

# The Economic Impacts of Peacekeeping Operations: A Review of the Literature<sup>1</sup>

## 1.1 Introduction

The war-peace transition facilitated by peace operations is not just played out on battlefields, but in the multitude of socio-political and economic links with the local community and immediate environment. In addition to restoring law and order, peace operations function under the guiding principle of setting the stage for long-term security and development, which necessitates involvement in “complex and often paradoxical social, political and economic processes” (Pouligny 2005). The multifaceted nature of involvement in a host country, accompanied by wealth and personnel that typically exceed that of the national administration, lead to the intuitive conclusion that impacts on the local economy are likely, and the outcomes are not always desirable.

Nevertheless, while the economic aspects of conflict and war have been studied in some detail, peacekeeping missions themselves have not often been the focus of inquiry. Quantitative studies are rare, and specific quantitative studies of the economic impact of missions even more so. The studies that are available tend to be qualitative and anecdotal, reflecting the need for more data to support concrete quantitative analysis and methods for minimizing harmful impacts. Consequently, the present survey of existing literature on the economic dimensions of peacekeeping casts a broad net, including related areas of research that support the need to further inquire into the impacts of peacekeeping missions on the host economy.

The next section of this chapter summarizes the results of studies that directly refer to the impacts of peacekeeping missions. What is found is that not only are systematic quantitative studies missing, but such analysis is identified as a priority area of concern for peace implementation.

Following that, five related categories of literature are examined, starting with *macroeconomic analyses of the effects of aid flows*. The economic effects of a large fiscal contribution from a peacekeeping mission in the host country has not itself been a focus of research, however parallel literature looking at the effects of an inflow of foreign exchange and subsequent market changes in developing countries provides a framework within which the post-conflict scenario may be studied. The economic dimensions of conflict that in fact have been extensively studied include economic causes for war and the ways in which power and wealth form agendas for conflict. These issues have been examined in a body of research classified as *political economy of war*, underlining the

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<sup>1</sup> This literature review is Chapter Two of the Economic Impacts of Peacekeeping (EIP) Project’s Interim Report. The EIP project is being implemented by Peace Dividend Trust, in partnership with the UN Peacekeeping Best Practices Unit (PBPU) and the Office of Mission Support (OMS) of the UN Department of Peacekeeping Operations (DPKO). The full Interim Report, as well as more information about EIP, may be found at <http://www.peacedividendtrust.org/EIP.htm>.

need for key actors in peace operations to be cognizant of economic agendas in conflict so as not to exacerbate dynamics that could fuel further conflict and instability.

The area of literature looking at *post-conflict development* is then outlined to provide some insight into the evolving roles of peacekeeping missions in reconstruction, humanitarian activities, and “peacebuilding”. In addition to restoring law and order, the way missions’ activities are carried out often have enduring effects on longer-term development. Next, the *role of the private sector in conflict and post-conflict zones* is considered as multinational enterprises (MNEs) and indigenous businesses have recently come under the spotlight as economic actors that can fuel conflict but also facilitate its resolution. Businesses also play a significant role in post-conflict development by generating economic activity and creating opportunities such as employment. Finally, recent *analysis and reform of peacekeeping operations* is summarized, with particular attention to the recommendations of the Panel on UN Peacekeeping Operations (the “Brahimi Report”). In this area of inquiry, recognition of the increasingly complex nature of peace operations places further emphasis on integral economic aspects of peacekeeping and peacebuilding.

## **1.2 Direct References to Economic Impact of Peacekeeping**

Formal or informal analysis of the economic impacts of UN peacekeeping is quite scarce in both economic literature and other social scientific studies of peace and conflict, post-conflict development, and peacekeeping operations. Little systematic quantitative analysis has been undertaken of the direct and indirect impacts, however a small body of literature incorporates these issues into broader discussions. As a result of the dearth in analysis of this topic, reference to these impacts is not often extensive, but rather a tangential consideration. Most often impacts that have been observed are reported as stylized facts based on anecdotal evidence. However the evidence strongly suggests peacekeeping missions do have a pronounced ripple effect throughout the host economy, warranting further examination.

The remainder of this section will review items that refer directly to economic impacts of peacekeeping operations, highlighting most commonly raised issues. First, a summary of a report on the economic impacts of the United Nations Transitional Authority in Cambodia (UNTAC) on the local economy will be provided, alongside one observer’s assessment of the report’s findings. Although UNTAC concludes that its impacts were not as acute as some would propose and has “provided the impetus for socio-economic change”, Curtis (1993) indicates that the report does not take several important factors into account, including the sustainability of UNTAC’s economic contributions. This is followed by examples of anecdotal evidence of similar observable impacts briefly discussed in other works, with particular reference to distortions created in rental and retail markets, as well the creation of a temporary service economy serving the needs of internationals. Particular attention is paid to impacts on the labour market, including changes in wages and salaries, and the effects on skilled and non-skilled sectors.

