

Structural Adjustment and Peacebuilding

Road to Conflict or Peace?

WORKING PAPER

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List of Acronyms

CAS	World Bank Country Assistance Strategy
CIFP	Country Indicators for Foreign Policy
DDR	Disarmement, Demobilization and Reintegration
DRC	Democratic Republic of the Congo
ESAF	International Monetary Fund Extended Structural Adjustment Facility
FMLN	Frente Farabundo Martí para la Liberación Nacional
GDP	Gross Domestic Product
GNI	Gross National Income
IFI	International Financial Institutions
IMF	International Monetary Fund
PRSP	Poverty Reduction Strategy Paper
RPF	Rwandan Patriotic Front
SAP	Structural Adjustment Plan
SAL	Structural Adjustment Loan
UNAMIR	United Nations Assistance Mission in Rwanda
UNCTAD	United Nations Conference on Trade and Investment
UNDP	United Nations Development Program
UNRISD	United Nations Research Institute for Social Development
USAID	United States Agency for International Development

Executive Summary

The World Bank and the IMF are increasingly involved in post-conflict situations. In post-conflict countries, most IMF programs and a quarter to a third of the World Bank's programs are Structural Adjustment Plans (SAPs). SAPs are of particular interests, not only because they are quite common in post-conflict settings, but also because they generate controversy: some authors also claim that SAPs lead to rising political tensions, economic instability or recessions, increased poverty and inequality, and even conflict. Very little research, especially empirically based research, exists on the role of structural adjustment plans in the context of post-conflict countries. This paper explores the link between SAPs and conflict renewal.

First, a quantitative study of 43 post-conflict settings was conducted. On the surface, the relationship between the SAP indicators and conflict renewal is strongly negative. On the other hand, results are much more ambiguous when examining intervening factors more closely. First, a selection bias is likely. Second, when SAPs are most successfully implemented, conflict renewal is more likely. Third, results show that a decrease in inflation – a central part of many SAPs – will not increase stability of the peace process, and may even contribute to instability. Fourth, it should be noted horizontal inequality and dependence on certain natural resources are strongly related to higher risk of conflict renewal. Meanwhile, critics of SAPs often point to increasing inequalities and dependence on natural resources as a result of structural adjustment.

Second, two brief case studies, on El Salvador and Rwanda, explored SAPs in post-conflict periods. In El Salvador, The World Bank acted as the organizer of the pledging conference and the aid coordinator. However, before the structural adjustment loans, the Salvadoran government had already undergone significant reforms, starting in 1989. However, because the Salvadoran government had already started to stabilize and liberalize its economy, the government was in a good position to resist conditionalities set by the IFIs, including increasing taxes, increasing social spending, and decrease military spending. It could be argued that in this case, the IFIs lack of capacity to apply conditionality was more problematic than the imposition of reforms. Moreover, there are certainly indications that the reforms could have been better sequenced and prioritized to reduce the risk of conflict renewal.

In Rwanda, the World Bank and the IMF loaned funds for a structural adjustment plan in 1998. The country achieved macroeconomic stability, the economy was liberalized, and the Rwandan government managed to increase social spending. Like in the case of El Salvador, the RPF-led government was considered to be an “engaged” recipient, but the priorities of the macroeconomic adjustment and the peacebuilding needs of the country were contradictory at times. Sequencing would also be important regarding the overall priorities of the government's development plan. Inter-ethnic inequality and rural poverty are certainly significant areas of concern in a post-conflict environment. Any aid program must take the political and social context of Rwanda into consideration. The World Bank and the IMF's delay in developing a structural adjustment plan, arguably helped Rwanda gain some political and economic stability before implementing significant macroeconomic reforms. Moreover, poverty and inequality reduction seemed more successful in Rwanda. Unlike the Salvadoran government, the Rwandan government became more implicated in the implementation of post-conflict, reconciliatory reforms, and at the end of the period examined, the Rwandan government presented their PRSP, which was considered highly participatory and emphasized poverty reduction.

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I. Breaking the Conflict Trap? An Introduction to International Financial Institutions in Post-Conflict Countries

In 2003, the World Bank published the research report *Breaking the Conflict Trap*, a call for more effective conflict prevention through international intervention. It argued that conflict and development, or more precisely, underdevelopment, are closely interrelated and mutually reinforcing: civil wars are a *problem for* and, very often, a *failure of* development.

The argument that conflict will stunt development is highly intuitive: civil wars are without a doubt highly disruptive and destructive to healthy economic growth. While some select individuals or groups may take opportunity of the conflict to profit—blood diamonds are a visible example of this conflict entrepreneurship—there is little doubt that conflict is a development tragedy for most. For example, economic growth during times of conflict is on average 2.2% lower than it would be in times of peace (Collier, 1999).

The second part of the conflict-underdevelopment vicious cycle—that conflicts are often a *failure of development*—is perhaps more contentious, but it is backed by a large body of evidence. There is little controversy in the literature that low or negative economic growth and low (or worse, falling) per capita income are significant risk factors for conflict. High risk of conflict has also been linked to weak state capacity and few institutions, low levels of education, high unemployment, and high levels of inequality.

Not surprisingly, countries emerging from conflict are at high risk of further conflict. These countries have not only failed to prevent civil wars, quite probably in part *because* of failure of development, but also experience serious development *problems as a result* of civil war. Indeed, countries are notoriously fragile following civil war. It is estimated that countries emerging from conflict have a 44% chance of conflict renewal within five years of cessation of hostilities (Collier et al. 2003, p. 83). These countries are in dire need of more development, broadly defined.

Two of the world's largest fund lenders for developing countries are the World Bank and the International Monetary Fund (IMF), two international financial institutions (IFIs), and they are increasingly involved in post-conflict and peacebuilding situations. The World Bank is very active in countries emerging from conflict: it is estimated about a quarter of the World Bank's concessional lending, excluding that to India and China, is directed to post-conflict countries (Boyce and Pastor, 1998, p.4). The IMF will often provide various conditional loans to post-conflict countries experiencing economic crises. Additionally, in 1995 the IMF established the Emergency Assistance program, which is specifically targeted to post-conflict countries.

The *kinds* of programs offered by these IFIs should also be highlighted: in post-conflict countries, most IMF programs and a quarter to a third of the World Bank's programs are Structural Adjustment Plans (SAPs). SAPs call for macroeconomic policy reform in the recipient country, generally through widespread economic liberalization; the World Bank and the IMF provide conditional loans or Structural Adjustment Loans (SALs) in order to support these reforms. These loans are now often incorporated into a country's Poverty Reduction Strategy Paper (PRSP)'s package of macroeconomic reforms.

SAPs are of particular interests, not only because they are quite common in post-conflict settings, but also because they generate controversy: some authors also claim that SAPs lead to rising political tensions, economic instability or recessions, increased poverty and inequality, and even conflict. Most IMF and World Bank programs have been carried out as “business as usual” in those post-conflict environments, a *modus operandi* often justified by the IFIs’ “apolitical” stance, whereby economics and development are the dominant concern, and politics are left for domestic discussion.

Breaking the Conflict Trap spends much time arguing that “better” policies, including macroeconomic policies, reduced the risk of conflict, but very little time is spent exploring the process or sequencing of macroeconomic reforms. After all, there is little controversy that economic growth is a good thing, but how is it achieved? Are the kinds of macroeconomic reforms promoted by SAPs and imbedded within PRSPs most appropriate, or are they instead problematic for the peace process? This leads into the central question of this article: can it be demonstrated that the macroeconomic reforms promoted in the structural adjustment plans (SAPs) designed by international financial institutions (IFIs) have an effect, positive or negative, on the risks of renewed civil war in post-conflict countries? What would be the economic policy implications of these findings for post-conflict developing countries, in order to achieve a sustainable peaceful environment?

