

Investing in Prevention

An International Strategy to Manage Risks of Instability and Improve Crisis Response

A Prime Minister's Strategy Unit Report
to The Government

February 2005

Strategy Unit, Admiralty Arch, The Mall, London SW1A 2WH

Tel: 020 7276 1881

Email: strategy@cabinet-office.x.gsi.gov.uk

Website: www.strategy.gov.uk



Prime Minister's Strategy Unit

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Executive Summary

1. The Case for More Prevention and Better Intervention

Interdependence is the governing characteristic of modern international relations. The suffering of people in Sudan or the Democratic Republic of Congo is a human tragedy on a huge scale. Instability around the globe also affects our own security, stability and prosperity. It is possible to make a real difference to our collective security through shifting the international effort towards prevention. An international consensus is needed on how to make this shift. This report is intended to be a practical contribution towards forging this consensus.

Instability and crises are likely to be an enduring part of the international landscape for the foreseeable future. 2003 saw 14 wars, 21 severe crises and 45 crisis situations unfold around the world. The UN was engaged in 14 peace support missions and 68 separate peace talks or negotiations. 2003 is not likely to have been an anomaly. Recent data on 2004 shows that instability remains a significant phenomenon within the international system, with 18 countries experiencing major political violence during the year and another six possible emerging crises. At the end of 2004 the UN

was running 16 peacekeeping operations, with another one in the planning stages.

Looking ahead, stabilising future trends are likely to be counter-balanced by a number of powerful destabilising forces. Stabilising trends include economic growth, national and regional governance and improved counter-terrorism co-operation. Destabilising trends include unresolved conflicts, HIV/AIDS, strategic competition for oil, local environmental scarcity and climate change. Instability can manifest itself in a range of ways including economic crisis, political coups, civil war, and in the most extreme case state failure.

The international community cannot afford to lurch from crisis to crisis. The cost of crisis is extremely high, most of all in terms of human lives lost and disrupted. The financial cost of intervention in crises is considerable, and peacekeeping forces are facing overstretch. In an interdependent world instability impacts us all and affects a range of important objectives: humanitarian protection, maintenance of human rights, poverty reduction, security, energy security, and combating terrorism and organised crime.

More effective international responses to reduce risks of instability – and thereby prevent crises – are possible. Prevention is much more humane and far less costly than crisis response. But preventing crises is not a simple task. A progressive doctrine based on the collective benefit of stability over short term national interest can provide a shared unity of purpose

There are uncertainties, dilemmas, and risks in engaging in any situation, and therefore few

simple answers to what international engagement should be. The right response in each situation should emerge from a sophisticated understanding of the country and regional dynamics, and the political and other resources that can be mobilised. In addition to country- or region-specific actions, global policy responses are also needed to enhance stability, e.g. to control conflict financing, reduce international organised crime, or increase peacekeeping capacity.

2. A Strategic Response to Instability

Although it has become common wisdom that prevention is better than cure, the international community has found it difficult to translate its rhetoric of prevention into concrete reality. The UK supports the UN High Level Panel in endorsing the emerging norm that **there is a collective international responsibility to protect**. Taking this norm seriously requires the international community to take concrete steps to prevent crisis. If prevention fails, the international community needs to respond more effectively to reduce the human costs of crisis and improve chances of recovery.

This report identifies concrete, practical steps that the international community can take to make prevention real. These include:

- a common diagnostic **framework to identify the causes and**

dynamics of instability in a country or region

- a **strategic approach to reduce instability** that involves a coherent package of development, political and security engagement by the international community
- a set of **priority initiatives for the international community to take over the next 5 years** that stem from this strategic approach
- **measures to strengthen international systems** to prioritise resources and develop more coherent strategies for countries and regions, as well as global issues.

2.1 A Framework for Understanding Instability

There is no single definition of instability. Describing a country or a region as unstable suggests the presence of political, economic, or social upheaval. **Instability can be**

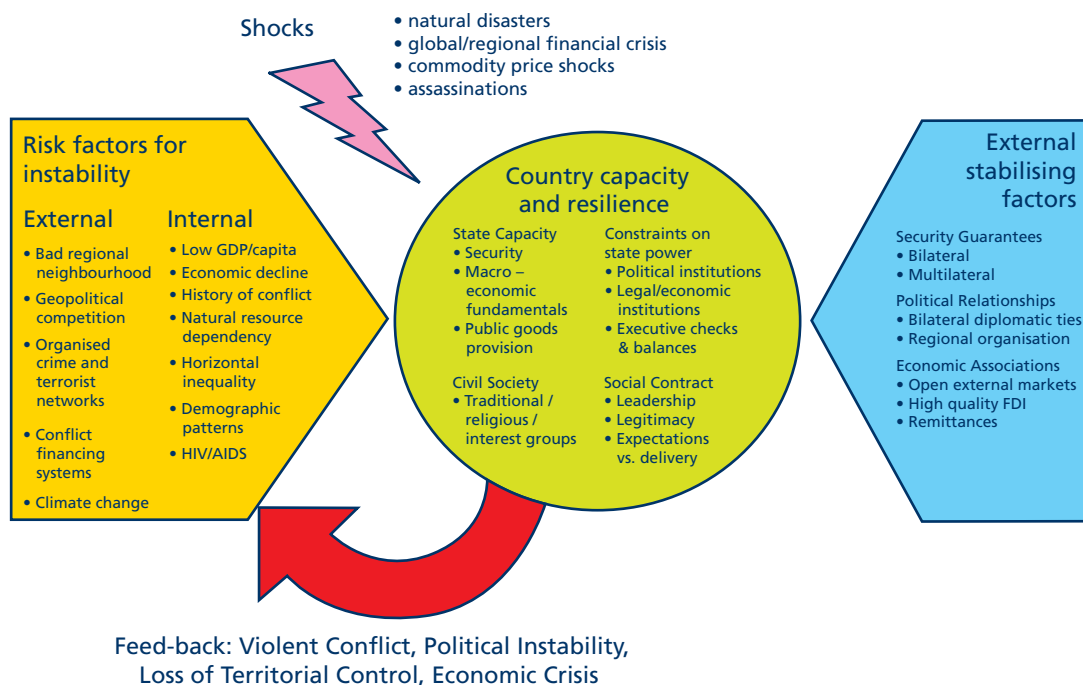
manifested, *inter alia*, in coups d'état and other types of illegal or unpredictable political succession; breakdown of political, economic, and social institutions; systemic corruption; widespread organised crime; loss of territorial control; economic crisis; large scale public unrest; involuntary mass population displacement; and violent internal or international conflict.

Political transition and rapid economic development can both increase risks of instability. These risks often arise from political mismanagement or manipulation, especially where domestic institutions to manage change are weak. Stability should not be equated with stasis. Strong, authoritarian states that lack domestic and international legitimacy also face risks of instability, as their transition from authoritarian rule is often fraught with difficulties. If sources of discontent are suppressed, the risk of instability is likely to increase over time. Furthermore, there are varying degrees of instability that can be manifested across countries and within countries and regions over time.

A country's capacity to manage effectively and peacefully and adapt to change is at the centre of creating stability. However, addressing other factors – including **structural risks** – such as poverty and economic decline, natural resource dependence, and a bad regional neighbourhood – as well as **external stabilisers** – such as security guarantees and strong political associations – is also critical to fostering stability.

Understanding the causes and dynamics of instability therefore involves looking at the interaction of three sets of factors (as shown in the figure below):

- **a country's internal capacity and resilience** (e.g. strong state capacity and legitimacy, strong civil society);
- **underlying factors associated with instability** (e.g. poverty, presence of natural resources, bad regional neighbourhood);
- **external stabilisers** (e.g. international security guarantees, membership of clubs such as the EU).



Instability Framework

In situations where a country's internal capacity is weak, many drivers of instability are present, and there are few external stabilisers, the country runs a high risk of instability. It becomes vulnerable to crisis, which can be manifested as any combination of economic decline, political instability and violence and lack of territorial control, or at the extreme as state failure and major humanitarian disaster. These symptoms of instability exacerbate underlying risk factors, causing a country to be more prone to future crises. Shocks to this unbalanced system can also tip a country into crisis.

2.2 What Needs to be Done

Prevention is fundamentally about effective management of risks of instability to reduce the occurrence of crisis. The most often cited barrier to prevention is a lack of political will; in other words, early warning does not always lead to early action. This is linked to the problem of gaining UN Security Council approval for intervention or sanction at an early stage in the emergence of crisis or conflict. Though this process is an important part of 'hard' prevention, it is only one part of the wider preventive agenda. The focus on political will as a barrier to action in impending crises has obscured what can be done at more upstream stages to reduce risks of crisis, often through investment in country and

international system-wide institutional capacity.

Being serious about prevention requires increased commitment and coherence of action. First, a **sophisticated** understanding of the specifics of a country or region is essential as a basis for effective action. Second, the **scale** of engagement needs to increase to ensure that sufficient resources are deployed in priority stability investments. Third **sustained** support is needed to ensure that resources committed actually achieve the intended effect. Fourth, **systemic** and coherent engagement across different types of actors (military, diplomatic, development, rule of law, etc.) and the international community is necessary. A serious prevention agenda should be framed by these four principles.

2.2.1 Four Areas of International Response

Taking the “responsibility to protect” norm seriously requires the international community to prioritise sustained and scaled up action to prevent crisis, particularly in Africa. If prevention fails, more effective responses are needed to reduce the human costs crisis and improve chances of recovery. An in-depth gap analysis of current and planned international responses has identified the need for four complementary areas of response. These are: **Invest in Stability, Align Incentives, Increase International Responsibility, and Improve**

Response to Crises. These ‘Four ‘I’s’ are mutually supportive and need to be developed in parallel.

The foundation of stability is investment in country and regional capability

The first strategic response is **investing in stability** by building country capacity and resilience. Fundamental changes are needed to refocus the process and content of current approaches. This report proposes developing ‘Partnerships for Stability’ that set out roles and responsibilities of all key international and domestic players and bring together all relevant instruments behind a long-term stability agenda. More emphasis is needed on the provision of security and rule of law, including checks and balances on executive power, and strengthening of civil society institutions which can provide a counter-balance to the state and participate in delivering social services. Natural resource dependent countries run particularly high risks of instability. They need better mechanisms for making natural resource revenues contribute to long-run sustainable development.

This requires coherent political engagement and effective incentives to align domestic partners

Addressing instability in a country or region requires that the incentives of its governing and other elites are aligned with stability. Unless this is achieved, capacity-building assistance

will not achieve maximum impact. The second strategic response is thus **aligning incentives** of domestic power-brokers with stability. There are three aspects of effective influencing. First, international partners need to understand who is influential within a society, their sources of influence, and their incentives. Second, positive incentives need to be developed. Membership of aspirational 'clubs' or preferred relationships can have an important effect in aligning incentives and can deliver more sustained and effective influence than conventional diplomacy or aid conditionality. Third, more effective targeted sanctions to address destabilising activity, including economic misconduct such as widespread looting of state assets by individuals in power, can be powerful deterrents.

Creating a supportive external environment is essential

A twin focus on the country's capacity and its elites is, however, insufficient. There are important external risk drivers and stabilisers that must be addressed to create a supportive external environment for stability. The third strategic response is therefore to **increase international responsibility**, particularly in the areas of: aid, trade and debt policies; combating the spread of HIV/AIDS; addressing the root causes of terrorism; developing a coherent strategy to reduce risk of nuclear proliferation while supporting countries' legitimate energy security needs and reducing greenhouse gas

emissions; creating standards of conduct for international private companies in countries at risk of instability; and combating international organised crime.

Despite best efforts at prevention, effective crisis response remains a critical part of international action

While more emphasis needs to be placed on prevention, there is no guarantee that prevention will always work. Severe crises will continue to occur for the foreseeable future. Investing now in effective capability to respond to crisis is thus essential; effective intervention capabilities can deter those who aim to destabilise states. **Improving response to crises** is therefore the fourth strategic response. This involves, first, increasing multilateral capacities to operationalise the emerging 'Responsibility to Protect' norm. It requires the international community to prioritise sophisticated, sustained and scaled up action to prevent and respond to crisis – particularly in Africa. Second, there is a need to tackle conflict financing. Third, there is an urgent need to fill the quantity and quality shortfalls in peace support operations, particularly in military and rule of law capacity.

2.2.2 Improved Coherence and Better Decision-making Systems

Each set of responses is critical to the overall strategic approach to reduce instability. They cannot therefore be considered in isolation from one another or easily divided-

up as the primary responsibility of one or other government department (such as development actors focusing on building country capacity and political actors focusing on aligning incentives). **An effective response depends on a coherent government and international system-wide response.** This in turn hinges on the development of both a shared understanding of the challenges involved and a common set of objectives.

