

## Right-Financing the Future: Lessons for Asian and European Peace Processes

By Dr. Peter Middlebrook \*

The fragile post-conflict environment is frequently characterised by political instability, insurgency, increased crime and corruption, low levels of economic growth, hyperinflation, poor revenue mobilisation and high levels of unemployment. In most cases, the cost of peacekeeping, peace enforcement and reconstruction are never measured, due in part to the limitations of consolidated financial reporting. There is compelling evidence to suggest that it is both financing and the way it is supplied that undermines the efficiency and ultimate effectiveness of post-conflict reconstruction.

With international peace-support operations placing a progressively heavier burden on the purse strings of tax payers, and with the failure to consolidate peace in several conflicts in Asia and Europe high on the political agenda, the need to adopt a 'right financing' approach has never been more pressing. Moreover, given the paucity of resources available for such operations, it is imperative that viable and efficient financing models be urgently implemented to convince tax payers that funds are indeed being well spent.

The proposed 'right-financing' framework is not fundamentally about money; it is about a thorough assessment of needs, determining policy, governance, oversight, accountability and prioritisation mechanisms and processes and the sustaining of increasingly higher quality services and peace over time. Peace building, at its core, is about re-establishing stable, accountable and growth-oriented states while employing 'right-financing' policies as a necessary pre-condition for success.

### CURRENT FINANCING CONSTRAINTS

The current financing approach for peacekeeping and post-conflict reconstruction remains surprisingly ill-conceived and underdeveloped, with short-term decisions leading to large public sector liabilities that can further undermine the emergence of peace, stability and economic regeneration over the longer term.

Based on the recent experiences of post-conflict reconstruction in Europe and Asia, the main financing issues at stake include:

#### ▪ **Fragile Security Systems**

Post-conflict situations are invariably characterised by instability in the armed forces. Security Sector Reform (SSR) should be implemented to re-establish order and provide a foundation for economic and social development.

#### ▪ **Poor Needs Assessment**

A standardised methodology and transitional results matrix are yet to be fully endorsed by the Organisation for Economic Co-operation and Development (OECD).

#### ▪ **Heavily Projectised Financing**

Rather than utilising a centralised method of funding, donors use a

multitude of budget lines, often incompatible with weak and fragile states. Instruments such as multilateral trust funds, where aid can be sequenced and prioritised, are yet to be adequately developed.

#### ▪ **Poor Fiscal & Growth Policies**

Reforms often inflate fixed costs for government businesses, raising recurrent costs contributing to fiscal instability. For instance, high levels of security sector spending take place to the detriment of other basic needs, such as education.

#### ▪ **Ill-sequencing of Assistance**

Most external support is provided

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over the first 4 years following a conflict, during which time resources are spent on unsustainable quick-impact projects. Reconstruction support should be re-sequenced over a longer timeline to avoid conflict relapse and limit the proliferation of poorly planned projects.

▪ **Budget Utilisation**

Rather than using different mechanisms and controls for the core revenue services – health, education, defence and law – their implementation should form part of a comprehensive budgetary structure that promotes predictability, flexibility, transparency and accountability.

▪ **Spending Priorities**

Misalignment of donor and government spending priorities causes urgent core state-building reforms to go unfunded.

▪ **Parallel Service Delivery**

The absence of a national budget and state financial controls causes donors to grant support through the UN and NGOs, creating parallel delivery systems and undermining confidence in

the local and national government.

▪ **Off-Budget Transfers**

Off-budget funding results in parallel procurement systems and the inefficient use of funds, such as the employment of relatively more expensive foreign labour, rather than the strengthening of the local labour force.

▪ **Budget Prioritisation and Formulation**

Core elements of a solid long-term state-building framework, such as strengthening the civil service, fiscal management, sub-national governance, the justice system and private sector growth remain poorly prioritised.

▪ **Private Sector Development**

Donor procurement tends to champion the UN, NGOs and international contractors over the national private sector, undermining the potential long-term impact on economic growth.

▪ **Monitoring and Overseeing**

Post-conflict supervision arrangements are often weak, particularly when linking finance

directly to state-building, stability and poverty outcomes.

**PEACE-BUILDING: A ‘RIGHT-FINANCING’ APPROACH**

Increased security provides the springboard for economic growth and political stability. Issues of scale, prioritisation, effectiveness and efficiency become central to sustaining enabling services.

In order to move the ‘right-financing’ agenda forward, an enabling environment must be created at the international level, overcoming the first significant post-conflict hurdle: a lack of collaboration between the various peacekeeping, development and security communities around how to support the state rebuilding and economic process.

The overarching ‘right-financing’ framework would span the entire peace-building reconstruction process through the phases of (i) stabilisation and peace support operations (ii) transitional and (iii) normalisation phases.

It would also be reflective of the

**‘Right-financing’ priorities in support of peace-building are outlined below:**

- Adopt prudent monetary and fiscal policies alongside medium-term expenditure measures;
- Resurrect the national budget as the primary tool of government policy;
- Strengthen revenue collection and management of aid effectiveness;
- Minimise proliferation of parallel service delivery through the UN system and NGOs;
- Establish sustainable security, law and order and justice institutions;
- Prioritise investments that foster peace, economic growth and equitable poverty reduction;
- Establish costed service delivery targets at both national and sub-national levels for all sectors;
- Establish expenditure-tracking systems increasingly focused on actual outcomes;
- Adopt international norms in public finance management;
- Develop procurement systems that allow the emergence of a strong national private sector;
- Further civil service reforms and fiduciary standards to minimise corruption; and,
- Develop fiscally sustainable service delivery models for basic and essential services.

specific needs of the post-conflict context, taking into account cultural, religious and gender balances, as well as the causes of the conflict, the economic situation, trade and international relations.

