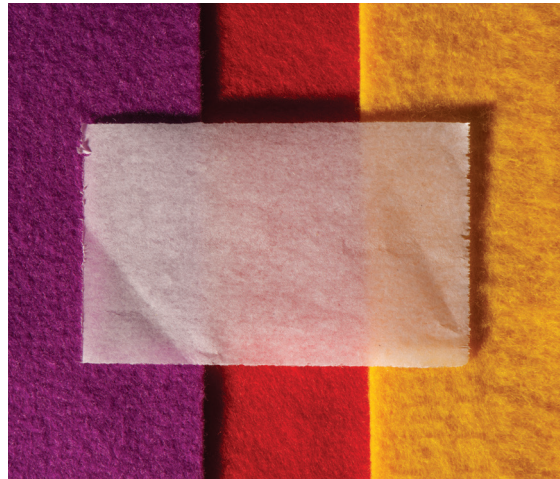




PA-X REPORT: ECONOMIC SERIES



Banks, central banks, and banking regulations in peace agreements

Sanja Badanjak



This research draws on the PA-X Peace Agreement Database (www.peaceagreements.org), a database of all peace agreements at any stage of the peace process from 1990 to 2016. The database is fully searchable and supports both qualitative and quantitative examination of peace agreements.

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Summary

A comprehensive post-conflict political settlement may often need provisions on some form of financial governance. The need for financial regulation is often exacerbated by the circumstances of the conflict-affected area itself, as in cases of complete destruction of the institutions that regulate the economy, or when new states require a new set of such institutions. Even if no comprehensive peace settlement is produced in the peace process, other types of agreements can be expected to occasionally contain provisions on banks and banking, at least to the extent that they are part of a process that aims to create conditions for regular functioning of the society and the economy.

Peace agreements address banks, central banks, and banking in a variety of ways. There are no universal solutions regarding the financial architecture that can be placed within a peace agreement in a formulaic manner. However, some regularities can be noted. First, the banking provisions are more common in the context of powersharing, when the currency for a new or reformed polity is established, or when decentralisation requires some regulation of the subnational units' ability to take on debt. Second, central banks tend to be found among the topics covered by comprehensive peace agreements, but most of these cases are vague in guaranteeing central bank independence (with some notable exceptions, e.g. Bosnia and Herzegovina). Third, there is some potential for banking to be part of effective DDR arrangements, and it may play an important role in the normalisation of economic activity for the citizens. Provisions on banking and finance are most likely needed in settings that have had the most complex conflicts and the most severe deficiencies in state authority, as well as the worst-performing economies. Those cases require particular care to ensure that the institutional solutions are appropriate, acceptable to all local stakeholders, and capable of contributing to development and survival of peace.

Key Findings and Recommendations

- ▶ There is potential for peace agreements to innovate in the area of banking and central banking, as in the cases of dual banking system set up to facilitate the separation of Sudan and South Sudan, and the case of Bosnia and Herzegovina, where the international community assumed responsibility for the functioning of the central bank.
- ▶ Cases of separation into two or more jurisdictions or even states, which respond to, demands for territorial autonomy, or federalism or even secession, may see the need for central banking and financial governance to be addressed, particularly with regard to the power to issue currency and ability of local government to take on debt.
- ▶ Inclusion of provisions on banking in peace processes and agreements are driven by political considerations. However, their inclusion opens up an opportunity for the agreements to suggest good practices in economic governance, as relevant and appropriate for the context at hand.
- ▶ Peace agreements have not introduced technical assistance for setting up central banks and financial institutions in general. Financial or technical support to peace negotiations could be useful for supporting development of any proposals for banking, or when economic governance and development are part of the negotiation agenda. The case of Afghanistan, where the 2010 collapse of the Kabul Bank adversely affected the fragile government and economy, suggests that formal commitment to technical assistance for the central bank as a regulator may be a worthwhile investment.
- ▶ Countries in which we have seen banking and central banking mentioned in peace agreements are also poorer than other countries where agreements are negotiated. There is scope in these cases to consider the needs of the citizens and the economy and provide more detailed arrangements for the central banks and economic governance.

Introduction

The modern state truly has finance at its core. Not only is finance at the centre of much economic activity in the private sector but states themselves are part of the global financial markets, where they engage in borrowing, lending, and where they influence the decisions of market participants through their use of tools of macroeconomic policy. This process is complex and difficult to navigate for even the most developed countries, and it is often more important and certainly more difficult for those countries that are attempting to end conflict by means of a peace agreement.

This report provides a summary and analysis of the ways in which banking, commercial but particularly central, can be relevant in post-conflict situations, and outlines the ways in which peace agreements touch upon these matters directly drawing on the corpus of peace agreements from 1990-2016 in the PA-X peace agreement database (www.peaceagreements.org). It also makes note of interesting types of financial system arrangements found in the agreements and provides a simple account of contexts in which central banks are likely to be found discussed in peace agreements.

We understand a central bank to be the institution of the state which is responsible for the devising and implementation of monetary policy and control over the issue of currency and the supply of money. This function is also related to the central bank's role in supporting value of the domestic currency in relation to other currencies, with the central bank maintaining the currency regime, that is, whether the currency floats against other currencies or whether it is fixed to another currency or basket of currencies.¹

¹ The value of a currency can be expressed in terms of another currency, i.e. through exchange rates. This value can be allowed to change based on the supply and demand in the financial markets – this is the situation of the US dollar, the Sterling, the Swiss Franc, or the Euro. However, not all currencies are left to the vagaries of the market in such a manner, and often it is the central banks that make the decision on the type and level of exchange rate policy. For example, a small country with an open economy that predominantly trades with the US may want to fix (peg) the value of its currency to the US dollar, in which case its central bank may need to act to protect this fixed exchange rate. A country that relies on trade with multiple countries may choose a basket of currencies to which it attaches the value of its own currency. A country may be in a similar situation with regard to trade, but with seasonal fluctuations in the economy, in which case they may opt for a hybrid currency peg that allows for a band within which the currency value fluctuates. The decision on how to deal with the float-fix dilemma is often presented within the so-called Mundell-Fleming (Mundell, 1963; Fleming, 1962) trilemma, which posits that any country can only have two of the three desirable features at once: 1) a stable (fixed) currency, 2) participation in international capital markets and capital mobility, and 3) autonomy of monetary policy. In extremis, the exact role of the central bank in any country is thus politically determined, since choosing two of the three features may well depend on the interactions among the relevant political actors.

The central bank typically holds foreign currency reserves that can be used to alter the value of the domestic currency through its sales and purchases on international markets. Further, the central bank often also acts as banker to the government. In many cases, the central bank serves as the lender of last resort for the country's private banks and is often tasked with regulating the commercial banking sector. For example, a central bank may set the minimal level of reserves that commercial banks must hold, thus affecting the amount of money banks are able to lend and the level of interest with which the money is being lent.

The central bank is therefore a vital institution and one that may be of great importance for a country at war or one undergoing post-war recovery. Its ability to maintain the appropriate currency regime is important for domestic producers and importers, its regulatory powers may be crucial for the financial system, and as has been debated in the political economy literature, its independence from short-term political interference may be key to providing the government with cheap credit. The argument is that an independent central bank is not going to easily succumb to government pressure to print money, therefore contributing to preventing inflation and making the government's pledge to fully repay its debts more credible. This increased credibility ought to make interest rates at which the government borrows money lower, increasing also the government's ability to borrow and spend. The political realm, in this view, has an incentive to transfer monetary policy to the central bank in order to reap the rewards of cheap credit.

In contrast to the expectations from the international relations literature, which finds that ability to access credit is important if a state is seeking to preserve peace, the issues of central banks, banking, and international finance are all rather sparse in peace agreement texts. Across 1518 peace agreement documents in the Peace Agreements Database and Access Tool (PA-X, 2018), covering the 1990-2015 period, there are only 104 (6.8%) that hold any mention of various aspects of banking and central banking, with content of the provisions themselves which is highly-context specific. The proportion increases, however, when substantive agreements are considered (both comprehensive and partial), as 67 of 459 (14.6%) have such provisions. When considering comprehensive peace agreements, 35.7% (34 of 95) have provisions on some aspect of the banking and financial system.

Even though the proportion of documents discussing banks increases as more comprehensive agreements are reached, the relatively low incidence of provisions on banks, central banks, and finance is unexpected, as getting the currency and the banking system 'right' can be crucial for post-conflict polities, affecting the countries' ability to steer the economy and garner interest from international investors. The ability to take part in international finance and borrowing also allows governments to smooth out crises and ward off challengers without resorting to additional taxation. Finally, strengthening the institutions related to banking regulation and the central bank is likely to support developmental aims by providing a set of rules for financial transactions.