More strategic approaches require strengthened decision making systems

Implementing a more preventive and strategic approach to countries at risk of instability will **require significant improvements in international decision-making and implementation systems.** Current systems are still in large part configured around the strategic challenges of the Cold War, and focus too heavily on addressing short term crises and threats. They are not sufficient to drive adequate investment in long-term stability, either through direct country partnerships or the building of regional and global institutions. As crises emerge a lack of international alignment around risk assessment and strategic options hinders early action. In crisis and post-crisis situations there are only weak systems for co-operation between actors, and poor prioritisation of actions to tackle underlying risks of instability, which results in a high incidence of recurrent conflict and continued crises.

Divergence of interests or political will between countries will also potentially hamper common action. However, in most cases these differences are compounded by a lack of common understanding of the situation and absence of strategic capability to develop clear joint policy options. **Effective systems are needed for setting priorities and developing strategies for engaging in countries.** Four areas where systems need to be improved are: risk assessment and early warning; strategic decision making; implementation planning and evaluation; and creating more effective platforms for international co-operation and lesson learning.

2.3 Who Needs to be Involved

Delivering the above four sets of responses requires institutional capability across different parts of the international system. The choice of international institutions must be based on their respective capability and willingness to be involved in different parts of the preventive agenda. Strengthening or assisting existing international institutions will allow most of the above responses to be delivered.

- The **United Nations** will remain a key player in leading efforts to stabilise countries in post-crisis situations. Strengthening the UN's ability to develop long-term strategies for peacebuilding efforts and align international activities behind a common strategy – as articulated in the

December 2004 report of the High Level Panel on Threats, Challenges and Change – will likely lead to a significant increase in successful operations. Equally, a concrete strategy – such as that presented by the January 2005 UN Millennium Project Report for progress towards the UN’s Millennium Development Goals – will help combat instability by building country capacity.

- The prospect of **European Union** membership has had a positive stabilising effect on the post-Communist countries in Eastern Europe and is underpinning stability in the Balkans. Building on this experience, the EU’s European Neighbourhood Policy can become a much more effective tool to provide positive incentives for governments in the Caucasus and North Africa, by helping to build systems and institutions that will enhance their internal stability.
- The **African Union** is emerging as an important regional institution and could in time play a strong and stabilising role in Africa. Technical support to AU institutions could reap a large dividend in helping reduce crises on the African continent. The report of the Commission for Africa will be critical in framing how this collaboration should be directed.
- **International frameworks for accountability** for economic malfeasance exist, but are often weak and lack enforcement capacity. There is a need to strengthen existing mechanisms – such as the UN Convention Against Corruption (UNCAC), and the Financial Action Task Force (FATF) – and improve cooperation among countries for investigation and possibly prosecution.
- **International Financial Institutions** (IFIs) are important lenders to many developing countries and therefore have significant influence on governments. In addition to building country capacity through improving economic performance and promoting good governance, they can use their influence more effectively in pressing governments, especially in resource rich countries, for transparency of payments and revenues as a condition for lending. Wider international efforts to promote transparency of private sector companies involved in countries at risk of instability – such as a strengthened Extractive Industries Transparency Initiative (EITI) – are also needed.
- International community support to **global peacekeeping and policing capacity** falls short of the global demand. As a result, many missions are understaffed. Often those peacekeepers that are deployed lack sufficient training and equipment while other countries that require peacekeeping support never receive it. A significant increase in peacekeeping and policing capability – both in quantity and quality – is therefore needed. This requires greater commitment from

governments to provide troops and financial and material support, and a strengthening of

capacity at several levels, including at the UN, NATO and regional organisations.

3. Summary of Recommendations

Improving crisis prevention and response requires commitment from governments and multilateral institutions. This report recommends that the UK government should undertake the following actions as part of its contribution to improving global stability.

3.1 Shaping Strategic Response to Instability

Long-term strategies that combine a range of international actors and instruments are necessary for effective engagement to reduce instability risks. To this end, the UK government should:

Use its G8 and EU Presidencies in 2005 to build international commitment to investment to reduce the risk of instability and improve crisis response.

(Recommendation 3.1)

Build on work with international partners to strengthen strategic capability and improve understanding of practical and effective approaches to prevention of crises.

(Recommendation 3.3)

Continue to develop the Instability Framework with a view to disseminating it and other tools amongst allies and institutional partners.

(Recommendation 2.1)

3.2 Investing in Stability

Building country capacity and resilience is key to reducing instability. Strengthening political and conflict management institutions is a critical part of this, as is improving revenue management systems. In support of better management of revenues, the UK government should:

Be coherent in its policies and action in respect of countries at risk of instability, making use of approaches such as those set out in the 'Partnerships for Stability' concept and integrating those approaches within existing international frameworks on a longer term basis of 10+ years.

(Recommendation 3.2)

Invigorate and expand existing work with the IFIs, UN, other donors and relevant NGOs to promote improved transparency of revenues (from all sources, but particularly large mineral sources) and the management of public expenditure in countries.

(Recommendation 4.1)

3.3 Aligning Incentives for Stability

Development and capacity building efforts will not succeed unless there is local support for reforms that enhance stability. The role of national power brokers is key. Enhancing stability requires that the incentives of these domestic elites are aligned with stability. To promote this, the UK government should:

Work with partners to develop better methods for understanding internal political dynamics as part of forming coherent strategies for engaging countries in partnerships for stability.

(Recommendation 5.1)

Evaluate its support for regional organisations to identify where additional assistance could be provided in support of the role they play in promoting stability objectives.

(Recommendation 5.2)

Enhance its already strong support of the European Neighbourhood Policy as a means of promoting prosperity, stability and security along the European periphery and remain committed to ensuring that the ENP incorporates benchmarks for reform linked to credible incentives.

(Recommendation 5.3)

Work with European and other partners to better support the African Union in developing effective capability to respond to, and long term approaches to prevent, crisis and conflict.

(Recommendation 5.4)

Build on current work to improve the specificity of 'smart' sanctions, ensuring that they are linked to credible incentives and complimentary measures that have a real impact on the elites being targeted while avoiding negative impacts on wider civilian populations.

(Recommendation 5.5)

Work with partners to strengthen the implementation of existing frameworks for addressing corruption and financial crime.

(Recommendation 5.6)

3.4 Increasing International Responsibility

Efforts at improving country capacity and resilience and aligning incentives of domestic elites are critical to stability, but are necessarily only part of the solution. Creating a positive international environment is also essential to improving stability. To this end, the UK government should:

Make maximum use of its G8 presidency to continue its advocacy of the International Finance Facility as a way of producing a near-term step-change in the level of aid resources to help the international community provide the additional resources needed to realise the Millennium Development Goals.
(Recommendation 6.1)

Position its development assistance to countries at risk of instability within a coherent, whole of government approach such as that described in the Partnerships for Stability proposal and embodied in draft Principles for Good International Engagement in Fragile States of the OECD Development Assistance Committee.
(Recommendation 6.2)

Expand current work with EU partners and the IFIs to ensure the political and economic impact of trade reform on stability – including the withdrawal of trade preferences – is taken fully into account in the design of trade policy.
(Recommendation 6.3)

Work with pre-decision point Heavily Indebted Poor Countries (HIPC)s, multilateral institutions and other donors to ensure that post-conflict HIPC)s receive debt relief as soon as realistically possible.
(Recommendation 6.4)

Use its EU Presidency in 2005 to further the international human rights agenda and place human rights at the centre of work on developing the concept of Partnerships for Stability.
(Recommendation 6.5)

Continue to work towards a more comprehensive approach to tackling HIV/AIDS.
(Recommendation 6.6)

Continue to push for stronger IMF crisis prevention through more objective and credible surveillance and expansion of the IMF's range of facilities. The UK should also support efforts by the World Bank and other donors to make financial access / inclusion a priority in developing countries and press for an evaluation of the effectiveness of measures to prevent and measure financial crises.
(Recommendation 6.7)

Increase support to international efforts, in particular by the UN and OECD, to set out the behaviour and norms – in respect of human rights, social, economic and environmental impacts – to ensure that foreign direct investment contributes to, rather than detracts from, country stability.

(Recommendation 6.8)

Develop coherent and comprehensive 'Partnerships for Stability' with major oil and gas producing partners.

(Recommendation 6.9)

The UK government should continue and expand work with EU partners to promote renewable energy use and support developing countries' access to clean and efficient non-hydrocarbon technologies.

(Recommendation 6.10)

Incorporate instability analysis into development of its long-run counter-terrorism strategy.

(Recommendation 6.11)

Work with international partners to assess the extent to which programmes and policies on nuclear proliferation, nuclear energy and energy security are aligned in support of a stability agenda.

(Recommendation 6.12)

The UK government should evaluate its strategy to tackle transnational criminal networks to ensure it adequately incorporates multiple links to instability alongside supply and demand issues, regional approaches, and capacity building.

(Recommendation 6.13)

Continue and focus work with G8 and EU partners towards securing more effective international control over arms brokering, preferably as part of a wider Arms Trade Treaty.

(Recommendation 6.14)

Use its presidency of the G8 to reinvigorate the climate change agenda and emphasise the links to future risks of instability and crisis as an additional justification for immediate action on climate change.

(Recommendation 6.15)

Mainstream risk management of climate change impacts into development programmes.

(Recommendation 6.16)

3.5 Improving Response to Crisis

Despite best efforts at prevention, some crises may still occur. While the international community spends considerable sums to respond to crisis, these responses in many cases fall short of what is needed. In order to improve international responses to crises, the UK government should:

Work with international partners to increase the capacity of multilateral organisations for crisis management and post-crisis stabilisation.
(Recommendation 7.1)

Work with G8 partners and existing contributors to Peace Support Operations (PSOs) to make the case internationally for a substantial increase in deployable PSO troop capacity to cover the current shortfall.
(Recommendation 7.2)

Expand current work with international partners to improve deployment support for PSOs, particularly in the areas of transport (to and within theatre), field logistics, and HQ mission support.
(Recommendation 7.3)

Attach a high priority to current work with partners in international organisations to improve financing mechanisms so that budgeting and financing do not turn into bottlenecks impeding Peace Support Operations.
(Recommendation 7.4)

3.6 Strengthening Systems for Responding to Instability

Overcoming domestic and international constraints in risk assessment, strategic capability, and implementation planning and evaluation is a necessary part of improving prevention. The UK government should:
Strengthen its risk assessment and early warning systems addressing countries at risk of instability.
(Recommendation 8.1)

Strengthen work with EU, US, NATO and other partners and institutions to improve existing risk and early warning analysis approaches and processes and where appropriate share assessments.
(Recommendation 8.2)

Augment governmental capacity to carry out strategy formulation on countries at risk of instability, improve strategic methods and skills and develop the 'Instability Framework' as a strategic analysis tool.
(Recommendation 8.3)

Work with the European Commission and Council in 2005 to develop an EU practitioners network on countries at risk of instability between Member States and the Commission structures.
(Recommendation 8.4)

Continue work on a cross-departmental Generic Planning Framework, aligning departmental activities on 'Partnerships for Stability' and intervention/post crisis activity.

(Recommendation 8.5)

Work to strengthen evaluation systems, including through periodic priority reviews of major policies and operations by independent cross-departmental teams.

(Recommendation 8.6)

Work with international partners to share technical approaches and best practice on dealing with countries at risk of instability.

(Recommendation 8.7)

Work with others to initiate a regular academic assessment of instability, by funding leading researchers on instability to carry out a bi- or tri-annual assessment of instability risks, conflict and crisis levels, human security impacts and the effectiveness of actions to reduce instability.

(Recommendation 8.8)

Introduction

What this chapter does:

- Sets out the rationale and terms of reference for the Countries at Risk of Instability project
- Outlines the approach taken to identify priority, practical policy measures that can help to make prevention real

Origins of this work

The Countries at Risk of Instability programme originated in the Strategic Audit undertaken by the Prime Minister's Strategy Unit and published in November 2003. The audit assessed UK performance across all domestic and international priorities. On the international side the audit identified the need to improve the effectiveness of prevention and intervention in countries at risk of instability as an area requiring increased strategic focus. The audit recognised that a number of UK priorities – such as reducing global poverty, promoting human rights, fighting terrorism, reducing the threat of international organised crime, and improving energy security – could only be achieved by reducing global instability. It was acknowledged that several departments were involved

in delivering responses on these different priorities, but that a more coherent, cross-Whitehall approach was needed to meet UK objectives.

