Institutions of Economic Growth in a Peacebuilding Environment
An interdisciplinary conceptual framework

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Abstract

In this paper I attempt to give a conceptualization of economic governance in peacebuilding operations through institutions of economic growth. Therefore, this work is based on a fusion of institutional economics and sociology of peace processes. Economic development and welfare is a crucial factor of political stability, since most current conflicts have economic incentives. Economic governance is based on institutions, thus institutions – mostly those of economic growth, such as property rights - have a key role in post-conflict reconstruction. Here I develop a framework how to use institutions in such a project. This gives a logical guideline and some contradictions alike.

Keywords: peacebuilding, institutions, institutions of economic growth, positive peace
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Introduction

In this paper I attempt to build a solely theoretical but at the same time interdisciplinary framework on how economic development can contribute to peacebuilding and post-conflict reconstruction. Economic literature and other social sciences have already built concepts parallely that may be applied in such an environment, but their co-production has been seen rare, so far. Since the comprehensive goal of most peacebuilding missions is to achieve Johan Galtung’s positive peace, namely a sustainable state of a society through relatively equal resource distribution, economic governance has an outstanding relevance in this case. In respect of economic performance, institutions play key roles, therefore this conceptualization is based on a fusion of two different disciplines: institutional economics and sociology of peace processes. The former helps to understand how institutions determine economic development – that is crucial for achieving political stability and legitimate order – whereas the latter is about mechanisms behind reordering a society. Nevertheless, most current intrastate conflicts are based on economic incentives, therefore the restoration of peaceful circumstances needs a combined use of these two perspectives. The paper goes through the following structure. First, I give a short introduction about peacebuilding and what makes it different from other peace operations. Second, I present the concept of positive peace from Johan Galtung that influenced peace operations the most during the last two decades. Then, in the third part I focus on the nature of current conflicts, because we also need to define and know conflicts we want to eliminate. Fourth, in the main chapter I finally turn to economic governance and the question of institutions. According to Douglass C. North I define institutions as “rules of the game” that govern everyday life within a society, therefore economic performance, as well. I also present Williamson’s model about institutions’ social embeddedness and how they may change, according to Acemoglu et al. Finally I give practical examples what institutions should be created by post-conflict reconstruction in order to launch economic activity and development. These institutions are some like titling land ownership, creating a functioning and potent legal and regulatory system, promoting public-private partnership, auditing and creating trust among the society towards this institutional framework. Since this work aims to be a concept paper, here I do not focus on case studies. Rather I attempt to build a universal framework that is applicable in further field research and policy
I. What is peacebuilding?

Peace operations are among a range of activities undertaken by the UN to maintain international peace and security. Under *peacekeeping* we mean the deployment of personnel in order to limit and prevent armed conflicts and violence and maintain peace. As time goes on, the definition of peacekeeping changes. Originally, peacekeeping operations were deployed only in interstate conflicts but after the end of the Cold War the international community tended to intervene in intrastate conflicts and civil wars, as well. (Fortna and Howard, 2008)

Technically, the UN Charter nowhere refers to the practice of peacekeeping or other peace operations. Today it is one of the central activities of the UN but it was a practice improvised after the Charter was published. It includes activities discussed in Chapter VI and Chapter VII. The former refers to „pacific settlement of disputes“ therefore provides basis for „traditional“ peacekeeping missions, the latter refers to „action with respect to threats to the peace, breaches of the peace and acts of aggression“ therefore provides broader possibility for using armed forces and establishing peace enforcement mission to comply “the action required to carry out the decisions of the Security Council for the maintenance of international peace and security”. (UN, 1945) As peacekeeping contains the both, former UN Secretary-General Dag Hammarskjöld described peacekeeping as „chapter six and a half”. This phrase is still used in UN circles. (Fortna-Howard, 2008, p. 3)

According to Fortna (2004) we can distinguish four different types of peacekeeping operations: Observer mission, traditional peacekeeping, multidimensional peacekeeping (peacebuilding) and peace enforcement. In accordance with the above mentioned, the former three are based on the consent of the parties and authorized under Chapter VI, the latter under Chapter VII and do not necessarily require the consent of the belligerents. *Observer missions* are mostly small sized and apply unarmed monitors. *Traditional peacekeeping missions* are somewhat larger and involve lightly armed military units, in most
cases in addition to observers. They are usually authorized not to use force but only in case of self-defence or defence of the mandate.

