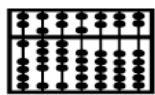


Economic Impact of Peacekeeping

Final Report

Michael Carnahan
William Durch
Scott Gilmore

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Peace Dividend Trust
Building a Better Peace

Michael Carnahan is a Visiting Fellow, Asia-Pacific School of Economics and Government, Australian National University and at Peace Dividend Trust;

William Durch is a Senior Associate at the Henry L Stimson Center;

Scott Gilmore is the Executive Director, Peace Dividend Trust.

This discussion paper reflects the personal views of the authors and does not necessarily represent the policies of the Department of Peacekeeping Operations or of the United Nations.

Any comments or questions should be directed in the first instance to Michael Carnahan at tedcarnahan@yahoo.com.au.



Economic Impact of Peacekeeping

Preface and Acknowledgements

United Nations peacekeeping missions presently spend about \$5 billion a year and 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. Despite the broad range of criticisms, however, data on these economic impacts had not been regularly collected or analyzed.¹ Although nearly everyone who has been on a peacekeeping mission in any capacity has an opinion on the topic, the actual economic impact of a complex peace operation has been assessed only once, in 1993, in Cambodia, while the United Nations operation there was still underway. There have been no other detailed assessments of economic impact, until now.

This report has been prepared as part of the Economic Impact of Peacekeeping Project commissioned by the Peacekeeping Best Practices Section (PBPS) of the UN Department of Peacekeeping Operations (DPKO) to remedy this deficit.² It reflects, in part, the increased understanding within the United Nations system and among international financial institutions of the linkages between the political, security, economic and social domains; and the realization that achieving sustainable peace requires an integrated approach across these domains. The project's purpose is to facilitate evidence-based decision-making in future mission planning, hiring, and procurement, so as to minimize local economic damage and maximize local economic benefits.

The Peace Dividend Trust wishes to thank the funders of this project for their generous support. Financing for this project was provided by the United Kingdom's Department for International Development (DfID), the Australian Agency for International Development (AusAID), the World Bank, and the PBPS.

Considerable assistance was also rendered by a number of people, particularly the United Nations staff in each of the missions studied who generously gave of their time and resources to support the research. Research, statistical and administrative assistance were provided by Bin Wang Grevelle, Janan Mosazai, Monika Rahman, and Ainsley Butler Ostojic (all PDT) and Mark DuRocher and Jennifer Holt (PBPU). The authors also offer many thanks to the project's Fieldwork Officer, W. Gary Gray.

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). In addition, the project applied its methodology to the financial

¹ Although the United Nations and its programs and agencies undertake a range of field operations, in this report the terms "operation," "mission," and "UN mission" are shorthand for complex peace operations.

² See also Michael Carnahan, Scott Gilmore and Monika Rahman, *Economic Impact of Peacekeeping: Interim Report, Phase 1*, April 2005, available online at www.un.org/Depts/dpko/lessons/.



reports of UNTAC (Cambodia), which closed in 1993 but was the only mission prior to this study to have been the focus of a dedicated economic impact analysis, and draws upon recent research on UNAMA (Afghanistan) regarding the unintended consequences of local procurement and national staffing decisions.³ Although a research team visited UNMIS (Sudan) and the report uses some qualitative material developed there, a quantitative assessment of UNMIS could not be done because the mission is too recent to have filed an expenditure report.

These reports, presented annually by the Secretary General to the General Assembly for each peacekeeping mission, were the starting point for the quantitative analysis. They were supplemented by other public documents (for example, material submitted by the Secretariat on request from the Advisory Committee on Administrative and Budget Questions) and by additional material provided by DPKO officials.

From the field, the project collected data from: the Chief Financial Officers or Chief Procurement Officers of the eight missions visited; through surveys of mission personnel; and via interviews. In each mission the research team interviewed the Special Representative of the Secretary-General (SRSG, the head of mission) or his/her deputy, Director of Administration, Chief Financial Officer, Chief of Procurement, Chief Civilian Personnel Officer, and Chief Security Officer. In many missions the team also interviewed the head of the Political Affairs office, military liaison officials and development coordinators. 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. The Peace Dividend Trust and the research team are very grateful for their help with this project.

The project's basic approach was to determine how United Nations operations' assessed contribution mission budgets⁴ were spent, systematically removing those portions of expenditure that did not reach the local economy.⁵ 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 (for example, under long-standing, headquarters-administered "systems contracts"). 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.

³ Scott Gilmore and Oliver Draper (2005) *Local Partners Best Practices—UNMIK and UNAMA*, produced for UN DPKO Best Practices Section.

⁴ The costs of peacekeeping operations, as laid out in each operation's mission budget approved by the General Assembly, are apportioned amongst UN Member States according to the Peacekeeping Scale of Assessments and assessed as expenses of the Organization "to be borne by Member States in accordance with Article 17, paragraph 2, of the Charter of the United Nations". The current scale and the procedures for updating it were established by General assembly Resolution 55/235. See *Scale of assessments for the apportionment of the expenses of United Nations peacekeeping operations*, A/RES/55/235, 30 Jan 2001.

⁵ 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.



The project analyzed patterns of spending of the daily allowances paid to United Nations missions' international civilian staff, police personnel, and military observers (who receive Mission Subsistence Allowance or MSA), and UN Volunteers (who receive a UNV Allowance).⁶ 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.

Using a standard macroeconomic approach, the project calculated a "multiplier effect" for mission spending. The multiplier is an estimate of how many times mission expenditures may have circulated around in the economy, for example, the extent to which the salary paid to a national staff member may have provided income for others in the economy, who spent some of that income in turn.

Finally, using information obtained from field offices and from DPKO, the "distributional impact" of mission spending was estimated for some missions. This measure used patterns of deployment of mission staff to estimate the extent to which mission spending had an impact beyond the capital city, where most missions are headquartered.

⁶ UNV Allowances are administered separately from Mission Subsistence Allowances but, for simplicity, references to 'MSA' in the rest of this report should be understood to include both.



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Executive Summary

Restoring peace has the single biggest economic impact ...

...but peacekeeping missions' local spending can help to kick-start a war-torn economy

The overall conclusion is that missions do more good and less harm than thought ...

...but there is scope to do better

Introduction

Complex peacekeeping operations are designed primarily to restore and maintain basic initial security in their mission areas. This is their largest single contribution to development since, in the absence of peace and security, there is no incentive for people to invest in the legal economy. Restoration of peace and security makes the legal economy viable again. A stronger legal economy, in turn, supports peace and security objectives by generating employment opportunities and making more and more citizens stakeholders in peace.

Peacekeeping operations' spending has the potential to kick-start the local economy at the time when it is most needed. This economic activity provides employment and incomes supporting the restoration of peace and stability.

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;
- spending from international staff allowances, local procurement and on national staff wages provides a stimulus to the local economy; and
- 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.

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. Missions' negative effects on local labour markets and the contribution of current policies to the growth 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.

Aggregate Impacts

The project carefully estimated how much of each mission's budget was actually spent on locally-produced goods and



The project estimated how much of mission spending went on locally produced goods and services

In eight of the nine missions this was less than 10 percent of the mission budget

MSA accounts for about half of the local economic impact

While missions can cause some shortages and inflation...

... there is little inflationary flow-on effect into the broader economy

Mission procurement ranged from 6 to 45 percent of total procurement ...

services. With the exception of Kosovo, less than 10 percent of mission spending has gone directly into the local economy, although in four mission areas with very low economic activity, even such a low fraction of spending boosted local Gross Domestic Product by 4 to 8 percent. In the two cases examined for “distributional” impact (Sierra Leone and Timor-Leste), 77 to 95 percent of the mission’s economic impact was concentrated in or near the capital city. Impact was also concentrated in those industries and sectors directly supporting the mission.

Missions spend locally in three ways: staff allowances; locally procured goods and services; and salaries paid to national staff. Each of these is considered in turn.

Mission Subsistence Allowance (MSA) Spending

MSA spending in the mission area accounts for about half of a mission’s local economic footprint. Surveys indicated that just under half of MSA spent by staff went toward housing, around a quarter toward food, and one fifth to recreation, with relatively little variation across missions. Staff spending for accommodation, therefore, is a fairly reliable 25 percent of the total local economic impact of a complex operation’s presence.

Missions do tend to trigger price escalation in housing markets and restaurants catering to international standards and tastes. Mission deployment tends to stimulate renovation of housing stock to meet international staff expectations. There is little evidence, however, that price hikes affecting the cost of this higher-end housing spread to the cost of housing for the local population, especially outside of the capital cities.

Mission managers can increase the flow of MSA into the local economy in two ways:

- they can phase out mission-run commissaries as comparable goods become available from local merchants who meet international health and safety standards (especially for food handling and storage); and
- they can take local economic impact explicitly into account in all mission policy decisions.

Mission Procurement

Contracts let by mission procurement officers ranged from 6 to 45 percent of total procurement for a mission (the balance



...and 20 percent of mission procurement went into the local economy...

...generating jobs and supporting local industry development

Increasing field procurement is the best way to increase the local impact.

Local procurement requires vigilance against fraud but no more than inter-national procurement.

The role and impact of national staff provoked strong responses

National staff can offer cost savings and give the mission legitimacy...

being handled by New York).

- Of the goods and services that missions bought for themselves, about 80 percent of the money went straight out of the economy (either to pay for imported goods or as profits to foreign firms who were awarded contracts) and about 20 percent stayed in the local economy, rates that varied by only 3 or 4 percent across missions.
- Spending on locally procured goods and services had a significant impact on the development of the construction and contracting industries, generating both business income and jobs. It also helped to bring construction and contracting out of the informal or semi-formal sector into the formal sector of the economy, thus supporting broader economic development.

The most effective means of increasing the field's local impact would be to increase its share of the total procurement budget and also increase its information about the local marketplace and the capabilities of local vendors. These approaches could be complemented in a number of other ways which are presented in the report.

The inherent unregulated nature of the post-conflict economies in which DPKO missions operate makes corruption and fraud serious risks. There appears to be no compelling argument, however, that locally-sourced procurement is more vulnerable to such risks than offshore procurement. Protective measures must be vigilantly applied to both local and international contracts.

National Staff

The roles and the impact of national staff provoked strong but varied responses in interviews. At present, national staff under fixed term and ongoing contracts constitute 40 to 50 percent of all civilian non-police personnel in most United Nations peace operations. Their per capita cost to missions is between 2 and 10 percent of the per capita cost of international staff, although national staff still earn two to ten times more than mid-level workers in the governments that host United Nations peace operations.

There are a number of benefits to the mission in using national staff. If international positions can be replaced by national staff there are significant cost savings and the legitimacy of the mission can be enhanced. Hiring national

...and the money goes directly into the local economy

But mission staffing and wage policies were identified as having the biggest negative impact...

... drawing scarce skilled staff from the local public and private sector...

...and creating upwards pressure on local wages

The longer term consequences of these policies hinder economic recovery

They create an environment where ongoing employment with development agencies becomes a major sector of the economy

staff provides a direct injection of money into the local economy and one salary can support an extended family. Many staff receive training in basic English and computing and routine administrative skills to increase their productivity, with the incidental benefit of preparing them for subsequent employment outside of the mission.

The foregoing benefits notwithstanding, United Nations missions' impact on local wage setting and labour markets was the largest negative effect identified by respondents during the project's field research. While the overall inflationary impact of most missions was relatively benign, there were often inflationary pressures on wages. There are four distinct but related problems.

- in all mission areas the mission pays significantly more than the local civil service and the private sector, which is widely perceived to cause a drain of talented people away from the bureaucracy to the mission;
- some of these staff are employed in jobs that are well below their skill, qualification and experience levels;
- in missions with large civilian components or civil administration responsibilities, the wages set by the mission can affect both public sector and private sector wages; and
- the wage level paid by the United Nations system becomes the wage floor on which many donors and NGOs base their own wages (NGOs generally pay a little less, and donors pay a little more), further increasing the upward pressure on public and private sector wages.

The longer term consequences of the wage setting policies of the missions and the development community hinder economic development. Over a decade after UNTAC left, Cambodia remains dependent on foreign assistance for over half of its national government budget. In part this highlights that rebuilding a state after a quarter of a century of violent conflict is a long term challenge. But decisions taken during the early stages of the international presence in Cambodia contributed to an economic environment where the most attractive employment opportunities were with international agencies. Along with textiles and tourism, employment by development agencies and their implementing partners represents the major source of employment and income. This warrants further study, particularly as the missions in Sierra Leone, Timor-Leste

Managing the negatives can be partly done by more outsourcing . . .

. . . but solving the systemic challenge involves revising the wage setting principles

There are five major areas of unintended negative impact:

interpreting the Convention on Privileges and Immunities;

setting expectations about working environments;

policy decisions with broader impacts;

short planning horizons; and

distributional impacts

and Kosovo wind down.

Managing the negative labour market impacts associated with complex United Nations peace operations requires a two-pronged approach.

- More outsourcing could address the symptoms of the problem, by ensuring that more local people are hired to do work for the mission by local contractors at local wages, rather than far fewer being hired by the mission directly, at United Nations wages.
- However, to genuinely address the problem, the wage-setting policies of the United Nations also need to be revised to reflect the altered contemporary environment within which these operations function and the far greater complexities and trade-offs that they face than could have been anticipated when the principles that drive local wage-setting policies were established more than half a century ago.

The unintended economic impacts

As the lines between peacekeeping and peacebuilding, nation-building or state-building continue to blur, the indirect or unintended impacts of United Nations peace operations on the economies in which they work needs to be addressed and with some urgency. There are five specific areas where the ways in which the United Nations operates have negative consequences for the development of local economies:

- the host government's revenue administration and the integrity of the revenue system is undermined by the way in which the United Nations Convention on Privileges and Immunities is applied;
- the way in which a mission operates can establish expectations for both professional working environments and personal living standards that 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.

These can be addressed through the mission mandate, by assigning economic experts or by re-interpreting the Convention

There are a number of ways in which these can be addressed, including efforts to ensure that mandates acknowledge the economic/development impacts of these missions and the need to manage them; assigning a senior technical economic expert as an advisor to the SRSG; and examining the interpretation of the Convention on Privileges and Immunities in the context of the broader responsibilities that peacekeeping missions now have.

Recommendations

The report contains recommendations broken into six categories:

Recommendations are in six categories:

. mandates and funding;

. labour markets;

. outsourcing;

. administrative;

. use of voluntary contributions; and

. implementation of the report

- those relating to mission mandates or major policy and funding issues which will require the attention of the Security Council or the General Assembly;
- proposals to address the negative consequences in the labour market;
- those relating to outsourcing policy and practice;
- administrative recommendations that can be implemented by the Secretariat;
- a set of proposals to use voluntary contributions from donors to leverage the economic potential of assessed contribution spending via private sector development projects that enable local firms to become more competitive bidders for mission business; and
- recommendations relating to the implementation of this report.

Chapter 1 Introduction and Context

Peacekeeping missions are designed primarily to restore and maintain basic initial security in their areas of operation. Lest this principal contribution of peacekeeping to economic recovery be lost sight of, it is highlighted here as the study's point of departure.

Stronger economic activity in turn supports peace and security objectives by offering employment opportunities and by making more and more citizens stakeholders in peace. This chapter looks briefly at what influences post-conflict economic growth and what was known about peacekeeping's economic impact, prior to this study.

1.1 The Importance of Peace

Peace is the single most important precondition for economic development and the remainder of the report needs to be understood in this context: peacekeeping missions make their largest single contribution to development by helping to restore and keep the peace. In the absence of peace and security, there is no incentive for people to undertake productive investments in the legal economy, as the likelihood of return on investment is minimal. They focus instead on subsistence activity. Those with the capacity to privately enforce their own law and order invest instead in lucrative criminal activities—particularly involving weapons, narcotics or people trafficking, or illegal extraction of non-renewable resources.

