

# Timor Leste Failed Economic Recovery: Proposals for the Next UN Peacekeeping Operation.

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- **United Nations peacekeeping missions presently spend about \$5 billion a year (fiscal year 2005-2006).**
  - UN missions are regularly criticized for a wide array of damage they are thought to do to the war-torn economies into which they deploy.
  - They are criticized for inducing inflation, for dominating the real estate market, for co-opting the best local talent, and for drawing the most capable people away from both government and the local private sector.
  - The creation of a parallel economy to meet needs of international workers that distort labour, rental and retail markets and the emergence of a temporary service industry for peacekeepers and peacebuilders (\*).
- (\*) Source: Economic Impact of Peacekeeping Project. Peacekeeping Best Practices Section (PBPS). UN Department of Peacekeeping Operations (DPKO) March 2006.

## **Negative consequences for the development of local economies by the ways in which the United Nations operates.**

- the expectations for both professional working environments and personal living standards cannot be affordably sustained by a developing country;
- missions make policy decisions without understanding the broader impact on the local economy;
- the planning horizons with which the mission operates often lead to inefficient capital investment choices and increased costs for the host government after the mission leaves;
- and there is uneven distribution of economic impact by geographic area and ethnic group.

- (\*) Source: Economic Impact of Peacekeeping Project. Peacekeeping Best Practices Section (PBPS). UN Department of Peacekeeping Operations (DPKO) March 2006.

## Benefits.

- There is an immediate upsurge in economic activity associated with the restoration of basic security; spending from international staff allowances, local procurement and on national staff wages provides a push to the local economy;
- There is also considerable room to enhance the local economic impact, especially in local procurement practice and in how missions go about hiring and paying local personnel.

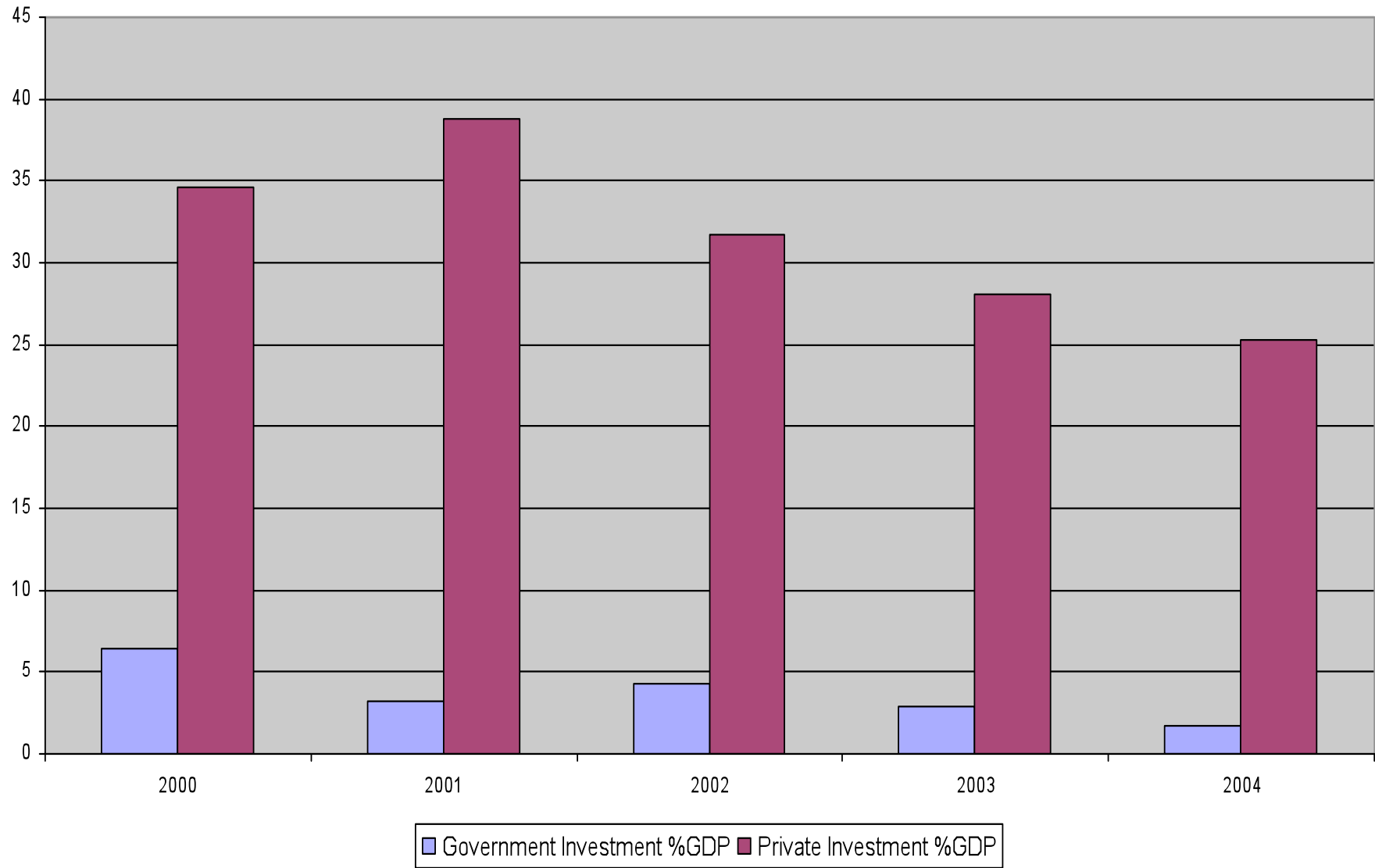
## Costs.