The so-called *multidimensional* peacekeeping or today more referred as *peacebuilding* missions were firstly deployed in the 1990s, in line with a new world order, a new humanitarian focus on peacekeeping and new purposes of building sustainable (positive) peace. They supplement traditional peacekeeping forces with large civilian components: election officers, human rights and police trainers and monitors, demining and reconstruction personnel, refugee repatriation experts, gender experts and even civil administrators. (Druckman, 1997, p. 158; UN, 2003, p. 10) In their tasks are usually providing humanitarian assistance, and assisting with the rebuilding of judicial institutions. In relations to military tasks, peacekeepers moved from merely observing troop movements after interstate wars to actively assisting with troop demobilization, reintegration, retraining, and the construction of national military forces after civil wars. Multidimensional missions are usually called “integrated missions” or simply “peace operations”, as well, referring to the mixture style of it. (Fortna-Howard, 2008) Missions with the goal to build new institutional framework, functioning state administrations, etc. are called peace building operations or state building operations.

While peacekeeping is primarily supposed to implement long-negotiated peace agreements, *peace enforcement* generally concerns the use of force in case of lacking “peace to keep”. Until the non-cooperative party is defeated or agrees to a peace agreement, peace enforcement missions are allowed to use force in order to impose peace — as occurred, for example, in Bosnia, Kosovo, East Timor, Sierra Leone, Liberia, the Democratic Republic of the Congo, and Ivory Coast. (Fortna-Howard, 2008) Therefore their forces are better armed and larger.¹

According to the above mentioned, I focus on peace building since it is the most comprehensive way of changing conflict-triggering environment and attempts to create conditions for sustainable peace. As UNECE (2008, p. 3) summarizes: “Ultimately,

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¹ As Fortna (2004) argues, peace enforcement seems generally more likely when there are three or more factions in the fight than in simpler two-way conflicts. In every enforcement case there were at least three parties to the conflict, according to her analysis.
peacebuilding should be a process to ensure strategic coherence of many activities aimed at addressing sources of conflicts, reducing risks of violence and building national capacities and institutions to sustain peace.”

II. The concept of positive peace – why the question of economy is relevant

Most scholars accept the fundamental statement that peace should be seen as the absence of violence or conflict. From a traditional realist or – more broadly – rational choice point of view conflict is an objective phenomenon that originates in the anarchic competition for resources between states. Therefore, as conflict is an intrinsic quality of both human beings and the modern state system, it can only be managed, rather than permanently resolved, through zero-sum settlements that compromise fundamental interests. (Young, 2011) Consequently, these approaches mostly focus on the quantifiable aspects of peace and peacekeeping, as I explain later. In professional circles this type of absence of violence called “negative peace”.

Other scholars with sociological or constructivist background emphasise the qualitative, less visible elements of peace. Johan Galtung (1969, 1990) also accepts the definition of peace as absence of violence. But at this point he develops a detailed sophistication and diversification of violence. He distinguishes direct (personal), structural (indirect) and cultural violence, forming together a complex triangle. Direct violence is the ‘traditional’ type of violence, when a considerable subject that violates a considerable object through a considerable action.

Structural violence is more indirect, mostly embedded in institutions, which is manifested in the unequal distribution of common resources: let it be material or immaterial, money or rights, etc. Through structural violence one group of the society is count as unequal according to their gender, race, religion, ideology, etc. Therefore upholding a high potential of direct violence. Thus, Galtung uses the term social injustice for structural violence. In other words, the violence is less visible. These subaltern groups are violated by –

2 He defines other distinguishes between the forms of violence, as well: physical (not just biological) and psychological, negative and positive, truncated and obvious, intended and unintended, manifest and latent violence.