### **1.2.1 UNTAC in Cambodia**

A report produced by UNTAC's Economic Advisor's Office, called *The Impact of UNTAC on Cambodia's Economy* (1992), is the only available systematic analysis of economic impacts by a UN peace mission. Quantitative data such as economic indicators and outlays in Cambodia were compiled mostly from quoted statistics and official sources, such as the National Bank of Cambodia and UNTAC records. Qualitative research also informed the study, including interviews with development agencies and "senior local Cambodians" (UNTAC 1992, 2).

Cambodia experienced persistent levels of inflation throughout the peace process, and in particular during the presence of the United Nations Advance Mission in Cambodia (UNAMIC) and UNTAC (ibid, 16 & 18-21). The report denies that UNTAC was primarily responsible for this inflation since only a small proportion of UNTAC's \$3 billion budget was spent in Cambodia, and an observed increase in imports is asserted to balance the increase in aggregate demand spurred by UNTAC's expenditures. The report states that the opening of markets and the end of administered prices were possible causes of rising prices (ibid, 2-4). What *is* acknowledged is the rapid escalation of "certain selected consumer prices" that accompanied a large influx of international personnel in July and August of 1992 (ibid, 5). In particular, rental and restaurant costs rose substantially as a result of increased demand from UNTAC staff.

A "dramatic increase in labour payments" with a "corresponding upsurge in local purchases" is recounted for the second half of 1992, and the report admits that "lack of knowledge of local conditions, combined with the presence of profiteering and speculative pressures have undoubtedly exacerbated in some areas, the underlying problems of inflation" (ibid, 7). Rising prices in the certain sectors is partially attributed to UNTAC's largest expenditure: wages and allowances paid in Cambodia. Although the report does concede responsibility for the "bidding up of salaries of locally recruited staff" as a result of increased competition for skilled labour and higher paid wages, it maintains that relatively high incomes and distinct consumption patterns of expatriates did not substantially affect local cost of living. The increased wages of local staff, however, are recognized to have increased their purchasing power, contributing to domestic inflation (ibid, 9-12).

Among the positive contributions that are reported are UNTAC's creation of employment within the mission, which has spilled over into other sectors of the local economy, capacity-building through on-the-job training and its advisory role to the public administration. With regards to private sector development, the report concludes that "private enterprise finds expression in the spate of personal and family investment in small shops, home renovation, construction of homes and other service industries." Furthermore, "UNTAC's contractual and local procurement activities, in addition to setting standards and exposing local suppliers to competition, has encouraged firms to seek new business outlets and contacts with neighbouring countries" (ibid, 14).

In his analysis of the report, Curtis (1993) argues that an unsustainable pattern of development results from UNTAC's heavy investment in the service sector to meet the needs of international personnel. Most of this investment was in Phnom Penh with little

being directed to the provinces and productive sectors. Also, by paying Phnom Penh-based rents at the provincial and district levels, UNTAC's activities resulted in an increase in the rental and land prices throughout the country. Although Curtis does acknowledge that UNTAC was able to contribute to human capital development through job training and improved language skills, he claims that their recruitment of highly skilled and experienced Cambodians "from already disintegrating administrative structures could only have had a negative impact upon the delivery of government services" (Curtis 1993, 21). He describes the expected difficulties that resulted in the labour market on UNTAC's departure, asserting that difficulties of being re-absorbed into the workforce with expectations of inflated wages and the absence of jobs were typical.

Curtis also draws attention to the report's tendency to oscillate between admitting and denying UNTAC's impacts on the economy. For example, while the report states that the direct impacts of UNTAC's presence are far less significant than they appear, it still contends that

the arrival of UNTAC in Cambodia has had a considerable impact on the local economy. UNTAC purchasing power has brought in substantial amounts of dollars that have had an evident catalytic effect on economic activity but have also contributed to significant price and wage increases in several sectors (UNTAC 1992, 2).

Both the UNTAC report and Curtis' critique of its findings point to the need for similar analysis of other missions. In particular, certain disputed issues, such as the sustainability of the patterns of economic activity spurred by the mission's presence or the true extent to which locals are shielded from effects of the international staff's consumption patterns, need to be resolved with necessary adjustments to operating procedures and codes of conduct.