The Prime Minister tasked the Strategy Unit to undertake a cross-Whitehall exercise to design a more effective and preventive strategic approach toward countries at risk of instability. The work was conducted in close collaboration with Departments, through a Ministerial Advisory Group (MAG) and a Senior Officials Group (SOG). The MAG was co-chaired by the Foreign Secretary and the Secretary of State for International Development. Other Departments on the MAG and SOG were the Ministry of Defence, Home Office, Cabinet Office, HM Treasury, Department for Environment, Food and Rural Affairs, and the Department for Trade and Industry.

Terms of reference

The programme has aimed to answer the question “how can the UK improve its strategic response to the challenges posed by countries at risk of instability”. The specific objectives were to:

1. Develop a **common lens** for understanding instability;
2. Recommend **priority areas for action** based on a gap analysis of current UK and international community responses to instability;
3. Identify means for improving **Whitehall’s strategic planning and co-ordination** capability for preventing and responding to instability.

Approach

The programme was a stakeholder driven exercise. Starting with meetings across all relevant UK Government departments, the team aimed to build an accurate picture of how departments were currently engaged with the problems posed by instability, what their priorities and interests were, and understand their current approach to instability – both strategically and programmatically. In parallel, the team began an extensive literature review, examining the fast-growing academic literature on instability spanning the past fifty years and across all regions of the world. The team met with early warning and risk analysis experts within government, academia, the private

sector, key UK partners, and multilateral institutions. It also consulted with those undertaking similar work on addressing instability – particularly in the EU, the UN, and the US government.

The intention of this work has been to identify practical measures that can be implemented by governments and multilateral organisations to help make prevention real. The Investing in Prevention programme was not intended to be an evaluation of all of the UK’s current international initiatives.

Outputs

1. Report to government (this report)
2. Background Paper: Risk Factors of Instability
3. Background Paper: Practical Risk Assessment, Early Warning and Knowledge Management
4. Background Paper: Future Risks of Instability
5. Background Paper: International Crisis Response and Peace Support Capability
6. Process Manual: Risk Assessment and Strategic Analysis
7. Process Manual: Country Strategy Formulation.

Background papers are available on the Strategy Unit website: www.strategy.gov.uk.

Chapter 1: The Challenge of Instability

What this chapter does:

- Outlines current and future trends in global and regional instability
- Explains how instability impacts the UK's ability to achieve domestic and international objectives
- Sets out the core strategic challenges in addressing instability

Summary:

- There has been an increase in overall instability in recent years. Many countries face increasing risks of instability as they navigate the difficult path from autocracies to full democracies, and manage the complexity of an increasing inter-dependent world.
- Looking ahead instability is likely to increase in the medium-term. Stabilising future trends of global economic growth, better governance and improved anti-terrorism co-operation are likely to be counterbalanced by a number of more powerful destabilising factors such as organised crime, HIV/AIDS, strategic competition for oil, and climate change.
- At its extreme, instability can lead to state failure and major humanitarian disasters. As a minimum instability impacts on the ability to achieve a range of other important UK objectives including the Millennium Development Goals, energy security and counter-terrorism.
- The international community does not have the capacity or the capability to deal with all crises as they emerge.
- There are a range of tools available that can support stability – but they need to be packaged more effectively in a consistent and coherent manner.
- The challenge is to develop practical preventive strategies bringing together a range of tools and range of partners. Effective prevention requires a long-term commitment to achieving outcomes in countries that pose risks to themselves and others due to instability.

1.1 Overview of Instability

Instability is a complex phenomenon that has a significant negative impact on achievement of international objectives and has seen an increase in recent years, particularly in sub-Saharan Africa.

This chapter defines what we mean by 'stability' and 'instability', outlines the key trends and the impact of these trends on UK objectives.

There is no single definition of instability. Describing a country or a region as unstable suggests the presence of political, economic, or social upheaval. Instability can be manifested, *inter alia*, in coups d'Etat and other types of illegal or unpredictable political succession; breakdown of political, economic, and social institutions; systemic corruption; widespread organised crime; loss of territorial control; economic crisis; large scale public unrest; involuntary mass population displacement; violations of human rights and violent internal or international conflict.

Unstable countries are often unable to meet the security and prosperity needs of their own people and are prime candidates for civil conflict. Instability impedes achievement of a number of important UK and global objectives – reducing global poverty, ensuring humanitarian protection and promoting human rights, fighting terrorism, managing immigration flows, reducing the

threat of international organised crime, and improving energy security.

While ethnicity and other identity politics are often used to mobilise groups in internal conflicts, there does not seem to have been a rise in conflict due to fundamentally ethnic, ideological or nationalist factors since the end of the Cold War.

The political transition process towards democratisation and development is inherently unstable and risky. These risks often arise from mismanagement or political manipulation, especially where domestic institutions necessary to manage change are weak. Strong, authoritarian states that lack domestic and international legitimacy should also be considered unstable, as their transition from authoritarian rule is often fraught with difficulties. If sources of discontent are suppressed, the risk of instability will likely increase over time. Furthermore, there are varying degrees of instability that can be manifested across countries and within countries and regions over time.

A country's capacity to manage and adapt to change is at the centre of creating stability. However, other factors – including addressing structural risks – such as poverty and economic decline, natural resource dependence, and a bad regional neighbourhood – as well as external stabilisers – such as security

guarantees and strong political associations - are also often critical to fostering stability.

While global armed conflict is decreasing, there are significant regional variations

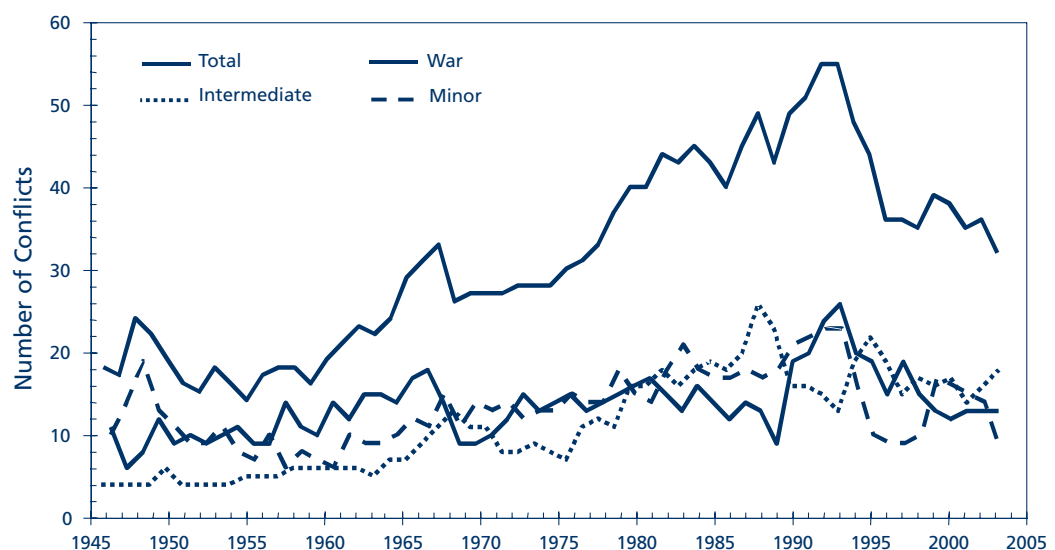
It is difficult to get a definitive picture of conflict trends. The balance of evidence indicates that the overall levels of armed conflict with significant battle deaths have declined appreciably over the past decade from a peak around 1992. The decrease is particularly marked for inter-state warfare, but also holds true for intra-state conflict in many regions of the world.

External intervention has made a big difference in reducing large-scale armed conflict since the end of the Cold War and there has been a large increase in UN and other

peace support missions. Since 1995, such peace support forces have been deployed 19 times in response to conflict, mostly in Africa. In 2003, for example, the UN was engaged in 14 missions to enforce peace settlements and 68 separate peace talks or negotiations were ongoing².

One of the most authoritative sources of conflict data is the Uppsala Conflict Data Programme³. Figure 1.1 shows the aggregate number of armed conflicts classified as either war (more than 1000 battle-related deaths per year), intermediate (more than 25 battle-related deaths per year and a cumulative total of more than 1000) or minor (more than 25 battle-related deaths per year). Under each of these definitions the number of armed conflicts has fallen over the period 1946 to 2002.

Figure 1.1: Ongoing Armed Conflict by Intensity: 1946-2002



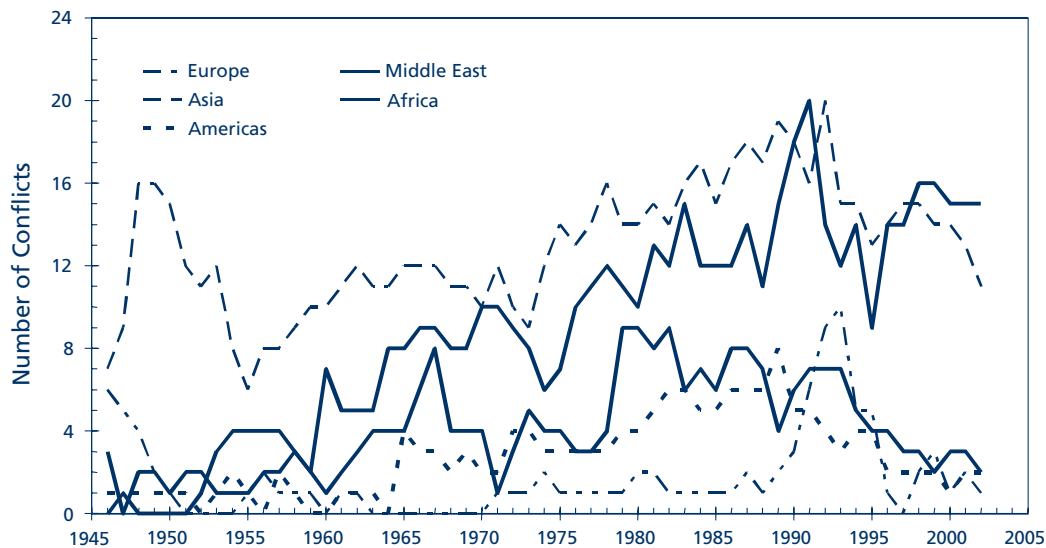
² Marshall & Gurr (2003) 2004 figures to be published in March 2005.

³ Uppsala Conflict Data Programme (2004)

Such overall trends mask significant regional variations, as shown in Figure 1.2. Over the last decade, armed conflict has declined to historically low levels in **Europe**, the **Middle East** and the **Americas**. Conflict in **Asia** has fallen, but

remains at a relatively high level. The real exception is **sub-Saharan Africa** which saw increasing levels of violent conflict in the period 1945-1990 and a sustained high level since then.

Figure 1.2: Regional Trends in Armed Conflict 1946-2002



The underlying causes of conflict need to be tackled

Trends in violent conflict do not tell the whole story and the majority of the decrease in armed conflict is due to its suppression or containment, rather than resolution. In many cases, the suppression of violent crises has not addressed the dynamics of tension or political conflict, and thus has not reduced the risks of future armed conflict.

The suspension of open warfare and the transition to non-violent, conventional politics is a long and

difficult process and one that is highly vulnerable to reversals and the return to armed force. It is estimated that in the first five years following a conflict the risk of reversion to war is about 39% and in the second five year period is about 32%⁴. Reversion is least likely in the case of a previously representative government and absence of external support to conflict protagonists.

A wider definition of human security suggests that numbers of deaths are increasing

⁴ Collier & Hoeffler (2004)

The number of battle deaths does not provide anything like a true measure of the human cost of conflict and instability. A wider definition of human security would include threats from organised violence and sporadic incidents involving force. Going wider still economic collapse, degradation of healthcare and other infrastructure,

increases in organised violence and crime, increases in unorganised violence (e.g. food riots), starvation and disease kill people in far greater numbers than direct battlefield casualties. Some broad estimates on total war deaths compared with battle deaths are summarised in Table 1.1 below⁵.

