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Money Matters

Economic Dimensions of Peace Mediation

Achim Wennmann

Programme for Strategic
and International Security Studies

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Preface

The economic aspects of peace mediation are an important yet under-studied component of conflict management. While there has been a burgeoning literature on the political economy of conflict over the past decade, little has been written on the economic dimensions of peace processes and mediation. In view of increasingly more comprehensive peace-building efforts by the international community, and integrated strategies to prevent the recurrence of armed conflict, closing this analytical gap seems both timely and necessary.

Achim Wennmann's Occasional Paper argues that a focus on the economic dimensions of mediation can help bridge the temporal "commitment gap": the transition period in which belligerents are expected to disarm and demobilise in return for the promise of a better future and the manifestation of peace dividends. Highlighting the significance of economic considerations in the cost-benefit analyses of the parties engaged in a peace process, Wennmann argues that investments in peacebuilding can be safe-guarded at an early stage by creating positive visions of the material benefits accrued from a cessation of hostilities.

The Paper explores four economic dimensions of peace mediation: the relationship between the economic characteristics of armed conflict and mediation; the link between economic provisions in peace agreements and peacebuilding; economic tools for mediation processes; and the engagement of economic actors such as companies, development agencies and governments. Such an enhanced understanding of the economic aspects of armed conflict can have a constructive impact on the planning and initiation of mediation processes. It offers a more comprehensive perspective on the nature of the conflict to be mediated, as well as on the predisposition of armed groups to engage in negotiations. The analysis also identifies pressure points to influence conflict dynamics, and recognises economic interests as potential issues of convergence. In this context, the "mediated state"—the coexistence or partnership of the central government with rival sources of authority to provide core state functions based on constantly renegotiated deals—provides pragmatic avenues of engagement which seek to incorporate "local realities" into peace processes.

This project is part of an on-going endeavour, with the generous support of the Swiss Federal Department of Foreign Affairs, to provide a new perspective on conflict management that is of relevance for both the academic debate and mediation practitioners.

Keith Krause
Director

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Series Editor

The author

Achim Wennmann is Research Associate at the PSIS. His interest in mediation is based on his doctoral research on the relationship between conflict financing and the recurrence of intra-state armed conflict; his experience of training young government officials from Armenia, Azerbaijan and Georgia in the framework of the project *Capacity Building in International Relations* (http://www.cabir.org), as well as work on peace policy and the decentralisation of governance in Georgia. His research focuses on the economic aspects of armed conflict and peacebuilding, war economies and parallel economies, and the unintended consequences of third-party interventions. Recent publications include 'The Political Economy of Conflict Financing: A Comprehensive Approach Beyond Natural Resources', *Global Governance* 13:3 (2007), 427-444; 'Renewed Armed Conflict in Georgia? Options for Peace Policy in a New Phase of Conflict Resolution', *PSIO Occasional Paper 3* (Geneva, 2006); and 'Resourcing the Recurrence of Intra-state Conflict: Parallel Economies and Their Implications for Peace Building', *Security Dialogue* 36:4 (2005), 479-494.

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Needless to say, all views expressed in this publication are my own and do not necessarily reflect the views of the PSIS or the Government of Switzerland.

1

Introduction

The mediation of peace agreements is generally taken to involve political and military actors. These need to be convinced to enter into a ceasefire, demobilise, and agree on a post-conflict scenario typically entailing a form of power-sharing arrangement. Often, such mediation processes are led by politically astute individuals acting for, or under the auspices of, political institutions such as the United Nations, regional organisations, or individual states.

While the focus on political and military actors is indeed pertinent, recent scholarship on the political economy of conflict highlights the importance of integrating economic aspects into the analysis and management of armed conflict and peacemaking. By drawing on insights from this literature, this Occasional Paper attempts to distil the economic dimensions of peace mediation. Such an analysis offers a crucial component to our understanding of peace mediation, not least in light of contemporary efforts of the international community to engage in more comprehensive initiatives of post-conflict peacebuilding.

Four such economic dimensions are identified. The first dimension is the relationship between the economic characteristics of armed conflict and mediation. Economic factors influence the incentive structure of belligerents and provide resources to finance armed conflict. In this way, they contribute to the initiation, perpetuation or termination of armed conflict. For mediation, it is therefore important to understand if economic aspects are perceived by belligerents as ends or means, and what roles they play in mediation processes and strategies. The potential of this dimension lies in the pre-mediation phase. It informs the planning and management of mediation processes by offering a new perspective on the conflict to be mediated, the predisposition of belligerents to engage in negotiations, and their common economic interests.

The second dimension looks at the link between economic provisions in peace agreements and peacebuilding. Various studies suggest that the risk of conflict recurrence is between 20 and 50 percent.[1] While the reasons for conflict recurrence are multifaceted, there has so far been little systematic analysis on whether the inclusion of economic provisions in peace agreements fosters sustainable peacebuilding and therefore reduces the likelihood of conflict recurrence. The case for including the economy in peace agreements lies in the creation of a framework for post-conflict economic governance that may raise the predictability of economic transactions and the prospect of peace dividends. Moreover, economic provisions may strengthen the viability of post-conflict situations for ex-combatants and war-affected populations, and are thus a vital part of a new vision of society. Based on short case studies, this Occasional Paper highlights that the omission of eco-

[1] Astri Surke and Ingrid Samset, 'What's in a Figure? Estimating Recurrence of Civil War', *International Peacekeeping* 14:2 (2007), 195-203, at 195-199.

nomic provisions can have negative consequences for peacebuilding, including the empowerment of spoilers, the persistence of seemingly unbridgeable differences, and the absence of overall peace dividends. Appendix 1 summarises the lessons learnt from six case studies.

The third economic dimension of peace mediation considers the economic tools for mediation processes. Appendix 2 outlines these tools along the strategies of communication, formulation and manipulation. Economic tools can be integrated into information management, the formulation of peace agreements, and the provisions of incentives and threats. Overall, economic tools can help to create a common understanding of the economy and potential peace dividends, thereby shifting the parties' understanding of potential outcomes of a peace process from negative-sum to positive-sum or at least zero-sum. The political value of economic tools is that they can make futures more tangible and therefore increase the parties' commitment to a peace process.

However, in order to realise the potential of economic mediation tools, economic actors must be involved in the mediation of peace agreements. The engagement with such actors is the final dimension to be explored here. Economic actors include companies, development agencies and governments. Ways of engagement point to strategies that lower security and political risks, use domestic constituencies to create pressure for engagement, and consider companies from emerging economies as an opportunity rather than a threat. The potential of companies in mediation processes lies in providing resources, leadership and authority, but remains highly context-specific. During mediation process, companies have an important place in the "antechamber" of negotiations, providing economic information as well as a check on economic provisions in peace agreements.

The exploration of these four dimensions is guided by the following questions:

- What are the implications for mediation of addressing the economic dimensions of armed conflict?
- How have economic dimensions been dealt with in existing peace agreements, and what was the effect on peacebuilding?
- What are economic mediation tools? How can they be used to affect the dynamics of peace processes?
- How can economic actors be engaged to realise the potential of economic mediation tools?

This Occasional Paper is divided into six chapters. After a brief overture to mediating armed conflicts, Chapter 3 explores the economic aspects of armed conflict and their implications for mediation. Chapter 4 then looks at the economic provisions in peace agreements and their implications for peacebuilding. It includes short case studies on Sudan (North-South), Guatemala, Nepal, Liberia, the Democratic Republic of the Congo (DRC) and Angola. A fifth chapter analyses economic tools for mediation processes, and Chapter 6 considers the engagement of economic actors. The Occasional Paper concludes by summarising the potentials of incorporating economic aspects in peace mediation.

2

Mediation and armed conflict

Mediation is a process whereby an independent third party assists warring factions in reaching a collectively acceptable settlement through dialogue and negotiation.[2] It is a strategy of conflict management with the aim of shifting the interaction between parties from 'authoritarian' or 'adversarial' to 'integrative' and 'problem-solving'.[3] In principle, parties agree voluntarily to engage in mediation because they expect greater benefits than from other ways of conflict management.[4] In relation to armed conflict, mediation is part of the broader phenomenon of peace

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[2] United Nations, *Manuel sur le règlement pacifique des différends entre états* (New York: United Nations, 1992), 43.

[3] Jacob Bercovitch, 'Mediation in International Conflict: An Overview of Theory and Practice' in William Zartman and Lewis Rasmussen (eds.), *Peacemaking in International Conflict: Methods and Techniques* (Washington D.C.: United States Institute of Peace Press, 1997), 125-153, at 149; Ronald J. Fisher, *Methods of Third-Party Intervention* (Berlin: Berghof Research Centre for Constructive Conflict Management, 2001), 4-5.

[4] Jacob Bercovitch and Karl Derouen Jr., 'Mediation in Internationalised Ethic Conflicts: Assessing the Determinants of a Successful Process', *Armed Forces & Society* 30:2 (2004), 147-170, at 154.

processes in which the main antagonists in an armed conflict are involved in successive peace initiatives.[5]

Overall, mediation is situated between conciliation and arbitration. Conciliation explores informal links between conflict parties to encourage direct interaction and identify issues of contention. Arbitration renders a binding judgement through a legal procedure based on the consideration of the merits. Conciliation and arbitration are the two end points in a continuum of different degrees of third-party intervention in which mediation covers the middle ground.[6]

Mediation is a widely employed tool in the private and corporate spheres. Mediation is used to manage divorce, custody or heritage issues, or settle labour or salary disputes. In International Law, mediation is an instrument of the peaceful settlement of disputes between states: Article 33 of the United Nations Charter lists mediation alongside negotiation, enquiry, conciliation, arbitration, judicial settlement or resort to regional agencies or arrangements. Mediation is also central to the concept of "good offices", in which one state is a letterbox and messenger for two other states that formally do not have relations with each other.[7]

Since the 1950s, the number of intra-state conflicts (and in particular so-called "internationalised civil wars", involving interventions by external ac-

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[5] John Darby and Roger Mac Ginty, 'Introduction: What Peace? What Process?' in John Darby and Roger Mac Ginty (eds.) *Contemporary Peacemaking: Conflict, Violence and Peace Processes* (Houndmills: Palgrave Macmillan, 2003), 1-6, at 2.

[6] Fisher, *Methods of Third-Party Intervention*, 11.

[7] Peter Malanczuk, *Akehurst's Modern Introduction to International Law* (London: Routledge, 1997), 275-276.

tors) has exceeded the number of inter-state wars.[8] This trend has also shifted the focus of mediation efforts: intra-state armed conflicts are a particular challenge to mediation because they are often characterised by asymmetric power relations. In many cases, this asymmetry leads to the weaker party compensating its lack of power by increasing its commitment to fight, thereby further complicating the conditions for mediation:

> Internal armed conflicts are marked by intensity and commitment that ... lock the parties into opposition and hostilities [such] that they cannot reach a turning point of perception and find a way out by themselves. They are unable to communicate with each other, unable to think of a solution that could be attractive to the other side as well as themselves, unable to conceive any side payments or enticements to turn the zero-sum conflict into a positive-sum solution, and unable to turn from commitment and a winning mentality to problem solving and solutions to grievances.[9]

Engaging with these challenges is a sensitive endeavour: mediating armed disputes involves aspects of sovereignty—the monopoly over the use of force

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[8] Meredith Reid Sarkees, Frank Whelon Wayman and J. David Singer, 'Inter-State, Intra-State, and Extra-State Wars: A Comprehensive Look at Their Distribution over Time', *International Studies Quarterly* 47:1 (2003), 49-70, at 61. Needless to say, given the inherent methodological dilemmas of such assertions (every set of indicators gives a new series of figures), generalisations of this sort should be used cautiously.

[9] William Zartman, 'Dynamics and Constraints in Negotiations in Internal Conflict', in William Zartman (ed.), *Elusive Peace: Negotiating an End to Civil Wars* (Washington D.C.: Brookings Institutions, 1995), 3-29, at 20.

and legitimacy of government—and issues of recognition when non-state armed groups seek representation at the negotiation table.[10] Overall, it is crucial that a mediation process is owned by the parties, as what ultimately counts is the conviction that a negotiated settlement delivers their bottom line demands.[11]

[10] Ibid., 3-4.

[11] Nicholas Haysom, 'Engaging Armed Groups in Peace Processes: Lessons for Effective Third-Party Practice', in Robert Ricigliano (ed.), *Choosing to Engage: Armed Groups and Peace Processes* (London: Conciliation Resources, 2005), 84-89, at 86, 89.

3

Economic aspects of armed conflict and mediation

The rationale for engaging in intra-state armed conflict is more important today than ever. This is reflected in the conclusion of 144 accords in 40 armed conflicts between 1989 and 2005, most of which were intra-state.[12] However, the characteristics of intra-state armed conflict have changed in recent decades, and this chapter explores the implications of this change for mediation.

During the Cold War, intra-state armed conflicts were explained in various ways: they have been considered the result of ideology (insurgencies), international forces (proxy wars), the denial of rights (colonial wars) or relative deprivation (rebellions). Since the early 1990s, the focus of attention has shifted to ethnic and cultural identities.[13]

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[12] Lotta Harbom, Stina Högbladh and Peter Wallensteen, 'Armed Conflict and Peace Agreements', *Journal of Peace Research* 43:5 (2006), 617-631, at 622.

[13] William Zartman, 'Need, Creed, and Greed in Intrastate Conflict', in Cynthia Arnson and William Zartman (eds.), *Rethinking the Economics of War: The Intersection of Need, Creed and Greed* (Washington D.C.: Hopkins University Press, 2005), 256-284, at 257-258.

The economic approach to armed conflict emerged as a response to these explanations it deemed unsatisfactory: they did not capture the new realities of armed conflict including globalisation, weak states, and the proliferation of non-state actors in areas of conflict. Now, armed conflicts were "new wars", characterised by

> a myriad of transnational connections so that the distinction between intra-state and external, between aggression (attacks from abroad) and repression (attacks from inside the country), or even between local and global, becomes difficult to sustain.[14]

Achieving political goals was no longer the sole purpose of conflict; rather, the aim of fighting was to perpetuate conflict for economic reasons. In consequence, intra-state conflicts became increasingly protracted and self-financing.[15]

Over the past few years, the analysis of the economic dimensions of armed conflict has become increasingly sophisticated. It includes, for example, debates on the origin and perpetuation of armed conflict,[16] the economic agendas in civil war,[17] conflict

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[14] Mary Kaldor, *New and Old Wars: Organised Violence in a Global Era* (Cambridge: Polity Press, 1999), 2.

[15] Martin Van Creveld, *The Transformation of War* (New York: The Free Press, 1991), 57-62.

