND ECONOMIC GOVERNANCE

The challenge facing United Nations peacebuilding operations around the world is to elaborate clear, integrated peacebuilding strategies that can deliver solutions on the ground that will prevent a relapse into violence. In devising such strategies a number of questions are raised: what should be the objectives of peacebuilding, when is peace achieved? Can progress towards building peace be measured and if so how? What are the mission plan, the benchmarks and the various time lines? The task of finding a meaning to peacebuilding is thus not just a matter of semantics. It is important therefore to understand these terms because they define policy and actions on the ground. In this chapter, we explore and try to define the terms “peacebuilding”, “state-building” and “economic governance”.

“Peacebuilding” – an evolving concept

The term “peacebuilding” first appeared in the 1992 report “Agenda for Peace” as an important instrument for securing and maintaining world peace. It defined peacebuilding as “action to identify and support structures which will tend to strengthen and solidify peace in order to avoid a relapse into conflict”⁷. The term is a dynamic concept, continuously evolving in its use by the United Nations system.

⁷ An Agenda for Peace: Preventive diplomacy, peace-making and peace-keeping. A/47/277-S/24111, United Nations, New York, 1992.

The above-mentioned 1992 report “Agenda for Peace” appeared shortly after the end of the Cold War, when the international community became aware that the conditions that gave rise to civil wars demanded a more holistic approach to keeping peace. The new approach goes beyond military and security priorities to address issues of democratic legitimacy, social inclusion, economic equity and “governance”. The report argued that if properly treated, these issues could enable war-torn countries to increase their resilience to new violence⁸. The then Secretary-General, Boutros Boutros-Ghali saw post-conflict peacebuilding as encouraging cooperation between the various actors and agencies of the United Nations system and dividing the task among their respective forms of humanitarian, social, and economic assistance.

With the deployment of several peacekeeping missions in the 1990s, the concept of peacebuilding became a broader framework for activities that not only prevent a relapse into conflict but also address the root causes of conflict and advocate for “positive peace”⁹. When the report of the Panel on United Nations Peace Operations

⁸ Elizabeth Cousens/Chetan Kumar, *Peacebuilding as Politics: Cultivating peace in fragile societies* (Lynne Rienner, 2000, p. 1).

⁹ “Negative peace” is generally understood as the absence of armed conflict, while “positive peace” includes the provision of justice, rule of law, equity, social and political stability.

(“Brahimi report”) was published in 2000, the importance of non-military peacebuilding had been widely accepted. As stated in the report: “...the key conditions for the success of future complex operations are political support, rapid deployment with a robust force posture and a sound peacebuilding strategy.”¹⁰

As the number of peacebuilding operations grew with the involvement of an increasing number of international agencies, the difficulty of coordinating the work became obvious. In response, the High-Level Panel on Threats, Challenges and Change, convened by the Secretary-General in 2004, came up with the following recommendation:

“What is needed is a single intergovernmental organ dedicated to peacebuilding, empowered to monitor and pay close attention to countries at risk, ensure concerted action by donors, agencies, programmes and financial institutions, and mobilize financial resources for sustainable peace.”¹¹

Based on this recommendation, the General Assembly in September 2005 decided to establish a Peacebuilding Commission. Its mission would be to coordinate the work by different agencies and propose integrated strategies for post-conflict peacebuilding and recovery. Since taking up its work in 2006, the Commission has held country-specific meetings on Burundi and Sierra Leone to ensure that long-term sustainable

and coordinated peacebuilding concepts are developed for these countries. Accordingly there is a clear recognition that economic and environmental aspects are important in peacebuilding.

In May 2007, the United Nations Policy Committee reaffirmed a definition of peacebuilding reflecting the emerging consensus to move beyond a minimalist or “negative” peace approach, and towards a more strategic, integrated one that prioritizes consideration of local context. It also highlighted the need for attention to building capacities, rather than simply structures, for peace – an emphasis that has long been underscored by peacebuilding and development practitioners. It also underscored the need for capacities in conflict management. It did not, however, refer to a need to identify and address root causes, which needs more attention – even with the recognition that this is a complicated and difficult task, which ultimately may not be “achieved”. “Measures targeted to reduce the risk of lapsing into conflict” was somewhat vague, and did not point to the need to maintain awareness of structural violence and structural causes of conflict, which over time can lead to conflict and/or contribute heavily to other factors that may lead to conflict – i.e. poverty and inequality.

Another considerable practical challenge is when the peacebuilding process should actually begin. Should the process begin only after the country has been made secure and the fighting completely stopped? Some of those engaged currently in peacebuilding missions argue that it is unrealistic to undertake economic and social development projects when bullets are flying and people are being killed.

¹⁰ Report of the Panel on United Nations Peace Operations (“Brahimi report”), United Nations, New York, 2000, para. 4.

¹¹ Secretary General’s High Level Panel on Threats, Challenges and Change “A Secure World”, United Nations, New York, 2004, p. 61, para. 225.



Another issue is on which level peacebuilding should be focussed. Should it be at the national, local and regional levels? There is a tendency at present to work exclusively at the national level. But experience shows that a national approach is often insufficient in dealing with the new types of conflicts and therefore peacebuilding should have a local and regional dimension. At the same time, there is a need to avoid the creation of parallel structures which can undermine the national authority.

The United Nations has still to reach a precise definition of peacebuilding. However, whatever definition eventually evolves, it appears sensible to neither define peacebuilding too narrowly or broadly. The goal, as argued here, should be, wherever possible, to be pragmatic: to define what has worked and what can be delivered. Ultimately, peacebuilding should be a process to ensure strategic coherence of many activities aimed at addressing sources of conflicts,

reducing risks of violence and building national capacities and institutions to make states effective and sustain peace.

State-building

In parallel to this discussion on the definition of peacebuilding, a new literature has developed on the concept of “state-building”, “state-making” and “governance interventions in failed states”. Here most authors combine different theoretical traditions and their understanding of the state and its functions. Ghani and Lockhart (2007), for example, argue that the state has ten primary functions: the legitimate monopoly on the means of violence; administrative control; management of public finances; investment in human capital; delineation of citizenship rights and duties; provision of infrastructure services; formation of the market; management of the state’s assets (including the environment, natural resources, and cultural assets); international relations (including

entering into international contracts and public borrowing); and rule of law. Using these functions as a basis, the strategy for building peace thus becomes a capacity-building programme with timelines, benchmarks and indicators that serve both as goals towards which the public can be mobilized, and also as a means of accounting by which the momentum and achievements of the programme can be reported to the public.

The list of functions that a state is responsible for provides a good analysis and measurement of state-building. However, there are many things which a state does. How does one identify the most important? The feasibility of this task may be questioned by the analogy with a child trying to build something using a Lego or a meccano set. The “thing” is “built” only when every piece is in place. Yet for states that are weak or for donors whose resources are limited, the feasibility of putting together states like toy sets is unrealistic. The point here is to try and define what has worked in the past and exactly what states need to do as the basis of a secure, peaceful and prosperous system.

The concept of “economic governance” in peacebuilding

The term “governance” came into vogue around the time of the 1990s because governments were failing to implement successful recommendations made to them by international bodies like the International Monetary Fund (IMF). There was recognition that to implement policies, governments required strong and effective institutions. Governance refers to the quality and effectiveness of institutions, the interactions between different levels of government within a country and the interactions between members of the public, including business and non-governmental organizations and the government. Institutions are

the formal (laws, regulations, etc.) and informal (norms of behaviour, customs, shared values, etc.) rules governing economic, political and social interactions (“rules of the game”) that together with enforcement mechanisms define the incentive structure of societies and economies and shape economic performance.¹² Evidence suggests that good governance is an essential component of sustained economic performance, particularly in transition economies.¹³ In contrast, poor governance and slow economic development appear to be mutually reinforcing.¹⁴

The United Nations has emphasized good governance in the mandate of the Peacebuilding Commission. However, the term tends to be narrowly defined as democratic governance.¹⁵ As a whole, the international community links peacebuilding to the political sphere or “basket”. For example, the overview of peacebuilding by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD) presents peacebuilding

¹² Douglass C. North, *Institutions, Institutional Change, and Economic Performance* (New York, Cambridge University Press, 1990); Douglass C. North, Economic performance through time. Lecture to the memory of Alfred Nobel, 9 December 1993.

¹³ UNECE in its annual Economic Survey of Europe consistently paid considerable attention to institutional reform and good governance in transition economies. See for example *The Economic Survey of Europe*, 2003, vol. 1, Chapter 5.

¹⁴ The typical symptoms of poor governance are: the failure to make a clear separation between what is public and what is private; arbitrariness in the application of rules and laws; excessive rules and regulations which impede the functioning of markets and encourage rent-seeking; and narrowly-based or non-transparent decision-making.

¹⁵ Projects spearheaded by the United Nations Development Programme (UNDP) and other United Nations agencies under the topic of democratic governance include reconstructing the foundations of democratic governance, restoring law and order, reviving the legitimacy and credibility of government, strengthening judicial and legislative powers, reforming the public sector and enhancing the inclusion of ethnic minorities and civil society. Some of these projects are critical for nation building in post-conflict reconstruction such as developing the independence of the judiciary.



as having three mutually reinforcing dimensions: (1) security; (2) governance and political; (3) social, economic and environmental. In this case, governance and the political sphere are clearly separated from the social, economic and environmental dimensions.¹⁶

Economic governance can be broadly defined as the exercising of political, economic and administrative authority to manage a nation's economic affairs. If authority in a country is respected, it is likely to be secure and stable as well as economically prosperous. Drawing on the strands of the discussion on state-building, we would argue that the foundations of economic governance can be said to rest on three main pillars: legitimacy, order, and welfare.

Legitimacy concerns the justification of a government's authority over its citizens, the procedures by which that authority is bestowed and exercised, and more generally the manner in which political, economic and other institutions are rooted in and reflect the values and traditions or, in the words of Adam Smith, the "moral sentiments" of the population concerned.¹⁷ In countries which embrace liberal sentiments, legitimacy is bestowed by the constitutional principles and

processes of representative democracy. This principle of course leaves plenty of scope for variation in the ways it is implemented in practice.

Order refers to the agreed laws, rules, social norms and informal conventions which constitute the structure of incentives to pursue acceptable forms of behaviour (in the political, social and economic fields, etc.) and to sanction the unacceptable. It includes the institutions required for government to implement its policies and for citizens to pursue their legitimate aims. A well-ordered legislative and judicial structure is crucial for meeting this criterion.

The welfare element recognizes that popular support for institutions and the system as a whole will not be sustained (or even created) if economic performance persistently falls below expectations and citizens regard the distribution of benefits and costs as unjust. As Adam Smith put it, "Justice is the main pillar that upholds the whole edifice."¹⁸

Where economic governance breaks down, societies become unstable and tensions and conflict arise. In hindsight what occurred in Central and Eastern Europe and the Soviet Union over a long period up to 1989 was a simultaneous and interrelated deterioration in all three of the elements identified above. Governments were increasingly seen by the populations they governed to lack the legitimacy of popular support; the political and social order was undermined by disillusion with the institutions of the state (enhanced in Eastern Europe by resentment at interference by a foreign hegemony) and there was a long-standing deterioration in economic performance and individual welfare.

¹⁶ OECD Development Assistance Committee Handbook on Security Sector Reform, 7th edition Paris 2007.

¹⁷ Adam Smith, *The Theory of Moral Sentiments* (Oxford: Clarendon Press, 1976).

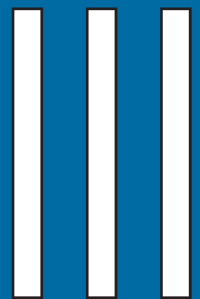
¹⁸ Ibid.

Conclusion

The concepts of peacebuilding and state-building are still evolving as analysis tends to focus on measurable programmes, benchmarks and indicators. Progress has been made through the study of state-building and fixing failed states, but work remains to be done in defining state-building and until this is done, it is difficult to operationalise the concept. We have therefore introduced the concept of economic governance. A secure and prosperous political system is one where there is strong economic governance. We have characterized the system of economic governance as one where order, legitimacy and welfare are interlinked. Effective economic governance relies on the presence of all three elements.

The next step is to identify the guiding principles by which countries use economic governance to become more stable and prosperous. To do this we turn to the experience of a number of so called ‘transition economies’ to use the lessons of the past two decades to elaborate these guiding principles.

Chapter



CHAPTER III:

EXPERIENCES AND LESSONS FROM TRANSITION

Economic governance has been identified as an important building block for successful post-conflict reconstruction. Nations that successfully implement economic governance institutions and mechanisms give rise to more effective and responsive states, and at the same time contribute to peace and security. The experiences of the transition process in the UNECE region provide some practical insights and lessons for the elaboration of guiding principles for effective economic governance. To a certain extent, all countries are in transition. To this end, we have also included the cases of Northern Ireland and Ireland, two entities which pursued economic governance in their own way and reached a historical solution to decades of conflict. Using the experiences and approaches taken in Ireland, Northern Ireland, Poland and selected subregions of the UNECE, we draw key lessons and implications for countries in post-conflict reconstruction.

The goals of transition...

In Central and Eastern Europe, transition began towards the end of the 1980s when governments began to dismantle the central planning system and started the transition to market economies. The aim was to establish full-fledged market economies, modern democratic political systems and to raise the economic welfare of the citizens. Major social, political and economic transition has also taken place in other areas of Europe, including Ireland and Northern Ireland.

...and different approaches chosen to pursue transition

By and large, transition policy had become synonymous with an approach that came to be known as the Washington Consensus. Its central elements were macroeconomic stabilization, especially in those countries with significant indebtedness and inflation, the building of new institutions and the introduction of new legislation necessary for a market economy; price and trade liberalization; and large-scale privatization of the previously nearly complete state-owned and operated economy. However, other approaches existed. There was a school of thought that argued against the Washington Consensus for less speed and less “shock therapy” and more effort at institution-building in the economic and political transformation process. Proponents of this alternative approach criticised in particular the “laissez-faire” approach of the Washington Consensus.

However, both sides of the debate were probably closer than they thought

The Washington Consensus was not as simplistic as it seemed. It was not intended merely to stabilize, liberalize and privatize, even though its proponents tended to simplify its key messages. For example, it emphasized the need to liberalize the process and end the price fixing system, the need to open up trade and “importing” world prices for tradeables were stressed. The fact that there was virtually complete



state ownership naturally focused attention on privatization. The omnipresence of state regulation in the form of central planning also led to an emphasis on reducing the role of the state. At the same time, it is fair to say that most proponents of the *laissez-faire* approach also advocated the need for a new legal system, the development of institutions and of corporate governance. The *laissez-faire* policies, as defined here, were indeed stressed, but they were stressed as first steps in a more complex continuum.

Case studies of country-level transition processes and sub-regional experiences

Transition economies developed economic governance systems and integrated them into their strategies of transformation and rejuvenation. The following demonstrates how regions and states in “transition” used a model of economic governance to transform their economies, thereby contributing to making their region more peaceful and secure. We also highlight UNECE subregional

experiences in the Caucasus, South-East Europe and Central Asia to show the role of sustainable development in the economic governance model.

Ireland

The importance of economic governance in making states effective is illustrated in the case of Ireland and its transformation from a small rural peripheral economy into a “Celtic Tiger” in the span of one generation. The legacy of Ireland’s reforms is undeniably impressive. In 2007, economic growth was expected to reach 6 per cent, double the EU average. While the Irish economy is now flourishing, just twenty years ago the country was in a severe state of economic weakness. The jobless rate was the highest in Europe at 20 per cent, the nation’s elite were emigrating to other countries with more favourable economic prospects and the public deficit stood at 13 per cent. A typical news bulletin in the 1980s consisted of a depressing update on the “troubles” in

Northern Ireland, followed by economic reports with phrases like the “national debt”, “unemployment” and “emigration.”

Government planning and economic governance: the role of the NESC

Amidst the doom and gloom, in October 1986 the National Economic and Social Council (NESC) came forward with a strategy to get Ireland out of its dire economic situation. The NESC, set up in 1973, is at the hub of Ireland’s economic governance programme. It is an advisory body in which employers, trade unions, farmers and senior civil servants analyse policy issues and seek consensus on strategic policy directions. This body produced regular plans that were based on prior consultations with all partners.

Typically, government economic planning is criticized as if it were just some kind of hapless old style central planning five- or ten-year plan. However, this style of planning or economic governance – state involvement but in a free market environment – was used effectively in Ireland as part of a recovery strategy.

In fact, the Irish government continued its use with the latest ten-year plan unveiled in November 2005. It envisions a €34.4 billion overhaul of Ireland’s transport infrastructure, with €26 billion coming from government coffers and the remainder from public-private partnerships. Projects include the first-ever Dublin metro (which will provide a much-needed link from the city centre to Dublin airport), an extension of Dublin’s new light-rail network, new commuter rail services in the cities of Cork and Galway and a new road route known as the “Atlantic Corridor” linking the major cities.

