

**Reconsidering WB Policy of Neutrality:
From Being Neutral to Acting as a Neutral**

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THE PROBLEM

I. Introduction

International Financial Organizations (IFOs) have undertaken the complex task of supporting countries in solving problems that prevent them from obtaining stability and prosperity. The World Bank (WB) follows this objective by providing financial assistance and developing projects in member countries to insure their economic and social growth. However, in this process, WB follows restrictive interpretations of its mandate in regard to its neutrality in intra-state conflicts that prevent it from exploring opportunities to reach better outcomes for the recipient country. The WB must look beyond its traditional interpretation of its policy of neutrality to allow exploration of ways and opportunities to support its member states in coping with major problems, such as conflict. Thus, the WB would use its resources and pursue its objectives more effectively to the benefit of its member countries.

The role of international organizations in the political, social and economic affairs of their member countries¹ increased considerably after World War II. The United Nations undertook the role of addressing political aspects of the post-war realities. Two other organizations, the World Bank (WB) and International Monetary Fund (IMF), engaged in post-war efforts primarily to address “economic as opposed to the political needs” (Swedberg, 1986, p. 377) of the member states.

While promoting members’ economic and social development, WB officials assert that the Bank maintains a position of neutrality in interactions with its recipients. This policy of neutrality results from clauses of the WB charter and policies² stating that the WB officials take into account only economic considerations in developing its activity and stay politically neutral in the recipient country’s affairs:

¹ Also referred as recipient countries or recipients, member countries or member states

² Articles III, Section 5 (b) IBRD Articles, Article IV, Section 10 (IBRD); Article V, Section 6 (IDA), Article V, Section 5 (c) IBRD, Article VI, Section 5 (c) (IDA)

“The Bank and its officers shall not interfere in the political affairs of any member [...]. Only economic considerations shall be relevant to their decisions...(Article IV, Articles of Agreement)

“The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to consideration of economy and efficiency and without regard to political or other non-economic influences or considerations” (Article III, Section 5 (b) IBRD Articles, Article V, Section I (g) of the IDA Articles)

This position of neutrality has its own merits. When a country does not want the WB’s involvement in its affairs, the neutrality policy allows the country to oppose the WB decisions, influence, and involvement, as it was the case with the Qinghai anti-poverty project when China withdrew its request for World Bank’s funding (Bottelier, 2000).³

However, this policy of neutrality also keeps the WB from exploring its projects’ real potential and leverage for a positive contribution to solving major problems in its member country, when the country accepts and welcomes it. This paper reflects on the WB potential to facilitate the settlement of a conflict in a member state, Moldova, in which WB neutrality policy keeps the WB from exploring and pursuing such efforts.

This paper reflects on the reserved role of the WB and the potential role it could play in the problem settlement. The conflict in Moldova, negotiated between the official government,

³ China withdrew its request for World Bank financing for the Qinghai anti-poverty project. Peter Bottelier, faculty member at the John F. Kennedy School of Government at Harvard presented a talk at the Harvard University Asia Center on October 20, 2000. He worked in the World Bank from 1970-98. He served in many different functions, including as Chief of Mission in Beijing (1993-97) and as Senior Advisor in the East Asia Region (1997-98).
<http://www.fas.harvard.edu/~asiactr/haq/200101/0101a007.htm>

and a separatist administration in the trans-Dniester region,⁴ is considered a major problem that prevents the country from moving forward with its social and economic development. The WB officials claim themselves neutral vis-à-vis the efforts that the involved parties and other players take to settle this conflict. The position of neutrality keeps WB from considering the potential of its projects that, if properly designed and implemented, could positively affect the negotiation and resolution of the conflict.

The position of neutrality can carry legitimate concerns. For example, the WB's involvement in conflict may change the power balance between the parties. In such a situation, the power shift can go both ways and potentially legitimize the separatist side. This would be unacceptable to the Moldovan government, which cooperates with the WB as the official representative of the country in the organization. Subsequently, this can bring pressure in relations between WB and Moldovan government.

The World Bank should not ignore these concerns. Rather, the WB could explore ways to approach parties' positions towards a settlement. The World Bank's involvement could be a potential opportunity for Moldova to settle a conflict that lasted for more than ten years. At the same time, the WB could also better achieve its primary objective and play a substantial role in the country's social and economic affairs, and present real incentives for parties in the conflict for future fruitful cooperation.

The World Bank is a powerful international institution that influences international affairs and countries' affairs and roles on the international arena. It has financial and human resources and expertise in dealing in conflict-affected countries. The World Bank could be a

⁴ Also Transnistria or Transnistrian region

strong facilitator with whom the parties would want to cooperate with and work towards a settlement of the conflict.

Settling the conflict could increase the country's economic, social, and political stability, which ultimately is also the objective of the WB as promoted in its charter. The WB officials have the discretion within the broad language of the Bank's charter to reconsider and refashion the Bank's neutrality position to allow the Bank to use its resources and leverage to constructively engage in aiding to resolve the conflict. Going beyond the traditional interpretation of neutrality position implies reconsidering the values behind this policy, the attitude of the country regarding the WB involvement, the nature and reasons to address the conflict and the necessity beyond the country's domestic borders for settling the conflict.

II. Considerations of Neutrality Dilemma

Several studies argue whether the activity of international organizations and globalization are beneficial or detrimental to the development of states (Van Asbeck, 1976; Keohane, 1984; Starr, 1997; Gruber, 2000; and NGOs⁵). Regardless of this debate, the international organizations continue to develop their activity and, it is important that in this process, they continue to consider ways to use their resources to bring better outcomes to the recipients.

Exploring this, the paper touches upon issues intensely discussed in many of these studies. Issues concerning the WB's possible interference in a country's domestic affairs, its political impact on the country's decision-making process and involvement in conflict-affected countries have engaged authors in controversies about the role of WB and other financial institutions.

⁵ International Development Research Center, Institute for Multi – Track Diplomacy- <http://www.imtd.org/>, German Development Institute, http://www.die-gdi.de/die_homepage.nsf/FSSstartE?OpenFrameset, etc.

Some authors suggest that IFOs, in particular World Bank and International Monetary Fund, should return to basics and play the roles that they assumed when they started (Hills and Peterson, 1999). Others promote that IFOs contribute to support efforts in redressing conflict-affected countries (Ragazzi, 2002; Colletta; Banon⁶). Lake and Morgan (1997) observe that international organizations contribute to the development of regional security if IFOs extend the realm of their tasks to conflict prevention and post conflict development in cases of violent conflict, but their role remains still limited. Chayes & Chayes (1996) and Reinicke (1996) promote exploration of options for IFOs' to contribute to prevent conflict in developing countries.

I support the position that the WB and other international organizations should explore options to improve the use of their resources and improve ways of pursuing their objectives. If such institutions like the WB are to function, they need to change behavior and position according to the new realities. The WB's neutrality has already been questioned and proven unreal due to factors, inside and outside the WB, including its involvement in conflict, which makes the WB an "openly political" institution (Swedberg, 1986, p. 383; Stiglitz, 2002).

Usually, the WB's political involvement is critically considered as a "should not happen" issue. This paper agrees that the WB is politically involved but argues that the WB can't avoid being politically involved. Economic considerations for a project can greatly impact politically the situation in a country or in a region. Political issues, such as conflict, can carry more economic issues than political ones and the WB can't ignore it in deciding on its projects and activity in a country. The paper argues that this dilemma should not make WB stay neutral from

⁶ Reports, Analyses and Dissemination Notes on conflict affected countries within the Post Conflict Unit, Social Development Department, World Bank official website

exploring areas in which its contribution will have a considerable positive impact for the social and economic development of its members.

WB's experience in conflict results from its several contributions to conflict-affected countries around the world. To capitalize on and analyze this experience the WB created in 1997 a special conflict related unit, the Post Conflict Unit⁷. This unit performs analysis and cases studies to develop the WB activity in conflict related cases. It can also provide support to WB country teams, performing conflict analysis on particular cases.

To date, WB officials' efforts in conflict-affected countries are in accordance with a special operational policy, "Development Cooperation and Conflict" Operational Policy (OP) 2.30 developed in January 2001. The WB also developed special instruments to provide assistance and guidance in affected areas, such as the Transitional Support Strategies (TSS)⁸.

The World Bank can also function in conflict-affected countries based on the regular Country Assistance Strategy⁹ (CAS) in cases when its lending portfolio is not affected by the conflict. As a rule, the WB's efforts focus on the rehabilitation of infrastructure, advice on economic policy, aid coordination, institution building, and social sector investment. Addressing the trans-Dniester conflict would contribute to redressing these and related areas in Moldova,

⁷ PCU also manages the Post Conflict Trust Fund (PCF) providing grants to governments, regional or international bodies, transitional authorities, non-governmental organizations, universities and other civil societies in countries with conflict.

⁸ The Transitional Support Strategy (TSS) was specially developed for conflict-affected countries. This is a short to medium-term plan for Bank involvement in the country that faces a conflict.

⁹ Basic document, a work plan, to guide WB 's operations in a client country that describes all of the Bank's planned operations in the country—lending, analytical work, and technical assistance—for the time period covered by the CAS – usually three years. The main goal of the CAS is to develop a strategy that will guide the Bank's efforts in assisting a country reach the goals of poverty reduction and economic well-being that it has set for itself. In doing so, the CAS takes into account the country's development priorities and its economic performance. It also reflects the Bank's mandate as an international development institution and what it is most capable of contributing relative to other development agents and sources of financing. The CAS is designed with the government, and in consultation with a wide range of representatives from civil society, including NGOs, community groups, trade unions, media, professional associations, religious groups, and so on. WB official website.

including in the region with conflict. The instruments exchanged between the WB and the Moldovan government, CAS, aide memoirs, and project documents (Projects Information Document [PID] and Project Appraisal Document [PAD])¹⁰) make reference to the trans-Dniester conflict.

However, the conflict is regarded as a domestic political issue that the Moldovan government is obliged to address and settle. Its special policy OP 2.30 prescribes that WB does not engage in peacemaking or peacekeeping activities and does not interfere in the country's domestic affairs". The operational policies explain and define meanings of general clauses of the WB charter to prescribe the WB officials a way of actions at the operational level. These policies compliment the articles in the charter that serve the basis for the neutrality policy. These policies can, however, change based on successful experience of the WB.

As OP 2.30 acknowledges, though, there are cases when the WB could make a difference in the conflict-affected country and cases that its members may need WB's support in solving a conflict and they can address to the WB for support. However, unless it takes a proactive role, WB cannot build a history of successful cases to base a change in its operational policies.

The WB non-involvement in the conflict is justified through its policies' interpretation but it is questioned when its resources are wasted and prove inefficient in its member's development. One would wonder what those 47 projects (USD 505.00 million) that WB funds in Moldova could actually reach if the conflict were settled. In a situation when the assistance does not reach the trans-Dniester zone, the reforms and development of the country cannot occur as fully as if the conflict did not exist. By not addressing the conflict, the country faces a loss of resources, and so does the World Bank. Moldova uses credits and loans to develop reforms,

¹⁰ Project Information Document (PID), Project Appraisal Document (PAD) are developed when WB plans to fund and implement a project in country recipient

which, if conflict did not exist, would be developed on Moldova's entire territory. Assuming the conflict is solved and the country reintegrates, Moldova will still have to develop reforms in the trans-Dniester region. This would imply additional human and financial resources as a double effort to resources already spent on such reforms in Moldova.

This could be avoided if the conflict is settled. The World Bank could make a contribution in the process by being more sensitive to needs, problems of its recipients, and changes of circumstances and reconsidering the practicality of policies. Moldova's case illustrates why the WB should reconsider its position of neutrality and involve in facilitating the settlement of the conflict. The case presents a frame to examine implications for the country of sovereignty and domestic jurisdiction concepts, as values determining the WB involvement in the conflict. It provides evidence concerning the parties' receptiveness for the WB's role and contribution to promote development and willingness to consider cooperation perspectives. The nature of the conflict and its impact for other countries and the region overall presents a frame to consider the conflict an international or regional issue, rather than an internal affair of Moldova.