II. Are the International Financial Institutions Getting it Right? Three Arguments on the Links between SAPs and Conflict

Very little research, especially empirically based research, exists on the role of structural adjustment plans in the context of post-conflict countries. However, there is quite a bit of research on the effects of structural adjustment plans and their potential roles in initiating or reducing political tensions in a variety of contexts. Broadly speaking, three main arguments are made in the literature on SAPs:

A. Argument 1: Don’t Blame the Doctor! Structural Adjustment Can Reduce the Risk of Conflict

Structural adjustment plans are often designed to mitigate economic crises; therefore, structural adjustment loan recipients tend to be countries that suffer from pre-existing economic difficulties, like low economic growth, high levels of poverty and/or inequality, high unemployment, high debt loads, and high inflation rates. All of these economic issues, which pre-date SAPs, are also risk factors for conflict and social unrest. Paul Collier and Anke Hoeffler (2002) claim that “the average aid recipient [carries] a risk of around 11.7% that a conflict would be initiated during a five-year period”. Additionally, macroeconomic reforms are sometimes slowly implemented, and their effects may be delayed, and during this time, these recipients could be at high risk of conflict. When conflict does break out, the argument goes, it is easy to blame the doctor (SAPs) instead of the illness (the pre-existing economic problems) for political tensions and conflict.

Moreover, many case studies on SAPs and conflict suffer from the lack of counterfactual: it is difficult to confirm whether tensions would have existed *without* the interventions of IFIs (Rowlands and Joseph, 2003). Arguably, without the financing available through structural adjustment loans, governments may be required to carry out even deeper cutbacks. As Dane

Rowlands argues: “The presence of IFI programs is worse than their absence only if the policy conditions skew the fiscal cutbacks in more harmful ways than the government would choose on its own, or if the net financing available is actually reduced below that which the government would acquire without IFI intervention” (2000, p. 18).

How can structural adjustment be better than no adjustment plan? It could lead to *more* social spending and reduced inequality through reformed fiscal policy, especially following a conflict where governments were unable or unwilling to give social services to all or certain segments of the population. It could mean *more* opportunities to reschedule debt payments and mitigate the costs of debt repayment thanks to IFI funds. It could *increase* state capacity when SAP reforms increase taxation revenues to government in recipient countries.

While it should be recognized that any abrupt governmental policy change has the potential of causing discontentment for some groups in society in the short term, this does not necessarily negate the potentially positive long-term effects of SAPs. After all, SAPs aim to mitigate economic crises, reduce inflation, and increase economic growth. If these programs are successfully implemented and work as intended, then theoretically at least, the long-term effects could be a reduction of the risk of conflict. Collier and Hoeffler (2002) have studied the role of policies in reducing the risk of conflict and have argued that ‘better’ policies coupled with aid could lead to a lowered conflict risk¹.

IFIs also argue that structural adjustment will increase trade openness, which is often linked to decreased risk of inter-state warfare. It will reduce wasteful government overspending, for example by demanding a decrease in military expenditures, by cutting “ghost” government workers, or by cutting subsidies (many of which, it is argued, benefit middle-class urban consumers but are detrimental to the poorer rural producers). It will privatize inefficient state-owned enterprises. It can also help raise more government revenues, especially through value-added taxes. In recent years, structural adjustment also includes higher social spending. It can also help developing mining codes and increasing transparency in the exploitation and exportation of minerals, products whose rents can fund war efforts when they are badly managed. Loan conditionalities could include a reduction military spending, which is linked to decreased risk of conflict and conflict renewal (Swanson, Oldgard and Lunde, 2003; Crossin, Hayman, and Taylor, 2003; Collier et al., 2003). All of these reforms, funded with the help of IFI loans, will lead, it is argued, to poverty-reducing economic growth.

On structural adjustment’s side are quantitative, large-sample studies like those of Scott Sidell (1988) and Juha Auvinen (1996). These researchers have not found any links between IMF programs and civil unrest. Macartan Humphreys (2005) and Jeni Klugman (1999) also examine the issue and find no systematic links between conflict and adjustment programs.

¹ The authors rated ‘better’ policies as those highlighted by the World Bank’s Country Policy and Institutional Assessment (CPIA). The CPIA measures the recipient countries’ economic policy in four policy ‘clusters’, where a total of twenty criteria on policy, governance, and institutions are assessed under the following headings: A) Economic Management B) Structural Policy C) Policies for Social Inclusion/Equity D) Public Sector Management and Institutions. ‘Better’ policies therefore refer to the World Bank’s definition of sound economic policies; they are the policies generally recommended by the World Bank to the recipient as part of SAPs. Collier and Hoeffler considered a one-point improvement on the CPIA rating and a one-dollar per capita aid level sustained over five years. The combined effect of this policy-and-aid package would reduce risk of conflict in a five-year period from 11.7% to 8.4%. The causal effect was not direct: it was rather due to the increased growth of GDP and income per capita, and a decrease in primary commodity export dependence resulting from the ‘better’ policy.

B. Argument 2: Austerities are Bad for the Economy, Bad for Peace

Not surprisingly, the above analysis is highly controversial. Several authors instead argue that SAPs cause significant political tensions in recipient countries, and often cite the example of certain protests, dubbed “IMF riots”, which were fuelled by discontentment over the effects of SAPs on both equity and peace (Woodroffe and Ellis-Jones, 2001).

What is so problematic about SAPs? One aspect of the SAP critique is that while the IFIs try to keep a “politically neutral” stance, many of their recommended reforms are seen as imposed to the countries that desperately need aid. This imposition is especially problematic in post-conflict countries, where the government may be unstable or viewed as illegitimate. Sure, structural adjustment can lead to more trade openness, but this in itself is problematic: trade tariffs are often the most important single source of revenue for poorer countries. Moreover, trade openness may make producers more vulnerable to the vagaries of the world market. Sure, structural adjustment can mean new value-added taxes for more government revenues, but those taxes, easier to administer in poorer countries than income-based taxes, are also generally regressive. Privatization of state-owned corporations can lead to increasing prices and more unemployment; such criticism has especially been present in opposition to the privatization of utilities, such as water and electricity. Many have also argued that most structural adjustment plans have led to a decrease in social services, or again have been unable to increase social spending because of the priority given to other demands, like fiscal reform. In sum, cutting government spending and strict fiscal policies can mean increasing prices for the poorest, rising inflation, more unemployment, increase income inequality and poverty, especially in the short term.

In the face of increasing prices, rising unemployment, and increased poverty, social unrest may lead to rioting. Ho-Won Jeong, for example, claims that World Bank and IMF conditionalities caused rioting in Senegal, Morocco, Egypt, Tunisia, and Nigeria. Moreover, the author believes that these rising tensions contributed the collapse of the Sudanese (1985) and Zambian (1990) governments (Jeong, 1996).

Some authors even argue that structural adjustment plans can cause widespread conflict. Regine Andersen (2000) claims that the SAP in Rwanda in the early 1990s was a contributing factor to the conflict and genocide. Her main argument is that the IMF- and World Bank-mandated (or arguably, imposed) SAP undermined the legitimacy of the government while it was attempting to democratize its practices. However, future loans from the World Bank and the IMF were dependent upon democratization and the progress of the peace process. The result, Andersen argues, was a set of contradictory strategies that led to increasing tensions and eventually war and genocide in the country. Additionally, she believes that the majority of the funds received as part of the structural adjustment loan were redirected into military spending in preparation for the war.