More detailed estimations of these costs of conflict have been undertaken by others. Collier uses a comprehensive dataset for all civil wars during 1960-1992 and finds that GDP per capita during civil wars declines at an annual rate of 2.2 percent.⁷ He argues that the decline is partly because war directly reduces production and partly because it causes a gradual loss of the capital stock due to destruction, non-saving and people investing their assets abroad. Staines explores the dynamics of pre-1990 and post-1990 conflicts and concludes that pre-1990 conflicts had a much less severe impact on GDP (1.7 percent reduction), but post-1990 the pace and depth of economic contraction was much more severe, with real GDP per capita declining by around 12.5 percent each year.⁸ In the case of Afghanistan, World Bank estimates concluded that the 25 years of conflict cost the country around \$240b in lost GDP.^{9,10}

The impact of peace is best highlighted in Figure 1.1, which presents per capita GDP for seven of the nine countries covered in this study.¹¹ In every case, periods of conflict

⁷ Collier, P. (1997) *On Economic Consequences of Civil War*, Centre for the Study of African Economies Working Paper No.97:18. Oxford University.

⁸ Staines, N. (2004) *Economic Performance over the Conflict Cycle*, IMF Working Paper WP/04/95.

⁹ World Bank (2004) "Two Decades Of Conflict Cost US\$240 Billion: Now Afghanistan Will Need US\$27.5 Billion To Recover." News Release No:2004/294/SAR.

¹⁰ All dollar references in the report are in \$US.

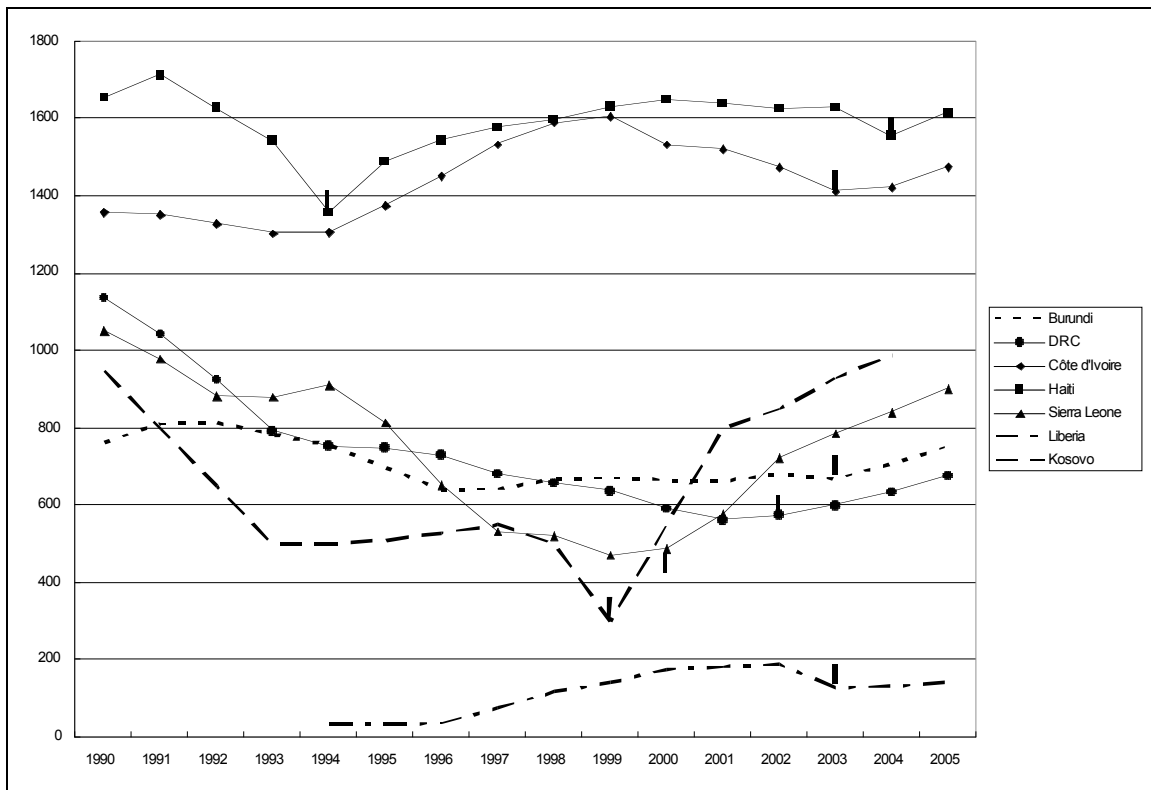
¹¹ Timor-Leste was not included because data on its GDP prior to independence was not available. Cambodia was not included as the period of conflict was not covered by the time series relevant to other missions (i.e., a much longer series would have been needed).



result in significant reductions in per capita GDP, while the end of conflict precedes an upturn.

Haiti recorded a drop in per capita GDP in both 1994 and 2004 associated with civil unrest. Côte d'Ivoire's per capita GDP declined from 1999 to 2003 in the presence of political instability and civil war. Sierra Leone and DRC both experienced falls in per capita GDP through the 1990s and have gradually been turning around since the arrival of UNAMSIL and MONUC in 1999 and 2000, respectively. Kosovo has experienced a significant drop in per capita GDP over the last twenty years. Estimates based on Yugoslav statistical yearbooks put Kosovo's real per capita GDP at around €1700 in 1981. During 1999 this figure had dropped to just over €300, but has since recovered to just under €1000. Liberia's economic growth from an extremely low base was set back by conflict and has yet to recover to its pre-conflict levels.

Figure 1.1: GDP per capita, Noting Year of Effective Deployment of Peace Operations*



Source: IMF WEO database for Burundi, DRC, Côte d'Ivoire, Haiti and Sierra Leone—figures are per capita GDP represented on a purchasing power parity basis. IMF staff estimates for Kosovo (per capita GDP in Euros) and Liberia (per capita GDP in \$US) both in 2003 prices.

* In some cases there are gaps between the signing of peace agreements, agreements to deploy and the effective deployment of United Nations peacekeepers. In some cases United Nations peacekeepers were preceded by regional forces. The year chosen represents the year of the effective deployment of the United Nations peacekeepers.

1.2 Peacekeeping and Economic Growth

If more of the assessed mission budgets of United Nations peace operations (about \$5 billion in fiscal year 2005–2006) could be used in ways that support local economic development while still delivering effective peace and security, then the overall effectiveness of that spending will increase. Stronger economic development will increase the likelihood that a mission can withdraw sooner and reduce the likelihood that it will have to return, thereby reducing the overall cost of United Nations peace operations.

The only prior analysis of a peacekeeping mission's economic impact was done for UNTAC in Cambodia.¹² That report argued that the impact of UNTAC on inflation was small, given the mission's low level of local spending, but it acknowledged UNTAC's role in escalating local wage and salary levels. Critiques of the report argued that the negative impacts were greater than reported, pointing to the unsustainable pattern of development due to investments by Cambodians in businesses that subsequently closed and increases in rental and land prices.

Several authors have made similar observations regarding mission impacts in Timor-Leste, Afghanistan, the Democratic Republic of Congo (DRC), Sierra Leone, and Mozambique, among other countries. They cite the creation of parallel economies to meet needs of international workers that distort labour, rental and retail markets and the emergence of a temporary service industry with increased illegal drug use and prostitution.

The wider literature around this topic includes discussions of the macroeconomic consequences of large aid inflows and the role for humanitarian and development aid as a resource in conflict economies. There is also an extensive literature on post-conflict development that offers analysis and strategies concerning reconstruction, focusing on political and socio-economic factors rather than military and humanitarian issues. Complementing this literature is one focusing on the centrality of state-building for sustainable peace and development and another focusing on the role of the private sector in conflict and post-conflict zones. Companies are often scrutinized for reaping economic benefit in unstable conditions, yet they support economic and employment growth, which is increasingly recognized as being a key plank on the path out of conflict. Finally, there has been work done within the United Nations system in response to these issues—most notably the Brahimi Report and its implementation process.

Although the body of literature related to the economic dimensions of peacekeeping operations is wide-ranging and diverse, there has been very little analysis of the extent to which mission policies and choices can affect the longer-term development of the places where they deploy. This project set out to help fill this gap by gathering data that could permit more systematic projections of longer-term impact and by analyzing how such impact might be harnessed to support the fundamental international objective of locally sustainable peace and security.

¹² The following paragraphs summarize an in-depth review of the existing literature on peacekeeping's economic impact given in the project's interim report. See Carnahan, Gilmore, and Rahman, pp. 3–16.

1.3 The Structure of the Report

In the remainder of this report, we present the results of this research, beginning in chapter 2, with an assessment of operations' overall economic effects, including their reputed inflationary effects, breaking mission spending into its external and locally directed components. Chapter 3 looks in greater detail at the local economic impacts of the spending of staff mission subsistence allowances. Chapter 4 looks at the comparable impact of local procurement by missions, and chapter 5 examines the missions' impact on local labour markets.

The last three chapters step back again to look at mission-wide issues. Chapter 6 assesses complex operations' unintended economic impacts. Chapter 7 addresses key challenges encountered in trying to improve operations' economic legacies. The last chapter lays out the project's recommendations.



Chapter 2 The Aggregate Economic Impact of Mission Spending

Although the provision of peace and security is the primary contribution of peacekeeping to a host state's economic recovery, the *way* in which the peace and security are provided can either enhance or detract from that level of development and from the sustainability of peace and stability. Mission structure, procurement decisions, hiring decisions, and decisions by staff on how to spend their mission subsistence allowances (MSA) all influence an operation's "economic footprint," that is, its impact on the local economy. This chapter presents data on aggregate mission spending and then looks at each of the most important components of "local" spending, or spending within the mission area. It begins, however, by investigating one of the biggest economic negatives attributed to these operations, namely, their reported impact on local inflation rates.

2.1 Assessing the Inflationary Impact of Peacekeeping Missions

There have been many concerns raised around the inflationary effects of complex peace operations. There is concern that the large foreign presence contributes to increased demand for scarce goods and services, and this contributes to significant inflation. Notwithstanding popular perceptions, the overall inflationary impact associated with the missions in this study was relatively benign. Figure 2.2 presents the inflation data for seven of the eight current missions over the life of those missions.

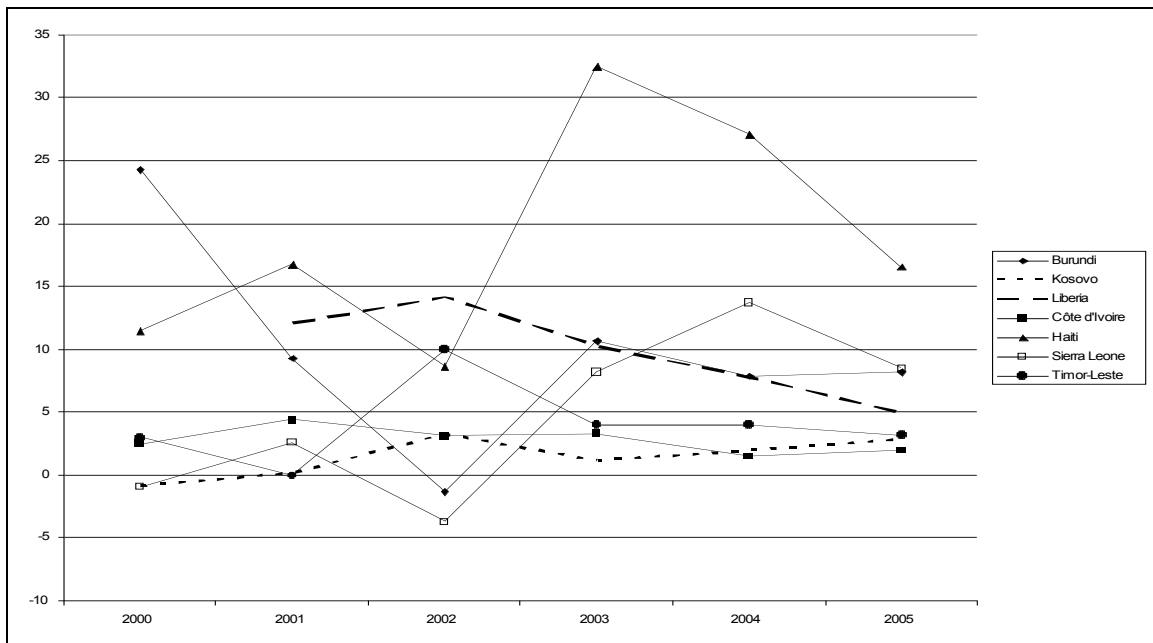
In the case of Côte d'Ivoire, Sierra Leone, Liberia and Kosovo the inflation rate was below fifteen percent, and considerably below it most of the time. In the case of the three West African countries, the presence of established supply routes allowed the demands of the missions to be met without putting undue pressure on prices. Indeed, Burundi experienced high inflation in 2000, well in advance of the mission, but since then has had inflation below ten percent.

In some cases there were significant inflationary impacts at the start of or during the course of the mission, but attributable to factors other than the mission. In the case of Timor-Leste, inflation of around 140 percent was recorded during 1999. However, inflation appears to have resulted largely from the disruption of supply associated with the conflict, and from the removal of government price subsidies on staple consumer items after the popular consultation in August 1999, rather than from the arrival of the coalition forces of INTERFET in late September, or of UNTAET, authorized in October. The first elements of UNTAET arrived only in November and the mission took several more months to ramp up to its operating level. Indeed, inflation was actually low in 2000 as the mission up-sized dramatically. In Haiti, the inflation rate increased prior to the arrival of the mission and is trending down with the mission in place.

Prior to the arrival of MONUC, DRC was experiencing an episode of hyperinflation, with inflation rates over 100 percent per year between 1998 and 2001, peaking around 550 percent in 2000. In 2002 inflation reduced to 25 percent, 13 percent in 2003 and 5 percent in 2004. The significant MONUC presence dates from late 2002. If anything, the MONUC presence contributed to this lower inflation by providing the more secure

environment within which the IMF supported program to break the hyperinflation was conducted.

Figure 2.1: Inflation Rates During United Nations Mission Tenure



Source: IMF WEO database for Burundi, DRC, Côte d'Ivoire, Haiti and Sierra Leone. IMF staff estimates for Liberia and Timor-Leste.

There have also been many reports regarding the inflationary impact of UNTAC in Cambodia. This issue is harder to unravel, particularly as data collection was not as good in 1993–94, and due to the passage of time. However, in Cambodia, a process of printing more money to pay for government expenditures in the period prior to UNTAC's arrival contributed to significant inflation prior to and during UNTAC's term. But this inflation was only when prices were measured in the local currency. During this period inflation measured in US Dollar terms was below ten percent.¹³

Many perceptions of inflation derive from the personal experiences of international staff during their stay in a mission environment. There is no doubt that very localized inflation occurs in markets serving the international community, but there is limited evidence of it spreading to the larger domestic market. By way of example, international staff in UNMIK reported a major spike up in housing prices—a doubling or tripling of rents—over the period 2000–02. Then, as the supply of housing increased and the number of international staff reduced, they reported that rents had dropped dramatically—not back to their original levels, but certainly by thirty or forty percent from peak levels. Although no province-wide data is available from 2000–2002, the Kosovo Statistics Agency began collecting rental price data for its inflation calculations during 2002. For the period when the dramatic fall in housing prices for internationals was occurring, the agency recorded only a small decline in rental prices across Kosovo. Since it is unlikely that housing prices for Kosovars would remain inflated while prices for wealthier internationals

¹³ There was an associated depreciation of the domestic currency against the US Dollar.

dropped, the most likely explanation for the lack of broader decline in rental prices is that they had not increased sharply in the first place.

2.2 Breaking Out Aggregate Mission Spending

In table 2.1, we divide mission spending into four categories: funds spent externally; personal allowances not spent within the mission country; mission funds spent in the country but purchasing imported goods and services; and mission spending on locally produced goods and services.¹⁴ Table 2.1 presents spending data from the peak year of each mission studied.