- The perception of widespread inflation is not borne out —some price rises occur in parts of the economy servicing internationals, and wages for scarce skilled labour increase.
- Missions' negative effects of an internationally-driven “development sector” may actually hinder the long-term development prospects of the war-torn economies that international institutions and donors are trying to help.

## Recommendations of DPKO Economic Impact of Peacekeeping Project (March 2006).

1. Missions need to be more conscious of their economic impact and the relationship between economic recovery and other mission objectives.
2. 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.
3. 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 when they are applied in poorly functioning post-conflict economies.

## Timor Leste: Early Economic Indicators of UN Downsizing.



## The Experience of East Timor between 1999 and 2006.

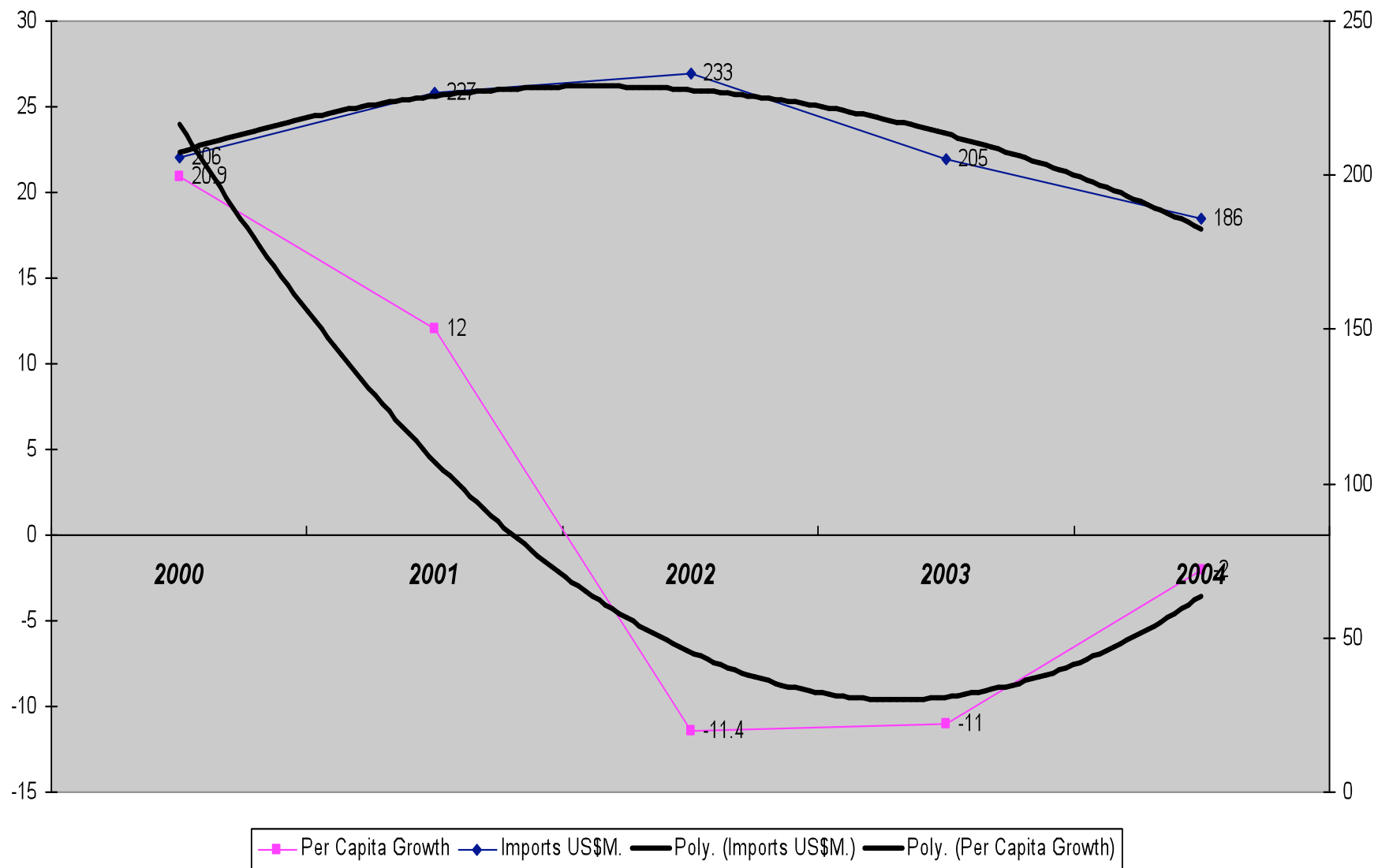
- If all funding sources are consolidated (UN, Donors and Timor Government), more than 50 per cent of the US\$ 3 billion of reconstruction aid went to foreign consultants, tied procurements and expatriate salaries.
- The huge expatriate community of the reconstruction industry created a bubble economy which collapsed when the UN mission started to wind down.
- As the reconstruction industry upped and left, it was easy to see what they left behind: unemployment, hunger and resentment (\*).