Susan Woodward (1995) argues that structural adjustment contributed significantly to the conflict in Yugoslavia. In her book *Balkan Tragedy*, she explains that the country needed IMF loans because of a shortage in foreign currency. The IMF agreed to the loans, but these were accompanied with demands for economic policy reforms, like the elimination of subsidies on food, fuel, and other products. Interest rates rose, as did unemployment and the inflation rate, while real incomes fell. Woodward argues that these factors eroded the middle class in

Yugoslavia and caused a rising sense of insecurity in Yugoslavia; this insecurity and the burden of austerities led to the subsequent conflict.

Roland Paris (2002) adds that SAPs led to a heightened risk of conflict renewal in El Salvador, Nicaragua and Guatemala. He argues that the liberal economic policies promoted by the IMF, the World Bank, USAID, and the Inter-American Development Bank in the three Central American countries exacerbated inequality and poverty - those same factors that are often considered the root causes of the conflicts in the region. Moreover, SAPs hampered peacebuilding efforts as economic reforms reduced state capacities for social programs and peace efforts like disarmament, demobilization and reintegration (DDR) of armed actors. Paris argues that those economic reforms are causing social unrest and may even lead to a conflict renewal in the future. United Nations agencies like the Research Institute for Social Development (UNRISD) and the Conference on Trade and Development (UNCTAD) also support the claim that economic liberalization and a rapid integration in the world economy can intensify the risk of conflict (Fitzgerald, 2001).

C. Argument 3: Flipping the Logic – Structural Adjustment Will be Poorly Implemented in Unstable Situations

An additional dimension to the debate on SAPs and conflict is whether the reforms demanded by the World Bank and the IMF are actually being implemented. There is some evidence that strong special interest, political instability, and ethno-linguistic division hinder the implementation of SAPs to a much greater extent than conditionalities or internal and external economic conditions (Ivanova et al., 2003). Arguably, the same factors that hinder SAP implementation are also be present in those countries that are likely to experience conflict renewal. In this scenario, SAPs would be implemented more fully in more stable countries where risk of conflict renewal is lower; in more risk-prone countries, SAPs would not be fully implemented. If this were the case, it would be difficult to conclusively link renewal of conflict in unstable countries to SAPs that were poorly implemented.

Few case studies examine the level of implementation of SAPs. However, Andersen (2002) conceded that the Rwandan SAP preceding the genocide was only partially implemented. Additionally, Woodward and Paris also noted that the implementation of SAPs was incomplete in Yugoslavia and Guatemala. The question remains, if these SAPs were not fully implemented, what kind of role did they have had in causing or preventing conflict or conflict renewal, if any?

III. Addressing the Gap: A Study of SAPs in Post-Conflict Countries

While the literature cited above provides a solid springboard for further research, it is clear that empirical evidence is lacking to test the validity of the three arguments. Is there evidence that supports the argument that SAPs demand many austerities, which then lead to increased political tensions and even conflict? Or are SAPs benign or positive forces in the post-conflict environment? Or again, are SAPs not even implemented in the most conflict-prone countries?

A. A Quantitative Study

The first step to studying these questions is a large-sample, quantitative research that will examine all cases (43) of countries that experienced a period of peace following war since 1980, both those that received SALs and those that did not receiving SALs from the World Bank and

the IMF. This large-sample quantities method was chosen because much of the research on this topic is based on case studies where conflict has occurred while the World Bank and the IMF had ongoing SAPs; moreover, clear parameters of variables are not established when the case studies extend to more than one country. The starting point for the statistical analysis is Rowlands and Joseph's model (2003) that examines IMF agreements and conflict. The model was modified to accommodate the parameters of the research question, especially the post-conflict context. The goal is to weigh the role of SAPs in the length of the "peace period" compared to other variables frequently linked to conflict and conflict renewal (see Appendix for quantitative model).

1. Results for Arguments 1 and 2: Are SAPs Doctors or Grim Reapers?

Regardless of the regression method, the observation periods, and the equations, results consistently show that IMF and World Bank SALs have a strong negative relationship with conflict renewal (see Appendix, tables 1-3). This effect may be capturing other related variables such as trade openness, a common outcome of SAPs. These results seem to indicate that SAPs do not provoke conflict, and may even reduce the risk of conflict.

However, one should be careful in reaching conclusions: there may be a selection bias at play. In other words, IFIs may pre-select countries that have a more stable post-conflict environment, like a peace process with the support of the international community². Woodward (2002) argues: "Unless there is strong political pressure from a major member of the executive board of the IMF or the World Bank, the IFIs will be reluctant to support what appears to be a risky peace. This, in turn, can lead to self-fulfilling prophecies about the success of aid". Moreover, IFIs could interrupt SAPs in case of conflict renewal, also reinforcing a negative relationship between conflicts and IFIs, although there is no indication that this happened in any of the programs examined here.

Boyce (2002), however, argues that when compared to a commercial bank, IFIs do not put much emphasis on risks of conflict and conflict renewal: "In commercial banking, the fact that repayment is tied to performance gives the creditor an incentive to take account of all relevant information – including the risk that the value of the asset will be impaired or destroyed by violent conflict – before making a loan. This incentive is lacking at the IFIs, where loans are repaid or rescheduled regardless of their effects." (Boyce, 2002, p.1041).

At this point, no sophisticated method was devised in order to test the selection bias of IFIs. Instead, the Country Indicators for Foreign Policy (CIFP) risk assessment was conducted for every case study for the first year of peace, in order to proxy for the level of stability of the peace process. The CIFP values are based on nine indicators and the weighting assigned to each as defined by the CIFP methodology³. These risk assessment were then correlated with structural adjustment indicators (see table 4 in Appendix). The results indicate a correlation between the presence of SAPs over the ten years following war-to-peace transitions and the stability of the

² This hypothesis is not firmly confirmed here. The correlation between the presence of SAPs and peace agreements is only 0.167, significant at the 1% level.

³ The nine indicators are: 1) history of armed conflict, 2) governance and political stability, 3) militarization, 4) population heterogeneity, 5) demographic stresses, 6) economic performance, 7) human development, 8) environmental stresses, and 9) international linkages. <http://www.carleton.ca/cifp/>.

peace process, as proxied by the CIFP numbers. More research is needed to confirm this relationship.

Another possibility is that SAPs function as a “gatekeeper” for other aid agencies and programs. In other words, once a country receives aid in the form of a World Bank or IMF SAL, it will increase donor confidence in that country’s ability for further development, economic growth, and debt repayment. In that case, the strong negative relationship between SAPs and conflict renewal could instead proxy the benefits of other forms of aid and loans, like infrastructure reconstruction (see table 5 in Appendix). When this relationship is tested, a positive correlation is indeed present, albeit not a very strong one.

Other explanatory variables provide an interesting picture on the topic. Low gross national income (GNI) per capita was consistently linked to heightened risk of conflict renewal, as is generally argued in the literature and in Rowlands and Joseph’s results. Surprisingly, there is also some indication that lowered inflation rates may increase risks of conflict; this could mean that the kinds of measures needed to reduce inflation lead to more economic hardship and discontentment in *post-conflict* countries than high inflation (Rowlands and Joseph find the reverse relationship when looking at developing countries in general). Interestingly, economic differences between ethnic groups seem to be one of the main causes of conflict renewal. Other significant factors include the export of fuel and ores/minerals, both of which are linked to increased risk of conflict renewal.

Why do these other explanatory variables matter? Because SAPs can interact with several of these variables. First, SAPs will often include policies to reduce and stabilize inflation quickly. Second, while decreasing poverty is often an explicit or implicit goal of SAPs, success has been mixed. Third, the IMF and the World Bank have been involved, to a certain extent, in natural resource management, and it would be interesting to explore this relationship in more details. On the other hand, critics of SAPs often point to increasing dependence on natural resources as a result of structural adjustment. Lastly, another critique of SAPs is that they increase inequality, often in a way that is blind to pre-existing ethnic tensions.