The 1986 NESC strategy document, although no one knew it at the time, was to mark the turning point in Ireland’s economic fortunes. NESC warned at that time that continuing existing policies was not viable and that “considerable sacrifices” needed to be made, specifically cutbacks in public spending. This was no easy task, given that middle-income earners were already being taxed over 60 per cent of their wages — while government borrowing was continuing to spiral out of control.

Another milestone came soon after, in February 1987, when the Haughey government implemented the three-year Programme for National Recovery, a tough medicine programme advocated by the NESC. It was followed up by six other social partnership programmes, from the 1991-1994 Programme for Economic and Social Progress to the current Sustaining Progress Programme. Each one of these plans was jointly negotiated by the government, trade unions and the employer organizations, collectively known as the social partners. By the mid 1990s, the recovery was complete and Ireland embarked on its longest-ever sustained period of economic growth.

Origins of the boom

While the 1986 NESC strategy document was a pivotal moment, the origins of what has become known as the Celtic Tiger stretch back further still. The Industrial Development Agency, as early as the 1970s, began to target foreign investors in key growth sectors like pharmaceuticals, software and electronics. FDI became a strategic consideration by government officials who faced a number of threats. Most notable was the demise of Shannon Airport. Due to the technological advances of airplanes crossing the Atlantic, flights no longer need to re-fuel at Shannon – a major source of

revenue. In response to this threat, the government set up a special economic zone to attract enterprises and began to develop the skills of attracting FDI. In time these skills were proclaimed by experts around the world as “state of the art”.

The role of the European Union

The EU proved to be a catalyst for modernizing Ireland’s institutions and inserting it in the regional and, just as importantly, the global economy. Large multinationals like Apple, Microsoft and Intel were enticed across the Atlantic through a range of incentives, notably an exceptionally low corporate tax rate of 10 per cent for manufacturers²¹. Ireland’s EU membership in 1973 helped too, as its integration into the common market meant that companies did not have to worry about making their products comply with a patchwork of different national regulations.

Wise use of EU windfall

During the 1980s and 1990s, Ireland received a large flow of EU structural funds. Today as a rich country within the EU, this flow has stopped and Ireland is now a net contributor to the EU. Contrary to conventional wisdom, however, EU subsidies such as the structural or regional development funds played only a modest role in attracting foreign investment.²⁰

Moreover, subsidies, from the EU were

not squandered but invested wisely. Investment was made in human capital by establishing a plethora of regional technical colleges. These training centres sprung up in the 1980s, providing skills in areas that foreign investors needed most, such as information technology (IT) and engineering.

Today, about 85 per cent of the manufactured goods that Ireland exports derive from FDI, two-thirds of which comes from the United States. Ireland’s growth is not only driven by the manufacturing sectors. Hot on the heels of the manufacturers, banks and insurers have been attracted by the development in the late 1980s of the Financial Services Centre in Dublin.

NESC innovation and building consensus

Under its governance model, Ireland is aware that consistency is critical as well as an ability to adjust to change in the fast-moving global economy. Its Industrial Development Agency, which was instrumental in attracting FDI, continues to monitor the global economy for emerging technologies, and makes sure that both government and business take note.

Irish model of economic governance

The basic features of the model are consensus, involvement of partners, wage moderation plus a commitment to free market economies. The Irish model has attracted widespread interest in other countries. For example, aspects of Ireland’s development strategy have a parallel in some Caribbean countries, with similarly positive results. In Barbados, the adoption of a social pact in the early 1990s played a significant role in

¹⁹ Today it stands at 12.5 per cent for all industry.

²⁰ The lack of any causal link is shown by the figures. From 1990 to 1995, the Irish economy grew by 5 per cent per annum. And in the next five years it took off, growing at more than 9 per cent per annum. During this period when the boom began, new receipts from the EU actually fell back to 3 per cent of GDP, while Ireland’s payments to the EU budget rose from €320 million in 1990 to €1,500 m in 2000. Yet in 2000, receipts from the EU were actually 11 per cent lower than in 1991.

the subsequent success of the economy. In Jamaica, the government, labour and business adopted a “social partnership” in 2004 in an effort to place the economy on a sustainable path. Jamaica’s social partnership resulted in two memoranda of understanding between unions, public servants and the government, initially freezing public sector wages then subsequently limiting the level increase as a key element assisting the government in addressing its fiscal imbalances.

The model is also being developed and implemented at local levels as some of the solutions in the economy are only able to be sought at a local level. An OECD evaluation of Ireland’s local economic development policies for example, considered that the local partnership approach constituted an experiment in economic regeneration and participative democracy which is potentially of international significance.²¹ Thus the model is very different from the centralizing state and neo-corporatist models of many post Second World War economies like Austria.

An open, free market economy ...

Rather than subsidies, Ireland’s commitment to a free market economy was critical. For example, the NESC plan in the mid 1980s slashed public expenditure, abolishing several public agencies, and cutting taxes and regulations. The top marginal rate of tax was cut from 80 per cent in 1975 to 44 per cent in 2001. The standard rate on income tax was reduced from 35 per cent in 1989 to 22 per cent in 2001. Corporation tax was cut from 40 per cent in 1995 to 12.5 per cent in 2003. It is no coincidence that there is virtual full employ-

ment — and in a startling turnaround, Ireland has gone from a country of emigration to one of immigration to cities such as Dublin, Cork, Galway and Limerick.

Unlike most of its West European neighbours, Ireland, with a population of just four million, decided to open up its labour markets to all the new EU Member States of Central and Eastern Europe. The result is that 48 per cent of all new jobs were filled by foreign nationals this year, with up to 200,000 Polish workers in the country and thousands more Latvians, Lithuanians, Chinese and Nigerians. Despite the dramatic influx, there is no complaint as there is full employment.

...combined with social justice...

The very success of the model has given rise to problems – inflated house prices, strained infrastructure and income inequality. Fast growth is not a panacea. However, it does increase the potential for the whole of society to enjoy prosperity. The government works hard to maintain social justice and continue to renew the foundations of economic success.

...and contributions to peacebuilding

Ireland is a modern society based on free market, is part of Europe and a member of the EU, and has also played a leading role in peacebuilding. Its government has been a key partner in the Northern Ireland peace settlement and in a crucial referendum in 1997 on the road to this settlement over 89 per cent of the population agreed to remove Ireland’s claim to the territory of Northern Ireland from its Constitution. Overall, it is a neutral country, based not on military powers and alliances but on values and ideals.

²¹ Charles Sabel, *Local Development and Social Innovation* (Paris : OECD, 1996).

Conclusion

The case of Ireland shows the key factors in its success as a so-called Celtic Tiger that is the product not exclusively of a laissez-faire culture, but rather of a consensual, comprehensive, constantly updated plan of social economic governance to create conditions that allow the economy to flourish involving the social partners and different levels of society. The model is neither “top down” nor imposed from outside, but rather is indigenously produced and rooted in the society. Indeed, under the NESC, economic and social governance in Ireland is actually negotiated and then supported by society as a whole. As a result of its success, the model is replicated elsewhere and also, notably, attracting interest from its northern neighbour.

Northern Ireland

It is no accident that “governance” is a term only now beginning to enter Northern Ireland’s public lexicon. As we have noted, effective economic governance requires a close association between the political, economic and social domains to determine “what” is delivered by the government and “how” it is delivered. In other words, it implies, first, a close involvement of the political and economic domain to determine the “what”. Secondly, economic governance implies involvement of the political and social domain to achieve the “how”.

The problem is that government in Northern Ireland has for long been disconnected from the social and economic domains. Politics has, until recently, been premised on the assumption that economic policy will be delivered from the United Kingdom Westminster-based Government and that the involvement of social

actors in the process is relatively limited. However, the Northern Ireland economy is in transition and things are changing. A new political settlement was agreed in 1997 which sets the political domain on a new path:

- An executive power, designed to accommodate deep-seated political rivalries. The power-sharing Executive is composed of ten ministers drawn from four political parties.
- The 108-member Assembly, elected on the basis of proportional representation, provides the members for the committee system which advises and assists each of the government departments. Although not a layer of government, the Agreement established a consultative Civic Forum to support the work of the Assembly.
- The North-South Ministerial Council, which deals with selected areas of government – such as food safety on an all-Ireland basis.

The challenge for Northern Ireland is to add the economic and social domains to the new political governance structure emerging in the province. The case of Northern Ireland shows the challenges that have to be addressed to deliver the solutions that have been achieved by its southern neighbour.

Economic challenge and new recipe for growth

The challenge in economic terms is clear enough: Northern Ireland comes in at the bottom on the scale of regional gross domestic product (GDP) per capita in the United Kingdom, which itself ranks tenth out of 15 EU members in GDP per head

(ahead of Finland, Sweden, Spain, Portugal and Greece).

To address this situation a report prepared by the Northern Ireland Executive on boosting economic competitiveness outlines a new recipe for growth with the following goals:

- Increased investment and productivity
- A bigger role for the private sector in economic activity, and
- The transformation of the economy into a high valued, knowledge led economy fit to compete in the global economy²²

To meet these goals, the report argues for:

- Reduction of the large public sector
- Fiscal incentives to generate new investment
- A series of measures to provide the human capital and skills to meet the challenge of the knowledge based economy and IT skills
- Measures to increase employment and reduce inactivity, including incentives to stop drawing incapacity benefits
- Possible privatization of public assets, such as public parking sites, and
- More effective marketing of the province to attract inward FDI into higher quality information and communication technology (ICT) sectors.

A major challenge to delivering these goals, however, is the constraints of insufficient economic and social governance in Northern Ireland, namely:

Lack of regional autonomy

A dynamic regional policy needs a region with sufficient powers to drive policy forward.

²² Sir David Varney, (2008).

Northern Ireland has no fiscal tax reigning powers and this constraint prevents it from reducing corporate tax to the 12.5 per cent of that of Ireland. Its attempt to do this having been rejected due to the upfront cost and likely displacement of both capital and profit from the rest of the United Kingdom.²³ While the United Kingdom rate of 28 per cent is the lowest of the G7, Northern Ireland is clearly at a competitive disadvantage vis-à-vis Ireland in attracting new enterprises and FDI.

No strong political capacity

Northern Ireland's local executive needs the political weight to promote cooperation between economic actors and to adopt policies that enable firms to create the microeconomic conditions for competitive success. Increasingly the public bodies able to perform these tasks are not conventional national states but regional governments similar to the German Länder. The lack of a strong regional government means that Northern Ireland cannot perform at the same level as Ireland.

Lack of real involvement of local partnerships to shape policy

Regional policy in Northern Ireland is fixed and operates under the traditional view of a region as a “container” for centrally-determined programmes. In the EU itself, the regions are largely seen as an entity in themselves, and many EU regulations—notably the single programming documents for structural funds allocation—assume an effective regional body charged with achieving defined objectives for social and economic development. From the United Kingdom's perspective – working with regions as containers assumes what is needed

²³ 22 March 2007 review by United Kingdom Chancellor of the Exchequer.

is administration – systems to lay down, spend and account for resources from approved programmes, both national and European. From the EU perspective, with the region as level of governance, what is needed is an effective local partnership to determine the nature of the problem and to draw up, within the rules, an effective and coherent programme to deal with it. In other words, the United Kingdom perspective constrains Northern Ireland’s ability to implement its ambitious economic goals.

No platform for local social partnerships ‘negotiates’ economic governance:

In Ireland as we have seen, in the 1980s, the social partners—acting in the tripartite National Economic and Social Council—hammered out an agreed strategy to escape the vicious circle of real stagnation, rising taxes and exploding debt. The result was a decade of “negotiated economic and social governance” which has marked a transformation of economy and society in the republic.²⁴ But in Northern Ireland such arrangements and governance institutions have not been established. In any case, the scope of decision taking of the social partners would not be as large as in the case of Ireland where negotiation has embraced not only graduated, moderate wage increases but also tax reform, evolution of welfare payments, trends in health spending, commitments to social equality, measures against long-term unemployment and so on. As a result in Ireland, because of its ability to work in these important areas, lower interest rates, lower inflation and improving competitiveness have fostered vertiginous economic growth.

²⁴ The aim was to bring together the key players in each sector—leading firms, industry associations, chambers of commerce and trade unions, along with research institutes—to design an agreed upon sectoral strategy for the Republic of Ireland.

Part of governance deals with the social domain, equity and welfare but there has been no attempt to associate the economic domain with the social in a consolidated approach: To date the EU has been working with the Executive to bring about peaceful reconciliation and to bring Catholic and Protestant communities together, particularly in deprived urban working class areas which were often at the forefront of the conflict. Residential segregation in general, for example, still continues to be a significant factor.²⁵ Such initiatives as the EU’s PEACE I and PEACE II lie outside the economic policy context.



There is a need to discuss social problems that arise in housing and in the lack of trust between the communities in the wider economic governance context and to achieve an alignment between the top-down approach of the Northern Ireland Executive and a more radical, customized, bottom-up solution to Northern Ireland’s specific social problems.

Way forward

Those arguing for a more economic and social governance model have called for a series of round-tables to be organized, drawing

²⁵ More “peace lines” separating Protestant and Catholic communities at interface areas have been built since the Agreement. In April 2007, the government estimated that there were 34 walls or fences and 11 gates separating Protestant and Catholic communities in Northern Ireland.

together all the social partners and elected representatives, with representation from socio-economic agencies and the academic world, to establish:

- a detailed picture of the regional productive system
- a set of strategic goals for Northern Ireland as a “global region”
- the key problems and barriers inhibiting progress, and
- the specific institutions and networks required to tackle these obstacles.

These proponents further argue for the establishment of new institutions based on a stronger regional government consisting of a regional development agency, the revamping of the Northern Ireland Economic Council, or the establishment by government of a standing Northern Ireland Economic and Social Forum. Many of these proposals are drawn from the experience of Ireland. They also argue that these bodies should have a legislative, not just an administrative, character and should also enjoy some scope for fiscal manoeuvre, including tax-varying powers as in Scotland. The goal being that these institutions should have the optimum power to orchestrate a distinctive regional approach.

Conclusion

The Northern Ireland case shows the practical difficulty, in societies where there are divisions, of putting an effective economic governance model in place. Without strong economic governance the risk is that business, and other social actors, will feel disillusioned by the performance of politicians unused to the exercise of economic policy, frustrated by structures designed on the basis of purely political considerations, and excluded by a lack of involvement in the public policy process. The case of

Northern Ireland demonstrates the importance of economic governance and in this context the implications of failure to implement an effective model. Whatever institutions are established in the region must enable Northern Ireland to improve its economic and social performance substantially, and sustainably, if it is to have a future as an integral part of the United Kingdom, Ireland and Europe.

Poland

Although Poland is now celebrated as one of the most successful examples of transition in Central and Eastern Europe, the reform process was at times a hard, uphill battle. Poland faced an economic downturn soon after liberalization followed by a strong incidence of crime and corruption. Thus, Poland’s transition demonstrates how the presence of a broad social consensus and strong private sector activity, the development of effective laws and institutions for an investment-friendly climate and EU membership helped to minimise the negative effects and push forward towards a stable economic and political environment.

“Shock therapy”

Poland began its transition from a centrally planned economy to a market-oriented one under exceptionally difficult macroeconomic conditions – hyperinflation, high rates of unemployment, large public debt and an active black market. In 1990, led by then Polish finance minister Leszek Balcerowicz, Poland implemented an extensive reform plan known as the Economic Transformation Programme. The programme consisted of price liberalization, a fixed exchange rate, lower import barriers and small-scale privatization. Although it was predicted that Poland’s industries would not be able to cope with this “shock therapy”,

resulting in an irreversible recession and social upheaval, Poland rebounded from the post-reform recession, exceeding the GDP levels of other post-communist transitions.

Developing social consensus through a bottom-up approach

Poland's successful transformation is due in part to the existence and strength of civil society that mobilized broad public support for transition. Civil society suffered less disruption under communist rule in Poland than other transition countries due to the shorter length of communist rule, the role of the Catholic Church and trade unions.

The Catholic Church was permitted a degree of independence in Poland that was not witnessed in other centrally planned economies. Through strategic partnerships, the Catholic Church bridged the way for other groups such as the Solidarity labour movement to play an active role in society. Poland's transition to a market economy took place through a decade of grassroots efforts by the Solidarity labour movement, offering a bottom-up approach towards transition. This type of transition can be contrasted with the top-down approach seen in other countries such as Russia. In Russia the transition was initiated from the top by Mikhail Gorbachev without the advantage of strong supporting social coalitions. In the later stages of Poland's transition, the strong trade union movement helped to create political competition and support social consensus through painful periods of transition.