The complexities of post-conflict financial reconstruction are severe, and the particular issues at least partly stem from the details of the conflict that was suffered (Addison et al. 2005, p. 11):

'Different types of conflict have different effects on the financial system, and country reconstruction-programmes will reflect this. These effects include: guerrilla insurrections that disrupt the rural financial system but not the system as a whole (e.g. Guatemala); cronyism in bank lending linked to autocratic rule (e.g. the Yugoslav Federation and Zimbabwe); temporary shutdowns of the financial system due to military revolts (e.g. Côte d'Ivoire and Guinea-Bissau) and secessions (East Timor and Kosovo); looting of banks to finance and profit from genocide (e.g. Rwanda); civil wars that leave central banks intact but otherwise damage financial infrastructure (Angola and Mozambique); civil wars that destroy central banks and most formal financial institutions (e.g. Somalia 1992-94); and inter-state conflicts in which formal financial institutions are stressed but continue to function (e.g. the 1998- 2000 Eritrea/Ethiopia war). Country priorities for financial reconstruction therefore vary accordingly.'

A comprehensive post-conflict political settlement ought to include some form of financial governance, and it could be expected that matters of such importance and potential for contestation would be addressed in the documents that underlie the expected settlement. Even if no comprehensive peace settlement is produced in the peace process, other types of agreements may often contain provisions on banks and banking. This pressure is often exacerbated by the financial circumstances of the conflict-affected area itself. For example, Addison et al. (2005, p. 705) note that some of the conflict areas experienced chaotic currency arrangements: in Somalia 'contending warlords have periodically printed new currency and introduced it into circulation', whereas there were no less than seven versions of the currency in circulation in Afghanistan until 2003, reflecting the chaotic nature of the economy in a (post)conflict setting, and the potential for corrupt practices to persist. In other and quite different conflict settings, such as Croatia or Colombia, the central banks managed to maintain a good degree of control over the currency, conflict-unrelated crises notwithstanding. Such control may go a long way towards deterring some more egregious examples of corruption and profiteering.

The economic problems of countries in conflict are serious, complex, and nonetheless secondary to the need to prevent the continuation of fighting. It is not surprising that the arrangements for economic recovery take a back seat in peace negotiations, resulting in few documents that deal with economic and particularly financial institutions and infrastructure. However, the examples that are present provide an insight into the types of economic problems suffered in wartime and the existing range of solutions that have been proposed.

Banking, Conflict, and Peace and Transition Processes

The social science literature on banks, central banks, and international finance is unequivocally decided on the importance of central banks, independent central banks in particular. When looking at the PA-X data, the importance given to these institutions in the academic literature clashes with the lack of attention provided them in practical situations of peace negotiations. However, even the infrequent peace agreement provisions on central banks may provide an insight into the solutions that may be available for resolving the conflict and helping the economy get on its feet in the post-war period.

This report deals with multiple facets of the banking sector, private and public, domestic and international, as addressed in peace agreement practice. However, the focus is necessarily placed on central banks, as their role touches upon all these spheres. Central banks are important regulators of the domestic financial sector, they provide credibility to sovereign borrowing, and they often create monetary policy. For all intents and purposes, they are key elements of modern polities and guarantors of economic stability for any open economy. Given the level of agreement on their role and importance, one may expect that they would feature prominently in peace negotiations and that they would be the object of regulation in peace agreements that are aiming to stop conflict and make arrangements for a post-conflict settlement.

In the context of conflict, a central bank can serve two key purposes, depending on its characteristics. First, a central bank controlled by a government is able to print money for short-term purposes, allowing the government to enjoy a boost of income in the form of seigniorage,² which may well be used for financing the war. Second, an independent central bank provides an outward-facing source of credibility, which makes sovereign borrowing an easier task. Poast (2015) finds that in cases of 19th century interstate war, lending credibility was conferred on those countries that had a central bank. A central bank, particularly an independent central bank, serves as deterrent to external aggressors or domestic belligerents, as it makes it more likely that the government would be able to access funding with relative ease and spend on staff and materiel needed for fighting. However, this is not the only way for a government to be aided by a central bank: it is also another veto point in the political system, often placing limits on what governments are able to do. A government is thus facing a choice of actions regarding the central bank: keep/establish its independence and gain access to international financial markets, or place the central bank under its control, which allows the government to extract seigniorage but making it difficult to take out sovereign loans.³

The ability of a state to maintain a financial system is a key feature of state strength, a feature often cited as correlating with the absence of war (DiGiuseppe, Barry and Frank 2012): a strong state is more likely to deter challengers and more likely to maintain a monopoly on the use of violence in its own territory, leading to its ability to avoid both interstate and intrastate conflict. DiGiuseppe and Shea (2016) note that access to credit is important to leaders, as it prolongs their tenure, and this is more prominent for non-democratic leaders, who are more sensitive to the possibility of having credit cut off. They find that access to credit does in fact increase survival rates of authoritarian leaders, making it likely that even an authoritarian government would not want to be rid of a central bank if one is already instituted. Thus, the importance of a central bank is likely to hold across regimes that grow out of peace settlements.

² Seigniorage is the gain made from the act of printing/minting money when the cost of production is lower than the value of the notes or coins placed in circulation. However, when excessive amounts of money are created in this manner, the currency on the whole is devalued, and prices are pushed upward, leading to price inflation.

³ All of this is taking place in a situation of no natural resources that can be extracted and sold for 'free money'. Similarly, this assumes that the ability to tax the population has reached saturation - and the government is not able to force further taxes without risk of rebellion or decrease in economic activity that funds taxes. For discussion of some of these breaking points, see Acemoglu and Robinson (2000).

We know from DiGiuseppe, Barry and Frank (2012) that states with affordable access to credit are less likely to see the onset of civil war. Their analysis of relevance of access to capital showed that across 141 countries, in the 1981-2007 period, the risk of civil war was significantly reduced when access to capital was present. For many post-conflict and conflict settings, a central bank may be one of the key institutions of the state. For a state facing rebels, the ability to maintain the currency, extract seigniorage, control and regulate banks becomes quite quickly an important tool in dealing with the rebellion. If a country is facing international or civil war, the ability of the state to control the domestic economy, banks, and the currency is further supplemented by the ability to borrow in the international markets, only to spend on whatever costs of fighting may be incurred.

These arguments provide a further reason for the inclusion of central bank provisions in peace agreements, particularly comprehensive agreements that set the institutions that would govern the post-war period: given that negotiations are dependent on the belligerents' ability to credibly commit to a deal, regulating the central bank and deciding on its independence from the politicians may reassure the warring sides that at least one item will be removed from the toolkit of those in power, making it less likely that they print money and use it to fund activities against their opponents.

The peace agreement may also be considered as a signal to international investors regarding the intentions to maintain stability on the part of the main actors in the conflict. Joshi and Quinn (2018) find that comprehensive peace agreements make vital signals to investors, as the presence of a formal comprehensive peace agreement positively correlates with an increase in foreign direct investment. Comprehensive peace agreements, they argue, convey much of the information that investors need to make an informed choice about the location of their investment. The authors do not consider the breadth of agreement provisions concerning the institutions regulating the economy, though it is likely that the provisions such as those on central banks, particularly central bank independence, may well form the core of the information provided by the agreement.

Many new countries arise from post-conflict situations, and some of them set up new institutions through peace agreements. In these new countries, a central bank soon becomes a necessity. A central bank may be relevant in many practical ways for the post-conflict situation. Adam, Collier and Davies (2008) discuss the relevance of foreign aid in post-conflict contexts, noting that the presence of substantial foreign aid reduces the need for seigniorage as source of government income and raises the demand for money, thus contributing to the reduction of inflation. This is a process that the central bank and the banking system are vital for, as the remonetisation of the economy relies greatly on this type of institutional infrastructure. As currency serves as reserve of value, its stability and reliability, as guaranteed by the central bank, are fundamental to the move away from a subsistence economy that many countries in conflict fall back on, and the creation of preconditions for economic growth. Note, however, that there are dissenting findings regarding the role of central banks. De Haan, Masciandaro and Quintyn (2008), for example, find that the existence of an independent central bank had no clear growth implications.