These issues regarding Moldova present the premises for a reinterpretation of the WB neutrality policy. In addition to the WB's role in the country and in the region as an institution that possesses resources, as well as its role on the international arena and cooperation with other international players, a less-rigid neutrality policy would strongly support the objectives and commitments the WB assumed as an international developing institution.

III. Methodology

This inquiry began with secondary sources: I used policies, documents and studies to reflect on the definition and application of the WB neutrality policy. Mass-media articles and documents provided information on the activity of the WB, the negotiation process, and the

positions of parties in conflict. To get beyond the surface information provided in these secondary sources and to understand sensitivities of the meanings of the concepts of neutrality, sovereignty and domestic jurisdiction, I conducted interviews with WB, Moldovan, and Transnistrian officials.

As mentioned in the previous section, the interpretation of neutrality depends on the perceptions of players in a particular context. The interview research method offers a more flexible and adaptable environment to explore these perceptions and to clarify meanings in open discussions by establishing a cooperative relationship with the interviewees (Kyle, 1996). This was important for discussing general official statements and positions presented in documents and the mass media.

In interviews, I intended to explore underlying reasons behind these official positions in regard to issues of neutrality or conflict. Exploring perceptions and interpretations necessitated interaction with the official for specifications, explanations, and clarifications to better understand their meanings.

Issues related to conflict, the negotiation process, and roles of powerful players in the process present sensitive areas, which are also better explored through interviews (Lee, 1993). Given that usually the interpretation of positions in an official setting is uniform among officials, the number of interviewees was based on qualitative rather than quantitative considerations.

I discussed with WB project managers to see what opportunities the project cycle offers for exploring the WB potential involvement in conflict settlement, as well as when and how one can start to explore the potential projects that can contribute to the settlement of conflicts in the recipient country. I interviewed representatives of the sides in conflict: five representatives for the Moldovan side and three representatives for the Trans-Dniester region side. Four officials

had minister level position, three working level and one former high level official who is an influential figure among leaders of one side in conflict. I had short conversations on related subjects with officials or non-governmental organizations to get familiar with issues and subtleties related to the conflict and politics. I also interviewed two representatives involved in the promotion of the WB activity in Moldova, a WB local official and a representative of the US embassy in Moldova¹¹.

I have chosen these officials because they are involved in the conflict settlement/negotiation process, or are involved in implementing the WB activity. Though I expected that the interviews would be a difficult way to collect the information, I found it the best methodology approach because it provided information on the perceptions of the parties in conflict, on the neutrality policy, opinions, and attitudes towards the WB involvement in the conflict settlement and perspectives for potential opportunities in conflict settlement.

The nature of the political issue, both related to the conflict and the WB activity in Moldova made it difficult to have the parties discuss open-ended questions. I frequently had to ask them to specify what the interviewee meant through a general statement. In many instances they were hesitant to be specific, avoided to answer or used another general official statement. I therefore, prolonged the interviews whenever I could from 30 – 40 minutes to 1 – 1,5 hours. In most cases in the second part of the interview, the officials will start to talk more, explain and refer to the official statements they made in the first part of the interview.

I have chosen to look more at a particular project, Trade and Transport Facilitation Project as a project case study because, in my perspective, it could have been designed in a manner to affect the evolution of the conflict negotiation process in Moldova. The focus of the

¹¹ The WB project under analysis was co-funded by the US Government

project touches upon customs and territory control, which is a key issue in the conflict. Therefore, the project could serve as a potential tool, which WB could use to make a positive contribution to the conflict settlement.

The only available information about the project was the Project Information Document (PID)¹². Though the Project Appraisal Document (PAD)¹³ was already performed, I could not access it because PAD is not made public until the WB Board of Directors approves the project. Therefore, besides the discussions with WB officials responsible for the project at the WB headquarters, I interviewed three Moldovan officials involved in the negotiation process on the project.

I met the WB officials working on the project and kept in regular contact to follow the negotiation process on the project between the WB and Moldovan officials. The project has been delayed by several political implications and has not started yet. However, I observed the negotiation process on the project, which was reflective on the potential and sensitivities of the project in regard to conflict and the WB neutrality policy.

The project, as also described by a WB official “a highly political and sensitive issue” both because of the nature of the project and internal disputes in the Moldovan government over the implementation of the project. The project was supposed to be implemented by a Moldovan agency that wanted to keep control over the project, its design and technology. This raised disputes between the WB officials and Moldovan government, which made the negotiation process slow and difficult to the extent that the project was to be suspended. Consequently, the project is only in the phase to be approved by the WB, after more than a year of negotiations with the Moldovan government. Therefore, I can elaborate on the project only based on its

¹² Document presenting general information about the project

¹³ Presents results of analysis and assessments for project implementation

design and the negotiation process. Further negotiation and implementation of the project can present an interest for further study.¹⁴

This case study on trans-Dniester region conflict is intended to question a position and open the area for further exploration. The paper is based on a limited data provided only from a case study and is not a finite analysis of the discussed issues. The recommendations and the findings are intended to be suggestive, not conclusive. Further research is required on case studies and analysis on the policies of the WB and their implications for effectiveness for its members' development, the nature of the conflict, and the contribution of WB in conflict settlement.

REASON FOR THE PROBLEM

The policy of neutrality results from states' traditional claims for sovereignty and control over matters of domestic jurisdiction. International organizations, created by states, committed to respect these values through internationally accepted agreements, including the WB charter. Concepts of sovereignty and domestic jurisdiction determine the state's internal and international affairs and how they relate to conflict. They also form the backbone of WB neutrality policy and its behavior in intra-state conflicts.

IV. Neutrality in Diverse Contexts

Attempts to develop a general definition for the concept of neutrality raises several questions around the interpretation of the concept: Does neutrality require one to stay away from any involvement in a conflict? Is neutrality simply not taking sides in a conflict? Does neutrality

¹⁴ The disputes and sensitivity around the project also made the interviews difficult in both, accessing officials for discussing the project. When I approached the Moldovan officials to talk about the project, I was regarded with suspicion and the officials were very reserved to answer questions. All the interviewees refused to tape record the discussions.

involve the balancing of powers between parties to ensure that one party does not have an unequal impact on the dispute? Can a party be considered neutral when it interrupts a relation with a long-term partner because the latter gets into a conflict with another party? (Blix, 1970; Reeve, 2001; Cobb and Rifkin, 1991; Waldron, 1998).

These questions indicate the complexity of the concept and the dilemmas one faces in defining neutrality. Scholars reflect on these issues in regard to the circumstances and context in which the concept is applied. The neutrality definition is based on some principles generally accepted for a particular context but its definition depends greatly on the perceptions of the players exercising or affected by neutrality.

Hence, the principle of political neutrality from the philosophical perspective, defines the state neutral in controversies in pluralist societies on issues like faith, philosophy, and values (Waldron, 1998; Sher, 1997). The state should be neutral and not impose its position on these issues and leave the citizen to make the choice. However, the line between freedom of choice and the state's role to ensure "the good" to its citizens is subject to debate and interpretations.

At the international level, international law characterizes the position of a neutral vis-à-vis two parties in conflict (usually two states). A country declares itself neutral in relation to a conflict between two or more countries and stays away from any involvement with these players. This is a general definition of neutrality in this context but whether or not the country is supposed to end any previous relations, including economic relations with one or both countries, is a debated issue and is often subject to interpretations.

A position of neutrality is ultimately defined contextually to the benefit of the involved players. The state can protect better people's rights by being less neutral in how its citizens decide on choices they make. The parties in conflict and the neutral state may agree to continue

the previous relations even when the conflict between two sides is going on, for either providing aid to civilians or for ensuring continuity of started projects.

Waldron (1998) raises a question of what matters in the position of neutrality: to be neutral as a reason and as a principle or to be neutral as an outcome. This presents another dimension of considering neutrality position: is it a commitment not to influence the outcome and content, or a principle not to get involved in the process? Folger (2001) indicates “process and content are intertwined” (p.57). A third party’s involvement in the negotiation, even when the party promotes a neutral position towards the outcome, will still affect the outcome through the third party’s mere involvement.

Several sources explain neutrality through impartiality explained as an unbiased position and equal treatment of parties, and abstinence from promoting the neutral’s interests when interacting with these parties and absence of a pre-determined agenda of the neutral (Feer, 1992; Honeyman, 1985; Rifkin, Millen, and Cobb, 1991; Steinmetz, 1987; Zartman and Touval, 1996). Applied broadly and in different contexts, neutrality acquires several features and is subject to several interpretations. A good understanding of the neutrality position requires deconstructing it as a concept in component parts and analyzing how these elements manifest themselves to reflect on the position of a neutral, such as the WB.

V. WB Neutrality - Premises for WB Claimed Neutrality

There is no explicit explanation of the WB neutrality concept through a document or policy. Some authors would discuss the concept of political neutrality based on the WB policies prescribing its officials to take into account only economic considerations in decision-making and not to interfere in the political domestic affairs of its member countries. These prescriptions, reflected in Articles III, Section 5 (b) IBRD Articles, Article IV, Section 10

(IBRD); Article V, Section 6 (IDA), Article V, Section 5 (c) IBRD, Article VI, Section 5 (c) (IDA) present the framework for the WB position of neutrality.

These principles intend to promote the values of state sovereignty and the right of a legitimate government to control issues of domestic jurisdiction. Historically, states have wanted and believed they needed to preserve these values when dealing with each other in the context of international organizations. Consequently, many international organizations proclaimed these principles in their charters.¹⁵ The position of neutrality promoted nowadays by the WB officials' bases on the concepts of sovereignty and domestic jurisdiction as they were perceived and promoted when the WB was created in 1944. In order to explore the application of this policy in today's context, it is necessary to consider sovereignty and domestic jurisdiction and how they were historically interpreted, which impacted the creation of the WB charter.

Neutrality and Sovereignty

State Sovereignty. Sovereignty is defined as the supreme decision-making and decision-enforcing authority possessed by no other social institution than the state (Ziring, Plano, and Olton, 1995). Authors like Jean Bodin, Hobbes, Hegel, Max Huber, Hobbes and Scelle have sometimes interpreted the concept in contradictory terms. Some claim that there is no power higher than the state (Hobbes and Hegel) and others stress the importance of international law over sovereignty (Scelle and Kelsen).

¹⁵ Organization of American States, Bogota, 1948, the League of Arab States, Cairo, 1945 and the Organization of African Unity, Addis Ababa, 1963, as well as in the decisions of the Asian-African Conference at Bandung, Indonesia, 1955, the First Conference of Heads of State or Government of Non-Aligned Countries at Belgrade, 1961, in the Programme for Peace and International Cooperation adopted at the end of the Second Conference of Heads of State or Government of Non-Aligned Countries at Cairo, 1964 and in the declaration on subversion adopted at Accra by the Heads of State and Government of the African States, 1965. (United Nations General Assembly Resolution 2131(XX). Declaration on the Inadmissibility of Intervention in the Domestic Affairs of States and the Protection of Their Independence and Sovereignty)

Blix (1970) explains the origins of sovereignty developed from the biological nature of Man and his inclination to control and defend a portion of territory to feed and sustain himself and secure a livelihood. He reflects on Homo sapiens demands for self-determination and territorial integrity and protests against intervention and intrusion. The modern concept of sovereignty can be traced to the Treaty of Westphalia in 1648. This treaty ended the Thirty-Years War in Europe and established national self-determination as a principle for the formation of a state (Khudolev, 2001, July 16)¹⁶. Corollaries of the sovereignty include at least prima facie exclusive jurisdiction over a territory and the permanent population living there and a dependence on obligations arising from international treaties (Brownlie, 1998).

The United Nations is considered the primary source for defining and regulating international relations between and among states and organizations. Its charter stipulates non-intervention in matters that are necessarily within the domestic jurisdiction of any state (Article 2, paragraph 7). However, its charter still allows for the Security Council to authorize such intervention when a state's exercise of its domestic jurisdiction results in a "threat to the peace and breaches of the peace"(Chapter VII).