### **1.2.2 Other references to economic impacts**

Although parallel reports for other missions have not been produced, Chesterman (2004), Higate and Henry (2004), and Woodward (2002) all cite similar observations in Timor-Leste, Afghanistan, the Democratic Republic of Congo (DRC), Sierra Leone, and Mozambique among other countries. Chesterman contends that "every significant UN mission creates a parasitic and unsustainable economy to serve the needs of the transient internationals" who invariably have high levels of disposable income (200). Woodward refers to this phenomenon – which entails distorted labour, rental and retail markets, the creation of a temporary service economy (i.e. restaurants and bars), and the rise of illegal drug use and prostitution – as the creation of a "bubble economy". Increased demand in such sectors as housing and office space, and for various goods and services including supplies for peacekeeping troops, has an inflationary effect that is felt most intensely by the local population.

Chesterman demonstrates that the size of UN mission budgets can be misleading when assessing the proportion of funds that assist the local population. In *You, the Peoples: The United Nations, Transitional Administration, and State-Building* (2004), he estimates that

in Timor-Leste, only around \$50 million, or one-tenth of the UN Transitional Administration's budget, reached the local people, contrasted with \$27 million spent on bottled water for international staff – “approximately half the budget of the embryonic Timorese government, and money that might have paid for water purification plants to serve both international staff and locals well beyond the life of the mission” (183).

Anderson (1999) mentions the same effects from the presence of the aid and relief industry in post-conflict societies. In her widely-cited book *Do No Harm: How Aid Can Support Peace – or War* (1999) Anderson refers to the tendency for aid agencies to “glut the market”, delivering large quantities of aid with the adverse effect of undermining local production. Jean (1996) looks at the macroeconomic consequences of an injection of humanitarian aid and the revenue-accumulating effects of an overvalued domestic currency. Revenue is also earned through the economic activities spurred by humanitarian and peacekeeping operations and their employees, which includes both internationals and locals. Jean refers to the more direct effects felt in the capital and larger provincial towns.

Of particular interest are the impacts of peace missions on the local labour market and human capital development. The UNTAC report did acknowledge its role in escalating local wage and salary levels (UNTAC staff salaries were at least 15 times higher than local Cambodians). Anderson, Chesterman, Higate and Henry, and Woodward also observe hiked demand for local skilled and unskilled labour, and higher salaries for those employed by the UN, and aid and relief agencies. Income for internationals is estimated by Chesterman as being between 15 and 400 percent higher in Afghanistan than local civil service positions, and between 500 and 1000 times the per capita income of locals in the DRC according to Higate and Henry.

Despite the cited potential for human capital development and increase in savings and local investment, in practice the effects are less clear. Often what is observed is that local government is unable to compete with the sometimes exponentially higher salaries and wages offered by international bodies, luring away skilled professionals from national state-building (Curtis 1993, Woodward 2002). Some actually lose skills while employed by short-term contracts as translators or drivers. In some cases this means “a judge is working as a driver, or an electrical engineer as a security guard” (Chesterman 2004, 201). Higate and Henry argue that

the economic security of those employed by the wealthy incoming institutions is limited, because missions are finite. Paradoxically, economic security may be contingent on the continued instability of the environment in which the intervention takes place, requiring an extended presence for the mission and its resources (485).

Similarly, the OECD Development Assistance Committee (1998) notes that local hiring by civil and military operations is not always compatible with longer-term development work in a report on humanitarian assistance during conflict. The report cites the possible “disruption that short-term job creation causes in the local economy” with the potential of “actually hinder[ing] sustainable development” (19, para 61).

The observed effects of the swift arrival of large numbers of expatriates, and the accompanying accommodation of their needs and demands, are ubiquitously reported as cause for concern by all the above authors. Chesterman asserts that the international presence dominates and distorts the local economy during “precisely the period in which international assistance should be making its greatest contribution to the establishment of a self-sustaining economy” (2004, 200). An effect such as inflated prices negatively affects consumption by locals, while uneven salaries and wages in the local labour market have significant distributional repercussions (Anderson 1999, Woodward 2002). Furthermore, resentment is generated among locals regarding their own economic hardship in relation to the situation of international staff (Woodward 2002).

Despite the mounting evidence that the effects of peace operations can often be contrary to the overarching goals of self-governance and sustainable economic development, Woodward argues that “this problem is rarely discussed” (10) and Chesterman argues that it is “one of the least studied aspects of humanitarian and development assistance” (200). That there is clearly a great paucity of quantitative data regarding economic impacts of peace missions is evident from the explicitly anecdotal nature of the examples presented above. Furthermore, few if any articles apart from UNTAC’s analysis spend more than a few paragraphs on the topic, undoubtedly as a result of minimal existing analysis to form the foundation of longer commentary. Because of the persuasive evidence that some activities of peace operations can be counter-productive, a systematic examination of the economic impacts of peacekeeping missions is necessary to devise strategies and operational guidelines that can help minimize harmful effects and optimize benefits.