Table 1.1: Deaths in Selected African Conflicts

Country	Years	Estimate of Total War Deaths	Battle Deaths	% Battle Dead
Angola	1975-2002	1.5 million	160,475	11 %
Mozambique	1976-1992	0.5-1.0 million	145,000	15-29 %
Somalia	1981-1996	0.25-0.35 million	66,750	19-27 %
Sudan	1983-2002	2.0 million	55,000	3 %
Liberia	1989-1996	0.15-0.2 million	23,500	12-16 %
DRC	1998-2001	2.5 million	145,000	6 %

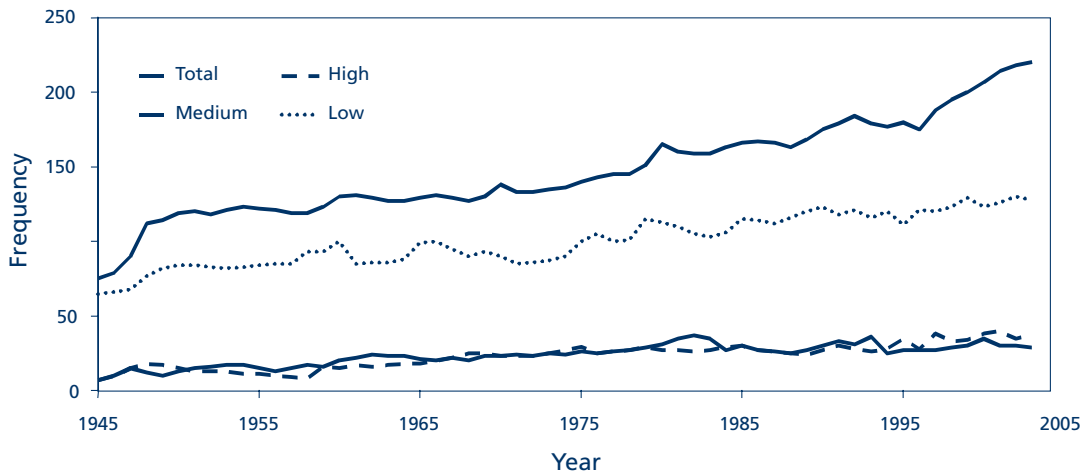
Using a broader definition of instability (including metrics such as refugees, coups, dictatorships, organised crime, systemic corruption, lack of healthcare, and

declining GDP) shows a steady increase in instability over the entire post-war period. This is broadly reflected in the comprehensive and respected KOSIMO databank⁶.

⁵ Lacina & Gleditsch (2004)

⁶ SU Analysis, KOSIMO (2003)

Figure 1.3: Ongoing conflicts of low, medium and high intensity (KOSIMO Databank)



1.2 Future Risks of Instability

It is very likely that the rise in instability observed over the last decade will be an enduring characteristic of the strategic landscape rather than a temporary phenomenon.

Over the next 15 years, a number of global and regional trends will act as stabilising factors in most parts of the world. Stronger national and regional governance, globalisation, and associated interdependence between countries and economic growth are trends associated with increased stability. For example, if projected growth remains on track, the World Bank estimates that global poverty rates will fall to 12.7 % by 2015 – less than half the 1990 level – and 363 million less people will live in extreme poverty⁷. But the picture is mixed and gains are concentrated in India and China. By 2015 World Bank predictions for Asia show that only a very small

proportion (less than 5%) of people will be living on less than \$1 a day. In contrast the number of poor people in sub-Saharan Africa is expected to rise from 314 million in 2001 to 366 million by 2015, with over 40% (about 150 million people) living on less than \$1 a day.

Overall stabilising forces are likely to be counterbalanced by new and emerging destabilising forces, which will pose a diverse range of challenges. Where the rate of change is faster than a country's ability to adapt, governments will face increasingly large humanitarian problems, resource scarcity, local tensions and challenges to institutional legitimacy.

It also seems likely that the powers and functions of the state will become more diverse. Many analysts predict that in some regions territorial control will become more diffused and borders more porous. As pressure on state capacity grows,

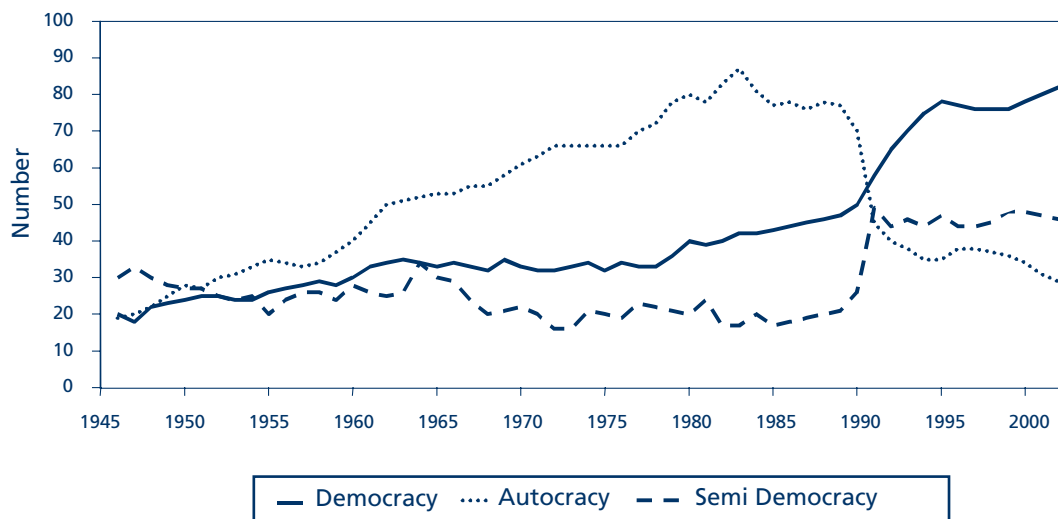
⁷ World Bank (2004a)

weaker states may well elect to focus on centres of power and revenue-generation, namely urban areas and point-sourced natural resources. The result will be an increase in the number and size of regions where territory is not controlled or governed by the state.

Full democracies are the most stable form of polity; however, the democratic transition process is often fraught with risks. Autocratic regimes are less stable than democracies as they tend to suppress instability rather than address its underlying causes⁸. Figures 1.4 and

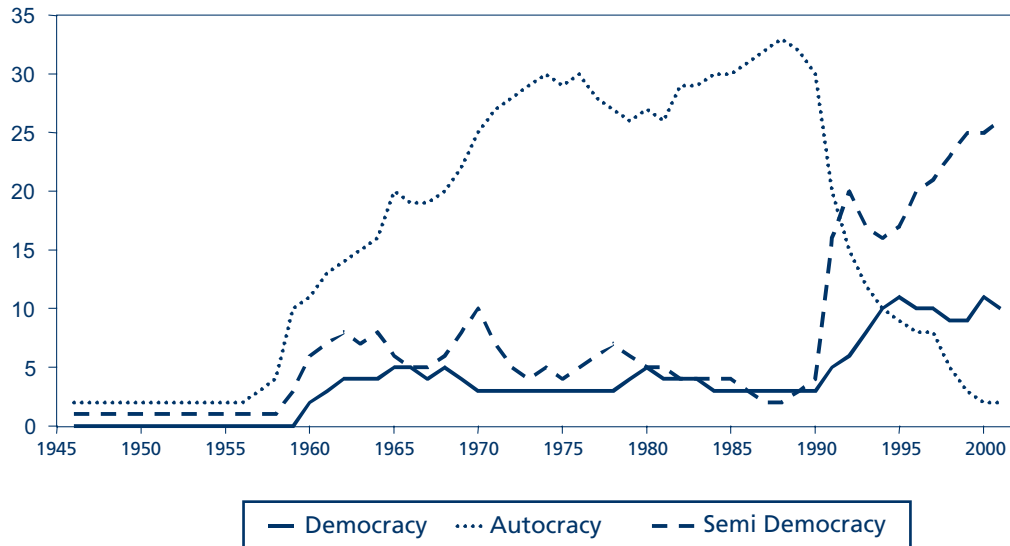
1.5 show trends in governance worldwide and for sub-Saharan Africa, respectively. Between 1985 and 1994 there was a dramatic global shift towards democracy. Since then the overall numbers of democracies, autocracies and semi-democracies have remained roughly stable. Sub-Saharan Africa is again the exception, with a clear increase in semi-democracies over the past decade, mirrored by a decrease in autocracies. Over the last decade the number of mature functioning democracies in the region has remained constant at around 10 countries.

Figure 1.4: Regimes by Type: World 1946-2002



⁸ World Bank (2004a)

Figure 1.5: Regimes by Type: Sub-Saharan Africa 1946-2002



Since the end of the Cold War, there has been a decline in state sponsorship of rebel groups. The result is that most conflicts and insurgent activities have had to be self-financing and there has been an increase in reported links between insurgent groups and organised crime networks. A synergistic relationship often develops between insurgents and organised criminals, with the latter providing services such as transport, the provision of arms and materiel, and the marketing and sale of looted resources and drugs.

Organised crime is expected to grow alongside the legal global economy. While organised criminals are unlikely to actively seek state collapse, the nature of their activities acts as a destabilising factor.

In addition to enduring and intensifying risk factors, there are a number of emerging trends that will increase the risk of instability in certain regions. In brief, the key emerging challenges are:

- The impact of HIV/AIDS
- Increased environmental stresses induced by climate variability and climate change
- The possible destabilising impact of strategic competition for oil between world powers
- Economic isolation for those countries that fail to integrate into the global economy.

These are discussed more fully in Chapters 2 and 6.

1.3 The Impact of Instability on UK Objectives

Serious instability has a significant impact on the achievement of a wide range of UK domestic, international and cross-cutting objectives.

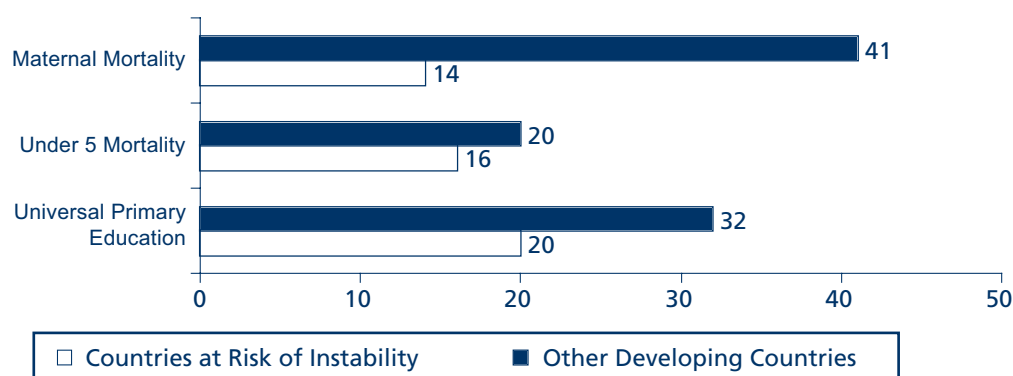
Instability manifests itself in several ways – violent conflict, political instability, lack of territorial control and economic crisis – all of which directly affect UK interests. Instability also has a significant impact on the achievement of a wider range of domestic and international objectives, including: security, humanitarian assistance, promotion of human rights, poverty reduction, terrorism, trade and prosperity, asylum, energy security and organised crime. Unstable countries tend to have weak institutional capacity and play a limited role as global citizens in helping to tackle the challenge of instability.

Instability affects the full spectrum of UK objectives:

- **International Development.** In 2000, states facing stability challenges contained just over half the 1.2 billion people living on less than US\$1 a day and 65 million of the 114 million children of primary school age who did not attend school⁹. Between 1999 and 2002, approximately 78% of DFID bilateral humanitarian assistance was spent in response to conflict¹⁰. In 2000, 67% of children who died before their 5th birthday and 59% of those living on less than \$1 a day were living in countries at risk of instability¹¹.

The overall level of development funding is significantly low in such countries, with 'difficult partner countries' receiving an average of \$17.5 per capita per year, compared with \$24.6 per capita per year for other low income countries¹². Without a significant decrease in conflict and instability there is little chance of the Millennium Development Goals being met in Africa. Figure 1.6 below illustrates the challenge¹³.

Figure 1.6: Percentage likelihood of MDGs being met



⁹ SU analysis based on MDG figures from DFID.

¹⁰ National Audit Office (2003)

¹¹ SU Analysis

¹² Levin & Dollar (2005)

¹³ SU analysis based on MDG figures from DFID.