Other international organizations have followed the United Nations lead and have included this principle of respect of sovereignty in their charters and have followed this principle in their activities.¹⁷ The WB's Articles of Agreement reflect the principle of non-intervention in a country's affairs and respect for state sovereignty. Thus, the international community allows an international organization to involve and contribute to insuring security in a country or region.

State Sovereignty and conflict. A defined territorial entity is considered sovereign when it proves internal supremacy and external independence (Fowler and Bunck, 1960). Thus a state

¹⁶ http://web.gc.cuny.edu/icissresearch/Reports/St_Petersburg.discussion.paper.Khudoley.htm

¹⁷ The WB, through the 1947 Relationship Agreement between the United Nations and the World Bank, agreed to " have due regard for the decisions of the Security Council" (Ragazzi, 2002).

and its “government must have supremacy over all other potential authorities within that territory and population”. The external aspect of the state’s sovereignty presupposes that the state has “actual independence of outside authority” (Fowler and Bunck, 1996, p. 37).

In an internal conflict between a government and a self-proclaimed authority in Moldova, these two aspects of sovereignty play an important role. The official government of the state loses its internal sovereignty when it cannot settle the conflict and when it does not control the territory and population of a separatist region. By accepting intervention of international community to settle a conflict, a state can lose its external sovereignty, being dependent upon the actions of the international players. However, the international community by limiting the state’s external independence and supporting the state solve its internal conflict, helps the official government regain its internal sovereignty.

In settings of conflict, the concept of sovereignty can play a role in defining the legal status of the parties in conflict. For a political community to be a sovereign, it must have a territory, a population, effective rule over that territory and population, and recognition of other nation-states.

In the Trans-Dneister region conflict, one party, the officially recognized government of Moldova is the official sovereign over the entire territory and population of Moldova, including the region of trans-Dneister. However, the separatist administration acts independently from the Moldovan government and has effective rule over trans-Dniester region. This administration, however, does not have official recognition of its authority from the international community and therefore, it is not formally considered sovereign.

The international community members, including the WB, deal with contradictory values. The international community recognizes values of self-determination but at the same

time discourages divisions of territory, especially in cases when the territory is divided by separatist regimes. Interaction of international community with separatist regimes might increase the perception of potential recognition of this regime as a separate international entity. In cases when such administrations rule over the territory and control the population, international recognition would make this administration and the region a separate sovereign entity.

Self-determination principle was proclaimed through UN resolutions and as an expression of the people's right to determine their fate (Blix, 1970). The population of trans-Dniester region in its last elections re-elected its administration according to democratic principles and this can be an expression of self-determination right¹⁸. On the other hand, the international community recognizes the supremacy of territorial integration of states to avoid "dangerous fragmentation of states" (Blix, 1970, p. 14).

The WB and other international organizations might avoid interacting with the separatist regime in Tiraspol¹⁹, in order to avoid potential increase of the status and consequently recognition of the region as a separate entity, and thus the territorial disintegration of the Republic of Moldova. In several discussions with WB officials they claimed that WB stays "neutral" in the Trans-Dneister conflict because WB does not interfere in domestic affairs of its member. WB feels obliged to respect its member's sovereignty and control of its domestic affairs, a right that the Moldovan government has through its legal internationally recognized status as a sovereign state. The WB does not recognize the separatist administration as an independent actor with which it could develop any type of activity.

¹⁸ No serious violations were registered during the elections.

¹⁹ proclaimed capital of the separatist trans-Dniester region

The sovereignty concept reflects a power imbalance between the parties to the conflict and it impacts the attitude of third parties regarding the conflict and regarding their potential involvement in solving the conflict. According to the UN's charter, the recognized sovereign government is considered an equal player in the international arena. This creates the legal framework for WB to have interaction with the Moldovan government and no interaction with the trans-Dniester unrecognized entity.

Neutrality and Domestic Jurisdiction

Domestic jurisdiction derives from the concept of sovereignty. Domestic jurisdiction provides that the state has supreme authority and judicial, legislative, and administrative competence within its territory (Brownlie, 1998; Evans, 1998). It implies that international interference is not appropriate in regard to certain issues in which the state is not limited by obligations imposed by international law unless the state agrees.

The WB claims that it must stay neutral in the domestic affairs of its members. Consequently, the Bank contends it cannot consider the political conflict in Moldova in developing its social and economic programs in Moldova. The Bank officials refuse to consider the potential ways the Bank could use its programs to contribute to resolving the conflict. The assumption behind WB's position is that conflict is an issue of domestic jurisdiction and the state has full rights to solve by itself without international interference.

EXPLORING THE CHANGE IN SEARCH FOR A SOLUTION

A concept changes when its component parts change. The WB neutrality policy should also be reinterpreted when concepts behind it change, such as sovereignty and domestic

jurisdiction. The next section will reflect on the context in which these concepts change their role and intensity and argues that WB involvement in conflict is necessary.

Since the creation of WB, countries have become more concerned with what other countries do and how they perform, including in economic and political areas. In this context the issue of conflict and security presents a special interest to other states and the international community and they affect the concepts of neutrality and domestic jurisdiction. They change interpretations of positions and policies, including the WB position of neutrality. The next section reflects on the national interests of countries and the issue of conflict/ security as the basis for changing perceptions of sovereignty and domestic jurisdiction and thereby the concept of neutrality of WB.

VI. Changing Sovereignty & Domestic Jurisdiction -Changing Neutrality Concept

National interests

Khudolev (2001) reflects on a gradual erosion of state sovereignty produced by changes in the last decade in international relations in economic and other spheres. Matters considered once to be under the exclusive domestic jurisdiction of the state are no longer treated as such. States have not accepted a uniform position on the issue. Their positions can range from accepting a world bound by sovereignty to promoting a sovereignty-free world (Zartman, 1997).

The difference in positions results from the different interests and needs of the states. They usually sacrifice their sovereignty to supranational organizations because of rational considerations and a desire to achieve their own interests. Pintea (2002) describes “states’ national interests” as “the fundamental objective and last determining factor” that guides the political decision making process” (p. 41). Though states can retain their prerogatives of ultimate

decision-making, they cooperate through international organizations when their perceived national interests are enhanced rather than diminished or threatened by such cooperation (Bennett, 1984).

This cooperation between states and international organizations makes the states develop more interdependent relations with each other and this interdependency ultimately affects the countries' sovereignty. As states become more interdependent with other players, their freedom of action and sovereignty is curtailed (Starr, H., 1997). Blix (1970) considers this interdependence to be a consequence of humans' needs to co-exist and cooperate. He observes that states' needs for co-existence and cooperation are the basis for the legal framework of bilateral and multilateral rules that states create to interact.

In Blix's (1970) perspective, the international organizations act as "administrative departments" (p.1) and regulate the functioning of the world community through these laws of coexistence and cooperation. The international organizations are institutions that the states created to support themselves to coexist and cooperate. The state in deciding to be a part of an international organization transfers some of its powers to the organizations and thus diminishes its sovereignty and control over matters of domestic jurisdiction.

Today, matters like violation of human rights, trade and economic development, governance, and security are no more considered matters of exclusive domestic jurisdiction and are often addressed by the international community (Blix, 1970; Evans, 1998). The way separate countries handle such matters within their borders has become increasingly important to the world. This interdependence is driven by countries interests to promote certain values and interests, including democracy, security, or trade.

This impact of internal control on the international community arguably shrinks the boundaries of domestic jurisdiction and forces new changes in interpretations of concepts like sovereignty and domestic jurisdiction.

Conflict/Security vulnerability

Security threats, the needs for international management of conflict, and promotion of international cooperation can be driving forces and legitimize the international community to intervene in a country's internal affairs (Morgan, 1997). Regional and global integration and interests of developing trade, transportation, and communications stay behind the international community's interests to address the potential destructiveness of criminal activities nation-wide, regionally, and even globally. Organized crime, drugs and weapons trafficking, terrorism, and trafficking in human beings, though generated in one country, present a regional or even global threat. Concerns for security in some cases thus go beyond domestic jurisdiction of a country.

Security issues are closely related to other sectors, including commerce and economy. The tasks of security are not only to protect territory and save lives but also, as Frost (2001) cites the American National Security Strategy, "to promote the well-being and prosperity of the nation and its people."²⁰ Therefore, economic development cannot be insured without taking care of the security issues. Economy and security are thus interdependent. Economic concerns cannot be addressed without addressing the political concerns a country or a region faces by being exposed to threats of a conflict.

Thus in some situations of conflict, the state can favor external intervention to regain its lost internal sovereignty. This can be in the interest of the member but such a contribution also benefits the international community. It prevents uncontrolled territories from generating ethnic

²⁰ The White House. *Economic Report of the President*. Washington, DC: Office of the Press Secretary, 1999.

clashes, illegal drug and weapons traffic, increased crime and other threats to the regional or global security and prosperity (Evans, 1998).

The WB policies reflect on concerns for threats of conflicts that affect its members' performance and that may also have regional implications by "spilling over the country's boundaries".²¹ Therefore, it admits intervention in addressing the conflict. Exploring its potential as an intervener can bring rewards for its activity, for its members and for the international community.

Exploring WB's Potential in Conflict Solving

Considering Intervention. Third parties become involved in facilitating settlements of international conflicts through mediation. Zartman and Touval, p. 445 (1996) describe mediation as a "mode of negotiation" in which a third party, called a mediator, neutral, or intervener helps the disputants in conflict find a solution which they cannot find by themselves. The neutral can intervene in the conflict settlement being motivated by its objectives and motives in settling the conflict without promoting a particular outcome in the negotiation.

The WB objective to promote economic and social stability of its members is a fundamental general premise for considering its potential contribution to the conflict settlement. Its motives in reducing risks for developing effective projects and ensuring a good use of its resources, in reducing threats of the conflict on stability of its members neighboring the disputants, and its cooperation with other international players involved in conflict serve as main motives for WB's involvement in solving efforts.

Reconsidering its neutrality policy, the WB could engage in facilitating the settlement of the conflict. Table 1 addresses the clauses behind neutrality policy in regard to conflict and

²¹ The World Bank Operational Policy, p. 1, January 2001

presents elements of its current and potential interpretation. An examination of these clauses shows that the WB can keep its neutrality position by being neutral towards the outcome of the settlement.

This new interpretation is based on what neutrality intends to protect and promote: non-involvement as a process (on principle) or as an outcome. The WB could claim to be neutral on the principle of not interfering in the *process of* a country's exercising sovereignty and control over its internal affairs. The WB could also claim neutrality because it intends not to affect the outcome: the capacity of the country to exercise its sovereignty and handle its affairs. By developing activities in its member country, the WB gets involved in activities that impact how the country handles its affairs but it does not determine what decision the country takes as a result of this activity. This reflects that ultimately the WB, through its charter clauses behind the neutrality policy, promotes protection of the outcome rather than the principle of not interfering in the process.

The position of neutrality intends to protect sovereignty and domestic jurisdiction powers of members as an ultimate goal. In the case when the country faces a conflict, the WB can better achieve this goal if it actually engages in solving the conflict. In this case the WB is not neutral in the process. But this helps its member to regain its lost sovereignty and control over territory, caused by the country's disintegration.

In conflict resolution neutrality is usually explained through impartiality. An impartial facilitator avoids biases toward parties and tries to treat them equally. Impartiality also presupposes that the neutral does not pursue a specific outcome and has no pre-determined agenda on what the settlement for the conflict should be. He facilitates the settlement based on

parties' agreement (Feer, 1992; Honeyman, 1985; Rifkin, Millen, and Cobb, 1991; Steinmetz, 1987; Zartman and Touval, 1996).

In a conflict related involvement, the WB can preserve its neutrality position when acting as an impartial facilitator in the process, through promoting no interest in a specific outcome other than a settlement. WB neutrality, as related to a conflict, outlines an impartial position of the WB vis-à-vis the outcome. Its impartiality is expressed through a lack of a pre-determined agenda on the issues discussed by the parties in conflict. A Moldovan official, for instance, acknowledged the interest of international community for settling the conflict but emphasized that "...the international community and international organizations do not care how we solve the issue. They just want it solved."