2. Results for Argument 3: Are Economies Being Adjusted?

The results above have looked at validity of the ‘austerities argument’ and the ‘don’t blame the doctor argument’. So far, there is tentatively more evidence for the ‘don’t blame the doctor’ argument. However, there is also a third argument presented above: the relationship between implementation and conflict renewal. Intuitively, it could be presumed that implementation is lower in more unstable countries; therefore, it is not necessarily SAPs that cause difficulties within that country, but rather pre-existing political instability.

This assumption is not supported with the implementation indicator constructed here, which indicates that implementation is *positively* correlated with conflict renewal. A first correlation (see table 6 in Appendix) was conducted between World Bank and IMF implementation levels and conflict renewal year-by-year. A second correlation (see table 7 in Appendix) was conducted by taking each post-conflict situation with an SAP, averaging the implementation level over that period, and noting whether there was conflict renewal or not.

The results therefore contradict the expected relationship. A possible explanation for these results is that the implementation indicator is not accurate. This variable was derived from reports emanating from the IMF and World Bank themselves; these institutions may have a stake in putting a positive spin on the level of implementation of their plans. Another possible explanation is that despite the negative relationship between SAPs and conflict renewal, the implementation of economic reforms could cause some destabilization, especially in a post-conflict context; this relationship may not be immediately evident in the results because of a selection bias. In other words, while the countries selected for SAPs are generally more stable, the implementation of more reforms will cause instabilities, although these countries will, in general, suffer less instability than the more unstable countries *not* selected for SAPs. More research on implementation would be needed to explore this topic.

B. Two Cases of SAPs in Post-Conflict Countries: El Salvador and Rwanda

The results emerging from the quantitative section provide some food for thought on the relationship between structural adjustment during peacebuilding periods and the likelihood of conflict renewal. To provide examples of SAPs in post-conflict countries, two case studies were chosen: El Salvador (1991-2000) and Rwanda (1993-2002), two small countries with high population densities that experienced intense civil wars. Both countries received substantial levels of aid during and after the end of the conflict. El Salvador received significant levels of aid during the civil war, especially from the United States, as well as continuous loans for structural reform following the 1992 Chapultepec Peace Accords. Rwanda, on the other hand, received structural adjustment loans during the civil war, but these were suspended during the genocide; following the end of hostilities, the World Bank launched an Emergency Recovery Project in 1995 before resuming structural adjustment lending in coordination with the IMF in 1998. The goal of these two very brief cases is not to provide an extensive survey these conflicts, but rather to highlight certain aspects of SAPs that are of particular interest according to the quantitative study above.

1. El Salvador, 1991-2000

The civil war in El Salvador can be traced to a historical pattern of high inequality, which itself was rooted in an economic system based on agro-exportation. Regardless of the rapid pace of economic growth and the stable inflation of the 1970s, the country could not contain tensions from escalating into conflict. (Acevedo, 1996). In 1979, a military coup brought a junta to power; the junta's policies focused on liberal economic reform. A Marxist rebel group, the Frente Farabundo Martí para la Liberación Nacional (FMLN) was formed in 1980 in the countryside with the goal of toppling the military junta. The FMLN opposed the government in a 12-year (1979-91) war that resulted in 75,000 deaths. During the conflict, economic growth stagnated at an average of 0.99% per year, while government spending on social sectors decreased and military expenditures increased (Stewart et al, 2001, p. 74, 85, 96).

Before the involvement of IFIs in the country, El Salvador had already undergone significant economic liberalization, which started in 1989, and also received debt forgiveness, especially from the United States, all prior to the end of the civil war. The government's commitment to economic reform, along with political pressures from the United States, surely made El Salvador an obvious candidate for structural adjustment loans once the peace process was underway.

As could be expected, economic reforms continued to be a central concern of the ARENA, the governing political party, even once the peace process and its related demands were underway (Segovia, 1996, p. 135). Rosa and Foley argue: “The government’s overriding commitment to the economic reform model preached by the Bretton Woods institutions and backed by the United States contributed to the view that funding for peace and reconstruction should be sought from international sources other than ordinary government revenue” (Rosa and Foley, 2000, p. 113).

According to the Chapultepec Peace Accords, the gross inequalities that characterized the country had to be addressed. However, because the Salvadoran government had already started to stabilize and liberalize its economy, the government was in a good position to resist conditionalities set by the IFIs; the government did not increase taxation and managed “to impress its own limited vision on reinsertion programs and the development of a civilian police force” (Rosa and Foley, 2000, p. 114).

In 1991, the World Bank approved a first structural adjustment loan (SAL I) for \$75 million, and reforms were accelerated to further reduce import barriers and deregulate the economy. A second loan was approved in 1993 (SAL II) for \$50 million. The IMF also agreed to six non-concessional loans for macroeconomic reform. The IFIs focused on five principal areas of reform: liberalization of the trade policy; fiscal reform, especially the introduction of a value-added tax; monetary policy and financial system reforms, including privatization of the banking system; agricultural sector reforms; and social reform, mostly focusing on nutrition. Several of these reforms had to be implemented before to the disbursement of the structural adjustment loan in February 1991, since loan approval was conditional on the prior completion of these reforms. The World Bank rated El Salvador’s economic policy during the 1990s as “satisfactory” (World Bank, *Country Assistance Strategy: El Salvador*, 2005, p. 18). Although El Salvador did not make use of the available IMF loans, the implementation of the reforms was satisfactory.

The reforms were not an unmitigated success, however. For example, the World Bank has omitted the role of this large inflow of foreign exchange, in the form of aid, investment or remittances, in causing inflationary pressures on the economy (Rosa and Foley, 2000, p. 117). Moreover, it was clear that economic reforms were more successful than social reforms as part of the SAL. James Boyce also notes that the Salvadoran government had little interest in raising taxes, as was recommended by many donors, preferring instead to depend on inflows of aid to pay for reconstruction. Additionally, the government was reluctant to shift resources towards social spending, despite the fact that this area was a priority of the World Bank’s policy in El Salvador. The government’s military spending remained high⁴, but the World Bank did not address this issue since it considered military spending to be political in nature. Because of the focus on macroeconomic reform, programs for the disarmament, demobilization, and reintegration (DDR) of combatant, as well as credit programs, small enterprise development, and the land transfer program were underfunded.

That discussion illustrates well some of the dilemmas involved in the implementation of structural adjustment reforms. In the 1990s, international financial institutions, especially the

⁴ Military spending during the war absorbed 2.2% and 1.7% of GNP in 1992 and 1993 respectively, while the pre-war military spending hovered around 0.7%. Boyce, James K. *Investing in Peace: Aid and Conditionality After War*. Adelphi Paper 351, The International Institute for Strategic Studies. Oxford: Oxford University Press.

World Bank, are increasingly focusing on social programs and poverty reduction. These programs would be especially beneficial in a post-conflict environment, where high levels of inequality and poverty are associated with a high risk of conflict renewal. However, developing countries with limited funds, especially those emerging from a conflict, have a long list of economic and social issues to be addressed. With limited resources at their disposal, and with the external and internal pressure to stabilize the economy, various macroeconomic reforms may take precedence over social programs. In general, the IMF and World Bank, as well as the Salvadoran government, were conducting macroeconomic stabilization and structural adjustment without integrating these changes within the wider sequencing of reforms necessary for the peace process. In other words, the IFIs favored an approach of “business as usual”, with generic recommendations of government budget deficit reduction, low inflation, privatization of the financial sector and of agricultural exports, trade liberalization, and streamlining of the state.