- **Humanitarian Protection.** Instability brings significantly increased risks of civil war and humanitarian crises. Poor governance and low state capacity increase the impact of natural disasters. The UK spent £189.8m and £292.3m on global humanitarian assistance in 2001/2002 and 2002/2003 respectively¹⁴.
- **Human Rights.** When crises manifest themselves in breakdowns in internal security and rule of law, human rights violations become more likely to occur. Repressive, 'static' regimes can maintain a veneer of stability by suppressing internal dissent through systematic violations of the human rights of their populace. Protection of human rights underpins the UK's strategic priority of sustainable development and is highlighted by the FCO's Human Rights Annual Report¹⁵.
- **Social Cohesion.** Crises in unstable countries can trigger large unmanaged flows of refugees and asylum seekers. In already disadvantaged communities in the UK large inflows of transient populations can be damaging to social cohesion. Although migrants from countries facing stability challenges only made up 20% of total immigration into the UK in 2003, those states yielded 65% of asylum seekers, and 90% of those granted asylum or leave to stay in the UK¹⁶.
- **Energy Security.** Recent oil price spikes and volatility have arisen due to high energy demand (running at almost maximum global capacity) combined with real or perceived instability in oil producing regions. Countries facing stability challenges held 60% of the world's known oil reserves in 2003¹⁷. The proportion of oil and gas obtained from, and transited through, unstable countries and regions is projected to increase over the next decade. The UK will become a net importer of natural gas in 2006 and of oil in 2010 and its vulnerability to oil price shocks will increase rapidly¹⁸. In 2015, a small to moderate one year shock (10-20%) on a base scenario oil price (\$30/ barrel) would cost the UK economy an estimated £1.8 - £3.1 billion. At \$50/barrel this would rise to £2.4-£5.0 billion¹⁹.
- **Organised Crime.** Instability provides opportunities for organised crime. Poverty and conflict across the world provide a substantial supply of would-be emigrants smuggled across border through organised crime networks. There are anecdotal reports that organised criminal

¹⁴ DFID (2004b)

¹⁵ FCO (2005), FCO (2004)

¹⁶ SU Analysis, Home Office (2003)

¹⁷ SU Analysis, BP (2004)

¹⁸ FCO, DTI, DEFRA (2004)

¹⁹ SU analysis based on figures from DTI

gangs in London and other large cities employ former child soldiers. Limited opportunities for exporting profitable cash crops can make the production of illicit crops attractive to farmers.

- **International terrorism.** Unstable countries can play a part in enabling the operation of international terror groups. Table 1.2 outlines some of the links between instability and international terrorism, many

of which were utilised by Al Qaeda in Afghanistan under the Taliban. Structural drivers of instability such as poverty and horizontal inequalities may also make unstable states a good recruitment ground for terrorist organisations. Additionally, there is a danger that national terrorist and insurgent groups, radicalised by military intervention, may become aligned with international Islamic terror groups.

Table 1.2: Links between Instability and International Terrorism

Terrorist network requirement	Level of dependence on instability	How unstable states act as enabler
Basing: leadership haven and training of recruits	High	Ungoverned territory provides a secure area for leadership cadres. Recruits can be trained and integrated within organisation
Conflict experience	High	Normalisation of violence and places terrorist activities in context of conventional conflict
Weapons/equipment testing	Some	Ungoverned territory provides small arms and explosives training, weapons R&D
Finance/resources	Some	Lack of checks and balances mean that monies can be obtained through corruption and misused
Operations	Some	Base for mounting attacks on local targets (Embassies, infrastructure)

- Proliferation of WMD. Leaders of states in unstable regions under threat from neighbours may seek to acquire Weapons of Mass Destruction (WMD) as a deterrent. WMD may in some cases be a cheaper option than building up conventional military force and can be seen as a status symbol by autocratic regimes. Dual use nuclear, chemical or biotech programmes, which have both civilian and military applications, are a particular concern because they are more difficult to detect. Leakage of WMD technology, trafficking and further proliferation is facilitated by systemic corruption, the presence of organised criminals and terrorists, poor governance, lack of territorial control and state failure, all of which are associated with instability.

Box 1.1**Impeding WMD Proliferation**

Mechanisms are currently in place under the Non Proliferation Treaty (NPT) and Chemical Weapons Convention (CWC) – through their respective UN implementing organisations, the International Atomic Energy Agency (IAEA) and the Organisation for the Prohibition of Chemical Weapons (OPCW – for implementing the safeguards regime for States Party to the NPT, and allowing suspected dual use chemical facilities of States Party to the CWC to be monitored and inspected to ensure compliance. Mechanisms such as these and the Biological and Toxin Weapons Convention (BTWC), the G8 Global Partnership, UNSCR 1540, the Proliferation Security Initiative (PSI) and the EU WMD strategy all help to impede the spread of WMD their related materials and technology.

1.4 The International Response

International efforts to enforce peace and resolve conflict situations have increased markedly since the Cold War, but are insufficient to tackle current levels of instability and are unlikely to be sustainable in the long term.

Conflicts cost a large number of human lives through direct casualties and poverty, disease and other factors. In financial terms it has been estimated that on average, each conflict in a low-income country costs US\$54 billion²⁰.

There has been a dramatic increase in international efforts to contain and suppress violent conflict since the end of the Cold War. UN peacekeeping cost about \$3.6 billion in 2002. The approved peacekeeping budget for the year 2004-2005 is \$3.8 billion. However, with the additional requirements of new and recently expanded missions, that amount could grow by a further \$2.4 billion²¹. In addition to an expansion in peace support missions, there has also been an increase in preventive diplomacy and attempts to resolve conflict. During 2003, talks, negotiations and conferences were conducted in 68 of the 218 current conflicts.

Current efforts still fall well short of requirements, with a large gap between UN mandates for peace support operations and committed forces. It has been estimated that

the quantity shortfall is of the order of 100,000 deployed troops²², but the quality of troops and quantity of peace support troops are also critical to effective operations. Experience indicates that military strategy, doctrine and intelligence are also of paramount importance in prosecuting a successful stabilisation operation. Rapid action is normally required and effective intervention in anything other than the least challenging situations requires a capable framework nation who can supply high quality, rapidly deployable troops and organise the initial operations.

There are other issues: logistical gaps, a shortfall in strategic lift, the lack of effective joint doctrine, shortfalls in policing and civilian capabilities and the strategic impact of HIV/AIDS will all lower the quality and quantity of the actual deployable capability available. Even if current commitments to enhance peace support capability are met in full, there will still be a capacity gap which is unlikely to be filled by the current plans to train regional forces in Africa and elsewhere. These issues are dealt with more fully in Chapter 7.

The UK also invests heavily in development and humanitarian assistance. To increase human security and ensure that assistance is translated into alleviation of poverty and suffering, a backdrop of stability is required. However,

²⁰ Collier & Hoeffler (2004); Lomborg (2004)

²¹ Source: UN DPKO

²² O'Hanlon & Singer (2004)

budgets in support of long-term stability are currently relatively small in the UK and other donor countries compared with budgets for humanitarian assistance and military deployment. In fact, the level of overall development assistance funding to countries at risk of instability is decreasing as many bilateral and multilateral donors have altered their funding allocations to focus on recipients pursuing sound policies in support of poverty alleviation.

If peace support operations, conflict resolution efforts and post-conflict reconstruction strategies are to be successful they require an expensive long-term commitment. Practice on the ground from the Balkans to Sierra Leone to Afghanistan demonstrates the high cost that stabilisation missions and post-conflict activities incur. For example, from its launch in 1999 through to the summer of 2005, the multidimensional UN Mission in Sierra Leone (UNAMSIL) is projected to have cost nearly US\$3 billion²³. The long term international commitments to Kosovo, Bosnia, or the Solomon Islands additionally demonstrate the level of effort that seeking such a 'best practice' solution requires.

To date, most international policy initiatives have focused almost exclusively on improving humanitarian, diplomatic or military reactive capability. However, when faced with instability at the current

or increasing levels, it is unlikely that the UK, EU or wider international community will be able to adequately fund and resource high-quality, effective interventions that resolve a significant proportion of crises.

There is therefore an urgent international requirement to reduce the risk of instability and specific tensions through coherent packages of preventive action. Active prevention – even to the point of major military deployments – has the long-run potential to be highly cost-effective when compared with the cost of military crisis intervention and post-conflict reconstruction.

1.5 The Strategic Challenge: More Prevention and Better Intervention

To address instability and conflict, a systematic and strategic approach that utilises both preventive and reactive capabilities is required. The key challenge is effective integration of available UK and international leverage behind a long-term stability agenda.

Many of the conclusions arising from this chapter are not new. The increasing impact of instability on vital national interests in an interconnected world has been a theme of international policy in the UK and other countries for several years. The UK's current priorities recognise the importance of managing threats from these

²³ Source: UN DPKO, SU Analysis

countries and their relevance across the domestic and international agenda.

The challenge is to develop practical strategies for achieving outcomes in countries which are often more a threat due to their weakness than their strength. In these cases the traditional tools of statecraft and diplomacy need to be supplemented by innovative approaches to building and maintaining capacity and effective intervention in multiple ways to prevent and manage crises. The influence of non-state actors must also be managed; whether NGOs, the global media, terrorists, organised criminals, insurgents, civil society, the private sector or marginalised groups in the population.

Without an effective preventive agenda that lowers the underlying risks of instability and limits the number of crises in the medium term, the international community will remain in reactive mode. If the ability to act is dictated by the order in which crises occur and the ability to deploy available resources, it will not be possible to develop a strategic approach that prioritises action in terms of impact, importance, and effectiveness. This will severely compromise the deterrent effect that a credible threat of force can bring to bear.

The UK and its international partners have a range of tools that could be better used to increase stability. The challenge is to use

them in a consistent and coherent manner. Given the political costs of championing new international initiatives, it is important that any programmes designed to reduce instability are part of a wider coherent strategy.

Therefore there are three core challenges to address if the UK is to tackle future trends of instability:

- Lower global risk factors for instability. through building effective and inclusive strategies for long-term stabilisation in key regions
- Construct effective preventive approaches to countries that face an increased risk of instability that have a measurable impact on the incidence of crises
- Improve the effectiveness of crisis interventions across all sectors by using all levers of power (diplomatic, military, political and economic) to ensure a sustainable exit from conflict and crisis.

In summary, instability is a multidimensional and dynamic concept.

In terms of its most extreme manifestation – conflict - there has been a fall in the last decade in the number of armed conflicts in all parts of the world except sub-Saharan Africa. Much of this is due to suppression and containment. Unless the underlying causal factors are tackled, conflicts are very likely

to re-emerge in Africa and elsewhere. Looking to the future – instability will be driven increasingly by factors such as HIV/AIDS, energy security and climate change. The following chapter develops an instability framework as the basis for understanding in more depth the nature of the instability challenge.

Chapter 2: Mapping Risks of Instability

What this chapter does

- Presents a framework for understanding the risk of instability
- Reviews evidence to identify key internal and external stabilisers, and risk factors strongly associated with instability.
- Demonstrates how their interaction increases or decreases stability
- Provides applied examples of the instability framework.

Summary

- A strategic approach requires a systematic framework for analysing the risk of instability at a country or regional level. This framework should be capable of combining all relevant information and allow a transparent and contestable analysis of individual factors.
- Particular crises result from complex political, economic and cultural processes and cannot be reduced to simple causal explanations or predicted with any accuracy. However, the overall risk of instability emerging in a country or region can be identified, along with the interrelated factors driving that risk.
- Stability emerges from the peaceful management of change and internal tensions. Risks of instability result from the relative balance between a country's internal capacity and resilience, internal and external risk factors, and external stabilisers. Instability can be manifested as political and economic crises, loss of territorial control, and or violent conflict. These symptoms of instability feed back into and strengthen risk factors, making a country more prone to future instability.
- All countries are unique and require specific analysis; however, there are certain general risk factors that are closely associated with crises; Internal risk factors include low GDP per capita, economic decline, history of conflict, natural resource dependency, horizontal inequality, demographic factors, and HIV/AIDS. External risk factors include a bad regional neighbourhood, geopolitical competition, organised crime and terrorist networks, conflict financing systems, and climate change.

- Country capacity and resilience depends on the strength of state capacity, institutions that check and balance executive power, legitimacy through the social contract between state and society, and strength of civil society. The impact of elites on the strength and development of institutions is a critical determinant of stability.
- External stabilising factors include bilateral and multilateral security guarantees, political relationships, such as diplomatic ties and membership in regional groups, and economic factors, such as open external markets, high quality FDI, and remittances.

2.1 Understanding the Risk of Instability

Stability emerges from the peaceful management of change and internal tensions. Countries at risk of instability have limited internal capacity and resilience, many drivers of instability, and few external stabilisers

This chapter begins by outlining the strategic framework used for mapping and understanding risks of instability, and goes on to develop an Instability Framework, which relates state capacity, risks and stabilising factors.

