

An Evaluation of the economic effects of UN peacekeeping missions

Economic development through peacekeeping?

Politische Stabilität und Frieden sind die Grundvoraussetzungen für eine positive Wirtschaftsentwicklung. Hilfsmissionen in Krisengebieten sind weltweit an der Tagesordnung. Aber können diese Einsätze wirklich zur Unterstützung der wirtschaftlichen Entwicklung beitragen?

Von Michael Carnahan

The greatest contribution of peacekeeping operations to development lies in the restoration of basic peace and security, since this provides incentives for investment in the legal economy. But these operations also directly jump-start the local economy when help is most needed, early in the recovery process, providing employment and incomes that in turn support the restoration of peace and stability. The Economic Impact of Peacekeeping Project collected and analysed data on the local economic impact of eight ongoing UN operations, concluding that they do more economic good and less damage than is commonly believed (1).

However, there is room to increase the positive local economic impact, especially in local procurement practice, in how missions go about hiring and paying local personnel and to reduce the unintended negative impacts, particularly those associated with labour market distortions.

Large size of mission budgets

While there has been much written about the large size of mission budgets compared to the gross national product of the host country, and the potential for distortionary impacts and the creation of boom-bust cycles, little systematic analysis has been undertaken. In this project we found that the volume of funds that actually stays in the local economy is generally less than ten percent of this amount. The local impact comes from wages paid to national staff, spending from allowances by international staff and supply of goods and services to the mission by local companies. As the local fiscal impact is quite small, the macroeconomic distortions are quite small. The spending provides an effective growth stimulus during a key period, and the inflationary impacts appear small – in contrast to popular perceptions. This suggests that there is scope to actively increase the level of local spending without causing inflationary pressures.

However at the structural level the impact on economic development is less benign. In particular there are considerable wage and labour market distortions associated with the presence of the missions. There are also issues around the impact on the host government's system of public finances associated with the way in which the missions conducted their business. Finally when the mission had a major civilian administration component and had operational responsibility for economic policy, there was concern over how this responsibility was discharged.

Research Approach

The project's basic approach was to determine how United Nations operations' assessed contribution mission budgets were spent, systematically removing those portions of expenditure that did not reach the local economy. (2) The first items subtracted were direct payments and reimbursements to troop contributing countries for military contingents; international civilian staff salaries; and procurement of goods and services by headquarters on the missions' behalf. All such expenditures ended up in bank accounts and pay envelopes far from any mission's area of operations and are considered external spending for purposes of this study.

The project analyzed patterns of spending of the daily allowances paid to United Nations missions' international civilian staff, police personnel, and military observers and UN Volunteers who receive a UNV Allowance. Data from the respective missions' finance offices showed the fraction of allowances paid directly to staff in the field versus wired to staff members' bank accounts. Since most of the active missions assessed for this study function in cash-only economies, cash distributions could reliably be assumed to be the maximum fraction of the allowance spent within the mission area. Project surveys asked mission personnel to estimate their spending at local-owned versus foreign-owned businesses and on locally-produced versus imported goods, to further refine the estimate of local impact of allowance spending. The surveys were supplemented by interviews with current and former mission staff.

The project also estimated the local content of mission procurement, using data provided by the respective missions' Chiefs of Procurement. Discussions with procurement officials established which companies contracted by the mission were local and which were foreign. Based on this information, on surveys of businesses, and on other interviews, the project estimated the share of mission procurement that stayed in the local economy. Local impact associated with external procurement

was also estimated, including the impact of spending by military contingents from their own resources on infrastructure improvements and other local outreach.

To collect field data for the project, research teams visited eight active missions: UNMIK (Kosovo); UNMISSET (Timor-Leste); UNAMSIL (Sierra Leone); MONUC (Democratic Republic of Congo); MINUSTAH (Haiti); ONUCI (Côte d'Ivoire); UNMIL (Liberia); and ONUB (Burundi). Data was collected from the Chief Financial Officers or Chief Procurement Officers of the eight missions visited, through surveys of mission personnel and via interviews with senior mission officials. Outside of the mission structure, those interviewed included representatives of bilateral and multilateral development agencies, representatives of the International Monetary Fund and World Bank, ministers and other officials from the host governments, leaders of local businesses who had won contracts from the mission, and representatives from the local business community.