3 In the context of influence – as an abstract synonym of violence – there is a considerable triangle of influencer, influencee and a type of influence.
for example - not having rights to vote, not getting good education, etc. Doing so, they will be permanently interested in changing the – therefore fragile – situation. This is an unstable equilibrium.

Cultural violence is the legitimizer for these above mentioned two. Through norms, traditions, values that put someone to the place of evil or unequal, stoning and beatings or building up walls around people – on the direct level - and excluding someone from elections or education – on the structural one - can be seen legitimate. Galtung (1990) distinguishes six fields for cultural violence: religion, ideology, language, art, empirical science and formalised science. In the triangle direct violence can be seen as an event, structural violence as a process with ups and downs, cultural violence as an invariant, e.g. a permanence that remains in essence the same and makes only a slow transformation of basic culture possible.

These are fundamentally important findings in thinking about re-building a society, namely a culture. Galtung defines the absence of only direct violence as negative peace, which practically conserves the original incentives for conflict that was mentioned above, and the absence of structural violence as positive peace, which makes peace to be sustainably kept. Young (2011, p. 6) explains the concept of Galtung’s positive peace as follows: “... a society cannot be truly at peace until all forms of social, political and economic inequality and exclusion have been removed from the structures that exercise power within it. Peace, therefore, does not merely mean the absence of war as proponents of conflict management contend; rather, it can be equated with a form of justice in which groups and individuals are free to do, be or become what they desire unless this infringes upon the ability of any others to do the same.”

In the late-1990s Galtung’s positive peace became the desired goal of most peace operations. A considerable shift moved on the spectrum from peacekeeping to peacebuilding. As this framework put emphasis on organisation of democratic elections, creation of market economy, human rights and rule of law – which are related to Western civilization – it was called “liberal peace”. This concept has been criticized by other constructivist and critical scholars, arguing that it is hegemonic and unsuited to the realities of post-conflict environment. But Galtung’s message about equal distribution of resources and rights is crucial in the case of economic governance of a peacebuilding mission.
III. The nature of current conflicts

Since the final goal of peacebuilding is to eliminate the former conditions that led to conflict, first you need to understand the nature of these conflicts. In the followings I go on with a short summary of it.

According to Mary Kaldor (2006), „new wars” of the era after the collapse of the Soviet Union are different from „old wars”, those during the Cold War. New wars are mostly intrastate ones and triggered by ethnic as well as economic interest (politics of identity). After decolonization in Africa and Asia and after the desintegration of multiethnical states, such as the former Yugoslavia and the Soviet Union, most of the newly independent states resulted in suboptimal conditions for governance. These states were weak or even failed, they could not guarantee monopoly of violence, appropriate economic policy as well as keeping their legitimacy. Given a weak central government, local groups and warlords are able to rise and capture the state. Since the state is unable to manage economic development and life improvement, individuals are willing and/or urged to look for economic resources by working in the informal sector, such as drug production, human trafficking, being a slave, etc. These mechanisms are self-reinforcing in the case of lacking other alternatives. Therefore economic development and relatively equal distribution of resources – referring to Galtung - are crucial for solving the conflicts of today.

The UNDP (2006) emphasizes the role of natural resources in political instability and the relation between violent conflicts and resource abundance. The rivalry of elite groups for distribution of national income and the risk of civil war are much higher in countries with huge primary commodities export than in other countries. Benczes and Szent-Iványi (2010) also argue that this rivalry between the elite and ethnic groups mostly resulted in a weak state and permanent armed conflicts. As local authorities created their own “states” and make the people living under their authority, the central authority had no other choice than
to agree on a compromise with such regional or local groups. The centre had to give up parts of its resources in order to ensure relative tranquillity and peace. The fragmented social structure created a stable but low level equilibrium. Since the state failed to offer the prospect of a better well-being there was a steep of discontent among the members of the society. Some of these groups, led by the rival elites, were able to organise themselves and to strive to capture the state by armed forces because they saw this as the only way of getting the state to act according to their interests. As Salih (2009, p.141) summarizes it in the case of African conflicts: “In general terms, African underdevelopment gives its conflicts a special dimension involving property and want. These conflicts are about material and non-material resources and to attempt to redress real or perceived governance deficits in states captured by competing power elites for private gains.”