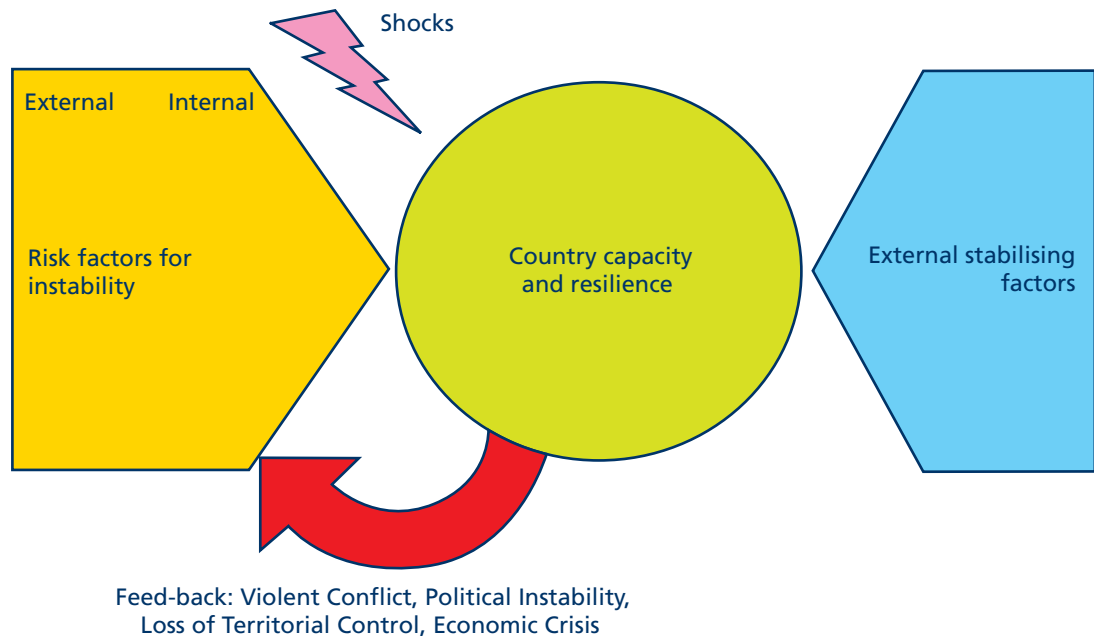
Stability is not stasis; rather it is a dynamic outcome which encompasses the capacity for the peaceful management of change. Outwardly change-resistant countries should not necessarily be

considered stable as such stasis comes from the suppression, rather than active management, of risk factors for instability.

Equally instability is the dynamic outcome of various pressures, not a simple causal process. Prediction of the timing and nature of any particular crisis is not possible, as it will depend on a complex chain of events and interactions. However, it is possible to perform a robust assessment of the underlying risks of instability in a country or region. Close monitoring of these risk factors enables early response to the emergence of conflict.

To illustrate and understand the dynamic interaction between risk factors the Instability Framework was developed.

Figure 2.1 The Basic Instability Framework



This simple framework can be used to structure country- and region-specific analysis of the overall balance of stability, both at the present time and into the future by projecting critical trends and developing scenarios.

- **Country capacity and resilience** lie at the centre of country stability. This determines the extent to which a country can successfully manage risk factors and potential shocks, as well as take advantage of external stabilisers. Country capacity depends on both state and non-state institutions, and should be assessed at an aggregate level and in relation to capability in managing specific risk factors like inequality between different social groups.
- Risk factors for instability can arise from internal processes and

factors within the country, or be consequences of the action or inaction of other countries, or the international community. Risk factors are generally 'structural' and need to be addressed through long run policy measures and investment.

- Shocks are more proximate and unpredictable risk factors that can trigger instability at any moment in time. They impose huge pressures on country capacity and resilience when they occur, and necessitate contingency planning.
- External stabilising factors provide support to country capacity and resilience. External stabilising factors can also set incentive frameworks that can foster stability in a country.

- Feedback from risk factors can, once crisis or conflict emerges, create a vicious circle of instability, by further eroding country capacity and resilience.

Each country and region is unique and requires in-depth and specific analysis, but analysis across countries and regions over time show there are also strong patterns underlying the emergence of crisis and conflict²⁴. It is also possible to assess the features of country capacity and resilience that make it more likely for a country to be able to manage different types of risk factors.

2.2 Country Capacity and Resilience

Capacity and resilience are distinct but complementary characteristics.



Capacity reflects the extent to which a country can absorb or manage a risk factor and take advantage of external stabilisation. It is a measure of 'depth'. Resilience reflects how flexibly this capacity can be redeployed in response to new or increased risks or opportunities. Countries with weak but flexible capacity may thus be

better able to withstand destabilising factors than countries with more capacity but less flexible systems.

Country capacity and resilience comprises four inter-linked components:

- **State capacity:** the ability of the state to deliver public goods and services to its population.
- **Constraints on state power:** strong and coherent institutions that provide checks and balances on the executive.
- **The social contract:** the level of legitimacy that the state institutions and their leaders enjoy with the population.
- **Civil society:** the network of public, non-state relationships.

The key to the analysis of country capacity is developing an understanding of the effectiveness of these different institutions in managing the various risk factors in a country. This cannot be simply deduced from the existence of various organs of the state (e.g. legislature and judiciary) but requires in-depth analysis of the effectiveness of these mechanisms in dealing with specific issues. Examples include an evaluation of a judiciary's contributions to horizontal inequality through discrimination against minority groups, or an assessment of whether economic stability actually benefits all parts of a country with no areas systematically excluded.

²⁴ See the accompanying analytical papers available on the Strategy Unit website.

2.2.1 Executive Capacity

Executive capacity refers to the ability of a state to deliver key functions.

There are different views regarding the appropriate scope of the state²⁵. This analysis focuses on the performance of the subject in delivering the core functions usually associated with the state. These are:

- **Security** (e.g. police, army)
- **Legal and economic frameworks** that provide stable governance and macroeconomic functions, allow societal disputes to be settled peacefully and facilitate economic transactions (e.g. currency, central banks, legal systems, dispute mechanisms)
- **Public goods** (e.g. infrastructure, primary health and education)
- **Protecting the rights** of citizens

2.2.2 Constraints on Executive Power

Institutions constraining executive power are critical in ensuring internal political and economic tensions are managed in a fair and predictable manner, reducing the incentives for violent challenges to the leadership. Constraints can be political, economic, legal, or social in nature.

Political institutions can be divided into three areas for analysis:

- **The method of selecting the executive** (e.g. elections, seizure by force, hereditary succession).
- **Constraints on the executive** through legislatures, judiciaries, the media, civil society organisations, as well as more abstract institutions such as a 'democratic culture'.
- **The degree of involvement of the public in the political process** (e.g. through political parties or the representation of ethnic groups in state institutions).

External broadcasters like the BBC World Service have an important role to play in providing independent voices in countries where state control is exercised over domestic media outlets.

Box 2.1

The BBC World Service

The BBC World Service provides clear and balanced international news, analysis and information in 43 languages to an average weekly audience of 150 million listeners and around 16 million monthly on-line users. The World Service's Learning English function works with the British Council to promote the learning and teaching of English, providing an important route to proficiency in the language of global business and, increasingly, politics for the World Service's radio and growing on-line audience.

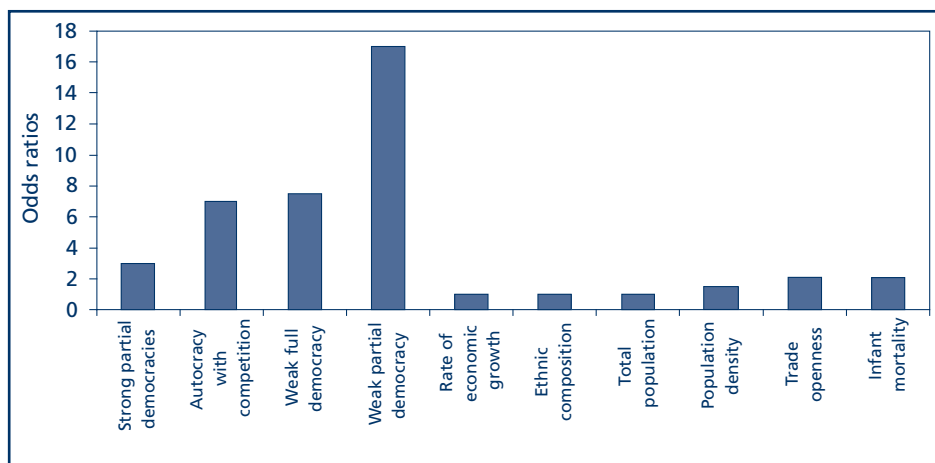
²⁵ For an important recent example, see Fukuyama (2004)

Penetration of the World Service into the media landscapes of both developed and developing countries provides an important connection to global issues and the interdependent international system for current and future decision-makers. This helps build vital country capacity as well as working to constrain the actions of governments and elites by providing outlets for international scrutiny of their actions.

Pashto and Dari World Service programmes in Afghanistan allow citizens to question government officials, ministers and even rival warlords as the country emerges from the dislocation of Taliban rule. 60% of the population of Kabul are BBC listeners. New media initiatives have achieved large audiences in Iran and amongst expatriate Iranian communities worldwide, helping to bring issues like HIV/AIDS to national attention.

Figure 2.2 below shows the relative importance of political institutions and other factors in increasing the risks of political instability, revolutions and ethnic wars from 1955 to 2001. It can be seen that in weak partial democracies the risk of instability is roughly ten times larger than that associated with socio-economic factors such as infant mortality or trade openness.

Figure 2.2: Relative Importance of Political Institutions as Risk Factors Explaining Susceptibility to Political Instability, Revolutions and Ethnic War (All Countries)²⁶



²⁶ Goldstone, Gurr, Marshall & Ulfelder (2004), See also Gandhi & Vreeland (2004) and Zinn (2004)

Full liberal democracies are the most stable forms of polity and are less likely to experience adverse political change or violent conflict²⁷. The most common types of polities in developing and post-communist countries are what are known as ‘semi-democracies’. Semi-democracies – or countries transitioning from closed, authoritarian systems to greater openness – are prone to political instability, coups, and civil war. Constraints on the executive and participation have a strong and positive effect on a polity’s stability, but the method of elite selection is less important²⁸. The newness of a state or proximity to independence and frequency of regime change are also risk factors commonly associated with civil war²⁹.

The roles of elites are critical in transitional polities (see chapter 5). In countries facing instability, where institutions are weak, elites occupy a more central role in the power-structure than equivalent elites in more stable countries.

2.2.3 The Social Contract

Governments derive legitimacy from their social contract with citizens

At the heart of the social contract is an agreement between the state and society detailing rights and responsibilities: for example, the state provides security and public goods, and citizens pay taxes to finance state activity and their enjoyment of those public goods.

The effectiveness of a social contract can be an indicator of the level of legitimacy that state institutions and leaders have with the population.

States may be unwilling or unable to meet the expectations of the people. The former could be for political reasons, the latter for want of capacity. For example, governments that receive a large proportion of their revenues from natural resources, or other non-tax revenues may feel that they can afford to become detached from the population at large (see chapter 7). In a situation where domestic legitimacy is very low, citizens may, at best, be reluctant to pay taxes and, at worst, may tacitly or actively support those who seek to overthrow the state.

2.2.4 Civil Society

Civil society is the network of relationships at levels below the state. A strong civil society can increase a country’s capacity and resilience by pressuring the state to live up to its obligations, and by providing key services.

Civil society’s defining characteristic is that individuals and households organise themselves (into religious organisations, trade unions, cultural groups, NGOs, business associations, social movements and political parties) in order to pursue their interests. Strong family and kinship structures can undertake some functions, like security and the

²⁷ Reynal-Querol (2002); State Failure Task Force (2000)

²⁸ Goldstone, Gurr, Marshall & Ulfelder (2004)

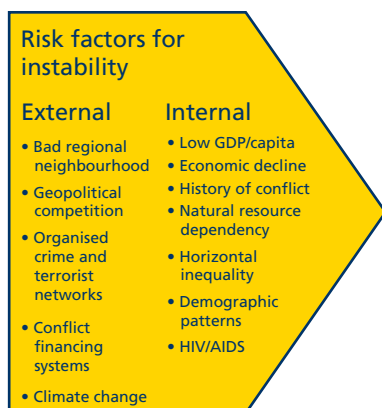
²⁹ Fearon & Laitin (2003); Carothers (2002)

provision of public goods, which the state does not provide. These structures can be critical in containing a potential source of discontent and violence, such as high unemployment levels among young men.

Countries with a rich and positive civil society are better able to resist the pressures created when the state is captured by a predatory elite. A strong civil society can also mediate social tensions, and make it less likely for individuals to resort to violence or corruption in pursuit of their interests. A vibrant positive civil society usually strengthens individual, family or group associations with the country of residence – reinforcing the social contract with the state.

2.3 Risk Factors for Instability

It is possible to identify a range of factors that are closely associated with instability



Risk factors that have been strongly associated with past episodes of instability are listed in the arrow opposite. These have been identified through a comprehensive review of the statistical and case study evidence and work on future trends³⁰.