Table 2.1: Total, External, and Estimated Local Expenditure (\$US '000)

	UNMIK	UNTAET	UNAMSIL	UNMIL	ONUCI
	Kosovo	Timor-Leste	Sierra Leone	Liberia	Côte d'Ivoire
	2001–02	2001–02	2001–02	2004–05	2004–05
Total Spending	360,248	527,585	617,646	722,634	378,473
External Impact	262,842	501,284	602,804	693,992	351,037
external spending	164,057	424,547	549,313	598,353	306,232
allowances not spent	63,828	37,871	18,411	34,063	11,806
spending on imports	34,957	38,866	35,080	61,575	32,999
Local Impact	97,406	26,301	14,843	28,642	27,436
Local Percentage	27.0%	5.0%	2.4%	4.0%	7.2%
	ONUB	MONUC	MINUSTAH	UNTAC	
	Burundi	DRC	Haiti	Cambodia	
	2004–05	2004–05	2004–05	1992–93	
Total Spending	329,714	954,766	379,047	1,142,980	
External Impact	299,561	884,032	346,941	1,080,146	
external spending	235,445	696,257	257,226	853,432	
allowances not spent	8,036	44,984	15,132	71,944	
spending on imports	56,080	142,790	74,582	154,769	
Local Impact	30,153	70,734	32,106	62,834	
Local Percentage	9.1%	7.4%	8.5%	5.5%	

Source: United Nations financial statements and project staff estimates. Information from United Nations financial statements prior to 2004–05 is taken from actual performance reports and represents actual historical data. Information for 2004–05 is estimated data taken from budget proposals, as the performance reports for 2004–05 are still under preparation. Kosovo data from Kosovo General Government Budget 2003, p. 16.

Total annual expenditures on current missions ranged from around \$330m in Burundi to just under \$1b in DRC. UNMIS, the assistance mission to Sudan, is budgeted to spend over \$1b per year but is too recent to have generated an expenditure report and is thus not included in this study's quantitative analyses. UNTAC had the largest overall annual expenditure of just over \$1.1b. The information for UNTAC represents the period from March 1992 to April 1993.¹⁵

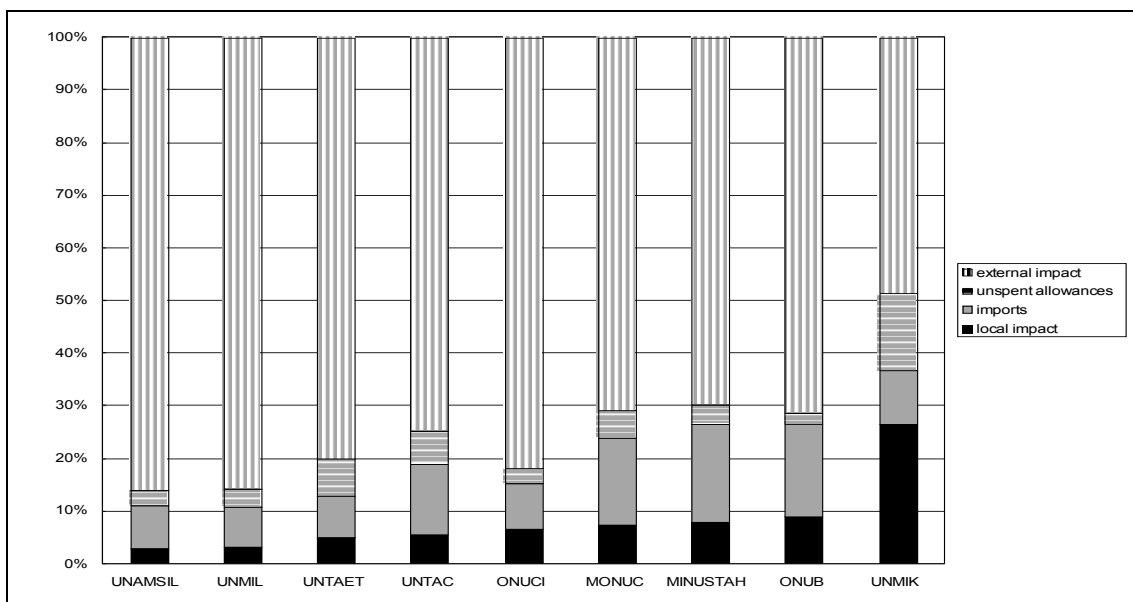
¹⁴ Strictly speaking the local impact is the local value-add in production. It represents the money that is paid to locally owned factors of production—either wages to local labour, rents for land, or profits to local businesses who supply goods and services to the mission. So for example, when a local firm imports goods and sells them to the mission, the local content is the price the mission pays for the good less the amount the importer paid for the good.

¹⁵ Given the time since UNTAC deployed and the improvements in record keeping that have taken place, the quantitative results presented for UNTAC should be used with caution. Moreover, data was not

Within the external impact, the major items of expenditure included payments for military contingents, international civilian salaries, IT and communications infrastructure, and air transportation. The fact that the overall local impact of five of the nine missions assessed was at a similar level—between \$26m and \$32m—owes more to coincidence than any other factor.

The estimates of expenditure by category are presented in Figure 2.2. This figure uses the data over the lifespan of each mission, not just from the peak year. The striking result from each of these missions is the low level of local impact, since 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.

Figure 2.2: Mission Expenditures by Category, Sorted by Percentage Local Impact



Source: United Nations financial statements and project staff estimates. Information from United Nations financial statements prior to 2004–05 is taken from actual performance reports and represents actual historical data. Information for 2004–05 is estimated data taken from budget proposals, as the performance reports for 2004–05 are still under preparation.

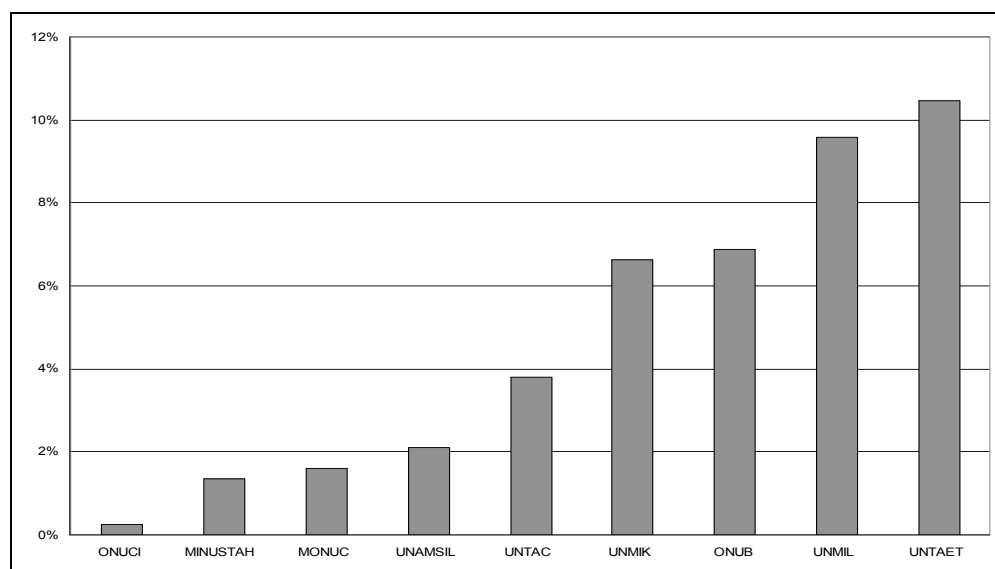
Kosovo stands out as having a high percentage local impact because it lacked a military component, which was provided and managed by NATO. Troop-contributing countries incurred their own expenses and were not reimbursed by the United Nations. If a comparably sized and equipped military force had been mounted instead by the United Nations, its addition to the overall budget of UNMIK would have reduced UNMIK’s local impact to just over ten percent.

available to do the detailed breakdown and analysis within spending categories which is presented in the subsequent chapters.

2.3 Aggregate Spending in the Country Context

Although the local impact of the mission budgets is generally less than ten percent of the total budget, in some cases this can still represent a significant contribution to the local economy. Moreover, some of that contribution is indirect, as the funds spent locally by a mission and its personnel are in turn spent by their recipients. Economists estimate how many times an additional dollar of fiscal stimulus cycles around the economy in this way and call that estimate the “Keynesian multiplier”. We have assumed a multiplier of 1.5 for all countries studied; that is, each dollar of mission spending locally is assumed to generate \$1.50 additional Gross Domestic Product (GDP).¹⁶

Figure 2.3: Estimated Local Impact as a Share of GDP



Source: United Nations financial reports, project estimates and IMF WEO database

Figure 2.3 shows that, in four of the nine missions, the local impact including the multiplier effect was over six percent of GDP and was around ten percent in two cases. These are significant contributions. In Kosovo, the high impact was primarily due to the high percentage of mission budget spent locally. In the case of 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 in which missions were operating. A given level of mission spending contributes a larger share to a smaller total economy.

¹⁶ Each time the original dollar cycles, a portion of it is taken out of immediate circulation. These “leakages” from circulation are associated with the amount of the dollar that is saved, the amount that is paid in taxes and the amount that is spent on imported goods. To quantify this effect for the countries studied, we assumed a savings rate of 15 to 20 percent, a tax take of five to ten percent, and a marginal propensity to import of 25 to 40 percent, which generates a Keynesian multiplier in the range of 1.5 to two. Discussions with UN mission staff, IMF and World Bank field staff suggest that the multiplier is likely to be at the lower end of this range.

2.4 Breaking Down the Local Impact

In Table 2.2 and Figure 2.4, the local impact is broken down into its three component parts: spending from MSA;¹⁷ compensation to national staff; and procurement.¹⁸ Overall, spending from MSA has the largest impact on the local economy across the missions. It represents over half of the impact in four missions and between 40 and 50 percent in four others. The local content of procurement provides the second largest overall impact. In four of the missions it contributes over 40 percent of the total. National staff salaries had the lowest impact, although in several missions (UNMIK, UNMIL, UNTAET, and ONUCI) national salaries exceeded 20 percent of the missions' total local impact.

Table 2.2: Estimated Local Impact of Expenditure by Category (\$US '000)

	UNMIK	UNTAET	UNAMSIL	UNMIL	ONUCI
	Kosovo	Timor-Leste	Sierra Leone	Liberia	Côte d'Ivoire
	2001-02	2001-02	2001-02	2004-05	2004-05
Total	97,406	26,301	14,843	28,642	27,436
Allowances	50,181	17,765	5,255	13,414	14,453
Procurement	6,333	2,181	6,479	5,186	5,353
National salaries	40,892	6,355	3,108	10,042	7,630
	ONUB	MONUC	MINUSTAH	UNTAC	
	Burundi	DRC	Haiti	Cambodia	
	2004-05	2004-05	2004-05	1992-93	
Total	30,153	70,734	32,106	62,834	
Allowances	14,671	23,956	13,876	41,968	
Procurement	11,177	31,121	13,599	9,614	
National salaries	4,305	15,657	4,631	11,253	

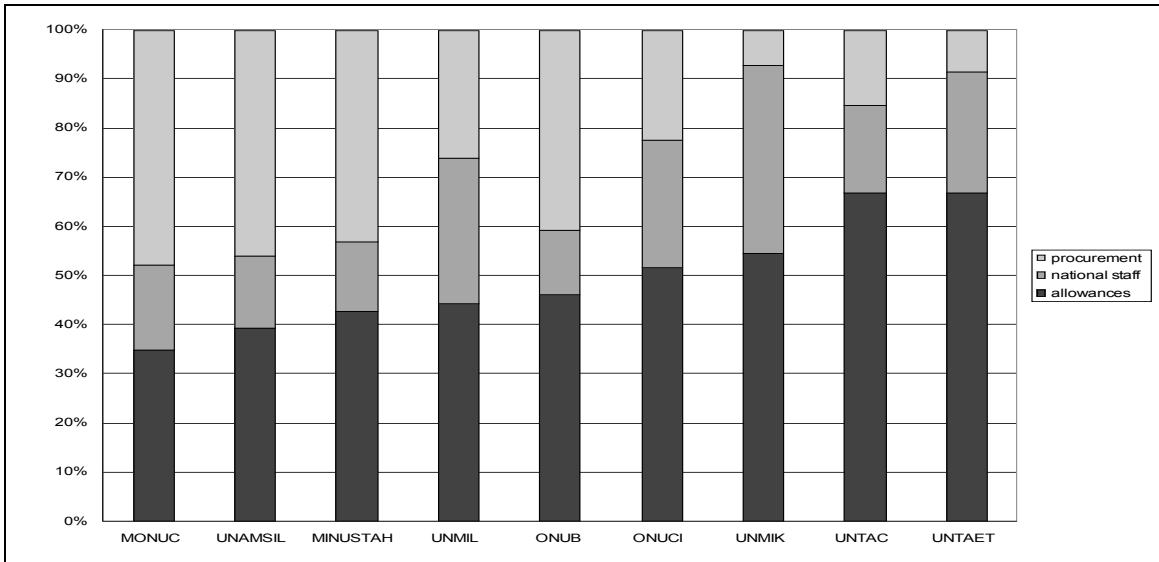
Source: United Nations financial statements and project staff estimates. Information from United Nations financial statements prior to 2004-05 is taken from actual performance reports and represents actual historical data. Information for 2004-05 is estimated data taken from budget proposals, as the performance reports for 2004-05 are still under preparation.

Interpreting these aggregate numbers requires a more detailed discussion of the component parts, and some specific understanding of the missions and the environments in which they operated. This is the subject of the next three chapters.

¹⁷ In addition to MSA paid to international staff and civilian police and UNVA paid to UNVs, troops also receive a very small allowance from the UN. This is in the region of \$40 per month. It was not possible to trace this small spending so it is not included in the study. However, as the majority of peacekeeping troops are barracked, rather than living in the community, they have little need or opportunity to purchase locally produced goods or services, so the local impact from this allowance is likely to be small.

¹⁸ The local impact of procurement includes the local impact of goods and services procured by the mission and also the local impact of goods and services procured under systems contracts (e.g., local labour hire) or by troop contributing countries out of their own funds in order to undertake reconstruction projects. Field research indicated that the spending in the latter two categories was very small so the focus of this report is on the impact of procurement by the mission.

Figure 2.4: Breakdown of Local Impact



Source: United Nations financial statements and project staff estimates. Information from United Nations financial statements prior to 2004–05 is taken from actual performance reports and represents actual historical data. Information for 2004–05 is estimated data taken from budget proposals, as the performance reports for 2004–05 are still under preparation.

2.5 Conclusion

In this chapter we have discussed the aggregate impact of mission spending. The relatively benign inflationary impact of the missions suggests that there is scope for increased support for local economic activity. 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. The following three chapters examine each of these spending categories in more detail.

Chapter 3 The Impact of Mission Subsistence Allowance Spending

The largest overall category of spending by peacekeeping missions was the spending from allowances by international staff. It represents over half of the impact in four missions and between 40 and 50 percent in four others. The number of staff receiving MSA or a similar allowance is presented in Table 3.1. Military contingent numbers are included to provide context.

Table 3.1: International Human Resource Deployment (peak year)

	UNMIK	UNTAET	UNAMSIL	UNMIL	ONUCI	ONUB	MONUC	MINUSTAH
	2001–02	2001–02	2001–02	2004–05	2004–05	2004–05	2004–05	2004–05
International civilian	1,168	785	294	635	427	399	975	479
Civilian police	3,372	1,099	54	635	345	120	268	872
Military observers	38	117	252	215	200	200	760	-
UNVs	224	522	125	431	225	172	491	153
Total	4,802	2,523	725	1,916	1,197	891	2,494	1,504
MSA and UNVA (\$m)	130.7	85.8	31.5	83.7	40.7	35.7	92.7	50.4
Military contingents	-	6,820	16,503	14,785	6,040	5,450	15,714	6,700
Formed police units	1,129	220	-	480	-	-		750

Source: United Nations annual budget and expenditure reports to the General Assembly. Information prior to 2004–05 is taken from actual performance reports and represents actual historical data. Information for 2004–05 is estimated data taken from budget proposals, as the performance reports for 2004–05 are still under preparation.

The different amounts of total MSA across missions is explained by three factors: the overall level of deployment; the composition of deployment (UNVs receive the UNV allowance which is lower than MSA); and the different MSA rates across different mission areas (MSA is paid at a rate relating to the cost of living in the mission area).

3.1 Estimating How Much MSA is Spent Locally

There was considerable confusion around how much MSA was actually spent in the mission area. There are widely diverging views on the purpose of MSA. Some people consider MSA to be part of a total remuneration package, others see it as a type of hazard pay, while others take a more literal approach, treating Mission Subsistence Allowance as an allowance to cover basic subsistence needs while on mission.