Not all of the literature agrees on the role of central banks. For the past several decades, the institution of an independent central bank has been near-universally promoted. An independent central bank is a signal that everyday politics would be kept away from the monetary policy, and that the foreign reserves would not be raided for short-term political gains. Furthermore, an independent central bank can, in theory, exercise serious regulatory control over commercial banks, thus assisting in avoiding banking crises. Nevertheless, the paper by Keefer (2001) contends that independent central banks are only able to provide anti-inflationary effects in a context of political checks and balances, in both developed and developing countries. A similar argument is put forward by Franzese (1999). In other words, a functioning (independent) central bank is a necessary but not a sufficient condition of macroeconomic stability. Given that such a system is highly unlikely to be found in the immediate post-conflict setting, then focusing the attention of the peace process on such matters may well be rather unproductive. This argument against focusing on a central bank is only relevant, however, if the central bank is set up only with the aim of guaranteeing the value of the currency. Central banks, be they independent or not, also regulate the banking system and, when independent, may be a signal to the international financial markets of a government's commitment not to be profligate, thus making the government a more credible borrower (Keefer and Stasavage 2003; Bodea and Hicks 2015).

For many commentators, a move towards independent central banks is seen as either part and parcel of the global economy that relies on hierarchy and dependency of the developing nations, as part of the neoliberal consensus, or as part of the competition for scarce resources that the poor countries are forced to engage in (Polillo and Guilleen, 2005). On the other hand, an independent central bank may be able to make developing countries more credible to international financial markets, allowing them to borrow in times of external economic shocks or downward turns of the economic cycle. Wibbels (2006) notes that the ability to access credit is what differentiates the developed from the developing countries, which has real consequences in times of economic downturn or crisis. Whereas the developed countries are able to resort to borrowing in these situations, thus leaving their domestic spending largely intact, and maintaining the usual welfare regime, the developing countries are faced with a stark choice. If unable to compete for aid, they are left to either borrow under difficult conditions or cut spending. As noted by Wibbels (2006), the cuts are often in the area of social welfare, making it likely that not only do crises and shocks hit developing countries disproportionately, but they also hit their poor citizens the most. Instituting an independent central bank may make borrowing slightly cheaper for developing post-war countries and thus alleviate the spending curbs brought on by economic crises.

Considering the central bank as a veto point is important here. Of course, a post-conflict setting may also be lacking a central bank entirely, subjecting the population to competing monetary regimes, lessened potential of regulation of whatever commercial banking is taking place. However, when a central bank is present, and regardless of the nature of the post-conflict regime, the ability of those in power to abuse their posts is curtailed by a central bank as an institution separate from the government's finance ministry. A post-conflict regime may establish a central bank and fully control it, in which case they expend no additional costs in controlling the supply of money, banking regulations, but also do not benefit from the option of having 'easy' access to international financial markets in case of a cashflow problem. A post-conflict government may also be facing an independent central bank, in which case the central bank either remains independent or is subject to regime takeover. Either way, the regime is constrained: in the former case, by its inability to control banking regulations and extract seigniorage, or by the costs that would be incurred in subjecting the central bank to government control and the loss of credibility in international financial markets, cutting itself off from a source of financing. When all of this is taking place in a setting that has seen conflict terminate as a result of a negotiated settlement, and this settlement has included provisions on the institution of a central bank, the costs are even higher, as they also include the watering down of the peace settlement.

Making an independent central bank part of the peace settlement may thus reduce the likelihood of conflict recurrence, for the following reasons:

- 1) It may be seen as a deterrent by potential challengers and belligerents.
- 2) Once instituted, its subjection to government is costly, weakening the government relative to any challengers, which is in turn an incentive for the government to maintain status quo.
- 3) It is likely to assist in the creation of financial relationships between banks, businesses, individuals, and their foreign counterparts, creating societal interest in preventing war as disruption to business.
- 4) A central bank often acts as regulator of the banking sector and can be a valuable institution in assisting the return to (or establishment of) peacetime economy.
- 5) In the longer term, it creates the conditions for sovereign borrowing in international financial markets, with a potential for maintenance of social welfare programs during economic downturns.
- 6) When it is part of the peace settlement, a central bank becomes not just an institution established to fulfil a set of functions, but also a consideration for all involved in the peace process. The successful establishment of a central bank is thus an indicator of how well the settlement is performing.

The literature on the ways in which these problems are addressed in (post)conflict situations is scarce, and there are no systematic overviews of banking and central banking in peace processes and peace agreements. We know much about particular countries and conflicts, but it is difficult to discern to what extent banking and central banking feature in formal peace agreements. This report proceeds by providing this broad assessment.

Banking-related Provisions in Peace Agreements

Prevalence of banking-related provisions in peace agreements

Across the collection of all formal, written peace agreements concluded in the 1990-2016 period and collected in the PA-X peace agreements database, fewer than 10% of texts address banking in any form.

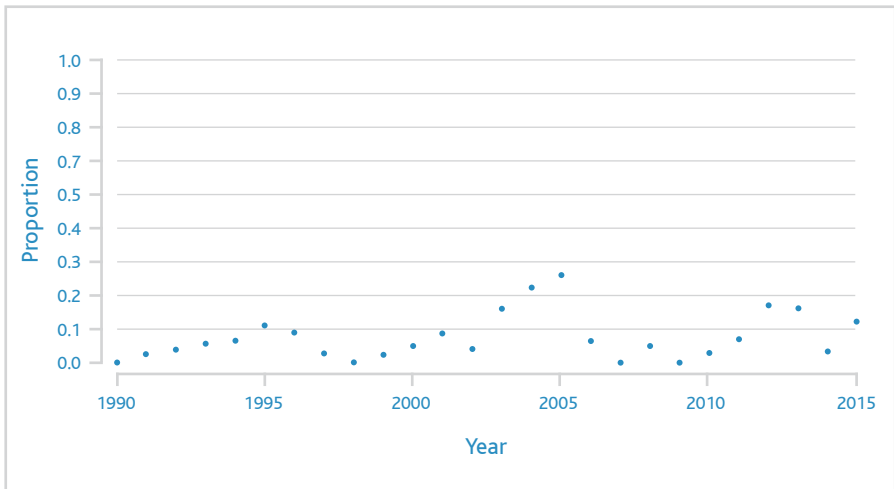


Figure 1: Proportion of PA-X agreements with any banking-related provisions.

As can be seen in Figure 1, the proportion of agreements that contain any reference to banking has been consistently low, only crossing 20% in 2004 and 2005. There is no discernible trend in the inclusion of these types of provisions, and the spikes in the graph are related to the conflict in Sudan, where the agreements regulating the relationship between Sudan and South Sudan were addressing numerous matters of finance, central banking, and cross-border financial flows. This is also indicated in Figure 2, which shows that Sudan and South Sudan are the locations with the most agreements that have banking-related components. Agreements that contain banking-related provisions are quite evenly distributed across countries, though most settings see only one agreement with such content (lightest blue shade in Figure 2).

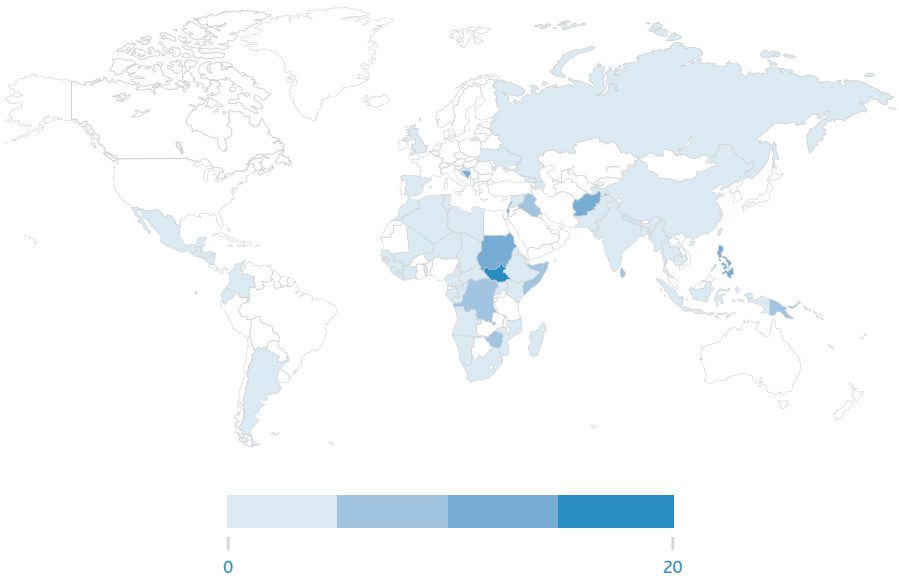


Figure 2: Global distribution of agreements with some banking-related provisions.