2.3.1 Internal Risk Factors

Low Gross Domestic Product (GDP) per capita is strongly associated with civil war

One of the strongest and most consistent findings of research on instability is that low levels of GDP per capita are associated with a high risk of violent conflict occurring: both that conflict will erupt and that it will be prolonged once it starts³¹. This statistical relationship is shown in Figure 2.3. Figure 2.4 shows how the numbers of conflict-affected Least Developed Countries (LDCs) has been broadly constant over the last decade, while more affluent developing countries have seen a sustained fall in conflict in the same period.

³⁰ See the accompanying analytical papers available on the Strategy Unit website

³¹ Fearon (2004)

Figure 2.3: Risk of Civil War and GDP Per Capita, 1960-1999³²

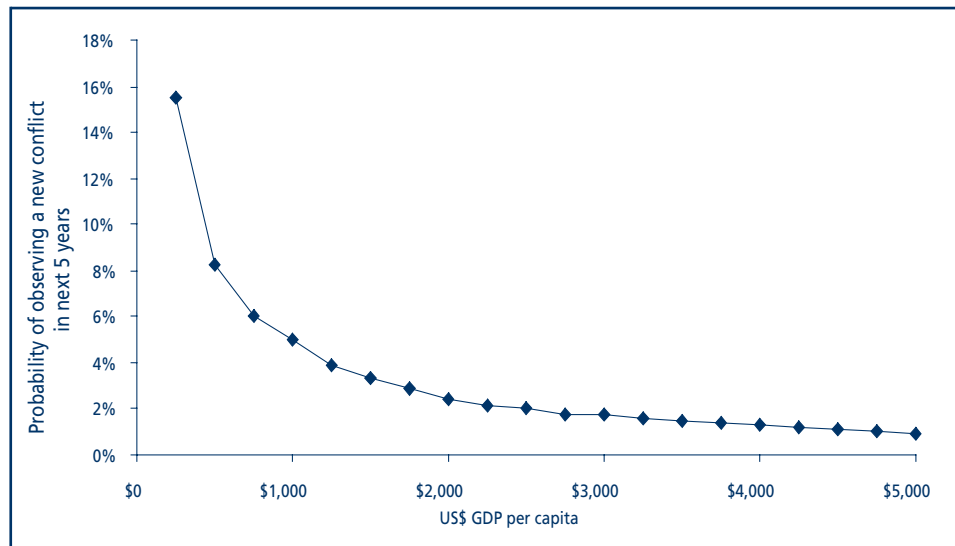
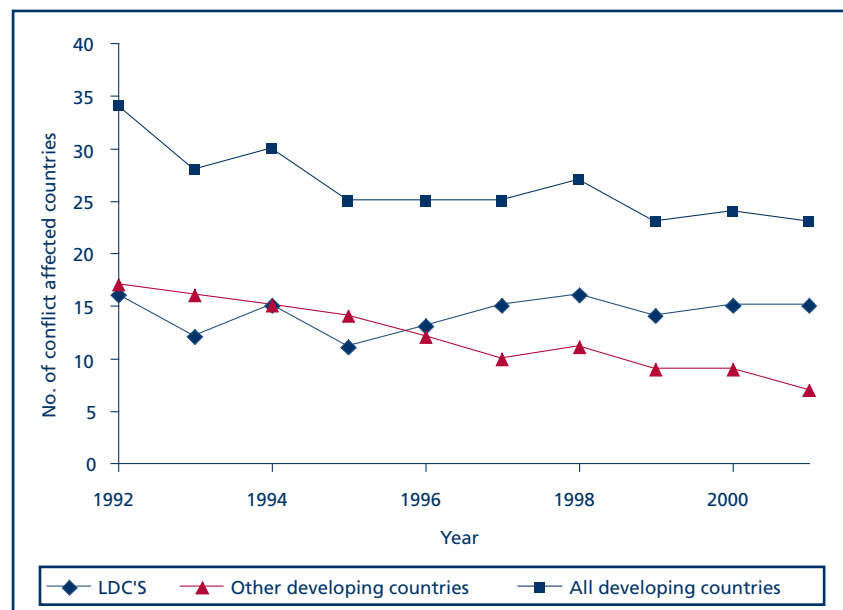


Figure 2.4: Conflict Affected Countries by Income Group 1992-2001³³



Low GDP per capita is associated with conflict and crisis through three main mechanisms:

- Reduced state capacity to settle societal conflicts via political and

judicial means rather than through violence³⁴. In addition the state may have reduced capacity to settle disputes militarily – prolonging civil wars³⁵.

³² Data from Collier & Hoeffler (2003). Used by Humphreys (2003)

³³ UNCTAD (2004)

³⁴ Fearon & Laitin (2003); DeRouen & Sobek(2004)

³⁵ Fearon (2004)

- Limited alternative income earning opportunities and/or family ties for potential rebels to deter them from using violence³⁶. A survey of ex-combatants in Sierra Leone found that almost half had left school because of the collapse of the education system, and one-third had lost at least one parent prior to the beginning of the conflict³⁷.
- A feedback loop whereby civil war reduces economic growth³⁸.

Political instability can drive sustained economic decline

Economic decline has been directly related to political crisis and violent conflict, particularly in countries with already low levels of GDP. Of 14 LDCs that experienced conflict in the 1990s, only 2 had per capita growth rates above 2% in the 1980s³⁹. The evidence for political instability adversely affecting growth is mixed, but seems to be significant in Africa. Table 2.1 shows the 42 countries which have experienced growth failures.

Table 2.1 Economic Decline and Stagnation Since 1960

Countries whose per capita incomes have declined to the extent that in 1998 real incomes were no higher than those last reached ...			
... in 1960 or before	...during 1960s	...during 1970s	...during 1980s
Central African Republic	Côte d'Ivoire	Burundi	Kenya
Chad	Mauritania	Cameroon	Republic of Congo
Congo, Dem. Rep.	Togo	Gabon	Ecuador
Ghana	Bolivia	Malawi	Paraguay
Liberia	Jamaica	Mali	Trinidad & Tobago
Madagascar		Zimbabwe	Jordan
Niger		El Salvador	
Nigeria		Guatemala	
Rwanda		Guyana	
Senegal		Honduras	
Sierra Leone		Peru	
Somalia		Algeria	
Zambia		Iran	
Haiti		Saudi Arabia	
Nicaragua		Philippines	
Venezuela			

³⁶ Collier & Hoeffler (2003)

³⁷ Humphreys & Varshney (2004)

³⁸ Collier & Hoeffler (2003)

³⁹ UNCTAD (2004)

Most countries experience periods of economic stagnation that results in declining GDP per capita over 5 years or longer, though for some these periods can last decades. Explanations include structural constraints (notably poor starting conditions, such as being landlocked or being prone to fatal diseases), poor access to foreign markets, weak economic institutions and state constraints on private enterprises (often introduced to constrain their political power). Sustained economic decline can also be triggered by external shocks. A financial crisis can trigger a political crisis, which in turn can increase uncertainty and deter the investment necessary for growth. Repeated natural disasters can reduce incentives for domestic public and private investment.

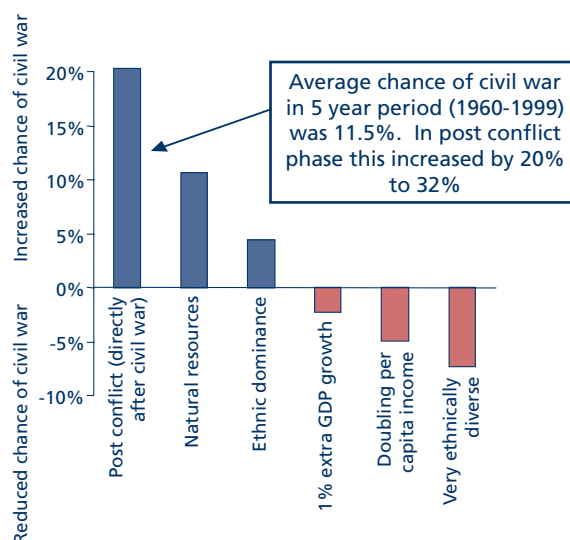
While these conditions and shocks can make it harder for countries to

initiate and sustain economic growth, evidence suggests that prolonged economic decline of a decade or more is usually a consequence of conscious decisions by elite groups. Of fundamental importance to securing a stable economic climate is getting key members of the elite to 'buy-in' to long term policy frameworks.

Civil wars can create a 'conflict trap', with about one in three wars being followed by another conflict

Conflict tends to beget conflict. Civil wars can create a 'conflict trap' where countries which have experienced one civil war lapse back into conflict. Between 1945 and 1996 one in three civil wars were followed by another conflict⁴⁰. Figure 2.5 shows that a history of conflict is the strongest predictor of future conflict.

Figure 2.5: The Relative Importance of Different Risk Factors of Civil War⁴¹



⁴⁰ Walter (2004)

⁴¹ Collier & Hoeffler (2003)

There are five broad mechanisms which help to explain this conflict trap:

- **The way a war is fought exacerbates societal tensions.** Personal and group vengeance is one motivation for a return to violence. Social tensions are also created and aggravated by the movement of internally displaced persons, which can increase political and economic disruption.
- **The way a war is settled fails to solve existing tensions or exacerbates others.** Wars which are settled through partition are a risk factor in the onset of new conflicts in the same country – perhaps through signalling to other rebel groups that the government is willing to cede territory if threatened⁴².
- **Civil wars cause economic stagnation or decline.** Typically during a civil war a country loses around 2.2 percentage points off its normal annual growth rate⁴³. Individual economic hardship on the part of potential recruits increases the possibility of raising another rebellion. Analysis shows that countries that succeed in raising living standards after a war are less likely to face renewed violence⁴⁴.

- **Wars trigger emigration – causing ‘brain drains’ which weaken economic growth.** Emigration can also result in overseas splinter groups that are more radical in their politics than those who remain and who can fund conflict protagonists.
- **Wars cause military expenditure to rise** – an increase which persists in the post-war period. Such increased military spending can act as a drag upon economic growth and also undermine peace agreements and/or contribute to regional tensions⁴⁵.

Natural resource dependence creates incentives for violent elite competition and frequently leads to economic stagnation

The presence of ‘point-sourced’ natural resources (resources such as oil, minerals and even coffee and cocoa where patterns of production or distribution lead to concentrated revenue flows) contributes to many instances of economic stagnation or decline. According to the World Bank, developing countries with few natural resources grew two to three times faster than resource-rich developing countries over the period 1960-2000⁴⁶.’ Other high-value goods can also produce this effect: pipeline revenues, illegal drugs, trafficked people, and arms, for example. Despite the fact that

⁴² Walter (2004)

⁴³ Collier & Hoeffler (2003)

⁴⁴ Walter (2004)

⁴⁵ Collier & Hoeffler (2003)

⁴⁶ World Bank (2004b); Murshed (2003)

the presence of natural resources tends to have a positive direct effect on growth, two mechanisms act to outweigh this benefit.

- Resource misallocation effects, whereby foreign demand for the resource drives up a country's exchange rate. Exports of domestic manufacturing and agriculture become less competitive and imports less expensive. This can be exacerbated by attempts to protect domestic industries which reduce trade openness. Investors may pull out when a primary commodity dependent economy becomes more volatile.
- Political economy effects, where elites compete for control of the revenue flows from point-sourced natural resources. Competition often turns violent resulting in local or even national civil conflict (e.g. Nigeria, Democratic Republic of Congo, Colombia). The indirect effect of elite competition is that entrepreneurial and political activity is directed towards rent-seeking rather than building a broad-based productive economy. In some cases there will be an active policy of preventing the growth of potentially competing private business (e.g. Russia, Georgia, Azerbaijan). This results in economic prosperity being concentrated in particular areas or groups, creating potentially strong horizontal inequalities that encourage separatist or regional rebel movements (e.g. Indonesia).

These mechanisms interact, making it difficult to judge the relative importance of each. One attempt, looking at 39 countries, judged that resource misallocation mechanisms are very important factor in natural resource related growth failures⁴⁷. A combination of strong country capacity and resilience as well as good leadership (as in Botswana) can help to ensure that the presence of natural resources can be used as the basis for sustained growth for the benefit of the people.

Box 2.2:
Botswana and Sierra Leone –
Diamond Dependence

The differently-managed, mined, and controlled diamond resources of Botswana and Sierra Leone have helped to place each on a very different course.

Botswana discovered large kimberlite diamond deposits in the mid 1960s. Today, diamond mining accounts for more than one-third of GDP and for nine-tenths of export earnings. During the 1960s a forward-looking leadership recognised the potential of diamonds for the economy of Botswana and instituted a well-balanced and transparent resource management system in collaboration with De Beers.

Prudent economic management of natural resources has led to one of the highest per capita growth rates in the last 40 years in the world, with the government channelling revenues into the development of the country.