\* Shalmali Guttal, senior associate with Focus on the Global South.

## June 2006: Risk of a Civil War.

- In June 2006 rebel factions have established bases in the hills, while armed rival gangs are creating terror in the streets of Dili.
- Peacekeeping troops from four countries are currently in East Timor to restore law and order under different agendas, and there is no local government or local police operating in Dili.
- The UN Security Council has agreed to the Timorese Government's request for another tour of peacekeeping forces.
- What began as a protest by soldiers in the country's national army has, over the past two months, spun out of control into what now resembles an incipient civil war between Fretilin and President supporters.

## Timor Leste: Early Economic Indicators of a Social Collapse.



## Economic Impact of UN Peacekeeping Operations.

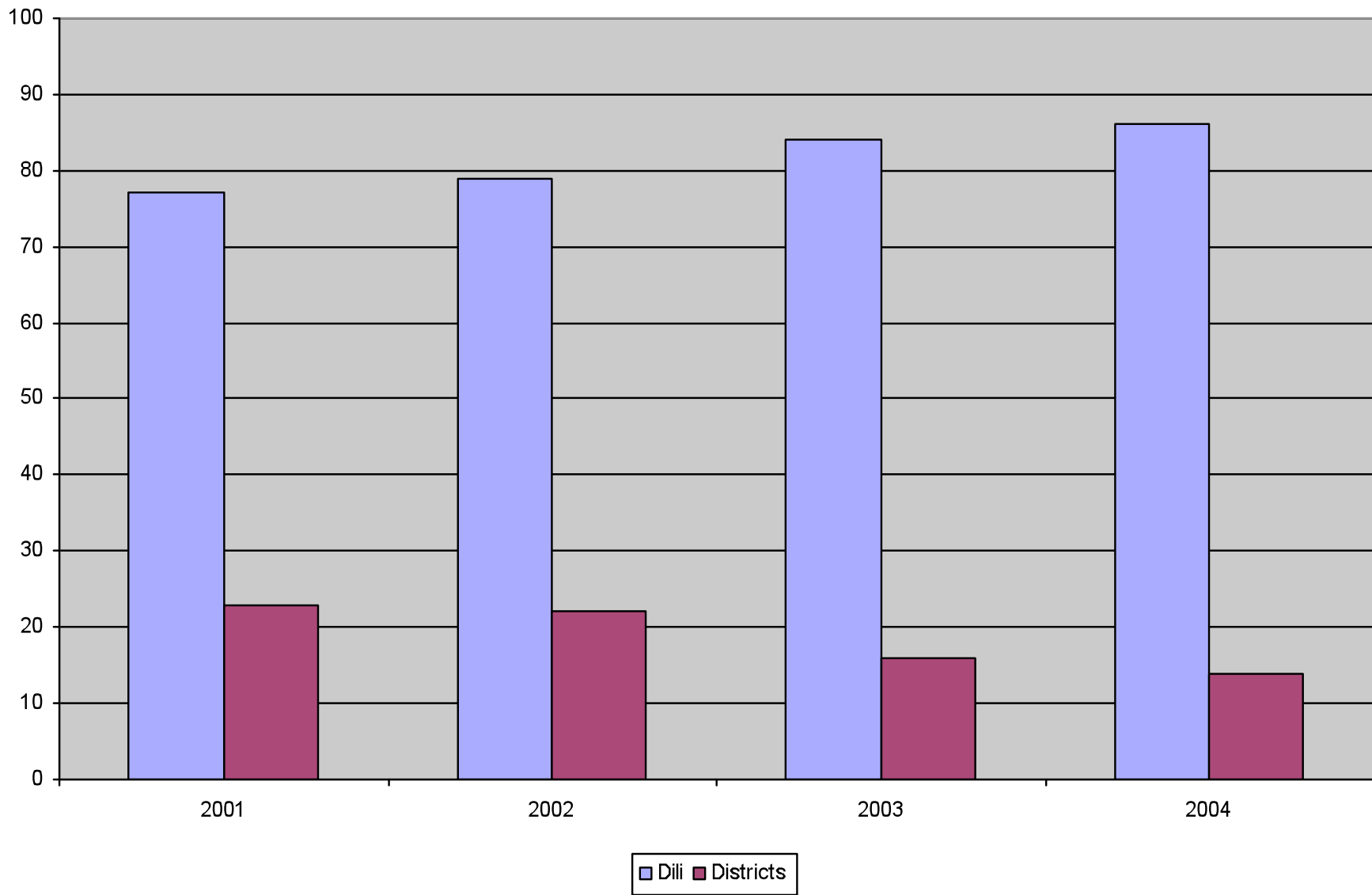
There has been very little analysis of the extent to which UN mission policies and choices can affect the longer-term development of the places where they deploy.