[16] Paul Collier and Anke Hoeffler, 'Greed and Grievance in Civil War', *Oxford Economic Papers* 56:4 (2004), 563-596; Arnson and Zartman (eds.), *Rethinking the Economics of War.*

[17] David Keen, 'The Economic Functions of Civil War', *Adelphi Papers* 320 (1998); Mats Berdal and David M. Malone (eds.), *Greed and Grievance: Economic Agendas in Civil Wars* (London, Lynne Rienner, 2000); Karen Ballentine and Jake Sherman (eds.), *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (London: Lynne Rienner, 2003).

economies,[18] natural resources,[19] warlords,[20] development,[21] and new actors in conflict areas.[22] While this literature has covered a wide field, it has so far not explored the economic dimensions of armed conflict in relation to mediation.

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[18] François Jean and Jean-Christophe Rufin (eds.), *Economie des guerres civiles* (Paris: Hachette, 1996); Michael Pugh and Neil Cooper, *War Economies in a Regional Context: Challenges and Transformations* (London: Lynne Rienner, 2004).

[19] Philippe Le Billon, 'The Political Ecology of War: Natural Resources and Armed Conflict', *Political Geography* 20:5 (2001), 561-584; Michael Renner, *The Anatomy of Resource Wars* (Washington, D.C.: Worldwatch Institute, 2002); Ian Bannon and Paul Collier (eds.), *Natural Resources and Violent Conflict: Options and Actions* (Washington D.C.: World Bank, 2003); Michael Ross, 'What Do We Know about Natural Resources and Civil War?', *Journal of Peace Research* 41:3 (2004), 337-356; Karen Ballentine, and Heiko Nitzschke (eds.), *Profiting from Peace: Managing the Resource Dimension of Civil War* (Boulder: Lynne Rienner, 2005).

[20] William Reno, *Warlord Politics and African States* (Boulder: Lynne Rienner, 1998); Kimberly Marten, 'Warlordism in Comparative Perspective', *International Security* 31:3 (2007), 41-73.

[21] Mark Duffield, *Global Governance and the New Wars: The Merging of Development and Security* (London: Zed Books, 2001); Frances Stewart and Valpy FitzGerald (eds.), *War and Underdevelopment: The Economic and Social Consequences of Conflict* (Oxford: Oxford University Press, 2001).

[22] Peter W. Singer, 'Corporate Warriors: The Rise of the Privatized Military Industry and Its Ramifications for International Security', *International Security* 26:2 (2001), 186-220; Mats Berdal and Mónica Serrano (eds.), *Transnational Organized Crime and International Security: Business as Usual?* (Boulder: Lynne Rienner, 2002); Andreas Wenger and Daniel Möckli, *Conflict Prevention: The Untapped Potential of the Business Sector* (Boulder: Lynne Rienner, 2003).

3.1 Mediating the "right" conflict

A first achievement of recent scholarship has been the acknowledgement that armed conflicts indeed have a crucial economic dimension. This is an important insight for mediation: focusing only on political or military issues may be counterproductive in terms of conflict resolution. The conflict between Ethiopia and Eritrea (1998-2000), for example, was primarily mediated as a border dispute while economic issues were overlooked. The designation of Eritrean ports as free ports for Ethiopia, trade facilitation and the continuation of a single currency could all have helped manage the conflict and prevent its recurrence.[23]

In Angola, it was believed that the conflict would terminate with the end of the Cold War because it was perceived as a proxy war. However, what remained unresolved was the power struggle for the control of the state. While international mediation efforts focused on reducing third-party engagement, the conflict became self-financing, leading to the failure of the 1991 Bicesse Accords and another decade of armed conflict.[24] Thus, in order to identify the "right" conflict, a mediator should listen to and analyse how the conflict is understood by those fighting it. If mediation is a process driven by the parties, then it is the conflict as they understand it that is the "right" one to mediate.

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[23] Carl Grey, 'Economic Factors That Contributed To The 1998-2000 Eritrean/Ethiopian Conflict', Background Briefing Note, 18 August 2000 (unpublished).

[24] Fernando Andresen Guimarães, *The Origins of the Angolan Civil War: Foreign Intervention and Domestic Conflict* (Basingstoke: Palgrave, 2001), 197.

However, only adopting a perspective from *within* the conflict may limit the options for mediation. A mediator has an *external* perspective that the warring parties no longer have after years of combat. Over time, this perspective can foster an alternative understanding of the armed conflict and even expose aspects which the parties themselves had not known or remained unconscious of. By developing an outsider perspective on the conflict, a mediator develops an open-minded and comprehensive analysis which is distant from single-factor explanations of what causes and drives the conflict. In this context, the value of an economic dimension does not lie in material determinism, but rather in providing an additional lens. Economic factors can thus be recognised, related to political and military issues, and integrated into a comprehensive understanding that identifies the multiple disputes within an armed conflict to be mediated.

3.2 Conflict dynamics and engaging armed groups

A second achievement of recent scholarship is that it provides a platform for a different understanding of armed conflict. Initially, the literature was trapped in a polarising debate on whether armed conflict is caused by greed or grievance.[25] While this debate still resonates among policy-makers, academia moved on after various methodological issues had been exposed and a series of case study volumes provided a

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[25] Collier and Hoeffler, 'Greed and Grievance in Civil War'; Paul Collier, Lani Elliott, Håvard Hegre, Anke Hoeffler, Marta Reynal-Querol and Nicholas Sambanis, *Breaking the Conflict Trap: Civil War and Development Policy* (Washington, D.C.: World Bank, 2003).

better understanding of the role of economic factors in conflict dynamics.[26] The current consensus highlights that "the origin of armed conflict cannot be exclusively related to greed or loot seekers", but rather interacts "with socioeconomic and political grievances, interethnic disputes, and security dilemmas in triggering the outbreak of warfare".[27] In addition, "... economic agendas account less for the origins of conflict than the longevity or persistence of violent conflict".[28]

The relationship between continued access to revenue sources and the prolongation of armed conflict is evidenced in a multitude of cases. For example, access to oil and diamonds in Angola prolonged

[26] For a critique of the greed and grievance literature, see Laurie Nathan, *The Frightful Inadequacy of Most of the Statistics: A Critique of Collier and Hoeffler on Causes of Civil War* (London: London School of Economics, 2005); Christopher Cramer, 'Homo Economicus Goes to War: Methodological Individualism, Rational Choice and the Political Economy of War', *World Development*, 11:4 (2002), 1845-1864; Bart Klem: *A Commentary on the World Bank Report 'Breaking the Conflict Trap'* (The Hague: Netherlands Institute of International Relations, 2004). For work using case studies, see Ballentine and Sherman, *The Political Economy of Armed Conflict*; Arnson and Zartman, *Rethinking the Economics of War*; Paul Collier and Nicholas Sambanis (eds.), *Understanding Civil War: Evidence and Analysis* (Washington D.C.: World Bank, 2005).

[27] Karen Ballentine, 'Beyond Greed and Grievance: Reconsidering the Economic Dynamics of Armed Conflict', in Ballentine and Sherman, *The Political Economy of Armed Conflict*, 259-283, at 259-260.

[28] Don Hubert, 'Resources, Greed, and the Persistence of Violent Conflict', in Rob McRae and Don Hubert (eds.), *Human Security and the New Diplomacy: Protecting People, Promoting Peace* (Montreal: McGill-Queen's University Press, 2001), 178-189, at 179.

the war after 1991.[29] Revenue from smuggling, extortion, the control of ports, drug trafficking and external assistance supported various militias in the Lebanese civil war and provided a disincentive to settle the conflict.[30] Diaspora remittances and taxation provided the financing for the Liberation Tigers of Tamil Eelam (LTTE) in Sri Lanka.[31] As a result of these economic agendas, organised armed groups develop vested interests in the perpetuation of armed conflict.

These economic agendas have important implications for mediation, as they emphasise that parties which are part of a self-perpetuation conflict are less inclined to fully commit to a mediation process. Armed conflict offers belligerents a way of life that would be impossible in peacetime. Parties are therefore less susceptible to incentives associated with conflict resolution. In this sense, armed conflict is not a mutually *hurting*, but rather a mutually *profitable* stalemate, in which neither party's objective is to win.[32] As a result, parties are unlikely to accept a mediation process, or fully commit if they did.

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[29] Philippe Le Billon, 'Resource Wealth and Angola's Uncivil War', in Arnson and Zartman (eds.), *Rethinking the Economics of War*, 107-139, at 107-108.

[30] Elisabeth Picard, 'Liban: La matrice historique', in Jean and Rufin, *Economie des guerres civiles*, 63-103.

[31] Rohan Gunaratna, 'Sri Lanka: Feeding the Tamil Tigers', in Ballentine and Sherman, *The Political Economy of Armed Conflict*, 197-223, at 197-210.

[32] Parties are locked into a mutually hurting stalemate when they lose faith in winning by using force and look for opportunities to cut losses through alternative ways of accommodation. William Zartman, *Ripe for Resolution: Conflict and Intervention in Africa* (Oxford: Oxford University Press, 1985), 232-236.

3.3 Conflict financing and mediation

A third achievement of the literature is to have established greater insight into the financing of armed groups. Conflict financing is rooted in an understanding of armed conflict as the organisation of the use of armed force.[33] Groups form in different phases of the conflict—articulation, mobilisation, insurgency and war—and have different organisational requirements at each stage.[34] Opportunities and constraints of finding financing for armed conflict affects their strategy and organisation.[35]

Conflict financing connects with the mediation literature on the issue of asymmetric power relations between the parties. It can therefore provide indications on how predisposed groups are to engage in a mediation process. Some degree of power symmetry between parties to a mediation process is considered a prerequisite for mediation to operate effectively.[36] While power manifests itself in multiple ways, the ability to raise funds is an important composite of applying military leverage. The continued availability of conflict financing thus affects the ability of belligerents to maintain or escalate an armed conflict. If one party is able to escalate the conflict and impose itself, it wins through victory; if the other side follows and engages in an arms race, a mutually hurting

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[33] Achim Wennmann, 'The Political Economy of Conflict Financing: A Comprehensive Approach Beyond Natural Resources', *Global Governance* 13:3 (2007), 427-444, at 429.

[34] Zartman, 'Dynamics and Constraints in Negotiations in Internal Conflict', 13-16.

[35] Jeremy M. Weinstein, *Inside Rebellion: The Politics of Insurgent Violence* (New York: Cambridge University Press, 2007), 34-53.

[36] Fisher, *Methods of Third-Party Intervention*, 19.

stalemate can ensue—opening the way for a mediation process.[37]

In Angola, both scenarios took place. In the 1992-1994 conflict, the *União Nacional Para a Independência Total de Angola* (UNITA) had a short-term military advantage through commercialising diamonds and was able to impose itself. By 1994, however, a military stalemate was reached when the *Movimento Popular de Libertaçao de Angola* (MPLA) had modernised its armed forces. In the 1998-2002 conflict, the MPLA was able to gain the upper hand because an increase in oil revenue allowed it to escalate the conflict while UNITA's diamond revenue decreased and transaction costs increased through sanctions.[38]

In Iraq, the availability of revenue sources to the insurgency is a factor explaining why a negotiated settlement was unsuccessful so far. Initially, various insurgent movements were financed by the former Baath regime. However, the insurgency has become increasingly self-financing, raising US$ 70-200 million through illegal activities, US$ 25-200 million from the smuggling of oil, and about US$ 36 million from kidnapping.[39] The vicious circle is that in order to maintain the sources of revenue, more armed force is necessary, which in turn requires more revenue sources.

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[37] Zartman, *Ripe for Resolution*, 236.

[38] Achim Wennmann, *Conflict Financing and the Recurrence of Intra-state Armed Conflict: What Can Be Done from the Perspective of Conflict Financing to Prevent the Recurrence of Intra-State Armed Conflict?* Doctoral Dissertation (Geneva: Graduate Institute of International Studies, 2007).

[39] Burns, John F. and Kirk Semple, 'Iraq Insurgency has Funds to Sustain Itself', *New York Times*, 26 November 2006.

3.4 Identifying pressure points and new avenues of engagement

Conflict financing is also important to identify pressure points for mediation processes and to explore new strategies of engaging organised armed groups.[40] In economic terms, pressure points derive from the need of an organised armed group to finance its operations. Organised armed groups finance armed conflict through a variety of methods. These include the taxation of economic activities in centralised war economies, the commercialisation of conflict goods, asset transfers from civilians, third-party government assistance, diaspora financing, payments from companies, and portfolio investment.[41] Conflict financing is dynamic and professionalized. Rebel groups usually have various methods of conflict financing and change to different patterns of funding if existing strategies no longer work.[42]

External pressure can either tilt the asymmetry between belligerents towards greater symmetry to facilitate mediation, or increase asymmetry to facilitate escalation and military imposition. The latter scenario occurred in the 1998-2002 Angola war: UNITA was weakened by a sanctions regime, while the MPLA was bolstered through third-party complicity in the exploration for oil. This strategy worked because UNITA was dependent on diamonds and internationally isolated. While in 1992, UNITA was still able to shift from third-party support to dia-

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[40] Robert Ricigliano (ed.), *Choosing to Engage: Armed Groups and Peace Processes* (London: Conciliation Resources, 2005).

[41] Wennmann, 'The Political Economy of Conflict Financing'.

[42] Jean-Christophe Rufin, 'Les économies des guerres dans les conflits internes', in Jean and Rufin, *Economie des guerres civiles*, 19-59, at 58-59.

monds, in 1998, it was unable to diversify its revenue sources.[43] One analyst even suggest that

> the almost exclusive focus of some policy makers on curtailing the smuggling of diamonds in Sierra Leone and Angola has allowed attention to be diverted from the fact that demanding such sanctions is an implicit call for the military defeat of the rebels by the government. As calls for military victory appear to be politically incorrect in the current age, the vocabulary of victory and defeat has been transferred to the more neutral and technocratic language of sanctions and restraints on the trade of natural resources.[44]

In Sri Lanka, the odds were different. The government of Sri Lanka used anti-terrorist legislation in the United States and the United Kingdom to blacklist the LTTE as a terrorist organisation. This had a serious impact on the LTTE's collection of revenue through diaspora financing. However, the LTTE was resilient and diversified by investing in legitimate business in Asia to reduce its dependence on the diaspora.[45]

Sri Lanka is also an example of how the lack of revenue sources brought parties to the negotiation table. Lack of funding of the LTTE and the increasing cost of the conflict to government forces contributed to the peace process of 2001, culminating in

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43 Wennmann, *Conflict Financing and the Recurrence of Intra-state Armed Conflict*.

44 Jeffrey Herbst, 'Economic Incentives, Natural Resources and Conflict in Africa', in *Journal of African Economies* 9:3 (2000), 270-291, at 271.

45 Gunaratna, 'Sri Lanka', 210; S.W.R. Samarasinghe, *Political Economy of Internal Conflict in Sri Lanka* (The Hague: Netherlands Institute of International Relations Clingendael, 2003), 96-97.

the Memorandum of Understanding of February 2002. For the government, foreign debt tripled between 1992 and 2001, and became increasingly difficult to service. The LTTE faced declining revenues as a consequence of an eroding legitimacy in overseas communities due to its increasingly violent methods of fundraising and involvement in illegal activities.[46]

These examples suggest that the financial situation of any military organisation may indicate how predisposed it is to come to the negotiation table: military organisations that are not financially self-sufficient and have fewer sources of revenue are more inclined to engage; armed groups which are financially self-sufficient and have multiple revenue sources are less inclined to do so. Third-party pressure on the financial capacity of an organised armed group has thus the potential to steer parties towards a more favourable, symmetric environment that favours the resolution of disputes through negotiation.