Even more problematic, authors like Roland Paris (2002) as well as Alvaro de Soto and Graciana del Castillo (1994) have argued that the cost of the structural reforms and cuts to governmental budgets *impeded* the implementation of parts of the peace accords in El Salvador, especially in the case of DDR. However, it is useful to keep in mind that the Salvadoran government expected the peace agreements to be funded through international donors; part of the issue can be attributed to the government’s lack of ownership of the peace agreements, a lack of ownership that was supported by the IFIs.

The World Bank recognized that the agenda on poverty needed more attention. El Salvador’s social expenditures as a percentage of GDP and reform of the tax policy (to increase the government’s capacity for expenditures) lagged behind the World Bank’s policy recommendations in this area. This pattern was inherited from the civil war era, when government expenditures were becoming more and more focused on military expenditures while social spending was slashed. Social spending was still restricted by a narrow tax base, but efforts are still made to increase the percentage of GDP spent in this area.

Since the signing of the Peace Accords in January 1992, El Salvador did not experience a renewal of the civil war; however, it would be wrong to assume that the violence has ceased. El Salvador is one of the Latin American countries with the highest homicide rate in the world, especially in urban areas where population has increased significantly. In the mid-1990s, there were more victims of violent deaths than during the late 1980s as a result of the civil war (Paris, 2002, p. 53). The *maras*, or gangs, were the source of much of this violence.

Paris (2002) argued that this crime rate was partially a result of social and economic conditions. Unemployment, especially youth unemployment, was quite high during the 1990s. Also, as mentioned earlier, the Salvadoran government was counting on external funding for the costly implementation of the peace efforts. However, Rosa and Foley argue that while the international aid pledges met the Salvadoran requests for aid and that donors often disbursed *more* aid than initially pledged, “the Salvadoran government was slow to recognize both the extent of its obligations and the level of funding required” (Rosa and Foley, 2000, p. 113). Moreover, the reduction in public expenditures as part of the structural adjustment plan meant that the government had little money to carry out programs like DDR (Paris, 1997, p. 66). Paris takes the argument further: he believes that spending cuts in social services may have increased poverty,

and that the structural adjustment reforms have created a recession, both of which could be linked to increasing criminality.

However, the evidence on the causes of criminality is not decisive on these two points. First, most data indicates that poverty decreased, not increased. Second, economic growth was relatively steady over this period, and remittance influx was very significant. Another factor, which cannot be dismissed when discussing increased gang violence, is the U.S. government policy of deporting many Salvadoran gang members living in the U.S. back to El Salvador following the 1992 Peace Accords. Many of these gang members simply continued their criminal activities in El Salvador, all the while staying connected with remaining gang members in the United States.

Overall, while there are several factors that caused an increase in criminality in the post-civil war era, it seems that low social spending and the underfunded DDR program certainly contributed. International financial institutions do not hold all the blame in this situation, since they argued for increased social expenditures. On the other hand, the IFIs reinforced the Salvadoran government's focus on macroeconomic reforms while leaving other necessary programs to external donors; the IFIs also failed to ensure that the Salvadoran government raised sufficient domestic funds for these efforts and did not question the delegation of the implementation of the peace agreements to international donors. In any case, the political instability and criminal violence in El Salvador is economically costly and socially and politically devastating.

Would post-conflict El Salvador have fared better without the World Bank and the IMF structural adjustment loans? The World Bank certainly argues the negative:

First, the Bank support to the adjustment and reform program was crucial for the country to regain credibility with the international community and to raise resources for the post-war National Reconstruction Plan. The Bank's support helped the Government in getting international support for its Plan. The Bank's presence gave credibility to the Plan's technical and financial aspects. Second, Bank assistance helped speed trade liberalization. Third, the Bank's sector work and technical advice helped the Government to prioritize actions and sequencing of reforms. Fourth, the Bank's technical support filled a skills gap that helped the Government accelerate the reforms, bringing forward the benefits from it. (World Bank: *Country Assistance Evaluation: El Salvador*, 2002, p. 10)

There is certainly some truth to those arguments. The World Bank also often acts as the organizer of the pledging conference and the aid coordinator; indeed, by 1992, the World Bank took over donor leadership for the economic reform in El Salvador (Rosa and Foley, 2000, p. 118). While it is difficult to estimate the level of foreign aid that would have been available without the presence of structural adjustment loans, it is reasonable to expect that less funding would have been available from donor countries.

The role of the World Bank and the IMF in imposing macroeconomic reform should not be overemphasized, however. Before the structural adjustment loans, the Salvadoran government had already undergone significant reforms, starting in 1989. The Salvadoran government viewed those macroeconomic reforms as in its best interest as well, and it showed significant dedication to the process. In fact, it could be argued that in this case, the IFI's lack of capacity to apply conditionality was more problematic than the imposition of reforms: the Salvadoran government

was able to resist pressures to increase more taxes while expecting that international donors would take care of programs like DDR.

There are certainly indications that the reforms could have been better sequenced and prioritized to reduce the risk of conflict renewal. Trade liberalization and economic diversification could have significant positive effects on the sustainability of the peace in El Salvador; however, the high level of unemployment and associated criminality, as well as the diminishing role of agriculture should be addressed with social protection mechanisms, well-funded DDR, and new employment opportunities, especially in the rural sectors.

2. Rwanda: 1993-2002

As in the case of El Salvador, the roots of the conflict in Rwanda can be found in colonial times. In the 1930s, the Belgians institutionalized ethnic discrimination in the 1930s in a process of “Tutsification”, and gave the Tutsi political and administrative control of the country. In 1959, the Hutu overthrew the Tutsi rulers during the “*jacquérie*”. A hundred and fifty thousand Tutsis fled to neighboring countries (Eriksson et al., 1996, p. 78). Violence and political tensions were intermittent over the next several years. The Hutu government, in turn, pushed a policy of ethnic marginalization became further institutionalized under President Habyarimana, who came to power in 1974.

The country’s economy certainly looked promising the 1970s and 1980s, when per capita income rose from US\$70 to US\$380 from 1973 to 1988, while inflation was controlled (Obidegwu, 2003, p. 4). However, Rwanda’s economy began to unravel in the mid-1980s, when the country was plunged into an economic crisis. After protracted negotiations, the government, the World Bank, and the IMF agreed to a structural adjustment loan for the country in 1991, although the reforms were interrupted by the 1990-1993 civil war. Arguably, only the most socially costly reforms were implemented (Kumar et al., 1996, p. 26-7). A cap on public service recruitment may have increased feelings of insecurity for government employees; according to Storey, this reform was especially explosive because it was ‘ethnicized’ in the propaganda, since the cap on public services was viewed as an attack on the State, which was composed of a Hutu government ‘for the Hutu people’ (2001, p. 375). These reforms were unpopular and were often blamed for increasing tensions in Rwanda; Storey, however, argues that the Rwandan economy had been extensively liberalized prior to the SAP, and the economy would have undergone a crisis in any event (Storey, 2000, p. 49). The World Bank’s Country Assistance Evaluation does not examine the accusations that the structural adjustment led to continued conflict in the country, but it does note that the structural adjustment plans did not sufficiently take into account the constraints faced by the government during the civil war period, and that this surely contributed to the failure of the structural adjustment loan.