### **1.3 Related Categories of Literature and Research**

#### **1.3.1 Macroeconomic Analyses of the Effects of Aid Flows**

The role of both humanitarian and development aid as a key resource in conflict economies, for better or worse, has been looked at in some detail through a political economy lens (Anderson 1999, Jean 1996, Prendergast 1996). However, more formal analysis of the macroeconomic impacts of aid flows in a recipient post-conflict society has received relatively little attention. Demekas et al. (2002) present a theoretical model of these impacts, drawing from numerous studies of foreign aid that focus on either its effects on growth or resource allocation (White 1992, Hansen and Tarp 2001).

In the traditional Harrod-Domar (Domar 1947, Harrod 1939) model of economic growth (and in variants of this model), foreign aid closes the domestic savings gap in order to increase investment or finance imports, leading to higher growth. However, empirical studies have been inconclusive. Aid is sometimes shown to increase long-term growth, but recent empirical studies have not been able to reproduce this result robustly across different time periods and countries (Easterly 1999, Gang and Khan 1991, McGillivray 2000, Tsikata 1998). A sound policy environment is also a variable that has been considered in this strand of literature, but again, results have been inconclusive (Alesina & Rodrik 1994, Burnside and Dollar 2000, Hansen and Tarp 2000, 2001).

The “Dutch Disease” literature (Michaely 1981, Cordon and Neary 1982, Paus 1995, Van Wijnbergen 1986) is often considered as a close analog to the situation when a country receives a large influx of foreign assistance. In these models the extraction of a major natural resource and the associated inflow of foreign exchange actually leads to an overall decline in the tradable goods sector of the economy. In the case of foreign aid, the booming sector is the inflow of capital from aid, which is spent on domestic goods and services. Younger (1992) has shown this to lead to an appreciation of the real exchange rate through domestic inflation, as well as crowding out of the private sector as government most often receives foreign aid and increases aggregate demand for domestic goods and services. Van Wijnbergen has also shown the contraction to hinder export promotion objectives of some aid programs.

Demekas et al. have argued that the traditional strands of aid literature do not provide an adequate framework for understanding aid in post-conflict economies. They show that while development aid going to low income countries fluctuates very little, post-conflict aid reaches very high levels in the emergency phase (humanitarian aid) and is then reduced quickly as the society enters the reconstruction phase. Reconstruction aid has different objectives and is directed towards rebuilding infrastructure, state-building, private sector development, establishing a tax system, etc. Collier and Hoeffler (2002) have also found in an empirical analysis of 27 post-conflict economies that the absorptive capacity for aid doubles after the first three years. Demekas et al. point out that these distinct characteristics of post-conflict aid suggest that the impacts will not be the same as demonstrated by the models cited above.

In their attempt to create a model for post-conflict aid, Demekas et al. include reconstruction aid in the production function since it contributes directly to productivity through rehabilitation and restoring public services. Furthermore, humanitarian aid is differentiated from reconstruction aid and is included as a consumption transfer as it is intended for emergency consumption needs and not production. A rule is linked to humanitarian aid, taking into account that it is not permanent and stops at a defined minimum level of domestic consumption. Demekas et al. found that although humanitarian aid does reduce long term capital accumulation, such as in traditional aid-growth literature, it enhances welfare in the short run, particularly in a scenario of very low labour supply. Reconstruction aid is found generally to raise the equilibrium capital stock, and does not necessarily have to result in Dutch Disease since higher factor productivity in both sectors could offset the contraction of the tradable goods sector. The higher demand for domestic goods and services may be met without considerable reallocation of labour and capital, allowing both sectors to expand (Demekas et al. 2002, 8-21).

There may be some similarities between countries that receive large inflows of foreign capital in association with natural resource extraction and those that receive large aid flows, allowing the Dutch Disease literature to be used in analysis of aid flows. However, there is one significant difference that limits the applicability. Most of these models assume both market clearing and full employment. Yet countries which are large aid recipients, particularly those recovering from conflicts, are generally characterized by

surplus productive capacity, including high unemployment and also underemployment. Nkusu (2002) found similar results to Demeskas et al in her study of Dutch Disease in low-income countries when the idle productive capacity can be drawn on to satisfy the increased demand induced by aid.