In Table 3.2 the daily and average monthly MSA paid to international staff are presented along with two other figures: the actual amount of MSA that was paid in the field to staff—based on the actual financial flows recorded and reported by the mission finance department, and an estimate of staff expenditure carried out as part of this project.¹⁹

¹⁹ The project's survey was undertaken to find more detail on the split between expenditure at locally owned and foreign owned businesses.

The amount of MSA actually paid in country in the five missions where this data was available was generally half of the total MSA paid to staff. In all cases the amount of MSA paid to international staff was in excess of the amounts that staff estimated they spent on a monthly basis—in some cases by a considerable amount. This is in part because MSA has come to operate as a de facto allowance for both hardship and hazardous conditions, and no longer simply covers the cost of living. In contrast, other international agencies make explicit payments for these factors.

Table 3.2: MSA Actually Paid and Estimated Spending

	MSA per day*	MSA per month	Average monthly MSA paid in cash	Percentage paid in cash	Staff estimates of monthly spending
UNMIK***	134/84	2,638	1,501	56.9%	2,418
UNMIL	181/134	4,138	2,590	62.6%	2,794
UNAMSIL	115/115	3,450	1,527	44.3%	2,579
ONUCI	140/122	3,705	**		2,634
ONUB	156/120	3,690	**		2,860
MONUC	205/138	4,308	2,154	50.7%	3,062
MINUSTAH	203/139	4,330	**		3,044
UNTAET	130/90	2,800	1,514	54.1%	2,034

*Indicates MSA paid for the first month, and then subsequent months.

** Data not available.

***UNMIK paid in Euros, data converted at exchange rate of 0.8; all others reported in \$US.

Sources: MSA/day from United Nations Office of Human Resource Management; MSA/month calculated assuming average tenure is 12 months; cash paid from mission CFOs; staff estimates of monthly spending from Peace Dividend Trust survey of mission staff.

3.2 The Breakdown of Expenditure

The breakdown of MSA spending into four major categories is presented in Table 3.3. Just under half of MSA spending was on housing with around a quarter on food and around twenty percent on recreation.

Table 3.3: Allowance Spending by Category

	Housing	Food	Recreation	Miscellaneous
UNMIK	43%	26%	20%	12%
UNMIL	48%	26%	16%	10%
UNAMSIL	42%	27%	19%	12%
ONUCI	43%	27%	19%	12%
ONUB	47%	24%	17%	12%
MONUC	47%	26%	17%	10%
MINUSTAH	49%	23%	17%	11%
UNTAET	39%	25%	24%	12%

Source: PDT survey of expenditure.

3.3 Sectoral Impacts

3.3.1 Residential Housing

The largest single area of expenditure by international staff was on housing, representing just under half of all MSA spending in mission areas. References to ‘skyrocketing’ rents upon the arrival of the mission indicated that housing of the standard desired by international staff was in short supply in most mission areas. There was an initial boom in renovating houses as quickly as possible to western standards and then renting these out at as high a price as possible.

This expenditure on rental housing had the positive impact of transferring considerable amounts of wealth into the hands of the local community. There are mixed reports as to whether this wealth was used effectively or not. The negative impacts of the boom were generally very limited. There was little if any evidence of increases in what amounted to luxury house prices affecting rents in the rest of the housing market, and reports of tenants being pushed out of their houses to make way for international staff were rare. Many people did move in with extended families in order to take advantage of the windfall opportunity. While the quality of housing stock has gone up, possibly above an optimal level in terms of local sustainability, the money that was invested in upgrading houses would have simply been kept by the international staff if the housing had not been provided. That is, if the houses had not been refurbished the money from rents that paid for the refurbishments would not have been spent elsewhere in the economy; it would have simply been kept by the international community.

In isolated cases, such as remote United Nations police postings in UNTAET or the Malakal post in UNMIS, the acute shortage of buildings that meet “international standards” creates the impression that United Nations renters are pushing families into the streets wholesale. Discussions at missions did not yield evidence to support this impression, but even allegations of any such incidents create significant problems of public perception for the mission, suggesting that UN planners should consider increasing stocks of tentage or semi-rigid shelters available for rapid initial deployment, to avoid feeding this perception. Personnel using temporary United Nations shelters should transition into local housing at a later date, releasing the equipment to Brindisi or to another start up mission.

There are two additional elements. Concerns about displacing local families should not be confused with concerns about high rents. While there is considerable agitation amongst mission staff about the latter, the concern is driven generally by self-interest. Missions *do* need to be particularly sensitive, however, to any issues of perceived coercion in obtaining accommodation, either by the mission itself or by mission staff acting privately. Finally, there are issues of staff security around housing. These are discussed in chapter 7.

3.3.2 Services Industries

The second largest area of spending from international allowances was in the area of services including restaurants, hotels and other purchases. This is the area traditionally identified as being at risk of a boom-bust cycle. Critics argued that entrepreneurs open

restaurants or businesses to cater for international staff but that these establishments go out of business when the international community leaves.

Expenditures in these areas generate considerable employment and profit while the businesses operate. Again from an economic efficiency perspective the perceived negative impacts were significantly less problematic than many believed in the mission areas studied. First, many restaurants, hotels and shops do not go out of business as a mission ends; rather they operate at a lower scale and possibly transition towards the tourist market. Discussions with business leaders and government officials in most mission areas indicated that they saw catering to mission demand as a way to lay the infrastructure for a tourism sector, a critical part of the ongoing services sector that needed to develop.²⁰

In many cases the businesses recover their initial capital investment during the peak period when the mission is operating at full strength. With the investment recovered, the business can then remain profitable at a much lower capacity, just having to cover its operating costs. In the case of Timor-Leste, data on business numbers and business revenues gathered from tax returns indicated that as the mission downsized the number of businesses remained relatively constant, but average revenues were dropping. Even when the businesses ceased operating however, there is little evidence that a loss was incurred. Rather, the entrepreneurs took advantage of an opportunity, covered their investment and then moved on. Although employees of closed businesses would lose their jobs, much like the housing example, in the absence of these businesses catering to the international presence, the international staff would have simply not spent the money locally and the associated jobs would not have been created in the first place.

3.4 Increasing the Local Impact of MSA Spending

Spending from MSA provides a timely boost to the local economy, generating employment and business opportunities. In some cases the businesses established to supply goods and services to international staff have transformed into longer term ventures, in others the impacts have been more transitory. The negative consequences,

²⁰ A frequently problematic element that grows along with the missions is the sex industry which, by its nature, tends not to generate a lot of formal operating statistics. Both press reporting on missions and project interviews indicated that prostitution increases when operations deploy, as it does in proximity to military installations throughout the world. The Secretary-General's guidelines and DPKO directives prohibit staff consorting with local sex workers and "conduct units" have been established in a number of missions since the sexual exploitation and abuse scandal in MONUC in 2004. Indeed, it is the risk of such abuse and the likelihood of brothels being tied into human trafficking rings, forced prostitution, and the organized criminal syndicates that control the trafficking, apart from the risk of HIV/AIDS and other STDs that constitute the major negative impacts of the sex industry in post-conflict settings, and not the amounts spent by international personnel on the industry per se. See Amnesty International, *Protecting the Human Rights of Women and Girls Trafficked for Forced Prostitution in Kosovo*, at web.amnesty.org/library/Index/ENGEUR700102004, 6 May 2004. UN DPKO, *Human Trafficking Resource Package* (New York: Peacekeeping Best Practices Unit, 2004). Rasmussen, Jane, "MONUC: Sexual Exploitation and Abuse, End of Assignment Report," 25 February 2005, at www.un.org/Depts/dpko/lessons. United Nations, *Special measures for protection from sexual exploitation and sexual abuse, Report of the Secretary-General*, A/59/782, 15 April 2005.



including increased prices in small segments of the economy, appear only in the major urban areas.

Any efforts to increase the local impact of MSA spending need to be addressed with great care, as directing staff to spend their allowances in specific ways will naturally be met with considerable hostility. Moreover, many decisions around spending options will also have other policy imperatives. For example, guidance on expenditure on housing will also need to be mindful of security implications, including location and minimum number of staff in a compound. However, there are two specific areas for consideration.

First, most missions operate a commissary (“PX”) store which supplies basic packaged and frozen goods, alcohol and other supplies. There may be justification for a commissary in the early stages of a mission when the local economy is starting again and many goods are unavailable. A second justification is ensuring that staff have access to foodstuffs that meet international health standards. However, after the first year or two, most or all of the goods available in the commissary are also available in the local market place and in supermarkets that are established to cater to internationals. At this time there is a strong argument for closing the commissary to support the development of the local economy, particularly when local merchants have similar cold-chain storage capacity for perishable goods as the commissary.²¹

Second, from time to time there will be major policy decisions taken by mission management which will influence the ways in which staff spend their MSA. For example, the decision to contract the floating hotel in Timor-Leste during the first eighteen months of UNTAET led to a much lower level of money flowing into the local economy. There were complex and competing views around this issue. However detailed consideration was not given to the impact of this decision on the local economy.

Finally, one significant negative impact of MSA spending identified by government and private sector representatives from the host countries was the display of conspicuous consumption. The comparatively luxurious lifestyle of United Nations staff can feed resentment and in certain cases even undermine the strategic efforts of the mission. In more conservative nations such as Sudan and Timor-Leste, the perception that international staff spend all of their leisure time in restaurants or drinking is problematic. This impact is well known and there are no obvious solutions, but it is an area where ongoing sensitivity and guidance is required. In MONUC, the mission has undertaken a public information campaign to dispel negative perceptions about the high spending lifestyle of international staff and to highlight the economic dividend for the DRC.

²¹ It should be noted that the revenue generated by the commissaries provides the sole source of income for the mission’s Staff Welfare Fund (generally two percent of turnover), which is an important contributor to the morale of international staff. If the PX is to be closed, alternative sources of funding for the Staff Welfare Fund should be found.

Chapter 4 The Impact of Local Procurement

The procurement of goods and services is the second largest component of mission spending locally. In four of the missions it contributes over forty percent of the total impact. Missions procure a wide variety of goods and services locally, ranging from outsourced cleaning or security services, engineering or construction services, office supplies and equipment, to essential products such as oil and lubricants.

4.1 Estimating the Impact of Procurement

Estimating the impact on the local economy of this procurement required considerable work. In some cases the goods and services procured are predominantly locally produced, especially in labour-intensive areas like cleaning or security, so the local impact there was quite high. In other cases, “local” procurement involved letting a contract with a locally-run firm for the supply of imported goods such as oil and lubricants, where the local impact of these contracts was minimal as the vast majority of the contract price went to cover the costs of the imports.

A second complicating factor is whether the company that wins the contract is a domestic company, or a foreign-owned company operating in the domestic market. In the latter case the local impact will be lower as the profits will be repatriated.

Table 4.1 provides the aggregate dollar value of procurement for each mission studied, the share of that procurement that was undertaken in the field by the mission, and the local impact of that procurement—that is, how much of the money went into the local economy.

Table 4.1: Comparison of Procurement Results (peak years)

	UNMIK	UNTAET	UNAMSIL	UNMIL	ONUCI	ONUB	MONUC	MINUSTAH
	Kosovo	Timor-Leste	Sierra Leone	Liberia	Côte d'Ivoire	Burundi	DRC	Haiti
	2001–02	2001–02	2001–02	2004–05	2004–05	2004–05	2004–05	2004–05
Total procurement (\$000)	49,941	140,950	217,455	242,656	166,497	135,828	421,710	128,658
Mission procurement (\$000)	24,307	7,282	31,819	29,429	23,183	53,838	148,781	66,437
Mission procurement (as percent of total)	48.7%	5.2%	14.6%	12.1%	13.9%	39.6%	35.3%	51.6%
Local content of mission procurement (\$000)	6,333	2,181	6,479	5,186	5,353	11,177	31,121	13,599
Local content (as percent of total procurement)	12.7%	1.5%	3.0%	2.1%	3.2%	8.2%	7.4%	10.6%
Local content (as percent of mission procurement)	26.1%	30.0%	20.4%	17.6%	23.1%	20.8%	20.9%	20.5%

Sources: United Nations annual budget and expenditure reports to the General Assembly, supplementary information provided by mission CFOs and heads of procurement, project staff estimates. Information prior to 2004–05 is taken from actual performance reports and represents actual historical data. Information for 2004–05 is estimated data taken from budget proposals, as the performance reports for 2004–05 are still under preparation.

For example, in the case of UNAMSIL, the total procurement of goods and services in 2001–02 was \$217m. Of this amount, it is estimated that around fifteen percent, \$32m was procured by the Procurement Office within UNAMSIL.²² Of this \$32m, only around \$6.5m is estimated to have been spent on locally produced goods. This amount represented three percent of overall procurement, but twenty percent of the mission procurement.²³

Comparing the two bottom rows of Table 4.1 yields an interesting result. Local content as a share of total procurement varies significantly from mission to mission—over ten percent in two missions and between one and three percent in four others. However, the local content of mission procurement has much lower variation—around twenty percent for six missions. This suggests that in missions with a lower local impact, one way forward would be to focus on increasing mission procurement as a share of total procurement.

4.2 Explaining the Different Results

The actual goods and services procured by missions are comparable, as missions undertake operations and activities that are fundamentally similar. They each need functioning and fully equipped office space, transportation and communication facilities, IT systems and capacity and a range of consumables from oil to paper to bottled water. Accounting for differing levels of local procurement across missions are several factors, including the size of the domestic economy, the mission area’s location, the duration of the mission and the extent of diaspora repatriation.

As indicated in Table 4.1, the lowest local content of procurement was in UNTAET and UNMIL—where around two percent of the overall expenditure on procurement went into the local economy. Timor-Leste and Liberia also represent the two smallest economies of the countries studied, both with annual GDPs less than \$500m. Economies of this size generally have a very undiversified structure, with a focus on very basic subsistence level production. Most of the goods and services required by the missions were not available locally, nor was there the capacity to start supply of these products. In contrast, countries with larger and more diversified economies, such as Kosovo or DRC had missions that made a larger local impact through their procurement. In the case of Kosovo this was in part because a diaspora with both access to capital and business experience returned in greater numbers than in other mission countries.

²² The United Nations system has not routinely calculated the local content of its procurement. In the case of data post-2003, however, it was straightforward for us to extract this breakdown. Missions changed procurement databases in 2003, from the Mercury system to Reality. Pre-2003 data was available in some cases where mission areas retained good records, in other cases it was estimated by project staff.

²³ More precisely \$6.5m represents the local “value-add” in the production of the goods and services procured in the field by the mission. For example, when a local firm imports goods and supplies them to the mission, the cost of the goods does not represent local content, but the wages to the importers staff, some of the local transport costs and any profits from the contract do. The gap between the local impact and the local procurement represents the amount that is spent on imported goods and services, including wages to foreign staff and profits to foreign firms. This is represented in Table 2.1 as part of “spending on imports”.

ONUCI and ONUB are not well explained by these factors, however. Côte d'Ivoire is a large economy but the local impact of ONUCI's procurement was limited. In contrast, Burundi is a small economy, but ONUB managed to have the third highest local impact from its procurement. In the case of ONUCI more analysis may be needed; in the case of ONUB there are some concerns about the quality of the data provided.

4.3 Sectoral Impacts

Mission expenditure on locally procured goods and services had a significant impact on the development of the construction and contracting industries. As with the housing and services sector, such spending generated both business income and jobs. The income can be the basis for future investments, while the employment, bringing workers into the formal labour force, raises the overall level of labour productivity—a critical factor in developing an internationally competitive economy.²⁴

The development of these industries supports broader economic development. Other industries, potentially including export-competitive industries, will benefit from their presence. This spending also will have helped to bring construction and contracting out of the informal or semi-formal sector and into the formal sector, for example, by requiring that businesses are registered and complying with government regulations. This in turn promotes stronger economic growth by fostering government revenues and therefore effective governing capacity.