Another significant upheaval was taking place during this period: the Rwandan Patriotic Front (RPF), a rebel group formed of the children of Tutsi refugees in Uganda, invaded Rwandan territory and ignited the civil war in 1990. These significant political and economic changes were threatening to the Hutu elites, which led to a renewal of racist discourse to increase their legitimacy (Uvin, 1996, p. 10). Following a military stalemate and strong international pressure, the Government and the RPF signed the Arusha Peace Accords in August 1993. The Peace Accords quickly fell apart on April 6, 1994: President Habyarimana and President Ntaryamira of

Burundi were killed when their plane was shot down near Kigali. The event ignited the genocide against Tutsis and moderate Hutus as the MNRD extremists, the armed forces of Rwanda, and the *interahamwe*, a Hutu militia, immediately started the massacre. Most estimates indicate that about 800,000 Tutsis and moderate Hutus were killed in three months. Moreover, 2 million Rwandan refugees fled to neighbouring countries while an estimated 1 million were internally displaced. The civil war also reignited, with the RPF invading the north of the country in April and quickly progressing toward the Rwanda capital. The genocide ended when the RPF entered Kigali on July 4, 1994 and declared victory in the civil war.

Following a decade of economic crisis, several years of civil war and the devastation caused by the genocide, extreme poverty had increased to 41.6%, economic growth was approximately 30% less than what it would have been without the genocide (World Bank, *Social Development Note*, 2004, p. 4), and the country was socially devastated and politically unstable. Women now headed nearly a third of households. The country also had to grapple with a large number of orphans, refugees, and internally displaced persons.

The World Bank needed to jump into action to start reconstruction. Politically, the international community must have also felt the need for involvement in the country, especially considering the community's dismal attempts at preventing the genocide. Additionally, external aid was necessary, especially since the new government did not have the capacity to implement several large-scale reconstruction and development program immediately following the end of the genocide.

Unlike the case of El Salvador, the World Bank and the IMF did not immediately recommend a continual of the structural adjustment that was initiated in 1991. The needs of the population, including returning refugees and the internally displaced population, were focused on immediate survival, like provision of food, shelter, and health services (Kumar et al., 1996). The World Bank spearheaded the Emergency Recovery Program, following two donor meetings in the Fall of 1994, which earmarked US\$200 million for reconstruction, of which US\$50 million was directed to the World Bank's Emergency Recovery Credit for reconstruction and short-term financial assistance (Kumar et al., 1996). The UNDP led a Rehabilitation and Reintegration Programme, and the United Nations Assistance Mission in Rwanda (UNAMIR) submitted a plan for emergency reconstruction (Kumar et al., 1996). The World Bank also made use of the unspent loan amounts earmarked for programs prior to the genocide, and restructured those funds to focus on rehabilitation and reconstruction.

During this period, there were tensions between the donor agencies and the government, especially in the first few years following the genocide. Since the government did not have the capacity to implement all donor programs, including World Bank programs, that task was handed over to external agents. This meant that the donor agencies had the equipment, expertise, and funding to implement these reforms, while the government was unable to "respond to the wishes and requirements of either the international community or its own population" (Eriksson, 1996, p. 60). This was undoubtedly problematic for the government's already fragile legitimacy with the Rwandan population.

In 1998, the World Bank considered its emergency programming completed, and the government was gaining more capacity to undertake reforms. The World Bank and the IMF once again loaned

funds to Rwanda for a structural adjustment plan that highlighted many of the same priorities as the aborted 1991-1994 SAP. The government led a series of macroeconomic reforms, including de-monetization and reduction in money supply, devaluation and reliance on market determination of exchange rates. These reforms were considered successfully implemented, despite the fact that the Government of Rwanda was facing limited absorption capacity and questions over its legitimacy. The country achieved macroeconomic stability and the economy was liberalized.

The World Bank also reports that the Rwandan government managed to increase social spending, despite tight budgetary constraints. New social policies were also adopted, including gender-specific policies to increase enrolment of girls in primary and secondary schools to make it comparable to that of boys, the creation of the Ministry of Gender and Women in Development, and the revision of the civil code in 1999 to eliminate gender discrimination in inheritance and property rights (Obidegwu, 2003, p. 40).

Like in the case of El Salvador, the RPF-led government was considered to be an “engaged” recipient, with macroeconomic goals closely related to those of the IFIs. The focus of the reforms seemed to centre on macroeconomic stability (low inflation, GDP growth, increase in international reserves), reducing the deficit, and controlling expenditures (including through the reduction of the bureaucracy). Like in the case of El Salvador, the priorities of the macroeconomic adjustment and the peacebuilding needs of the country were contradictory at times; for example, the reduction in trade tariffs to encourage increased international trade also led to a significant revenue shortfall for the government, which meant fewer funds to implement the rest of the needed post-conflict reforms (Boyce, 2002).

However, the success of Rwanda’s post-conflict recovery was mitigated by several factors. Rwanda was still embroiled in a conflict: members of the former Rwandan armed forces and the *interahamwe* militia fled into the Democratic Republic of the Congo (DRC) and continued to attack the northwestern portions of the country with the alleged support of DRC’s President Kabila. This conflict kept investors at bay, slowed down the implementation of macroeconomic reforms, and provided a justification for maintaining high military expenditures. Moreover, the Rwandan government had difficulty reducing the public wage bill, especially since each of the political parties controlled one or more ministry and viewed those ministries as extensions of their power base (Kumar et al., 1996, p. 12, 44). Like in the period prior to the genocide, a reduction in the size of the public service was highly politically sensitive.

Moreover, despite a delay in implementing structural adjustment following the cessation of hostilities, some reforms were arguably occurring too quickly. For example, Obidegwu highlights the challenges of privatizing state-owned enterprises, in a context where there was a lack of capacity to implement the reform and when the ongoing conflict with the DRC was discouraging investment in the country (2003, p. 22). On the other hand, the hope was that the privatization of these state-owned enterprises would increase production and lead to more job creation. Sequencing could be important in this case, for example by ensuring that regulatory frameworks exist prior to the privatization of state-owned enterprises like the telecommunications and the electricity grid (Obidegwu, 2003, p. 23).

Sequencing would also be important regarding the overall priorities of the government's development plan. The long list of priorities identified by the Rwandan government meant that the government couldn't invest in all areas at once. Inter-ethnic inequality and rural poverty are certainly significant areas of concern, and a major challenge is addressing the widespread poverty experienced by the 31 percent of households who are headed by women (Obidegwu, 2003, p. 31). Social spending was projected to rise from 18 percent in 1997 to 25 percent in 1998 and to just over 30 percent in 2000 (IMF, *Rwanda: ESAF*, 1998, p. 6). As Chukwuma Obidegwu notes, the 1998 budget identified increasing spending on health and education as a priority, but the "burdens of security-related spending and internal and external debt service constrained the level of spending on essential social and economic services." (2003, p. 21). Indeed, Rwanda's relatively high military expenditures, due to the conflict with the DRC, restricted the amount left for other government spending.

The impact of macroeconomic adjustment in Rwanda, including those highlighted by the 2002 PRSP, will in part depend on how they are perceived as divided along ethnic lines. As Storey (2000) argues, one of the first SAP's most significant impacts on the tensions was in the cap of public service employment, which was "ethnicized" since state employment was viewed as the rightful domain of the Hutu-a Hutu State for a Hutu people. Obidegwu (2003) argues land reforms, for example, involve redistribution of wealth, and there "were concerns that the reforms could be favoring Tutsis or the new returnees from Uganda, who were closely allied to the government" (Obidegwu, 2003, p. 25). The IMF and World Bank structural adjustment plan also provided for "extraordinary" expenses to resettle returning Tutsi refugees, which indeed require a large amount of resources. It is really important under such circumstances that the IFIs recognize that the economic reforms and international aid be seen as providing to the peace of the country as a whole, and not just to benefit the Tutsi minority and the Hutu moderates who represented a large number of the victims of the genocide.