However, the extent to which leverage can be exerted depends largely on the nature of revenue sources. The degree of leverage can change according to the occurrence of resources in nature (concentrated or diffuse), the geographical location of resources (proximate or distant from the capital), the characteristics of resources (lootable or obstructable), the means of exploitation (labour or capital intensive), and the legal status of the resource (legal or illegal).[47]

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[46] Another issue pressing the LTTE to the negotiation table was the difficulty to recruit new cadres and desertions. Samarasinghe, *Political Economy of Internal Conflict in Sri Lanka*, 96-97.
[47] Le Billon 'The Political Ecology of War', 572-575; Michael Ross, 'Oil, Drugs and Diamonds: The Varying Roles of Natural Resources in Civil War', in Ballentine and Sherman, *The Political Economy of Armed Conflict*, 47-70, at 64-67.

For instance, it was difficult to exert leverage on UNITA through sanctions because diamond deposits were alluvial, far away from the capital, cheap to exploit and difficult to trace.[48] In contrast, it would have been easier to design a sanctions regime against Liberian timber due to its obstructable characteristics. However, Chinese and French interest prevented such an initiative to be discussed in the United Nations Security Council.[49] In Afghanistan, leverage is exerted by using a law and order approach against drugs; however, the revenues generated though drugs contribute to a high level of resilience of those targeted.[50]

3.5 War economies and the "mediated state"

The economic interests of the belligerents can provide incentives for engagement. In areas of armed conflict, economic activity usually continues as part of a war economy, in what are called combat, shadow and coping economies.[51] Economic activity is often the lowest common denominator of interaction between groups that would otherwise not communicate. In Somalia and Lebanon, for example, economic transactions persisted even after the state had

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[48] Assis Malaquias, 'Diamonds are a Guerrilla's Best Friend: The Impact of Illicit Wealth in Insurgency Strategy', *Third World Quarterly* 22:3 (2001), 311-325, at 322.
[49] Neil Cooper, 'State Collapse as Business: The Role of Conflict Trade and Their Emerging Control Agenda', *Development and Change* 33:5 (2002), 935-955, at 949-950.
[50] Achim Wennmann, 'Resourcing the Recurrence of Intrastate Conflict: Parallel Economies and Their Implications for Peace Building', *Security Dialogue* 36:4 (2005), 479-494, at 486-487.
[51] Pugh and Cooper, *War Economies in a Regional Context*, 8-9.

collapsed. In Somalia, the absence of the state led to the emergence of alternative systems of governance at the local and regional level. Economic activity was conducted through clan networks to reduce risk and transaction cost.[52] Even though different clans maintained a high level of animosity towards each other, they would still trade across the firing line and clan divides. The same process occurred in the Lebanese civil war. Despite fighting one other, armed groups would do business because it was profitable and because they needed more money to keep fighting.[53] The economy worked because every faction knew exactly where the boundaries of their business were in relation to other armed groups.[54]

These examples highlight that the economy may provide a platform from which to engage parties in a mediation process. Talking about economic governance may even dissipate tensions before entering into more contentious political or military issues.[55] This approach was spearheaded in Sri Lanka, where negotiations on reconstruction and development preceded security and constitutional matters. In this way it was hoped to broaden the constituency for peace and stimulate discussions on more divisive issues. In the end, however, crucial differences remained and negotiations were suspended.[56]

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52 Peter D. Little, *Somalia: Economy Without State* (Oxford: James Currey, 2003), 1, 6-9.

53 Picard, 'Liban'.

54 Interview with Julian Hottinger, Mediation Adviser, Swiss Fed. Department of Foreign Affairs. Zürich, 27 October 2006.

55 Roger Mac Ginty, 'Contemporary Peace Processes' in Sultan Barakat (ed.) *After the Conflict: Reconstruction and Development in the Aftermath of War* (London: I.B. Tauris, 2005), 33-49, at 48.

56 Roger Mac Ginty, *No War, No Peace: The Rejuvenation of Stalled Peace Processes and Peace Accords* (Houndmills: Palgrave Macmillan, 2006), 152-153.

When exploring the potential of engaging armed groups through the economy, it is however essential to consider that those benefiting from economic opportunities in times of war may not want to lose sources of revenue—and power—for the sake of peace. In Somalia, the conflict has given previously marginalised groups access to economic opportunities which they are unlikely to surrender for peace.[57] The absence of a state has given rise to alternative judicial and governance systems that are there to stay even if a central state is recreated.

In order to take account of the various power holders and overlapping levels of authority in the transition from war to peace, a way of engaging armed groups in a mediation process is based on the notion of a "mediated state". In a "mediated state"

> the government relies on partnership (or at least coexistence) with a diverse range of local intermediaries and rival sources of authority to provide core functions of public security, justice, and conflict management. ... "Mediated states" are intrinsically messy, contradictory, illiberal, and constantly renegotiated deals—not ideal choices for governments but often the best of bad options for weak states.[58]

The "mediated state" highlights that when a central government has little capacity to impose control over the entire territory, existing power relations foster a governance arrangement based on deal-making, cooption and subcontracting with whatever

[57] Little, *Somalia*, 12.

[58] Ken Menkhaus, 'Governance Without Government in Somalia: Spoilers, State Building, and the Politics of Coping', *International Security* 31:3 (2007), 74-106, at 78.

local non-state authorities are in control.[59] Under these circumstances, democratisation and constitutional blue-prints have little chance of success except in providing a façade for a "non-state". If state-building does not take account of the existing distribution of power and control of economic resources on the sub-state level, it will have little chance of engaging existing power brokers in a peace process. In a sense, the "mediated state" goes back to an understanding of the state as an evolving entity and constant work in progress: "From the outset, the modern state ... represented an ideal of sovereign territoriality to which rulers aspired, but which they seldom achieved".[60]

Thus, when armed conflict is taking place in the face of weak states, burgeoning war economies, and alternative centres of authority, the "mediated state" may be able to transcend divisions between armed groups and help identify common economic interests and governance at the sub-state level. In situations in which the state has lost the capacity and legitimacy to deliver state functions, alternative authorities and economic networks at the sub-state level should be instrumentalised for a peace process.

3.6 Implications for mediation planning and the engagement of armed groups

The economic characteristics of armed conflict have implications for mediation: they provide indications on the nature of the conflict to be mediated, the pre-

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[59] Ibid.

[60] Jennifer Milliken and Keith Krause, 'State Failure, State Collapse, and State Reconstruction: Concepts, Lessons and Strategies', *Development and Change* 33:5 (2002), 753-774, at 755.

disposition of organised armed groups to engage, and pressure points to steer armed groups towards military victory or negotiated settlement. They also provide opportunities to transcend divisions between armed groups by considering common economic interests in the framework of a "mediated state". These issues indicate that a better understanding of the economic aspects of armed conflict provides a platform from which to assess the pre-mediation period as well as the decision of third-parties to start a mediation process.

When planning a mediation process, economic aspects can be incorporated by analysing an armed conflict according to the following questions:

- What are the interests of the parties involved? What are their economic interests?
- What is the logic of engagement of the parties? Do they engage in order to continue the armed conflict by other means? Or have a pause to re-arm? Or find a solution to their differences?
- What are the revenue sources of the parties? How diversified is their revenue structure? Are they potentially vulnerable to economic pressure?
- What are the benefits from the use of force? What are the potential benefits from peace?
- Who benefits from disorder? Who could benefit from peace?
- How can it be ensured that the parties benefit more from peace than war?
- Do the parties have common economic interests? How do economic interests compare to other issues of contention?

Including these questions in the planning and execution of mediation processes helps tailor the mediation strategy to the "right" characteristics of an armed conflict.

In addition, the economic characteristics of armed conflict open new avenues for engaging the state or non-state armed groups in peace processes. The degree of financial self-sufficiency of an armed group indicates how predisposed it is to engage: armed groups which are not financially self-sufficient are more inclined to engage, while those that are self-sufficient and have multiple revenue sources are less inclined to do so. Moreover, warring factions are less susceptible to engage if the use of armed force is part of a larger economic agenda and a self-financing armed conflict.

Furthermore, economic interests provide incentives for engagement because the economy can be constructed as a functional, lowest common denominator between armed groups. Focusing on economic issues can help dissipate tensions before entering into more contentious political or military issues. The potential of engaging armed groups on economic issues, therefore, lies in fostering consensus and shifting the interaction between armed groups from the emotive to the pragmatic.

Finally, a political economy approach to armed conflict opens new avenues of engaging armed groups on the sub-state level. In situations in which the state has lost the capacity or legitimacy to deliver all state functions—security, welfare and representation—existing authorities and economic networks at the sub-state level provide opportunities to transcend divisions between armed groups. To insist on state-building, democratisation and constitutionalism in these circumstances may increase the antagonism towards a peace process, as it threatens sub-state arrangements of managing power, profits and protection established during armed conflict. The "mediated state" provides pragmatic avenues of engagement which seek to make local realities work for the initiation of a peace process.

4

Economic provisions in peace agreements and sustainable peacebuilding

When armed conflicts end, the terms of settlement are specified in peace agreements. Various forms of peace agreements can be differentiated by their degree of comprehensiveness: these include truces, cessation of hostilities, ceasefires, armistice agreements, preliminary agreements, pre-negotiation agreements, framework agreements, interim agreements, sub-agreements, comprehensive agreements and implementation agreements. Not all forms are needed for each settlement, as each type may have a distinct purpose in a step-by-step or comprehensive negotiation process.[61]

Generally, peace agreements are concerned with the regulation of the political or military issues of armed conflict—economic concerns feature only tangentially. In peace agreements between states in the 19th and 20th century, economic matters played a marginal role because the disruption of economic relations between two states was considered to be automatically redressed as part of the normalisation of relations. However, in cases in which states did

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[61] UN Peacemaker, *Peace Agreements*, <http://peacemaker.unlb.org/role.php?p=11>

not have prior relations, peace treaties contained provisions on post-conflict economic relations. The 1979 Treaty between Egypt and Israel included provisions for comprehensive economic relations, the interdiction of barriers against the free movement of people and goods, and agreements on free navigation and over-flight rights. Similar provisions were included in the 1994 Peace Treaty between Israel and Jordan.[62]

After the end of the Cold War, the record of peace agreements has been challenged by the fact that one third of all conflict recurrences occurred after negotiated settlements.[63] The failure of peace agreements has been explained by the fact that negotiated settlements tend to be used in more intractable armed conflicts, thus making them more short-lived.[64] Moreover, peace agreements fail due to the challenges of implementation. Peace implementation is a high-stake transition process with uncertainty, intangibles and set-backs. In these circumstances, it is difficult to maintain the commitment of belligerents

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[62] Stephen F Neff, 'Peace and Prosperity: Commercial Aspects of Peacemaking' in Randall Lesaffer (ed.) *Peace Treaties in International Law in European History: From the Late Middle Ages to World War One* (Cambridge: Cambridge University Press, 2004), 365-381, at 380-381.

[63] The figure is based on 69 incidences of conflict recurrence in 52 armed conflicts in the period 1989-2003, as recorded in the Uppsala Conflict Termination Dataset. An armed conflict is said to recur when after at least one year of non-activity the same conflict reaches the level of 25 battle-related deaths in a year. Peter Wallensteen, Lotta Harbom, Stina Högbladh, and Margareta Sollenberg, *Armed Conflict Termination Dataset Codebook* (Uppsala: Uppsala University, 2005), 5.

[64] Scott S. Gartner and Jacob Bercovitch, 'Overcoming Obstacles to Peace: The Contribution of Mediation to Short-Lived Conflict Settlements', *International Studies Quarterly* 40:4 (2006), 819-840, at 835.

and third parties to a peace process.[65] Belligerents are often unable to create credible commitments to disarm and demobilise.[66] Peace implementation is also challenged by disproportionately influential groups having the resolve, opportunity and capability to spoil an agreement.[67] Finally, if the conditions for rebel recruitment in a post-conflict period remain unchanged, armed conflict is likely to recur.[68]

4.1 Peace agreements and peacebuilding

The recurrence of armed conflict underlines the importance of the relationship between peace agreements and peacebuilding. Post-conflict peacebuilding is a comprehensive strategy to assist areas of armed conflict in their transition from war to peace. It is defined as an "action to identify and support structures which tend to strengthen and solidify peace in order to avoid the relapse into conflict".[69] Peacebuilding ultimately is state-building, in which the

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[65] Stephen John Stedman, and Donald Rothchild, 'Peace Operations: From Short-Term to Long-Term Commitment', *International Peacekeeping* 3:2 (1996), 17-35, at 18.

[66] Barbara Walter, 'The Critical Barrier to Civil War Settlement', *International Organization* 51:3 (1997), 335-364, at 335-336.

[67] Stephen John Stedman, 'Spoiler Problems in Peace Processes', *International Security* 22:2 (1997), 5-53, at 6-7; Kelly Greenhill and Solomon Major, 'The Perils of Profiling: Civil War Spoilers and the Collapse of Intrastate Peace Accords', *International Security* 31:3 (2007), 7-40.

[68] Barbara Walter, 'Does Conflict Beget Conflict? Explaining Recurring Civil War', *Journal of Peace Research* 41:3 (2004), 371-388, at 374.

[69] Boutros Boutros-Ghali, *An Agenda for Peace: Preventive Diplomacy, Peacemaking and Peace-Keeping* (New York: United Nations, 1992), para. 21.

main functions of the state—security, welfare and representation—are created through mechanisms of external assistance and domestic ownership.[70]

The key question for the relationship between peace agreements and peacebuilding is whether the type, content and quality of peace agreements promote the sustainability of peacebuilding. Peacebuilding is part of the continuum of conflict management strategies. It is preceded by a mediation process, a peace agreement, and humanitarian relief or peacekeeping operations. As peacebuilding comes at a later stage of conflict management, it inherits flaws from previous phases. Peacebuilding therefore looks backwards to implement what has been agreed before and at the same time forwards to prevent future armed conflict.

While military and political problems receive the brunt of attention in peacebuilding, the post-conflict economy remains understudied.[71] It is important to realise that economic interactions do not stop during armed conflict. Post-conflict economies must therefore be understood as a continuous process of economic transition over time. The economy is important because it creates the conditions for sustainable peacebuilding. It absorbs ex-combatants and provides them with an alternative livelihood. The survival economies during times of war are a crucial platform from which to foster subsistence economies in the post-conflict period. In this way, the economy

[70] Rolf Schwarz, 'Post-Conflict Peacebuilding: The Challenges of Security, Welfare and Representation', *Security Dialogue* 39:4 (2005), 429-446, at 433-436.