This area of literature does not directly deal with the fiscal and economic impacts of the peace operation itself. However, it does provide a framework within which the overall impact of the inflow of foreign exchange, and dramatic increases in consumption of domestic goods and services that accompany peacekeeping missions, can be studied.

### **1.3.2 Political Economy of War**

The increasing prevalence of civil and regional conflicts in the past half-century has prompted academics and practitioners involved in peace implementation to inquire into evolving causes of war. Without diminishing the importance of political, socio-cultural and religious factors, proponents of the political economy approach emphasize economic dimensions of conflict and their interplay with power and politics cannot be ignored.

Philippe LeBillon refers to the political economy approach as “one which focuses on how the distribution of wealth and power is affected during conflict” (LeBillon et al. 2000). In 2000, as part of the Overseas Development Institute’s project, *Political Economy of War: Translating Theory into Practice*, LeBillon assembled an annotated bibliography on this expanding area of inquiry. His survey of the literature in this area shows the general categories of discussion as: i) economic causes for conflict, ii) economic incentives and agendas for continuing conflict, iii) the consequences of conflict on the economy, and iv) the importance of economic dimensions to ceasing conflict. All of these dimensions interact with existing political and social realities to make up the aspects of a resulting conflict and post-conflict society.

A recent strand of literature looking at economic causes for civil conflict (Carbonnier & Flemming 2000, Collier and Hoeffler 2001, Berdal and Malone 2000, Jean & Rufin 1996, Lamb & Nathan 2000) refers to “greed and grievances”, arguing that while the latter are commonly perceived to be primary factors, the former could possibly have equal or more explanatory power. Grievances can include high levels of inequality or chronic unemployment, ethnic and religious clashes, or political repression. Greed, on the other hand, encompasses increased access to finance, including donations from a diaspora population, and the scope to gain from extortion of local resources. Greed and opportunity also relate to economic incentives for prolonging conflict. Those who are sustaining themselves through wartime economic activities will be resistant to demobilization efforts. Conditions of war allow foreign resources, including aid, to continue to be accessible, and instability and the absence of law and order mean continued gain from resource extortion.

Conflict leads to a dramatic disruption of economic stability, and especially in countries with a low average level of income (Collier 1999, Funkhouser 1997, Stewart 1993, Stewart and Fitzgerald 2000). This occurs on both macro and microeconomic levels. Some economic consequences include loss of livelihoods and high levels of

unemployment, great inequality in the distribution of resources, fall in food and public-service entitlements, loss and damage of existing capital and infrastructure, and reduced investment. Economic opportunities for those carrying out the conflict and most vulnerable to being recruited (especially youth) are very important for both ceasing conflict and discouraging the potential of future outbreaks (Atkinson 1997, Woodward 2002). Without economic opportunities for soldiers, incentives to demobilize are not present. Furthermore, reconstruction efforts should also try to meet the needs of those who are financing the conflict and benefiting from it as they have financial motive to continue violence (Berdal & Keen 1997).

From a macroeconomic perspective, international actors can use economic incentives and disincentives to encourage peace and discourage conflict. Uvin (1999) describes economic *incentives* as “purposeful uses of aid” that help the peace process by “influencing actors’ behaviours; strengthening pro-peace actors’ capacities; changing the relations between conflicting actors (ethnic groups, the state and civil society); and influencing the social and economic environment in which conflict and peace dynamics take place” (7). Disincentives, on the other hand, “weaken and discourage the dynamics that favour violence” (7). In an analysis of four case studies, Uvin found that all aid creates incentives and disincentives and advises that the focus for aid agencies should be how to manage them to support non-violent conflict resolution.

The political economy approach emphasizes that war and post-conflict economies need to be studied further to make efforts by the international community more effective and reduce the probability that existing economic agendas for continuing conflict are compounded. Because of the implications for longer term development, economic consequences of conflict should be alleviated and mediated as quickly as possible. Economic improvement is significant for helping to cease or avoid eruption of further conflict. Those intervening in both the conflict and post-conflict environment must be cognizant of how their presence may be fuelling economic agendas or further destabilizing the economy.

### **1.3.3 Post-Conflict Development**

Post-conflict development literature deals mostly with observations about and strategies for the reconstruction phase after violence and instability have been abated, emergency needs have been met, and long-term security and sustainable development become the focal point. Complex political and socio-economic factors are the focus, rather than military or humanitarian aspects. References to “peacebuilding”, “peace implementation” and “peace support” can fall into this category. The primary actors in post-conflict development are such international institutions peacekeeping missions and multilateral aid agencies, and also donor governments and bilateral aid agencies, NGOs, and local governance structures.