In several countries, government and private sector representatives expressed concerns over prime real estate that could be used for development instead being provided to the missions for their use. They suggested that greater care be taken in mission planning to avoid having the mission occupy commercially valuable real estate.²⁵

4.4 Increasing the Local Impact of Procurement

Local business representatives in all missions claimed to be able to supply far more to the mission than was currently being procured. They also claimed that local businesses could also supply goods that were being procured in the field but supplied by foreign firms. This section outlines a number of specific ways in which missions could increase the positive local impact of their procurement spending.

4.4.1 Increasing overall local procurement

The impact of procurement can be enhanced by increasing the amount of field procurement versus procurement from headquarters. In doing so, missions should emphasize the contracting of goods and services with local vendors within the value for money parameters of the United Nations procurement regulations. Local business that

²⁴ See for example Heckman, JJ, LaLonde, RJ & Smith, JA 1999, 'The economics and econometrics of active labor market programs', in the *Handbook of Labor Economics*, volume 3A, eds O Ashenfelter and D Card, North-Holland, Amsterdam.

²⁵ Moreover, in most countries, the missions do not pay rent for the land they occupy, unless it is privately owned. And when rent is paid, the capacity of the mission, or other UN agencies to pay far more than a local business can afford means, again, that prime real estate is occupied by international agencies.

can perform to acceptable standards at a cost equal to or less than other alternatives can be hard to find, though, so the most effective means to increase local procurement is to increase the mission's information about the local marketplace and its capabilities. The mission assessment teams should conduct technical surveys of the local marketplace and liaise with United Nations agencies already on the ground, to determine what needed goods and services could be acquired locally. This information can then be fed into mission planning. As well, mission procurement staff should meet regularly with international counterparts in the mission area, sharing vendor lists, vendor assessments, and other relevant information to encourage both broad and well-informed use of the local marketplace. Other simple mechanisms for increasing the amount of market information available to the mission and its staff would be to create a local business directory to be circulated to other United Nations agencies or to create a guide to local goods and service providers that could be used by international staff for personal spending with their MSAs.

The current United Nations Procurement Manual already provides sufficient flexibility for missions to increase local procurement—as illustrated by the significant variation in local procurement numbers from agency to agency within one mission. Similarly, the General Assembly Resolution on Outsourcing Practices could encourage the consideration of the economic footprint if it included a reference to “the local economic impact in support of the broader mission objectives” as a legitimate reason for outsourcing.²⁶

Any efforts to increase local procurement in this way must always be undertaken mindful of the requirement that the mission makes its procurement decisions based on value for money. These suggestions are designed simply to ensure that decisions on local versus external procurement are taken with a full understanding of the local capacity to meet procurement needs.

4.4.2 Increasing the local content of mission procurement

Missions can also work to ensure that a larger share of goods and services is contracted locally, making sure, for example, that local firms (as opposed to foreign firms with local presence) are able to compete effectively for United Nations contracts. Many local firms in post-conflict economies are small, without a track record or strong capital and cash-flow, and are unfamiliar with United Nations rules and procedures. They find themselves competing with foreign firms that are well resourced and can travel from mission to mission winning United Nations contracts. The suggestions below would help local firms to compete more effectively.

Local contractors will often have lower costs of doing business than international contractors, but their lack of familiarity with United Nations procedures or fluency in the working language of the mission may limit their ability to compete. In keeping with achieving the best value for money, tenders should be translated into the local language and distributed widely. While contracts will always be signed in the language of the mission, when a firm gets to that stage of the process they can hire translation capacity, but the translation of tenders would ensure that they are not ruled out from the start.

²⁶ A/RES/55/232 and subsequent resolutions outline the principles governing outsourcing decisions.



Missions could also offer seminars for local small and medium enterprises to explain United Nations procurement procedures and expectations. In many cases missions already hold meetings in conjunction with specific tenders. By working with the local chamber of commerce or other business groups to set up an initial overview seminar, the missions could attract a broader group of businesses while raising local competence to bid for United Nations work.

Local vendors working in a war-torn environment may have limited cash-flow and capital positions. They cannot support delays in payment in the way that larger foreign firms may do. Unfortunately, in many missions local vendors are not being paid for up to 90 to 120 days after the delivery of the good or services. The United Nations Procurement Manual dictates payment should be made within 30 days of delivery.²⁷ Some missions, such as UNMIS, have proven that payment can be made within 14 days. To ensure that local vendors are able to do business with the United Nations without risking their own financial security, missions should meet or exceed their own payment schedule of 30 days.

On a related matter, missions should review the operational application of the United Nations procurement regulations regarding financial stability, particularly what is commonly called “capital adequacy requirements”. The Procurement Manual requires that vendors provide financial statements and proof of solvency.²⁸ In several missions, procurement officers interpret this requirement to mean that the bidding company must demonstrate sufficient funds in a recognized bank. Not surprisingly, in these post-conflict economies it is unusual for a local firm to have surplus funds or to keep funds in a bank. In such economies, the measure of a local firm’s financial good standing is more likely to be the state of its credit facility with a bank. That is, the facility to take to the bank a commercial transaction such as a United Nations Purchase Order and obtain funding against it so that the firm can undertake the transaction, particularly where services such as construction will require extended credit for materials and salaries pending payment by the United Nations. Whilst adhering to the intent of the Financial Stability guidance of the procurement regulations, missions should bear the above in mind when determining whether the vendor has “sound financials”, without applying undue or onerous bank related requirements. This would level the playing field for local businesses considerably.

In environments where missions operate there are also usually bilateral or multilateral development partners undertaking projects in the area of private sector development (PSD), specifically to support post-conflict economic recovery and poverty reduction. These projects include financing for small enterprises, assisting the host government to reform its business licensing regime, facilitating exports or foreign investment, and capacity building. This form of development assistance is increasingly favoured as one of the most effective methods of driving economic growth and was even the subject of a recent high-level report commissioned by the United Nations Secretary General.²⁹

²⁷ UN Procurement Manual, January 2004 Rev 02, Section 9.9.15 “Payment Flow”

²⁸ UN Procurement Manual, January 2004 Rev 02, Section 97.6.2 (1) b. “Financial Stability”

²⁹ United Nations Commission on Private Sector and Development
(<http://www.undp.org/cpsd/indexF.html>)



The combined donor budgets for these programs are dwarfed, however, by the money that a complex peace operation spends in the local economy. Although local content spending by peace operations amounts to just a small fraction of total mission spending, in most mission areas it is still significantly larger than the combined donor spending on PSD.³⁰ There is therefore an opportunity to coordinate with third-party PSD projects so that they support the capacity of the local business community to compete effectively to meet the operational needs of the mission. PSD projects in turn get to leverage mission spending so as to assist economic recovery in significant ways. For example, in Afghanistan, a Canadian-funded project is helping local businesses bid on United Nations contracts. More bidders mean reduced costs for the United Nations. Supporting local businesses to win these contracts supports the economic recovery. In other missions there are discussions with donors about using PSD projects to create labour cooperatives that can bid on United Nations service outsourcing contracts.

Increasing local procurement is one of the easiest ways for DPKO to enhance the economic benefits of its field operations. As illustrated in Figure 2.4 (Breakdown of Local Impact), the missions vary widely in the extent of their local procurement. These differences can be partly explained by the different market conditions: there is far more available in Pristina than Dili. The fieldwork revealed, however, that there were even larger variations between United Nations agencies within individual mission areas. For example, in Afghanistan, one United Nations agency procured four times as many comparable goods locally as a sister agency. Given the roughly similar procurement procedures and regulations, the differences appear to depend on the local knowledge of individual procurement officers. For example, in Liberia one procurement officer insisted that no reliable generators were available in Monrovia, while another had been successfully purchasing them locally for over a year. In these comparative cases, the United Nations officers who were doing more local procurement were motivated almost entirely by the better value for money, it was cheaper and faster to buy local. There is a perception that local procurement increases the risk to the mission of fraud and corruption. This does not appear to be an accurate observation as will be discussed in chapter 7.

³⁰ Discussion and preliminary estimates are based on interviews with donor representatives in missions visited. These suggest that the local spending by missions is somewhere between five and ten times higher than the PSD related spending from donors.

Chapter 5 National Staff Hiring and Labour Market Impacts

5.1 Introduction

The role played by national staff and the associated direct and indirect impacts of national staff hiring provoked strong responses from many people interviewed during the field research. Some people argued that hiring national staff was the quickest and most effective way to inject much needed funds into the local economy. Others argued that the missions hired the best administrative staff at rates that the national government and the private sector could not compete with. This section lays out these issues and suggests ways forward to capitalize on the positives while minimizing the negatives.

Since missions affect local employment levels in a number of ways, capturing the overall employment impact of a mission was difficult. Missions employ staff in regular positions under fixed term and ongoing contracts, and report on this level of employment. Some missions also employ local persons as casual labour on an ongoing basis but there were not good records of the number of jobs created in this way, or of the duration of employment. Some missions relied on outsourcing contracts for key labour intensive functions, such as security, but again, systematic information on the level of employment generated was not available. Any analysis of local employment in mission environments is hampered by the poor level of available data, particularly labour market data. While it is possible to get reasonably reliable population data, it is not possible to get good information on the size of the labour force, or a breakdown of this labour force between the formal and informal sectors.

The hiring of national staff by peacekeeping missions had a smaller overall impact on the local economy than did MSA spending and a greater impact than procurement in half of the missions. Table 5.1 shows the peak year numbers of national staff employed in each of the missions. UNMIK and UNTAET employed the largest numbers—both having major roles in civilian administration—while other missions reviewed here made less use of national staff.

Table 5.1: National Human Resource Deployment (peak year)

	UNMIK Kosovo	UNTAET Timor-Leste	UNAMSIL Sierra Leone	UNMIL Liberia	ONUCI Côte d'Ivoire	ONUB Burundi	MONUC DRC	MINUSTAH Haiti
	2001-02	2001-02	2001-02	2004-05	2004-05	2004-05	2004-05	2004-05
National staff	3,533	1,656	515	798	476	423	1,355	548
All civilian personnel	4,925	2,963	934	1,864	1,128	994	2,821	1,180
National percentage	71.7%	55.9%	55.1%	43.1%	38.3%	42.6%	48.0%	46.4%

Source: United Nations annual budget and expenditure reports to the General Assembly. Information prior to 2004-05 is taken from actual performance reports and represents actual historical data. Information for 2004-05 is estimated data taken from budget proposals, as the performance reports for 2004-05 are still under preparation. 'All civilian personnel' is comprised of international civilian staff, UNVs and national staff.

5.2 The Use of National Staff

Peacekeeping missions employ national staff to fill predominantly administrative, clerical and support roles. Positions are classified on a seven point scale. At lower levels the jobs include cleaners, gardeners, drivers and junior clerks. At more senior levels the jobs

include mechanics, technicians, and clerical staff in areas such as procurement, inventory accounting/finance, travel and personnel.

In mission areas staff are selected through a competitive process involving applications, interviews and in some cases written tests. As employment within a mission is viewed as very desirable, and missions receive many unsolicited applications, it has been important to establish benchmarks for applicants and apply these transparently. For example, in the case of both MONUC and UNMIK all applicants were required to pass a basic administrative skills test in order to be considered for a position. A high school diploma or equivalent is required for all positions at the second level and above. In many cases tests are also required because document registries did not exist or were destroyed in the conflict that precipitated the arrival of the mission.

In order to ensure parity across the system, a common approach is taken across the United Nations agencies operating in a country. The basic principle for setting wages is referred to as the Flemming principle. It stipulates that wages should be determined by the “best prevailing local conditions”. That is, the United Nations will match whichever employer in the country is offering the best conditions, to ensure that the mission attracts staff of the correct calibre.³¹ The actual methodology for setting local staff salaries in the United Nations Common System is extremely comprehensive, with the guidance manual running to over 100 pages, with another 100 pages of annexes.³²

5.3 The Benefits of Using National Staff

There are a number of benefits to the mission in using national staff. These include mission budget savings, direct injection of money into the local economy, possibly enhanced mission legitimacy, and staff training benefits.

Per capita, international staff cost between ten and fifty times as much as national staff, owing not only to much higher salaries but to the costs of travel, MSA, and staff security. Using the more costly National Professional Officer category for staff still results in significant savings when compared to using international staff. When skills can be sourced locally, the saving to the mission budget is considerable.

Local staff hiring also represents the most direct way in which funds are injected from the mission into the local economy. Staff are paid wages and then have this money to spend on locally produced goods and services. This benefits the staff member’s immediate family and in many cases the extended family as well, as the wages of the person employed are significantly more than is needed to fund a basic lifestyle in the mission area.

³¹ The formulation of the pay setting principle for local staff has evolved from “best rates” in the earliest days of the UN to “best prevailing local rates” in the initial formulation of the Flemming Principle in 1949, to “best prevailing local conditions”. For a further discussion see the International Civil Service Commission’s 25th anniversary booklet on the ICSC website <http://icsc.un.org> ,

³² The methodology is presented in the Consultative Committee on Administrative Questions publication “Manual for Salary Surveys in non-headquarters duty stations”, online at http://gcs.undp.org/public_docs/manual.pdf . This manual also reiterates the Flemming principle.

Employing national staff can also enhance the legitimacy of the mission in the eyes of the local population. Having a mission entirely populated by internationals would pose ongoing challenges for the mission's dealings with the local leadership and population alike. A low level of national staff hiring would also open the mission to criticism from the broader international community. The extent of legitimacy associated with local hiring is partly compromised, however, because national staff tend to fill support roles while all senior positions are filled by international staff. This problem is mitigated to some extent by the growing use of the National Professional Officer category.

Finally, mission employment increases the productivity of the staff employed. Simply bringing people into the formal labour market has a positive impact on productivity and is a key step in developing an internationally competitive economy.³³ National staff also benefit from general on the job training and mentoring from their colleagues, as well as from formal and structured training. Most missions provide training in areas such as English language, basic computing and basic administrative skills. This training enhances their capacity to do their job effectively, and has the incidental benefit of preparing them for subsequent employment outside of the mission structure. In all current missions, more time is needed to see whether there are benefits to the broader economy associated with better trained national staff within the mission.

5.4 The Negative Impacts of National Staff Employment

The foregoing benefits notwithstanding, United Nations missions' impact in local wage setting and labour markets was the largest negative effect identified by respondents during the project's field research. While the overall inflationary impact of most missions was relatively benign, there were often inflationary pressures on wages. There are four distinct but related problems. First, in all mission areas the mission pays significantly more than the local civil service and the private sector, so there is a drain of talented people away from the national bureaucracy and the private sector to the mission. Second, some of these staff are employed in jobs that are well below their skill, qualification and experience levels. Third, in missions with large civilian components or civil administration responsibilities, the wages set by the mission can affect both public sector and private sector wages.³⁴ Fourth, the wage level paid by the United Nations system becomes the wage floor on which many donors and NGOs base their own wages (with NGOs generally paying a little less, and donors paying a little more), which further increases the upward pressure on public and private sector wages. Each of these effects is considered in turn.

Table 5.2 presents data on the monthly wages paid by the United Nations missions for a mid-level admin/support officer. It also includes data on the wages paid in the national government to a civil servant performing with similar responsibilities, and also to the highest paid civil servant. In all cases the wages paid by the United Nations mission are considerably higher than those paid by the national government, and in many cases

³³ See Heckman et al, at note 23.

³⁴ When the civilian component of a peacekeeping mission is small, but the overall UN agency presence is large, the same sorts of problems will occur.

United Nations administrative staff earn considerably more than the most senior civil servant. In addition, missions generally pay their salaries regularly and provide a significant benefits package—often including access to health care—both of which make them a more preferred employer.

Table 5.2 Comparison Between Government and United Nations Monthly Wages

	UN mid level	Government (equivalent)	Government (senior)
Timor-Leste (2001)	\$210	\$123	\$360
Kosovo (2004)	€790	€145	€667
DRC (2005)	\$763	\$25	\$75
Liberia	\$578	\$25	\$1400
Burundi	\$558	\$40	na
Sierra Leone	\$363	\$30-50	\$600
Haiti	\$626	\$238	\$952

Source: United Nations OHRM website—salary for level 3 fifth step, total net amount; government salaries from various sources including project staff interviews and World Bank staff. Senior examples are: Timor-Leste—civil service head of ministry; Kosovo—Chief Justice; DRC—most senior official in agriculture department; Sierra Leone—civil service head of ministry; Haiti — Director-General of Ministry.