Expenditures by category

Table 1 presents the breakdown of expenditure by major category for the year each mission made its largest expenditure. The local impact is comprised of the local content of goods and services purchased from international staff allowances, national staff wages and salaries, and the local content of procured goods and services. Effectively, this represents the payments to local factors of production. In each of these countries the major factor utilized was labour.

These numbers provide an indication of the overall magnitude of expenditure across the different missions. Total annual expenditures ranged from around \$330 million in Burundi to just under \$1 billion in Democratic Republic of the Congo. The striking result from each of these missions is the low level of local impact. While a major part of the expenditure goes externally to fund military contingents and international staff salaries,

the local impact is less than 10 percent of total mission expenditure in eight of the nine missions. In the case of Kosovo the figure is misleading as troop-contributing countries incurred their own expenses and were not reimbursed. Based on costs from other missions, doing a like-for-like comparison the local impact in Kosovo would have been around 15 percent of total expenditure.

Local impact as a share of the economy

While the local impact represents a small share of expenditure compared to the overall level of expenditure, in some cases it makes a significant contribution to the gross domestic product (GDP) of the host country. Figure 1 presents the estimate of the local impact of spending in the peak year of the mission, as a proportion of the host country GDP. For the purposes of estimating this overall impact, a Keynesian multiplier of 1.5 has been assumed for all countries. While the multiplier in each country may vary, it is unlikely to be over 2 in any case.

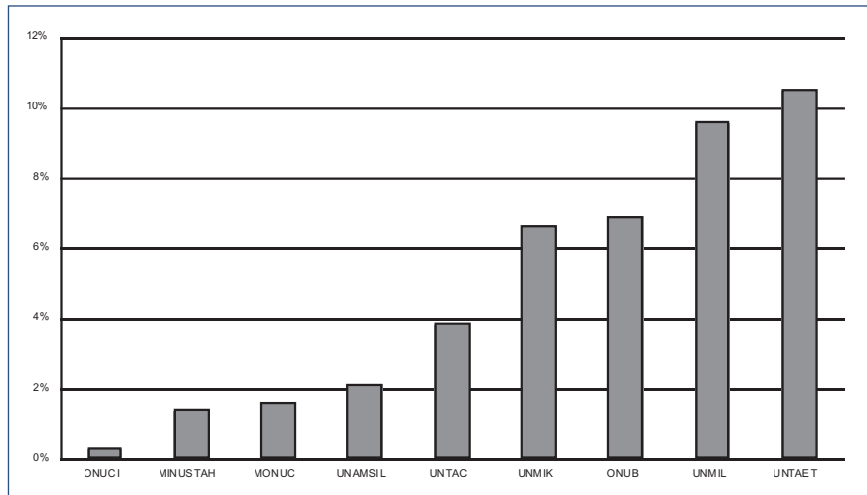
In four of the nine missions the local impact was over 6 percent of GDP and in two cases it was over 10 percent. In Kosovo, this was mainly due to the relatively high local impact, whereas in Timor-Leste, Liberia and Burundi, the high local impact as a share of GDP had more to do with the relatively low level of GDP compared to other countries where the mission was operating.