In addition to observing these characteristics, the 'right-financing' approach would also seek to overcome inherent problems in order to improve the sustainability of the framework.

## **I. STABILISATION AND PEACE SUPPORT OPERATIONS**

The first phase of the reconstruction process involves the creation of a sound and steady foundation on which the next two phases will be built.

### **▪ Fostering Rather Than Undermining Peace Processes**

While providing an invaluable stabilisation roadmap, post-conflict peace agreements also provide an opportunity for state financing considerations to be included. This creates a sound financial basis for the peace accord to be formulated, where political decisions are informed by realistic economic considerations.

### **▪ Macro-fiscal Frameworks and Multi-donor Trust Funds**

Lack of information regarding national revenue leads to uninformed decisions by transnational authorities and donors, resulting in expansionary economic policies. International Financial Institutions (IFI) should provide comprehensive scenarios, analysis and forecasts of the post-conflict state. They should also promote trust funds to

consolidate external assistance to support the national budget. Additionally, IFIs can establish special trust funds to support payment of the police or military, while making provisions for the eventual smooth transition into the budget process.

### **▪ Needs Assessment**

Once a transitional authority has been established, a detailed needs assessment exercise should be conducted to ascertain the cost, prioritisation and mode of reconstruction. This brings government and external actors together to agree on a common set of reform principles and priorities.

The inception phase of the assessment would support the contextual understanding of key problems and needs. Following this, an SSR review will then restructure the form, function and financing arrangements across the entire security system.

### **▪ Public Administration Reform**

Often, staffing decisions are politically motivated. To avoid long-term damage, pay and grading reviews should be conducted across the entire sector to determine wage scales alongside standard recruitment procedures. Furthermore, financing needs to be carefully assessed, particularly when external support is required to fund security needs. Equally crucial is having a unified process for right-sizing the army, police, justice and penal systems, through an overarching security and law and order strategy.

## **II. TRANSITIONAL FINANCING**

The transitional phase seeks to cement and build upon the framework created in the previous phase.

### **▪ Setting Clear Policy Objectives**

Objectives need to be carefully defined and costed, with the aim of establishing a conducive environment for stability, growth and poverty reduction. However, by not placing a sound and costed security strategy as the cornerstone of national policy, the fostering of budget comprehensiveness, transparency and a unified budget are undermined.

### **▪ Strengthening the National Budget**

The national budget must remain the central instrument of public policy in the post-conflict state, including setting policies, sectoral funding levels and allotments, as well as prioritising and sequencing budget execution.

For reasons of prioritisation and fiscal sustainability, medium term fiscal and expenditure priorities need to be established based on supporting affordable state-building functions as priority.

### **▪ Enhancing Service Delivery**

Sustaining core services such as the security sector requires setting service delivery benchmarks by governments, with the support of donors, in particular for the army, police, justice and penal institutions. Developing standard unit costs for services and incorporating all these benchmarks into the annual budget and medium-term expenditure frameworks is vital.

With service delivery targets built into the national budget framework, set against a robust macro-fiscal framework, the fundamental principles of financial management (PFM) – affordability, discipline and predictability – can be easily attained. Moreover, vital state-building priorities such as enhancing security, law and order and judicial systems, strengthening the private sector and championing the delivery of basic and essential services can be better served.

#### ▪ **Public Investment**

Public administration and civil service reforms to enhance the civilian structures of defence, interior and policing entities are essential to foster sustainable security policies. Moreover, security institutions, IFIs, the UN and bilateral agencies must adopt a unified approach to SSR to avoid biased restructuring.

Support operations should also be developed to strengthen the role the Ministry of Finance plays in enhancing policy, planning, budgeting, execution and monitoring processes, set against a clear service delivery framework. Enhancing public procurement for reasons of efficiency and transparency, and minimising corruption are vital.

#### ▪ **Monitoring Framework**

A move towards policy-based budgeting requires a focus on strengthening expenditure outcomes and tracking systems.

In the fragile post-conflict environment, service delivery benchmarks and performance based monitoring indicators are seldom used, making the impact of public spending difficult to assess. It also undermines assessment of equity which is key to sustaining peace and security.

### **III. NORMALISATION FINANCING**

The final phase of the ‘right-financing’ approach to peace processes involves sustained and predictable support from external donors, supported by periodical expenditure reviews to assess spending targets and priorities.

#### ▪ **Public Finance Management (PFM)**

International donors must look to channel all finance through the national budget framework, limiting off-budget transfers and transfers in kind, such as military equipment. Assistance to developing an overarching security policy and strategy framework, aimed at protecting the state, citizens and national assets is vital, involving greater focus on law and order and judicial functions. Establishing service delivery frameworks within sector-wide approaches allows PFM guidelines to be observed.

#### ▪ **Expenditure Reviews**

IFIs must look to engage the security sector with regard to PFM. While expenditure reviews are not a panacea, they provide invaluable analytical advisory

support to security systems often starved of such scrutiny.

### **CONCLUSION**

While peace-building is an expensive process, funding is often spent on non-essential measures that do little to stabilise the state, enhance employment and strengthen the vital role of the private sector.

Financing peace is not just an issue for finance experts, it is rather a *sine qua non* for sustaining the peace and development processes over the longer term, and thus an issue for all technical assistance support.

Adopting the ‘right-financing’ approach to peace sustainment is vital if the emergence of sustainable sovereign states is to be fostered. Anything less risks the continued existence of weak and fiscally unsustainable states that fail to deliver vital and growth-enabling services to its citizens. Moreover, with billions of US\$ and Euros committed to strengthening areas such as Aceh and other conflict regions in Asia and Europe, mal-aligned financing measures simply risk expediting a return to instability.

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