Developing social consensus is not a substitute for building institutions and developing market mechanisms, but rather social consensus helps markets function more successfully in producing economic and social welfare. The right kind of social consensus can compensate for instances of market failure

and can buffer the sometimes harsh, inequitable and unfair outcomes of market competition.²⁶

The path towards recovery

Poland's path towards economic recovery involved an evolutionary approach to privatization...

Poland's first economic recovery took place in 1992-1994, and was followed by more robust growth during the second period, 1995-1999. The two-stage growth period was due in part to Poland's evolutionary privatization process. By focusing first on small and medium-sized enterprises and later on more extensive privatization, Poland developed a dynamic, indigenous private sector composed of small and medium-sized enterprises. More than two million entrepreneurs now operate in Poland's private sector, creating jobs, contributing to output growth and forming a new consumer market.²⁷

...the creation of an investment-friendly climate through effective laws and institutions...

FDI played a strong role in Poland's significant economic growth in the 1990s. Poland attracts investors through a favourable legal structure, economic and investment incentives such as low corporate income taxes, the development of 14 Special Economic Zones and the possibility to benefit from EU structural funds. Moreover, the Polish Government has a specialized body that deals with foreign investors. The Polish Information and Foreign Investment Agency offers support for foreign investors, assisting and helping investors in all the necessary legal

²⁶ David Skidmore, *Civil Society, Social Capital and Economic Development*. *Global Security*, Volume 15, No. 1 (January 2001).

²⁷ Patrick Lenain, OECD Observer, *Poland's Successful Transition*.

and administrative procedures. As a result of these developments, the country has received over \$50 billion in FDI since 1990.²⁸

According to the European Attractiveness Survey 2008, released by Ernst & Young, Poland has been ranked the most attractive destination for new foreign investment in Europe.²⁹

...and EU membership

Poland has clearly benefited from EU membership by becoming part of an integrated economic union, developing trading partners and access to structural and cohesion funds. Poland's association agreement with the EU in 1994 also played an important role. To prepare for EU membership, Poland implemented a national programme including a joint evaluation of medium-term economic priorities, a pact against organized crime, a national development plan and other sectoral programmes required for participation in pre-accession aid packages and post-accession structural funds. Since Poland's accession to the EU, annual assessments monitor and evaluate Poland's transformation process encouraging it to complete the privatization of state-owned enterprises and to develop sound governance institutions and mechanisms.

Challenges ahead

Despite Poland's success, many challenges lay ahead – institutional reform of public finance, completion of nearly stalled privatization efforts, an overhaul of the judicial system and reorganization of the social sector (e.g. health and education). Although to a diminishing degree, poverty and unemployment still persist at relatively high rates.

²⁸ Ibid

²⁹ David Dastyh, *Canadian and US Investors Mistreated in Poland*. (Canada Free Press, 14 June 2008).

However, one of Poland's largest hurdles is corruption. Poland has used great legislative creativity to combat corruption including the establishment of new institutions and regulations. However, regulatory gaps that allow for corruption still exist. Civil society is trying to fill these gaps with the development of local educational and organizational programmes to promote ethically correct administration and the organization of anti-corruption groups. These groups advocate for the adoption of laws to deal with corruption such as asset disclosure, financing of political parties and great transparency and accountability to the public.³⁰ Moreover, Poland has a strong commitment to free press. An aggressive free press has played a critical role in exposing and preventing corruption.

Conclusion

The case of Poland demonstrates the relevance of the economic governance model for a successful transition to a market economy. Despite overall success to date, Poland faced some speed bumps along the way, including an economic downturn that resulted in high rates of poverty, unemployment and corruption. What eased Poland's transition process, minimizing negative impacts, was the provision of clear road maps for transition provided by the Polish Government, the *acquis communautaire* and the development of broad public support. The EU acquisition process also ensured the irreversibility of Poland's transformation by upholding a commitment to democracy, the principles of a state of law, respect for human and minority rights and a market economy system.

Moreover, the Polish Government created new institutions and regulations to provide for effective economic governance

³⁰ World Bank. Poland Country Brief.

model, including institutions to attract FDI and combat corruption.

Subregional experiences in environmental insecurity

The mismanagement and deterioration of natural resources in UNECE's subregions – South-East Europe, Central Asia and the Caucasus – undermines the security and stability in the UNECE region. The experiences of these regions show how outbreaks of epidemics, shortage of water for consumption and irrigation, and the degradation of agricultural resources can pose a threat to security. Inequitable access to natural resources, degradation of resources that support the economy and transboundary movement of hazardous materials increase the probability of conflict and pose a risk to human and security. To address the stresses caused by environmental degradation and scarcity of resources, a holistic economic governance model that incorporates sustainable development is necessary.

Central Asia and the Caucasus

One of the distinctive features of Central Asia and the Caucasus is the vulnerability of its ecosystems. The situation is made more critical due to widespread poverty and the economic dependence on natural resources. Shortage of drinking water and water for irrigation regularly has disastrous effects on human and animal health, as well as on the economy.

Not only water resources but also land resources cause strains on stability and security. Economies of this area have historically and continue to be largely based on agriculture and natural resources. Erosion of land due to overexploitation of forests and over-grazing is an increasing problem in parts of the Caucasus. And in Central Asia, a region rich in natural resources, human

health and water supplies have been threatened by decades of industrial exploitation through improper mining and industrial waste disposal. Moreover, extensive desertification in the region undermines the living conditions of the population and has caused pressures elsewhere in the region due to mass migration.

With the collapse of the Soviet Union and the related water-allocation system, the continued use of intensive and often inefficient use of natural resources raises tension. For example, without a functioning regional regulation framework for the exchange of water and fuel, tensions between Uzbekistan and Kyrgyzstan have continued. Due to the transboundary dimension of environmental pollution, regional cooperation on environmental strategies is necessary.

South-East Europe

Over a decade of conflict and transition in South-East Europe has left the region with a legacy of inadequate growth, declining living standards and high environmental stress. The region has been industrially exploited leading to high industrial pollution, intensive agricultural resources and a lack of water infrastructure and resources.

Disputes and disagreements over the management of natural resources shared by two or more states have also led to hostilities in South-East Europe. Industrial and mining operations that involve accidental release of hazardous substances represent a key source for transboundary threats. For example, in January 2000, a major industrial accident in Romania, with severe transboundary effects, made clear how operations involving hazardous substances still pose a serious threat to our common environment. After heavy, but not unusual rainfall, a tailings pond overflowed at a mining company

in Baia Mare, discharging over 100,000 cubic metres of cyanide into the Lapis River. Within two days, the polluted water reached the Tisza, one of Hungary's largest rivers. Not only Hungary's environment, water supply and fish stocks but also those of the Danube's other downstream countries were affected. The restoration of the environment has taken a long time and will not be fully achieved without international cooperation and assistance.

On a positive note, South-East Europe has been supported by large scale environmental protection and cooperation efforts under the framework of the Regional Environmental Reconstruction Program for South-Eastern Europe (REReP), the UNECE environmental conventions, the EU accession process for Romania and Bulgaria and a number of regional agreements.

The way forward

An integrated, holistic and long-term approach is a priority...

Despite the tensions created by environmental issues, disputes regarding the use and management of natural resources also play a role in bringing people and various actors together in post-conflict situations. Communities and nations can build confidence among each other and its citizens through joint efforts to improve the state and management of natural resources. Environmental cooperation can thereby act as an important tool for preventing conflicts and promoting peace between communities.

Successful environmental policies require a coordinated and integrated approach; for example, transport, environment and health are all interconnected. In a post-conflict setting, they require institutional arrangements that allow ministries to collaborate on common

goals, such as urban air pollution, congestion, and sustainable infrastructure development. Moreover, the subregions require improved regional cooperation combined with efficient institutions and local implementation mechanisms.

...as well as policies to promote social cohesion for systemic stability

Environmental degradation is not the sole source of social tensions; however, there is a pronounced linkage between declining environmental conditions and socio-economic problems, such as poverty, inequitable distribution of income and wealth, persistent unemployment, forced migration and population pressures. To increase and maintain social cohesion is thus a prerequisite for conflict-sensitive development programming. By implementing policies that protect natural resources, post-conflict societies can diminish sources of social tension and instability.

Conclusion

Both the failures and success within the subregions of the UNECE illustrate how incorporating sustainable development into the governance model is an effective means for building peace, increasing human security and stability within a region. For example, transboundary cooperation in South-East Europe has been established as an important tool to mitigate the adverse environmental impacts on the economy and health of affected communities. The increased use of cooperation in other regions can help build trust and confidence both among and within states that are emerging from conflict.



Lessons learned

Lesson 1: Attention to institution building is critical.

One of the challenges of transition was the transformational recession that started in many economies at the beginning of their reforms. The cause of the recession is debated, but the essential reason was the time lag between the beginning of the reforms and the putting in place of the new market institutions – both formal and informal. Simply stated, at the time the old command system collapsed in 1989, the coordinating mechanism of the market economy was not yet in place, thus creating an “institutional hiatus” in the transition economies. It can be argued that this played an important role in the output collapse in the early years of reforms. A major lesson from the experience of the transition is that the success of liberalization, macroeconomic stabilization and privatization policies is contingent on the existence of an effective state and adequate institutions. It is now generally accepted that institutional factors have to be

considered as part of any economic reform programme.³¹

Lesson 2: Economic governance is closely linked to attracting FDI.

Initial macroeconomic reforms – privatization, liberalization of prices, new legislation, etc. – proved relatively unproblematic. What proved more difficult were the microeconomic reforms, and especially the enforcement of laws. Things, however, improved when the institutions began to work and enforcement became more effective. One of the consequences of this and a key lesson was that institutional certainty and better governance are critical in attracting large inflows of FDI. What tends to bring in FDI is the narrowing of the risk premium, and the risk premium is reduced by enforcement. Enforcement means an environment of secure private property rights, of effective government guarantees, courts that efficiently enforce contracts, a justice system that punishes those who unlawfully confiscate property and a corruption-free setting. As shown in Poland and Ireland, special institutions were created to attract FDI. Ireland’s FDI attraction was formulated by skilful marketing and targeting, and the use of incentives – at least initially. Membership of the EU was central for all countries because it creates a large market and FDI uses small countries as entry points into the markets.

In this environment, FDI overall helped to transform and restructure economies, integrating them into the regional and global

³¹ While there were mistakes too in the transformation recession of the early 1990s, some countries began to compete quite quickly. For example, two to three years after the opening up and liberalization, Central European countries were exporting effectively to the countries of Western Europe, to the point where the latter were invoking safeguards and anti-dumping procedures. So, in the short run, the devaluations helped considerably by generating exports to highly competitive areas.

economy. By contrast, when property ownership is prohibited, or is predominantly state-owned, where a corrupt judiciary prevails and frequent expropriation takes place, property rights are considered insecure or non-existent. In such unfavourable circumstances, individuals have little incentive to engage in productive activities such as investing. In the context of foreign direct investment in the CIS countries, for example, poorly enforced property rights (such as corruption, crime, theft and excessive regulation) were a key impediment to investing and doing business in the region.³²

Lesson 3: “Grand corruption” or state capture is a critical challenge which needs to be tackled early on.

The third lesson was the need to recognize the threat from corruption and to tackle the problem early on. It is important to point out that tackling corruption was not a priority for policymakers at the beginning of the transformation process. Corruption took many forms, but the most sensitive was so-called “grand corruption” where attempts were made to extract benefits from the state by corruptly influencing the formulation of policy (public laws, rules, and regulations). Influencing the formulation of policy is known as “state capture”, and occurred frequently in transition processes, including of the Russian Federation’s transition. Even in Poland in 2000 – considered one of the most successful transition economies – discontent at corruption was so high that only 8 per cent of Poland’s population viewed the country’s transition as having been a success. Corruption destroys public confidence in democratic institutions and erodes

the legitimacy of the state, one of the pillars of economic governance.³³

Lesson 4: The incentive of EU entry provides an anchor for reform.

This leads to the fourth lesson, namely the need to have solid external support to ensure that reform fatigue does not set in and that reformers have incentives to continue. The role of the EU in this regard, as an anchor of reform, was critical. It is worth noting that at the time, the EU was criticised to accede.³⁴ However, they set strict criteria for joining in the *acquis communautaire* and kept to this, thus ensuring that when the countries did eventually join they were more ready to survive the “shock” of competing in an open, integrated market. The point of joining the EU was not to obtain access to considerable structural funds, which is typically highlighted; in fact, the drip feed

³³ The evidence suggests that state capture is particularly prevalent when firms face insecure property rights, insufficient economic liberalization and competition, and only a partial liberalization in civil society and media activities, impairing their ability to effectively monitor the activities of the state. The analysis of state capture points to powerful private incentives to engage in these activities. In capture economies, where there is a large market for capture of policies and laws, successful captor firms enjoy strong private gains in terms of performance and improved security of their property rights. It is unrealistic to suppose that firms will not try to influence the policy and regulatory environment within which they operate. Indeed, firms in advanced market economies exercise influence over public policy through a variety of channels. World Bank research highlights the fact that these strong lobbies are present in transition countries, too, but are directed into illicit channels with highly detrimental social and economic consequences. Joel Hellman, Jones Geraint and Daniel Kaufmann, *Are Foreign Investors and Multinationals Engaging in Corrupt Practices in Transition Economies?* (Beyond Transition, World Bank Group 2001).

³⁴ “The role of the European Union as an outside anchor is much more important in the second stage of transition, when enforcement is the key. (Maybe it could also play this role in the CIS.) But, in this regard, it is not clear that the EU is taking its responsibility seriously enough. By delaying the date for accession still further, by creating uncertainty about when and whether it will happen, and by diluting the meaning of membership, the EU runs the risk of losing its outside leverage and missing out on a unique opportunity to support the transition process.” *UNECE Economic Survey 2000*.

³² C. Shiells, *FDI and the Investment Climate in the CIS Countries* (IMF Policy Discussion Paper, PDP/03/5, November 2003).

of subsidies is what they were trying to leave behind. Rather it was the benefits that flow from an integrated large market that lowers transactions costs, boosts competitiveness and employment and raises national incomes. Thus, the EU and the *acquis* were critical for a successful transition. In addition, other forms of external support such as from international organizations also played a strong role in reducing tensions and promoting security.³⁵

Lesson 5: Democratic processes and social consensus, not just elections, help to legitimize the new governments in the eyes of their citizens.

The fifth lesson is that legitimacy of institutions and legal documents can only be earned through the democratic process. The transition process has been longer for countries that lack a clear social consensus for transition and reform. Without mobilized social support in favour of the shift to a market economy, the prospects for any sustained change are minimized. One of the ways transition countries gained broad support was through regular consultation with the electorate. Even though clear differences exist in political parties and the public at large, the policies remained consistently supportive of market economy reform, and this reinforced strong support for change.

The use of social consensus to achieve change is illustrated in both Ireland and

Poland. In the Irish case, the National Economic and Social Council and the International Development Agency enjoyed a mutually beneficial relationship with the private sector. IDA consulted businesses regularly and monitored the global economy for emerging opportunities, benefiting both sectors. In Poland, a broad social consensus sustained the transition process through the economic recession. Social consensus was achieved through an active civil society and strong relationships between the government and social actors, exemplified best by the mutually-beneficial relationship between government and labour unions. During transition, many policymakers sought to directly engage union participation in a new system of labour relations. The labour unions in turn used the government's internal divisions over labour policy to achieve specific economic goals and to enhance their political standing.

Lesson 6: Improvement in welfare, "human security" and quality of life are instrumental in obtaining popular backing for the changes.

The sixth lesson is the need for a commitment to a process which allows for participation of the people in decision-making, a strong orientation to equity in allocation and a respect for the environment. In terms of equity considerations, it was important to stress the need for social safety nets to ensure social cohesion. A major side effect of the transition was the rapid social stratification of previously rather homogeneous societies. This was accompanied by a widespread change of social status (often to a lower level) and the loss of job security. Since the social costs of transition are often unevenly distributed, this, in turn, became a major source of tension and unrest.

³⁵ The institutions active in Eastern Europe and the CIS (e.g. the Bretton Woods organizations, the Asian Development Bank, the European Bank for Reconstruction and Development, UNECE, and the Organisation for Economic Co-operation and Development (OECD)) have contributed in their own, often complementary, ways to the long-term stability of the region. With their policy advice, technical assistance and, in many cases, financial support, they have helped bring about macroeconomic stabilization and the economic transition. Their assistance has improved these countries' prospects for achieving sustained growth and narrowing income gaps, and thus for enhancing economic stability in the region.

In particular, excessive income inequalities emerged within some transition economies, especially in the poorer ones. Owing to the disproportionate sharing of the costs of economic adjustment by various subgroups of the population, as well as between men and women, poverty increased sharply from near negligible to endemic proportions in countries such as Armenia, Kyrgyzstan, Moldova and Tajikistan. More than 80 per cent of the population in these countries found themselves struggling below the international poverty line.³⁶ The social safety nets are often inadequate and provide little protection for the lower levels of these societies.