The WB can keep its neutrality and respect its charter through abstaining from promoting its own interests in a particular outcome from the negotiation process. The WB has interests – to end the conflict and promote effective development of its projects and support Moldova's economic and social sectors. These interests may be reflected in the negotiation process but they do not prescribe a particular agenda and formula to settle the conflict. Parties will decide on them and the WB will facilitate the negotiation process between the parties. Thus, WB will preserve its neutrality by staying impartial vis-à-vis what the sides in conflict will agree on as a settlement.

Some could argue that the WB during the negotiation process will influence the outcome promoting a particular position, pressure, or influencing the parties decisions from its own or international community's considerations and therefore, it can't be impartial in the outcome of the negotiation. The WB would certainly impact the outcome which parties would agree on, as this is the role of a neutral: to change the perspectives of parties to reach an outcome, an

agreement acceptable to them (Boskey, 1994). The World Bank would present perspectives that the parties could otherwise ignore, even though these perspectives are valuable to both parties. Bringing new perspectives in the negotiation process as a way of expanding the pie and raising awareness about factors that the parties did not include on their agenda can help them move towards an agreement.

Establishing relations. When parties consider a potential intervener to facilitate the settlement, they examine the outcomes- costs and benefits- from both, accepting and rejecting the intervention (Zartman and Touval, 1996). The outcome of the intervention depends on the relationship established between the mediator and the parties.

Conflict resolution principles promote that the mediator plays neutral in its relations with the parties. Scholars and practitioners as a general rule, describe the third party's neutrality by using terms of impartiality, equidistance, lack of bias and prejudice (Delgado, Dunn, Brown, Lee, and Hubbert, 1989; Feer 1992; Honeyman, 1985; Rifkin, Millen, and Cobb, 1991). The neutral plays impartial, treats the parties equally, and guards his behavior against biases or prejudices.

In regard to the Moldovan conflict, the WB cooperates only with one party in the conflict, given that the parties have different legal statuses: the internationally recognized Moldovan government cooperating with the WB as the legitimate representative of the country while the separatist administration in trans-Dniester is not officially recognized. This should not be an obstacle or reason for the WB not to get involved in conflict settlement. The World Bank could still facilitate the dialogue between the parties while developing its activities in the country, either through assessing or negotiating the development of potential projects with one or both parties in conflict.

Several studies already debate the traditional view on the mediator's role, showing that in several cases, the mediator cannot and does not have to be impartial in its relations with the parties. For example, Cobb and Rifkin (1998) reflect on the importance of the mediator to address power imbalance between parties contradicts the use of impartiality. Reflecting on equidistance, Minow (1990) contends that an equal treatment can affect parties disproportionately. Parties may need and accept different treatments, depending on their situations.

Zartman and Touval (1996) and Touval (1975) argue for revising the assumption that mediators have to be impartial. They assert that parties consider the benefits and costs of accepting and rejecting a mediator rather than his impartiality. The parties are interested in interacting with a third party when he can bring acceptable outcomes. Partiality, or good relations of the mediator with one party may in fact stimulate parties to accept the mediator. Each party can see benefits for themselves from the mediator's closeness with the other party.

Closeness with the Moldovan government can present rewards in the mediation process. The Moldovan government can offer, discuss and explore creative proposals that WB could promote and develop as part of the negotiation process. These can be projects and programs, which can address and incorporate interests of the other party and thereby engage both parties in a constructive dialogue (Zartman and Touval, 1996). For example, the Arab parties in their conflict with Israel allow the United States to facilitate the negotiation process because the Arabs see that the close USA – Israel relationship allows Americans the power to influence Israel to make concessions (Zartman and Touval, 1996).

The WB can play the role of a neutral party in the conflict by helping parties reach an agreement without promoting its own interests or a determined agenda on how to settle the

conflict. The WB's current relationship with the Moldovan government, based on legal grounds of official representation of the country, justifies the partial role the WB can play as a facilitator cooperating more with the Moldovan government. It lacks similar relations with the Transnistrian side, which is not internationally recognized. Instead, it can present incentives to touch upon parties' interests, approach their positions and move towards a settlement. Close consideration of the conflict characteristics can reflect on the parties' positions, interests and premises for relations between the facilitator and the parties.

Table 1. Considering the Neutrality Policy

<p>Clauses behind the Neutrality concept</p>	<p>- Not to interfere in the country's domestic affairs and take decisions based on economic considerations</p> <p>-Unclear what it is meant by being neutral: neutral in the process or neutral towards the outcome?</p>
<p>Deconstructed current interpretation and its implications in the case of Moldova's conflict</p>	<p>- Not to interfere or play any role in the conflict setting; cooperate with the official government as if the conflict did not exist</p>
<p>Elements to construct a new interpretation of neutrality when considering involvement in the conflict</p>	<ul style="list-style-type: none"> ➤ The conflict is a major obstacle in the country's development ➤ Its settlement depends on the development of the country and of sectors that the WB funds ➤ Conflict carries mostly economic motivations (data provided in the text) ➤ Neutrality = a position of impartiality vis-à-vis the specific outcomes of the settlement. It facilitates the process between the parties. ➤ WB can stay neutral in the conflict by facilitating the conflict and keeping a neutral/ impartial position vis-à-vis the outcome of the settlement <p>Explaining Neutrality:</p> <ul style="list-style-type: none"> ▪ Neutrality is identified with impartiality. ▪ WB is impartial to the outcome of the negotiation. Therefore, it keeps a neutral position. ▪ This does not imply impartiality in the communication process with its parties <p>The outcome depends on the process. The process may affect the outcome. But the parties determine the outcome. They need to get "unstuck"</p>
<p>New interpretation of WB neutrality clauses</p>	<p>Clauses promote non-involvement in determining country's decision on the outcome. Though the WB can affect the country's process how it handles its affairs, the country takes the ultimate decision</p>

VII. Case Study – The Conflict in Moldova

The Transnistrian conflict in the Republic of Moldova is a sovereignty dispute between the Moldovan government and separatist leadership in a region internationally recognized as part of the Republic of Moldova. Trans-Dniester region²² lies in the eastern side of the Dniester river. The conflict resulted from social changes generated by the collapse of the former Soviet Union. The population in Moldova divided in subgroups with different ideological, political, and cultural interests. The newly created social structure with different subgroups created premises for individuals and groups to make claims for power positions, prestige and scarce resources (Coser, 1956).

Some leaders in the trans-Dniester region, claiming other ideological and political interests than the official leadership of Moldova, proclaimed the trans-Dniester region independent from Moldova in 1991. The parties' temptation to prevail and dominate over a territory, without being stopped by social or structural constraints and by use of distorted information (Rubin and Levinger, 1995), escalated into a civil war in 1992, which was stopped through a ceasefire agreement that year, but continues unresolved today. The negotiations between the unrecognized Nistriian Republic and the Moldovan/Chisinau authorities have been intermittent since 1992.

The nature of the conflict, however, changed over the last ten years as the parties' positions and interests have changed. The trans-Dniester separatist administration developed and

²² Trans-Dniester region (previously the Autonomous Moldovan Socialist Republic within Ukraine) formed together with Bessarabia (former part of Romania) the Soviet Socialist Republic within USSR as part of Stalin's strategy to divide nations and exercise better control over them. This territory became the distinct Moldovan Soviet Republic, which in 1991 was recognized as the newly independent state - Republic of Moldova. The population of the eastern part of the Republic of Moldova (Trans-Dniester region), in 1991 was a mixture of several ethnicities; the major ethnical groups of the region include in almost equal proportion Romanians, Ukrainians, and Russians (mainly transmuted or migrated during Soviet times).

strengthened its institutions and infrastructure. The leadership in Tiraspol²³, self-proclaimed in 1991, has been elected in December 2001. This strengthens its position at the negotiating table. The Moldovan government's instability and its frequent changes during the negotiation process reduced its potential to provide consistent efforts in settling this territorial division problem.

The trans-Dniester conflict has raised security concerns in the region. It increasingly attracts the attention of international organizations and countries as a potential threat for economic and political stability. Trans-Dniester region has become deeply corrupt, developing organized crime, political corruption, and illegal trafficking of weapons to Macedonia and Chechnya (Wines 2002) and trafficking in people. Frost (2001) asserts that in this era of globalization threats, conflicts assume transnational forms. Organized crime, illegal trafficking in drugs, terrorism, and human beings become regional concerns.

Further, globalization has promoted new security concepts that include economic priorities as areas for threat calculus. The separatist trans-Dniester territory presents an unstable and threat-full environment for regional trade and cooperation. Mark Galeotti, an expert on Russian and Eurasian organized crime at Keele University in England, said that the Trans-Dniester Republic "maintained an uneasy peace between five to seven international criminal gangs with varying holds on power" (Wines, 2002).

The leader of the Moldovan Liberal Party, Veaceslav Untila (MoldPress, 2002)²⁴ stated that "Transnistrian separatism is a headache of Europe and Washington" In a situation when the Moldovan government cannot stop these processes and they have been growing over the last ten years, they become concerns of the international community and its settlement goes beyond the jurisdiction of the Moldovan government.

²³ Proclaimed capital of the trans-Dniester region

²⁴ Chisinau, 16 dec. 2002 /MOLDPRES/.

The conflict involves international players who have acted as mediators or parties supporting the settlement for security and political interests.²⁵ Regardless of several efforts of the parties and of international players, such as, OSCE, Russia, and Ukraine, the conflict remains unresolved. These international players have continuously focused on political aspects of settling the conflict. Exploring options to capitalize on WB expertise, leverage, and economic resources to interest parties can be a beneficial impact upon the settlement of the conflict.

Sides in Conflict and WB

The WB manifests its policy of neutrality vis-à-vis its member countries as a whole and the activity of their governments. In Moldova, there are two administrations, one official and one unrecognized, which govern separately over parts of the country. Though the WB cooperates with the official government, its intervention in the conflict would require consideration of both conflicting sides.

Intervention in conflict settlement implies that parties accept this contribution of a third party, either because this presents rewarding opportunities for the parties to come to an acceptable agreement or because the rejection of the third party might come with more negative consequences for one or both parties (Zartman and Touval, 1996). The reflections below base on information and opinions of a number of official players in the conflict and therefore, present insights for consideration for potential positive WB contribution to settling the conflict.

Position of the Official Moldovan Government

Its Relations with the WB and perceptions on the WB neutrality.

²⁵ The Organization for Security and Cooperation in Europe (OSCE), South Eastern Cooperative Initiative (SECI) with an indirect involvement through its programs in Moldova, Russia, Ukraine, and Romania

Moldovan government is the official representative of the country in the World Bank. The Government cooperates with WB both receiving funding for projects and structural adjustment loans. It has been cooperating with the WB since Moldova became a member in 1992. The WB assistance is a considerable contribution to the efforts of the government to develop its program for developing the country.

The Moldovan government perceives international players as valuable actors to support the Moldovan government in settling problems, including the conflict in the trans-Dniester region. Sovereignty issues, however, affects the WB's involvement in the conflict and its relations with the Moldovan government. The government preserves its sovereign powers to decide on the international players' contribution to the conflict settlement:

“... the activity of the WB or anyone else... including related to the settlement of the Transnistrian conflict is welcome but with the condition that this is approved and accepted by the leadership of the republic”... The concept of sovereign and independent state presupposes that the state decides on its own fate ... to make it a short answer – the WB shall keep its neutrality and shall therefore contact with the official legal institutions²⁶ (high level official from the Moldovan government).

According to the Moldovan officials, neutrality does not mean simply non-interference in the country's affairs. The international players can interfere with the agreement of the government. The Moldovan government would disapprove the WB's direct relation with the other side in conflict”:

”The WB acts correctly as it cooperates only with the legal, official legitimized institutions of Republic of Moldova (RM), in this case, with the government of the RM, I think, WB would act incorrectly if it would cooperate with illegal or unofficial players. ... No matter of what activities they [international organizations] develop on the territory of Moldova, again they have to develop them with the agreement of these official institutions, in accordance with their competence. (Moldovan high level official).

