

Box 3.5.1 The Economic Impact of UNTAET and UNMISSET, 1999–2004

April 2005 saw the publication of an interim report of the Economic Impact of Peacekeeping project, supported by the Peace Dividend Trust and the Best Practices Section of the UN Department of Peacekeeping Operations (DPKO). Recalling earlier criticisms of the 1992–1993 UN Transitional Authority in Cambodia for unbalancing the local costs and wages through its heavy spending, this report analyzed the impact of UN Transitional Administration in East Timor (UNTAET) and UNMISSET on the economy of Timor-Leste to the end of 2004. It argued that the missions had a number of positive effects:

- The peace operations created a secure environment permitting basic economic activity and investment.
- Although the chaos of 1999 drove inflation up to 10 percent, it fell to 5 percent or below in 2000–2004, contrary to a widespread belief that the UN presence created inflationary pressures.

- UNTAET was the largest single employer during a troubled period, with almost 2,000 staff, whose experience now adds to the country's human capital.
- The provision of services by UNTAET and UNMISSET enhanced Timor-Leste's productive capacity, although it is difficult to quantify this precisely.
- The services put in place for internationals may provide the infrastructure for a future tourist industry.

Nonetheless, the report also drew negative conclusions, including:

- Of total mission procurement worth \$35,052,000, only \$4,767,000 was spent on local goods and services (although greater local spending might have been inflationary).
- In 1999 the UN set a minimum wage for local staff of \$85 per month, compared to a minimum in neighboring Indonesia of \$40. While the nascent Timorese government set a competitive

wage, the resulting distortion was an obstacle to developing the private sector.

- The best-educated workers gravitated toward UN posts, disadvantaging the government and other employers.
- The finite nature of the UN presence militated against long-term planning, with most projects lasting only one year.
- While Timor-Leste's electricity supply was destroyed in 1999, UNTAET used large portable generators rather than construct a new power plant—resulting in Asia's most expensive power generation system.

The Economic Impact of Peacekeeping project will produce further reports and recommendations, building on these lessons and covering other missions.