Mismanagement of natural resources undermines economic growth and development, exacerbating social and economic inequalities. Inequalities are heightened with misallocation of resources causing decreased access to vital resources such as water, health epidemics and food crises. Highly exploitative patterns of subsistence behaviour in the UNECE subregions have led to decreases in agricultural productivity and thus economic resources. Accordingly, it is necessary to accord a high importance to addressing the acute social problems accompanying the process of economic transformation in the former centrally planned economies, and to this end it is important to elaborate targeted policies that incorporate sustainability to address these problems.

Implications for peacebuilding strategies

The lessons from transition have important implications for peacebuilding strategies. Economic governance is a relevant model practised by Northern Ireland, Poland and the subregions in their transition from

poverty and instability to prosperity and security – although in the case of Northern Ireland there were practical difficulties in implementing effective institutions, while in Poland the institutional development took some time and was hampered by corruption. From these difficulties, a number of concerns have arisen as to the suitability of such an economic governance model.

Shock therapy?

How appropriate is this recipe for vulnerable societies wrecked by conflict and war. Would this therapy make matters worse not better?³⁷ In countering this argument, it is important to recognize first that not all states in transition went through such a deep recession. Poland was selected as a case study but in the case of another transition economy, Slovenia, restructuring from manufacturing towards services and from large towards small enterprises was gradual. Social stability has remained an important characteristic of Slovenia and dramatic changes in ownership patterns were avoided.

Even though countries like Slovenia avoided this recession, it was real for others. However, in hindsight, even in those cases like Poland, recession did herald a period of sustained economic growth afterwards. Members of the public had a huge enthusiasm for the transformation, and as seen in elections in the early 1990s the recession did not threaten this commitment to the free market. True, if more attention had been paid to institutions and development of the human capital, market mechanisms could have been operational earlier and the worst effects of the recession could have been mitigated. Lifting the protection surround

³⁶ In 2002 this line was of the order of \$ 4.30 per person per day. More than 40 per cent existed below the international absolute poverty line of \$2.15 per person per day at the same period.

³⁷ Professor Mary Kaldor states reconstruction has to involve reform, but not necessarily along the lines of the standard transition formula. *New Wars Old Wars; Organized Violence in a Globalized Era* (Cambridge: Polity Press, 2006).

ing companies and confronting them with market forces will be painful, but in the longer run this can be effective in building comparative advantages and the ability to compete.

Costly nation building?

The second concern is whether while discounting a laissez-faire approach on the one hand, the lessons from transition point to another extreme, namely the need for institution and micro state building of a very costly kind. To answer this concern, it has to be admitted that institutions are important and there is a need to train people in new skills. Transition is not a quick fix. The state has an important and complicated role in providing the conditions for business and growth in general. Institutions, particularly enforcement institutions, are crucial to the environment for growth. Transition countries need an influx of lawyers and accountants to improve enforcement and to audit accounts for transparency, as well as institutions that record and register newly acquired property rights such as modern land registry offices, and independent judiciaries that can settle economic claims swiftly and efficiently.

But nor should this exercise be exaggerated. Countries in Eastern Europe changed remarkably quickly, within single generations where benefits have been realized. The critical challenge is enforcing property rights.³⁸ This called for the enforcement of contracts and compensation in case of nationalization and these were the fundamental basics of transformation. In

Ireland social dialogue was a critical new institution and with the necessary powers was swiftly and successfully put in place. In all cases change was introduced; mistakes were made but learned and the institutions were adjusted accordingly.

Suitability of a liberal capitalist model?

In all cases, economic governance was being established to build more prosperous and competitive market economies and some object that such a model is inappropriate in already weak post-conflict economies. This model, however, is not inimical to such countries. In fact, the European model is not one where a few accumulate wealth, but rather it is a “stakeholder”, wealth-sharing, inclusive economy, based on the recognition that all groups have access to wealth and it is not a capitalist rich persons club.

The success of the market economy in transition countries was that it brought substantial benefits (new jobs, new opportunities, travel, services, etc.) to everyone. By giving the private sector a greater role, through things such as mortgages and stock markets, large segments of society could participate in the market. The involvement of the private sector enhances the legitimacy of the market as a mechanism for social and economic mobility.

³⁸ Clearly defined property rights are central to the operation of any market economy. By laying down clear rules for the distribution of economic returns from property, they establish incentives for property owners to put their assets to the most productive use. Conversely, where clear property rights do not exist, uncertainty as to the ultimate ownerships of assets and their returns will tend to discourage investment whether by emerging domestic entrepreneurs or by foreign companies.

Chapter

IV

CHAPTER IV:

FIVE PRINCIPLES OF ECONOMIC GOVERNANCE IN PEACEBUILDING

The previous chapter highlighted a few countries' experiences establishing economic governance systems, and drew relevant lessons for countries which have experienced war and conflict. We have distilled these experiences and lessons into five guiding principles of economic governance:

1. Effective institutions
2. Public participation / bottom-up approach
3. Transparency in financial management
4. Sustainable development
5. Regional focus

In this chapter, for each of the principles, we discuss:

- Indicators of success
- Nature of the challenge
- What needs to be done?
- How should it be done?

1. Building effective institutions is critical in the post-conflict phase.

Efforts need to be made to build institutions and to ensure the development of human capital to make these institutions viable and effective.

Indicators of success

- Legislation defining and protecting property rights

- Existence of independent auditing agencies and auditing offices
- Institutions that promote vertical linkages between civil society and government

Challenge

Institutions create order and trust between citizen and the government. Overall, they build confidence amongst the citizens and the international community in the validity and viability of the political system.

Institutions consist of the formal and informal procedures, norms, and “rules of the game” which bind the society together. The fragmentation of states during conflicts has tended to “delegitimize” state institutions in the eyes of their citizens. The key challenge is therefore to build effective institutions that can make states strong and credible in the eyes of their citizens.

What needs to be done?

The legal and regulatory framework and its enforcement should be established to define properly the “rules of the game”, of which the protection of property rights is the principal function. Clearly defined property rights are central to the operation of any market economy. By laying down clear rules for the distribution of economic returns from property, they establish incentives for property owners to put their assets to the most productive use.

Box 3: Importance of property rights in post-conflict countries

Post-conflict societies are characterized as “cultures of opportunism”, which holds back investment and economic recovery because of insecure property rights. With all people being “opportunists”, everyone is contesting who owns what and such uncertainty over ownership scares off investors. So the first thing to sort out, in order to develop a private sector as speedily as possible, is what property rights are. In Uganda in the 1990s the government set up special courts, bringing in foreign judges to try the contested claims, setting deadlines for submission for claims, and hearing and adjudicating the claim if the deadlines were met. If the deadline was missed the claim was no longer valid. This allowed for a very fast and very transparent adjudication. It was however politically painful. For example, in Uganda it meant giving property back to Asian Ugandans living in London and evicting African nurses from their homes. But on the other hand, the Ugandans got it through just in time for the coffee boom which happened in 1994, which enabled that coffee boom to be translated into big private investment. So, fix the property rights.

Paul Collier submission, Conference: Private Sector Development and Peacebuilding - Exploring Local and International Perspectives, Berlin, September 2006.

Conversely, where clear property rights do not exist, uncertainty as to the ultimate ownerships of assets and their returns will tend to discourage investment, whether by domestic or by foreign companies. This calls *inter alia* for the enforcement of contracts, compensation in case of nationalization, and an effective enforcement machinery of judges, police, customs, etc.

Institutions should be created which promote dialogue, innovative collaboration, and agreement between government and society on state-building tasks and economic strategies, including national parliaments, councils and other representative bodies, special committees and task forces.

Institutions are required that can develop the social capital of society that involve key stakeholders in the design and implementation of policy. Social capital

consists of civic-minded citizens that look on problem solving not from a selfish perspective but from a public spirited one, seeking to accumulate social capital (e.g. networks and trust) to facilitate coordinated action, for the long-term benefit of all.³⁹

Validating and auditing institutions should be established that demonstrate the fairness and justice of the system to public scrutiny. These institutions involve auditors, independent agencies and auditing offices as well as all types of media.

An efficient public administration is required to provide services to citizens and to regulate the environment in which business is done. This is accomplished by setting up a framework of standards and regulatory procedures in which companies operate.

How should it be done?

Not everything can be done at once and building institutional capacity takes time. Priorities should be made. In this regard, a starting point is the institutions and legal and regulatory frameworks that protect property rights and the “rules of the game”. Without certainty on the protection of private property the economy will not function effectively. The basic institutions – land registry offices, an independent competent court system, etc. – that solve disputes, recognize contracts, and enforce judicial decisions should be amongst the priority tasks.

³⁹ Just how beneficial this invisible form of capital can be is demonstrated by the stark contrast in economic and institutional performance between the northern and southern regions of Italy. In northern Italy, a virtuous circle exists. Social capital tends to accumulate, not deplete, when used (indeed it depletes when unused), and the northern regions display a self-reinforcing and cumulative reliance on trust, norms and networks. Because, for example, two firms participate together in a network, with clear norms as to how they should behave, they develop greater trust.

Although institutions are a priority, it takes time to develop institutions and other reforms cannot wait until institutions have been established and operational. It is therefore important to develop the human capacity that can work within effective institutions and the public administration, and to pay such personnel adequately so that they can achieve a high professional standard.

While this capacity is developing, it will be necessary to use external help and advice to solve the pressing problems that cannot wait until local staff has been trained.

2. Public participation is imperative in the design and implementation of economic policies.

Meaningful consultations and communication with the local population is imperative to rebuild trust that has been lost in conflict. Government policymaking should be “bottom –up” and should involve all opportunities to involve society in the design and implementation of economic policies and public private partnerships (PPPs).

Indicators of success

- Legislation supporting public participation in decision-making



- Involvement of key stakeholders in policymaking
- Existence of independent “think tanks” in policymaking.

Challenge

In post-conflict recovery, local populations are often overlooked. In the economic transition process in Central and Eastern Europe, there was a tendency to ignore the voice of the local community. Primary attention was instead given to national administrations and to integrating international agencies and foreign advisers into the national systems. In many post-conflict situations, armies of consultants and non-governmental organizations (NGOs) arrive with “ready-made” recipes that tend to be accountable to donors rather than to the people they are meant to help.

What needs to be done?

Trust needs to be rebuilt. In the South-East European conflicts, many people felt they were not receiving sufficient support from their government and sought protection from within their ethnic group. Peacebuilding must focus on recreating trust between the government and citizens. This is not always easy, as authentic representatives of the people may be difficult to find in post-conflict situations.

...and to find a new start...

Peacekeeping has historically been geared towards ending conflict by accommodating parties and finding short-term solutions. However, a return to the old ways is not advisable. Clear new road maps and mechanisms are required to bring about effective functioning states and new fresh pathways must be found for new leaders and change to emerge.

...a gender-sensitive approach is also crucial ...

Such groups are generally independent of the parties to the conflict and are the main local conduit for humanitarian work. For these reasons, the women often have valuable insights and advice to offer. Only recently has the experience of women in security and conflict-related issues been discussed at political levels. But this discussion still falls short of recognizing women's active role in enhancing human security. A gender-sensitive approach must seek to identify opportunities for women to take on active roles as well as to identify hindrances for women to access these opportunities. Moreover, supporting actions that empower women in post-conflict reconstruction validates their evolving role in the new society where women can articulate interests and lead.

How should it be done?

Social platforms create good mechanisms to restart dialogue

Governments must start to consult with the people and win their support. This involves investment time on new dialogues with a wide spectrum of different stakeholders.

...to negotiate economic and social governance...

Institutions should be created so that policymakers involve stakeholders, especially the social partners such as employers and representatives of employees. The case of Ireland shows how the involvement of the social partners was critical in reaching agreement on important economic matters such as pay and taxation. The use of similar bodies to agree on reconstruction tasks can both rebuild trust and provide a more credible programme for reconstruction.

can both rebuild trust and provide a more credible programme for reconstruction.

...and promote new forms of partnerships...

Although countries everywhere struggle with infrastructure gaps and deficits, post-conflict countries in particular lack the resources and capacity to meet the most basic infrastructure and public service needs. Such countries have poor water, sanitation and electric supply, inadequate communication, lack of investible capital and high risk associated with investment.⁴⁰ PPPs can be an effective tool to meet the critical infrastructure and service needs in a timely and effective manner.

PPPs help to meet these needs by supporting the medium to long-term development of infrastructure and public services, a prerequisite to increasing state functionality.

...that are agents of change...

It is not simply the long-term nature of a PPP contract that contributes to long-term development goals, but the engagement of local citizenry and the market. The involvement of local actors can boost human capital and create positive externalities. In countries that have transformed themselves, groups of citizens have become stakeholders in the process, creating an incentive for orderly change and system stability. These stakeholders increasingly see state functionality as crucial to their interests.⁴¹

Involvement of government entities in a PPP arrangement can also serve as a catalyst

⁴⁰ Commonwealth Secretariat. *Harnessing Existing Financing Facilities to Promote Public-Private Partnership for Infrastructure Investment and Service Delivery in Post-Conflict Countries*. March 2005.

⁴¹ Ahsraf Ghani and Claire Lockhart, *Fixing Failed States* (Oxford University Press, 2008).

to public sector reform. Post-conflict countries are highly susceptible to corruption and opaque decision-making. In a PPP arrangement, the real cost of infrastructure is made clear, it cannot be cut into pieces. The result of transparency is accountability of public-sector officials. The PPP process can also increase government capacity through the development of procurement and management skills.

3. Financial management must be transparent.

National budgets should be completely transparent to create trust between the government and the citizens in a corruption free environment. Transparency should also be the critical ingredient in relations between the international donor community and companies in their dealings with governments in post-conflict reconstruction.

Indicators of success

- Number of convictions on corruption charges
- Number of civil servants separated from posts due to corruption or illicit payments
- Number of articles published by the media exposing corruption.

Challenge

One of the challenges in building peace will be to dismantle the opaque mechanisms for financing the conflict that have developed around state budgets, finance from public utilities, etc. In many countries the national budget and policymaking are not aligned. Ideally, the goal should be to make the budget function as a key instrument for policymaking, goal setting and monitoring of results.

New conflicts have been funded by illegal payments, extraction of revenues from natural resources, black marketeering and extortion. Public utilities were used as a means to extract funds that were used by groups to further their own ends. The public knew of these illegal mechanisms and had themselves, to a certain extent, to use these same means in order to survive.

What needs to be done?

Controlling macroeconomic stability through more open and transparent control – sometimes by the creation of an independent central bank – is a critical ingredient for open and transparent financial management. Also essential is the removal of debt overhang. Companies that are being “supported” by loans made from state banks lack clear accountability.

Transparency allows the electorate to assess the government’s financial position and the true costs and benefits of government action. Similarly, private firms should provide information that is material to investors’ decisions. Greater transparency can be expected to lead to better-informed decisions in both the public and private sectors, contributing to better economic governance.

This, in turn, leads to improvements in resource allocation, macroeconomic stability, greater productivity of public expenditure, and higher credibility of public institutions.

There are also costs to improving transparency...

It is, however, no easy task to create transparency. One of the big problems in post-conflict peacebuilding is uncertainty of



ownership of land, buildings, factories, etc. and vague property rights in general. If clearly defined, property rights allow assets such as land to be used as collateral for bank lending and form the basis of a modern banking system.

In South-East Europe, for example, invading armies destroyed land title records as part of their campaign to ethnically cleanse citizens' rights to ownership. Hence, efforts need to be made to create or restore these records in modern cadastral systems as quickly as possible.

Financial reform should be a priority in post-conflict reconstruction...

The evidence of transition was that reform of the financial system should not wait. It holds back more far-reaching reforms and should be done urgently, even though there are costs to increasing transparency and it is not an easy task.

How should it be done?

Commitment to transparency requires opening up the books of government and enterprises alike to reveal the distribution of funding. Along with the armies of peace workers, agencies and NGOs, independent auditors and accountants should be recruited for the peacebuilding process.

Assistance should be provided in the framework of national programmes for recovery and reconstruction. It should contain clear targets for the main economic variables and for institutional changes, together with an account of how each government proposes to achieve its objectives. The programmes should be drawn up by national policymakers and should take into account national sensibilities, values and history rather than be driven by any standard international "one policy fits all" model.

The various national programmes should also be peer reviewed by a regional organization to avoid inconsistencies, encourage cooperation among the participating countries and provide a regional perspective on the provision of assistance.

...and achieve objective targets, while striving for transparent accountability

Ensuring clear targets, rewards for success, local ownership and independent auditors – all important elements in promoting transparency and accountability – will boost local participation and help support good economic governance.

4. Development must be sustainable.

Post-conflict recovery must address the conditions that threaten "human security", including poverty, access to natural resources and natural disasters. This can

only be done through an integrated response that links peace, security and long-term sustainable development.