On the other hand, the post-conflict environment is such that people may be more amenable to change, and vested economic interests may be less entrenched. Overall, "the risks associated with privatization, public administration and land reforms have to be weighed against the imperatives for these reforms for meeting the objectives of economic recovery and poverty reduction, fostering inclusiveness and improving governance" (Obidegwu, 2003, p. 26).

More specifically in the case of Rwanda, the need for economic reforms was widely recognized prior to the genocide, as is evident in the pre-genocide economic reform plan. Obidegwu argues that "some of the risks to reforms have been mitigated by the existence of a clear process for formulating and adopting reform programs. This process has been respected and could not be rushed." (Obidegwu, 2003, p. 26). For example, the issue of land reforms in Rwanda is extremely sensitive, but is recognized as central for the revival of agriculture in Rwanda. (Obidegwu, 2003, p. 26)

The key question remains: is Rwanda better off having implemented structural adjustment plans? Overall, the impacts of the SAP seem generally positive. However, much work is still needed to consolidate the peace, and donors should continue to be very sensitive to this post-conflict context. The Rwandan post-conflict structural adjustment plan has received fewer criticisms than the Salvadoran SAP, although both were considered well implemented and the governments were seen as "engaged partners".

There could be several reasons for this. Part of the reason could lie with the World Bank and the IMF's delay in developing a structural adjustment plan, which started in 1998, four years after the cessation of internal hostilities and following an emergency recovery program. This arguably helped Rwanda gain some political and economic stability before implementing significant macroeconomic reforms. World Bank encouraged much more participation of the government in the implementation reforms than during the 1991-1994 structural adjustment loan, and various civil society groups, including women, were included in World Bank project activities. Moreover, poverty and inequality reduction seemed more successful in Rwanda (although one must be careful in reaching quick conclusions, since economic data on Rwanda is often unreliable), and there seemed to be more efforts aimed at increasing social spending. Unlike the Salvadoran government, the Rwandan government became more implicated in the implementation of post-conflict, reconciliatory reforms, and at the end of the period examined, the Rwandan government presented their PRSP, which was considered highly participatory and emphasized poverty reduction.

IV. Conclusion

The quantitative section of this research seems to demonstrate a paradoxical relationship between structural adjustment and conflict renewal. On the surface, the relationship between the SAP indicators and conflict renewal are strongly negative; in other words, SAPs are positive or benign in the post-conflict environment. On the other hand, results are much more ambiguous when examining intervening factors more closely. First, a selection bias is likely. Second, when SAPs are most successfully implemented, conflict renewal is more likely. Third, it is interesting to note that while the results above indicate a negative relationship between SAPs and conflict renewal, they also show that a decrease in inflation – a central part of many SAPs – will not increase stability of the peace process, and may even contribute to instability. Fourth, it should be noted horizontal inequality and dependence on certain natural resources are strongly related to higher risk of conflict renewal. Meanwhile, critics of SAPs often point to increasing inequalities and dependence on natural resources as a result of structural adjustment.

Despite these challenges, there is some indication that SAPs could be better targeted to strengthen the peace process. A “business-as-usual”, “depoliticized” structural adjustment plan should be replaced by a more context-specific plan. The first priority of such a plan should be to reduce horizontal inequalities between ethnic groups. Traditionally, IFIs would first aim to increase GDP growth, and would argue that through a trickle-down effect, inequality would be reduced. More recently, more emphasis has been placed on increasing social spending and reducing poverty, especially in the context of Poverty Reduction Strategy Papers; however, these “priorities” are often part of a long laundry list of other needs and may be overlooked or underfunded. Another top priority should be the management of natural resource exploitation, especially fuel and certain minerals. These resources could fuel conflict renewal. Careful consideration should therefore be taken before encouraging increased exploitation of these resources, the privatization of their exploitation, etc. There is also some indication that inflation reduction should come later in the peace process, when a greater level of stability is achieved.

Two brief case studies, on El Salvador and Rwanda, also explored SAPs in post-conflict periods. In El Salvador, The World Bank also acted as the organizer of the pledging conference and the

aid coordinator. However, before the structural adjustment loans, the Salvadoran government had already undergone significant reforms, starting in 1989. However, because the Salvadoran government had already started to stabilize and liberalize its economy, the government was in a good position to resist conditionalities set by the IFIs. It could be argued that in this case, the IFI's lack of capacity to apply conditionality was more problematic than the imposition of reforms. There are certainly indications that the reforms could have been better sequenced and prioritized to reduce the risk of conflict renewal.

In Rwanda, the World Bank and the IMF loaned funds for a structural adjustment plan in 1998. The country achieved macroeconomic stability, the economy was liberalized, and the Rwandan government managed to increase social spending. Like in the case of El Salvador, the RPF-led government was considered to be an "engaged" recipient, but the priorities of the macroeconomic adjustment and the peacebuilding needs of the country were contradictory at times. Sequencing would also be important regarding the overall priorities of the government's development plan. Inter-ethnic inequality and rural poverty are certainly significant areas of concern in a post-conflict environment. Any aid program must take the political and social context of Rwanda into consideration.

Appendix: Quantitative Model and Results

Model

Rowlands and Joseph look at political crises ranging from minor civil conflicts (like riots and violent protests) to full-scale civil wars. The model was tweaked to fit the needs of the research question. Rowlands and Joseph's model looked at the following explanatory variables: IMF interventions, GDP per capita, average inflation, average GDP growth, trade openness, government spending, currency depreciation, percentage of urbanization, and military spending (this variable in equation 2 only).

In our case, the observations were limited examined to post-conflict countries, and the dependent variable is conflict *renewal*. The IMF variable was replaced by an IFI variable, which looks at both World Bank and IMF Structural Adjustment Plans. The devaluation variable was excluded because of multicollinearity with the inflation variable. Urbanization was excluded because it consistently was not statistically significant. Moreover, variables on economic differences between ethnic groups (ECONDIF), autocracy, and percentage of minerals/ores and fuel exports as a percentage of merchandise exports (ORES and FUEL, respectively) were added since these variables were highlighted by several other authors as important and possibly significant variables.

Dependent variable: conflict renewal (CONF)

The conflict renewal variable was constructed thanks to the Armed Database Codebook Version 3.0. A minor conflict (coded as “1” in the regression) causes at least 25 battle-related deaths per year and fewer than 1,000 battle-related deaths during the course of the conflict. An intermediate conflict (coded as “2” in the regression) consists of at least 25 battle-related deaths per year and an accumulated total of at least 1,000 deaths, but fewer than 1,000 per year. A war (coded as “3” in the regression) provokes at least 1,000 battle-related deaths per year. In this research, “0” represents no conflict renewal. In the year-to-year breakdown, every country received a 0-3 rating for conflict renewal for each year. In the 5-year and 10-year average breakdown, the highest level of conflict during that period is used.

Independent variables

This research looks at World Bank and IMF Structural Adjustment Plans that have been approved or were ongoing during the ten years following war-to-peace transitions. Initially, programs from Regional Development Banks were to be included, but were later dropped because of lack of data for the time period examined.

For the World Bank, only Adjustment Lending (since 2004 called Development Policy Lending) Programs were examined, because these programs have significant policy-based conditionalities – the variable that is of interest here. IMF Structural Adjustment Programs were also included. In total, 96 World Bank programs and 61 IMF programs will be included in the regression.

A binary, or dummy variable called **IFI** notes the presence (1) or absence (0) of an IMF or World Bank Structural Adjustment Plan in a particular country for a particular year. Two other variables aim to test the “weight” of World Bank and IMF involvement. **WBGDP** and **IMFGDP** represent the value of SALs as a percentage of GDP (constant 1995 US\$) spent by the World Bank and the IMF, respectively, in the recipient country.