Post-conflict development has grown to be of increasing interest to all those involved as it has become evident that immediate relief efforts are only one part of the solution for long-term security and growth (Bradbury 1998, Duffield 1994, Mooney 1995, Munro 2001). The often dramatic falls in aid and involvement after the emergency phase have

been shown to be counterproductive to a country's long-term needs. Strategies for the post-emergency phase deter the reemergence of violence and nurture the environment for sustainable development. Mainstream post-conflict development thinking also emphasizes that development needs must be addressed both mid-conflict and in the early post-conflict stages in order to achieve medium to long-term goals, and not left until entering the reconstruction phase.

According to a white paper by the Center for Strategic and International Studies (CSIS) and the Association of the United States Army (AUSA) success in the reconstruction phase "is clearly premised on four conditions: 1) establishing security; 2) restoring good governance 3) ensuring the rule of law, and 4) creating economic opportunity" (Mendelson 2002). The OECD Development Assistance Committee *Guidelines on Conflict, Peace and Development Cooperation* also recognizes the strengthening of civil society actors as integral to success. An assessment of peacebuilding initiatives by the Swedish development agency Sida (Sørensen et al. 2000) reports there to be very little baseline data about peacebuilding activities and therefore insufficient grounds to derive indisputable input-outcomes relationships, however some rudimentary "lessons-learned" are presented. Notable examples include the need for creating culturally specific solutions, the importance of local ownership of the process, appropriate timing and sequencing of activities, and the centrality of economic policy to recovery.

The dynamics of post-conflict economic activity can significantly affect long-term development and also the likelihood of repeated conflict (Lake 1990, Lewarne and Snelbecker 2004, Miller 1992, Smoljan 2003, Tschirgi 2004, World Bank 1999). For this reason, strategies for economic opportunity and economic governance are a priority in the early stages. Reintegration of ex-combatants to dissuade their involvement in further conflict is of utmost importance, consequently making employment opportunities for locals vital. Nurturing the local business community and putting an economic regulatory framework into place spurs the creation of economic opportunities, restores internal provision of goods and services, and instills public confidence. Stable, functioning, democratic institutions are crucial for long term development, and immediate state-building efforts are therefore also a significant priority (Chesterman 2003, Chesterman et al. 2004, Hyden 2000, IPA 2003, Macrae and Zwi 1994, Paris 2004, Wilde 2001).

Peacekeeping missions are being increasingly involved in post-conflict development efforts, often working side-by-side with humanitarian organizations, non-governmental organizations (NGOs), and aid agencies (Daniel & Hayes 1994, Swift 1996, Smoljan 2003, Stedman 2001, UN 1992/1995). Missions play an essential role in bringing about all the conditions for successful reconstruction, including demilitarization, establishing law and judicial systems, rebuilding infrastructure, monitoring human rights and electoral processes, and economic rehabilitation.

The responsibilities are also evolving as traditional peacekeeping is not always sufficient for post-conflict needs. This is leading to an increased focus on programs that support local private sector development. However, there remains almost no attention on the key role that the *way* in which the peacekeeping activities take place will likely have a far

greater impact on private sector development than any specific private sector support program. In this regard, identifying the ways in which peacekeeping missions can support post-conflict development will help to produce best practices.

#### **1.3.4 Role of the Private Sector in Conflict and Post-Conflict Zones**

Research is being undertaken by NGOs, government, and intergovernmental organizations on private sector operations in conflict zones in an attempt to minimize their negative impacts and encourage positive contributions. Regularly coming under scrutiny for reaping economic benefits in unstable conditions and at times deepening the conflict itself, the private sector, including multinational enterprises (MNEs) and indigenous companies, is now under mounting pressure to take into account the social and economic impacts of their operations. Although companies are often painted in a negative light, they are increasingly recognized to have beneficial leverage in conflict societies.

The role of the private sector in conflict and post-conflict zones is typically examined in two spheres. The first is their role in the continuation or sometimes instigation of conflict (Drohan 2003, Humphreys 2003, Nelson 2000, Sullivan 2003, Taylor 2002). Some examples of how the private sector can sustain or even provoke conflict include: relations with repressive or corrupt regimes, unintentionally funding a war economy through investments, unequal distribution of economic growth resulting from investments, unfair distribution of costs and benefits from the extraction of natural resources, fueling corruption through bribery, and allowing human rights violations in, and undermining the security of, surrounding communities by using rogue security forces. In many cases companies face unintended consequences as a result of their daily operations, however sometimes the effects are direct and actively pursued as a benefit to the company.