Indicators of success

- Legislation on environmental protection
- Ratification of multilateral environmental agreements, such as the Aarhus Convention
- Linking environmental and economic governance.

Challenge

Environmental insecurity is a major concern in post-conflict societies. Environmental degradation is undermining security and stability in the UNECE region, mainly in the Caucasus, Central Asia and South-East Europe. Economic decline, coupled with governance failures, leads to the degradation of natural resources such as agricultural land, water and forests. Outbreaks of epidemics, shortage of water for consumption and irrigation, and degradation of pasture pose a threat to security. Infrastructure is in disrepair hindering access to safe drinking water. Moreover, inequities are often exacerbated by these conditions. The challenge for countries emerging from conflict remains to increase the economic welfare and well-being of society, while at the same time reducing the impacts on the environment that threaten human security.

What needs to be done?

There is a view that government policies in post-conflict settings cannot afford to take into account sustainable development. But such a view is too short-sighted. Mismanagement of natural resources undermines the economic growth and development necessary for peace and stability. Moreo-

ver, social tensions that arise from factors such as poverty and inequitable distribution of income and wealth are exacerbated by mismanagement of resources. Sound environmental management practices must therefore be put into place from the beginning.

Three major factors have driven the upsurge in sustainable development awareness that have taken the debate and actions to a new level worldwide:

- A deeper understanding of the threats and challenges, including security issues, arising from massive natural-resource exploitation – forests, minerals, marine environment and associated ecosystems
- A growing awareness among all actors of the economic and social threats posed by global warming, and
- A growing appreciation among the policy, business and investment communities that sustainable development forms part of good economic governance at all levels. Furthermore, it is increasingly viewed as an effective way to protect and grow economic assets over the long-term in a complex globalized marketplace.

How should it be done?

Environmental policies should be designed and implemented through participation with civil society in order to ensure greater effectiveness. An integrated, holistic and long-term approach is a priority. Successful environmental policies require a coordinated and integrated approach, for example, transport, environment and health have linkages. In a post-conflict setting, they require institutional arrangements that allow ministries to collaborate on common goals, such as urban air pollution, congestion, and sustainable infrastructure development.

Significant investments and PPPs can improve the environment. Many cities are addressing climate change by devising new forms of collaboration with the private sector e.g. turning water into energy and reducing green house gas emissions.

The restoration of the environment and ecosystem recovery take a long time and will not be fully achieved without international cooperation and assistance.

5. A regional focus can be advantageous.

Peacebuilding should have a regional focus to bring neighbouring countries into cooperation pacts, not as a desirable “add on” but as an intrinsic component of a national peacebuilding strategy.

Indicators of success

- The number of international conventions signed
- Membership of regional cooperation bodies
- Number of agreements implemented as part of membership and obligations to regional economic organizations.

Challenge

The solutions proposed in resolving conflicts are generally nation-state based, whereas the effects and spoils of war are transboundary and cross-border. The challenge is to develop regional approaches to peacebuilding that can achieve real benefits.

What needs to be done?

The new types of internal war are based on “broken” states, where people’s primary

loyalty has shifted to their own groups. These loyalties extend beyond the borders. Contacts are made with fellow members in other countries who often help with finance and other support. Neighbouring states also tend to be major bearers of the costs of new wars, having to accept refugees and displaced persons. These refugees are an immense economic burden on countries that accept them.⁴²

Even though these new wars have no clear boundaries, they tend to have regional dimensions and often involve minorities who live in different places. Most situations of severe insecurity are located in regional clusters, yet most peacebuilding efforts today are focused on the nation-state.

How should it be done?

A good focus for regional cooperation is solving technical problems, thereby avoiding confrontation over more sensitive political issues. After the Second World War, Europe focused on technical issues of economic recovery, for example on building an adequate supply of steel and coal. Coalitions of experts from different countries came together to discuss problems and seek innovative solutions. Solving technical problems created expert constituencies across borders from former belligerent states. In time, the activity took on a momentum of its own. Europe has thus pioneered a successful approach to peacebuilding: the so-called “functionalist” approach.

⁴² Up to a million Azeri refugees from Nagorno-Karabakh in Azerbaijan, or the Georgian internally displaced persons (IDPs) from Abkhazia in Georgia or the refugees and IDPs in the former Yugoslav republics all constitute a severe economic burden and also a source of political pressure for radical action.

The functionalist approach...

This functionalist approach was behind the creation of the EU itself. The creation of the Economic and Steel Community was based on a functionalist approach – securing cooperation between a few states on the technical issue of supply of coal and steel to rebuild war-torn Europe. Its success led to the creation of a supranational agency that gave birth to the idea for the European Union, which applied the same principle to other sectors. By binding former countries together in economic, technical cooperation, it made any return to conflict both unthinkable and materially impossible.

...still has relevance today

For Greece, Turkey is a natural and familiar area for expansion of its activities. For Tur-

key, Greece is a door to Europe and the West. But Greece and Turkey have had recent territorial disputes and questions of airspace. By forging cooperation among experts on technical issues such as trade, tourism and transport, new actors and networks are creating common interests and a new dynamic for the development of further schemes. As a result, “soft issue” cooperation has positive spillover effects. Technical cooperation in economic, tourist or civil society areas can lead to eventual agreement on more controversial security matters.

Chapter

V

CHAPTER V:

“OLD WARS”, “NEW WARS”: THE NATURE OF CURRENT MILITARY/PEACEBUILDING INTERVENTIONS

The previous chapter has outlined a set of five principles of economic governance based on the experience of transition states. But how relevant are these principles for making states effective in modern day conflicts and peacebuilding interventions? This chapter seeks to answer this question by first discussing the nature of the ‘new wars’ in recent times, and then secondly exploring the salience of these principles in current peacebuilding operations in one such operation, Afghanistan.

The nature of new conflicts...

Since the 1990s, the conflicts that engulfed the Balkans, Central Asia and the Caucasus were typical of the “new wars” that have replaced the old style inter-state conflicts as main risks to security and peace. These new internal wars were not of opposing armies belonging to specific nation-states, whose aim was to capture large tracks of land in pitched battles. Rather, they were local events, with different sorts of actors: paramilitaries, local warlords, mercenaries, criminal gangs, including breakaway groups from regular armies.

Such internal conflicts, even when engaging a relatively small number of armed combatants, tended to inflict large-scale suffering (civilian casualties, refugees and other displaced people) and considerable economic costs, which spilled over into and destabilized neighbouring states.⁴³

These new wars – internal, fragmented and local, and their associated economic characteristics, socially devastating and criminally inducing – draws quite heavily on research and publications which analyze conflicts in Africa and Asia.⁴⁴ The wars in the ECE area too were rather similar. However there were some variations. The conflicts in the 1990s were largely the results of the disintegration of two multi-ethnic states – the Soviet Union and Yugoslavia. And while there emerged weak, fragile states and related economic problems, in many cases this was not the case (e.g. Croatia, Slovenia, Macedonia, Montenegro, Azerbaijan or even Armenia). Where the conclusions do hold true in the ECE region such as the case of Tajikistan, they resulted not so much from the collapse of the Soviet Union but from the spill-over of instability in Afghanistan.

These new types of war gave birth to a “politics of identity”, where groups owe loyalty not to the nation-state but to their own tradition, culture, language, etc. Identity-based politics tends to be regressive, backward looking and exclusive. At best, it involves psychological discrimination against those labelled differently; at worst, it leads to population expulsions and genocide.

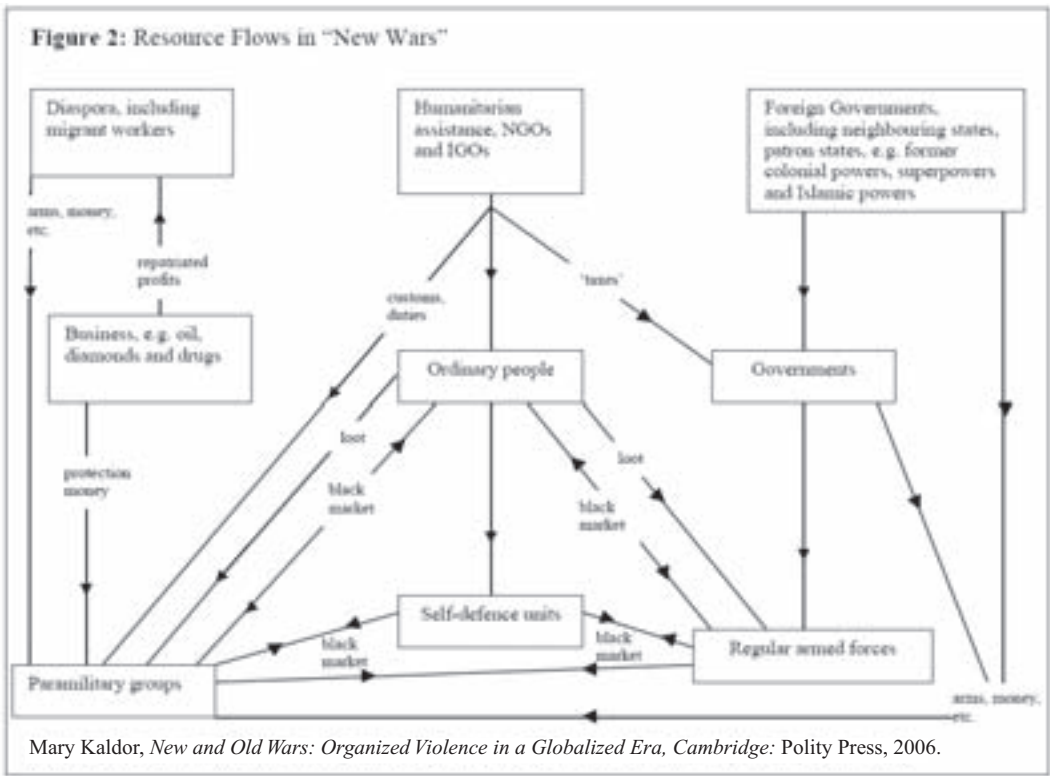
Nature of “new war” economies

The “new war” economy that evolved was characterized by the collapse of local production, high unemployment and strong

⁴³ Mary Kaldor, *New and Old Wars: Organized Violence in a Globalized Era* (Cambridge: Polity Press, 2006).

⁴⁴ Specifically work by Paul Collier and Mary Kaldor.

Figure 2: Resource Flows in “New Wars”



support from external assistance. This assistance would usually include remittances from the diaspora, support from neighbouring governments, illegal trade in arms and drugs, and human trafficking. Countries emerging from these conflicts were weak economies, what economists describe as “rent seeking”, where there is little investment in manufacturing, little growth and only a small cake to divide.

The financing of the “new wars”

The financing of war has changed as the nature of conflict has changed. Up to the middle of the twentieth century, the “old wars” mobilized vast production networks according to principles of autarchy, centralization and national control. Resources from national economic production were paid for weapons, uniforms and supplies of vast national conscript armies and to sustain the national war effort, supported by the majority of the nation’s citizens.

By contrast, the “new wars” are distinguished by the fragmentation and decline of national state power and the emergence of inter-ethnic, tribal and local antipathies. National armies fragment and various sorts of armed groups take their place, sometimes trained by external powers. Economic production typically collapses.

“Drugs and thugs”

As the new conflicts cannot rely on finance from national sources, such as taxation, they are being financed instead either from outside the country or by illegal activity inside. An informal economy surfaces in which external flows, especially humanitarian assistance and remittances from abroad, are integrated into local and regional economies based on asset transfer and extra-legal trading (see Figure 2).

Direct assistance from foreign governments, protection money from producers



of commodities, revenues from public utilities and assistance from the diaspora enhance the capacity of fighting units to extract resources from ordinary people and thus sustain their military efforts.

Box 4: Criminality in Bosnia and Herzegovina

“Key players in the covert acquisition and distribution of supplies during wartime have emerged as the nouveau riche ‘criminal elites’ with close ties to the government and nationalist political parties.”

Peter Andreas, “The clandestine political economy of war and peace in Bosnia”, International Studies Quarterly, vol. 48, 2004, pp. 29-51.

Criminality is pervasive...

Those who have derived economic benefits during conflict, not least from sanctions regimes (such as the mafias in Kosovo and in Bosnia and Herzegovina) managed to consolidate their power in the fragile post-conflict environment by expanding control over the local economy and political processes.

“Cry freedom”?

At the same time, many of the actors in such wars do use the language of “grievance”

to portray the goals and motivations of the group involved in the conflict, sometimes harking back to the alleged injustices caused to the group in the past. Thus it could be argued that the principal motivation for these types of conflicts is indeed that of “grievance”, of groups that are fighting for the interests of ethnic groups which have ideological and religious motivations, and which overall raises the cry of freedom. Are not in fact these political, ideological and religious factors the main rationales for the new civil conflicts?

This is evidenced in a number of conflicts that have taken place. When fear intensifies, it tends to spread beyond borders. Links are created with members of the same groups in other countries and in neighbouring countries. These identity-based groups, whether defined in terms of their language, religion or some other form of differentiation, are funded by wealthier supporters, some of whom can even provide semi-permanent services such as education and health to the group. Furthermore, it can be argued that with the power of the state in decline and its ability to provide both welfare and security to its people disappearing, a strengthened “group

identity” steps in to fill the vacuum. The military strategy for strengthening group identity has been population displacement and destabilization to get rid of those with a different identity – ethnic cleansing – and to foment hatred and fear.⁴⁵

Ethnicity, however, is not the paramount reason for the new wars

While it is true that there can be strong inter-ethnic, religious rivalries, empirical studies reveal another interpretation of the causes of war. Paul Collier, for example, argues that there is little, if any, evidence that civil wars are based on ethnic hatreds.⁴⁶ While he concedes that in ethnically diverse societies where there are conflicts, communities will inevitably organize and divide – and often fight – along ethnic lines. This is different, however, from stating that they are ethnically caused – a conclusion which, he argues, is unfortunately drawn much too fast. Globally, he contends, the evidence shows that ethnically diverse societies are no more dangerous than ethnically homogenous societies.

Economic factors thus are uppermost in explaining the rationale for the “new wars”. Collier and others argue that among the conflict-prone factors are low income, low economic growth rates and dependency on primary commodities, especially natural resources.

⁴⁵ Of course, not all breakdowns in state hegemony degenerate into inter-ethnic conflicts. Even in the worst cases of internal conflicts, there have been oases of multiculturalism and inter-ethnic cooperation within war zones. The town of Tuzla in Bosnia and Herzegovina represents one celebrated example. But in isolation, these islands of civility were difficult to preserve. Nevertheless, the fragmentary and decentralized character of the new warfare made examples such as Tuzla possible.

⁴⁶ Paul Collier, *The Bottom Billion: Why the Poorest Countries are Falling into War and What Can be Done about it* (Oxford University Press, 2007).

Box 5: Elites manipulate ethnic antipathies to their own ends

“Elites use identifying with ethnic and regional communities, and even accentuate that identification, to transfer potential hostility from inequalities and power disparities within their communities to the elites and subjects of other communities. Ethnic antagonism emerges during conflict rather than being the cause of conflict”.

E.W. Nafziger, “Development, inequality and war in Africa”, The Economics of Peace and Security Journal, vol. 1, No. 1 (2006). p.17.

Economic interests often have a stake in sustaining the status quo and avoiding solutions

During an armed conflict some groups will emerge that can only live by violence and may live quite well. With no interest in peace, they are invariably strong political opponents of any peace settlement.

Accordingly...

New wars are linked to the financial and economic conditions prevailing in failing states, the crime and corruption, informal, extra-legal nature of transactions and a “drugs and thugs” culture. “Greed” not “grievance” is typically foremost in the minds of the leaders and the soldiers in these new conflicts.

To sum up...

This brief analysis explains that a state collapse metaphor – crumbling institutions, greed, crime and corruption, the decline of national loyalties and the attachment to group loyalties instead – is the main rationale for new wars. Accordingly, the economic governance principles designed to make states effective in such breakdowns, that is, the building of institutions, bringing people and communities into the process of nation building, the

clamp down on corruption, etc., are all relevant to addressing the challenges of new wars and building peace. Moreover the transition experience, characterized by the challenge to develop new institutions, the need to address corruption, “state capture”, informality in an institutional “hiatus”, is similar to the post-conflict and peacebuilding challenge after the “new wars”.

Afghanistan: an example of a peacebuilding operation?

The principles of economic governance for making states effective are also highly salient in today’s typical peacebuilding operations. Afghanistan has been wracked by conflicts and weakened economic performance for decades. Its institutions have been damaged or destroyed and its civil society weakened and traumatized. The following looks at the background to the current peacebuilding operations, the objective of the intervention and then the salience of each of the economic governance principles to the challenges being faced by the current Afghan Government and the international community in restoring peace.