In each of the mission countries studied, the total number of national staff hired by the mission is small as a share of the overall population and there is no quantitative study of the number of mission employees that have left government jobs to join United Nations peacekeeping missions or to take other United Nations agency staff positions. There were, however, anecdotes from most missions visited of this occurring,³⁵ and major concerns picked up in field interviews that the missions and the international community more broadly absorb a disproportionately high number of the skilled professionals in the country.

Unfortunately the conflicts that precipitate the arrival of United Nations missions have often also led many of the most skilled members of the labour force, both public and private sector, to flee the country. While there is not good quantitative information on the size of the skilled labour force in the various mission areas studied, the quality of applicants for the relatively high-paying national posts at United Nations missions gives an indication of the availability of skilled labour. Interviews with United Nations and other international agency staff indicated that while most vacancies received a large number of applications, missions were only rarely able to fill positions with persons having the required skills. So it is possible for a mission to drain the local public sector of its most qualified people and still not fill all of the posts that mission plans currently reserve for local hires.

Decades of development experience have shown that reform and change are only possible when they have domestic champions and domestic catalysts. The critical mass of individuals needed to give traction to a reform agenda in an otherwise weak bureaucracy is not large—arguably fewer than a hundred. When the individuals who can fill these leadership and change management positions are drawn from these roles, or indeed never

³⁵ For example, the UNAMSIL radio station was said to be staffed entirely with people who had previously worked for the Government’s radio station.



make it into these roles, the state's ability to build a functioning civil administration—the backbone of a sustainable state—is undermined. There is an increasing emphasis across the development profession on the centrality of state-building. In particular the building of a competent and service minded civil administration, able to both provide public services and promote private enterprise, is seen as the way in which sustained peace, development and poverty reduction can most effectively be delivered. In this context, the notion that the best officials should be located outside the national government is becoming less tenable.

The second problem occurs when national staff who have the capacity to fill senior roles either in the private or public sector are employed in more junior positions. The individual staff members take the jobs because of the higher wages on offer, but then their skills and experiences are wasted. There were examples of this in all missions visited. Drivers assigned to work with this project were regularly university educated, spoke good English and demonstrated well developed interpersonal skills. However it is not possible to provide a comprehensive report on this as missions do not report on the educational skills or backgrounds of their staff by level. While all staff at or above Level Two require a high school education, it was clear that many had far higher qualifications. The short term problem is that the higher wages attract people away from a job where they would make a bigger contribution to the economy and society. The longer term problem is that the prior skills of the staff may atrophy over time as they do not use them.³⁶

The third problem occurs when the mission also has responsibility to establish a civilian administration and fulfil government functions, as was the case in both Timor-Leste and Kosovo. In these cases the United Nations missions had a large local staff component and a significantly greater draw on the local labour market than most United Nations operations. Two specific complications arose: the mission was involved in establishing the civil service pay scale, both directly and indirectly; and as the civilian administration the mission had a responsibility for the broader development of the economy.

In the case of Timor-Leste, the United Nations played several distinct roles. The mission itself (UNTAET) was established with three pillars covering security, humanitarian affairs, and governance and public affairs. In July 2001 UNTAET established the East Timor Transitional Authority (ETTA) as the prototype civilian administration. The governance and public affairs pillar was rolled into ETTA. While UNTAET was staffed with United Nations national staff and United Nations international staff, ETTA was staffed with United Nations international staff and local staff on civil service contracts. UNTAET national staff were paid from the assessed contribution budget, while ETTA local staff were paid from the East Timor Consolidated Budget—which was funded by domestic revenue and voluntary donor contributions.

The setting of the wages to be paid to ETTA staff was a hotly contested issue. In Timor-Leste there was an existing national leadership which enjoyed considerable popular legitimacy that was able to work with UNTAET on this issue. Setting ETTA civil servant wages required balancing the need for fiscal sustainability with the need to be

³⁶ There may be scope to examine more effective use of national staff with well developed skills under the National Professional Officer program.

somewhat competitive with UNTAET. The relatively high level of wages paid to UNTAET national staff meant that the wages set by the government were higher than would have been set in the absence of the UNTAET scale. The first problem with this is the drain on the government budget from these higher wages. The second problem is that, in the absence of a well established labour market, the lowest government wage became the de facto minimum wage of \$85 per month. The minimum wage in the neighbouring Indonesian province of West Nusa Tenggara was around \$40 per month. Both the government in its National Development Plan, and private sector representatives in discussions, outline the challenges that the high wages (and therefore high business costs) create for the development of an internationally competitive private sector in Timor-Leste.³⁷

In the case of Kosovo there were considerable pressures in 1999–2000 to set high wages in the new Provisional Government of Kosovo to ensure a degree of competitiveness with the United Nations and the other development partners. This pressure was resisted in part by the international staff in the Central Fiscal Authority within UNMIK, who prepared a wage scale for the government based on benchmarks in neighbouring countries including Bosnia, Albania, Serbia and Montenegro, and FYROM. However, this meant that Kosovars employed in UNMIK were working alongside Kosovars in the Government doing similar jobs but on three or four times the salary.

Finally, the wage decisions of the missions and the United Nations system more broadly tend to set a focal point around which other international agencies set their wages. In most missions there is regularity around the wage dispersion for local staff who are all doing similar work.³⁸ Bilateral development agencies generally pay slightly higher amounts than the United Nations system, international NGOs pay lower than United Nations system, and local NGOs pay lower again. Of particular interest is that within this system all participants regularly have vacancies and have difficulty filling their positions with qualified staff. Peacekeeping missions are often the first group to deploy in large numbers at the end of a conflict. When the mission comes into an area first it has an added responsibility as the wages it pays can not only influence the people employed in the United Nations system, but actually have a far larger impact, as it influences the wages paid by all development partners.

One particular challenge in this regard is that often there has been an ongoing United Nations system presence in the host country, possibly associated with emergency humanitarian work during the crisis that preceded the deployment. This was the case in six of the eight current missions studied.³⁹ In these cases the wages that have been previously paid in the mission area are carried over to the mission—even though the nature of the labour market may have been changed dramatically by the conflict.

³⁷ It is not just in the wage area that the United Nations creates increased costs for its competitors. Both NGOs and the government are under pressure to match the generous travel allowances paid by UNMISSET.

³⁸ The UN Common System suffers from a separate problem related to its common wages across the system. There were many reports of grade inflation between the agencies, with staff being offered higher graded positions to do essentially the same work. Both mission and UN agency staff reported the disruption associated with high staff turnover and the increased administrative burden associated with more recruitment as issues requiring further attention.

³⁹ In the case of Timor Leste a new scale was required and in the case of Kosovo the pay scale from Belgrade was used. In the remaining six missions there was an existing UN pay scale.

Moreover, during the conflict the United Nations system may have been a small employer, so the negative impacts of the higher wages were limited. However, in the post-conflict phase the mission, and the United Nations system more broadly, is a much larger employer with its high wages having the potential for a much larger negative impact. This situation was not an issue when the principles behind the wages were being agreed. This is also reflected in the manual for wage setting referred to in 5.2 above. While the guidance and methodology for wage setting covers over 200 pages, the guidance for wage setting in disrupted labour markets is covered in five paragraphs—which provides considerable discretion.⁴⁰

The full negative consequences of the wages and hiring practices of the missions are not well understood. What is clear is that these consequences fall upon the local community and not the mission or the development community. For the United Nations, local wages are not a major cost driver—a fifty percent increase in national staff wages would have led to an overall budget increase of less than one percent in most missions—so there is very little budgetary imperative to limit wages paid to local hires. In contrast, local wages are a much bigger cost driver for the national governments. A fifty percent increase in local wages would lead to an increase in many government budgets of around twenty percent. For a local businessman trying to compete internationally in a labour intensive and exported-oriented (“traded goods”) industry—a fifty percent increase in local wages could increase costs by thirty or forty percent. This increase would make them unable to compete internationally. But it is only through having a private sector that is able to compete internationally that sustainable economic growth, employment growth, and poverty reduction can be delivered.

5.5 The Longer Term Impact

The longer term consequences of the wage setting policies of the missions and the development community more broadly warrant significant further study. There is little systematic analysis of whether the distortions created in the labour market by peacekeeping missions are transitory phenomena or whether they have lasting impacts. If the negative impacts are short-lived, then the broader long-term benefits of a successful peace and security operation should be the focus of United Nations policy. If, however, the way in which national staff are recruited and paid creates longer term problems then more attention is needed on this issue.

Cambodia is an example of what can occur when international operations create long term economic distortions. Over a decade after UNTAC left, Cambodia remains dependent on foreign assistance for over half of its national government budget. In part this highlights that rebuilding a state after a quarter of a century of violent conflict is a long term challenge. Decisions taken during the early stages of the international presence in Cambodia have contributed to an economic environment where the most attractive employment opportunities were with international agencies. The subsequent transition from a security/humanitarian response to a development response has paved the way for a

⁴⁰ See “Manual for Salary Surveys in non-headquarters duty stations”, paras 8.18 to 8.22, online at http://gcs.undp.org/public_docs/manual.pdf.

large “development sector” in the economy. Along with textiles and tourism, employment by bilateral and multilateral development agencies and their implementing partners represents the major source of employment and income.

This has created a dependency cycle where economic growth remains low because the most talented people work with development agencies and not in the productive economy. One example of how this has played out in Cambodia is the increase in tertiary education institutions running specialist programs in development studies, using scarce education resources to provide a supply of graduates trained specifically to work with the development agencies.

As several major missions, including UNMIK, UNMISSET and UNAMSIL, wind down there will be an opportunity for further study on these longer term effects. Preliminary study suggests that the pattern in Cambodia may be repeated. In the case of UNMIK, a small study was done by the Finance area looking at the employment outcomes of people who left UNMIK or whose contracts had not been renewed. The overwhelming majority of those who gained employment had done so with another international agency. In the case of Timor-Leste there were attempts through training to prepare staff for outside employment or to establish small businesses, yet very few had done so after their contracts were not renewed. Finally, in the case of UNMIK and UNAMSIL, even outsourced suppliers are looking at gaining additional work from other international agencies. There is little if any evidence of the national staff employed by missions migrating into the public sector to help rebuild it.

5.6 Improving the Local Impact from National Staff Hiring

The challenge is to design institutional arrangements for local employment that support the mission fulfilling its mandate in a way that delivers the cost efficiencies, creates local employment and provides local incomes while minimizing the negative labour market distortions.

Outsourcing has been used by missions in many cases as a tool to reduce the overall cost of the mission.⁴¹ Activities such as security and cleaning have been outsourced to local suppliers in several missions. While cost considerations have been a major driver for this push, a second benefit is that outsourcing has significantly fewer negative implications than direct hiring by the United Nations. Personnel hired by the contractor are generally employed at or near to market conditions, reducing the upward pressure on wages created by direct mission hiring. Outsourcing also creates an incentive for the establishment of

⁴¹ Attention to the possibility of outsourcing increased during the late 1990s, including through a report of the Office of Oversight Services (A/51/804 Annex), a report from the Joint Inspection Unit on the Challenge of Outsourcing for the United Nations (transmitted as A/52/338), a report of the Secretary-General (A/53/818) and comments by the ACABQ (A/53/942). This work culminated in a resolution on outsourcing (A/RES/55/232) which established four criteria that needed to be satisfied when considering outsourcing activities (cost effectiveness and efficiencies must be demonstrated; safety and security must not be compromised; the international character of the organization must not be compromised; and the integrity of procedures and processes must be maintained). Since this resolution there has been continued attention to this issue including the requirement to report on outsourcing and the cost savings achieved (A/RES/58/276).



small- and medium-sized enterprises, which are needed to support a developing economy. In addition, outsourcing reduces the felt need for the mission to find alternative employment for their workforce when the mission downsizes.

In terms of overall impact, a well constructed outsourcing program has the potential to deliver the same level of service with a greater positive local impact and a lower overall cost. The key to this is altering the mix of internationals and nationals assigned to the delivery of a particular service through the outsourcing arrangement. Oversight of this expanded outsourcing would fall within the remit of the contract management office within the Division of Administration in the mission who would ensure that appropriate accounting and labour standards were met. If the outsourcing approach is complemented with an expanded, labour intensive public works program, the same level of cash injection could be delivered across a wider range of people at lower rates per household—increasing the equity of the distribution of benefits from the mission’s presence.

Outsourcing represents one approach to reducing the distortionary impact of the mission in the labour market. However, the labour market challenges also affect the whole United Nations system and the international development agencies. The principles behind the setting of local hire wages for work within the United Nations system were established when the United Nations was established. They were needed when the United Nations was establishing offices in predominantly well-developed labour markets with an ample supply of skilled labour. In such an environment the Flemming principle of “best prevailing local conditions”, was necessary to keep the United Nations competitive in those markets.

This approach needs to be re-assessed in light of the very changed circumstances in which the United Nations finds itself sixty years on. Often, peacekeeping missions arrive in areas where there is virtually no employment and little engagement in the formal labour market. Although, as noted, the guidance and methodology for setting national staff wages in an established labour market are extensive and well-developed, the section of the manual for dealing with limited labour markets, that is, labour markets which are not sufficiently developed to allow the general methodology to be used, is covered in two paragraphs. Moreover, there is no consideration given to the way in which the wage setting decisions will contribute to the development of these labour markets—in either a positive or negative way.

Peacekeeping missions may be the first outsiders to arrive in force after a conflict, so the wages they set may act as a lead for others. They may also be the largest employer in the post-conflict environment, so again their wages set the scene. Finally, they may have a responsibility for broader economic development. Given the importance of wages, the operation of the labour market and the allocation of skilled labour to the success or failure of the mission, the United Nations wage setting principles need to be re-assessed to take into account this new environment.

Reinterpreting the Flemming Principle in light of these broader responsibilities of the United Nations and an understanding of the follow-on impacts of United Nations missions’ wage and labour market policies represents a significant challenge. Sustainable peace and security are underpinned by the creation of public sector

competence to create an environment supportive of private sector-led economic and employment growth, on the one hand, and by the capacity of the public sector to generate the revenues needed to fund its operations and effectively regulate the economy, on the other. The wage policies adopted by United Nations missions need to be mindful of these goals as do the principles which lie behind these policies. This represents a system-wide challenge, the solution of which must involve both the international financial institutions and bilateral donors.

In sum, managing the negative labour market impacts associated with complex United Nations peace operations requires a two-pronged approach. More outsourcing could address the symptoms of the problem, by ensuring that more local people are hired to do work for the mission by local contractors at local wages, rather than far fewer being hired by the mission directly, at United Nations wages. However, to genuinely address the problem, the wage-setting policies of the United Nations also need to be revised to reflect the altered contemporary environment within which these operations function and the far greater complexities and trade-offs that they face than could have been anticipated when the policies were initially set more than half a century ago.



Chapter 6 The Unintended Impacts

6.1 Introduction

As the lines between peacekeeping, peacebuilding, and nation- or state-building continue to blur, the indirect or unintended impacts of United Nations peace operations on the economies in which they work need to be addressed. There are four specific areas where how the United Nations operates has negative consequences for the development of local economies: (1) the relationship between the United Nations and the host government, particularly the taxation arrangements; (2) the way in which a mission can establish expectations for both professional working environments and personal living standards that cannot be affordably sustained by a developing country; (3) mission policy decisions that have unappreciated economic consequences; and (4) the planning horizons with which the mission operates. Finally, the mission spending and broader operations also have uneven distributional impacts across the country that are potentially negative.

6.2 Relationship with the Host Government

In most countries in which it operates, the United Nations seeks to obtain maximum advantage from the Convention on the Privileges and Immunities of the United Nations (the Convention).⁴² When there is a functioning national government, there is some scope for contestation and balance between the claims of the United Nations under the Convention and the rights of the sovereign State. When the government is functioning poorly and the United Nations' role is to promote its recovery, however, or when the United Nations itself temporarily fulfils the role of a national government, the organization faces a conflict of interest when it still aims for maximal concessions on taxation and user fees for itself, its staff and its contractors. This issue was raised repeatedly by local government authorities and private sector representatives in the course of fieldwork conducted specifically for this report.