Figure 2 presents the breakdown of the local impact into three categories of expenditure: expenditure associated with spending of allowances; local staff salaries and wages; and local content of procured goods and services. This figure indicates that overall spending of allowances by international staff makes the largest overall contribution to the local impact; over half of the impact in four missions and between 40 and 50 percent in four others. The local content of procurement also makes up more than 40 percent of the impact in four missions. →

Table 1: Expenditure by Category (\$US '000)

	UNMIK	UNTAET	UNAMSIL	UNMIL	ONUCI	ONUB	MONUC	MINUSTAH
	Kosovo	Timor	Sierra Leone	Liberia	Cote-d'Ivoire	Burundi	Democratic Republic of the Congo	Haiti
	2001-02	2001-02	2001-02	2004-05	2004-05	2004-05	2004-05	2004-05
Local Impact								
Allowances	50,181	17,765	5,255	13,414	14,453	14,671	23,956	13,876
National salaries	40,892	6,355	3,108	10,042	7,630	4,305	15,657	4,631
procurement	6,333	2,181	6,479	5,186	5,353	11,177	31,121	13,599
Subtotal	97,406	26,301	14,843	28,642	27,436	30,153	70,734	32,106
External Impact								
external spending	164,057	424,547	549,313	598,353	306,232	235,445	696,257	257,226
allowances not spent	63,828	37,871	18,411	34,063	11,806	8,036	44,984	15,132
spending on imports	34,957	38,866	35,080	61,575	32,999	56,080	142,790	74,582
Subtotal	262,842	501,284	602,804	693,992	351,037	299,561	884,032	346,941
Total Spending	360,248	527,585	617,646	722,634	378,473	329,714	954,766	379,047

Source: United Nations financial statements presented to the General Assembly (available online at www.un.org/documents) and project staff estimates based on data collected on field visits.

Figure 1: Estimated Local Impact as a Share of GDP

Source: United Nations financial reports presented to the General Assembly, project estimates based on data collected on field visits and International Monetary Fund World Economic Outlook database (<http://www.imf.org/external/pubs/ft/weo/2006/01/data/index.htm>)

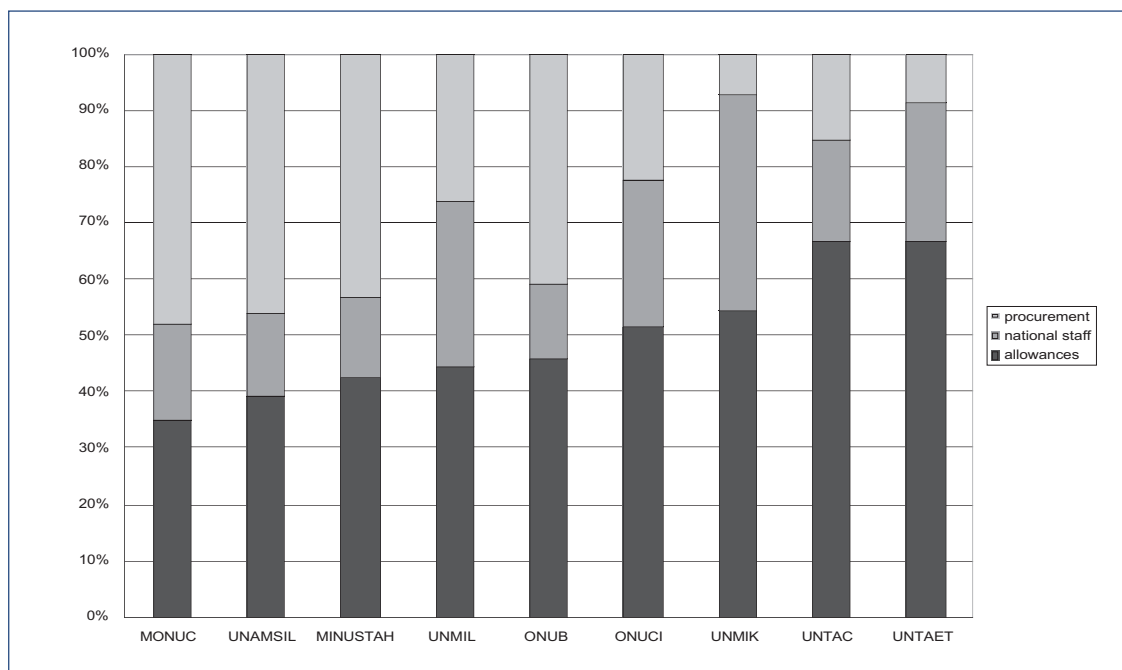
Interpreting these numbers in more detail requires some specific understanding of the missions and the environments in which they operated. Two factors contributing to the ability to procure locally are the time the mission has been established and the size of the host economy. In the case of Democratic Republic of Congo and Sierra Leone, the missions had been in place for several years and over time the volume of procurement from the field had increased due to the mission's increasing familiarity

with the local economy, a general economic recovery associated with cessation of conflict; and a specific supply response associated with the mission.