Background

The background to the involvement in Afghanistan of the United Nations, North Atlantic Treaty Organization (NATO) and the coalition goes back to the immediate aftermath of the attacks on the United States on September 11, 2001. It became clear that the al-Qa’eda perpetrators had trained and prepared themselves in Afghanistan. It was also clear that the then Taliban regime had at least acquiesced in, even actively encouraged, these preparations. The coalition rapidly took military action to remove that regime. Much of the fighting on the ground was conducted by Afghans themselves. The Taliban was swiftly defeated – but it was

not completely destroyed, and the survivors sought sanctuary across the Pakistan border.

The Bonn Conference of December 2001 laid out a constitutional, electoral and judicial road-map for Afghanistan’s future, and established an International Security Assistance Force (ISAF) to assist with security initially in and around Kabul. Arrangements for non-military assistance and reconstruction were also put in place. These measures were given United Nations authority by virtue of Security Council Resolution 1386. The coalition main effort then switched to Iraq. However, by late 2005 it had become clear that more needed to be done, not least in expanding ISAF’s area of operations to include the country as a whole. The United Nations agreed that NATO would act on its behalf, with the coalition forces engaged on counter-terrorist operations eventually integrating with ISAF into a single command structure.

Key objective

The strategic purpose of the international force is to prevent Afghanistan from reverting to a training centre for global terrorism. As with other interventions, the purported objective is to help the country move to a better future. It is to achieve a country that is stable, at peace with itself and its neighbours, with a representative government, embedded institutions effective security forces, refugees returned home, reconstruction and economic regeneration in progress, all underpinned by the rule of law.

Application of the five principles to Afghanistan

1. Effective institutions

Afghanistan is strongly challenged by the problem of reforming its institutions. The

people do not trust the legal system, the courts or the police. The public administration is ineffective. The challenge is how to reform these institutions quickly and build a stable state that attracts the loyalty of the citizens. Some specific issues relate to the different categories of institutions required:

(i) Legal and regulatory issues

The rule of law in Afghanistan is ineffectual because there lacks sufficiently established structures to safeguard and enforce its implementation. Justice rehabilitation and reform requires true Afghan ownership while international support needs to be based on an understanding of the complex legal framework applicable in Afghanistan, particularly with regard to the relationship between formal and informal justice systems. Currently, there are few legal professionals comprehensively trained in these different systems and no tradition of “practicing law”, which impedes access to justice, particularly for disadvantaged groups. There needs therefore to be a major emphasis on legal education to generate the necessary capacity for a well-functioning judicial system.

(ii) Social partners / community groups

While the state should provide for its people, the people should also be willing and capable of contributing to the state. Checks and balances against the powers of the state should be developed through regular traditional negotiation structures such as the Loya Jirgah, helping to ensure that the relationship between Afghan civil society and the central state becomes one of mutual engagement rather than distrust.

(iii) Social capital networking and trust

Institutions that broker negotiation will be to no avail without the creation of the networks of trust and of the social capital.

But this is lacking, as can be illustrated by relations between the centre and the periphery and over the question of taxation. The distance between Kabul and the regions of Afghanistan is not only geographical but also perceptual. To many in remote areas Kabul remains far away, particularly in view of the limited impact its politics exert on their day-to-day life. In economic terms, centre–periphery relations remain an area of continuous political concern, given the local revenues raised and kept by local leaders. Only a fraction of the tax revenues raised locally is handed over to the central authorities. Revenues generated in connection with illicit crop production and trade in narcotics undermine the central government’s ability to compete with local warlords, who can easily attract local allegiances by offering the financial basis for community survival.

(iv) Auditing and validating

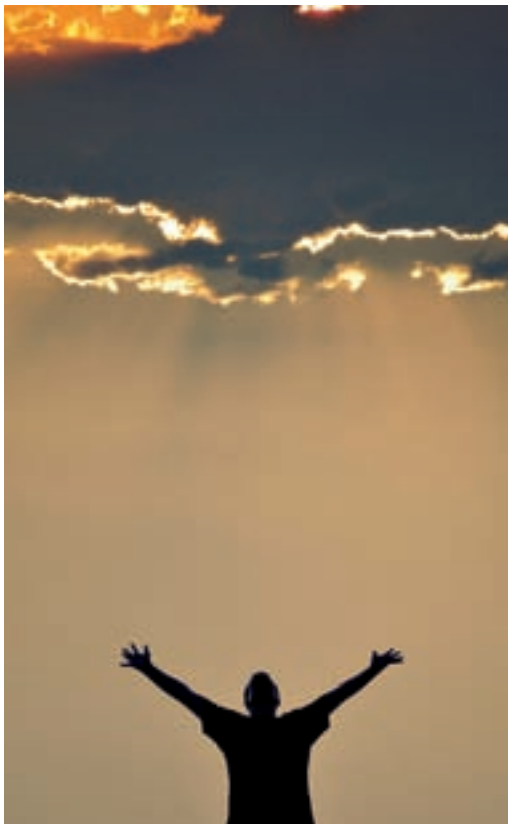
There are few if any effective auditing institutions and this particularly hampers the widespread perception that money flowing into the country in the form of aid is being used for other purposes. This was especially true in 2001 when the required competence among civil servants was virtually nonexistent. International technical assistance flowed into the vacuum at a rate that the government was largely unable to plan for, or effectively control and coordinate. Some leaders have observed that there is little to show for the estimated US \$1.6 billion that has been spent on technical assistance since 2002.

Public scrutiny needs to address the opium trade. Afghanistan is now almost the world’s sole producer of illicit opium, and most of it comes from Helmand. In southern Afghanistan it means warlords with bloated opium profits, a spiralling addiction problem, and an opportunity for Taliban gunmen to recruit angry farmers who object to

international efforts to eradicate their trade. The Taliban offer protection to farmers’ opium crops from government eradicators, a 10 per cent “tax”, which is usually paid willingly.

(v) Public administration

Overall there is a desperate shortage of skilled workers. Hospitals lack doctors, entrepreneurs are rare, and the government cannot find enough, experienced civil servants, especially for the dangerous provinces. With no private sector to absorb redundant workers, shrinking the public sector or alternatively paying competitive salaries has been challenging for the government. As a result, many skilled and competent employees have sought jobs with the United Nations, embassies and the aid community, creating a brain drain of dwindling human resources.



2. Public participation

Multiple aid agencies have taken on the challenge of bottom-up, alternative, community-based initiatives. However, lessons from the past show that one should not assume that these approaches will automatically have a cumulative effect. In some cases agencies have tended to avoid working with the authorities at the national level, and efforts in all sectors have remained highly localized. Moreover, community-based approaches tend to overestimate the capacity of “civil society” to influence unaccountable forms of leadership, which in some areas have come to power through force. The Government’s National Solidarity Programme, as a community development initiative, is designed to remedy these problems

Too often, the international community fails to recognize or value existing community level structures and civil society initiatives and insists instead on creating new ones. Additionally, the dilemma facing Afghanistan is that there has not been a neutral space for debate to shape a national development vision, or for intellectuals and development professionals to gather, think, discuss and plan. Learning from the many examples of resilience and survival, listening to people and analysing past practices, while conducting a political economic analysis of aid actions and the economy at large, will enable agencies to make significant contributions to development and democracy in Afghanistan.

3. Financial transparency

The public has little trust in leaders and government institutions. Despite positive rhetoric, the Government has not initiated

action in the face of widespread and entrenched corruption. Although the Bonn accord stressed accountability of public organizations, the political process that followed stressed representation from all quarters above accountability, and peace before justice. Institutional disarray and in-fighting within government, and lack of strong government leadership to confront corruption, has resulted in the widely held view that corruption is being ignored or tacitly allowed. Moreover since 2001, no senior figures have been arrested for corruption, and no transparent budgetary process has been established.

4. Sustainable development

Governments face a challenge in improving environment security, first with developing sustainable livelihoods and the eradication of the opium production. But policy in the south of the country has failed. Hundreds of millions of pounds have been spent over the last five years, the United Kingdom contributing £262 million, the United States about \$1.6 billion (£800m). Yet United Nations figures show that opium production increased by 34 per cent in 2007 and more than doubled in the last two years.

The primary reason for the failure is insecurity. Opium cultivation has continued due to the pressure exerted by the Taliban, who “tax” every aspect of the poppy crop. In more secure provinces, in the north and centre, more success has been seen in reducing opium cultivation. Moreover, water and air quality is equally poor. Access to safe drinking water is dismal. Insecurity of natural capital, such as water, land, forest and land, is pervasive. A systems for management and reform of land tenure needs to be established.

5. Regional focus

The conflict has a regional dimension. It is of strategic importance to the international community that Pakistan is involved as part of regional efforts to bringing stability to the region. As long as Taliban fighters have sanctuary across the border, there is no military solution. A stable Afghanistan needs a prosperous and stable Pakistan. Terrorism is a threat to both countries and a key focus is to bring development to the border areas, in particular in order to defuse the support for terrorism.

Conclusion

These principles allow for an assessment to be made on the progress in peacebuilding in the country.

The weakness of institutions, corruption, and human insecurity as a result of environmental degradation are still major challenges to overcome before real progress can be made in peacebuilding. However such an assessment may be overly gloomy. From a human security perspective it should be noted that the war still only affects a specific region – the south – while other regions do enjoy peace, and some progress in social development can be observed in social development with more children attending school, etc.

This being said, there are two areas where there are particular grounds for concern in Afghanistan’s capability to make progress in building a sustainable peace. The first is in the protection of property rights and the establishment of a legal and regulatory framework. By failing to establish the “rule of law”, businesses have still incentive to invest, thus keeping the economy dependent on external support and trade in opium.

But this challenge should not be exaggerated. Lawyers and judges can be trained. There are several international institutes like the International Development Law Organization in Rome that can provide training support so that skills can be developed eventually within the country. Different legal systems too can co-exist and still be effective.

The second challenge is more intractable. It concerns the fact that Afghanistan not does have a regional body capable of providing it with an anchor and an incentive to reform. Comparisons with the role of the EU in Europe are especially odious. The role of the EU was critical in the success of transition and making states effective through economic governance. Prior to entry, the Commission organized regular evaluations of progress in achieving economic governance. No such incentive exists for Afghanistan, no peer pressure, no solidarity with other states in the region. It is indeed

ironic that while the EU is a considerable contributor of valuable technical assistance to Afghanistan, it is unable to provide the country with what it really needs, namely the prospect of eventual membership of the European Union.

On a positive note, however, Afghanistan has recently joined the United Nations Special Programme for the Economies of Central Asia (SPECA), a joint effort between the UNECE and United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) to strengthen subregional cooperation in Central Asia and its integration into the world economy.

Chapter

VI

CHAPTER VI:

HOW UNECE SUPPORTS THE PRINCIPLES: ACTIONS BUILDING PEACE

This chapter gives examples of how UNECE contributes to peacebuilding through its actions that support the five principles. We have purposely called these “actions building peace” to convey some real deliverables that can change things ‘on the ground’ and address the real challenges faced by those who are currently working in peacebuilding operations around the world, not just within the UNECE region.

Principle 1: Effective institutions

Focus

UNECE’s actions are focused in three areas of institution building.

- Promoting secure property rights (legal and regulatory institutions)
- Developing innovative partnerships (PPPs)
- Creating a top quality professional public administration

Actions

Property rights/legal and regulatory institutions

Titling land ownership

UNECE’s work has developed capacity within governments of land administration

offices that provide proof or “title” to ownership to owners of land. It has a unique network of land registry offices including in transition economies, many of which were established during the course of the transition to market economies. Through this network, the UNECE Working Party on Land Administration has developed best practice guidebooks and undertaken technical assistance work to raise the standards and services of registry offices in the region, also providing support to other agencies around the world seeking to establish well functioning land titling offices.

Creating real estate markets

The land registry offices provide security of ownership and help to create the value that flows from secure ownership. Another link in the chain is the laws on mortgages which allow the banks and other institutions to create value from trading interests in land. The UNECE experience during the time of transition shows that western bankers, whilst anxious to help the economies emerging from the central planning approach, nevertheless found the risks were far too high – particularly in regard to the uncertainties that prevailed with title to land and enforcement of rights to property.

After discussions with emerging economies, it was increasingly seen that the development of land rights and the ability to trade such rights in a functioning market

in real estate, thereby releasing capital (whether through sale, using the land as security for a loan, or creating an income stream), was a significant, and missing, accelerator of economic growth, with all the social benefits attendant on that growth.

Through its Real Estate Advisory Group and its Working Party on Land Administration, UNECE helps countries develop and acquire skills needed to create a functioning real estate market.

Promoting property rights for the poor

One of the problems of transition was that in a period of institutional uncertainty many assets were only owned informally. Administrative rules and high taxation also drove business into the extra-legal sector. Borrowing some of the lessons from the work of Peruvian economist Hernando de Soto, UNECE argued that formalizing property rights, titles, providing legal documents to ownership could help those in the informal sector to transform their assets into value generating assets. As de Soto showed, property is held by the poor – land, dwellings, different types of small-scale economic activities – but in a defective form, that is, not in the representational legal form recognized by the formal financial sector, of banks and insurance companies. “The poor have houses, but not titles, crops but not deeds, businesses but not statutes of incorporation.” By enacting property laws, giving rights, and title, the poor can escape their dependency on the informal sector and use their property as collateral to access the formal financial institutions. This also is of help to banks that will benefit from the pooling of more savings, and the tapping of new markets.

Given the strong evidence that giving the poor property rights can be associated with the alleviation of poverty, UNECE took an important initiative in linking its work on property rights to the Millennium Development Goals, specifically poverty alleviation. In 2005 a number of countries including Denmark, Finland, Iceland, Norway, Sweden, Canada, and the United Kingdom, in cooperation with UNDP and UNECE, launched a proposal calling for the creation of the first international initiative focused specifically on the link between the informal economy and poverty. To do so, they drafted a document broadly outlining the problem of informality and the desired objectives of what has become the Commission on Legal Empowerment of the Poor. In this respect, the Commission under Hernando de Soto and Madeleine Albright and eminent persons prepared a road map on how governments could introduce institutions to secure property rights. This project also produced specific programmes such as the establishment of special third party arbitration courts in the CIS that solved land disputes and were specifically designed for and made accessible to the poor in rural areas.

Innovative partnerships – Public Private Partnerships

A focus of the UNECE’s Committee on Economic Cooperation and Integration (CECI) is to promote public-private partners for improving infrastructure and public services. The key challenge in promoting the use of the PPP model is the lack of skills within governments to launch successful programmes. UNECE has prepared best practice guidelines on promoting good governance in PPPs. Using the guidelines as a



basis, it is preparing “training the trainers” modules that can build local capacity to transfer the skills to agencies in transition economies to undertake PPPs. These modules refer to policy and critical issues in PPPs – organizing an effective PPP programme within governments, creating the right legal and regulatory framework; the delivery and skills requires at each stage of the PPP project cycle – writing a PPP business case, evaluating and allocating risks, procuring a partner, and contract compliance and performance monitoring; and teaching the specific skills needed for projects across different sectors such as transport, health , education, energy, etc.

Building effective public administrations

One of the impacts of UNECE Conventions is the setting of standards which public administrations must attain to implement the agreement. Accordingly the UNECE offers capacity building to public officials to improve the implementation of their Conventions. One example was the Project on Capacity Building for Air Quality Management and the Application of Clean Coal Combustion Technologies in Central Asia (CAPACT), funded by the United Nations Development Account and carried out over

a three-year period between 2004 and 2007. The objective of the project was to strengthen the capacity of air quality management institutions in Central Asia to implement the UNECE Convention on Long-Range Transboundary Air Pollution (see Box 9 below) and its protocols as well as to promote the application of appropriate clean coal combustion technologies for heat and power generation from solid fuels.

A series of capacity-building workshops were organized in Kazakhstan providing hands-on training to Central Asian experts on air pollution monitoring, modeling and the development of air emission inventories. In addition, the project succeeded in strengthening subregional co-operation, including between the United Nations Environment Programme and Asian and European air pollution monitoring programmes. Work continues on the implementation of the Convention and its Protocols in Central Asia through an EEC-CA Action Plan that is driven by the Convention’s main policy arm, the Working Group on Strategies and Review. The Action Plan seeks to encourage EECCA countries to ratify and implement the Convention and helps them to formulate specific capacity-building and training activities to

improve their air quality management and environmental governance.

Addressing the challenges

One of the challenges that peacebuilding missions typically face is the need to link capacity building with poverty alleviation. The programme of formalizing property rights and creating institutions in titling land can assist in formalizing rights and create the basis for creating value to assets of the poor.

Another challenge is that capacity building is often synonymous with episodic workshops by technical experts flown in for a few days. The question is therefore how to sustain institutional capacity building. The UNECE recognizes the need to focus on delivering training through host country institutions and thus its training modules on PPPs are intended to be used by local trainers to build local training capacity to deliver relevant and continuous training.