The Convention provides a clear set of immunities to the United Nations and its staff. The United Nations is exempt from all direct taxes (such as income taxes), but it is understood that the United Nations will not claim exemptions from charges for use of public utilities (Section 7a). The United Nations is exempt from customs duties (Section 7b), but will not as a rule claim exemption from excise duties (Section 8). Officials of the United Nations shall be exempt from taxation on their salaries (Section 18b) and have the right to import their furniture and effects free of duty at the time of first taking up their posting. Officials are not granted exemptions from customs or excise duties on goods they import for their personal consumption. The Convention makes no reference to the taxation treatment of contractors to the United Nations or national staff.

When the mission is operating in a country with a sovereign government, a further set of privileges and immunities are contained in the status of forces agreement (SOFA) or status of mission agreement (SOMA). A model SOFA was presented to the General

⁴² The Convention on the Privileges and Immunities of the United Nations was adopted by the General Assembly on 13 February 1946.



Assembly in 1990 (A/45/594) and has been the basis for SOFAS in many missions. This model confirms the Convention and adds several other immunities, including the right to establish a commissary which can import goods free of duty for resale to members of the peacekeeping operation and the right to purchase locally free from sales taxes. It also obliges the government to provide accommodation to the mission free of charge,⁴³ water, electricity and other facilities free of charge, or at the most favourable rate and provides immunity from taxation for locally recruited staff. The taxation treatment of contractors or of the staff of contractors is not covered in the model agreement.

There are issues in the way that the agreements are negotiated and additional issues when there is no host government with whom an agreement can be negotiated. The single biggest issue is the manner in which these immunities are sought to the greatest extent possible. This is highlighted by the model SOMA which establishes the right to a commissary reselling imported goods tax and duty free despite there being no reference to this in the Convention, or by the requirement to provide public utilities free of charge in contravention of Article 7. In this regard, there are concerns that the host government finds itself in a very weak position, needing the peacekeeping mission to establish basic security, and so is prepared to agree to whatever conditions are presented.⁴⁴

There are also issues over the taxation treatment of contractors and national staff. This was a particular issue in both UNMIK and UNTAET, where the United Nations was also the government. There was a long dispute between the Central Fiscal Authority—the body set up in both UNMIK and UNTAET as the precursor to a Finance Ministry and the mission administration over this issue. In regards to national staff, some are hired under limited duration contracts and a “staff assessment” is deducted from their gross wage; others are hired under special service arrangements and other contractual arrangements and may not be covered by the Convention or the SOMA. There were issues in several missions over the payment of user charges, including airport charges. Finally, there were major concerns over goods, imported tax free for the mission, “leaking” into the private market for resale.⁴⁵

There are several negative consequences in the host economy associated with the maximization of exemptions. First among these is the way in which this approach undermines the building of a viable revenue authority capable of collecting enough revenue to fund the basic operations of the State—one of the most fundamental functions in building a viable country. The maximization of exemptions costs the state revenue directly, because taxes are not paid. Given that the major economic activity in the early

⁴³ There are, of course, anomalies in the application of even such routine requirements. For example, in Sierra Leone, the government had previously leased the building most suitable for UN mission headquarters to a private party, who was not bound by Security Council requirements and whom the mission paid to sub-lease the building. In the absence of the government’s initial lease, the mission would have occupied the building rent-free. Under the prevailing arrangement, however, the government received both rent and taxes from its lessee, and the UN’s sub-lease covered both.

⁴⁴ See for example de Brito, M. *The Relationship between Peacekeepers, Host Governments and the Local Population*, Monograph 10, Conflict Management, Peacekeeping and Peacebuilding, United Nations Research Institute for Social Development (www.iss.co.za/Pubs/Monographs), for comments on the negotiations over the SOFA between the Mozambican Government and ONUMOZ.

⁴⁵ In Sierra Leone there is a collection of stalls referred to as the “UNAMSIL supermarket” where a collection of traders have bought rations and then used them to stock stalls with food.



years of post-conflict recovery revolves around the international community, exemptions of this nature remove the major source of revenue.

However, arguably more problematic is the damage caused to the integrity of the revenue administration system by this approach. In situations where missions have been deployed, administrative capacity is generally very low and the bureaucracy is often poorly paid and very corrupt. In building an administrative system that can work there is an absolute premium on both simplicity and removing discretion. Concessions of this nature add an administrative burden and an additional layer of complexity onto an already weak system. It is argued that the exemptions are needed because in their absence the cost of the development projects will increase. There is debate over this issue,⁴⁶ but even if it is true, the exemptions will lead to a short term reduction in costs but a longer term need for continued donor assistance due to the weakened domestic revenue system.

The integrity of the revenue system is also damaged by the demonstration effect of the mission. In a weak system, compliance is a particular challenge—particularly when the court system which is needed for enforcement is also weak. The attitude of trying to minimize taxation, rather than seeing revenue collection as a necessary state function is adopted by others in the economy. The income tax exemption for United Nations local staff, in particular, makes the introduction of income tax for government staff more difficult politically. In regards to user charge collections, it is harder to obtain compliance from private businesses in collecting user charges when the missions claim exemptions.

Finally, the tax exemptions hamper the development of local businesses. Merchants selling goods which have been imported with duty paid cannot compete with either the goods sold in the commissary, or goods that have been imported for the mission and then sold privately—so the mission policies have the effect of favouring dishonest businesses over honest businesses. In regards to contractors, exemptions for international contractors give them a competitive edge over local contractors who have to pay tax.

Given that in most post-conflict economies the national government is dependent on budget support from donors for several years, there is an opportunity to address this issue in a fiscally neutral fashion. Rather than funding a budget support trust fund, the donors and the United Nations could agree that United Nations operations would be taxable at not-to-exceed rates negotiated as part of the Status of Mission Agreement, and donors would provide the additional funds needed to cover the tax burden. There is already something of a precedent for this in the way that the staff assessment is currently calculated on national staff salaries. Such an approach would net the host government

⁴⁶ In both UNMIK and UNTAET the Central Fiscal Authority argued that the tax exemption for contractors did not alter the overall amount of tax the contractor was required to pay. All it did was reduce the amount that was paid in Timor-Leste or Kosovo, but increased the amount due in the contractor's home country. In the case of UNMIK see telefax from Central Fiscal Authority to Office of Legal Affairs, 22 October 2001, in the case of UNTAET see minute from CFA to DOA, 19 February 2000.



comparable funding while both creating a strong tax-paying compliance demonstration effect and supporting the development and functioning of the revenue service.⁴⁷

6.3 Raising Expectations

International staff, whether working on missions or at headquarters, have expectations about their working conditions. These often include a constant interior working temperature, regular electricity, modern computing facilities, access to transportation and communications infrastructure (including access to the internet), good quality furniture and a comfortable office, etc. Many of these working conditions are not common in developing countries where domestic revenues are low and harsh trade-offs are made in allocating resources between competing needs. However, when international staff have a certain standard of amenities, there may be considerable pressure from government officials for a similar standard of amenity. Missions may also leave to the government either office or accommodation facilities built to international standards, the operation and maintenance of which burden the government's budget, to the detriment of other programs.

6.4 Policy Decisions with Economic Consequences

A particular challenge for peacekeeping missions is the breadth of issues on which they are required to make policy decisions, some of them with unanticipated economic implications. In many cases, the missions are ill-equipped to address the economic consequences of policy-making, even when these are acknowledged.

Several such examples were highlighted in the cases of UNMIK and UNTAET where the mission also played the role of the civilian administration. An UNMIK directive issued in September 2002, for example, ordered the state electricity provider to deliver free electricity to the poor and to Serb enclaves, an order criticized by the IMF as an "ill conceived social policy which is one of the root causes of [revenue] problems at the provider".⁴⁸ In interviews, officials from the Provisional Institutions of Self-Government argued that the decision to delay the final status of Kosovo had also been taken without a full understanding of the economic and fiscal costs. They argued that the delay and the uncertainties around the final status were major negatives in the eyes of both foreign and domestic investors, although some significant foreign investments have still been made. While the same decision might have been made, given the complex political and security situation, after economic consequences were considered, the officials argued that, in the event, these factors were not considered adequately. Similar concerns were raised in interviews by Timorese officials, in regard to the power generation and cost recovery policies and practices undertaken by UNTAET, as well as UNTAET budget priorities and UNTAET advocacy for an unsustainably high overall level of public expenditure.

⁴⁷ Such an approach is consistent with the spirit of the International Civil Service Commission guidelines which note that some countries do not grant income tax exemptions to national staff, and that in this situation the salaries are grossed up.

⁴⁸ See "Kosovo—Gearing Policies towards Growth and Development" IMF, 2004, p58.



There are also examples from other missions of economically significant policy decisions being taken without consideration of economic consequences. For example, in Liberia a decision was taken to shut the port for security concerns. This decision had a major negative impact on the economy as it was not possible to load or unload cargo during this period. On balance, taking all factors into account, the preferred policy may have still been to close the port but, in the event, only security factors were considered. Given the potential for significant unintended consequences of decisions like these, mission leaders need information on their potential economic impacts. This is a role that could be played by a senior technical Economic Affairs Officer in the SRSG's office.

6.5 Planning Horizons

Mission mandates are usually of short formal duration—of the missions studied for this report, only UNMIK has an indefinite mandate. Otherwise, each mission has at most a twelve-month substantive mandate, and budget planning horizons are also generally twelve months. The inevitable extensions are considered as they come due. Because all mission budgets are now geared to the United Nations' July-June peacekeeping fiscal year, this is an improvement over what preceded it prior to the mid-1990s, when both substantive and budgetary mandate periods were driven by Security Council decisions and followed no cyclical order. Still, procurement or hiring decisions that make sense in a six or twelve month timeframe may be counterproductive when considered in the longer timeframe of a United Nations mission's actual time on the ground.

As many operating decisions are being taken in the context of artificially shortened timeframes, important decisions on capital investments are being constrained by the structure of mission funding and the differences between assessed contributions and trust funds. In Timor-Leste there was a very significant example of this. In 2001, mission managers confronted a destroyed national electrical grid but because the assessed mission budget could not contribute to anything that could be regarded as a fixed infrastructure investment, the decision was taken to use a series of large portable generators to provide power to UNTAET facilities and to major Timorese population centres. The fledgling Timorese government inherited this network and did not have the budget to reverse the decision and build a power plant. As a result, Timor-Leste now has the most expensive power generation system in Asia at \$0.20/kilowatt-hour (compared to \$0.05 in Indonesia and \$0.03 in China). In recent market surveys, the Timorese government identified the cost of power as the single biggest deterrent to attracting foreign investment.

The shortened timeframes can also create a negative impact on the overall efficiency of the DPKO mission. For example, given a six month mission mandate horizon, it may be more cost effective to tender a less expensive short term airlift contract instead of a more expensive and lengthier road repair contract. However, over a two year period it could be significantly more cost effective to repair roads into the interior. Furthermore, the legacy of improved roads could be an important contribution to the post-conflict recovery of the host nation. Currently, there is no consistent application of cost benefit analyses that considers these issues being undertaken by mission leadership for these types of large-scale infrastructure decisions.

6.6 Distributional Impacts

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. Detailed studies of the distributional impact of UNTAET/UNMISSET and of UNAMSIL were undertaken and the results are presented in Tables 6.1 and 6.2.⁴⁹ Of the \$93.9m injected directly into the local Timorese economy by the UN presence, around eighty percent was spent in Dili. Over the life of the mission the benefits became even more concentrated in Dili, in particular with the change in mandate from UNTAET to UNMISSET, in 2002.

Table 6.1: Distribution of benefits in Timor-Leste

	2000-01	2001-02	2002-03	2003-04
Dili	77.1%	78.5%	84.3%	85.4%
Regions	22.9%	21.5%	15.7%	14.6%

A similar study was undertaken to estimate the distributional impact of UNAMSIL. Table 6.2 shows that, of the \$82m injected directly into the local Sierra Leone economy, over ninety percent of the benefits were in Freetown.

Table 6.2: Distribution of benefits in Sierra Leone

	2000-01	2001-02	2002-03	2003-04	2004-05
Freetown	95.0%	92.9%	92.0%	92.1%	93.9%
Regions	5.0%	7.2%	8.0%	7.9%	6.1%

Discussions in other missions confirm a similar pattern of geographic distribution of benefit.⁵⁰

The education requirements for national staff jobs meant that only the well-educated had the chance to get a job in the United Nations mission. The majority of nationals in most mission countries were therefore excluded from obtaining a position. Similarly, in the service industries catering to international staff, ability to speak basic English and a basic level of education again limited access to economic opportunities to the better educated. Finally, only the existing land-owners were in a position to benefit from the increased demand for residential and commercial property.

In some missions this problem can be acute when the spending also follows ethnic or religious divides. There is a perception in ONUCI that Muslim traders are benefiting at the expense of others. In Burundi it is acknowledged that the Tutsis are doing more business with the United Nations than are the Hutus because ONUB had a difficult time finding and recruiting qualified Hutus. In ONUCI and UNMIL locals complain that

⁴⁹ More detail on the distributional impact of UNTAET/UNMISSET's impact in Timor-Leste can be found in Carnahan, Gilmore and Rahman, *Economic Impact of Peacekeeping: Interim Report, Phase 1*, April 2005.

⁵⁰ The geographical data on local and international staff deployment over time required to estimate distributional impacts were not available for other missions.

Syrian and Lebanese expatriates are getting the lion's share of United Nations business. In MONUC, most hires came from the capital city, even for regional positions. In each of these cases the perception that the United Nations is favouring one group over another in its hiring practices has damaged the mission's reputation and, to an extent, its strategic objectives. Missions have done a good job to date in tackling this problem by encouraging balanced hiring practices for themselves and even for their contractors.

The concentrated impact of the mission footprint can create political problems by creating the impression that the United Nations mission or the peace process is only favouring the rich or urban dwellers.⁵¹ Yet the most important indirect economic benefit of peacekeeping missions, those associated with peace and security, are enjoyed by most citizens although, in some missions, peace and security was not delivered across the entire country.

A final distributional issue identified particularly in the West Africa missions was the problem of dealing with companies that have local political connections. In some cases government ministers or rebel leaders have taken advantage of the new stability to open businesses or rent properties to the international community. The money raised by these enterprises is then used to finance election campaigns or possibly rearm. As an example, there were several accusations in Liberia that ousted President Charles Taylor was using front companies to provide services and properties to UNMIL and that these businesses would try to use their political power to influence UN contracting decisions. In ONUCI, the rebel leadership objected to fuel deliveries from the south, because they wanted to establish a lucrative monopoly in the north. In UNMIS, the southern rebels object to the use of northern contractors to undertake work in their region. In each of these cases, once a problem arose, the administrative staff discussed the issue with the mission leadership or the Political Affairs unit and were able to mitigate the damage. In rare instances, the mission was forced to take these political ramifications into account in awarding local contracts.

6.7 Addressing the Unintended Consequences

Many of these consequences arise because peacekeeping missions and mission planning have not yet fully adapted to their new, broader roles in peacebuilding and the need to join peacebuilding and development objectives. Responding more fully to this changed environment requires both structural and operational responses.

The first possible change is to build concern for economic impact and legacy into the mandate of every complex peace operation in order to give the SRSG authority to actively consider economic consequences in making mission decisions. 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 mandates should acknowledge this. While often the SRSG, as is the case in UNMIS,

⁵¹ As discussed in chapter 4, in MONUC there has been a public relations campaign to highlight the positive side of the mission in the face of these criticisms.

operates under the overarching assumption that the strategic mission goals imply economic development, this is rarely seen as a relevant factor at the operational decision-making level by procurement or personnel officers.

At the field operational level, existing United Nations operating procedures and manuals take precedence over local needs. For example, UNMISSET procurement officers recognized the significant developmental impact of procuring certain goods in Timor-Leste, 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. However, the United Nations Procurement Manual makes it clear that among the four guiding principles is “The interest of the United Nations”.⁵² 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.

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. 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.