[71] Exceptions include Monika Heupel, 'Shadow Trade War Economies and Their Challenge to Peacebuilding', *Journal of International Relations and Development* 9:2 (2006), 140-169; Wennmann, 'Resourcing the Recurrence of Intra-state Conflict'.

creates immediate peace dividends which define how ex-combatants experience the post-conflict period. If this experience is negative, they may be inclined to go back to armed conflict.

However, post-conflict economic recovery is often hampered by the legacies of conflict, including destroyed infrastructure, poverty and diseases. In addition, soldiers possess few alternative skills to war-making and some—particularly child soldiers—may have seen nothing else in life than war. As a result, war-making is perceived as more profitable than demobilisation. With few viable economic opportunities, ex-combatants engage in parallel economic activity and use armed force as a function of predation, extortion and profiteering. In the process, spoilers emerge and undermine "central power consolidation and the development of a national revenue base ... , while allowing warlords to co-opt emerging social movements".[72] In these circumstances, the profits of the parallel economy accrue to small groups that develop a vested interest against peacebuilding because their profits are linked to continued insecurity, the absence of the state, and the use of armed force.[73]

This *problématique* gives rise to the question of whether the inclusion of economic issues in peace agreements can mitigate the destabilising effects of the economy during peacebuilding.

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[72] Michael Bhatia, 'Postconflict Profit: The Political Economy of Intervention', *Global Governance: A Review of Multilateralism and International Organizations* 11:2 (2005), 205-224, at 208.

[73] Wennmann, 'Resourcing the Recurrence of Intra-state Conflict', 487.

4.2 Case studies

In order to investigate the relationship between peace agreements and peacebuilding, this section briefly reviews six cases: Sudan (North-South), Guatemala, Nepal, Liberia, the DRC and Angola. Sudan, Guatemala and Nepal are cases where economic provisions have been addressed in detail or at least partially; as opposed to Liberia, the DRC and Angola where they only featured tangentially. The case selection also seeks to reflect that the armed conflicts of Angola, the DRC, Liberia and Sudan were characterised by economic aspects, while these were less important in Guatemala and Nepal. The case studies first look at how economic issues featured in the respective peace agreements and then consider what effect they have had on post-conflict peacebuilding.

Sudan (North-South)

The *Comprehensive Peace Agreement* in Sudan of 31 December 2004 is composed of six individual agreements, one of which is about the sharing of wealth. Revenue sharing is important to the Sudanese conflict because the dividing line between Northern and Southern Sudan goes through existing and prospective oil fields and involve politicised disputes over land ownership.[74]

The *Agreement on Wealth Sharing* of 7 January 2004 covers the division of oil and non-oil revenue,

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[74] Mona Ayoub, 'Land and Conflict in Sudan', in Mark Simmons (ed.), *Peace by Piece: Addressing Sudan's Conflicts* (London: Conciliation Resources, 2006), available at <http://www.c-r.org/our-work/accord/sudan/land-conflict.php>

the management of the oil sector, monetary authority and the reconstruction of the South and other war-affected areas (Preamble). The Agreement establishes a series of new institutions for the economic governance of Northern and Southern Sudan, including the National Land Commission (Art. 2.6), the National Petroleum Commission (NPC) (Art. 3.2), the Bank of Southern Sudan (Art. 14.2), the Southern Sudan Reconstruction and Development Fund (Art. 15.1), the National Reconstruction and Development Fund (Art. 15.4) and Multi-Donor Trust Funds (MDTFs) for Northern Sudan and Southern Sudan (Art. 15.5). The Agreement highlights that it does not address the ownership of land and natural resources (Art. 2.1).

The sharing of oil revenue from wells in Southern Sudan foresees that 50 percent of net oil revenue accrues to the Government of Southern Sudan (GOSS) and the remaining 50 percent to the National Government and States of Northern Sudan ("the Government") (Art. 5.6). Concerning non-oil revenue, the Agreement specifies various sources of revenue collection for the Government and the GOSS, including taxes and fees (Art. 6). All national revenue is centralised in the National Revenue Fund (Art. 7.1). 50 percent of the revenue collected in Southern Sudan is given to the GOSS (Art. 7.3).

With these provisions, the Agreement organises the economic governance and reconstruction of post-conflict Sudan. It bridges the Government's demands for sovereign ownership of natural resources and an economic perspective for independence of Southern Sudan by postponing the resolution of resource ownership.[75] The Agreement on revenue sharing was reached because Southern Sudan secured a high percentage of oil revenue independent from federal transfers. At the same time, massive international pressure—particularly from the United States—overcame resistance of the Government to revenue sharing.[76] In addition, agreement to the *Machakos Protocol* made it nearly impossible for the parties to withdraw from the peace process as major political issues had already been settled.[77]

Moreover, the Agreement overcame two problems: Chinese petrol companies were initially unwilling to stop paying Sudanese oil with Chinese consumer goods. They accepted a shift to monetary transfers only after international pressure and after having recognised the value of an overall settlement.[78] The second problem was the lack of confidence between the North and South. The Agreement nearly failed because Southern Sudan felt cheated by the lack of transparency of the Government. Northern Sudan had sold oil from Southern wells through futures contracts at discounted prices. Southern Sudan, however, had expectations to immediately sell at world market prices while in reality futures contracts—and the agreed upon discounted prices—had

[75] Jostein Tellnes, 'The Unexpected Deal: Oil and IGAD Process', in Simmons, *Peace by Piece*, available at <http://www.c-r.org/our-work/accord/sudan/oil-igad.php>

[76] The policy of the United States was to apply pressure on the Government, but not too much. It also needed cooperation with the Government for the exchange of information on al-Qaida. Simon A. Mason, 'Lehren aus den Schweizer Mediations- und Fazilitationsdiensten im Sudan' *Bullentin 2006 zur Schweizer Sicherheitspolitik* (2006), 43-95, at 74.

[77] Ibid.

[78] Interview, Julian Hottinger.

to be respected first.[79] In order to manage expectations, provisions for transparent and accountable management, consensus decision-making in the NPC as well as existing oil contracts were included in the Agreement (Art. 1.9, Art. 3.2, Art. 4).

In the implementation phase, Southern Sudan was overwhelmed by the demands for technical expertise and management capacity for the institutions created in the Agreement.[80] Moreover, two years after the conclusion of the Agreement, the MDTFs have not yet made any major disbursements, which has started to undermine their credibility in the eyes of the parties and donors. The lack of disbursement delays the reconstruction of Sudan and much-needed peace dividends.[81]

A key outstanding contention remains the ownership of land and natural resources. So far, the issue has been postponed until the referendum on independence of Southern Sudan. Should South Sudanese vote in favour of its independence, the association of the three transition areas—Abyei, Southern Kordofan, and the Blue Nile States—must be managed. The *Protocol on the Resolution of the Abyei Conflict* of 26 May 2004 forsees a referendum to determine if Abyei would like to be part of Northern or Southern Sudan (Art. 1.3). All three transition areas are important North-South trade links, hold natural resources including oil, gold, and water, and are a po-

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[79] Interview, Jack Christofides, United Nations Official, Former Member of the United Nations Mission in Sudan. New York, 14 November 2006.

[80] Interview, Nita Yawanarajah, Policy Planning Unit, Department of Political Affairs, United Nations. New York, 14 November 2006.

[81] Interview, Dana Ott, Sudan Desk Officer, Bureau for Africa, United States Agency for International Development. Washington D.C., 21 November 2006.

tential source of future conflict.[82] Northern Sudan is not expected to accept the loss of major oil fields. Resource and land ownership disputes therefore have the potential to undermine peacebuilding.[83]

Guatemala

The *Agreement on a Firm and Lasting Peace* of 29 December 1996 included 13 individual agreements, one of which was the *Agreement on Social and Economic Aspects of the Agrarian Situation* of 6 May 1996. Economic and social inequalities were at the root of the conflict in Guatemala. An ambitious state-building agenda sought to reduce inequality and increase participation and transparency. The Agreement underlined that social participation was an instrument to eradicate economic, social and political polarisation (Art. 2). The obligation to correct inequalities was put on the state, which was to take a leadership role in reforming health, education, employment, social security and housing (Art. 16, Art. 19-26). Land reform was also a central issue, including provisions to counteract the concentration of resources through new regulation to access land, as well as funding mechanisms to acquire land (Art. 34). The Agreement also included provisions on the modernisation of government services, including fiscal policy reform (Art. 45-51).

The inclusion of social and economic provisions in the peace process took place amid strong resistance from the private sector, which perceived the rebels' leftist agenda and the peace process as a threat

[82] Jason Matus, 'The Three Areas: A Template for Regional Agreements' in Simmons, *Peace by Piece*.
[83] Interview, Jack Christofides.

to their corporate interests. The private sector was united and elite-driven, and forged an alliance with the military government to protect their control of the economy.[84] In this way, the private sector could isolate itself from the costly effects of war while increasing the asymmetry between the government and the rebels. During the negotiations, this asymmetry was partly balanced through a goal convergence between multilateral development agencies and the rebels: they both advocated the reduction of inequality, tax and land reforms, as well as government transparency.[85]

However, despite the detailed social and economic provisions, the implementation was challenged on numerous fronts. The implementation of fiscal reforms was held up by the request of corporate and civil society actors to make all reforms conditional on their approval. Since the private sector was not really committed to the reform agenda, implementation became protracted. Moreover, tax reform was hampered by a series of exemptions, constitutional limitations on the taxation authority of the state, corruption, and the deterioration of the investment climate with rising criminality and low coffee prices. In addition, the goals for social expenditures could not be met as they conflicted with controlling fiscal deficits to maintain macroeconomic stability. Declining coffee prices and the increase in criminal violence provided structural constraints to the implementation of the economic provisions.[86]

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[84] Ulrike Joras, *Privatizing Peace? The Role of the Private Business Sector in Conflict Management—A Case Study of Guatemala*, Doctoral Dissertation (Bern: University of Bern, 2006), 243-244.
[85] Interview, Nita Yawanarajah.
[86] Joras, *Privatizing Peace?*, 252; Rodas-Martini, Pablo, 'Building Fiscal Provisions Into Peace Agreements: Cautionary Tales

Thus, despite the inclusion of economic provisions in the Agreement in Guatemala, it was not a secret to successful peacebuilding. However, the consultation processes of implementing reforms brought formerly opposed sides together—resolving their differences through a political process and not the use of armed force.[87]

Nepal

The *Comprehensive Peace Agreement* in Nepal of 21 November 2006 between the Government of Nepal and the Communist Party of Nepal (Maoist) includes general objectives for economic reforms but does not provide specific provisions on how to implement socio-economic transformation.

In the context of transforming the Nepalese state—the abolition of the King's privileges and political role (Art. 3.3), centralisation (Art. 3.5) and feudalism (Art. 3.6)—the Agreement sets out the general direction of socio-economic transformation, including the nationalisation of all properties of the King (Art. 3.3), the protection and promotion of national industries and resources (Art. 3.7), the provision of land and economic protection to socially and economically backward classes (Art. 3.10), the severe punishment of corruption (Art. 3.11), the elaboration of a common development concept (Art. 3.12) as well as employment and income generation opportunities (Art. 3.13). The vagueness of these provisions

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From Guatemala', in James K. Boyce and Madalene O'Donnell (eds.), *Peace and the Public Purse: Economic Policies for Postwar Statebuilding* (Boulder: Lynne Rienner, 2007).

[87] Rodas-Martini, 'Building Fiscal Provisions Into Peace Agreements'.

is exemplified by the formulation "to gradually implement by deciding through mutual agreement a minimum common program for economic and social transformation to end all forms of feudalism" (Art. 3.6).

The nebulous nature of the economic provisions suggests that the Agreement is part of a step-by-step process to transform Nepal's conflict. Overall, the Agreement was held to solve two elements: the Maoist insurgency, and the power struggle between the King and the political parties in Kathmandu. However, the agreement did not address "the concentration of political and economic power in the hands of small elites at the expense of many marginalised groups".[88] By including only general objectives for socio-economic change, the Agreement sets the stage for a political process to determine how to transform Nepal's economy.

The danger of this approach is that the realisation of much-needed economic peace dividends—employment and income earning opportunities for marginalised groups—are unlikely to materialise soon. The parties have widely diverging perspectives on economic development. These differences may lead to a protracted political debate delaying agreement on economic reform and economic peace dividends. While this may usher in the consolidation of a political system in the long-run—comparable to Guatemala—a key source of grievance remains unchanged in the short term. As a result, the Agreement may lose support from marginalised groups and lead to protests or even the renewal of low-intensity conflict. The protests of the Madhesis people in January 2007

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[88] International Crisis Group, *Nepal's Peace Agreement: Making It Work* (Kathmandu/Brussels: International Crisis Group, 2006), 13.

emphasise the potential threats to peace deriving from continued marginalisation in post-conflict Nepal.[89]

Economic marginalisation and exclusionary, elite-driven politics were key components of Nepal's armed conflict.[90] Agreement on—and the delivery of—a conflict-sensitive economic reform package will not only be critical to address these issues, but also to counteract the emergence of peace spoilers and to provide an economic foundation for sustainable peacebuilding.

Liberia

The *Comprehensive Peace Agreement* in Liberia of 18 August 2003 makes no specific reference to economic issues. Article XVII refers to a Contract and Monopolies Commission with the objective of ensuring all public and budgetary commitments and formulating and implement macro-economic policies that support sustainable development. Most provisions deal with political arrangements, particularly the organisation of transitional arrangements that ended with Presidential elections in January 2006.

The absence of economic provisions had consequences in the transition period that, through con-

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[89] Bikash Sangraula, 'Protests Rock Nepal Peace Process', *Christian Science Monitor*, 6 February 2007. After the protests, the Interim Legislature amended the Interim Constitution to include clauses to enhance representation of marginalised groups. Interview Fabio Oliva, Graduate Institute of International Studies. Geneva, 5 February 2007.

[90] John Bray, Leiv Lunde and S. Mansoob Murshed, 'Nepal: Economic Drivers of the Maoist Insurgency', in Ballentine and Sherman, *The Political Economy of Armed Conflict*, 107-132, at 118; International Crisis Group, *Nepal's Peace Agreement*, 13.

tinued corruption and crime, are still being felt today. The Agreement provided ex-combatants a framework to continue exercising control over the Liberian economy. Prior to war, Liberia was subdivided in regions in which allies of Charles Taylor commercialised timber and diamonds. Taylor established an economic patronage network after being denied sovereign authority in September 1990. Not having recourse to large-scale international assistance, he acquired resources and power by controlling local economic opportunities and regional markets that were then used to buy weapons.[91]

The consequence of omitting the reorganisation of the economy from the Agreement was continued large-scale corruption within the National Transitional Government of Liberia (NTGL), often committed by the same persons who controlled the resource during the war. After sustained international pressure to reduce corruption, the NTGL was forced to accept the Governance and Economic Management Assistance Programme (GEMAP). The key premise of GEMAP is that every major public transaction is subject to co-signature by a Liberian official and an international expert. First indications of success include a 30 percent increase in tax revenues in the period January-March 2006.[92]

Another consequence of omitting economic considerations in the Agreement was the increasing involvement of ex-combatants in the rubber plantations. Rubber was not subject to sanctions and therefore outside the mandate of the United Nations. As a result, ex-LURD (Liberians United for Reconciliation

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[91] Reno, *Warlord Politics*, 93.