The three missions with the lowest share of impact from procurement were in Timor, Kosovo and Cambodia. These missions all involved large civilian administrations, requiring the presence of a large contingent of international staff spending their allowances and a large national staff presence. Despite long mission durations in the case of Kosovo and Timor, the impact of local procurement was relatively small. That said, in the case of Kosovo, there was a greater local impact from procurement than in Timor, primarily because of the more developed economy and greater capacity to source locally.

The broader economic impact

The primary purpose of peacekeeping missions is to establish peace and security. Provision of peace and security is the single biggest contribution to economic development, since legitimate economic activity beyond a subsistence level is rare in the absence of security. That said, there are a number of comments and areas for possible reform. There have been many

Figure 2: Breakdown of Local Impact

Source: United Nations financial statements presented to the General Assembly (available online at www.un.org/documents/) and project staff estimates based on data collected on field visits

concerns raised about the inflationary effects of complex peace operations. Notwithstanding such concerns, the overall inflationary impact associated with the missions in this study was relatively benign.

In the case of Côte d'Ivoire, Sierra Leone, Liberia and Kosovo, the inflation rate was lower than 15 percent, and considerably lower most of the time. Burundi experienced high inflation in 2000, well before the mission deployed, but since then has had inflation rates below 10 percent. In Haiti, inflation declined after deployment of international peacekeepers in the spring of 2004 and continued to drop in 2005.

Many perceptions of inflation derive from the personal experiences of international staff during their stay in a mission. There is no doubt that inflation occurs in markets serving the international community, but there is limited evidence of it spreading to the larger domestic market. For example, international staff in Kosovo reported major fluctuations in house prices as the mission size changed but during this time the Kosovo Statistics Agency reported only minor changes in the overall rental price. One conclusion of this benign outcome is that there is additional scope for increasing local procurement without hitting capacity constraints.

That said, one area where there were significant inflationary issues was around local wages. This is an area that has received considerable anecdotal attention. Based on the research undertaken several stylized facts became clear. First, where the UN is only a small employer, there are still concerns over the UN attracting staff away from the government with higher wages. There are also issues around the wage setting policies, even when the mission has a relatively small national staff component.

Outsourcing and wage setting policy

This issue is even more problematic when the mission has a large civilian component and is charged with a civilian administration responsibility, like in Kosovo and Timor. In these cases, the mission was the largest employer in the formal labour market. It was also both a price-setter, because of its size – and the first mover and as the civilian administration, had the added responsibility of laying the foundation for economic development. Moreover, the wage-setting practices of the mission led to upward pressure on the wages of civil servants during the process of setting the initial wage scale. Evidence from these missions suggests that they were not well-equipped to manage these multiple and competing challenges.

There are two possible ways forward on this issue. One option is to increase the extent of outsourcing, to reduce the number of national staff who are paid at high UN wages. The extent of outsourcing across different missions varied. In some cases significant amounts of security and cleaning work was outsourced. The second option is a broader reform of the UN wage setting policies. This is a major undertaking, but a necessary one – if for no other reason than to reflect that the context in which the wage setting principles were established sixty years ago

„In order to enhance the local economic impact missions need to maximise local procurement, consistent with quality and the guiding principle of value for money.“

when the UN was established is very different to the context that complex peacekeeping operations work in today.