PA-X considers four types of provisions related to the (re)establishment of systems of central and commercial banking, as shown in Table 1. The provisions are differentiated on two dimensions, national – international, and private – public. The former refers to the intended scope of the provision, while the latter tackles the types of actors and organizations provided for. This results in four broad categories.

First, there are [provisions on international and private aspects of banking](#), concerning issues like cross-border transactions, which resolve matters such as transfer of funds, access to bank accounts or pension accounts, operation of banks, eligibility to open bank accounts in particular countries. These types of provisions are found in just 14 agreement documents. These are typically interstate agreements, which aim to normalize the economic activity among countries emerging from interstate war.

Second, there are [provisions on personal or commercial banking within countries](#). These are more common, with 38 instances across the PA-X. Similar to those described above, they typically aim to assist in normalizing economic activity. Some of these overlap with the provisions on the areas to be regulated by banking authorities (often central banks). They deal with matters such as availability of funds, payment systems for public servants, acceptance of deposits, opening of banks and bank branches.

Third, there are [provisions that focus on public finance in the international context, dealing with matters such as borrowing from international lenders, access to financial markets, arrangements with international financial institutions](#). A similar category is that of development aid, which is coded in PA-X separately, since it does not relate to the creation or strengthening of domestic financial institutions. The provisions on aid are more common than any of the banking or central banking provisions and should in many cases be considered the functional substitute for those countries that are likely to have the least success in setting up a banking infrastructure and regulatory framework, and which are not likely to have any feasible way to access regular international sources of finance.

Finally, there are provisions that deal with the public and national-level issues, and these have to do with (re)instituting or reforming the central bank, responsibility for monetary policy, issuing of currency, setting up the banking regulations. These are the provisions that seek to create or reform the institutions that govern policy and the regulatory framework, and which have the potential to affect all other levels of financial activity. This is also the most commonly found banking provision, appearing in 56 peace agreements.

	INTERNATIONAL FOCUS	NATIONAL FOCUS
Private	Provisions for cross-border transactions	Personal or commercial banking provisions
Public	International borrowing and lending + developmental aid	Central bank, monetary policy, currency, banking regulations

Table 1: Differentiation of banking-related provisions in PA-X.

Table 2 shows the number of agreements in each stage of negotiations that addresses banking. The results are expected: agreements that focus on substantive matters and implementation modalities are those which most often deal with banking, banks, and central banks, while ceasefires and agreements on procedural matters hardly touch upon the matter.

The literature on conflict and peace agreements is mostly silent on the issues of commercial banking and central banks alike. There may well be good reason for that: the matter may be inconsequential or simply not something that the warring sides necessarily need to be discussing. The end to fighting alone does not require banks nor a central bank, as relevant as these institutions are to peace. It may also be the case that the studies of conflict and end of conflict focus primarily on matters of security, neglecting the issues related to the functioning of the war-and post-war economy.

TYPE OF AGREEMENT							
	Ceasefire N=267	Implementation N=288	Prenegotiation N=468	Renewal N=33	Substantive comprehensive N=95	Substantive partial N=364	Other N=4
Central banks	0	12	5	0	23	16	0
Personal banking	0	11	1	0	15	11	0
Cross-border flows	0	4	0	0	2	8	0
International finance	1	14	6	0	11	13	0

Table 2: Agreements with provisions on banks and finance, by agreement type.

There are two key angles from which the problems of the banking systems and currencies may be relevant to post-conflict reconstruction and prospects for development. First, one may consider the domestic aspects of banking and banking regulation, along with the role of the central bank in steering the post-conflict developmental path and stabilisation of the economy. Further, there is potential for personal and commercial banking arrangements to directly facilitate demobilisation and the return to peacetime economic activity. Second, banking regulation and cooperation may be relevant for any country's relationship with its peers, international financial institutions, and various actors in international markets. This includes the various ways in which countries negotiate among themselves, and the interactions of (post)conflict countries with the international organisations and particularly those organisations that are in charge of international financial architecture.

- *There is a distinct lack of consistency in addressing the issues of banking and finance in peace agreements. When agreements address finance-related matters, they typically tackle single issues, rather than considering the full spectrum of options for future financial governance.*

Figure 3 is a Venn-diagram of types of finance-related peace agreement provisions and the extent to which they are simultaneously found in the documents. The banking provisions are by far overshadowed by references to international aid funds, and there are very few agreements that combine these aspects of regulation of finances and financial flows.

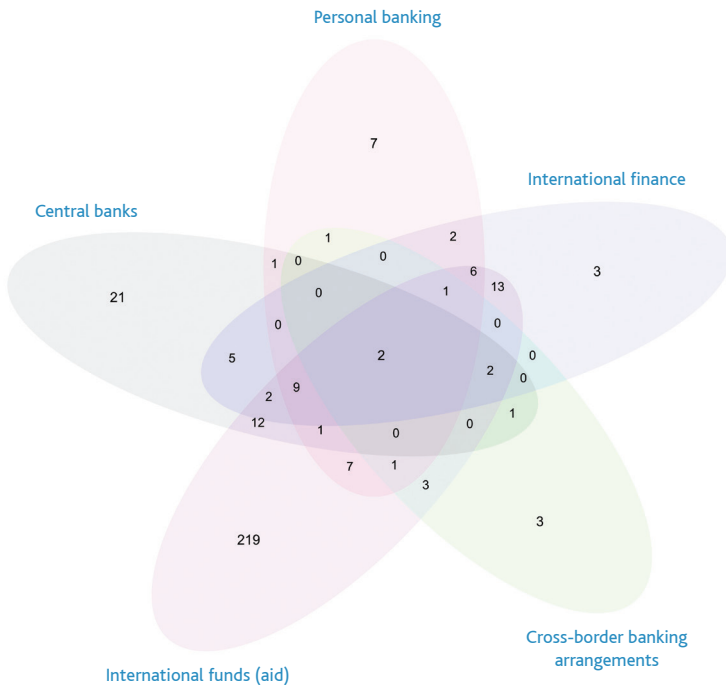


Figure 3: Various forms of finance-related provisions in PA-X peace agreements, 1990-2015 (note: there are 1197 agreements with none of the five types of provisions present in the text.)

Figure 3 provides some insight into the puzzle of few banking-related provisions in peace agreement documents: agreements with some reliance on international aid funds are far more common than agreements that contain any of the banking-related provisions. This imbalance reflects the simple fact that countries that are seeking to reach at least partial agreement on ending the conflict are often in great and urgent need of aid. However, this lack of attention to banking also means that they are not yet ready to participate in global finance on equal footing with the rest of the international community, nor are they able to regulate economic activity at home. As a consequence, banking infrastructure is not high on the list of priorities. There is good reason for it to be a greater priority, however, as strengthening the central bank and regulating banking activity is likely to provide good base for strengthening the economy and fostering development, and for building resilience to external shocks and crises.

The prevalence of banking and central-banking provisions in the body of peace agreement texts tells us much about the relevance of the subject matter in direct peace negotiations: it is clear that these issues are not immediately relevant for ending fighting. However, we also know that when they do appear, it is in the later stages of negotiations, when the agreements look to provide a set of arrangements that will govern the post-war period. How do the negotiating sides address the matters related to central banks, banking, and related financial issues? The next section addresses the context and the content of the provisions on banking, considering various types of provisions in turn.

Content of provisions on banking in peace agreements

Agreement provisions on central banks

When peace agreements do veer into the territory of regulating central banks, they often eschew some of the most important features of this institution in favour of broader brush provisions. For example, given the large body of work on independent central banks and the current global preference for independent central banks, one may expect that this type of institution would dominate the peace agreement provisions concerning central banking. However, this expectation does not materialize in peace agreements. For instance, the 1992 [Protocol on the Agreement on Power-sharing within the Framework of broad-based Transitional Government between the Government of the Republic of Rwanda and the Rwandese Patriotic Front](#) clearly places the authority to name the central bank governor into the hands of the president (p. 5). Even some of the more recent agreements remain silent on the issue of central bank independence. Thus, the 2012 Provisional Constitution of the Federal Republic of Somalia skirts the issue of independence in the sections on the central bank (p. 44), and merely states that the government departments should not be violating the laws regarding the central bank (p. 45).