[92] Governance and Economic Management Assistance Programme 2006, *About GEMAP*, <http://wwwgemapliberia.org/pages/about_gemap2>

and Democracy) combatants bolstered their power and fostered corruption, crime and insecurity. After the Presidential elections in January 2006, the Government of Liberia and the United Nations Mission in Liberia (UNMIL) re-established control over the rubber plantations. With the greater reach of the Government, the networks of ex-LURD combatants are now shifting to other economic opportunities in Liberia and Côte d'Ivoire.[93]

The Report of a United Nations Expert Panel highlighted the importance "that the Government be able to enforce resource control and monitoring in all areas of the country to prevent the development of economic balkanization across Liberia".[94] A stronger emphasis in the Agreement on the management of the economy may have mitigated some of the adverse effects that occurred in the transition period.

The Democratic Republic of the Congo

Even though natural resources played a key role in the armed conflict in the DRC, peace agreements refer little to the management of natural resources: the *Lusaka Agreement* of 10 July 1999, the *Agreements between the Government of the DRC and Rwanda* of 30 July 2002 *and Uganda* of 6 September 2002, and the *Global and Inclusive Agreement on the Transition in the Democratic Republic of Congo* of 17 December 2002 focus on military and political issues while referring to economic issues only in passing.

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[93] United Nations Security Council, *Report of the Panel of Experts Concerning Liberia* S/2006/976 (New York: United Nations, 2006), para. 11, 19, 180-189.

[94] Ibid., para. 183.

The reasons for this situation are connected with the economic agendas of belligerents in the DRC, their foreign patrons, and third parties. No warring party wanted to openly acknowledge the economic dimensions of the armed conflict to avoid exposure. It was only the publication of the United Nations Expert Panel Report on the Illegal Exploitation of Natural Resources (April 2001) and its Addendum (November 2001) that helped bring the economic dimension onto the agenda. The Inter-Congolese Dialogue (ICD), for example, made reference to reviewing the contracts signed during the armed conflict, an inventory of destructive acts committed during the wars, an evaluation of the cost of the wars, economic reconstruction, and the return of stolen property.[95]

However, these provisions were never given much credit by the parties. Instead, the focus was on power-sharing arrangements that—in their view—would ultimately regulate the control of resources. Moreover, the implementation of these provisions was jeopardised by spoilers from the Eastern DRC, who neither signed the Lusaka Agreement nor participated in the ICD. Overall, the Agreements were not able to change the pattern of resource exploitation. Had the economic interests been addressed more explicitly in the negotiations, it is likely that some parties would have stayed away from the negotiation table.[96]

Reality thus forced a step-by-step mediation approach to the peace process that avoided the eco-

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[95] François Grignon, 'Economic Agendas in the Congolese Peace Process' in Michael Nest (ed.), *The Democratic Republic of Congo: Economic Dimensions of War and Peace* (Boulder: Lynne Rienner, 2006), 62-98, at 69, 72-75.

[96] Ibid., 74-75, 77, 92.

nomic interests of the parties even though they "have been integrated into the peace process and become a virtual 'hidden script'".[97] Overall, however, the parties had enough interest in the peace process because they saw an economic value of a political settlement by receiving additional opportunities through access to state positions and resources while maintaining control over natural resource areas and profits.[98]

Angola

Despite diamonds being a major source of financing for UNITA, the *Lusaka Protocol* of 20 November 1994 did not include the issue. The only mention was that UNITA would be given control over the Ministry of Mines and Geology, reflecting its control over Angola's diamond mines. Overall, the diamond issue was not included in the Protocol because it was deemed unrealistic that UNITA would withdraw from the diamond fields. In fact, diamonds were of strategic interest, and their inclusion in the agenda of the Protocol may have threatened the entire peace process.

Instead, both parties were allowed to continue controlling their respective revenue source—diamonds and oil. The hope was that control over resources would provide the parties the means to effectively participate in Angola's new multi-party political system. In November 1996, MPLA and UNITA even signed a Memorandum of Understanding which gave UNITA the right to explore

[97] Ibid., 65.

[98] Michael Nest, 'The Political Economy of the Congo War', in Nest, *The Democratic Republic of Congo*, 31-62, at 55.

certain areas through legally recognised holding companies.[99]

At the same time, the Lusaka Protocol assigned the responsibility of implementing the agreement to the MPLA and UNITA. However, persisting antagonisms between the parties and the capacity to maintain a war-fighting capability provided an incentive to pursue a military strategy to defeat the other.[100] Thus, both parties had the capability to spoil the peace agreement. In addition, the leader of UNITA perceived the Lusaka Protocol as a strategy of the MPLA to defeat him including, for example, that all territory occupied by UNITA would be returned to government control.[101] In the words of Savimbi:

> You cannot ask for everything: Let us have your army! Here, have it. Let us have your weapons! Here, have them. Let us have your money! Oh, come on, get real! Nobody will accept that.[102]

In these circumstances, hoping that the finances from diamonds and petrol would be used for democratisation was overly optimistic. The Lusaka peace process ended with the MPLA attacking UNITA's diamond mines in the Lunada Norte province in 1998. The ensuing renewal of armed conflict showed that both parties had used their respective control

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[99] Alex Vines, 'Angola: Forty Years of War', in Peter Batchelor and Kees Klingma (eds.), *Demilitarisation and Peacebuilding in Southern Africa—Volume II* (Aldershot: Ashgate, 2004), 74-106, at 89-90.
[100] Jackie Cilliers, 'Beyond the Stalemate?' in Jackie Cilliers and Christian Dietrich (eds.) *Angola's War Economy: The Role of Oil and Diamonds* (Pretoria: Institute for Security Studies, 2000), 347-365, at 350-351.
[101] Vines, 'Angola', 81.
[102] Cf. Greenhill and Major, 'The Perils of Profiling', 21.

over oil and diamonds to invest in military power instead of building democratic credentials.

4.3. Limits of economic provisions in peace agreements

The case studies above give mixed messages about the potential of economic provisions in peace agreements. While more systematic research on a larger number of cases is needed to make authoritative conclusions, the cases chart an initial understanding of the relationship between economic provisions in peace agreements and peacebuilding.

The inclusion of the economic provisions in peace agreements is no magic solution for making peacebuilding sustainable. In Sudan and Guatemala, the hope that economic provisions would stabilise peacebuilding has been undermined by implementation problems: the lack of capacity and resources to implement the provisions, the existence of spoilers, a deteriorating investment climate, the incapacity or unwillingness of third parties to deliver on promises for post-conflict assistance, and a lack of commitment of the parties to deliver on the implementation of economic provisions.

In Liberia, the DRC and Angola, where economic provisions did not feature in a major way in the peace agreements, the unintended consequences of omission were high. The examples highlight that spoilers were empowered by controlling economic opportunities, business continued as usual, and the absence of fighting was used to prepare the renewal of armed conflict. In Liberia, the result was that peacebuilding became more complicated, unpredictable and expensive as economic governance required new initiatives against corruption and crime and even military intervention. In Nepal, managing the economy in the post-conflict period will be essential to sustainable peacebuilding.

If economic dimensions are included as a result of external pressure, parties may only pay lip-service to them while attempting to continue profiteering. Parties may resort to lying about their commercial interests and hiding behind the difficulty of establishing evidence and facts in post-conflict settings. If allegations are brought forward, they are attributed to rumours or conspiracies against the exposed party.

If too much pressure is exerted to include economic provisions, parties may decide to leave the mediation process or not to come to the negotiation table in the first place. Economic issues are sensitive because they affect the organisational structure of a party. The 1989 Taif Agreement ending the Lebanese civil war, for example, did not include any economic clauses out of fear that such discussions would reignite the fighting.[103] Thus, in keeping with the principle of mediation as a process driven by the parties, the case studies suggest that economic provisions should only be considered to the extent to which the parties allow this to happen or are susceptible to third-party pressure to have such issues on the agenda.

The inclusion of economic provisions thus remains the art of the possible. The mediator must weigh the benefits of inclusion on a case-by-case basis. Even if the incorporation of the economy provides a better prospect for recovery, too much pressure could derail the entire peace process. Consequently, the mediator may adopt a step-by-step ap-

[103] Interview, Julian Hottinger.

proach and focus on military and political issues first, while keeping the agreement flexible to include the economy at a later stage.[104] The trend towards more flexible and less specific peace agreements may illustrate the practical difficulties of including economic provisions in peace agreements.[105]

4.4. Opportunities derived from economic dimensions of peace agreements

Despite these limitations, the economic provisions in peace agreements play an important role in facilitating the transition to peacebuilding. The value-added of economic dimensions lies in creating joint futures, managing expectations in the economy, reducing the effect of spoilers, and providing peace dividends for the parties. Chapter 4 has also highlighted that common economic interests between the parties can dissipate tensions before entering into more contentious political or military issues.

Economic provisions help create economic futures and a vision of society by delineating a framework and institutions to increase the predictability of economic interaction and resource sharing. In Sudan, the resource sharing agreement provided an economic platform for a potentially independent Southern Sudan while safeguarding reservations on the sovereign ownership of natural resources of the Government. This arrangement was accompanied by

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[104] Interview, Andrea Bartoli, School of International and Public Affairs, Columbia University. New York, 29 November 2006.

[105] Interview, Karen Ballentine and Marcia Dawes, Bureau for Crisis Prevention and Recovery, United Nations Development Programme. New York, 15 November 2006.

the creation of joint institutions for economic governance. The decision on the control of natural resources was postponed to leave space for peacebuilding to take shape.

The sharing of resources has also been a key element in managing the conflict in the Indonesian province of Aceh. In this conflict, the exploitation of liquefied natural gas contributed to grievances because revenues were taken out of the province and the Government of Indonesia introduced a larger, more aggressive military presence. These actions made the Government's offer of regional autonomy less credible.[106] In the *Memorandum of Understanding* of 15 August 2005, economic incompatibilities were addressed by allowing Aceh to raise funds through external loans and taxation while the Government committed itself to transparency over the collection and allocation of revenues.

Economic provisions also manage expectations in the economy by making knowledge about future production and revenue possibilities available to the parties. Information is central to establish realistic expectations in the economy and shift economic analysis from unsubstantiated beliefs to verifiable expertise. In Abkhazia, for example, local politicians dream of their prosperous past in Soviet times: Abkhazia hosted millions of tourists and was a big producer of citrus fruit and tea. Expectations are high that the economy can be revived along previous patterns. However, these expectations do not corre-

[106] Michael Ross, 'Resources and Rebellion in Aceh, Indonesia', in Paul Collier and Nicholas Sambanis (eds.) *Understanding Civil War: Evidence and Analysis* (Washington D.C.: The World Bank, 2005), 35-85, at 53-54.

spond to the economic realities in a globalised, competitive world and risk being disappointed.[107]

Moreover, economic provisions address the spoiler problem. While it is important to be as inclusive as possible and create a broad base for peace, some elements of each party will unavoidably be left out.[108] By including economic provisions in peace agreements, the parties establish an understanding of exactly how and by whom the economy will be controlled. Failure of inclusion of the management of the post-conflict economy may leave tangible economic opportunities outside the control of the parties, leaving the way open for spoilers to establish control and become influential.

In Afghanistan, revenue sources from drugs are estimated to be higher than the available funds for peacebuilding. Warlords controlling these revenues have little incentive to support peacebuilding if it means establishing a functioning state that combats drugs. It is impossible to be all-inclusive when influential groups derive their power from control over illegal revenue sources. Managing these situations may point to a two-pronged strategy of isolating negative spill-over effects and managing various power holders and overlapping levels of authority of various actors in a "mediated state".[109]

The other potential of economic provisions lies in creating peace dividends. The economy can provide tangible benefits to ex-combatants through economic opportunities including, for instance, employ-

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[107] Wennmann, *Conflict Financing and the Recurrence of Intra-State Armed Conflict.*

[108] Zartman, 'Dynamics and Constraints in Negotiations in Internal Conflict', 22.

[109] Wennmann, 'Resourcing the Recurrence of Intra-state Conflict', 486-487, 490-491.

ment, ministerial positions, or education. It therefore provides crucial support for Disarmament, Demobilisation and Reintegration (DDR) programmes. However, a key problem is that economic recovery after conflict is never immediate: economic peace dividends take time to materialise, and in their absence ex-combatants often resort to parallel economies or the continuation of violent appropriation. Thus, peace dividends face a "commitment gap"—the potential lack of commitment of the parties to a peace process in the period between the signing of a peace agreement and the manifestation of peace dividends. In this period, in which parties are expected to disarm in return for the promise of future economic opportunities and rewards, establishing trust in the peace process is crucial. How to bridge this confidence gap and increase the parties' commitment to peace leads us to the consideration of economic tools for mediation processes—the subject of the next chapter.

5

Economic tools for mediation processes

As a strategy of conflict management, mediation is situated between conciliation and arbitration and includes three strategies: communication, formulation and manipulation. These strategies distinguish themselves through different levels of third-party intervention. While communication is passive and procedural, formulation requires involvement in and control over the substance of a dispute. Manipulation increases the level of intervention by becoming directive and controlling both substance and process. However, manipulation does not impose a settlement and is therefore distinct from arbitration.[110]

The degree of third-party intervention is contentious. While most definitions of mediation emphasise impartiality, others highlight the independ-

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[110] Saadia Touval and William Zartman, 'International Mediation in the Post-Cold War Era', in Chester A. Crocker, Osler Hamson and Pamela Hall (eds.), *Turbulent Peace: The Challenges of Managing International Conflict* (Washington D.C.: United States Institute of Peace Press, 2001), 427-443, at 435-436; Bercovitch and Derouen, 'Mediation in Internationalised Ethic Conflicts', 156-158. A similar division is made between "pure" and "power" mediation: the former uses reasoning and persuasion; the latter, leverage and coercion. Fisher, *Methods of Third-Party Intervention*, 11.

ence of the mediator. Parties do not choose the mediator based on qualities of impartiality, but rather on the ability to produce an acceptable outcome and the consequences of rejecting or accepting a mediator.[111] An indication of independence is the degree to which a mediator is able to walk away from the mediation process. A lack of independence can undermine the mediation process as parties exercise increasing pressure on the mediator:

> While it is crucial for a mediator to have the trust of the parties and their consent to act as a mediator, this should not be construed as an imperative towards appeasement. The parties will generally come to respect a measure of control over the process, provided it is exercised impartially and professionally.[112]

Thus, both impartiality and independence are important. Third-party intervention increases during a mediation process as long as the parties agree to accept it.