²⁶ Interview with the Moldovan Presidential advisor

The Moldovan government has concerns that the other side by cooperating with international organizations, including the WB, could strengthen its position as a separate entity. Given that the trans-Dniester region is not recognized as a separate entity, it might be looked on as being in a weaker position than the official Moldovan government. As a rule in international mediation of conflicts, it is perceived that the weaker party disproportionately gains in negotiation in comparison with the more powerful party (Honeyman, 1985). Therefore, the Moldovan government makes sure that the involvement of the WB would not be a direct cooperation between WB and trans-Dniester region to avoid the possibility of legitimizing the other party which aspires to international recognition:

They [trans-Dniester administration] declared themselves an independent state and therefore they expect inter-state relations, diplomatic representatives of international organizations in their self-declared capital. This is their official position; they want to obtain an international presence in their so-called state. ...[...] but I think the WB is neutral and acts correctly by cooperating only with legal and official bodies of the Republic of Moldova". (Moldovan government high level official)

The Moldovan government can allow international involvement with the condition that the official government will preserve fully its officially claimed and recognized powers as a sovereign state. The Moldovan constitution promotes that sovereignty is inalienable which means that sovereignty cannot be given away to other states or international organizations.

But, it is also the sovereignty issue that makes the Moldovan government accept international intervention in settling the conflict. The constitution promotes that sovereignty is indivisible, but the official government doesn't have control over the separatist region. The internal sovereignty of the country is divided between the administration in Chisinau²⁷ and the unrecognized administration in Tiraspol.

²⁷ Chisinau – Capital of the Republic of Moldova; Tiraspol – proclaimed capital of the trans-Dniester region

Moldova acknowledges the role of the international players to regain its lost sovereignty and control over the entire country, which can happen when the conflict is solved. Therefore, the contribution of the WB is worth consideration and is welcomed by the leadership of Moldova.

The Moldovan government's relations with the WB depend on its relations with the international community, and on the WB's cooperation with other international players that relate to Moldova's conflict. Moldova's relations with the international players, such as the European Union, could worsen as result of the conflict as a need to develop efforts to stop negative effects of the conflict:

“Transnistria, it's not a big secret, ...and unfortunately, this thing is not recognized by the public at large, only recently this was expressed openly as a concern, - Transnistria is in fact, a black hole of Europe which... because of contraband ... is the source number one of illegal activities in the Transnistrian region: weapons are made there and exported in Aphasis and Chechnya. There were cases when weapons proved to be made in Transnistria [he named a weapon called “Vasilioc launchers”] they were found in Chechnya. There are also economic crimes, such as the contraband in the Transnistrian region through the well known Sherif firm, or better say, through Sherif assistance. ... We do not control the flow of goods through customs...

The Trans-Dniester region is seen as a transit and producer region of informal economic flows. Informal economy is based on the sale of the region's products and transit of commodity flows from the shadow economy. The European Union, as the organization in the region most concerned for its economic and political stability, started to promote programs and activities to preserve and develop security and cooperation in the region under the Stability Pact for South – Eastern Europe Program,²⁸ which includes Moldova as a member since June 2001.

²⁸ Stability Pact The Stability Pact was adopted on 10 June, 1999 in Cologne, in response to the European Union's call to adopt a Stability Pact for South Eastern Europe. Present participants were: member States of the European Union, the European Commission, the Foreign Ministers of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Romania, the Russian Federation, Slovenia, the former Yugoslav Republic of Macedonia, Turkey, the United States of America, the OSCE Chairman in Office and the Representative of the Council of Europe representing the participants in today's Conference on South Eastern Europe; and the Foreign Ministers of Canada and Japan, Representatives of the United Nations, UNHCR, NATO, OECD, WEU, International Monetary Fund, the World Bank, the European Investment Bank and the European Bank for Reconstruction and Development, acting within their competences, representing the facilitating States, Organizations and Institutions of

The WB cooperates and co-funds projects with the EU by funding and developing the projects. Though the projects focus on economic issues, they address political and security concerns as well. When the WB develops such projects in particular countries, it can't ignore their political elements. This places the WB in the midst of efforts to contribute to the settlement of the conflict. Thus, for example, in a statement from December 16, 2002, the Moldovan president, Voronin, made an official statement asserting that the European Union and Stability Pact Program could contribute to settling the conflict in trans- Dniester region (Moldpress, 2002). President Voronin solicits EU support in solving Transnistrian conflict, which is *“the only major obstacle in building an independent, sovereign and integral state, and which diminishes the initiated reforms and is the main source for the negative social phenomena that destabilize the situation in the country”*. He proposes to initiate “political consultations” between EU and Moldova regarding the settlement of the conflict and “the possibility to increase the role of EU in solving the Transdnestrria conflict.”

The World Bank has direct connections to the Stability Pact Program and the efforts of the European Union in Moldova. Recently the WB became involved in developing a project promoting trade and transport in the region as part of Stability Pact Program. The project, Trade and Transport Facilitation Project (TTFP) focuses on reforming customs controls and border service in the country and integrate them with similar systems in countries in the region.

As one of the big issues for the region, the European Union, including the Stability Pact program, is securing border control. This is also an important issue in the Moldovan conflict. Ensuring border control and delimitation will contribute to settling the conflict. Many assert that

today's Conference, as well as the Representatives of the Royaumont process, BSEC, CEI, SECI and SEEC, have met in Cologne on 10 June 1999, in response to the European Union's call to adopt a Stability Pact for South Eastern Europe. (Cologne Document on Stability Pact, June 10, 1999)

the conflict is intractable precisely because it generates profit. Securing the border would reduce illegal flow of goods, which is the source of illegal money. This would affect the parties' positions in the settlement process and the WB project would have a role in this.

Indirectly, the WB is already involved in the conflict settlement by engaging to reform the customs service. Though the WB and Moldovan officials do not relate this project to the conflict solving process, securing the border and ensuring control would affect parties' interests.

Neither the WB nor the Moldovan government, as the official recipient of the project, performed any assessments to determine the relevance and potential for designing the project to contribute to the settlement of the Trans-Dnistrrian conflict. The WB officials invoked the neutrality policy when asked if the project's design took into consideration that it touches upon the border issue as a relevant issue in the conflict. They could involve more actively by exploring the potential of what such a project could bring to the settlement of the conflict. The WB's funding and developing TTFP in Moldova could be an opportune time to contribute to the resolution of the conflict, if its neutrality position were not allowed to hamper its ability to facilitate. Facilitation could start with WB efforts to assess the potential of the project and design it in a manner that affects parties' interests and moves them towards a settlement.

Moldovan officials consider that neutrality policy as promoted theoretically but that it can't be followed in the real world, taking into account newly imposed realities:

“Do you think this is neutrality, the way they define it? It's just discourse, just discourse [...] there is no absolute neutrality in the world [...] isn't it involvement in the internal affairs when these organizations say: we are ready to cooperate with you with the condition of respecting the democratic principles, etc. The rule that exists in the world. Isn't it involvement? There is no absolute neutrality... it is a reality ...

The WB interpretation of neutrality keeps it from promoting what it claims to promote: development and integration. The Moldovan officials admit that the country took a course of

development promoted by the international community, including WB, to promote democracy and regional integration. A Moldovan official expresses that the WB should be more pro-active in supporting the country's efforts in this process:

” I am saying it again: this has to be done, has to be done by the WB and IMF [International Monetary Fund], much more actively and in great proportions to get involved in the settlement of the trans-Dneister conflict... European Union, as well ... [...] expressed clearly it could have an effect that would make them [Transnistrians] seriously think of it, not only Transnistrians but in general ... the same regarding other conflicts.” (Moldovan official)

In its current interpretation, neutrality is unclear what it means and the officials raise questions about its practicality, interpreting it in their own perspective, especially when the neutrality policy does not serve members' interests. In a Moldovan official's view, the WB could contribute by promoting the settlement of the conflict, by being more proactive:

[...] They [WB] did not come with projects, small or big, and nobody came to say, together to us and Transnistria: “there is a project that can include the following: 1, 2, 3 which, refer to one and the other side]with the condition – to solve the Transnistrian problem. Nobody said this, regardless of whatever project, big or small...(Moldovan official).

The Moldovan official sees the potential contribution of the WB in the form of rewards – “aid for policy,” which in WB practice is the use of conditionality (Collier, 2000). The Moldovan official's position could come from the current political attitude of the Moldovan government to use pressure on the trans-Dniester side to cooperate. Most of the interviewed Moldovan officials have referred to use of pressure and conditions as a way of making the Transnistrian side cooperate and settle the conflict:

Q: What would determine the other side to reconsider its position?

A: Pressures...all kind of pressures...for securing the border.. and others”. (Moldovan official)

A: “Pressures... blocking the illegal activity of the economic agents from trans Dniester region both, inside and outside the territory of Moldova... Blocking the activity using legal instruments and other methods. The leadership in Chisinau considers that only

the constitutional bodies of the republic of Moldova, Chamber for licensing or Chamber of registering the economic agents, are the legitimized bodies established by the government and only they can allow the development of activity of the economic agents. In cases when these economic agents are located on the left side of the Dniester river and do not have documents issued by these respective bodies, their activity is not considered legal. So ... this kind of pressures. One of the types of pressures, ... the so called economic pressures” (Moldovan high level official).

The way these Moldovan officials reflect on conditionality as a tool to make the parties settle the problem reflects the experience the member states have from cooperating with the WB, which attaches conditions to the aid it allots to the recipient country (Nelson and Eglinton, 1996). The WB includes conditions on developing better governance or improving human rights and increasing participation in its member countries, issues that refer well to aspects of the conflict. Improving governance includes establishing control over customs and tax collection. Promotion of human rights includes protecting interests and rights of the population in both sides of the conflict. Participation includes involving societies of both sides in conflict in speaking out their opinions, interests, and concerns. These issues are important areas that play in a conflict, which carries risks for bad governance, human rights abuse, and exclusion of groups. WB involvement could be a great contribution to address them as issues as part of the settlement process.

WB potential involvement in the conflict. Some Moldovan officials’ positions that the WB could be more pro-active reflect on expectations towards the WB, regardless of the fact that the WB policies prescribe the Moldovan government could address the WB for support: “Its [WB’s] intervention may take place at the request of the government in power...” (OP 2.30)

No direct initiative appears to have come from the Moldovan government to the WB asking for support in addressing the conflict. The government cannot address the WB directly. Moldova is a young state and is learning to assert itself on the international arena. In this process, it uses rules and regulations prescribed by the international community, including international

organizations, like the World Bank. The international rules and laws serve as standards and principles, which would help the country integrate in the international community. Since it is generally accepted that the WB does not involve in conflict-solving efforts, the Moldovan government has not taken the risk to get the WB's refusal on involvement in conflict solving.

There is another aspect to explain the Moldovan government's disinclination to solicit help from the WB in solving the conflict. As a state in formation, it can't openly and aggressively ask for help. As a young state, it needs to assert its capabilities to exercise sovereignty and prove its state-building and state-strengthening capabilities. It needs to avoid situations when these capabilities are openly doubted. The traditionally accepted and promoted principle of sovereignty and independence from international interference, like the WB neutrality policy, "allows" the government only to some extent to approach the international community, including the WB.

The most convenient and secure way to solicit support in conflict-solving efforts is through official statements. Therefore, its intentions and requests can come in official messages, memos and communications addressed to the international community or communicating directly to the WB. These official statements serve as political tools to solicit cooperation and support from players who have leverage.

The WB country team, based in Chisinau, is following Moldova's internal conflict. The team presents information to the WB headquarters about the country's problems and development. A recent country team report presented facts about a discussion of Moldovan officials on the external debt management (Report, 2001)²⁹. As the report indicates, the Moldovan officials consider the internal conflict in which "Moldova has lost the control over its territory" as reason number one for the country external debt increase".

²⁹ Topic: "External Financing and Management of the External Debt". *November 2, 2001*

In a recent presentation³⁰, the Deputy Minister of Economy, Marian Lupu talked about the government's progress on performing the Poverty Reduction Strategy Paper (PRSP) that the WB suggests its members should prepare³¹. Though PRSP is a relative recent initiative³², it could serve as a very useful tool to support the country's development. CAS and PRSP are the main documents that present the frame for WB's and its members cooperation. They reflect on priority areas that the country needs to address and potential WB contribution. The PRSP describes a country's macroeconomic, structural and social policies to promote growth and reduce poverty and determine associated external financing needs.