The establishment of central banks appears in several instances of peace agreements, in contexts as different as Afghanistan, Sudan, Bosnia and Herzegovina, and Sri Lanka. The line of the reasoning in these provisions is very much that of the accepted wisdom of importance of independent central banks for development and international credibility,⁴ with some fascinating exceptions. For example, the [General Framework Agreement for Peace in Bosnia and Herzegovina](#) (Box 1), known to most as the Dayton Peace Agreement, envisions a relatively straightforward system, with the exception of the first six years post-agreement, when the Governor of the Central Bank of Bosnia and Herzegovina was to be appointed by the International Monetary Fund, and the bank itself was not allowed to 'extend credit by creating money, operating in this respect as a currency board' (page 72 of the Agreement).

⁴ For some 'run of the mill' central banking provisions, see the 1991 [Political Constitution of Colombia](#), DRC's 2003 [Draft Constitution of the Transition](#), the 2005 [Constitution of Iraq](#).

After the expiration of these six years, the power to appoint members of the central bank Governing Board falls back to the country's three-member Presidency, with the Governing Board electing a Governor from their own ranks. After this interim period, the Parliamentary Assembly was able to vote to extend the power to print money to the Central Bank. By forcing the Central Bank to act as a currency board, the Agreement effectively stripped the country of the ability to conduct its monetary policy for six years, thus making a bold statement about the stability of the country's currency, but also removing a valuable tool for encouraging growth and tackling crises.⁵ The concerns involved in the negotiations of the Dayton Peace Agreement probably also played a role here, since placing the central bank outside the reach of day-to-day politics may have reflected a concern for the stability of the tri-partite structure of government the agreement put in place.

Most mentions of central banks include some reference to the need for the central bank to be autonomous in some way, but very few provide detailed outlines on how this autonomy is to be achieved. When language concerning the relationship with explicitly political institutions is included, it is rarely explicit about the central bank's status.

⁵ For more on the functioning, benefits and shortfalls of replacing a central bank with a currency board, see for example Ghosh, Gulde and Wolf (2000), who praise the relative success of currency boards in preventing inflation and assisting in the growth of demand for money, but also note that currency boards require a high enough level of foreign reserves, broad political support, and a good measure of health of the financial system (Ghosh, Gulde and Wolf 2000, p. 296). It is thus not unusual that the cases of currency boards are very rare in peace agreements, as few cases satisfy these preconditions. Bosnia and Herzegovina is an outlier in this regard as well: while it did not satisfy the above preconditions, it was subject to an extraordinary level of involvement of the international community in the agreement and its implementation. Ghosh, Gulde and Wolf (2000) is also an excellent overview of the pros and cons of currency boards, outlining their advantages and drawbacks, accompanied by comments from other scholars. Not everyone is as optimistic about the effects of currency boards. Irwin (2004) notes that such an arrangement was not ultimately beneficial for Argentina, which was touted as a success in the Ghosh, Gulde and Wolf (2000) paper. Further, Chang and Velasco (2000) note that the absence of a central bank may be detrimental to the stability of the banking system as there is no lender of last resort and does not allow for the flexibility that is required in a situation of financial crisis, particularly in emerging markets. A similar call to better-tailored monetary policy options is expressed by Frankel (1999). The 1990s were truly the period of revival of the currency board, only to encounter resistance after the countries with currency boards were found to lack the tools to manage financial crises, which is another potential reason why the institution of the currency board never became part of the peace agreements formula.

In the Bosnian case, the provisions on the central bank were clearly intended to facilitate financial stability - potentially at the expense of developmental spending and investment. The monetary affairs were to be kept out of the hands of the former belligerents with arrangements that made the central bank highly independent. In Crowe and Meade's (2007) dataset on central bank independence, Bosnia and Herzegovina's central bank took the first spot, as the most independent central bank included in their study of 96 countries and their central banks.

Many of the peace agreement constitutions (Sapiano, 2017) simply note that the currency and monetary policy are matters that would be regulated by law, at a later time. This was found in the 2001 Burundian [Constitution de transition](#) (p. 19), the 1993 [South African Constitution of 1993 \(interim constitution\)](#) (p. 51), and the 2005 [Constitution](#) (p. 30) in Burundi.

These existing cases shed little light on the question of whether dealing with a central bank and regulation of banking is something that is desirable in a comprehensive peace agreement. On the one hand, there is a great need for these instruments to be put in place, both for the purpose of encouraging reconstruction, and with the aim of making public commitments to transparency in operating these institutions. The cases above are all of countries in dire need of stronger institutions and foundations for development. However, it may also be the case that the details of these arrangements are tedious and specialised, making them secondary to the negotiations to end conflict or lay down new rules for the post-conflict polity or polities.

Of all finance-related subject matters, that of currency has the relevance beyond economic policy and functioning of everyday life - as it may also hold symbolic value, partly expressed in the name and design of physical money. One of the failed agreements in Croatia, where the final outcome of war was mixed, as military victory was accompanied by some further agreements, offered the rebels in occupied territories a compromise on the currency, where the proposed autonomous region would be able to define the designation and design of some of the physical money.⁶ Another example of identity-related issues becoming relevant for the resolution of a national currency is that of the [Interim National Constitution of the Republic of Sudan](#), which states in Art. 207, par. 1 that 'the Central Bank of Sudan shall issue a new currency, the design of which shall reflect the cultural diversity of the Sudan.' This document was based on a series of agreements, which means that these matters were part of the peace process on the whole and did not just become relevant in the final stage.

⁶ This agreement, known as the Zagreb four plan (currency issues discussed on p. 5-7) was collected as part of our research, but is not included in the database itself, as it was never officially accepted by both sides, thus eschewing the criteria for inclusion in the database. The currency arrangement that was proposed was similar to the way that the euro and dollar coins are made: with the same value and validity, but with different designs.

There is one absence in the peace agreements that confirms the relevance of national currencies for post-conflict polities: there are no examples of these countries opting for a full-scale dollarization regime. This is an option that completely removes any ability of the country to operate a monetary policy and instead institutes the use of another country's currency as legal tender. This might be a very simple regime to implement, and while it is found in some of the countries and entities that are in conflict or post-conflict situations (e.g. the West Bank, or El Salvador), there are no instances of it being instituted in a peace agreement.⁷ In some cases of civil war, when post-conflict territorial powersharing arrangements are put in place in comprehensive peace agreements (often including constitutions, interim and other), the only mentions of central banking and the currency appear when it becomes necessary to note that the matters of currency are to be dealt with at the national level.⁸ This type of powersharing may also require that a clear agreement is reached on the subnational unit's ability to take on debt. An example of this power being explicitly agreed can be found in the 2013 [Annex on Revenue Generation and Wealth-sharing to the Framework Agreement on the Bangsamoro](#) (FAB) (p.5), where the Bangsamoro are able to take out loans autonomously, but only when the loan does not require sovereign guaranty, in which cases the Central Government's approval of the loan is necessary.⁹

⁷ The agreements that come closest are those in the Israel/Palestine conflict, which regulate personal banking and availability of the shekel in the West Bank and Gaza. For more on dollarization, see Alesina and Barro (2001).

⁸ For examples see the [Comoros's Constitution of 2001](#) (p. 2-3), the [1999 Comoros Accords d'Antananarivo](#).

⁹ The issue of subnational borrowing is a difficult one, as the subnational units tend to be seen by lenders as equal in credibility as the central government, even if that is a misguided belief, leading to possibility of default and the questions of whether the central government vouches for subnational debt regardless of whether this guarantee is explicit. For work on this, see Hanniman (2012).

A rather different type of powersharing occurs in the 2003 [Peace Agreement between the Government of Liberia, LURD, MODEL, and the political parties \(Accra Agreement\)](#) (p. 37-39) which grants the agreeing parties seats and positions in the development banks and investment commissions, repeating the practice from a prior agreement.

The role of central bank as regulator has appeared in some peace agreements. For example, the 2012 [Tokyo Declaration Partnership for Self-Reliance in Afghanistan from Transition to Transformation](#) has a section on the integrity of public finance and commercial banking, where it is noted that more should be done to foster reforms and supervision abilities of Afghanistan's central bank (page 11 of the agreement), all in the wake of the Kabul Bank crisis. In the case of Afghanistan, several of the earlier agreements, dating back to 1993, mentioned the role of the central bank, and in 2006 even noted that the bank should be strengthened so that it may provide effective supervision. However, it took a financial crisis to put the role of the central bank to the fore, rather than any of the issues directly related to the conflict itself. Such regulation and supervision are the areas of overlap between the central bank (as a common regulator) and the commercial banks (as entities that are being regulated) and these provisions should be seen as closely related to those on personal and commercial banking.