Consideration must also be given to a systematic re-interpretation of the Convention on the Privileges and Immunities regarding the extent of exemptions for United Nations missions and mission affiliates (international and local contractors) from local taxes, fees, and user charges. At the very least, there needs to be a consistent position taken across all missions, but the re-interpretation should also be mindful of the expanded role that missions now play in the security, political development, and economic development of the territories where they operate.

There is also the potential for ongoing capacity building and training of mission staff about the economic implications of even seemingly minor operational decisions, to recognize potential knock-on economic effects of their operational decisions and how they may affect the mission’s ability to achieve its strategic goals, and to encourage them to weigh those implications in making their decisions.

⁵² United Nations Procurement Manual January 2004, Rev. 02, p. 95 section 11.1 (1) and UN Financial Regulation 5.12. The other three principles are: a) best value for money; b) fairness, integrity and transparency; and c) effective international competition.

The considerable challenges in obtaining data for this project highlight that most missions are making major decisions, with significant economic and political impacts, with very limited information. To improve decision-making it is necessary to improve the information that is collected and then made available to senior officials. In particular missions should create mechanisms for monitoring their local economic impact in as close to real time as possible.

Regarding distributional impact and local efforts to manipulate it, there are no clear prescriptions but there are several things of which missions should be mindful. The basic distributional impact is a consequence of missions being predominantly based where there is greater capacity to supply goods and services, that is, in major cities. Missions do need to ensure that procurement and hiring practices are sensitive to local patterns of power and local perceptions of equity. If there are concerns that the economic benefits from the mission are being captured by a narrow political elite or a particular ethnic group, to the detriment of peace, the mission always has the option of sourcing more of its procurement from external providers—enhancing local economic impact does not mean blindly increasing local purchases. In addition to operating in a fair and transparent fashion and in keeping with established mission rules and regulations, missions may also wish to undertake public information campaigns to highlight their procurement principles of value for money and the transparency of their processes.

Addressing the unintended consequences of mission operations in these ways will not only reduce these negative impacts. It will also provide a more structured way to ensure that the positive benefits associated with MSA spending and purchase of locally produced goods and services can be enhanced to provide an even more effective economic boost.



Chapter 7 Challenges in Improving the Economic Impact

There are several difficulties faced by United Nations administrators as they interact with the local economy that arise from the environments in which missions typically operate. These include security, corruption, and limited local capacity to provide goods and services.

7.1 Security

The very nature of peacekeeping missions is such that security issues present an immediate challenge for United Nations managers in considering the merits of local procurement or hiring. Using local goods and services can create additional vulnerabilities. For example, in the November 2004 crisis in Côte d'Ivoire, the mission temporarily lost its supply of fuel because the local company was unable to meet its delivery obligations. Other missions have been concerned about the reliability of local security services or have found that local contractors have favoured a particular ethnic group or military faction or, in the case of Burundi, hired accused war criminals. Local procurement problems can also cause security issues by disrupting the critical path of mission deployment. In Sudan, for example, UNMIS chose a local company to provide tents in the south. When that firm was unable to meet its contractual obligations, the entire United Nations deployment was delayed as alternative international sources were found.

Many of these security concerns are not isolated to local procurement, however. For example, a political crisis is just as likely to disrupt an international supplier with local offices as it is a local supplier. Some missions (such as ONUCI) have even found that local companies can be more flexible in adapting to changing security situations and can use local knowledge to find alternative methods of meeting the United Nations' needs. Prudent planning can also mitigate these risks. After the 2004 shortages, ONUCI decided to establish strategic stockpiles of fuel, water, and food, a policy that should be a best practice in most missions, regardless of whether national or international suppliers are being used.

Security is also an important consideration in taking decisions about housing international staff. The use of local housing options, as opposed to purpose-built UN compounds, provides a significant stimulus to speed economic recovery. Nonetheless, it is still critical that mission leadership take into account the security considerations before encouraging staff use of local housing. In fact, ensuring that the UN's Minimal Operations Security Standards (MOSS) are applied to local housing can provide an economic benefit to the local economy. In Timor-Leste, for example, the funds provided by the mission to upgrade security in housing rented by international staff made a notable contribution to the early stages of economic recovery.

The issue of screening local employees for security considerations is less straightforward. Managers need to balance prudence and vigilance against creating a siege mentality that cuts off the mission from the host populace. For example, in one mission, national staff were not permitted on the SRSG's floor for security reasons. In the overwhelming majority of missions included in this study, however, the mission security office was able

to implement a sufficiently thorough screening process to ensure the reliability of national staff.

7.2 Crime, Corruption, and Fraud

There is a widely held perception (outside of United Nations procurement offices) that local business partners are more susceptible to malfeasance. The accepted wisdom is that the unregulated local business environment is rife with fraud and that the United Nations risks contributing to the emergence of local mafia by doing business there. Indeed, there are examples in each mission where a local procurement contract has been complicated by crime, corruption, or fraud. These range from the relatively minor siphoning of United Nations fuel by drivers, to more serious allegations of kickbacks and bribes. There was a general consensus among the senior DPKO administrative staff interviewed by the project, however, that the United Nations is no more susceptible to these problems than any large organization operating in these economies. Furthermore, DPKO procurement officers argue that significant corruption and fraud is mitigated through the standard application of the existing United Nations procurement procedures. It was suggested that the risk of corruption in contracts tendered to international or regional companies was often equal to that of local vendors. As an illustration of this point, during the period of the project research one of the largest international companies providing services to the United Nations was implicated in widespread corruption allegations.⁵³

It is difficult to find quantifiable data to comparatively measure the cost of corruption in either local or systems contracts. The inherently unregulated nature of the post-conflict economies in which DPKO missions operate, however, makes corruption and fraud an important consideration in any procurement related issue. Because of this, the missions have developed a broad range of oversight mechanisms to mitigate this risk. These measures, such as the mission based audits by the OIOS or the due diligence procedures undertaken by the mission procurement officers, must be applied with vigilance for both local and international contracts. Corruption is an ongoing concern for all United Nations procurement exercises and cannot be used as a compelling argument against increased local procurement. The key is continued vigilance, monitoring and evaluation of all contracts.

7.3 Quality and Availability of Local Goods and Services

A real concern is the range of goods and services of an adequate standard that can be found locally in post-conflict economies. For example, in DRC, MONUC was unable to find a local air transport company that had IATA approval and the upgrade of the Kalemie airport was delayed because the local contractor could not mobilize the required equipment. In Sudan the mission deployment was delayed by a local supplier. In each of these missions, however, these problems were the rare exception to the rule. United Nations tender procedures are relatively rigorous and do a thorough job of identifying

⁵³ Dickson, Martin, "Compass: now the bearings look even more adrift—Inquiry mounted into UN allegations", *Financial Times*, (London, England), October 22, 2005, p16.



vendors that are able to meet an international standard of quality. While quantitative data on this is not available, extensive project interviews with mission personnel suggest that the rate of non-compliance is comparable for local and international contracts. In some cases, the mission implemented a successful program to assist local vendors to increase the quality of their services by providing informal training on electrical standards, for example.

In Timor-Leste, the mission piloted an innovative program to improve the quality of national staff and service providers. UNMISSET implemented a standardized training program with certificates of achievement for the national staff. This accomplished several things at once. It ensured that senior managers had an objective tool to determine how much capacity building international staff were undertaking. It gave local staff proof of their abilities in the form of certificates for everything from mechanical repair to cleaning, that could then be used to secure jobs outside of the United Nations. And, most importantly, it regularized on-the-job training across the mission, thus increasing the quality of services being provided to UNMISSET.⁵⁴

These three challenges of security, corruption, and quality are serious ones that if ignored have the potential to cost the mission millions in unbudgeted expenses, or potentially threaten the very success of the mandate. Because of this, DPKO has implemented numerous measures to mitigate these risks and continues to evolve the way it does business in these difficult environments. In the opinion of the senior mission managers on the ground, these measures are proving effective and provide tools that will allow missions to further increase their dependence on local sources of goods and services. Nonetheless, in implementing the recommendations of this project, the United Nations will have to ensure that this vigilance is continued and even increased because the potential cost is so significant and the implications of failure so serious.

⁵⁴ In a similar vein, UNAMA took the simple step of separating the training budget into international and national envelopes. This ensured that the resources available for providing job-related training to locals were not depleted by the significantly more expensive career development training exercises available for internationals. For example, one week of courses in New York for a P4 in the Political Section would cost the equivalent of basic computer skill training for forty national staff.



Chapter 8 Conclusions and Recommendations

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 recommendations listed below are designed to enhance the local economic impact and minimise the negative elements associated with the mission presence. While the recommendations are in many cases quite specific, they derive from a few key observations grounded in 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 taking into account the economic consequences of decisions in other domains. It involves mission staff at all levels, needs action at all levels from mission mandates through on the ground implementation, and requires ongoing monitoring by the mission.

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*. But in ensuring value for money they need to make sure that local vendors who may well be able to deliver the same service at a lower price have access to the tendering process. They also need to look at the scope for outsourcing more of their activities both to deliver better value for money and to reduce the negative impact on the labour market associated with national staff hiring policies.

Finally, the negative economic impacts of the mission generally derive from United Nations operating principles for non-headquarters locations drafted in the early years of the Organization when the United Nations 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 when they are applied in the context of complex peacekeeping operations with multiple objectives situated in poorly functioning post-conflict economies*.

Through the course of the fieldwork and other research for this project, United Nations staff in the field and at headquarters shared a long list of innovative best practices, lessons learned, and new ideas that were intended to increase the local economic benefits of missions or to mitigate the economic distortion. In some cases these recommendations were only applicable in the *sui generis* situation of a specific mission, or they were counter-productive to the strategic objectives of the mission mandate. The project team circulated these recommendations among missions and discussed them at headquarters to narrow down the list. The operational reforms and partnership opportunities below represent ideas that can be implemented without significantly altering current rules and



regulations, that would not undermine the principles of value for money or transparency, and which would have a reasonable likelihood of improving the economic impact of the missions.

Many of these recommendations are inter-related or inter-dependent. For the sake of clarity we have divided them into six categories according to which institution or body would be responsible for implementing them.

1. Structural and Mandate Refinements (Security Council or General Assembly)

- 1.1. Include reference in mission mandates to the economic impact of missions to give the SRSG authority to actively consider economic consequences in making mission decisions.
- 1.2. Assign a senior technical 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.
- 1.3. Facilitate the building of sustainable host state revenue streams by returning to basics regarding the Convention on Privileges and Immunities and the extent of exemption for United Nations missions and mission affiliates (international and local contractors) from local taxes, fees, and user charges.
- 1.4. Include estimates of new missions' potential economic impact and of local economic capacity in initial mission assessments to ensure economic coherence in mission structure.

2. Labour Market and Wages Policy (General Assembly)

- 2.1. Review and revise the wage-setting policies of the United Nations system, including the Flemming Principle, to reflect the different environment within which these operations function and the far greater complexities and trade-offs that missions now face.
- 2.2. Emphasize contracting of goods and services with local vendors, where such vendors can perform to acceptable standards at a cost equal to or less than other alternatives, in order to support local business, increase the number of local persons given jobs and reduce the negative impact on the labour market as a consequence of a mission's presence.

3. Outsourcing Policy & Practice (General Assembly & Secretariat)

- 3.1. Revise A/RES/55/232, Outsourcing Practices, to include 'local economic recovery in support of the broader mission objectives' as a fifth basic reason for outsourcing;
- 3.2. Change the threshold for outsourcing decisions first outlined in A/RES/55/232 from the requirement that 'the activity can be done significantly more economically and, at the very least, equally efficiently' to the requirement that 'the activity can be done at least as economically and equally efficiently'.

- 3.3. In interpreting cost-effectiveness in regards to outsourcing, include the likely longer-term impact of an outsourcing decision in the calculation of whether outsourcing would be cost effective.
- 3.4. Outsource the majority of national staff positions, particularly among low-skilled tasks.

4. Operational Reforms (Secretariat)

- 4.1. Awareness and management of economic impact. The economic and development implications of mission actions should be factored into operational decision-making.
 - 4.1.1. The senior economic officer on the mission management team should advise the SRSG and liaise with external agencies on these issues.
 - 4.1.2. Missions should educate international staff about the economic implications of their operational and personal decisions.
 - 4.1.3. Missions should create mechanisms for monitoring their local economic impact in as close to real time as possible.
 - 4.1.4. Missions should encourage staff to lease local accommodations where acceptable permanent structures are available.
 - 4.1.5. Mission commissaries should carry only goods that are not readily or safely available on local markets, and should reduce the scope of their inventory as goods become available locally.
- 4.2. Procurement matters
 - 4.2.1. Mission assessment teams should conduct technical surveys of the local marketplace, and liaise with United Nations agencies already on the ground, to determine what needed goods and services could be acquired locally.
 - 4.2.2. Missions should undertake cost/benefit analyses on large infrastructure tenders to determine if a longer term view that looks beyond the current mandate would support the strategic objectives of the mission
 - 4.2.3. Missions should translate tenders into the local language and distribute them widely to facilitate bids by local small and medium enterprises (SMEs).
 - 4.2.4. Missions should offer regular seminars for local SMEs that explain United Nations procurement procedures and expectations.
 - 4.2.5. Missions should establish by formal management directive to the offices involved in the process—R&I, Certifying Officers, Payment Processing Unit and Finance Section—the necessary SOPs and responsibilities to ensure payment of local vendors endeavour to pay local vendors within fourteen to thirty days of the satisfactory delivery of a contract.

- 4.2.6. Whilst properly adhering to the procurement regulations when determining if the local vendor meets “capital adequacy requirements”, missions should take account of, in that determination, prevailing local criteria such as “credit line” rather than solely “funds in bank”.
 - 4.2.7. Mission procurement staff should meet regularly with international counterparts in the mission area, sharing vendor lists, vendor assessments, and other relevant information to encourage both broad and well-informed use of the local marketplace.
- 4.3. Hiring national staff
- 4.3.1. Personnel Management and Support Section staff should join mission assessment teams to survey the local labour market and use that data in constructing staffing tables.
 - 4.3.2. Missions should review the effectiveness of inter-agency coordination in agreeing on levels and functional classifications to reduce the prevalence of unnecessary interagency poaching and functional grade inflation.
 - 4.3.3. National staff training budgets should be increased and separated from the international staff budget, to increase the mission’s ability to use national staff effectively.
 - 4.3.4. National staff certification programmes, similar to the pilot programme in UNMISSET, should be considered to increase staff performance.

5. Partnership Opportunities (Donors)

- 5.1. Coordinate external Private Sector Development projects with United Nations procurement needs to maximize the potential of mission operational spending to stimulate economic recovery.
- 5.2. Create a local business directory for use by mission personnel and other agencies, to facilitate access to the local market.
- 5.3. Create guides to local goods and services providers that would be used by international staff for personal consumer spending.
- 5.4. Develop a procurement marketplace or matchmaker service to increase market information among United Nations procurement officers and to match local vendors with international buyers, particularly international agency procurement programmes.
- 5.5. Assist United Nations missions in providing training and information seminars to potential local vendors, with a particular focus on the United Nations procurement process and the quality and service needs of international agencies.
- 5.6. Assist local labour to form co-operatives or SMEs that can bid on United Nations outsourcing contracts.

6. Implementation (Secretariat)

- 6.1. A working group chaired by DPKO should be convened to assess relevant rules and regulations to determine which recommendations are clearly within the mandate of the secretariat, and should begin implementation of those that are. The remaining recommendations should be referred for consideration to the C34, as necessary, for General Assembly action.
- 6.2. DPKO Peacekeeping Best Practices Section should appoint or commission an officer to focus on mainstreaming the principles of the findings of this study and the recommendations within the context of DPKO's current operations. This would be similar to the successful efforts by PBPS to implement the findings of the Sexual Exploitation and Abuse report.
- 6.3. DPKO should circulate an annotated version of the recommendations that it and the SC/C34/GA find acceptable to the SRSGs, CAOs, and relevant staff in the field.
- 6.4. Best Practices Officers in the field should report to PBPS on whether and how these recommendations could be implemented at their respective missions.
- 6.5. A trainer should visit the largest DPKO missions to brief key decision makers and staff in procurement and personnel on the findings of this study and provide focused seminars and training on best economic practices at other missions and on how to implement the operational recommendations.