The Moldovan officials might use PRSP as a tool to deliver its main concerns and solicit support from the WB to address the trans-Dniester conflict as a serious cause for the poverty in Moldova. In the draft of the PRSP that the Moldovan government is currently preparing, the Transnistrian problem takes a special place. The report says:

“[...] the Government has put much of its time and energy in trying to solve the Transnistrian conflict, in cooperation with the international community. This conflict has been a heavy burden for Moldova, both emotionally and economically. The re-integration of Transdniestria would allow us to direct all our efforts toward the development of our country and the alleviation of poverty” (Report, 2001).

During a meeting with the Executive director for Moldova, Ed Melkert, the Moldovan president, Voronin emphasized the necessity for a stronger collaboration with the representatives

³⁰ Second Forum of Poverty Reduction Strategies, Budapest, November 2001

³¹ Poverty Reduction Strategy Papers (PRSP) describe a country's macroeconomic, structural and social policies and programs to promote growth and reduce poverty, as well as associated external financing needs. PRSPs are prepared by governments through a participatory process involving civil society and development partners, including the World Bank and the International Monetary Fund (IMF) (WB official website - <http://www.worldbank.org/poverty/strategies/>)

³² PRSP approach was approved in December 1999, by the Boards of the IMF and the World Bank to the challenge of reducing poverty in low-income countries based on country-owned poverty reduction strategies that would serve as a framework for development assistance. Ten countries have completed their first full PRSP and three countries have completed their first annual PRSP implementation progress reports. Some 42 countries have also completed their interim poverty reduction strategies and seven countries have subsequently submitted their PRSP preparation status reports for consideration by the Boards. Moldova is one of the countries in the last group (Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Early Experience with Interim PRSPs and Full PRSPs, March 26, 2002, <http://www.worldbank.org/poverty/strategies/review/earlyexp.pdf>)

of WB to develop a PRSP for Moldova (Moldova Suverana, 2003)³³. The PRSP's defining characteristic and its most significant achievement is its participatory nature³⁴. Given that this is a new tool and WB offers support to governments to develop the PRSP, the WB could engage in exploring the potential to settle the conflict in trans-Dniester region while supporting the country to develop its PRSP. Performing assessments and engaging in dialogues with social groups on the other side in conflict, as part the PRSP preparation, falls into the participatory approach of the PRSP. This can lead to learning about the other side's underlying interests and ways to address them to move parties towards a settlement. Responding to the country's needs and messages, the WB could involve more actively in supporting the country in its struggle for development and settlement of the conflict.

Position of the Transnistrian Administration

Its Relations with the WB and perceptions on the WB neutrality. The Transnistrian side has no official interaction with the WB. The self- declared administration, though elected by the region's population in December 2001 is an entity that is not recognized by any international organization or state. The WB does not develop any projects or offer any financial assistance in trans-Dniester region. The Moldovan government, which officially is representing the trans-Dniester region in the WB, does not develop any projects funded by the WB in that region.

³³ Moldova Suverana Newspaper, 58 April 4, 2003, <http://moldova-suverana.md/articol.php?id=840>

³⁴ The WB and IMF have required that governments prepare and monitor their PRSPs through a participatory approach. The PRSP approach has established a presumption in favor of openness and transparency and broad-based participation. It is to lead to an improved dialogue within the various parts of governments and between governments and domestic stakeholders and bring new participants into the policy dialogue. (Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Early Experience with Interim PRSPs and Full PRSPs, March 26, 2002) <http://www.worldbank.org/poverty/strategies/review/earlyexp.pdf>

Though the Transnistrian administration criticizes the Moldovan government for living on outside credits and indebting the country, discussions with officials from the WB and Moldovan and Transnistrian sides confirmed that the Transnistrian leadership has lately solicited WB's financial assistance. The WB denied the application. The trans-Dniester officials confirmed this: "The WB appreciated the project but refused to cooperate with us because we are not a recognized government."

Trans-Dniester officials perceive that WB neutrality is based on political rather than economic considerations to make decisions on its activity in Moldova. A trans-Dniester representative³⁵ asserted that the WB is politically influenced in deciding how to develop its activity in Moldova and therefore, the WB is not neutral. The WB approves projects developed only for a part of the population that is officially represented in this international body. The WB did not approve any projects from the trans-Dniester region:

"We have approached the WB with projects. They said, even in private conversations, that it was a good project but they do not deal with us because we are not officially recognized." (High Level official from the Trans-Dniester region)

"If I were to go as the director of a factory, approaching WB to solicit a credit ... they [WB officials] won't talk to me. Why? We are also people..." (Official from the Trans-Dniester region)

This interpretation of neutrality is a consequence of the WB cooperation with only one of the two sides in conflict that form the WB official member state. The WB's supportive relationship with one side in the conflict makes it partisan in the eyes of the Trans-Dniestrian leadership. Yet the WB maintains that the Moldovan official government is accountable on the international arena for the entire population of the country and claims to be the expression of state sovereignty, people's power.

³⁵ The trans-Dniester representatives refused to accept the interviewer tape record the interviews and their views can't be quoted.

Officially, the entire population in trans-Dniester region has the right under the Moldovan constitution to claim equality in using resources assigned for Moldova. The constitution proclaims the population the sovereign holder of power. But because the population in the two sides of the conflict is controlled by two administrations, official or separatist, people on one side of the conflict are unable to exercise this right.

The WB follows internationally recognized norms and endorses universal principles such as, human rights, moral inclusion, and participation in its policies. It promotes consideration of stakeholders' views and interests. The WB needs to consider the population in trans-Dniester, at least, as stakeholders that can be affected from developing projects in Moldova, even if the projects are not developed in trans-Dniester region. To date, the population has not been included in any form of consideration, other than as a part of the official state, Moldova. Promoting interests of the population of its member, can be another motive for the WB to involve and promote the conflict settlement. Solving the conflict will allow the WB promote the social development of the entire population of its member.

Potential for WB involvement in the conflict. Given its position, the WB could have an impact upon the resolution of the conflict. For the WB to have a contribution, besides approval and acceptance from the official Moldovan government, it also needs acceptance from the trans-Dniester separatist administration. Transnistrians used to perceive the Western international players with suspicion. The West welcomed the collapse of the Soviet Union, the preservation of which was the reason invoked by the Transnistrian leaders when they separated from Moldova. The separatist administration, though not openly, has suppressed Western values, such as democracy and transparent market economy.

President Smirnov and his Transnistrian administration now, however, display a moderately reserved attitude towards these Western institutions. In his recent statement he referred to the visa limitations imposed by European Union for him and a number of other representatives of his administration.³⁶ He called upon the international players to come and see the situation in the region³⁷.

“I invite representatives from Russian Federation, Ukraine, OSCE and other European institutions to visit Pridnestrovskaja Moldavskaja Respublica to get acquainted on the ground with the real situation, make sure of groundlessness of charges towards Pridnestrovie” (President Smimov, trans-Dniester region Leader)

The non-aggressive attitude reflects that the trans-Dniester leaders now recognize that the region depends on Western international players:

“We just last week had a discussion with the Transnistrians.... Regarding the future of Moldova in general, of Moldova separately and of Transdnistria separately, and of Transdnistria together with Moldova in the context of the European evolution, related first of all to the European Union enlargement. They understood... and this is for the first time they openly say this... using the example of Cyprus... Those who want in Europe, Cyprus and not only Cyprus, they want it not because of political reasons, but because of economic reasons. The world wants another living standard, they want ... to work in different places , ... to bring capital, etc. etc. (High level Moldovan official)

The Transnistrian leadership does not have legitimacy to claim cooperation with any international institution, including the WB, given that no one recognizes it as a separate entity. Therefore, it is more in the position to accept or refuse proposals of cooperation rather than solicit them. Trans-Dniester officials however, expressed interest for cooperation with the WB by approaching the WB to ask for funding. Trans-Dniester region can be financially interested in developing relations with the WB and receiving financial assistance, credit and loans, directly from WB or through the Moldovan Government:

³⁶ European Union imposed in March, 2003 visa restrictions as a response to the Molodvan government's appeal towards the International community and its representatives in Moldova to support Moldovan government's efforts to settle the Transnistrian conflict <http://www.usembassy.md/en-03062003.htm>

³⁷ Speech addressed to the international community , February 18, 2003

“ As I said, after ‘94 – ‘95 it’s not the politics that are the essence [of the conflict] ... or the reasons of non-settlement of the conflict in Transdnistria, but it’s money. It’s money. It’s all about money. These Transnistrian politicians they do not make politics – they make money. (Moldovan high level official).

“ We are ready to cooperate, the Moldovan government receives assistance to develop a project and a segment of a project is assigned for the Transnistrian region, with delimited amounts of money...” (trans-Dniester administration official)

Developing relations with the WB can be a step to promote the image of the country and of the trans-Dniester region as a potential trustworthy economic / business partner.

Some argue that the WB should not get involved in impacting the settlement of this conflict because the separatist regime is a corrupt and unrecognized regime and a source of illegal weapons production, trafficking in goods and human beings, and organized crime. But regardless of the quality of the Transnistrian administration, many people in the region support this administration³⁸ and the Moldovan government will have to negotiate an agreement with the trans-Dniester leaders. The Moldovan officials recognize this:

[...] we need to take into account that if an agreement is reached ... this presupposes that... as I said before ... until democratic elections, this administration (trans-Dniester current leadership) will keep its positions ...” (Moldovan high level official)

The WB combines a set of factors necessary to persuade parties to accelerate the settlement. It could facilitate the process between the parties in conflict without legitimizing the separatist administration, using tools and leverage to make a positive contribution to this decade-lasting conflict.

³⁸ 1. Oleg Serebiran, former Deputy Minister of Foreign Affairs asserted in a presentation at Harvard School of Government, April 11, 2003. He referred to people’s reasoning of supporting the administration: common people are better off in the Transnistrian region than in the rest of Moldova. As an example he brought the difference in pension amounts for people in the two parts of the country: \$25 – \$30 pensions of people in Transnistrian region compared to \$12 - \$13 for people in the rest of Moldova.

2. A recent study of Suhan and Cojocar (2002) shows that the Romanian speakers in the trans-Dniester region (the social group that associates with the society in Moldova the most, sharing the same ethnicity) and the other social groups develop an identity of a separate entity, which the population accepts and approves. The longer it takes the time, the more difficult will be to solve this conflict positively in favor of keeping the territorial integrity of Moldova.

Benefits from Cooperating with the WB

The parties' acceptance of a third party to contribute to settle the conflict depends on its role, created circumstances and factors, and the disputants' interdependence. Both parties cannot ignore the changing realities that impose on the conflict settlement. The parties adapt to the surrounding conditions and accept related consequences. A new surrounding environment to the parties in conflict, determined by other international players like the WB and by other phenomena, modify the parties' interests and positions (Starr, 1997).

General interests. Parties can perceive WB involvement beneficial for several reasons. Cooperation with the WB can open new perspectives on parties' perceptions for potential political and economic benefits at international and internal levels. There is no way of predicting with certainty the achievement of benefits but parties can consider several of them related to the following areas of interest:

Legitimacy. Through cooperation with the WB, which usually works with official governments, the parties get recognition of their political power. Implicitly and consequently they get recognition and support for the political course promoted by this power.

Credibility and State Maturity. The cooperation with the parties means the WB recognizes the institutional capacities of the party it cooperates with to manage, implement, and control WB projects.

Recognition and membership. WB would contribute to a country's promotion on the international arena and access to resources from global or regional actors (Paris Club, G 20; G7, European Union, etc.).

Stability and Political Continuity. Cooperation with WB imposes a set of rules and norms of behaving and acting on the international arena. The cooperation with WB can be

promoted as a guarantee in cooperating with other international players. Consequently, the political power can develop and increase its potential as a leadership in the country.