As is the case with many features of peace agreements, the provisions on banking and central banking make appearances only when they become something that needs to be resolved and can be resolved in negotiations between the warring sides. The appearance of these issues also depends on the stage of the agreement, as most of them appear in comprehensive peace agreements, and are considered part of the broad political settlement. Even so, the details are only rarely included, with many references to independence, or a further regulation of the matters through the legislative process. Most notably, given the complexity of the issues, the absence of reliance on technical assistance is surprising, and should be something to consider when provisions on banking regulations and central banking are included in peace agreements. None of the texts of the agreements discuss detailed technical assistance that would be provided to regulators and central banks.

The case of Bosnia and Herzegovina is somewhat an exception, with the installation of a foreign governor of the central bank - though one might argue that such independence for the central bank is not necessarily going to lead to capacity in the organisation as a whole. It is entirely possible that this sort of assistance is provided through other channels - most likely by direct negotiations with the IMF in the post-conflict period. However, some assurance in the comprehensive agreements that the core financial structures would be supported might go a long a long way towards normalising the everyday economic activity.

Central banks in particular require technical sophistication, professionalisation, institutional capability, and an esprit de corps. All of these are difficult to achieve in post-conflict situations without external assistance. Technical assistance for central banks can be thought of as analogous to technical assistance for electoral commissions - as both are meant to provide participation for all, independent oversight, and a mission that transcends the exigencies of any political moment.

November 21, 1995

General Framework Agreement for Peace in Bosnia and Herzegovina (Dayton Peace Agreement)

Page 72, Annex 4: Constitution of Bosnia and Herzegovina, Article VII, Central Bank

There shall be a Central Bank of Bosnia and Herzegovina, which shall be the sole authority for issuing currency and for monetary policy throughout Bosnia and Herzegovina.

Page 72, Annex 4: Constitution of Bosnia and Herzegovina, Article VII, Central Bank, 1.

The Central Bank's responsibilities will be determined by the Parliamentary Assembly. For the first six years after the entry into force of this Constitution, however, it may not extend credit by creating money, operating in this respect as a currency board; thereafter, the Parliamentary Assembly may give it that authority.

Page 72, Annex 4: Constitution of Bosnia and Herzegovina, Article VII, Central Bank, 2.

The first Governing Board of the Central Bank shall consist of a Governor appointed by the International Monetary Fund, after consultation with the Presidency, and three members appointed by the Presidency, two from the Federation (one Bosniac, one Croat, who shall share one vote) and one from the Republika Srpska, all of whom shall serve a six-year term. The Governor, who shall not be a citizen of Bosnia and Herzegovina or any neighboring state, may cast tie-breaking votes on the Governing Board.

Page 72, Annex 4: Constitution of Bosnia and Herzegovina, Article VII, Central Bank, 3.

Thereafter, the Governing Board of the Central Bank of Bosnia and Herzegovina shall consist of five persons appointed by the Presidency for a term of six years. The Board shall appoint, from among its members, a Governor for a term of six years.

Box 1: Central bank provisions in the Dayton Peace Agreement.

When and why do peace agreements include provision on central banks?

Even as the examples in the previous section demonstrate that there are interesting and innovative ways of dealing with banking and central banks in peace agreements, they are only found in only a small portion of peace agreements. What is it that accounts for the inclusion of these types of provisions in peace agreements? Are the countries where the provisions on central banks are included in peace agreements also those which have had particular economic problems? Is there a pattern in models of central banks that are implemented in post-war countries? The ability to answer these questions with confidence is limited: the countries in question are often difficult to study and include in comparative economic analyses. For example, we find 47 country-years in which agreements with central bank provisions are present. However, the dataset on central bank independence by Bodea and Hicks (2015) is only able to provide scores for five of them, which is not surprising, as post-war situations are unlikely to allow for data collection or are even dealing with non-functional state and sovereign finances and therefore no central bank to report on. The countries in question are often dealing with complete state failure, political and economic transition, dissolution, separation, demands for greater regional autonomy, or various combinations of these circumstances, and this is what propels the need to address central banks in the text of the agreement. These are the cases of provision of some banking capacity where there is none.

Peace agreements dealing with central banks, currency, and monetary have only been negotiated in 23 countries in the 1990-2016 period.

Among the 56 instances of peace agreements referring to central banks, currency, or monetary policy, 23 are found in comprehensive agreements, 13 of which are constitutions (Burundi, Colombia, Comoros, DRC, Iraq, Libya, Nepal, Somalia, South Africa, Sudan, and Zimbabwe). Further 16 are found in substantive-partial agreements. At the same time, comprehensive and substantial-partial agreements make up less than a third of all agreements, suggesting that providing for banks is most likely to be found in cases that see an overhaul or setting up of all political institutions.

The countries where central banking is addressed in peace agreements also tend to be in a dire economic situation, as their average GDP (per capita) is half that of countries in conflict where peace agreements do not deal with any matters related to central banks, at 2 300 USD and 4 700, respectively. A simple logistic regression (Table 3), with the presence of central bank provisions as the dependent variable, gives some information on the country characteristics that most commonly associate with the presence of these provisions. This analysis is limited to countries that are represented in the PA-X, i.e. those which are or were in war and had at some point between 1990 and 2015 had the experience of at least one formal peace agreement. The data for the analysis come from the International Political Economy Data Resource (Graham and Tucker, 2017).

The results confirm the above claim: countries with higher GDP per capita are also less likely to see provisions on central banks in peace agreements. This measure is associated with a wide array of country features – including state capacity and the extent to which conflict has disrupted everyday lives. The interpretation here should be simple: provisions on vital institutions of the state, such as the central bank, are found in those places that need them the most.

	DEPENDENT VARIABLE:
	Peace agreement provision on central banks
GDP/capita	-2.774** (1.087)
Trade dependence	0.010 (0.011)
Number of battle-related deaths	0.00005 (0.00004)
Population size	2.730 (2.085)
Presence of peacekeepers	0.476 (1.006)
Number of ethnic groups in government	-0.081 (0.171)
Military expenditure	-0.000 (0.00000)
Country-fixed effects	YES
Constant	-29.602 (10,125.110)
Observations	1,357
Log Likelihood	-65.759
Akaike Inf. Crit.	281.518
Note:	*p<0.1; **p<0.05; ***p<0.01

Table 3: Country-level correlates of provisions on central banks

Figure 4 shows the overlap of powersharing provisions and those on central banks, with a focus on political powersharing in the left panel, and economic powersharing in the right panel. The largest portion of the figure is taken up by areas representing agreements that have neither the powersharing nor the central banks provisions. We may also see that there are far more agreements with provisions on political powersharing than there are those with economic powersharing, represented by the blue horizontal lines in their respective graphs.

When central banking provisions are present, we see that they are more likely to be combined with both powersharing types than agreements that have no provisions on central banks (Figure 4: vertical bars, marked 1). This is related to the introduction of both powersharing and central banks in the final versions of comprehensive agreements which lay a foundation for the post-war political order. However, further research is needed on the possible mechanism that brings together central banks and powersharing. Research on independent central banks has shown that they are more likely to be present in settings that see multiple political parties, as any party is likely to prefer independence for the central bank than possible control by the opposing parties' regulations (for the development of this argument, see Goodman 1991). The same calculations may be made by the opposing sides in peace negotiations that result in powersharing. An independent central bank may be more acceptable to them than the prospect of the opposing side holding sway over the currency, monetary policy, and banking.

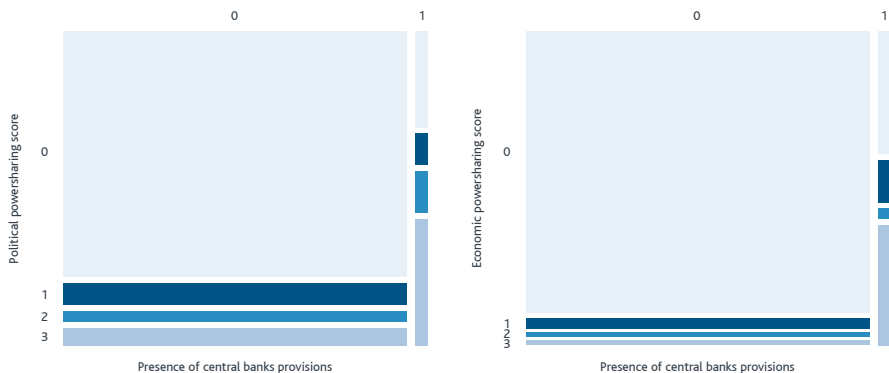


Figure 4: Powersharing and central banks in PA-X

Finally, the presence of provisions on central banks is to be expected in instances of new countries gaining independence or when autonomous regions are regulating their relationship with the central government in a peace agreement. The most prominent examples of new countries emerging from war are those of Bosnia and Herzegovina and South Sudan. The peace agreements underlying the termination of the wars that resulted in independence contain the most detailed provisions on banking regulations, as discussed in the sections above. The cases of regional autonomy, such as in Comoros, Aceh, Bougainville, Mindanao, are less expansive in their discussion of financial regulations and central banking and share one feature: central banking and currency are tied to the central government, as is the ability to borrow. The cases of political and economic transitions taking place in the wake of conflict offer the most detailed regulation of central banks, as in the cases of Yemen, Zimbabwe, Bosnia and Herzegovina, Libya, to mention but a few.