The variables GDP growth, the consumer price inflation, GNI per capita, value of trade as a percentage of GDP, government spending as a percentage of GDP, minerals/ores and fuel exports as a percentage of merchandise exports (**ORES**, and **FUEL** respectively), and the percentage of urbanization are taken from the World Development Indicators (WDI), produced by the World Bank. Military expenditures as a percentage of GDP are taken from the SIPRI database. The level of autocracy (and its square) determined by the Polity IV database, which has a year-to-year breakdown on a 0-9 scale, 9 being complete autocracy (**POL** and **POLSQ**). The economic inequality between ethnic groups (**ECDIF**), on a 1-4 scale, was taken from the Minorities at Risk Database.

Equations

Equation 1:

Conflict renewal = GNI per capita + Inflation + GDP growth + Government expenditures (% of GDP) + IFI (SAPs) + Polity + Polity Squared + Economic Inequality (MarGene's ecdifxx) + ores/minerals as a % of merchandise exports + fuel as a % of merchandise exports.

In **Equation 2**, IMFGDP and WBGDP were added. In **Equation 3**, a variable indicating the sum of exports and imports as a percentage of GDP is added to the first equation.

Countries Sampled

Angola
Azerbaijan*
Bosnia and Herzegovina*
Cambodia*
Chad*
Colombia*
Croatia*
El Salvador*
Ethiopia*
Georgia*
Guatemala*
India*
Iran
Iraq
Lebanon
Liberia
Macedonia*
Mozambique*
Myanmar
Nicaragua*
Peru*
Philippines*
Rwanda*
Serbia and Montenegro*
Somalia

South Africa
Sudan
Syria
Uganda*
Tajikistan*
Yemen (second conflict*)

*Countries with SAPs during period studied

All the countries included in the research have experienced a war-to-peace transition after an intra-state civil war (as opposed to a minor or intermediate conflict) between 1980 and 2005. This quantitative study examined these 31 countries over a ten-year period. Some appeared more than once due to conflict renewal, and each case was examined separately; therefore, 43 cases of conflict were examined in all. Twenty-eight of the observed cases experienced an IFI intervention in the form of adjustment plans as some point during the ten years following the end of the conflict. The list of countries sampled was based on the Armed Database Codebook Version 3.0, available through PRIO.

Results

Equation 1:

Conflict renewal = GNI per capita + Inflation + GDP growth + Government expenditures (% of GDP) + IFI (SAPs) + Polity + Polity Squared + Economic Inequality (MarGene's ecdifxx) + ores/minerals as a % of merchandise exports + fuel as a % of merchandise exports.

In **Equation 2**, IMF GDP and WB GDP were added. In **Equation 3**, a variable indicating the sum of exports and imports as a percentage of GDP is added to the first equation.

Table 1: Risk factors in conflict renewal, Equations 1-3, OLS

Variable	Equation 1: OLS	Equation 2: OLS	Equation 3: OLS
Constant	0.8208***	1.068***	0.808***
GNI per capita	-0.000472***	-0.000447***	-0.000555***
Average inflation	-0.000126	-0.000106	-0.000144*
Average GDP growth	-0.00487	0.01101	0.000679
Govt exp. (% of GDP)	0.005293	0.267*	0.00587
IFI (SAPs)	-0.406***	-0.267*	0.116
IMF funds (% of GDP)	---	---	-0.527***
WB funds (% of GDP)	---	---	-0.281***
Trade (% of GDP)	---	-0.00596**	---
Eco. Ineq. (ecdifxx)	0.592***	0.552***	0.596***
Polity (Autocracy)	0.133*	0.09813	0.211***
(Polity) ²	-0.0213*	-0.0189	-0.0302**
Ores	0.02283***	0.01962***	0.02953***
Fuel	-0.00885*	-0.00706	-0.00542
Observations	202	201	202
R ²	0.426	0.492	0.437
Adjusted R ²	0.396	0.452	0.405

To further test these results, Equation 1 was calculated again using first an Ordered Logit and then Tobit estimation method (Table 3).

Table 2: Risk factors in conflict renewal, Equation 1-OLS, O-Logit and Tobit

Variable	Equation 1: OLS	Equation 1: O-Logit	Equation 1: Tobit
Constant	0.8208***	---	0.17369
GNI per capita	-0.000472***	-0.00154***	-0.00115***
Average inflation	-0.000126	-0.00049*	-0.000321**
Average GDP growth	-0.00487	-0.04460	0.038948
Govt exp. (% of GDP)	0.005293	0.65678	0.08646
IFI (SAPs)	-0.406***	-0.9412	-0.15964***
ECONDIF (MARGene)	0.592***	1.3428***	1.22158***
Pol (Autocracy-Polity IV)	0.133*	0.4705**	0.4630***
PolSq (Polity IV)	-0.0213*	-0.0824**	-0.08385***
Ores	0.02283***	0.0668***	0.06267***
Fuel	-0.00885*	-0.01817	0.00314
Observations	202	202	202
R ²	0.426	---	---
Adjusted R ²	0.396	---	---
Pseudo R ²	---	0.228	0.200
Log Likelihood	---	-185.50311	-243.4412

Next, one and two-year lag were introduced to the basic OLS estimation to ensure that coefficients do not reflect the *effects* (instead of the causes) of conflict renewal (Table 4).

Table 3: Risk factors in conflict renewal, Equation 1 with lag period (t-1 and t2), OLS

Variable	Equation 1: OLS	Equation 1: OLS, t-1	Equation 1: OLS, t-2
Constant	0.8208***	0.870***	1.138***
GNI per capita	-0.000472***	-0.000443***	-0.000391***
Average inflation	-0.000126	-0.000087	-0.000128*
Average GDP growth	-0.00487	0.0009464	0.0003256
Govt exp. (% of GDP)	0.005293	0.0002905	-0.0156
IFI (SAPs)	-0.406***	-0.285**	0.379***
ECONDIF (MARGene)	0.592***	0.557***	0.543***
Pol (Autocracy-Polity IV)	0.133*	0.03617	-0.046
PolSq (Polity IV)	-0.0213*	-0.0121	-0.000563
Ores	0.02283***	0.02181***	0.02072***
Fuel	-0.00885*	-0.00756*	-0.00912**
Observations	202	199	195
R ²	0.426	0.414	0.436
Adjusted R ²	0.396	0.383	0.406

Table 4: Correlation: Country Indicators for Foreign Policy and Structural Adjustment

	CIFP	IFI	WBGDP	IMFGDP
CIFP	-----	-0.637***	-0.016	-0.055
IFI	-0.637***	-----	0.162	0.358**
WBGDP	-0.016	0.162	-----	0.008
IMFGDP	-0.055	0.358**	0.008	-----

*Significant at the 10% level

**Significant at the 5% level

*** Significant at the 1% level

Table 5: Correlation between SAPs and aid per capita

	AIDPC	IFI	IFI-1	IFI-2
AIDPC	1.000	0.196***	0.136**	0.095*
IFI	0.196***	1.000	0.805***	0.730***
IFI-1	0.136**	0.805***	1.000	0.826***
IFI-2	0.095*	0.730***	0.826***	1.000

Table 6: Year-by-year correlation, implementation of SAPs and conflict renewal

	WBI	IMFI	CONF
WBI	1.000	.286***	.343***
IMFI	.286***	1.000	.221***
CONF	.343***	.221***	1.000

Table 7: Correlation of implementation indicator average and conflict renewal over 10-year period

	WBI	IMFI	CONF
WBI	1.000	.363*	.303
IMFI	.363*	1.000	.069
CONF	.303	.069	1.000

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