Economic tools for mediation processes are used in all three strategies of mediation. Overall, they seek to affect the behaviour of the parties by appealing to their cost-benefit calculations through reasoning, persuasion or threats.

5.1 Communication: information management

After years of conflict, information about the economy is often unreliable and scarce. Insecurity, state failure or vested interests undermine data collection and analysis. In cases were data is available, it is often

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111 Touval and Zartman, 'International Mediation in the Post-Cold War Era', 432.
112 Haysom, 'Engaging Armed Groups in Peace Processes', 85.

deemed strategic intelligence and kept secret. In addition, after years of fighting, the perception of economic realities may differ greatly between parties. The creation and sharing of information about the economy is therefore an important tool to bring parties together and establish a level playing field. Improved information manages economic expectations and fosters transparency and trust during a mediation process. However, the challenge is to persuade the parties to accept new economic information that differs from existing perceptions. This process takes time and requires space for learning.

Third parties play an important role in information management, particularly if parties have little capacity for it themselves. Experts from research institutes or international organisations bring expertise to the negotiation table and present alternative economic assessments. However, it is important that experts translate economic analysis into political options useful to mediation teams.[113] Research channelled through the United Nations, the World Bank or the International Monetary Fund (IMF) may gain additional value as the multilateral nature of these institutions renders the findings politically authoritative. Expert companies are needed if data creation requires specialised equipment, as in the case of natural resource prospecting.

In addition to creating trust and managing expectations, economic information can encourage parties to engage. In 1995, Ecuador and Peru recognised that armed conflict had a large opportunity cost: the fighting cost US$ 1 billion on both sides with fears of an armed race and escalating military expenditure.

[113] Interview, Chetan Kumar, Bureau for Crisis Prevention and Recovery, United Nations Development Programme. New York, 30 November 2006.

The parties also recognised that the conflict distorted their trade patterns and thus increased economic transaction costs. The conflict furthermore denied them participation in the regional trade agreement of MERCOSUR. Knowledge of these opportunity costs contributed to a high degree of commitment from both leaderships and to overcoming resistance from their respective security actors.[114]

Better information is also crucial to prevent the emergence of grievance-based conflicts. In Aceh, years of poor resource management by the Government of Indonesia fostered the perception among the local population that it was being exploited. Aceh's separatist movement exaggerated claims of bad resource mismanagement and raised expectations to garner local support. Greater transparency of the Government about present and future gas production could have removed an important rallying point from the separatists and diffused the conflict.[115]

Thus, the creation and sharing of economic information has a role to play in fostering trust, managing expectations, convincing parties to engage and preventing future conflict.

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114 Beth A Simmons, *Territorial Disputes and their Resolution: The Case of Ecuador and Peru* (Washington D.C.: United States Institute of Peace, 1999), 12-14, 19-21.

115 Michael Ross, 'The Natural Resource Curse: How Wealth Can Make You Poor', in Bannon and Collier, *Natural Resources and Violent Conflict*, 30.

5.2 Formulation: provisions for economic governance

As we saw in Chapter 3, economic provisions in peace agreements contribute to a sustainable transition to peacebuilding by providing a framework for viable futures, managing expectations, reducing the effect of spoilers and creating peace dividends. In this way, peace agreements promote the predictability of economic interactions and the implementation of DDR programmes.

When formulating economic provisions in peace agreements, the mediator goes beyond communication and becomes instrumental in tackling substantive issues such as budget transparency, natural resource funds, sharing agreements or commodity tracking systems. They are tools to manage resources to foster viable economic futures. Their rationales are as follows:

- *Taxation arrangements* provide an authoritative means of projecting present income into the future. Taxation is particularly contentious in civil wars in which rebel groups develop their own taxation system in the territory they control. In the Ivory Coast, the issue of two tax systems presents a real challenge in the ongoing mediation process.[116]
- *Budget transparency* accounts for state revenues and fosters sustainable expenditure for the benefit of the population. Transparency means making revenues from taxes, royalties, licensing or concession fees and signature bonuses accessible to external scrutiny. All off-budget accounts and revenue from state-owned companies should be inte-

[116] Interview, Julian Hottinger.

grated into regular budgets to counteract corruption and embezzlement.[117]

- *Natural resource funds* pool revenue from natural resource exploitation. While mainly used as a macroeconomic tool to cushion the volatility of resource-dependent economies, they increasingly commit governments to disburse state revenue in an accountable manner, including through independent oversight by parliamentary committees, civil society councils or multi-stakeholder coalitions.[118]
- *Sharing agreements* specify the mode of dividing revenue from the exploitation of natural resources.[119] The problem of natural resource disputes is not the resource itself, but the incapacity of parties to perceive and commit to positive-sum sharing arrangements. The challenge for the mediator is to support parties in identifying positive-sum outcomes of peace processes.
- *Commodity tracking systems* create mechanisms to follow commodities from the area of exploitation to the market. The Kimberley Process against conflict diamonds spearheaded commodity tracking as a conflict management tool. The rationale was to create official channels for diamond ex-

[117] Karen Ballentine, 'Peace Before Profit: The Challenges of Governance', in Ballentine and Nitzschke, *Profiting from Peace*, 447-484, at 459; Philip Swanson, Mai Oldgard and Leiv Lunde, 'Who Gets the Money? Reporting Resource Revenues', in Bannon and Collier, *Natural Resources and Violent Conflict*, 43-96, at 45-55.

[118] Ballentine, 'Peace Before Profit', 462-463.

[119] See the case study on Sudan in Chapter 4 above.

ports to keep illicit and conflict diamonds out of the market.[120]

In order to formulate provisions on economic governance, the mediator needs to establish greater control over the process and coordinate the input of expertise. Formulation includes workshops on the main concepts and alternative possibilities of economic governance. Third parties intervene by offering expert advice. The range of actors is similar to that for information management and includes international organisations, research institutes and companies.

5.3 Manipulation: incentives and threats

The rationale behind manipulation is to change the behaviour of parties through incentives and threats. During a mediation process, incentives and threats can be used to identify positive-sum outcomes and ensure compliance, and increase expected benefits.[121] Most manipulation tools can have a double purpose of being an incentive in one context and a threat in another. Economic incentives and threats include development aid, investment, employment creation, markets, and sanctions.

Development assistance and peacebuilding

Development assistance or peacebuilding projects can be used as an incentive by increasing the benefits

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[120] Ian Bannon and Paul Collier, 'Natural Resources and Conflict: What Can We Do', in Bannon and Collier, *Natural Resources and Violent Conflict*, 1-16, at 13.

[121] Touval and Zartman, 'International Mediation in the Post-Cold War Era', 436.

associated with peace agreements. It involves a whole range of initiatives in areas such as infrastructure reconstruction, public sector reform, or investment in social services. Overall, "pro-peace development" aims at the promotion of social and political cohesion for peace implementation, and disburses funds to mitigate the effects of sectarianism and divisions. In order to provide incentives, development assistance can be construed in such a way that all parties and their constituencies benefit from disbursements, employment and development effects.[122] Quick-impact projects can be particularly useful to generate short-term peace dividends and tangible outcomes before the commencement of larger development initiatives.

In Guatemala, the promise of development assistance was essential to counterbalance the perceived cost of the peace agreement.[123] In Northern Ireland, a European Union Special Peace and Reconstruction Package of GB£ 240 million and a GB£ 40 million loan from the IMF for Ireland was used to stabilise the situation after the 1998 ceasefire agreement.[124]

Development or peacebuilding projects can also be used to increase the value of territory in order to raise the opportunity cost of non-settlement. To solve their conflict, Ecuador and Peru established ecological parks on both sides of the border, which also facilitated economic interaction.[125] In Georgia,

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[122] Mac Ginty, *No War, No Peace*, 135.
[123] Joras, 'Privatizing Peace?, 187.
[124] John Darby and Roger Mac Ginty, 'Northern Ireland: Long, Cold Peace' in John Darby and Roger Mac Ginty (eds.) *The Management of Peace Processes* (Houndmills: Palgrave 2000), 61-106, at 91.
[125] Simmons, *Territorial Disputes and their Resolution*, 20-21.

there was an initiative to create a special agricultural zone around the ceasefire line between Georgia and Abkhazia. Cooperation on agricultural development was supposed to foster trust and reduce poverty. However, Abkhazia feared that the initiative was an attempt by Georgia to increase its influence on the Abkhaz side of the ceasefire line, which is still mainly inhabited by Georgians.[126]

In South Ossetia—Georgia's other unresolved conflict—development projects in the Georgian controlled part of South Ossetia seek to exert pressure on the *de-facto* authorities of South Ossetia. Infrastructure improvements, new private businesses and a US$ 10 million grant from the European Union for the rehabilitation of gas and water distribution, a hydropower plant, and waste management attempt to make Georgia more attractive to South Ossetians. However, unless these projects are paralleled by the development of an inclusive political discourse that distances itself from an exclusive Georgian nationalism, the objectives behind the economic development projects are likely to remain unfulfilled.[127]

Development assistance can also be used as a threat. If a government involved in a conflict receives assistance from a third party, threats to cut it may induce a change in behaviour. In Cambodia, third parties contributed to the demise of the Khmer Rouge by exposing the complicity of Thailand's military in Cambodia's timber exploitation. The Thai Government closed the border with Cambodia after the US Congress threatened to cut military assistance

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[126] Wennmann, *Conflict Financing and the Recurrence of Intra-State Armed Conflict*.

[127] Paul Rimple, 'Economic Development: The Latest Recipe for South Ossetian Peace', *Eurasianet*, 20 February 2007. <http://www.eurasianet.org>

and the IMF cancelled part of a loan. The IMF also exposed the Cambodian Government's illicit timber exploitation by delaying or freezing loan disbursements. The engagement of the IMF became possible because illicit timber exploitation was presented as a fiscal issue.[128]

The usefulness of cutting development assistance, however, depends largely on the availability and value of alternative revenue sources of the targeted party. In Afghanistan, cutting development assistance may pressure the Government but not the warlords who derive disproportionately higher revenues from the parallel economy and drugs.[129]

Investment and employment creation

Investment also increases the benefits associated with peace agreements. However, it differs from development assistance in the sense that it emanates from the private sector. Provisions are no longer given at preferential rates but at market conditions, and issues of security and political risk must also be considered (see Chapter 6). Investment is particularly important to extract natural resources, as it is capital- and technology-intensive and local capacity is often absent. However, investment as an incentive is sensitive in cases where foreign investment crowds out less efficient domestic producers.[130] In this way, foreign investment may not be perceived as a benefit but rather as a cost of a peace agreement. Instead, in-

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[128] James K. Boyce, 'Development Assistance, Conditionality and War Economies' in Ballentine and Nitzschke, *Profiting from Peace*, 287-314, at 293-295.

[129] Pugh and Cooper, *War Economies in a Regional Context*, 55.

[130] Wenger and Möckli, *Conflict Prevention*, 145.

vestment should support the development of local markets by hiring locally and using domestically produced goods and services, for example.[131]

Investment is also important to foster the employment-intensive reconstruction of post-conflict areas. Armed conflicts often occur in areas that have a comparative advantage in labour. Creating new employment opportunities after conflict is essential to support DDR projects as well as the integration of marginalised or war-torn communities into peacebuilding. Investment and employment creation are therefore essential to transform post-conflict economies and deteriorate the conditions for rebel recruitment to renew armed conflict.[132]

To stimulate employment, investment in local and informal markets is particularly effective. After armed conflict and natural disasters, informal markets have been found to recover the most rapidly. Informal markets are based on activities of small enterprises that provide goods and services at the local level, thereby reflecting the persistence of "coping economies" once an armed conflict is over. They emphasise people's resilience in the face of crises and the need to go beyond an understanding of war-affected populations as victims, but rather as agents for development.[133] Investment should therefore focus on enabling informal businesses as soon as possible after an armed conflict ends. This can be achieved by

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[131] Charles Landow (ed.), *Guidelines for Employment in Crises* (Geneva: International Labour Organisation and the Graduate Institute of International Studies, 2006), 9.

[132] Walter, 'Does Conflict Beget Conflict?', 374.

[133] Luca Fedi (ed.), *Employment in Response to Crises: An Analytical Report of the Research Project "Strengthening Employment in Response to Crises"* (Geneva: International Labour Organisation and the Graduate Institute of International Studies, 2006), 24, 27, 29-30; Pugh and Cooper, *War Economies in a Regional Context*, 8-9.

reconstructing essential infrastructure and providing tools for the provision of goods and services at the local level.[134]

Investment in State-Owned Enterprises (SOEs) is also an important strategy to stimulate employment and economic activity. Experience from Kosovo and Iraq suggests that in order to ensure economic performance and avoid the empowerment of spoilers, the revitalisation of SOEs must include safeguards such as real-time oversights, audits, a Board of Directors and a payroll mechanism that ensures benefits for the employees and limits corruption.[135]

Markets

Differences between parties and their regional backers often distort regional trade and cooperation. Concluding a peace agreement may therefore contribute to new opportunities for regional trade, as evidenced in Ecuador and Peru. Increased opportunities for market access and trade facilitation are essential to stimulate post-conflict economies and promote employment. Trade facilitation includes assistance in establishing customs infrastructure and training on product standards required to export to the markets of developed countries. However, prevailing attitudes of protectionism of developed economies, particularly with regard to agricultural products, limit the potential of markets to create peace dividends.

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[134] Landow, *Guidelines for Employment in Crises*, 4.

[135] Zoë Cooprider, Merriam Mashatt and James Wasserstrom, 'State-Owned Enterprises: Post-Conflict Political Economy Considerations', *United States Institute of Peace Briefing* (March 2007).

Markets can also be used at the micro-level to foster trust between the parties. In South Ossetia, the Ergneti market was used to create confidence between Georgian and South Ossetian communities. The market was on the main trade route between the North and South Caucasus. However, while the majority of products traded on the market were legitimate, Georgia perceived the market as illegal because it was controlled by the *de facto* authorities of South Ossetia engaging in large scale smuggling from Russia to Georgia. The Georgian authorities alleged that US$ 200 million worth of contraband goods per year were smuggled into Georgia via South Ossetia in the early 2000s.[136] In April 2004, Georgia launched a military attack against South Ossetia under the guise of an anti-crime operation and with the objective of closing the market. In consequence, years of confidence-building were undermined and those who were earlier involved in trade now took up arms against Georgia.[137]

The potential of markets as economic mediation tools have been the subject of a study on transforming war economies into peace economies in the South Caucasus.[138] In Georgia, the difficulty of promoting markets for peace was to establish legal frameworks for trade with territories whose political status remained unresolved. In these circumstances,

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[136] David Chkhartishvili, Roman Gotsiridze and Bessarion Kitsmarishvili, 'Georgia: Conflict Regions and Economics', in Phil Champain, Diana Klein and Natalia Mirimanova (eds.), *From War Economies to Peace Economies in the South Caucasus* (London: International Alert, 2004), 120-152, at 135.