International banking and finance

When and how do peace agreements provide for international banking and finance? In many cases of formal peace agreements, the issues of international finance blend into those of international aid, development, and lending. Thus, some agreements propose the setting up of a national development bank or similar funds to finance post-war reconstruction.¹⁰ For all the popularity of the idea of micro-finance, it only appears in a handful of agreements, all after 2000, in Darfur, Mali, Philippines, and in the Great Lakes agreements.

When the agreements deal with matters of finance, they typically declare a commitment of both sides to cooperation in both public finance matters, and in facilitating cross-border flows. Cooperation can be particularly important to interstate relations post-interstate conflict or related to regional peace processes. When Russia and China signed the [Treaty of Good Neighborliness and Friendly Cooperation Between the People's Republic of China and the Russian Federation](#), they also included a clause on cooperation in global financial institutions and organisations, and committed to support each other in joining the organisations that only one of them is a member of and that the other one may wish to join (p. 5).¹¹ Plans for cross-border cooperation were also laid out in the 1994 [Treaty of Peace between the State of Israel and the Hashemite Kingdom of Jordan](#) (p. 5), where the parties agree to facilitate banking and investment, in the 2012 [Agreement between Sudan and South Sudan on Border Issues](#) (p. 11), and in the same year's [Agreement on a Framework for Cooperation on Central Banking Issues between Sudan and South Sudan](#).

¹⁰ For examples, see the 1994 [Accord de Paix et de reconciliation nationale](#) (p. 4) in Djibouti, the 1992 [Chapultepec Agreement](#) (p. 32) in El Salvador, the 1993 [Declaration of Principles on Interim Self Government Arrangements \(Oslo Accords\) between Israel and Palestine](#) (p.13, 15-16), 2015 [Agreement on the Resolution of the Conflict in the Republic of South Sudan](#) (p. 28), 2003 [Tokyo Declaration on Reconstruction and Development of Sri Lanka](#) (p. 3, and also found in the prior agreements in the peace process).

¹¹ As China was at the time joining the WTO, and Russia was not yet member, the clause may have been intended to signal China's support for Russia to join WTO.

This last agreement is the only agreement in the database that deals exclusively with matters of central banking. In this agreement, the two countries negotiating the split agree to cooperate in this area of policy, focusing to a large extent on the facilitation of transfers and providing a forum for discussing any issues that may arise in the separation. They also agree not to interfere with the operation of commercial banks from the other state. Prior to the separation, in 2005, the [Interim National Constitution of the Republic of Sudan](#) and the basis for the 2011 referendum on the independence of South Sudan instituted an unusual provision on the separation of banking systems in the country (p. 87). Article 201. par. 2 thus noted that 'a dual banking system shall be established, and shall consist of an Islamic banking system that shall operate in Northern Sudan and a conventional banking system to operate in Southern Sudan', both regulated by the central bank. While this was a case of managing a state separation, this unusual arrangement but also may be instructive for cases where there is dispute over the core rules of the banking system.

Another interesting set of agreement provisions is found in the agreements between Sudan and South Sudan, in which the two sides regulate the practicalities of handling transfers of funds that are related to the sharing of oil revenue as part of the same series of agreements related to the post-referendum secession of South Sudan from Sudan, as the banking agreement above. For example, the 2012 [Agreement between Sudan and South Sudan on Oil and related matters](#) stipulates that the Government of the Republic of South Sudan (GoRSS) will be making payments by wire transfer through the Central Bank of South Sudan to accounts stipulated by the Government of Sudan (GoS). Additionally, should the GoRSS fail to make a payment, the GoS has a right to per annum damages of 2% above the LIBOR, starting from the day when the GoS issued the default notice to GoRSS to the day when the payment is actually made. Similar provisions had already appeared in the 2004 [The Implementation Modalities of the Framework Agreement on Wealth Sharing](#). This sort of detail is quite unusual for the banking provisions in peace agreements, which mostly focus on setting up or endorsing political and economic institutions, rather than regulating a revenue-sharing arrangement in such detail. However, it should be noted that such revenue sharing provisions are quite rare as well.

Regulating personal and commercial banking

The re-establishment of the banking system is part of some agreements that are aimed at ending the fighting and attempting to normalise every-day life. For example, the [Arusha Peace and Reconciliation Agreement for Burundi](#) deals with facilitating the return of property and access to bank accounts to refugees (pages 78-79 of the Agreement), and with the problem of those who have outstanding loans for property that was destroyed in the war (page 82 of the Agreement).

In the 2013 [Implementation Matrix for Agreements between the Sudan and South Sudan](#) (p.16), one of the provisions regarding the two countries' mutual economic relationships also notes that the Sudan is to 'take all necessary action to reach heavily indebted poor'. Similar can be found in cases as diverse as the 1995 [Guiding Basic Principles for Negotiations on a Settlement of Eastern Slavonia, Baranja and Western Sirmium](#) (p. 1) at the beginning of the 3-year process of peaceful reintegration of the listed regions with the rest of Croatia, and in 1993 [Agreement of the Tripartite Meeting](#) (p. 5-6) in El Salvador, which deals with personal loans and reconstruction. Not surprisingly, these provisions are declaratory, not providing many details on the practical implementation of these measures. Another example of agreements that aim to normalise economic activity is that of the 1995 [Annex III, Concerning Civil Affairs, Israeli Palestinian Interim Agreement on The West Bank and the Gaza Strip \(Oslo II\)](#), where the Bank of Israel and the Palestinian Monetary Authority are instructed to cooperate on supervision of banking, facilitation of movement of money, and sharing of information. These types of provisions are quite straightforward, as the agreement parties agree to allow banks to open, account owners to be tracked, and currencies to be accepted.

Given the great reliance on mobile phones in banking, particularly in some African countries (Aker and Mbiti, 2010), it is surprising that not more documents refer to telecommunications and the need to re-establish reliable telecommunications infrastructure. For example, there have been 457 peace agreement documents since 2000 that in some way address economic development – but only 25 (16 in Africa) of them mention telecommunications, and these are most common in places that have been lagging in getting this infrastructure in place (e.g. Somalia, Ethiopia, DRC). The success of the M-pesa platform in Kenya, and its spread to countries as diverse as Romania and Afghanistan, could be a model for assisting post-conflict countries in setting up a basic banking infrastructure.¹²

¹² Though it ought to be noted that the M-pesa platform currently depends on a single mobile network provider, so a solution for other countries should aim to be provider-agnostic in some way.

28 August 200

Arusha Peace and Reconciliation Agreement for Burundi

Personal or commercial banking

Page 78-79, PROTOCOL IV: RECONSTRUCTION AND DEVELOPMENT, CHAPTER I: REHABILITATION AND RESETTLEMENT OF REFUGEES AND SINISTRES, Article 4 - Guidelines governing resettlement and integration:

The CNRS shall decide on the activities for the resettlement and integration of refugees and sinistrés in accordance with the priority plan taking into account the availability of resources, in order to achieve the following aims and objectives:

...

(h) To help returnees to recover the property and bank accounts left in Burundi before their exile and whose existence has been duly proven;

Page 79, PROTOCOL IV: RECONSTRUCTION AND DEVELOPMENT, CHAPTER I: REHABILITATION AND RESETTLEMENT OF REFUGEES AND SINISTRES, Article 5 - Actions with regard to returnees in their country of asylum:

The Government shall undertake the following actions with regard to returnees in their country of asylum:

(a) Helping returnees settle their disputes in their country of asylum relating notably to immovable property, bank accounts, social security, etc;

Page 82, PROTOCOL IV: RECONSTRUCTION AND DEVELOPMENT, CHAPTER II: PHYSICAL AND POLITICAL RECONSTRUCTION, Article 12 - Physical reconstruction: Physical reconstruction aims at assisting in the return of the refugees and sinistrés, as well as at the rebuilding of destroyed physical property. Physical reconstruction shall be conducted, transparently and equitably, in such a way as to:

...