Ross (2004) finds that oil increases the likelihood of war within poor or middle-income states, but not within high-income states. Girod’s research (2009, p. 1) reveals “that among governments emerging from civil war, the vast majority of which administer very poor and weak states, those that are resource poor are more likely to bring about successful post-conflict reconstruction than their resource-rich counterparts.” Collier and Hoeffler (2005) analyse the link between resource abundance and civil war, namely political instability.⁴

Fearon (2005) emphasizes the importance of weak state administration – similar to Benczes and Szent-Iványi (2010) - and windfall incomes – as a greater prize – for rebels and state agent as a motivation for civil war. According to the resource abundance of many African countries and to the empirical evidence that Africa became the continent of violence and civil war after independence, these analyses have strong reference. Collier and Hoeffler (2005) argue that two considerable factors matter: 1. lowered income growth leads to low opportunity cost for rebellion and makes civil war more likely and 2. weak institutions – the lack of democratic elections and routines, the system of patronage, and the lack of civil rights protection – can inspire social groupings to oppose governing elites in order to achieve their interests. As Johan Galtung (1969) explains, unequal distribution of resources leads to permanent political instability as a trigger to civil war as well as other intrastate conflicts. Therefore, post-conflict reconstruction should focus on checks and balances that constrain elites and not motivate any group to change the system.

⁴ One of the most visible examples for this is the case of the Nigerian Delta region where oil reserves solve basis for secessionist groups and armed conflicts. (Collier-Hoeffler, 2005)
IV. Economic governance within peacebuilding and institutions of economic growth

The UNECE in its paper (2008) presents a comprehensive guideline how economic governance is useful for peacebuilding and post-conflict reconstruction. As mentioned above, most of the conflicts have economic incentives, the root causes are social inequality and exclusion, fight for resources. Therefore economic development and equal resource distribution can be a tool to catch these conflicts and to help reconstruction. As UNECE writes, good (economic) governance is an essential component of sustainable economic performance, especially in transitional or even post-conflict economies. But poor governance and slow economic development can be mutually reinforcing and therefore it can lead to a negative spiral followed by collapse and further social tensions.

Under economic governance we understand „the exercising of political, economic and administrative authority to manage a nation’s economic affairs” (UNECE, 2008, p. 16). The foundation of such an activity lies on three pillars. First, legitimacy which concerns the authority of a government over its citizens. Second, order which is manifested in laws, rules, norms, institutional structure, incentives as well as – may be the most important – human security and which is responsible for accountability and planning within a society. And third, welfare is for getting support from the society for the prevailing institutions and resource distribution. You need to fulfil all these three pillars in order to develop economic governance that contributes to peace and security.

UNECE draws our attention to the experience of transition from state to market economy in central and Eastern Europe as well as in Central Asia. Since a post-conflict reconstruction has very similar symptoms to those of a transitional economy, there are five recommendations to consider during such a mission: 1. effective institutions – especially property rights - are important, 2. enforcement mechanisms and micro-reforms to ensure the attraction for foreign direct investment are also very important, 3. it is needed to deal early with corruption, 4. human insecurity is a real challenge and 5. the participation of regional
organisations in transformation assistance is necessary.