Nevertheless United Nations missions do more good and less damage, in economic terms, than is commonly believed.

The arrival of a peacekeeping mission generates economic opportunities, but these benefits have generally accrued to a relatively narrow segment of the population, located in the capital city.

Of the \$93.9m injected directly into the local Timorese economy by the UNTAET/UNMISSET presence, around eighty percent was spent in Dili.

**UNTAET-UNMISSET Economic Benefits (%):  
Early Indicator of Regional Conflicts.**



Peace and security is the primary contribution of peacekeeping to a host state's economic recovery.

- But the way in which the peace and security are provided defines the **sustainability** of peace and stability. Impact on the local economy is the key, and is defined by four factors:
  1. Mission structure,
  2. procurement decisions,
  3. hiring decisions,
  4. decisions by staff on how to spend their mission subsistence allowances (MSA).
- Through MSA spending, mission local procurement, and the hiring of national staff, a significant economic boost is provided at a time when the economy needs it most: when it is recovering from conflict.

# Proposal 1.

## Need for a UN Mandate to Lead a Sustained Economic Recovery in Timor Leste.

- Peacekeeping missions do not have explicit mandates to support local private sector development through procurement, nor to support human capital development through the use of national staff.
- If, however, it is accepted that economic recovery is an important element of peacebuilding, along with human rights or electoral reform, then Security Council mandate should acknowledge this.

## Proposal 2.

### Need for Economic Advice for SRSGs in Peacekeeping Operations.

- In all the peacekeeping missions there are only three posts designated as “Economic Officers” and none of these officers are explicitly responsible for maximizing the direct developmental impact of mission operations.
- While all senior managers recognize the importance of encouraging a positive economic benefit to the host nation, on a day-to-day basis there is no one who is charged with making it happen, or even monitoring the impact.
- In light of the extraordinary existing demands on individual managers, it is not surprising that the issue falls by the wayside.
- In order to support the SRSG in promoting a stronger local economic impact it would be appropriate to assign a senior economic officer to the management team of every complex peace operation to advise the SRSG on the likely economic consequences of mission decisions and to monitor those consequences.

## Proposal 3.

### Need for a Clear Mandate on United Nations Procurement Guidelines.

- For the SRSG to receive economic support and guidance that carries the same weight as advice from the mission's operational offices, this official would need to be at least at the D-1 level.
- On an ongoing basis, close liaison would be required between this Economic Affairs Officer and relevant external groups, such as the international financial institutions.
- UN procurement officers in Timor Leste recognized the significant developmental impact of procuring certain goods, but their only operational directions came from the United Nations procurement guidelines which do not allow local impact to be taken into consideration when awarding contracts.
- With an appropriate mandate that defines United Nations interests as supportive of local development, many existing rules and procedures could be interpreted to be supportive.