Among parties' economic interests, parties can potentially promote:

- The possibility to implement new projects, including developing institutions and initiating reforms in particular sectors and industries
- Obtain support from the WB in macro-economic issues
- Building credibility to obtain resources from other international sources
- Developing the potential for economic stability
- Developing regional and international economic cooperation with other countries and international organizations

These are general interests from which both parties can potentially benefit in cooperating with the WB. This can be true for both parties, even if they have different statuses. The Moldovan government is an officially recognized independent country but is relatively a young state in the process of formation and of assertion on the international arena. Its positive relations with the international community, in particular the financial institutions, have a great impact upon Moldova's efforts to assert itself on the international arena. Moreover, the current government led by the communist party and regarded with suspicion by international players, needs international positive cooperation to increase and strengthen its image on the international arena.

Internally, the Moldovan government needs to increase its image as a government delivering results in solving problems, including the conflict, better and more effectively than the previous governments. In addition, Moldovan government as the official member of the WB and as the sovereign power of the state is also in the position to coordinate the activity of the WB and

therefore might favor WB involvement in settlement of the conflict. For its part, an unrecognized entity like the Trans-Dniester republic would certainly attach great importance to cooperating with international players in order to pursue its political and economic interests.

Considering Economic Interests. Though the WB can present political incentives to the parties, the specifics of its activity can touch upon parties' economic interests more than any other international organization. This is a strong area in which the WB can impact greatly the evolution of the conflict settlement .

Both sides in the conflict have economic needs, which the WB could attempt to address. The Trans-Dniester budget for 2003 has a deficit of 36% on expenses, or 6, 5% of GDP. The ministry of economy of the Transnistrian administration asserts that: "Transnistria during its 11 years of existence had never had such a tensioned budget" (Gudim and Balan, 2002).

The economic motives in the conflict are considered to prevail in determining parties' positions (Gudim and Balan, 2002). "Economic issues are the core of the TransDnistrian conflict" (Evaluation of the Transnistrian economy: critical appraisal, 2001) "Economic rationale for the initiation and stability of the conflict was hidden for a long time" (p.1). This aspect has been disregarded or left in the shadow by mediators so far.

The Trans-Dniester side depends economically on Moldova. After Septemeber 27, 2001 when the Moldovan Government introduced new customs procedures at its frontiers (caused by Moldova joining the World Trade Organization [WTO]) the economic situation changed in Transnistria (dimished budget income, interruptions of activity of enterprises, and diminished export).(Gudim and Balan, 2002). The Moldovan Government's economic interests in trans-Dniester are to establish control over the region with its industrial potential³⁹ and promote a

³⁹ In 1990 trans-Dniester region accounted for about 40 % of the Gross National Product of the entire Republic of Moldova while its population comprised 15, 2% and territory included 12, 4 % of the country.. Besides, favorable factors for its location bringing

stable economic environment that would attract foreign investment in the entire country. The WB could present incentives for the parties to develop their economic potential once they solve the conflict, through both projects and budget adjustments.

In discussions with officials, some argued that the trans-Dniester side, for the same economic reasons, would not be interested in cooperating with the international community and settling the conflict, given that it generates considerable illegal revenues. But the Trans-Dniester region is seen as a transit and producer region for informal economic flows. The informal economy is based on the sale of the region's products and transit of shadow commodities. Several sources from Moldova, such as officials and newspapers, and the external press point to the region's involvement in illegal traffic of weapons and humans (Wines, 2002).

Moldovan officials claim that the money generated from the conflict is incomparably greater than any economic benefits that WB, Moldova, or any other international or regional economic source would offer. Therefore, the Transnistrians would not be interested in cooperating to settle the conflict. However, Transnistrians cannot ignore the fact that new realities, such as EU and NATO expansion, increased interests in regional security and stability that could result in the seizure of illegal profit making, through harsh approaches, such as economic sanctions or additional regulations imposed on economic Transnistrian agents. The parties cannot withdraw from the conflict; they can only slow down the negotiations (Rubin and Levinger, 1995), which can be resumed and intensified when circumstances change.

The changing architecture in Europe through the extension of NATO and growing interests of the EU in some of Moldova's neighboring countries, such as Romania or Ukraine,

transport advantages for the closeness to Odessa sea port and Donetsk-Dnieper region with metal and coal and with largest in the Balkans hydroelectric power station, about 100 enterprises such as machine works, light industry construction materials furniture factories food canning industry, etc. made Trans-Dniester region an attractive part of the country (CISR – Evolution of the Transnistrian economy: critical appraisal, October 2001, Center for Strategic Studies, an think tank non-profit and on-governmental organization, created through a project of the WB. <http://cistr-md.org/reports/cont-transn.html>

consequently brings the Republic of Moldova and trans-Dniester conflict to the forefront of the region's attention. This can be an opportunity for both parties to integrate in the region. This integration can bring economic and political benefits. A conflict in the region is contrary to the European orientation and promotion policy of integration and stability (Gudim and Balan, 2002). The integration in Europe for trans-Dniester is possible together with Moldova and therefore can serve as an incentive to reach a settlement (Gudim and Balan, 2002).

Some are skeptical about the trans-Dniester administration's willingness to consider European integration. Gruber (2000) reflects on the reasons why countries integrate and join regional or world organizations. He asserts that not joining puts countries in a worse position than if they joined an organization. The current situation suggests two case scenarios: 1) the development of country A when the organization does not exist; and 2) the activity of country A when the organization exists and the country has to choose between joining and not-joining the organization. Country A could be in the best position if the organization did not exist. However, once the organization develops its activity and other countries join it, country A's best position would be to join the organization. Joining puts country A in a worse position than it was in the first case, when the organization did not exist. However, country A joining the organization still puts it into a better position than not joining. Thus, the mere existence of the European Union and its interests in the region will make the trans-Dniester region consider the option to integrate into the region.

The WB promotes integration and globalization of economies and trade through its projects and programs. This encourages parties to consider integration as the best-case scenario for both parties. International organizations and other players are increasingly promoting transparency in economic activities. Therefore, the trans-Dniester players would be interested in

legalizing their money before these sources are monitored and seized when more transparency and control is established in the region. These are factors likely to make the Transnistrians consider settling the conflict in a cooperative approach rather than allow a settlement to be imposed by powerful international players interested in establishing stability in the region.

Risks for Involvement in Settling the Conflict

The WB's major risk in contributing to settling the conflict is the possibility that its involvement may legitimize or strengthen the positions of the separatist region. This result would be counter to the interests of the official government with which the WB has been cooperating for years, and counter to the interest of the international community in preventing the divisions of states. The WB assumed commitments through its policies to promote the interests of its members and support the international community.

The Moldovan Government would be against the WB's official cooperation with the Trans-Dniester side unless that cooperation is performed through the Moldovan government or with its approval. However, the WB could also strengthen and promote the position of the Moldovan government in the negotiation process, given their official cooperation.

The meetings and discussions between the parties during the negotiation on specific projects, such as TTFP or more comprehensive development projects could be coordinated through the Moldovan government. Moldovan officials indicated that they would not be against having joint meetings with the Transnistrians at the negotiating table. The trans-Dniester administration may be interested in cooperating with the WB, as an international financial institution, and be willing to participate in joint discussions.

The WB could have the support of international players if it chose to contribute to the conflict's settlement. International players, such as the European Union, can see the WB as a

potential promoter and supporter of their objectives as the European Union does, using WB funds for projects to develop stability, security, and economic cooperation in the region. The international community has expressed concern for the conflict's effects and support for the Moldovan government in keeping its territorial integrity⁴⁰. The WB, through its charter, expressed solidarity in cooperation with international organizations that are interested to solve the conflict.

Every involvement to solve a conflict carries some level of risk. It is hard to predict the likely settlement of a conflict given the multitude of actors, interests, circumstances, and factors that can impact its evolution. Predictability is, however, "the wrong standard" in international relations. What matters is the interest in making a change and taking efforts to reach these interests (Fisher, Schneider, Borgwardt, and Ganson, 1996). As this conflict has not been solved during more than ten years being cautious, it is time to explore opportunities and consider other ways to impact its resolution.

VIII. Leverage to make a change

Several activities undertaken to solve the conflict in trans-Dniester region have proven unsuccessful up to this date. Regardless of national and international players' efforts, the negotiation process remains frozen and the parties seem far from agreeing on a settlement formula. A number of circumstances, however, could change and impact the negotiation process and its ultimate success. These possible changed circumstances include the narrowing or expanding of the range of negotiated issues, altering the structural characteristics of the conflict

²² CSCE Summit, Budapest, 5-6 December 1994, OSCE Summit, Lisbon, 2-3 December 1996 Porto, 6,7 December 2002.

⁴⁰ Ministry of External Affairs of Moldova addressed the international community to restrict visa issuance for the leadership of the separatist region, June 2002, repeated in November 2002; EU decided in March 2003 to impose visa restrictions on the Trans-Dniester region separatist leadership

and the players in the conflict, changing dynamics in the regional power relationships and the role of third parties on facilitating the process (Hampson, 1996). A change in any one of these factors could impact the other factors that ultimately will determine the success of the settlement process. Involving a neutral that comes with different leverage in communicating with the parties could well be one such factor, and could significantly change the dynamics of parties' communication and the negotiation process.

Nature and Characteristics of Specific Projects

The WB's potential contribution in conflicts can occur through specific projects, such as, Trade and Transport Facilitation Project (TTFP). The negotiations process for the project between the WB and the recipient can offer a good environment to explore the potential for contributing to the settlement of the conflict.

The project would involve Moldova in a network of countries developing similar projects whose goal is to develop national and regional trade. Trade is a major vehicle through which interdependence is actualized, so it can be a doorway to build mutual trust and benefit for parties in conflict. When one country in this network presents a threat for stability, this becomes the concern of other countries. The parties' interests in economic and trade benefits could be used to accelerate the settlement of the conflict in Moldova.

The Project's development in a large political environment, including the Stability Pact Program and the European Union would involve a range of international players, states and organizations. Each would endorse efforts on the conflict settlement. They could be potential sources for information for the WB in any conflict type of involvement on conflict settlement. The WB, as it committed to do in the Stability Pact Program, would play the role of unifying and

“coordinating a comprehensive approach for regional development”⁴¹ and developing security and stability in the region by involving itself in conflict settlement. The WB could take into account views and recommendations of these international organizations when making decisions on matters directly within their competence (IBRD Article V. Section 8).

The WB Use of Power

The WB’s role as a super-national organization with financial and human resources, power and imagination (Chayes and Chayes, 1996) determines the rules of interaction between the WB and its members. World Bank legitimacy for its power derives from rules that all members accept when they join the organization (Lind and Tyler, 1988).

One way for the WB to exercise power and influence over its members’ course of actions and policymaking is through conditionality. Conditionality is highly debated for its necessity as opposed to the negative aspects it might have on the recipients. According to the WB officials, a country’s compliance with conditionality means better economic performance as it ensures that funds “are channeled to countries with strong policy performance”⁴². Conditionality is an issue of interest largely discussed inside and outside the WB, by officials, scholars, and organizations. However, the political aspects of conditionality have received little analytical attention in economic studies⁴³ and therefore, it is still a questionable tool of the WB.

Several studies, including studies performed by WB officials, reflect on the ineffectiveness of conditionality⁴⁴ use and on the necessity to reduce conditionality to macro

⁴¹ Cologne Document on Stability Pact, June 10, 1999

⁴² <http://www.worldbank.org/prospects/gdf2002/slideshow/slideshow/tsld020.htm>

⁴³ <http://www.worldbank.org/html/dec/Publications/Abstracts97/06econ/econ3.html>

⁴⁴ Paul Collier, For a New Relationship between Donors and Recipients: The End of Conditionality? <http://www.worldbank.org/html/prddr/trans/marapr00/pgs6-8.htm>

rather than micro issues, as a broad framework for cooperating with the recipients⁴⁵ (Collier, 2000; Stiglitz, 2002).

In discussing with people about the topic of this paper, including the interviewed officials, the first reaction they had in regard to the potential impact of the WB to conflict was the possibility of imposing conditions on the parties in conflict to solve it in return for financial aid. Conditionality can in fact serve as a tool in modifying parties' positions. The Moldovan officials admit conditionality as a tool to make the other party cooperate in conflict solving. In their view, the use of economic or political pressure, is a resort they recommend after more than ten years of negotiations led to no positive results. Conditionality can be effective in conflict setting to reward specific interests of parties but requires careful consideration in order to allow an open communication about parties' interests.