While risk assessment tools to analyze the impacts of conflict on a company's long-term investment and daily operations are readily available, the reverse risk – their ability to aggravate a conflict – has rarely been taken into account (Campbell 2002).

The second sphere in which the private sector is involved is conflict prevention/resolution and contribution to a country's economic rehabilitation in the reconstruction phase (Amnesty International & Pax Christie International 2000, Campbell 2002, DFID 2000, Gantz 2003, International Alert 2004, Nelson 2000, OECD 2001a, Sullivan 2003). In the past, conflict prevention and resolution were seen by companies to be a state responsibility. However, not only does this disregard the often enhanced leveraging power of companies with local authorities, but growing recognition of the business costs of conflict has made prevention and resolution a "bottom-line imperative" for companies themselves.

Private sector engagement is not a substitute for government involvement, however companies do have considerable influence on governments to encourage the conclusion of a conflict. Companies can minimize the impacts of their activities by mainstreaming

risk assessment throughout their management and operations, and by putting frameworks for ensuring accountability and transparency into place.

The private sector also has an interest in post-conflict development and can make a significant contribution in areas where it has a comparative advantage, such as in building infrastructure or enhancing the investment climate (de Luca 2003, DFID 2000, Harris 2003, Newton and Culverwell 2003, World Bank 2001). As the OECD-DAC Guidelines, *Helping Prevent Violent Conflict* point out, “Fostering private sector-led growth in jobs and income within a rights and rules-based approach is a basic long-term component of conflict prevention” (2001b, para. 23). At a conference held by the UK’s Department for International Development in 2000, the following strengths and capacities that private sector could contribute were outlined: human and financial resources, experience of managing complexity and change, potential to organize itself collectively, potential to build relationships across sectors, and influence over political actors. Furthermore, it is argued that “over the long term, only the private sector is capable of growing new enterprises, opening investment opportunities, and providing employment and enduring security” (Gerson 2001).

There is scope for other actors involved in peacebuilding and reconstruction to benefit from the lessons of private sector activity. In the interest of minimizing costs, local procurement of supplies and local hiring are common practices for companies and contribute to economic growth by supporting local businesses and increasing economic opportunities (Gerson 2001, World Bank 2001). Human capital is also enhanced by helping to build the skills of those employed (de Luca 2003). Learning how to support the local economy from the private sector presents an interesting opportunity for dialogue between companies, government, and non-governmental sectors, opening a space to encourage the private sector to espouse socially responsible principles in their operations.

International mechanisms to raise the norms of corporate behavior include the UN Global Compact and corporate social responsibility indices such as the Dow Jones Sustainability Index and FTSE4Good (BSR 2003, Humphreys 2003). The former is a compact between companies and the UN to embrace a set of globally established principles in the areas of labour standards, human rights and environment in an attempt to solicit voluntary cooperation in the absence of a regulatory mechanism. The latter allows internal and external stakeholders to measure and monitor a company’s impacts to ensure accountability and transparency. The OECD Guidelines for MNEs are also widely used by both governments and companies as they are “the only government-backed mechanism that also has provisions for implementation” (International Alert 2004).

### **1.3.5 Analysis and Reform of Peacekeeping Operations**

The most comprehensive, instructive and influential of recent inquiries into the state of peacekeeping operations is what is known as the “Brahimi Report”. On 7 March 2000, Secretary-General Kofi Annan convened the Panel on United Nations Peacekeeping Operations to review the organization’s peace and security activities and make concrete recommendations to help the UN improve their performance in this realm. The panel was necessary to address the difficulties faced by UN troops throughout the 1990s, notably

those in Somalia, Rwanda, the former Yugoslavia, and Sierra Leone among others. By August of the same year, the Panel had released their final report, which came to be known as the Brahimi Report after the chair, former Algerian Foreign Minister Lakhdar Brahimi (United Nations 2000).

The Brahimi Report was immediately recognized to be “not just the product of yet another cosmetic exercise for which United Nations bureaucracy is so often accused” – its language and recommendations were remarkably frank, concrete, and realistic (O’Shea 2002). The opening paragraph of the Executive Summary tells the audience that “Over the last decade, the United Nations has repeatedly failed to meet the challenge” that it was founded upon: “to save succeeding generations from the scourge of war” (UN 2000). Most analyses of peacekeeping acknowledge that post-Cold War operations have become increasingly complex, including explicitly political tasks of implementing peace agreements, higher levels of involvement with civil and humanitarian factions, a more significant role in post-conflict reconstruction and development, and less clearly defined roles of victim and aggressor among warring parties, which are often ethnic and religious groupings (Durch 2001, O’Shea 2002, UN 2000). The Brahimi Report, and its implementation process, opened a space for peacekeeping operations to develop and grow to meet modern realities.