(c) Solve the problems relating to the repayment of loans that some Burundians had borrowed from banks and financial institutions for which the object financed has been destroyed;

Cross - border financial flows

Page 78-79, PROTOCOL IV: RECONSTRUCTION AND DEVELOPMENT, CHAPTER I: REHABILITATION AND RESETTLEMENT OF REFUGEES AND SINISTRES, Article 4 - Guidelines governing resettlement and integration:

The CNRS shall decide on the activities for the resettlement and integration of refugees and sinistrés in accordance with the priority plan taking into account the availability of resources, in order to achieve the following aims and objectives:

...

(h) To help returnees to recover the property and bank accounts left in Burundi before their exile and whose existence has been duly proven;

Page 79, PROTOCOL IV: RECONSTRUCTION AND DEVELOPMENT, CHAPTER I: REHABILITATION AND RESETTLEMENT OF REFUGEES AND SINISTRES, Article 5 - Actions with regard to returnees in their country of asylum:

The Government shall undertake the following actions with regard to returnees in their country of asylum:

(a) Helping returnees settle their disputes in their country of asylum relating notably to immovable property, bank accounts, social security, etc;

Box 2: Example of provisions concerning personal/commercial banking and cross-border financial flows.

Conclusion

The discussion of the literature and an overview of the peace agreement practice make it clear that banking, and central banking in particular, are not high on the list of priorities of the negotiators. The research on (international) political economy of central banks suggests that this institution is vital for the smooth functioning of the economy and the financial system. However, neither the research nor the practice offers a single model of functioning for the central bank. The institutional arrangements for the economy and for the central bank very much depend on the context and country in question and may need to be preceded by decisions on what kind of economic activity is to be encouraged, which direction of post-war reconstruction is likely to be fruitful. The decisions on the currency and the setup of the central bank can then follow and be shaped to match the policy aims. As noted by Frankel (1999), no single currency regime works for all countries. Siklos (2008) argues that the same is the case for various forms of central bank independence or autonomy. Mediators and negotiating sides would do well to give more consideration to the central bank and the banking system as core features of post-war recovery, but not before considering the needs of the citizens and their economy. Given the complexity of this task, it may be useful to think about the institutions governing the economy in a manner similar to that in which we think about those governing the electoral process: by dedicating time, funding, and technical assistance to their establishment.

Annexes

Summary of provisions on central banks (CB)

Country	Year(s) of CB provisions	CB in constitution that acts as comprehensive agreement?	Relevant background (independence, regional autonomy arrangements, etc.)	Any notable features of most recently proposed CB arrangements?
Afghanistan	1993, 2001, 2002, 2004, 2006, 2012			References to currency stability, but limited CB independence.
Bosnia and Herzegovina	1993, 1994 (x2), 1995 (x2), 1996		Political and economic transition, newly independent country	Complex arrangements in the final versions, with the international community guaranteeing the independence of the CB.
Burundi	2001, 2005	2001, 2005		Regime for emission of currency to be regulated by law.
Colombia	1991	1991		Finance minister as part of CB board.
Comoros (Anjouan)	1999, 2000, 2001, 2003 (2x)	2001	Arrangements for regional autonomy	CB authority is not a locus of powersharing; one currency and one CB for all Comoros.
DRC	2003	2003		CB in charge of currency; ought to have autonomy.
Indonesia	2005		Arrangements for regional autonomy	CB in charge of monetary policy and currency, but Aceh sets own interest rates.

Country	Year(s) of CB provisions	CB in constitution that acts as comprehensive agreement?	Relevant background (independence, regional autonomy arrangements, etc.)	Any notable features of most recently proposed CB arrangements?
Iraq	1996, 2004, 2005, 2008	2004, 2005		CB to be independent; 2008: dealing with issues related to the US currency use by US forces.
Israel (Palestine)	1994		Territorial division of political power	PMA as Palestinian Authority's de facto central bank: currency exchange, banking supervision, lender of last resort; however, Israeli banks to be relicensed in the area - and any new ones seeking to enter apply to PMA; New Israeli Shekel to be one of the circulating currencies in the area - therefore to be accepted by the Palestinian Authority.
Libya	2015	2015		Central bank recognised as one of the country's autonomous institution.
Myanmar	2015			Banking and monetary issues to be discussed in political dialogues.
Nepal	2015	2015		Central banking as a federal power - but no further details.

Country	Year(s) of CB provisions	CB in constitution that acts as comprehensive agreement?	Relevant background (independence, regional autonomy arrangements, etc.)	Any notable features of most recently proposed CB arrangements?
Papua New Guinea (Bougainville)	2001		Arrangements for regional autonomy	Central banking to be federal - but there would be consultations on what central banking responsibilities may be transferred to and assumed by Bougainville; borrowing must comply with central bank regulations; external borrowing must have central bank approval.
Philippines (Mindanao)	2012 (x2), 2013		Arrangements for regional autonomy	Central bank powers reserved for the federal level, but commitment to jointly promote Islamic banking.
Russia (Chechnya)	1996		Arrangements for regional autonomy	There would be some division of power in central banking, but details to be decided at a later date.
Rwanda	1992			President signs orders for minting of currency, appointment of CB governor; PM signs order appointing/terminating CB deputy governors.

Country	Year(s) of CB provisions	CB in constitution that acts as comprehensive agreement?	Relevant background (independence, regional autonomy arrangements, etc.)	Any notable features of most recently proposed CB arrangements?
Somalia	2011, 2012	2012		CB to be established by law; CB to formulate and implement monetary and financial policy; oversight over banking system; duty to control inflation and stabilise exchange rates (language similar to Sudan/South Sudan pre-2012 agreements)
South Africa	1993	1993	Political transition	CB to protect the value of currency in the interest of balanced and sustainable growth; CB to be independent but in consultation with finance minister.

Country	Year(s) of CB provisions	CB in constitution that acts as comprehensive agreement?	Relevant background (independence, regional autonomy arrangements, etc.)	Any notable features of most recently proposed CB arrangements?
Sudan (South Sudan)	2004 (x4), 2005, 2012 (x2), 2013	2005	Pre-dissolution and pre-referendum arrangements in the 2005 constitution	<p>Pre-2012: national government may borrow from the central bank, dual banking system in north and south, CB to be restructured to match the duality, but there will be single monetary policy with a mandate to ensure price stability and sound banking system, board of directors to be independent, a new currency to be introduced - but concurrent ones to be used in the interim;</p> <p>Post-2012: establishment of joint central bank committee</p>
Sudan (Darfur)	2006, 2011		Issues of regional interest	<p>2011: The DRA and the Darfur States can get loans from national and international financial markets upon approval and guarantee of the Central Bank of Sudan;</p> <p>2006: CB to introduce instruments that will expedite development in Darfur</p>

Country	Year(s) of CB provisions	CB in constitution that acts as comprehensive agreement?	Relevant background (independence, regional autonomy arrangements, etc.)	Any notable features of most recently proposed CB arrangements?
South Sudan	2015 (x2)		Newly-independent country	CB to be independent in its statutory and supervisory functions; formulating monetary policy, promoting price stability, issuing currency, regulating the financial sector, and other functions conferred upon by the law; there will also be a petroleum revenue account with the BoSS (wealth-sharing); CB to cooperate with the government with regard to development.

Country	Year(s) of CB provisions	CB in constitution that acts as comprehensive agreement?	Relevant background (independence, regional autonomy arrangements, etc.)	Any notable features of most recently proposed CB arrangements?
Yemen	2014			<p>There will be legislation on the currency.</p> <p>CB should have full autonomy; but also another provision that says it will have full independence in setting monetary policy; CB also oversees the banking sector; CB regulations to be reviewed - with a view to eliminate corruption and protect public funds; treasury to be separated from the CB; independent auditor to audit the work of the CB.</p> <p>Fairly high requirements for CB governor and board (for governor: 30-years' experience, must speak English and have a postgraduate degree in economics/finance/related discipline); encouraging the use of Islamic bonds; focus on price stability and development.</p>

Country	Year(s) of CB provisions	CB in constitution that acts as comprehensive agreement?	Relevant background (independence, regional autonomy arrangements, etc.)	Any notable features of most recently proposed CB arrangements?
Zimbabwe	2013	2013	Political transition	There will be a CB, based on law; CB to formulate and implement monetary policy; CB to protect the currency in the interest of balanced and sustainable economic growth.

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