But transition and post-conflict reconstruction are not the same. In the case of a transitional state you have already had a (somehow) functioning society, but during a peacebuilding or post-conflict reconstruction project you may deal with totally weaken state apparatus, disfunctioning society and deeply-rooted tensions. Thus, UNECE (2008, p.4) develops a package of five principles of economic governance which is our key guiding line to understand how economic governance should be dealt in a peacebuilding environment. These fives principles are the followings (UNECE, 2008, p. 4):

1. support for building effective institutions,
2. promoting public participation and a bottom-up approach to policymaking,
3. fostering strict transparency in financial management,
4. addressing human insecurity by promoting environmentally sustainable development and
5. pursuing a regional approach to peacebuilding.

From these five principles institutions have the most theoretical relevance in respect of this paper. They are the A and O of understanding a society. All social sciences, such as economics, political science as well as sociology put an outstanding emphasis on institutions. Therefore, in the followings I attempt to give an explanation about what institutions are, how they should be understood by analysing a social phenomenon and how they influence economic development and post-conflict reconstruction.

IV.1. Institutions in a society and economy

Douglas North (1992) starts his introduction about institutions with the critique of neo-classical economics in his essay on new institutional economics. He states that in the world of instrumental rationality – which is a focal point of neo-classical way of thinking – institutions are unnecessary since efficient markets characterize economies, due to free information and costless transactions. But in fact, information is incomplete, there are no clear ways and
forms of transactions, therefore human beings need to impose constraints on human interaction in order to structure exchange. The incomplete information arise the cost of transactions, consequently there should be any ordering principle. Without this structure there would be uncertainty, insecurity, disorder and anarchy or even chaos, where the players do not know how to achieve their goals.

According to Ronald Coase (1937 and 1960), reduction of transaction costs is crucial for economic activity. Institutions are made for reducing uncertainty in human exchange. Doing so, they determine transaction cost and producing. If it is not costless to transact, there institutions matters. In a national economy it is the case, therefore institutions, especially property rights play a significant role in economic development. (North, 1992)

As a definition of institutions North (5. pp.) says: ‚Institutions are the rules of the game of a society or more formally are the humanly-devised constraints that structure human interaction. They are composed of formal rules (statute law, common law, regulations), informal constraints (conventions, norms of behaviour, and self-imposed codes of conduct), and the enforcement characteristics of both.’ In another paper (1994, 2. pp.) he states: ‚Institutions are the humanly devised constraints that structure human interaction. They are made up of formal constraints (e.g., rules, laws, constitutions), informal constraints (e.g., norms of behaviour, conventions, self-imposed codes of conduct), and their enforcement characteristics. Together they define the incentive structure of societies and specifically economies.’

IV.2. Social embeddedness of institutions

Oliver E. Williamson (2000 according to Matthews 1986, p. 903) sees the two propositions of new institutional economics as „institutions matter” and „the determinant of institutions are susceptible to analysis by the tools of economic theory”. The former is equivalent with North’s thinking mentioned above, the latter is a step forward to understand how institutions are formed and what role they play in a society. Williamson builds a four level model of social analysis (See Figure 1), which place institutions in economic theory, therefore I summarize it in short.

The first level is the one of social embeddedness, filled with norms, customs, traditions and culture as well as religion. The institutions here are informal, rooted deeply and taken as
given, they have mainly spontaneous origins and change very slowly – in order of centuries and millenia.

On the second level is the institutional environment. Here are the formal rules, such as constitutions, laws, property rights. It includes the executive, legislative, juridical and bureaucratic functions of the government as well as the distribution of power across the different levels of government. Important features of it are property rights and, as a consequence of it, contracts, laws as well as their guarantees and enforcing mechanisms that are essential for a market economy. If our right for property is in safe we do not fear to invest, to produce, to accumulate capital and we are more willing to take risk. Thus, on this level you can find the fundamental incentives of actors within a society.