A third challenge is how to measure progress in building capacity for peacebuilding. This is a difficult challenge with no simple solutions. However the UNECE Conventions do set standards for public administrations to reach a number of technical areas, and by training these administrations to implement the Conventions they provide a benchmark by which to measure progress in the attainment of the necessary capacity with respect to these tasks.

On the ground, peacebuilding agencies also lack the knowledge and experiences on which to build capacity building programmes. In response, UNECE's long-term focus on the economic and environmental spheres, as well as its normative, convention-based and technical work in energy, trade and transport, brings a powerful store

of knowledge and experience that can be used by the peacebuilding community in its efforts to build local institutional capacity for peace and security.

The cross-sectoral capability of UNECE's work also brings advantages in terms of integrated thinking. UNECE's work in transport, on the economic and environmental dimensions of security, and in relation to efforts to boost analytical capabilities behind economic research, specifically within SPECA, are all examples of cross-sectoral capacity-building and knowledge-sharing that support the foundations of peace.

Principle 2: Public participation and bottom-up approach

Focus

UNECE's actions in support of this principle are focused on:

- The Aarhus Convention
- Gender issues

The Aarhus Convention – the importance of citizen rights

Perhaps the most far-reaching example of an initiative under the auspices of UNECE is the Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters. Known as the “Aarhus Convention”, it gives the right to members of the public to participate in decisions on whether to permit proposed projects.

Aarhus Centres have been set up in several countries in Eastern Europe and Central Asia, including Armenia, Azerbaijan, Kyrgyzstan, Tajikistan, Ukraine and Uzbekistan. These Centres, some of which have received support from OSCE, are designed to provide a bridge between governments

Box 6: The Aarhus Convention – the importance of citizens rights

The UNECE Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters (“Aarhus Convention”) links environmental rights and human rights and, as such, occupies a pivotal position linking two of the important foundations of peacebuilding. More than just an environmental agreement, it is also about government accountability, transparency and responsiveness, and links accountability with environmental governance. Adopted on 25 June 1998, the Convention entered into force on 30 October 2001. As of April 2008 it has been ratified by 40 countries. Furthermore, the European Community has ratified the Convention.

and civil society. They are meant to complement existing official information sources while being closer to and more easily accessible for “real users”. The Centres primarily facilitate access to information and provide a venue for meetings. In some countries their activities have also included assisting citizens to participate in environmental decision-making and, to a lesser extent, gain access to justice.

This Convention is a significant achievement, enabling citizens to be properly consulted in environmental decision-making – a bottom-up approach that effectively links governments to the people. The Convention contributes to more democratic, integrated societies, thereby facilitating peacebuilding from the bottom up.

Former United Nations Secretary-General Kofi Annan, commenting on the Aarhus Convention, said:

“Although regional in scope, the significance of the Aarhus Convention is global. It is by far the most impressive elaboration of principle 10 of the Rio Declaration, which stresses the need for citizens’ participation in environmental issues and for access to information on the environment held by public authorities. As such,

it is the most ambitious venture in the area of environmental democracy so far undertaken under the auspices of the United Nations.”

UNECE continues to develop links with non-governmental actors, local communities and ordinary citizens, encouraging governments to undertake “bottom-up” approaches. A new focus, for example, of the Aarhus Convention is to use IT tools and methods (such as e-government) to bring people into the process, and thus to maximize public participation.

Gender issues

Post-conflict economic recovery, especially at local level, is often in the hands of women. As remaining heads of households, their economic independence is vital in the reconstruction period. A gender-sensitive approach also reduces the risk of new conflicts and instability, which are often linked to the tendency of young males to engage in criminal activities in depressed economic environments. And it gives women a public role in rebuilding market institutions and peace.

UNECE has begun to promote gender-sensitive economic policies through disseminating good practices and organizing capacity-building workshops for policy-makers on such subjects as small and medium-sized enterprises, business associations and women entrepreneurship; contributing to building a gender-sensitive information society; and developing methodologies, collecting gender-disaggregated data, and training on gender statistics. Other initiatives include: a project financed through the United Nations Development Account on mainstreaming gender into economic policies to reach the Millennium Development Goals in Central Asia and the Caucasus.

Box 7: UNECE support to gender-sensitive economic policies and Security Council resolution 1325

UNECE helps strengthen gender-sensitive economic policies through disseminating good practices and organizing capacity-building workshops for policy-makers on subjects such as small and medium-sized enterprises, business associations and women's entrepreneurship. It has published *Access to Financing and ICT for women entrepreneurs* in the UNECE region and in 2006 held two workshops on local support centres for women entrepreneurs and ICT use for small business.
www.unece.org/oes/gender

Addressing the challenges

One of the critical challenges facing peacebuilding operations is to create vertical links throughout all levels (government, local authorities, civil society, and NGOs/community-based organizations) as typically such links are either non-existing or rudimentary. Strengthening these vertical relationships need particular attention in order to ensure that peacebuilding related decisions are being translated throughout all strata of the society. The Aarhus Convention does provide a framework so that linkages are made from the top to the level of ordinary citizens and thus if such a convention is effectively implemented, this concern can be addressed.

That being said, work needs to continue on promoting public participation. For example, although the Aarhus Convention has an impressive 41 Parties, a significant number of UNECE member States, including some of the larger ones, have yet to ratify it.

Also, some member States continue to resist involving grassroots and other non-governmental actors. And some of the technical groups argue that due to the technical nature of the activities, there is no point in involving people who may not be able to grasp the complexities. But as they are

the intended beneficiaries of this technical work, UNECE believes that they ought to be able to participate in the discussions on issues that concern them.

The United Nations procedures and rules, moreover, remain strict on including non-governmental bodies in negotiations and discussions at intergovernmental meetings. For UNECE, this is another challenge in taking forward the “bottom-up” approach.

Principle 3: Financial transparency

Focus

UNECE activities on transparency in economic and fiscal management focus on:

Statistics

A lack of transparency in financial dealings, whether within the public or private sector, can foster conditions for unrest and heightened tension, possibly leading to violent conflict. From the mid-1990s onwards, a series of global financial crises, although differing in nature, has shown that opaque, poorly regulated and unpredictable companies, markets and economies, will result in episodic periods of volatility.

In conflict-prone regions, an upsurge in tension fuelled by financial crisis may contribute to outbreaks of violent conflict. Financial crises, whether through a government's poor handling of the economy or stemming from predatory behaviour or malfeasance within the financial services sector, capture headlines, fuel social and political resentment, and can exacerbate underlying tensions within a society.

The turbulence in global financial markets catalyzed by the United States sub-prime

Box 8: The importance of transparency in financial management

In a 1999 UNECE meeting convened by the Conference of European Statisticians that followed hard on the heels of concern over possible systemic failure after the Asian crisis, confirmed that:

“The need to adopt disclosure standards to meet challenges to the international financial system was underscored by the Asian financial crisis...The crisis highlighted the interconnectedness of national and international financial markets and provoked a systemic response from the international financial community that encompassed not only data dissemination but also a broad range of other transparency initiatives (economic and financial policies, banking soundness and regulation, accounting etc)”.

credit crunch confirms the lessons learned during the earlier crisis periods.

Making the “non-observed” nature of the economy more observable

Conflicts often flourish in underground, illegal, or informal economies. While UNECE is not a financial institution, its activities nevertheless play an important role in promoting transparency and sound financial management, through the work on statistics and on economic cooperation and integration.

Actions

UNECE support for improved financial sector oversight and performance primarily stems from capacity-building in national statistics – a vital ingredient of sound financial management and performance.

UNECE’s statistical work fosters transparency in financial management by assisting governments to improve data collection and to diffuse information on government performance. It also helps statistical offic-

es to become independent of government pressures by helping to foster professional standards and best practice. By boosting capacity-building associated with country statistical capability, it develops a vital ingredient of sound financial system management and performance.

One example is the development of methodologies on issues of interest for both developed and transition economies, such as measurement of the impact of globalization on the national statistical systems in general and on economic statistics in particular.⁴⁷

Another function of the Statistical Division’s activities is to enable countries to implement the United Nations Fundamental Principles of Official Statistics by giving advice on statistical legislation and institutional frameworks, notably on how to ensure the independence and impartiality of official statistics.

Addressing the challenges

Corruption is a challenge in all countries and different approaches are suited to meet the challenge. The challenge in the context of agencies dealing with peacebuilding in countries is how to raise this issue with political authorities to effect real change. One way the UNECE approach can help is by focusing the “problem” as a statistical and/or technical one, whereby tensions and hostility can be avoided, and real change and improvement achieved.

⁴⁷ UNECE 2007 Annual Report



Principle 4: Sustainable development

UNECE's work in sustainable development focuses on:

The implementation of five major multilateral environmental agreements (MEAs)⁴⁸ and their numerous Protocols, the Pan-European Programme on Transport, Health and Environment (THE PEP), the Environmental Performance Review Programme, and the Environment Water and Security Initiative for Central Asia, among other programmes. These constitute an important framework for environmental protection and cooperation in the region, with strong implications for stability and security. The five MEAs provide the machinery to address complex, long-term, politically sensitive and technically demanding transboundary issues. If not dealt with effectively, such issues could, over time, create tension and possibly ignite conflicts.

⁴⁸ The five UNECE MEAs are: Convention on Long-range Transboundary Air Pollution; Convention on Environmental Impact Assessment in a Transboundary Context; Convention on the Protection and Use of Transboundary Watercourses and International Lakes; Convention on the Transboundary Effects of Industrial Accidents; and Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters.

Bringing governments together to formulate environmental policy and support its implementation by organizing seminars, workshops and advisory missions and providing a forum for sharing experiences and good practices.

It also leads the “Environment for Europe” Ministerial process.

Undertaking environmental performance reviews, UNECE assesses individual countries’ efforts to reduce pollution and manage their natural resources, and makes recommendations to improve their environmental performance.

Box 9: Regional cooperation on air quality management: the Air Pollution Convention

The UNECE Convention on Long-range Transboundary Air Pollution, adopted in 1979, and its eight protocols, serve as an important conflict prevention tool, most notably in Central Asia and the Caucasus. By bringing together scientists, meteorologists and the emissions and modelling community, technical experts have been negotiating the reduction in pollutant emissions throughout the UNECE region for more than 25 years. Owing to the transboundary nature of air-pollution fluxes, collaboration with neighbouring countries on emission reduction strategies is crucial. The Convention’s elaborate scientific network allows for capacity-building, sharing of best practice and problem-solving in air-pollution abatement and research on emerging technologies. <http://www.unece.org/env/lrtap/welcome.html>

Addressing the challenges

The Environmental Performance Reviews provide an external assessment of what a country is doing, reconciling its environ

mental and economic targets and meeting its international environmental commitments. Started in 1996, it involves an expert team of reviewers who assess how countries are performing to reduce their overall pollution burden, manage their natural resources, integrate environmental and socioeconomic policies, adjust and implement their environmental strategies and policies, and strengthen international cooperation. The reviews provide concrete but non-binding recommendations to governments, which the countries may implement if they wish. The programme is voluntary – undertaken only at the request of the country itself – and involves country visits and assessments.

To date 23 countries have been reviewed and the second round of reviews has begun. While the first round analysed how the environment is managed, the second round will analyse environmental governance, implementation and financing of environmental policies. It will also examine how environmental concerns are integrated into economic sectors and how sustainable development is being promoted. Before the second round of reviews, countries must submit a report on how the recommendations have been implemented since the first review.

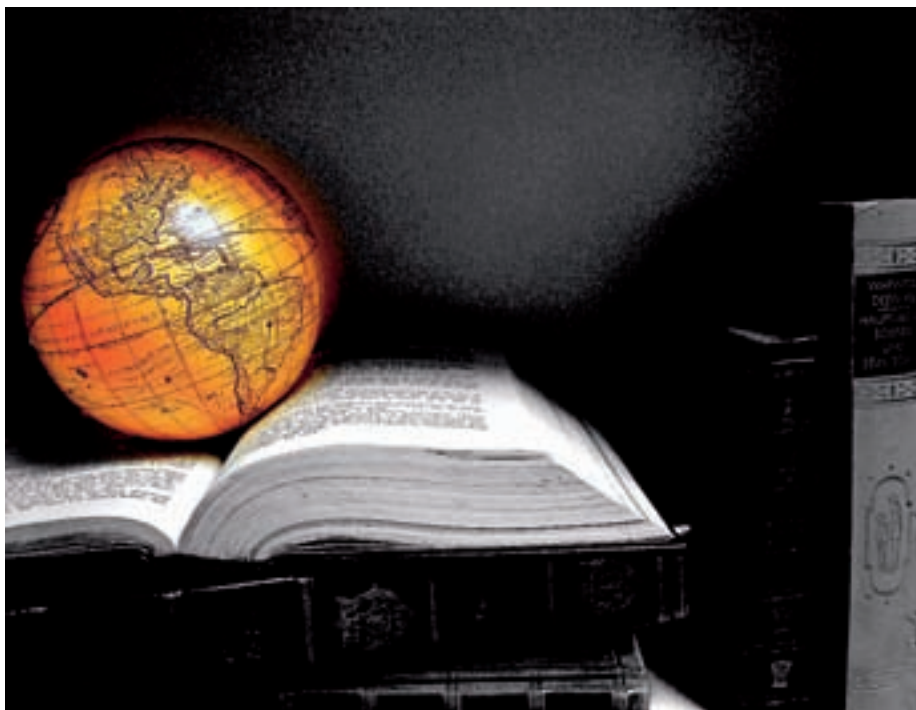
A further challenge is growing tensions in post-conflict countries over land and water that have a risk of flaring up into renewed conflicts and indeed wars. Within the region, cooperation on water problems started under the auspices of UNECE in the early 1970s. The Water Convention covers dispute avoidance and dispute settlement mechanisms, including guidance for transboundary notification that fosters good practice of transboundary water management.

Box 10: THE PEP: A unique policy platform linking transport, environment and health

Throughout the 1990s, the continuous expansion of transport in the Pan-European region, while bringing significant social and economic benefits, also raised environmental and health concerns. Member countries of UNECE and the World Health Organization/Europe adopted THE PEP to promote sustainable transport development and to encourage transport policymakers to consider health and environmental effects of transport, such as air pollution, congestion and road traffic accidents. THE PEP is supported by focal points from the transport, environment and health sectors, in close cooperation with international and non-governmental organizations. It focuses in particular on the challenges in EECCA/SEE countries and capacity-building for sustainable cities. A High-level Meeting hosted by the Netherlands in 2009 will adopt concrete action points for policymakers to make cities more liveable, under the theme: "Making THE Link: Transport Choices for our Health, Environment and Prosperity". <http://www.thepep.org>

UNECE instruments for sustainable water management and water-related diseases are preventive by design. The implementation projects under the Convention have proven a sound framework for transboundary cooperation. Overall, the Convention is well implemented and has proved to be a useful tool for institutional cooperation on transboundary waters and a platform for the exchange of experience among parties and non-parties.

Despite the impressive progress made on environmental issues, UNECE still faces considerable political and technical challenges if it wants to extend to a broader range of



signatory parties the benefits of those conventions which have a clear and unambiguous track record of success in certain subregions and countries. At the heart of the challenge remains the fact that implementation is not always effective across the region.⁴⁹

Many countries from the SEE and EECCA subregions are also not yet party to many instruments and have expressed concern about the difficulties they face in accession. This is a priority issue for UNECE and the MEA secretariats are working hard to define the problems and find solutions.⁵⁰

Principle 5: Regional Focus

Context

Regional economic cooperation and a regional focus form the basis of the work of UNECE in its sectoral committees on:

Box 11: Regional economic benefits of transboundary water management – innovation in Central Asia

Since 2000, the promising example of the Chutalas Rivers Commission, an intergovernmental transboundary water commission, has created an innovative framework for action. The bilateral agreement between the Governments of Kyrgyzstan and Kazakhstan on water resource management offers promise to an issue often characterized by tension and insecurity. The commission manages the bilateral agreement for the sound management of water resources, contributing to the economic, social and environmental integrity of the region. It further maintains the infrastructure on the two waterways. These activities affect the lives of more than 2.2 million people who are dependent on the rivers for their livelihoods. These peoples are diverse in their origin and culture. Their involvement in the process of water management helps avoid the tensions around water resources that have often characterized relations between upstream and downstream countries in Central Asia.

UNECE/UNESCAP News Release 24 July, 2006.

- environmental policy
- inland transport
- statistics
- sustainable energy

⁴⁹ UNECE Annual Report 2007

⁵⁰ Ibid.

Box 12: Transforming risks into cooperation: the Environment and Security Initiative

The UNECE Environment and Security Initiative assesses and addresses environmental problems that threaten or are perceived to threaten security, societal stability and peace, human health and/or sustainable livelihoods, within and across national borders in conflict-prone regions. The Initiative collaborates closely with governments, particularly the foreign, defence and environment ministries, national experts and NGOs. Together with the stakeholders, the Initiative has carried out assessments and published reports illustrated by maps for understanding the linkages between environment and security in the political and socio-economic reality of South-East Europe, the Southern Caucasus and Central Asia. Based on the assessments, the Initiative develops and implements work programmes aimed at reducing tensions and solving the problems identified. The Initiative also collaborates with think tanks and research institutes to increase the understanding of the interdependency of natural resources, socioeconomic development and political stability. <http://www.envsec.org/about.php>

- trade
- timber
- housing and land management
- economic cooperation and integration.