There are a number of ways in which the UN operates that has impacted local economic development. Particular concerns were aired around the capacity of the missions to engage in debate around, and make effective policy decisions over economic issues. This was particularly the case in areas where the UN had a degree of administrative control. In both Kosovo and Timor there were concerns raised over those missions' competencies in the area of economic policy making. Concerns were also raised around the UN's approach to building a sustainable revenue system – both the direct impact on revenue collection of the application of the Privileges and Immunities Convention, but also the indirect impact of the largest economic agent in town not paying tax. Not only was the demonstration effect regarding tax compliance negative, but the additional administrative burden associated with having significant exempt economic agents was costly and opened the way for increased corruption.

Conclusions and future research

The overall conclusion of this study is that United Nations missions do more good and less damage, in economic terms, than is commonly believed. There is an immediate upsurge in economic activity associated with the restoration of basic security and the spending from international staff allowances, local procurement and on national staff wages provides a stimulus to the local economy. The perception of widespread inflation is not borne out – price rises occur in small pockets of the economy servicing internationals – but there is little flow-on into the broader economy.

The project report provided a detailed list of recommendations, which, while specific, were grounded in three key observations from the field research. First, missions need to be more conscious of their economic impact and the relationship between economic recovery and other mission objectives. This includes actively trying to enhance the local economic impact through mission spending and mission staff understanding and taking into account the economic consequences of decisions in other domains. Second, in order to enhance the local economic impact missions need to maximise local procurement, consistent with quality and the guiding principle of value for money. They also need to look at the scope for outsourcing more of their activities both to deliver better value for money and to reduce →

ce the negative impact on the labour market associated with national staff hiring policies. Finally, the negative economic impacts of the mission generally derive from UN operating principles for non-headquarters locations drafted in the early years of the UN when it played a very different role in a different environment. The way in which national staff wages are set, the way in which procurement guidelines are interpreted and implemented, and the way in which the Convention on Privileges and Immunities is applied all need to be reconsidered in the context of complex peacekeeping operations with multiple objectives situated in poorly functioning post-conflict economies.

This project only considered the economic impact of UN peacekeeping missions. Yet in any post-conflict situation where peacekeepers are deployed the broader development footprint is invariably much larger than the UN mission alone. As discussed above this means that even more care must be taken in policy areas such as wage-setting, as these will have major flow-on effects. Further research is needed into estimating the economic impact of the development community more broadly to see if the relatively benign results found in this project are maintained. Some work has been undertaken in Afghanistan looking at this broader economic impact and research is scheduled also in Sierra Leone.

However in the research undertaken in Afghanistan there were major challenges in regard to the availability and integrity of data from development partners on their spending. In contrast, the UN system of accounts provides a much cleaner picture. Moreover, in the case of the UN, contracted funds flow directly to service providers so are easy to track and analyse. But in the case of bilateral donors the funds often flow through considerably more circuitous channels, via UN agencies, multilateral banks, trust funds or international NGOs. These agencies may then themselves contract other agencies and so on. So, tracing when and how much money is actually contracted into the local

economy presents both methodological and data-based challenges. Notwithstanding these challenges, the research is critical in understanding the effectiveness of individual projects, and when the negative consequences are considered, the effectiveness of the overall intervention by the international community.

Annotations

- (1) This paper draws on a full report of the project, which is available online at: www.un.org/Depts/dpko/lessons
- (2) Carnahan (2005), Estimating the fiscal impact of UN peacekeeping missions (unpublished working paper), provides a more detailed technical outline of the estimation methodology and is available from the author on request.

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Nachhaltigkeit

A-Z



A wie Artenvielfalt

"Raus in die Natur" zieht es die nimmermüden Stadtmenschen, sobald die Frühlingssonne lacht. Rechnen müssen sie dabei neuerdings mit Gegenverkehr. Viele Tiere und Pflanzen finden auf dem Land keinen Lebensraum mehr und retten sich in die Städte. Die Großstadt Berlin belegt bereits einen Spitzenplatz unter den deutschen Vogelschutzgebieten. In einem Münchner Innenhof wurden bis zu 260 Schmetterlingsarten gezählt.

J. H. Reichholf

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