Level 3 represents the way of realization of the above mentioned institutions, here is the structure of governance located. In order to realize the gains of secure property rights you need a perfectly functioning legal system, exact enforcing mechanisms, etc. This level is more „realistic” and less „abstract”, it is the level of every day politics on governance, namely on the effort to craft the order which is inspired by the factors of first and second levels. Governance structure reshapes incentives, since it allocate resources, positions and tasks which lead us to the fourth level which is referred to producing, employment, prices and quantities – the level of neoclassical economic analysis. Here firms and technology play a specific role in a market economy.

In sum, Williamson’s model of social analysis is for understanding how a society and institutions within it function. The four levels are not to distinguish exactly, they affect on each other there and back, namely it is an organic process. Institutions are important because they shape incentives, but they have to fit to norms and traditions and, of course – in a slow way – they can shape these norms, too. On the other hand, institutions depend on their use and employment (governance), therefore the incentives can be disfigured. To understand a society (and economy) you have to see through this model – it is the case in a post-conflict situation, too.
IV.3. How institutions may change

Acemoglu and Robinson (2008) in their essay look for the fundamental causes of difference between national economies, in a broader way, societies. They also refer to institutions and, as a step forward, they build a comprehensive framework for understanding why and how institutions change. They also cite North’s definition of institutions as “rules of the game” and they highlight three features of the quotation written above: institutions are 1. humanly
devised, 2. setting constraints on human behaviour and 3. they affect mainly through incentives. As a crucial institution they also refer to property rights, or as they write „institutions of private property” but their most relevant added value to the literature of new institutional economics is the attempt to understand the complex socio-political mechanisms which stand behind institutional structure and change.

In their model there are three institutional characteristics: economic institutions, political power and political institutions. Economic institutions determine the economic growth as well as distribution of resources within a society (think about Level 2 and level 3 in Williamson's model), but at the same time they are collectively chosen and therefore dependent on the political power of different interest groups. In the question of political power they distinguish two components of political power: de jure political power which is a determinant of political institutions; and de facto political power which originates from the ability of a group to solve its „collective action problems” and from its resources. At last, political institutions are important because they shape the playground on the political sphere, create constraints and rules for politicians, like economic institutions in the economy. These three factors have inter-subjective relationship, they mutually affect each other through two persistent mechanisms. First, political institutions allocate de jure political power what influences the evolution of political institutions, the ones with political power are generally interested in maintaining these political institutions. Second, distribution of resources also shapes future political institutions through de facto political power of certain interest group which originates from the group’s resources, as mentioned above. To highlight, the link between the two mechanisms is found in de facto political power which is able to influence political institutions and make the two mechanism move together. Without this, the ones in de jure positions would be able to reproduce and stabilize their power. To understand this, see Figure 2. According to this model, our statement - that economic incentives and resource allocation play a central role in conflict – gets another validation and post-conflict reconstruction has to consider this.
V. Effective institutions in post-conflict reconstruction

UNECE (2008) names the three following indicators of effective institutions: 1. legislation defining and protecting property rights, 2. existence of independent auditing agencies and auditing offices and 3. promotion of vertical linkages between civil society and government. Namely, as developed above, without the „rules of the game” you will not be successful. The establishment of legal and regulatory framework and its enforcement are essential for protecting property rights and letting market economy function. Institutions that create the channels of communication and promote dialogue between the government and the society – such as councils and other representative bodies, special committees and task forces – improve embeddedness, legitimacy, monitoring and further planning through networks and trust. The help to build a social capital which consists of civic-minded citizens that are willing to solve collective problems and care about long-term benefit of all and avoid rent-seeking and corruption. Third, validating and auditing institutions demonstrate fairness and justice of the system. They should involve auditors, other independent agencies, auditing offices and all types of media. But all of these are not to achieve if you do not have an efficient public administration which provide services and regulate business environment. However, a good public administration needs trained and educated personnel, therefore you have to start training people as well as use external help.
V.1. Titling land ownership and real estate market

