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First Lehman Brothers, Next Liberia?

By **Donald Steinberg** | Monday, January 26, 2009

As funding tightens amidst global economic turmoil, Donald Steinberg of the International Crisis Group explains the dire need for continued aid to rebuild fragile states such as Haiti and Liberia. Otherwise, he warns, the Obama Administration and other major powers may end up paying the price later if the conflicts in these countries flare again.

As the global financial crisis marches on, at least one investment continues to provide a decent return.

Well-managed assistance to countries recovering from conflict has not only kept fragile states like Liberia and Haiti from collapsing back into bloody chaos and war, but also improved their longer-term prospects, so the huge costs in lives and humanitarian aid are no longer an immediate prospect.

Many post-conflict transitions have failed, and countries have fallen back into war because governments cannot address popular expectations of an economic "peace dividend."

Unfortunately, the substantial resources the international community has already dedicated to these countries are now under threat as Western capitals are pressed to address immediate domestic concerns. And with the job only partially finished on the ground, all we have spent could end up having been for naught if violence overruns weak states.

Worldwide, the impact of the crisis on developing countries will be severe. The World Bank anticipates that growth in developing countries will decline by 2% compared with previous projections, driving another 40 million people into poverty and increasing unemployment substantially, especially among young people.

Official development assistance may take as much as a 30% hit this year, notwithstanding President Obama's pledge to enhance U.S. assistance, and the G-8 and EU pledges of major new support, particularly to Africa.

Remittances from foreign workers — currently accounting for more than $300 billion in flows to developing countries and topping aid and foreign investment flows combined — will shrink substantially, as they have in similar periods of economic upheaval.

A dozen countries get at least one-fifth of their income from remittances, including such post-conflict and conflict-prone sites as Lebanon, Burundi, Liberia, Kyrgyzstan, Tajikistan, Afghanistan, Bosnia, Moldova and Haiti.

Foreign investment in unstable environments and emerging markets will

also likely plummet as capital seeks safe havens. Disruption will also come from precipitous falls in commodity prices for major developing country exports, only partly offset by declining import costs; collapse of stock markets in emerging markets; and declines in charitable giving to relief and development organizations

While poverty per se does not cause conflict, many post-conflict transitions have failed, and countries have fallen back into war because governments cannot address popular expectations of an economic "peace dividend."

Countries are particularly vulnerable if they: fail to create jobs for youths and demobilized soldiers, making for a ready reserve of potential fighters for rebel movements; cannot pay civil servants and security forces, leading to corruption and human rights abuses; or steer scarce resources and government sinecures to favored regional or ethnic groups, thus increasing alienation.

The human cost of the failure of peace to take root in places like Liberia and Haiti is severe, but so are the implications for the international community.

Further, the rapid growth in United Nations peacekeeping operations, which has provided important stability in fragile countries emerging from conflict, is at risk. Several UN Security Council members are signaling their intention to tighten the purse-strings on such programs, which now total some $7 billion annually.

Consider two cases in particular. In Liberia, despite the global embrace of Ellen Johnson Sirleaf and her government, the transition from the 14-year nightmare of bloody civil war is far from secure. Threats to stability arise from inadequately funded demobilization programs for former combatants, food shortages, land disputes and the slow standing up of reformed army and police forces.

Pledges made at donors conferences have gone wanting. Annual remittances — accounting for $163 million, or 25% of the country's GDP — are at risk, and there is loose talk of a too-rapid withdrawal of many of the 13,000 UN peacekeepers who have helped put down at least three violent uprisings since peace returned in 2003.

In Haiti, the latest efforts to create stability under a democratically elected government are being undermined by the failure to provide an immediate, visible peace dividend.

The last government's fall in April 2008 following food riots left the country without a functioning government for four critical months. Serious crime persists, especially kidnapping and drug trafficking, as efforts to create a 14,000-strong Haitian National Police and functioning justice and penitentiary systems have been halting.

Remittances, accounting for more than $1 billion in foreign exchange, are taking a hit. Some are proposing a premature withdrawal of UN's 9,000 peacekeepers. These threats are all the more urgent, as they come at a time when Haiti is struggling with severe hurricane devastation.

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the implications for the international community. We have a common stake in creating markets for exports and investments, ensuring access to energy supplies, stemming the flow of illegal migration, promoting stable societies that can resist extremism and terrorism, closing the door to trafficking in people, drugs and arms, and avoiding the huge cost of humanitarian assistance to countries unable to care for their own people.

Those tempted to see quick savings in slashing foreign assistance, building barriers to the flow of imports from developing countries, cutting peacekeeping missions or reducing support for international development and financial institutions should think twice. It is a case of "pay me now, or pay me later."

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