In regional economic cooperation UNECE is mainly concerned with negotiating international legal instruments/conventions, developing regulations and norms and exchanging and applying best practice.

The fruits of its work over the years have led to a considerable framework for regional cooperation:

- **Environment:** Since 1980, 14 internationally binding instruments, 5 conventions and 9 protocols have been agreed in the environment sector. They deal with air pollution, impact assessment, industrial accidents, transboundary water and public participation.
- **Transport:** More than 50 agreements and conventions have been negotiated

on certain safety and environment standards, harmonizing national regulations, reducing the complications of border-crossing, and providing for the development of coherent infrastructure networks for road, rail and inland water transport.

- **Trade:** UNECE has focused on trade facilitation, with more than 30 agreed recommendations to reduce and harmonize procedures and paperwork. Commercial quality standards for agricultural produce have also been drawn up for international trade.
- **Energy:** International agreements have been reached in areas relating to coal and gas, and current work includes harmonization or national regulation and specifications for energy and the environment, and energy efficiency.

These actions have brought numerous benefits to countries:

- Improved standards and performance of governments, by enhancing skills and building new institutions;
- Lower transaction costs for business operators, and fewer barriers to trade, through agreements on border crossing. For example, through its Working Party on the Transport of Dangerous Goods, UNECE primarily encourages measures to avoid accidents in transit of goods such as uranium, natural gas and chemicals. This also prevents states from devising their own procedures, which can easily become de facto trade barriers. In a similar way, the UNECE TIR Convention which harmonizes border-control procedures on Europe's road networks, permits, for example, a TV company in Paris to transport its goods by truck directly to Moscow without having to undergo controls at borders and without having to pay a guarantee payment;

- Implementation of United Nations Millennium Development Goals, notably goal 7 on sustainable development.

Actions

A key objective of its work is to focus on technical issues that can reduce tensions in the political realm – the so called “functionalist approach”. A good illustration of the functionalist approach was the Southeast European Cooperative Initiative (SECI) of the mid-1990s. SECI was created in the aftermath of the Balkan conflicts to rebuild a region of impoverished economies, forced migration, political uncertainties and continuing inter-ethnic tensions.⁵¹ Focusing on a number of purely technical and practical projects, which were of joint interest to the former belligerents – trade facilitation, transport and energy – SECI created confidence, and formed a basis for the emergence of a new political cooperation.⁵² Its practical outputs were aimed at resolving problems in which all participants had an interest:

Improved border crossing: regional trade was being hampered by long delays in transiting international borders. This was a complex problem involving (a) technical issues such as training of border officials and (b) more structural ones, such as cooperation between police and customs and the low salaries for border guards. New institutions were created under SECI to sustain

improvements. For example, the SECI ministers of transport signed a Memorandum of Understanding removing restrictions to trade. A new body, SECIPRO, was created to oversee progress in trade facilitation. This network not only resolved many border-crossing problems but also raised public awareness on challenges and threats related to security and corruption. It built capacity and local expertise through cooperation with international professional organizations. In total, crossings were improved at 35 border stations.⁵³

Fighting cross border crime and corruption: a “drugs and thugs” culture developed in South-East Europe in the 1990s as a result of state breakdown and internal conflicts. Smuggling, drugs and human trafficking and an illicit trade in small arms became rife. At this time, some states in the region identified organized crime as the biggest threat to security. Governments, with weak enforcement authorities, realized that more cooperation was needed in the fight against crime and corruption. Accordingly, the police and customs of the participating states forged closer ties and with the cooperation of INTERPOL and the World Customs Organization, created a SECI Crime centre in Romania. The results have enhanced success in fighting cross-border crime, including the capture of wanted criminals and murderers.

SECI has since merged with the Stability Pact and in early 2008 was superseded by the Regional Cooperation Council. However, the essentially functionalist approach has remained, while the SECI Initiative still presents a good model for other regions in the world emerging from conflict with the following salient characteristics:

⁵¹ SECI comprised the countries of the former Yugoslavia and Bulgaria, Greece, Hungary, Romania and Turkey. UNECE provided it with leadership and technical support. In this role, UNECE also worked to ensure that the expertise of other United Nations agencies, such as the United Nations Environment Programme and the United Nations Office on Drugs and Crime, was leveraged to the benefit of the region.

⁵² Y. Berthelot and P. Rayment, *UNECE: Looking Back and Peering Forward – A Short History of the UNECE, 1947-2007* (2007).

⁵³ Mario Apostolov, *Regional Collaboration of Trade Facilitation Bodies: The SECIPRO Network Model* (UNECE).

Box 13: The Southeast European Cooperative Initiative

At the SECI launch, United States Ambassador Richard Schifter, appointed by President Clinton to head the Initiative, commented:

“I am convinced that for the purposes of SECI, if UNECE did not exist it would have had to be invented..... This is the place where the relevant know-how is”.

- Neutral forum in which work by experts can be carried out
- Local ownership: each of the specific SECI projects was headed up by one of the member States
- Focus on problem solving where there is a real transboundary issue and where each state has a genuine interest in finding a solution
- Involvement of the private sector and other NGOs, which not only brings resources, knowledge and skills but also builds bridges between governments (a successful business advisory council was established under the auspices of SECI)
- Involvement of regional players (in the case of SECI, all neighbouring countries played a part, as well as the United States and the Russian Federation, and
- Availability of donor funds, which provided incentives for cooperation between states and which increased the opportunity costs of non-cooperation.

Addressing the challenges

One main challenge in peacebuilding operations is the lack of a regional dimension or focus. Thus the regional work that is part of UNECE can provide a useful model for countries in peacebuilding strategies. It is very important that countries do not try to “go it alone”; aid will inevitably run out and donors do not have the required staying power. However, regional cooperation can provide a more

sustainable and supportive framework to states in post conflict reconstruction.

As seen in chapter III, the EU provided an excellent incentive to reformers within governments.

This is not to say that regional economic cooperation is automatic. An attractive basis for cooperation is needed. Even non-political issues are often not sufficiently compelling to generate interest. SPECA has only recently come to the fore from its origins in 1998 to strengthen subregional cooperation and promote that subregion’s integration into Europe and Asia. Similar to SECI, it focuses on technical areas – trade facilitation, tourism, statistics, technology, enterprise development and investment promotion – creating networks between experts and business, as well as the incentives for peace and cooperation. But it takes time to develop effective cooperation.⁵⁴

Regional economic cooperation is particularly challenging where no common economic interest is apparent. The Central Asian region, for example, has major conflicts of interest over the use of transboundary water between on the one hand Kyrgyzstan and Tajikistan, who want to increase their hydro-capacity, and Kazakhstan, Turkmenistan and Uzbekistan, on the other, whose priority is irrigation of crops.

As noted above, many of the countries in Central Asia, the Caucasus and South-East Europe have yet to join the UNECE Convention on the Use of Transboundary Watercourses and International Lakes (“Water Convention”), which would oblige them to reach bilateral and multilateral agreements.

⁵⁴ For example, UNECE is currently working with UNDP, OSCE and the Economics Education Research Consortium to develop further networks such as PEERS (Partnership for Economics Education and Research Support), whose goal is to support economic research in Central Asia and to provide an analytical underpinning for SPECA’s work.

Chapter

VIII

CHAPTER VII:**CONCLUSIONS: BUILDING ON THE PRINCIPLES AND THOUGHTS ON A FUTURE FRAMEWORK AGREEMENT FOR POST-CONFLICT GOVERNANCE**

The preceding chapters have presented five principles of economic governance which can help in post-conflict strategic thinking and peacebuilding work. These principles have been defined pragmatically, based on what has worked and what can be delivered. How should we use these principles to address the key challenges in the world we live in and put economic governance at the heart of peacebuilding?

Ways of using UNECE knowledge and expertise for peacebuilding

Within the UN there is a current debate on where peacebuilding fits into the UN's process and what to do 'on the ground' once hostilities have stopped and the peace builders arrive? The debate centres on the role of capacity building in post conflict situations, the initial points of entry of peacebuilding operations, the ways to develop the legitimacy of the state and the ways of addressing social and other forms of discrimination which are often the root causes of the conflicts.

Based on UNECE's approach, the key areas of engagement for rebuilding governance capacities after conflict on a national and local level should be the restoration or development of the respect of property rights, enforcement of contracts and the establishment of the basic "rules of the game". These are the basics of restoring economic activities and of building a lasting peace. Domestic and foreign businesses will not invest in the economy without

such property rights protection both at the local and national levels. Respect for property rights must become integrated into policy and institutional development. In this respect the UNECE can provide a reservoir of knowledge on what to do as well as how to do it. UNECE guidelines on setting up land registry offices as well as its networks of experts in property rights reform can provide essential support. There is also the process of developing consensus around these issues. It is important to establish new institutions where dialogue on economic reform between the various stakeholders can take place and where agreement can be reached on priorities.

Engaging with civil society is another aspect of stakeholder dialogue. Here the UNECE experience of setting up Aarhus centres provides a model for countries and regions where conflicts have occurred, the fear of government still remains strong and where there exists a need for safe havens of learning and to re-building trust amongst divided communities.

In terms of developing capacities for governance, the UNECE networks of experts and agencies also provide a source for training in the areas of land and property rights as well as in new topics where governance should be strengthened – such as in PPPs. The need is to support the building of core competencies within societies rather than having external bodies coming in and leaving before local competencies have been achieved. Here the new initiative of

UNECE to support “training the trainers” programmes in PPPs can offer some useful tools that can be adapted by local bodies for training in their own culture and language.

It is also important to devise the right strategies in programming to ensure actions are conflict and gender sensitive. The best way to bring together groups which have suffered tensions and conflict is to focus on technical and scientific issues that can build confidence and trust. This is the UNECE ‘approach’ and the best point of entry in post-conflict reconstruction. Furthermore, in conflicts that have cross-border dimensions, a regional approach that gathers experts from different countries can lay the foundations for more lasting cooperation at higher levels.

In conjunction with the use of the technical approach mentioned here as ‘functionalism’, injustice and discrimination have to be faced head on if progress is to be achieved. As an example let’s consider gender discrimination; whereby tackling the problem at the roots to change culture and thinking should be done both at the level of the courts with new legislation that prohibits gender discrimination and at the level of schools and universities where women should be given a greater role and enjoy advancement. UNECE experiences in economic governance show how women are playing a more dynamic role in politics and the economy. This experience can be shared with other countries and regions in the world.

Addressing actual conflicts

The world has not become in any way safer. Crises and the threat of war and destruction are never far away. The recent conflict between the Russian Federation and Georgia is not a ‘new war’ but neither is it an old war, having stemmed from

a ‘frozen conflict’ where there was a long-standing unresolved territorial/minority dispute. Indeed there are several in the UNECE region of this nature. To address these conflicts it is necessary to reemphasise the principle that economic integration is the best means of conflict mitigation among nations. It is important in the aftermath of the war in Georgia to remember that ultimately it is economics that resolves the disputes and builds confidence between the various parties. The achievement of transition in the UNECE region is that all states now have similar economic objectives and a shared commitment to the principles of the market economy. The dispute over different economic systems is over. Accordingly there should be no *prima facie* basis for conflict, but rather the very opposite, a mutual interest in developing economic cooperation.



Thus, to address conflicts such as that between Georgia and Russian Federation there is a need for more, not less, economic cooperation between the parties involved. The more ambitious these projects are, the more they will develop strong economic ties, the better it will be for mutual understanding and the resolution of the conflict. Within the UNECE, it is important that the lesson from this conflict is learned. There is no reason for complacency. Efforts need to be redoubled to develop economic cooperation that is ambitious, creative and successful. To this end it might be proposed to

Box 14: Selected indicators of success in applying principles of economic governance**Institution and capacity-building**

- Legislation defining and protecting property rights
- Existence of independent auditing agencies and offices
- Institutions that promote vertical linkages between civil society and government

Public participation/bottom-up approach

- Legislation supporting public participation in decision-making
- Involvement of key stakeholders in policymaking
- Existence of independent think tanks in policymaking

Transparency in financial management

- Number of convictions on corruption charges
- Number of civil servants separated from post due to corruption
- Number of articles published by media exposing corruption

Sustainable development

- Legislation on environmental protection
- Ratification of multilateral environmental agreements
- Linking economic and environmental governance

Regional Focus

- Number of international conventions signed
- Membership of regional cooperation bodies
- Number of agreements implemented as part of membership in regional economic organizations

create a working group on the type of actual projects which can deepen economic integration in the region.

How the economic governance principles can contribute to peacebuilding

Even though peacebuilding is taking place, there is a lack of confidence in the process. Some member states share scepticism on the peacebuilding operation considering it a threat to their internal sovereignty. Others are reluctant to send peacekeepers to UN peacebuilding missions. And ‘on the ground’, those involved question what the objectives of peacebuilding are.

In Chapter IV we have provided indicators for each of the principles and these are listed together in Box 14. These can be further elaborated and then used by governments and by the international community to measure the progress in building peace as well as to identify gaps and areas where more assistance might be provided.

In addition, as prescriptions of progress can differ amongst different groups in society, these benchmarks can be also used as part of the internal reflection process, and consultations on the problems and divisions in society and how they can be mitigated and overcome. The report, for example, on the achievement of progress in using the indicators could be the discussion document for a conference between various groups, identifying the differences in perception.

Through such a process of self analysis and discussions with opposing side, some constructive plan for reconciliation and policy dialogue along with goal setting and further benchmarking might be achieved. Although different in content, the truth and reconciliation process in South Africa was a useful tool to bring former adversaries together and lessons from this process can be applied elsewhere.

Mainstreaming the principles of economic governance into international policymaking in a post-conflict context

At present, there exists no overarching internationally agreed convention or standard regarding the behaviour of states, donors and other actors in post-conflict societies. There is currently considerable discussion on setting standards for reforming and improving economic development. Could similar standards be drawn up for post-conflict societies using as a basis the principles set out in this book?

One could, for instance, mainstream the principles of economic governance into international policymaking for post-conflict regimes by transforming the principles into an international framework agreement, charter or compact. UNECE sets norms and standards and draws up international conventions in economic cooperation in many areas. Moreover, the EU standards, as set out in the *acquis*, were critical in setting out a course of action and in providing incentives (EU membership) for countries to follow in the transition process.

Building on the principles, it can be argued that an internationally accepted compact – a set of standards or convention could be agreed upon during the process of negotiating the peace. Such an agreement on post-conflict governance could provide a number of critical elements for peacebuilding, for instance:

- improve regional economic cooperation
- promote bottom-up approaches and greater involvement of society in peacebuilding
- ensure the implementation of budgetary arrangements that improve financial transparency

- encourage transparency in the financial dealings of banks and companies in their interactions with post-conflict societies
- set out ways to implement the standards in post-conflict societies through capacity-building.

Even if these aspects are only a start, they are nevertheless the essentials for building successful post-conflict regimes, and would serve as a confidence-building measure, not only among former belligerents, but among neighbouring states.

The case for standards in post-conflict economic governance

First, standards could provide reformers with an instrument with which to support good governance and with a goal around which to unite. Peacebuilding success cannot come from outside, it must come from within a country. Reformers need support.

Second, standards are implemented by those who have signed up to them. Compliance is done through peer reviews, which would give the standards credibility while also providing a further point of pressure on regimes that are not performing.

Third, standards can also bring in NGOs and improve coordination. Coordination is the key objective of the Peacebuilding Commission and the standards could be developed under its auspices.

Fourth, a convention or standard could set benchmarks that can integrate the regional dimension of peacebuilding and conflict prevention into the efforts of the Peacebuilding Commission.

Fifth, for practical purposes it may be useful to prepare standards first at a regional

level and then move globally. Many of the UNECE conventions, for example, are international in scope and are open to other partners in other parts of the United Nations system to join and ratify.

Sixth, standards could generate investment in post-conflict societies by increasing the confidence of the investor community in the governance of post-conflict regimes.

How to transform the principles into a framework agreement on post-conflict economic governance?

Most conventions are started by a few governments who champion the principles

behind the standards and diligently campaign for their promulgation. Similarly, for such an international convention for post-conflict governance, sympathetic champions among governments will be required together with supportive NGOs. This combination of support, for example, was a contributing factor in the birth of the Aarhus Convention.

If such support is available, the next step may be to hold a regional conference to assess the validity of the principles and to test the support for setting standards in post-conflict economic governance. A High Level Dialogue on Peacebuilding among the UN's 5 Regional Commissions could be a logical starting point.



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