For protecting private property, in most of post-conflict countries the fundamental policy is to clarify and *titling land ownership*. It sounds trivial, but this confirmation is necessary for secure food production and economic activity. Therefore, as soon as possible land administration needs support from reconstruction assistance units by establishing a network of registry offices which create security of ownership and help to create the value of private ownership. Consequently, *creating real estate markets* are also needed for making market economy moving through. To do this, you need *laws on mortgage* to allow banks and other financial institutions to function and to create trading interest in rural areas. According to UNECE (2008), in transitional economies the development of land rights and trading with these rights in a functioning market economy was a significant factor of economic growth at the first part of transition. It seems to be the case in post-conflict societies, as well, but there is a high risk for international financial actors to let their capital into such an insecure area. Thus, the flow of foreign and internal capital needs to be secured, if needed, by reconstruction units.

Beside these measures, it seems to be also necessary to promote property rights for the poor. According to UNECE (2008), it was one of the problems of transition that many assets were owned informally, since institutional uncertainty and administrative rules as well as high taxation drove businesses into the extra-legal sector. Therefore UNECE argues that formalization of property rights, titles, providing legal documents to ownership can be helpful for those in the informal sector to transform their assets into value generating assets. Here they highlight the representational function of these documents that is, on one hand, important for banks and other financial institutions and, on the other hand, creates a stable basis of confidence and security for the poor to leave informality. As UNECE (2008, p. 61) argues: “By enacting property laws, giving rights, and title, the poor can escape their dependency on the informal sector and use their property as collateral to access the formal financial institutions. This is also of help to banks that will benefit from the pooling of more savings, and the tapping of new markets.” Consequently, promoting and informing the poor may contribute to reduce social exclusion – which is, according to Galtung again, is a key feature to create peace – and to more lively economic activity. To help these mechanisms you certainly need special third party arbitration courts that solve disputes which are part of
V.2. Supporting Public Private Partnerships

UNECE ascribes an important role of public-private partnerships in improving infrastructure and public services.

In connection to this, Thomas Risse (2012) and his research group look for answering the question how to organize everyday life (governance) in areas where states are not able or willing to maintain functioning institutions, enforcement mechanisms and monopoly of violence. This issue is called „Areas with limited statehood” and their research implicitly focus on alternative methods of governance.

Risse (2012, p.7) refer to the closer definition of governance as „institutionalized modes of social coordination to produce and implement collectively binding rules, or to provide collective goods”. According to the role played by the state, we can distinguish governance by government, governance with government – which is relevant in the case of public-private partnerships -, and governance without government. Thus, players in a governance configuration can be state actors (government, jurisdiction, courts, local agencies, etc.) as well as non-governmental organisations such as non-profit organisation (associations, churches) and profit-oriented organisations, namely firms that are able to maintain production of public goods and services. One good example is when a factory, due to its business interest, creates infrastructure, clear water, education as well as security, etc. instead of the state.

The main challenge in this respect is the lack of skills and competences within governments. Thus, you need to train government officials – „training the trainers”- in order to create a local capacity to transfer the skills to agencies to undertake PPPs, such as: „writing a PPP business case, evaluating and allocating risks, procuring a partner, and contract compliance and performance monitoring and other skills that are needed for projects across different sectors like transport, health, education, energy, etc.” (UNECE, 2008, p. 62) It is also needed, in this case again, to frame a right legal and regulatory system which leads us further to public administration.
V.3. Building effective public administrations

As mentioned several times above, the management of maintaining sustainable functioning institutions is not to achieve without well-educated and trained local public administration. Overall, in most of post-conflict countries there is a desperate shortage of skilled workers. No doctors in hospitals, entrepreneurs are rare, the government cannot find enough experienced civil servants, especially for dangerous areas. Beside an effective judicial system you need to build local mental as well as physical capacity in transportation, economic affairs, environment, security and forums and modes of cross-sectoral knowledge-sharing. The importance of local capacity is specific for addressing and answering new challenges in the future, after reconstruction assistance units left the country. To give an example, UNECE (2008) organized trainings in Kazakhstan providing hands-on training to Central Asian experts on air pollution monitoring, modelling and the development of air emission inventories, which are key factors of solving environmental disputes and tensions among Central Asian countries and are also necessary to sustainable development in the region.