Most notable of the report’s practical recommendations are: the creation of a new UN intelligence gathering entity for improved planning; more frequent fact-finding missions to areas of tension; strengthening the permanent capacity of the UN to develop and implement peacebuilding; measures for rapid and effective troop deployment including establishing multinational brigade-size forces; and establishing Headquarter support of peacekeeping as a core activity of the UN, thus channeling its resource requirements through the UN’s regular budget and significantly increasing staff and management support at the Department of Peacekeeping Operations and Headquarters.

The panel also advised that several methodological changes be made in peacekeeping operations. The report encourages measures to make peacekeeping and the rules of engagement more robust to address situations where one party is clearly violating a peace agreement. The report states, “No failure did more to damage the standing and credibility of United Nations peacekeeping in the 1990s than its reluctance to distinguish victim from aggressor.” Furthermore, the report stresses that every UN operation must have a clear and achievable mandate, avoiding volatile environments and acknowledging its own limitations. Troop availability and capability must be assessed by the Secretary General before the Security Council passes a resolution to deploy a peacekeeping operation, and troops should not be deployed if they are not able to meet requirements or if an adequate number is not committed. Worst-case scenarios should be used for planning.

The Brahimi Report spurred a necessary dialogue about peacekeeping operations in a post-Cold War, globalized world (O’Shea 2002, Tardy 2004, Zittel 2002). Critical reviewers asserted that it did not pay enough attention to the needs of the local people and focused too much on structural issues of the UN. Others argue that the report’s counsel that peacekeepers feel able to use force against aggressors neither recognizes the

difficulty of actually discerning victim from aggressor on the ground, nor takes into account that a more robust force can only result from a clear mandate to use aggressive action under Chapter VII of the UN Charter.

Regardless, the report was by and large a realistic and welcome motivation for the reform of peacekeeping operations, as was acknowledged by critics and proponents alike. Some progress has been noted in the area of rapid deployment, adequate assessment of troops and resources before deployment, and strengthening of the Department of Peacekeeping Operations. Also, as one observer notes, “one of the most valuable benefits of the Brahimi report is not tangible: it began to restore self-confidence in peacekeeping” (Zittel 2002). However there are still major areas of concern, such as the implications of the “commitment gap” between developing and developed countries in provision of troops for “robust peacekeeping”.

Economic aspects of peacekeeping and peacebuilding are being increasingly appreciated, in particular through the Brahimi Report’s emphasis on increased integration of entities working in military, humanitarian, political, reconstruction and other aspects of a mission. The report acknowledges, “Economic issues of poverty, distribution, discrimination or corruption can make peace implementation more difficult,” and peacebuilders’ main task is to “support the political, social and economic changes that create a secure environment that is self-sustaining”. Indeed, the extent to which a peacekeeping mission is able to lay the foundation for economic growth and opportunity has become one of the yardsticks by which its success is measured (Hentges & Coicaud 2002, Smoljan 2003).

#### **1.4 Conclusion**

The body of available literature that is related to economic dimensions of peacekeeping operations is wide-ranging and diverse. The above review provides a cross-section of the most relevant areas of inquiry, from which interesting elements of discussion may be gleaned and valuable questions highlighted. For example, Dutch Disease literature provides analogous discussion regarding the inflow of foreign exchange in developing countries, and functions as a framework within which to study the impacts of large amounts of aid that accompany a peacekeeping mission. Furthermore, a political economy lens and post-conflict development discourse provide insights into the role and influence of significant actors, including the private sector, in setting the stage for long-term development and spurring economic activity.

Nevertheless, in the face of growing understanding of the complex nature of peace operations and their involvement in economic, social, and political processes, there is still very little analysis of the extent to which the nature of mission activities can affect long-term development goals. The observed impacts of the sudden and dramatic entrance of an international presence remain stylized facts, and what little analysis does exist is speculative and anecdotal in nature. Moreover, those who have included short descriptions of these phenomena readily admit that it is an important area of peace implementation that is rarely discussed but a priority for securing development prospects.

Innovative solutions are needed to minimize harmful impacts and optimize the benefits of missions' involvement, and it is necessary that they be adaptable to different contexts. However, formulation of such solutions requires quantitative analysis, and such analysis requires a greater focus on data collection and reporting. Case studies, as well as systematic cross-mission analysis, have the potential to produce robust codes of conduct to enhance the functions of a peacekeeping mission to its host country.

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