[137] Achim Wennmann, 'Renewed Armed Conflict in Georgia? Options for Peace Policy in a New Phase of Conflict Resolution', *PSIO Occasional Paper 3* (2006), 34.

[138] Champain, Klein and Mirimanova, *From War Economies to Peace Economies in the South Caucasus*.

it was best to stimulate local firms to reduce the dependence of local businessmen on unregulated economic flows. Concerning the Nagorno-Karabakh conflict, the notions of economic competition and free markets are incompatible with political confrontation. So far, the lobbying of business associations has been indecisive for the withdrawal of the Turkish-Azeri trade boycott of Armenia. In addition, the engagement of the existing economic stakeholders was problematic due to the dilemma of legitimising actors who made their fortunes illegally. Nevertheless, in the South Caucasus, existing trade links across conflict divides provide a platform from which business people can create stability by opening markets and enlarging economic opportunities.[139]

Sanctions

Sanctions are punitive measures including commodity and financial sanctions as well as travel bans. Using sanctions—or the threat of sanctions—in mediation processes is the highest level of third-party intervention with the objective of ensuring compliance and increasing the cost of non-settlement. Sanctions are rarely used by the mediator because they undermine his or her impartiality and induce the parties to walk away from the peace process.[140]

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[139] Champain, Phil, 'Introduction', in Champain, Klein and Mirimanova (eds.), *From War Economies to Peace Economies in the South Caucasus*, 18-26, at 22-24.

[140] Laurie Nathan, 'A Case of Undue Pressure: International Mediation in African Civil Wars', in Luc Reychler and Thania Paffenholz, *Peace-Building: A Field Guide* (Boulder: Lynne Rienner, 2001), 184-198, at 192-193.

Nevertheless, sanctions play a role if mediation is understood as multiple stakeholder processes. In Mozambique, for example, the mediation included partisan backers of the parties (Zimbabwe, Kenya), the non-partisan third party (Community of Saint Egido), guarantors of the process (Italy, Portugal, United States, United Kingdom), and implementation oversight by the United Nations. In this case, threats were used by the partisan backers and guarantors but not by the non-partisan party.[141] In addition, sanctions play a role in a pre-mediation phase when applying pressure on the financing of armed groups to bring them to the negotiation table (see Chapter 4).

The use of sanctions during a mediation process remains controversial. Rarely have direct threats worked for mediation, and greater emphasis is placed on providing incentives. One of the reasons is that threat perceptions are very different. Parties may have spent years in combat and insecure environments. As a result, they are not very susceptible to threats. In Afghanistan, warlords receive multiple threats per day and are skilled in assessing the risk of enforcement. They consequently care little if international officials threaten sanctions.[142]

Moreover, sanctions only work if there is a link between two parties that can be cut. The United States, for example, listed the Communist Party of Nepal as a terrorist organisation. This implies the freezing of its assets. In the absence of any external assets, however, this threat had no practical financial consequence. Instead, it signalled that the international community would follow a strategy of isolating

[141] Ibid., 194.

[142] Interview, Barnett Rubin, New York University. New York, 29 November 2006.

the Communist Party, which in turn encouraged the Royal Nepal Army to continue fighting rather than negotiate.[143] A similar mechanism works in the case of sanctions against companies, which are vulnerable to sanctions if their headquarters are based in well-regulated developed countries with corporate law enforcement capacity, or if their main market is in developed countries with sensitive consumers.[144]

Instead of punitive measures, sanctions can also be used as incentives. UN sanctions levied during conflict do not end automatically with a peace agreement. They are only lifted when the parties credibly engage in domestic reforms. In Liberia, for example, the national diamond industry has not yet been sufficiently reformed to be eligible to participate in the Kimberley Process. Only if further reforms are undertaken can diamond exports from Liberia become a peace dividend.[145] However, the lifting of sanctions only remains a credible incentive as long as UN member states are committed to revoke the sanctions at one point.

The creation of peace dividends through lifting sanctions can also be complicated by lengthy internal political processes. In case of bilateral sanctions, changing a sanctions regime takes a long time. Lifting United States bilateral sanctions against Sudan was only possible after sustained business pressure: ultimately, overcoming resistance by some government agencies and going though all necessary procedures

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143 Liz Philipson, 'Engaging Armed Groups: The Challenge of Asymmetries', in Ricigliano, *Choosing to Engage*, 68-71, at 70.
144 Michael Brzoka and Wolf-Christian Paes, *Die Rolle externer wirtschaftlicher Akteure in Bürgerkriegsökonomien und ihre Bedeutung für Kriegsbeendigungsstrategien in Afrika südlich der Sahara* (Osnabrück: Deutsche Stiftung Friedenforschung, 2007).
145 United Nations Security Council, *Report of the Panel of Experts Concerning Liberia*, para. 52.

to revoke sanctions took over one year, delaying investments and peace dividends in the process.[146]

5.4 The political value of economic mediation tools

The previous sections have explored various economic mediation tools in the context of communication, formulation and manipulation. While they are beneficial in promoting the sustainability of post-conflict peacebuilding, they are also of political value during a mediation process: economic mediation tools make the future after armed conflict more tangible and therefore foster the parties' commitment to a peace process. They create a common understanding of the economy, help identify positive-sum outcomes, and make parties sensitive to peace dividends, opportunity costs and their own expectations. A future without war may thus be perceived as viable which, in turn, may increase the political commitment of the parties to a peace process.

However, the political value depends largely on how far armed groups manage to deal with the "commitment gap". This period between the signing of a peace agreement and the realisation of economic dividends is essential to defining the trust of the parties to the peace process. Economic tools only have political value if third parties make credible commitments to deliver peace dividends in terms of economic governance, development assistance and investment. Money signals that third parties are serious in their commitments to peace.

[146] Interview, Dana Ott.

6

Engaging economic actors

The inclusion of economic actors in mediation processes is important in order to bridge the "commitment gap" and foster peace dividends through investment and development assistance. The previous chapter highlighted the necessity of going beyond mediation as a relationship between the mediator and the parties. The mediator has to incorporate economic actors—companies, development agencies and governments—into the formulation of peace agreements. By demonstrating their commitment to post-conflict economies before the signing of a peace agreement, economic actors contribute to making economic peace dividends more tangible. Consequently, parties increase their allegiance to a peace process because a future without armed conflict becomes a viable reality.

6.1 The role of businesses in peace processes

While mediation processes tend to be primarily influenced by political and military actors, the business sector has played a significant role in a number of peace processes, including in South Africa, Mozambique, Northern Ireland and Israel/Palestine.

In South Africa, the engagement of the business community in the political transition was a reaction to pressures from domestic social movements, economic instability and foreign sanctions. During the 1980s, the business sector became a stabilising agent which bridged the South African Government's inability to manage social conflict. During the peace process, companies provided resources, leadership and authority, thereby fostering communication between black and white communities and a new vision of society.[147] Business executives managed many peace committees and were accepted as an authoritative voice because they had the ability to get things done and manage crises.[148]

In Mozambique, Lonrho—a multinational company based in the United Kingdom—became involved in the peace process in 1990 after a strategy of paying the belligerents for protection no longer prevented attacks on its installations. Lonrho's presence in Mozambique dated back to the 1960s, with the company having agricultural and industrial investments of GB£ 53 million in 1989.[149] Lonrho's engagement in the peace process thus partly derived from the company's investments being trapped in a country which descended into armed conflict.

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[147] Craig Charney, 'Civil Society, Political Violence, and Democratic Transitions: Business and the Peace Process in South Africa, 1990-1994', *Comparative Studies in Society and History* 41:1 (1999), 182-206, at 183, 200-201.

[148] Charney, 'Civil Society, Political Violence, and Democratic Transitions', 200-201.

[149] Alex Vines, 'The Business of Peace: 'Tiny' Rowland, Financial Incentives, and the Mozambican Settlement', in Jeremy Armon, Dylan Hendrickson and Alex Vines, *The Mozambican Peace Process in Perspective* (London: Conciliation Resources, 1998), <http://www.c-r.org/our-work/accord/mozambique/business-peace.php>

Lonrho's activities were driven by its Executive in Mozambique, Roland 'Tiny' Rowland. While initially motivated by commercial considerations, Rowland became increasingly involved in the peace process and convinced the company board to act as a facilitator. Lonrho's company aircraft and Rowland's engagement were essential in supporting the shuttle diplomacy between the belligerents and regional leaders that ultimately contributed to a negotiated settlement. By 1992, Lonrho had invested more in the peace process than it would ever be able to recover. For example, Lonrho contributed between US$ 6-8 million to enable the transition of *Resistência Nacional Moçambicana* (RENAMO) to a political party, with the Italian Government spending an additional US$ 20 million on the peace process.[150] The engagement of Lonrho in Mozambique thus highlights the potential role companies trapped in a conflict area and their executives may play in providing resources and leadership in support of a peace process.

In both Northern Ireland and Israel, engagement of the business community was based on the realisation that economic development was contingent upon peace. In Northern Ireland, this realisation was translated by the Northern and Southern Irish business confederations into calls for greater integration of Northern Ireland's economy into the economy of the Republic of Ireland and the European Union. Initiatives such as the "One Island Economy" and "Economic Corridors" contributed to a shift in the discourse from nationalist-emotive to economic-rational.[151]

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[150] Vines, 'The Business of Peace'.

[151] Guy Ben-Porat, 'Between Power and Hegemony: Business Communities in Peace Processes', *Review of International Studies* 31:2 (2005), 325-348, at 336-338.

In Israel, it was particularly the country's high-tech industry that wanted peace in the region in order to integrate Israel into the global economy. However, the business community only became a unified actor in support of peace after the 1993 Oslo Accords, highlighting the dependence of companies on the overall political environment to engage in peace processes. After the Oslo Accords, Israeli companies reaped peace dividends though better access to Asian markets, new partnership with international firms in Israel, and higher levels of foreign direct investment.[152]

A comparison of business engagement in the peace process in Northern Ireland and Israel/Palestine demonstrates that even if companies can be highly influential in shaping peace processes, they fall short of having the power to influence the wider political agenda:

> Promoting peace, unlike more specific economic issues, ... would require the business community to convince society at large of its merits and an ability to set a wider political agenda.[153]

The limits of companies to do so is defined by the level of cohesion in business communities and the amount of resources made available to engage in peace processes.

6.2 Engaging the private sector

While the previous section explored the role that companies may play in the actual peace process, this

[152] Ibid., 341.
[153] Ibid., 325-326.

is only part of the story. Economic actors from the private sector can also be included in mediation processes in order to further the task of creating a viable economic future and increasing the confidence of belligerents in a post-conflict arrangement.

When companies invest, they generally look for stable environments with predictable fiscal regimes, future profits and government policy. The presence of armed conflict or a post-conflict situation therefore represents the worst of all investment climates for most companies. Security threats and political risks are high, and the probability of making profits is low. Investing in conflict or post-conflict areas is thus profoundly uninteresting for most companies.

In order to attract investment from the private sector, a peace agreement must endeavour to change the business environment by lowering political and security risks. Attracting companies requires convincing the private sector that a peace agreement has the capacity to provide a framework for a favourable business climate. In order to create incentives for companies to invest and reduce resistance of companies to invest in post-conflict areas, the mediator may consider the following initiatives:

- *Joint ventures*. These distribute corporate risk to various stakeholders, as evidenced by most resource exploration projects conducted by consortia. In Angola, a multitude of international companies have shares in oil fields to distribute risk.[154]
- *Project financing*. This entails the organisation of capital for specific ventures financed by the pri-

[154] Human Rights Watch, *Some Transparency, No Accountability: The Use of Oil Revenue in Angola and Its Impact on Human Rights* (New York: Human Rights Watch, 2004), 29-30.

vate sector or development agencies. In the case of the Cameroon-Chad pipeline, the involvement of the International Finance Corporation of the World Bank reduced political risk and encouraged corporate engagement.[155]

– *Insurance.* While the private insurance market has obliged companies to carry a higher proportion of commercial risk themselves after 9/11, the public market has actually been increasing its coverage. Involvement of the Multilateral Investment Guarantee Agency in post-conflict areas is often an important prerequisite to encourage private insurances.[156]
– *Export credit.* This is another way of protecting national exporters against commercial and political risks.[157] While engagement of national Export Credits Agencies (ECAs) can be project-specific, in the long-term, the involvement of the Berne Union and Prague Club may foster engagement of the corporate sector to create peace dividends.[158]

Despite the general reluctance of companies to engage, there are some which by the nature of their business need to operate in conflict or post-conflict

155 Bray, John, 'Attracting Reputable Companies to Risky Environments: Petroleum and Mining Companies', in Bannon and Collier, *Natural Resources and Violent Conflict*, 287-352, at 321, 346.

156 Ibid., 323-325.

157 Hildyard, Nicholas, 'Export Credit Agencies and Corporate Conduct in Conflict Zones', in Karen Ballentine and Heiko Nitzschke (eds.), Profiting from Peace: Managing the Resource Dimension of Civil War (Boulder: Lynne Rienner, 2005), 235-262, at 235-240.

158 The Berne Union is an association of 51 ECAs headquartered in London. The Prague Club is a pre-membership group. See <http://www.berneunion.uk.org>

areas. The extractive industries, for example, are dependent on the location of natural resources. They thus often find themselves trapped in countries when these descend into armed conflict because the level of investment is too high to withdraw. As a result, they seek to limit damage to their assets and therefore have a commercial interest in managing armed conflict and engaging in mediation processes by providing resources, contacts or information. Many companies, however, still remain sceptical about their role in peace processes because they do not want to jeopardise their relationship with central authorities. Companies build up these relationships for years and often do not like to expose authorities on sensitive political issues, as this could be to their commercial disadvantage.[159]

If armed conflict escalates, even major companies can cede to political and security risks. Usually, their place is then taken by junior companies that are ready to invest in high-risk situations. Companies are aware that the loss of an important area of current or future exploitation may preclude their ability to set foot in the market after a conflict ends, while rivals can improve their market position during the armed conflict. In these circumstances, junior companies or state-owned companies are ready to engage in high-risk environments to secure access and high returns. Unfortunately, they often deviate from Corporate Social Responsibility (CSR) guidelines and extract resources unsustainably.[160] Thus, the engagement of companies in peace mediations can be facilitated by

[159] Interview, John Gault, Lecturer, Geneva Centre for Security Policy and President of John Gault S.A. Geneva, 20 April 2007.

[160] John Bray, 'Attracting Reputable Companies to Risky Environments', 293, 301.

major companies wanting to re-enter a market that they had to leave during an armed conflict.

In addition to their commercial interests, major companies have important advantages over their junior rivals in terms of investment in conditions of security threats and political risk. Major companies are the only corporate actors having the size to accommodate security concerns in their overall business structure, and that are not dependent on the success of one individual project for their survival as a company. Moreover, they may have the market power to crowd out "rough" junior companies implicated in the operation of a war economy during an armed conflict. Major companies also have the leverage to foster budget transparency and promote CSR with governments.