V.4. Auditing and validating

In the pervasive environment after conflicts financial flows are not controlled and monitored, either. Consequently, you need to establish auditing system in order to secure that money flowing into the country in the form of aid will be used for reconstruction and not for other purposes. By these you may address illegal activities that aim to conserve pre-conflict conditions by empowering local warlords and other anti-government actors, such as drug production, slavery, child work, etc. (UNECE, 2008)

V.5. Social partners and trust

Going back to the question of institution’s embeddedness (remember Williamson’s model), you also need to convince the society to accept and trust the institutional framework. Therefore, checks and balances against state power should be developed through regular traditional negotiation structures. (UNECE, 2008) Doing so, you need to withdraw local
traditional leaders, as well. This is the softest part of an institution building project, since it require local knowledge and sensitivity. Every post-conflict country has its own characteristics, own problems, ethnical and social differences; so the applicability of „trust-building” is up to an intensive work on the field. This seems to be the most difficult challenge but without any improvement in embeddedness of new institutions and mechanisms all the above created framework will fail.

**Conclusion – what makes it complicated?**

Above I developed a concept by merging the achievements of institutional economics and sociology of peace processes. Since most current conflicts are triggered by economic incentives, economic governance has a key role in political stabilization by relatively equal distribution of resources, by creating welfare and by making the possibly less motivated to change prevailing socio-political order. Institutions determine economic governance, therefore it is worth to draw institutional lenses into analysing economic governance of peacebuilding processes. But you also need to see what mechanisms make this good-looking theoretical guideline complicated.

The concept of positive peace inspired by Johan Galtung as well as institutional economics implicitly suggest democratization and market economy reforms which together create a contradictory model in the pervasive environment of a post-conflict country. The former aims to give equal rights and resources to all, whereas the latter is *per se* insensitive for social inequalities, such as poverty and exclusion. Thus, in a transition economy of a post-conflict country social inequalities may increase (as you could see in Central and Eastern Europe) and a broad segment of the society can be unsatisfied with the new order. By doing this, a turn to market economy may create obstacles for achieving a positive peace. If the population do not feel the benefits of the post-conflict political order they can use their equal rights at the democratic elections to vote for rivals of the government that may have another concept of appropriate order and can restart former conflicts. Thus, you need to see how democratization can be destabilizing and create a fragile political order. Consequently, this strict package of market-oriented reforms and democratic institutions can be
questionable in such a pervasive environment because it can create a perpetual transition from instability to stability, there and back.

Another mechanism to consider is the political economy of poverty since poverty has a triggering effect on conflicts. If you are on the base of Maslow’s pyramid you have low constraints against selling your body or serving a warlord for a little life improvement, therefore being a cheap resource for interest groups who benefit from and are interested in political instability and rivalling the government. So, poverty reduction is crucial for achieving positive peace. But since market economy is insensitive for social problems you need state intervention while capacities are rare.

Third, market reforms and democracy can confront with local culture and traditions which bring us back to the question of embeddedness. In post-conflict societies the most powerful people can be the losers of democratization and market control since in this sense there not exists any Pareto improvement, at least on the short term. However, the first few years of transition are the most important. Besides, empowering traditionally subaltern groups, such as women or minorities, can be seen as an enforcement of external will, implementation of a foreign culture that ignores local identity. Doing this, new groups may rise to question the legitimacy of post-conflict order.

In sum, institutions of economic governance are crucial factors of stabilizing a post-conflict society but they may have counterproductive and unintended consequences. Thus, implementation of such a framework requires an intensive field work, local knowledge and local network. Here I gave a guideline how to start conceptualizing a peacebuilding operation in respect of economic development. As a next step, this framework should be used in case studies to find empirical evidence. It may be the topic of a next paper on this overly complicated issue.
References