The party towards which conditionality will be imposed can perceive the WB as biased. Even if the WB would be perceived as biased, it can use persuasive arguments about regional and international interests, which need to be taken into consideration so that one or both parties can accommodate their interests and differences. WB, as a powerful international actor can be very effective in persuading parties and approaching them to a settlement (Touval, 1975).

Conflict Assessment. Social Analysis and Social Assessments

Conflict is a complex phenomenon and requires a multi-angle analysis and consideration to avoid negative corollaries and find the best possible options for the parties in conflict and their several constituencies. This usually requires resources and expertise to develop a comprehensive analysis on the conflict and settlement process.

⁴⁵ Stiglitz: IMF Imposed Excessive Restrictions
<http://www.worldbank.org/transitionnewsletter/mayjune2002/pgs10-11.htm>

WB has been developing tools that can prove useful for understanding parties in conflict and explore potential of projects to address the conflict. The Social Analysis Unit and the Post Conflict Unit within the Social Development of the World Bank have been developing guidelines and frameworks for the WB officials operating to explore social (including conflict-related) problems.

The Social Analysis Unit promotes and recommends to the WB officials and country teams to use such instruments as: macro-social analysis, project-level social analysis and social assessment. WB officials can undertake macro – social analyses to support the development of a comprehensive Country Assistance Strategy (CAS).

The WB officials developing a project can undertake project level social analysis projects, undertaken by the Bank to determine “opportunities, constraints and likely impacts” of the project. The social assessments are tools that the WB can recommend to the recipient country in order to include the stakeholders' views into the project design, in an effort to ameliorate the conflict.⁴⁶

The WB Post-Conflict Unit has been working on a Conflict Analysis Framework (CAF) to help WB officials consider factors affecting conflict when developing strategies, policies, and programs. CAF is being only elaborated but can present an important tool for the future efforts of the WB in addressing conflict.⁴⁷ The Post Conflict Unit can also perform analysis in conflict-affected country and come with recommendations and consult the WB country teams, developing projects in the country. These tools have just been elaborated or are still under work,

⁴⁶ Social Analysis, Social Development Department, World Bank.
<http://www.worldbank.org/socialanalysisresourcebook/socialanalysis.htm>

⁴⁷ Post-Conflict Unit, Social Development Department, World Bank
<http://lnweb18.worldbank.org/essd/essd.nsf/CPR/ConflictAnalysis>

but they can be important steps in the WB taking a more pro-active role in conflict solving efforts.

IX. Approaching the conflict

The involvement of the WB in facilitating the settlement of the conflict can occur in different forms. Choosing the form of intervention depends on several characteristics related to the conflict, including the parties and their positions, the settings surrounding the WB's contact, and timing of any WB involvement in the process.

Instruments such as conflict or social assessments can offer valuable insights on the parties underlying interests and other approaches and ways to contribute to the settlement. The WB could identify stakeholders who can play an important role in influencing the official positions of the parties and reach a settlement. Identifying such stakeholders and communicating with them in an effort to evaluate and settle the conflict could open doors for alternative options for a settlement through use of a parallel negotiation process. This process, typically referred to as back channel diplomacy, can serve as potential opportunities to explore concessions, options, and solutions that contradict the official positions of the parties in conflict (Wanis-St. John, 2001)⁴⁸ The WB advantage in creating and using a parallel negotiation process is that it can initiate such communications in the legitimate context of its motives to explore the potential for developing economic and social projects on the territory of its officially recognized member, Republic of Moldova.

The WB's intervention in a political conflict should come as a strategic move, using its leverage with the parties when the conflict becomes a priority policy of the country and international players (Crocker, 1996). In cases where the conflict has become a priority concern,

the WB's intervention in the conflict will also depend on the framework within which the parties see a potential settlement.

In the trans-Dneister conflict, the parties and the international community are currently using a framework for the settlement with the ultimate goal of achieving Moldova's territorial integration⁴⁹. To reach a potential settlement in this integrative frame requires an approach that will bring parties closer. Therefore, the WB should promote a problem-solving approach, which implies that parties explore and address their underlying interests in a complimentary way rather than through use of an adversarial approach, which usually implies that what one party gains, the other party loses (Riskin, 1996).

Reflecting on the problem-solving approach, Riskin (1996) presents a system of mediation based on a continuum of two characteristics. One characteristic concerns the scope of problems that the neutral can address when facilitating the negotiation process. The problems could range from the narrow, claimed issues to broad, community interests and concerns. The second characteristic of the continuum relates to the strategies and techniques that the neutral can use when he facilitates or evaluates matters between the parties in conflict. The neutral in dealing with the parties must ultimately choose among four orientations: the evaluative-narrow, evaluative-broad, facilitative-narrow and facilitative-broad, each of them include strategies that the third party can use in the negotiating process.

Though strategies from these four approaches can overlap, the best approach for the WB to apply in involving itself as a neutral in a political conflict is the broad-evaluative approach. This approach best fits WB expertise, its role as an international organization and its objectives to promote a great range of economic and social interests and concerns. The WB's use of this

⁴⁹ Trans-Dniester side expressed they want to be an independent entity but have not refuted the option of integrating in one country, which in their conception would include two separate states. The last position of the parties was to develop a federalization status of the country which would include trans-Dniester as an entity with a special status

approach would be consistent with its objective to address broader interests for social and economic development and promote international concerns and needs. Its commitment to promoting the well-being of people and addressing the international community's concerns justifies the choice of an evaluative approach in communicating with parties. A facilitative approach would be more appropriate when the parties in conflict will be on equal legal statuses.

The broad evaluative approach can include several techniques that the WB can use.

Following Riskin's suggestions, the neutral should:

➤ **Educate itself about the underlying interests of parties.** The WB over the course of its history in developing economic and social programs for developing countries has developed different systems for evaluating countries and the impacts of its programs on the countries. The WB's evaluative process includes the use of social analyses, including social and conflict assessments and evaluations. The WB could use these tools to offer new insights on the underlying interests of the parties and other stakeholders on both sides of the conflict. These insights can be valuable to the settlement process, both to the WB as a neutral and to the parties involved in the conflict or in settling the conflict.

➤ **Predict the consequences for parties not settling the conflict.** WB is in a good position to evaluate the current and likely negative economic and social effects of the political conflict in the region, and the impact on the international community's interests. These negative effects could be presented convincingly to the parties involved in the conflict to encourage them to settle and ensure stability in the region. Additionally, the WB is in a position to present to the parties the potential for the addressing their economic interests in a broader perspective, at the regional or global levels, and help the parties to see the rewards of settling the conflict.

- **Develop and present interest –based proposals.** The WB can discuss the potential to develop projects that would benefit both parties and explore implementation formulas that will support the settlement process.
- **Urge parties to accept proposals.** The WB has the ability to condition its economic and social assistance on resolution of a conflict and use this leverage to make the parties to a conflict come to a settlement. This overt use of the WB’s power should be used only as a last resort after the WB has consulted with the parties and other players involved in the settlement process.

These efforts can be part of the official negotiation process or compliment the parties’ or other international players’ efforts to settle the conflict. The WB can cooperate with other players settling the conflict such as the Organization for Security and Cooperation in Europe (OSCE) or South Eastern Cooperative Initiative (SECI), European Union and the United States. This cooperation can be based on joint efforts to promote projects like TTFP, promoted through Stability Pact or other cooperative efforts. WB can also be involved in discussions with the neighboring countries. In the Trans-Dneister conflict, the WB could use its position to explore fully the Ukrainian and Russian positions, interests and concerns relating to the conflict and possibly address these external issues, potentially facilitating the settlement process⁵⁰.

X. Concluding Remarks

These and several other efforts can be potential contributions that the WB could provide to its members in support of efforts to address a conflict. The WB neutrality policy should not

⁵⁰ Customs issue and potential development of projects in Ukraine focusing on reforming the customs system could contribute on creating and strengthening border control with Moldova as a country, which would include the portion of the trans-Dniester region. Securing this portion of the border would lead to defining/clarifying border control issues and insure defined control of the Moldova’s territory.

prevent the WB from exploring situations and opportunities for such efforts. Neutrality is a complex issue and requires comprehensive consideration to determine what purposes it intends to serve. This study deconstructed neutrality to reflect on elements behind the clauses included in the WB charter when it was created. Changes of interpretations of these clauses in light of new realities indicate the need to reevaluate the neutrality policy.

This study suggests that the broad context of the WB charter allows for a new interpretation of its neutrality policy to serve the interests of parties in conflict. If the WB were to consider involvement in solving a conflict, it could still keep its neutrality by redefining the neutrality position as an impartial role to support the parties to settle the conflict without promoting an agenda or a particular outcome in the settlement. By undertaking this role, the WB could support a country to reintegrate its sovereignty and regain control over its territory and domestic affairs, which are values promoted by the traditional policy of neutrality. Thus the World Bank could play an important role in supporting its members' efforts to resolve their internal conflicts, on the premise that such conflicts are major obstacles for economic and social development, and that resolving them would allow more effective use of resources.

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Appendix: Additional Information on Data Collection Experience

It was not easy to get access to people. I expected that the topic would make it difficult to obtain access to the officials to interview. Therefore, most of the interviews I had to plan through contacts. In two cases, after getting refusals, I accessed the building where the officials I wanted to interview worked and just showed up in the office and got the permission to discuss the topic. Even though many of the interviews were established through contacts, two of them kept postponing the interview. Because of the time limitation (travel deadlines), I still could not have the interviews with them.

The officials were difficult to access for different reasons. Most of them were very suspicious of the interview. In order to make them more open I had to prepare different sets of questions and introductions for discussing the purpose of the interviews and information that would be useful to the study.

For the Moldovan government officials it was fine to discuss the issue of conflict, it was more difficult to discuss the issue around the WB neutrality and around the negotiation process around the project under analysis. WB officials were very reserved to discuss around neutrality issue and project development. Both Moldovan government officials and WB made official statements and references to policies and official positions, with little willingness to expand on the issue. The officials interviewed on the part of trans-Dniester separatist administration were open to discuss the role of the WB, neutrality issue and opportunities for cooperation. However, I had to present more carefully questions to the last group of interviewees, in order to avoid the chances of asking questions that could potentially be used negatively in the negotiation process between the sides in conflict.

The interviews kept being postponed, refused or accepted on a very short notice. The difficulty of interviewing relates to both the fact that usually governmental officials are difficult to access, especially in a country with a totalitarian regime legacy, and the nature of sensitive areas that the interview topics touches upon. Though the neutrality of the WB is central to this study, I tried to avoid bringing up until later in the interview. First, the neutrality of the WB does not refer directly to the activity of the parties in the conflict. Bringing this up before the actual interview would have meant getting a refusal on interviewing. Conflict and the project under analysis, were the expertise of the interviewees but both of them were sensitive issues with which I had to address carefully in order to get the acceptance for interview.

Conflict related difficulties: The conflict is in frozen stage and the parties have determined official positions and show little initiative on exploring new options for its settlement. The involvement of the WB is against the traditional role the WB plays in the country. It is hard to admit and therefore recognize officially the use and potential of the WB involvement in settling the conflict.

The issue of conflict is also of high political sensitivity. It is a priority that the president of the Moldova expressed and committed to address and this makes officials more careful in their statements.

I tried to make the interviews less official through getting access to the officials through contacts. I also had to give up tape recording the interview at the slightest sign of discomfort of the interviewee. When possible I suggested an unofficial setting for the interview.

Some difficulties I could not completely overcome related to my identity. The officials on the trans-Dneister side identified me with the other side in conflict or to the WB, and in a couple of cases they would see me as potential messenger to pass information to the other side

making suggesting me “you tell them, there”. At different times in the interview I would look for chances to reassure the party that I was just an independent researcher, currently outside the country. I provided my contact information, talked about my staying in the United States and being far from any political involvement in Moldova and the nature of my research. I also tried to find common things, such as the place we were both born or common contacts, people who referred me to him whom I knew he trusted.