These considerations emphasise the potential of companies in mediation processes in providing resources, leadership and authority. While companies are generally reluctant to invest in situations of high political and security risk, a mediator can provide incentives by encouraging joint ventures, project financing, insurance and export credit. Companies that are trapped with their investments in conflict areas or those wishing to return after the cessation of hostilities may be most receptive to engaging in mediation processes.

The inclusion of the private sector in peace mediations creates new challenges for mediators, particularly in terms of when and how to include companies in the process. While there is no magic formula that applies to all places and at all times, companies should not be included as a permanent party to a mediation process: neither do companies represent a legitimated actor, nor is it possible to discriminate between different companies wanting to pursue their economic interest in a particular market. In general, a mediator must be very careful when increasing the number of stakeholders to avoid adding additional layers of complexity to a mediation process. In cases where different companies compete against each other for market access, the mediator should seek to facilitate an investment alliance to avoid a situation in which competing companies instrumentalise the parties to the peace process for their own interests.

In sum, companies can make important contributions to peace mediation. However, their engagement must be managed carefully. Depending on the conflict, the extent and usefulness of their involvement may differ and should occur at the discretion of the mediator and the consent of the parties. The potential of companies for mediation lies outside the negotiation room and in mediation support.

Nevertheless, at the discretion of the mediator and with the consent of the parties, companies can provide important contributions to peace mediation. They can facilitate communication between the parties by providing information on expected market potentials, prospective resource deposits and future revenue potentials. They can also act as facilitators between the parties and provide financial resources to pay for mediation processes. During the formulation of a peace agreement, dealing with companies also provides a litmus test for gauging if the proposed economic provisions provide incentives for investment.

6.3 Engaging development agencies and governments

Given the general reluctance of companies to invest in post-conflict areas, the public sector and social projects, the engagement of development agencies and governments is of particular importance. Development agencies and governments are economic actors because humanitarian and development assistance is often the only financial flow that reaches armed conflict or post-conflict areas and thus becomes a prized economic asset.[161]

The involvement of development agencies and governments in peace processes depends largely on political initiatives of the governments concerned. The latter engage directly through bilateral initiatives or indirectly by instrumentalising multilateral organisations for their objectives. The World Bank, for example, has been criticised for the surprising similarity between its lending activities and the political interests of the United States.[162]

Domestic constituencies can also play a pivotal role in creating pressure to act both on the national and multilateral level. In the case of conflict diamonds, for example, non-governmental organisations (NGOs) took a leading role in exerting pressure on businesses and governments by exposing the link between diamonds and armed conflict in Angola and Sierra Leone. The NGO campaign changed the diamond industry's stance from denial to engagement, and contributed to a much tougher treatment of the

[161] Mary B. Anderson, *Do No Harm: How Aid Can Support Peace—Or War* (Boulder: Lynne Rienner, 1999), 37-53.
[162] Paul Blustein, 'A Loan Amid Ruins: World Bank Shifts Aid to Rebuilding War-Torn Countries', *Washington Post*, 13 February 1996.

issue of conflict diamonds by the United Nations Security Council. However, once the link was exposed, the multi-stakeholder coalition that negotiated the Kimberly Process Certification Scheme was mainly motivated by commercial concerns.[163]

The level of involvement of governments and development agencies thus depends to a great extent on the capacity of domestic constituencies to formulate engagement in terms of national or institutional interests. Once this is the case, the challenge for the mediator is to steer the various interests towards constructive collaboration and greater levels of commitment to a peace process. Creating this convergence, however, is a daunting—if not impossible—task given the multitude of competing interests in a process as complex as peace mediation.[164]

The engagement of governments and development agencies can be limited further by security threats and political risk. Like companies, governments and development agencies are risk averse and sensitive to earmarking public resources for politically delicate endeavours. This sensitivity delays the disbursement of assistance and leads governments to renege on their pledges for post-conflict aid made at donor conferences. This risk sensitivity can be mitigated by ensuring that peace agreements are backed by credible third-party guarantees. While seeking to prevent default on the military and political side, third-party guarantees also foster confidence in the peace process and decrease security risks.

For a mediation process to benefit from the engagement of development agencies and governments,

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163 Ian Smillie, 'What Lessons from the Kimberley Process Certification Scheme?', in Ballentine and Nitzschke, *Profiting from Peace*, 47-57, at 53-60.
164 Interview, Julian Hottinger.

therefore, it is crucial that these actors live up to the promises they made, prior to the signing of a peace agreement, of delivering assistance and security guarantees.

6.4 Implications of a changing global economy

An analysis of economic actors in mediation processes must take into account developments in the global economy. China, India and other emerging markets are competing for energy and investment opportunities, and are starting to challenge established Western companies in these sectors. This is more than likely to have an affect on investment in conflict and post-conflict areas, the consequences of which are difficult to forecast.

In Africa, for example, private sector engagement has risen dramatically with increasing Chinese involvement. Chinese interests include energy and food security as well as expanding investment opportunities. Without a colonial history, China seeks to treat African governments as equal partners who welcome the investment and political support. However, Chinese activities have also raised concerns because local producers were hit by cheap Chinese imports. Moreover, Chinese companies are known to prefer contract labour from China rather than local workers, and it remains very difficult for African companies to access China's market in return.[165]

Chinese competition for energy resources has challenged the predominant role of American, French and British companies in oil exploration and behind-the-scenes politics in Africa. Over the last

[165] Chris Alden, 'China in Africa', *Survival* 47:3 (2005), 147-164, at 147-157.

years, the China National Offshore Oil Corporation (CNOOC) and the Chinese National Petroleum Company (CNPC) have consistently increased their acreage in Nigeria, Angola, Congo-Brazzaville, Gabon, Sudan and Algeria. Chinese oil companies have been found to receive a much warmer reception by African governments because they negotiate oil deals in parallel to telecommunication and construction contracts.[166]

The effects of Chinese engagement in Africa on mediation remain to be seen. In terms of bridging the "commitment gap", Chinese investment represents a real potential to create peace dividends. Overall, the availability of more investment into areas that so far have remained on the periphery of the global economy may be considered a positive development.

Nevertheless, to avoid negative externalities it must be ensured that the investment is properly managed. If adverse effects predominate and Chinese companies deviate from CSR and transparency provisions, as well as from the lessons learnt in post-conflict economic governance, they may spoil rather than build peace. In order for peace processes to fully benefit from Chinese investments, CSR and transparency provisions may need to be strengthened. Propositions for constructive engagement include the following:

– *Channel CSR and transparency provisions through financial markets and joint ventures*. Chinese oil companies have acquired more acreage than they can technically and financially explore.[167] The need for addi-

[166] Neil Ford, 'Power Struggle: Boosting Competition for African Energy', *Jane's Intelligence Review* 19:1 (2007), 64-65, at 64-65.
[167] Interview, John Gault.

tional financing and exploitation capacity makes them turn to international financial markets and joint ventures. The failure of CNPC to be listed on Wall Street in 2000 undermined its efforts to raise US$ 10 billion for investments in Sudan; it ultimately had to settle with only US$ 300 million.[168]

– *Strengthen CSR and transparency provisions through a new initiative.* If the competitive position of Western companies is undermined by the non-adherence to CSR provisions of their Chinese counterparts, Western companies may lobby their national governments to launch new or strengthen existing CSR initiatives to level the playing field.
– *Include CSR and transparency provisions in legal codes.* Chinese—and other—companies often excuse their inconsistency with CSR by arguing that they are not breaking any domestic laws. Consequently, improved domestic laws and enforcement capacities in post-conflict countries are needed. The inclusion of CSR and transparency provisions in peace agreement may be a first step in this direction.

The integration of China, India and other emerging markets into the global economy provides new opportunities that should also be made to bear on peace processes. Past mistakes of debt creation, corruption and unproductive investment should not be repeated. The additional investment from these new economic actors could increase the viability of post-conflict societies and foster economic opportunities for ex-combatants and conflict-affected populations.

[168] Alden, 'China in Africa', 158.

7

Conclusion

The analysis presented in this Occasional Paper highlights the potentials of incorporating economic elements into the study of peace mediation. It is argued that a better understanding of the economic aspects of armed conflict informs the planning and initiation of mediation processes. Studying the economic characteristics of armed conflict offers a new perspective on the nature of the conflict to be mediated, the predisposition of organised armed groups to engage, pressure points to influence conflict dynamics, and economic interests as potential issues of convergence. The concept of the "mediated state" provides a pragmatic means of engaging armed groups by accepting local realities of sub-state arrangements in managing power, profits and protection. In situations in which the state has lost the capacity and legitimacy to deliver state functions, alternative authorities and economic networks at the sub-state level must be made to work for peace processes.

The Paper highlights the importance of including economic provisions in peace agreements. Their potential lies in the creation of a framework for post-conflict economic governance that can increase the predictability of economic transactions and raise the prospects for economic peace dividends. Economic provisions are also a strategy to include potential spoilers in a peace process by making them sensitive to the opportunities deriving from the post-conflict economy. In addition, the inclusion of economic provisions also fosters the sustainability of a peace agreement when economic issues have been part of the incompatibilities between the warring parties. Issues of property rights over land and oil in Sudan, as well as economic marginalisation in Nepal, highlighted that if economic differences remain unresolved, they may foster the renewal of armed conflict. In order for economic provisions to be effective, they must avoid the recreation of an economic situation similar to the one that had previously contributed to the initiation and perpetuation of armed conflict.

In functional terms, however, the inclusion of economic provisions into peace agreements is the art of the possible. Economic provisions feature in peace agreements if the parties allow their inclusion or are susceptible to third-party pressure to have them on the agenda. Stressing economic provisions in the wrong circumstances can lead to the failure of peace processes. If talking about the economy touches the heart of a party's organisational structure, the insistence on the inclusion of economic provisions may encourage parties to stay away from or leave the negotiation table.

Economic tools for mediation processes have the potential to create a common understanding of the economy, help identify positive-sum outcomes of peace processes, and make parties sensitive to peace dividends, opportunity costs, and their own expectations (see Appendix 2). They have much political value as they make the future after armed conflict more tangible and therefore increase the parties' commitment to peace. However, a central problem for the realisation of the political value of economic mediation tools is bridging the "commitment gap" in the transition period when belligerents are expected to disarm in return for the promise of a better future. In order to deal with this potential lack of commitment, the mediator must go beyond considering mediation as the relationship between the mediator and the parties, and incorporate economic actors into the mediation process.

Companies, development agencies and governments may help bridge the "commitment gap" by signalling their willingness to invest in post-conflict economies prior to the signing of a peace agreement. Money signals commitment and in turn creates credible prospects for peace dividends and sustainable economic futures. However, companies, development actors and governments must deliver what they promised in order to avoid disappointing expectations.

The potential of companies in mediation processes lies in providing resources, leadership and authority. Examples from South Africa, Mozambique, Northern Ireland and Israel/Palestine suggest that companies do not have the ability to influence the wider political agenda, and that the engagement of individual companies and executives in peace processes is highly context-specific. While companies are generally reluctant to invest in post-conflict areas, incentives for investment can be provided through joint ventures, project financing, insurance and export credit with the aim of lowering political, commercial and security risks. Companies whose investments are trapped in a conflict or who wish to return after the cessation of hostilities are sensitive to engagement in mediation processes.

New economic actors from emerging economies present a real opportunity for peace mediation. Their investment could create additional peace dividends and foster peacebuilding. In order to ensure positive economic outcomes, however, new economic actors must be sensitised to principles of corporate social responsibility and the lessons learnt from post-conflict economic governance.

In a time when multilateral donors, governments and companies are spending vast amounts of political capital and millions of dollars on peace and peacebuilding, the failure of peace processes and the renewal of armed conflict have high stakes. Looking at the economic dimensions of mediation is thus an attempt to safeguard these investments at an early stage of conflict management, and to create visions for the future that convince parties to an armed conflict that it is worthwhile to stop fighting. A step in this direction is to recognise that armed conflicts, mediation processes and peacebuilding indeed have economic dimensions that must be managed to secure peace.

Appendix 1: Summary of economic provisions in selected cases

Peace Agreement	Economic Provisions	Observations
Sudan (North-South)	New institutions for economic governance of Northern and Southern Sudan Multi-Donor Trust Fund (MDTF) Sharing of oil revenue	• Resolution of resource ownership postponed to bridge demands for sovereign ownership of natural resources • Third-party pressure essential to ensure agreement on revenue sharing • Southern Sudan overwhelmed by demands for technical expertise • Limited credibility of the MDTFs due to delayed disbursement • Unresolved land and resource ownership a potential source of future conflict
Guatemala	Agenda to reduce inequality and increase participation and transparency Land reform Fiscal policy reform	• Strong resistance of the business sector against economic provisions • Resistance overcome by goal convergence between multilateral development agencies and the rebels • Implementation delayed by inclusive decision-making, constitutional limitations, low coffee prices and rising criminality • Inclusive decision-making on economic reforms transformed the dispute into a political process
Nepal	Common development concept Eradication of economic inequalities and marginalisation	• Agreement part of a step-by-step process to transform Nepal's conflict • Initiation of a post-conflict political process to determine how to transform the economy • Persisting economic marginalisation a potential source of future conflict
Liberia	No specific reference to economic issues	• Absence of economic provisions fostered corruption and crime, and made transition period difficult • Involvement of ex-combatants in the rubber plantations led to armed intervention in 2006
DRC	No specific reference to economic issues	• No party wanted to acknowledge the economic dimensions of the armed conflict to avoid exposure • Belief by the parties that power sharing arrangements would regulate the control of resources • Agreement was reached based on recognition of the economic value of a political settlement
Angola	No regulation of oil or diamond control	• Allow both parties to control resources to enable transition to political parties and participation in a multi-party political system

Appendix 2: Overview of economic mediation tools

	Mediation Strategy	Tools	Objectives	Actors
Low	**Communication** *Information management*	Information creation Information sharing	Establish a common understanding of the economy Foster trust Manage expectations Convince parties to engage Highlight opportunity costs	United Nations World Bank IMF Companies Research institutes
Level of third-party intervention	**Formulation** *Economic governance*	Taxation arrangements Budget transparency Natural resource funds Sharing agreements Commodity tracking systems	Framework for economic governance Joint futures Increase predictability	United Nations World Bank IMF Development agencies Companies
High	**Manipulation** *Incentives and threats*	**Development aid** Development projects/Quick impact projects/Peacebuilding projects **Investment** Joint ventures/Project financing/Insurance/Export credit **Employment creation** Informal markets/Infrastructure/Tools **Markets** Market access/Trade facilitation/Markets for trust **Sanctions** Commodity sanctions/Financial sanctions/Travel bans	Identify positive-sum outcomes Make peace dividends more credible Ensure compliance Increase the costs of non-settlement	Governments World Bank IMF Companies Insurances Banks ECAs

5

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