⁴⁷ Papyrakis & Gerlagh (2004)

Sierra Leone also depends on diamonds. These revenues were diverted to fund the civil war between 1991 and 2002. The motivation to secure the spoils of war, as well as demand for conflict diamonds shown by third parties, ensured that the profit to be made from war and instability for rebels and government alike was more than enough to ensure its perpetuation.

Today, Sierra Leone remains an extremely poor nation with tremendous inequality in income distribution. Engagement by the international community in the management of its resource rents (e.g. through the Kimberley Process) as well as peace support troop deployment have assisted in moving the country out of civil war. Whether the rents from diamonds will be managed more transparently and fairly in order to avoid a re-occurrence of instability and civil war, and provide a basis for stability and prosperity, remains a key challenge.

In the absence of inclusive political systems, inequalities between groups and linked 'identity politics' make a country prone to political instability or violent conflict

There are around 5,000 distinct ethnic, religious or other 'identity' groups spread across around 190 countries⁴⁸. Identity groups are constructed,

imagined, dynamic communities, not primordial categories⁴⁹. Of these 5,000 identify groups, fewer than 10% are mobilised politically, and less than 0.5% are currently involved in a civil war⁵⁰.

- **Ethnic identity does not seem by itself to be a cause or useful risk indicator of either conflict or political instability.** However, many civil wars do have an ethnic, religious or regional dimension. Ethnic dominance - having one or two large ethnic groups - makes a country more at risk of conflict than when there is a greater degree of ethnic diversity⁵¹.

- **Horizontal inequalities – material differences and grievances between culturally formed and identifiable groups – can increase the risk that a country will experience violent conflict.** Leaders who have sought to use ethnicity to mobilise one group against another have been found more likely to succeed when there are substantial inequalities among groups that cause resentment (e.g. differences between the Tutsi elite and Hutu majority in Burundi, or regional inequalities in Senegal and Lebanon)⁵². Furthermore, in ethnically or religiously homogenous societies there is a strong possibility that the government will be able to divide a rebel movement and win part of it over to their side.

⁴⁸ UNDP (2004)

⁴⁹ Anderson (1991)

⁵⁰ Centre for International Development and Conflict Management (2004)

⁵¹ Collier & Hoeffler (2003); Sambanis (2003)

⁵² Stewart (2000); Sambanis (2003)

- **Neither a significant religious divide nor a government policy of state religiosity is in itself enough to heighten the risk of conflict.** Rather, it is the combination of these two that best predicts religious intra-state conflict⁵³. In the absence of inclusive political systems, material inequalities between groups, mixed with identity politics, make a country prone to political instability or violent conflict.
- **An inclusive political system and vibrant civil society makes 'ethnic' civil wars less likely⁵⁴.** Power sharing mechanisms such as federalism, devolution or consociation can be important buffers against ethnic conflict. Cross group associations in civil society have a powerful effect in preventing ethnic strife.
- **Rapidly growing populations in urban areas present challenges both for state capacity and the ability of governments to deliver services.** The increased demand for public services, if accompanied by unemployment, can quickly give rise to social discontent as expectations are not matched by reality. The combination of a common identity, a common set of grievances and a large proportion of young unemployed males, can fuel a protest group when they are manipulated by an influential or charismatic leader.

The HIV/AIDS pandemic is likely to increase instability by eroding economic, institutional, social and military capacity.

At the end of 2004, it was estimated that between 35.9 million and 44.3 million people of the world's population were infected with HIV⁵⁶. Sub-Saharan Africa accounted for 60% of cases. There is not yet any firm direct causal evidence that HIV/AIDS can drive instability, but the pandemic is a long-wave event and still in its early stages in many countries. In the future, HIV/AIDS is likely to add to instability through three key mechanisms.

Growing populations and rapid urbanisation will increasingly challenge state capacity

- **Global population is projected to increase by 25% to nearly 8 billion by 2025⁵⁵.** The number of people living in urban areas is predicted to increase by a similar percentage. Future population growth will be concentrated in the developing world: particularly India, China, Pakistan, Nigeria, Bangladesh and Indonesia. Other big increases will be seen in North Africa and the Middle East.
- **Shrinking the size of the national economy.** HIV/AIDS primarily affects people in the prime of their working life and during the years that they contribute the most to the economy. The World Bank has

⁵³ Nordås (2004)

⁵⁴ Reynal-Querol (2002)

⁵⁵ Population Reference Bureau (2004)

⁵⁶ UNAIDS (2004)

estimated that the group of countries worst affected by HIV/AIDS are currently suffering at least a 0.3-1.5% reduction in annual GDP⁵⁷.

- **Eroding social capital.** HIV/AIDS can play on horizontal inequalities by creating divisions between different social or ethnic groups where one group is blamed for the spread of the disease or is perceived to receive preferential treatment. It can also weaken social cohesion by creating a large number of orphans. AIDS-curtailed life expectancy has been linked with growing violent crime and susceptibility to joining rebel movements – e.g. amongst members of the Revolutionary United Front (RUF) in Sierra Leone.
- **Reducing state capacity.** There is good evidence that amongst many sub-Saharan African states, AIDS prevalence rates are highest among professional, political and military classes. High infection rates, illness and deaths can contribute to a 'hollowing out' of vital institutions including ministries of state, security forces and public services. This is particularly true for weak institutions or those reliant on a small number of key personnel. Members of armed forces generally have higher HIV prevalence than the general population and a number of national military and security forces in sub-Saharan Africa are at risk if the current infection rates of up to 80% persist⁵⁸.

2.3.2 External Risk Factors

Regional conflict dynamics are important.

In many cases conflict is best understood in a regional context. This is well known in the cases of the Balkans, the Great Lakes region of Central Africa, and West Africa. Two mechanisms are important: regional tensions and regional spill over effects.

- **A country can directly invade a neighbour.** For example in 1998 Rwanda, Uganda, Namibia, Zimbabwe, and Angola all deployed troops to the Democratic Republic of the Congo (DRC).
- **A country can provide material support to rebels or governments.** For example, in the DRC war Rwanda allied with the Rally for Congolese Democracy while Uganda supported the Congolese Liberation Movement and Namibia, Angola and Zimbabwe supported the Kinshasa regime.
- **Irredentist movements** can foment tensions both within and between countries. For example, ethnic Albanian groups have been important in destabilising Kosovo and Macedonia.
- **Regional arms races** can destabilise governments through crowding out investment in human capital and thereby stunting economic growth, and through upsetting internal

⁵⁷ Bell, Devarajan & Gersbach (2003)

⁵⁸ Elbe (2003); Pugwash Meeting Report, (2004)

balances of power between competing groups within countries⁵⁹. One estimate is that over time a neighbour to a country in civil war typically increases its defence spending by an amount equivalent to a one-off cost of 4.3% of initial GDP⁶⁰. Regional arms races are also a significant factor influencing a country's decision to seek to acquire nuclear, biological or chemical weapons.

- The **economic effects of conflict** in a neighbouring country can be significant – one estimate is that an intra-state conflict reduces the annual growth rate of each of that country's neighbours by 0.9 percentage points. Given that intra-state wars now last on average 7 years, the cumulative effect on neighbours' growth foregone can be considerable⁶¹.
- **Refugee flows** can directly destabilise a country, as occurred with the spread of Hutu refugees and former génocidaires from Rwanda into eastern Zaire (DRC) in 1994.

Competition for dwindling water resources is a potentially destabilising factor in some regions

While climate change will increase the importance of available water resources (see below), some such reserves are already approaching tension-inducing levels. Examples of

regional cooperation in water management like Africa's Nile Basin Initiative are testament to the fact that over 30 countries worldwide receive more than one third of their water from outside their borders and thus face external risks of uncertainty of supply. Egyptian efforts to increase the diversion of water from the Nile will be affected by upstream Sudanese and Ethiopian extraction plans.

In addition, intensive agricultural irrigation is steadily diminishing aquifers worldwide. High current rates of use of finite groundwater resources are unsustainable in the long term. In grain-producing areas of northern China, for example, a 2000 estimate put the annual fall in the water table at 5 feet⁶².

Where competition for water resources combines with other risk factors for instability, such as in the Middle East, its contribution to potential instability is significantly magnified.

The most significant geopolitical risk which threatens stability in hydrocarbon exporting unstable countries is strategic competition for oil and gas

Dependence on natural resources has already been identified as a major risk factor for instability through its creation of incentives for violent elite competition. In the case of oil and gas this risk will tend to increase as

⁵⁹ Collier & Hoeffler (2003)

⁶⁰ Collier & Hoeffler (2004)

⁶¹ Collier & Hoeffler (2004)

⁶² National Intelligence Council (2000)

demand is growing rapidly, and supply from traditional sources is falling. This is leading to increased geopolitical competition amongst major importers seeking to gain access to secure supplies beyond the Middle East in West Africa, Central Asia, the Caucasus and Latin America.

Long-term security of supply is best secured from relationships with stable regimes that operate transparent revenue management systems. In the short-term, geopolitical competition amongst major importers is tending to focus on agreeing commercial contracts to secure short-term energy needs. Such arrangements are likely to reduce incentives on oil-rich elites to tackle fundamental problems of economic decline, institutional reform and horizontal inequality. This in turn is likely to exacerbate underlying risk factors for instability posing threats to long-term energy security through increasing risks of supply disruption and price volatility.

Organised criminal and terrorist networks can have profound destabilising effects.

Available data suggests that current annual revenue from illicit criminal activities include \$100-\$300 billion from narcotics trafficking and \$7 billion from people trafficking and smuggling and that these revenues are growing⁶³. At the global level 85% of class A drugs are sourced from states facing stability threats; up to 20% of trafficked people in the EU come from the Balkans.

Large scale organised criminal networks will tend to weaken enforcement structures, especially if they are powerful enough to influence top-level decision makers. Countries with significant areas of conflict or lack of territorial control are used for illegal crop growing and for establishment of bases for insurgent and terrorist training camps. Countries with ongoing conflicts may also be preferred as part of illegal transit routes.

The availability of financing is associated with longer conflicts.

It is expensive to recruit, train and feed armies and insurgents. Recurring sources of conflict financing include external powers, the sale of natural resources, funding from radical factions of diasporas and organised crime.

- **External funding:** several Cold War era conflicts were funded by the superpowers and ended with the collapse of the Soviet Union (e.g. Angola). Some cases of external power funding remain – often in regional contexts e.g. Democratic Republic of the Congo. Misallocation of development aid can result in an unintended funding of conflict.
- **The presence of oil** is associated with the **onset** of conflict while lootable commodities such as drugs and gemstones are associated with the longer **duration** of conflicts. This is mostly due to the relative ease of

⁶³ National Intelligence Council (2000)

transportation of the lootable resources⁶⁴.

- **Countries with large diasporas tend to be more prone to civil war**⁶⁵. One reason for this finding is that civil wars cause refugees to flee. A second reason may be that splinter elements of diasporas tend to be more radical in their politics than their compatriots who remain. Examples of radical groups in diasporas funding rebellions include Sri Lanka and Kosovo.
- Case study evidence indicates that protagonists use **many different and destabilising methods to fund the ongoing costs of conflict**, including: extortion, kidnapping, misuse of donor aid, taxation, legitimate businesses, and external sponsorship.

Climate change will increase instability in large parts of the developing world

There is overwhelming scientific evidence that the climate will change substantially over the next century, with gradual change punctuated by extreme weather events⁶⁶. Although the exact pace is difficult to predict, and detailed geographical predictions are imprecise, the balance of evidence indicates that the impacts will be largest in regions that are already vulnerable. Many developing countries already face significant challenges in coping with existing

climate variability; for example, the World Bank estimates that floods and drought in Kenya in the late 1990s resulted in direct economic costs of \$4.8 billion, or 22% of GDP per annum.

The predicted increase in extreme weather events will have serious effects on economic growth and political stability in the next few decades, even before significant average temperature change happens. As the impacts of climate change become manifest, country capacity and resilience will be increasingly tested. This is clear from the earthquake and Tsunami damage across countries surrounding the Indian Ocean at the end of 2004. Although unrelated to climate change, the disaster highlighted how essential it is to have domestic and international disaster warning systems in place, and established country capacity to respond in the face of those disasters. The main impacts of climate change on instability are summarised below:

- **Food or water scarcity** will exacerbate existing tensions, particularly if one group is perceived to be receiving preferential access. Freshwater shortages are predicted to become more acute in North Africa and sub-Saharan Africa, the Middle East and Central Asia. In addition to food and water crises, adverse changes to freshwater supplies are likely to constrain economic

⁶⁴ Fearon (2004)

⁶⁵ Collier & Hoeffler (2003)

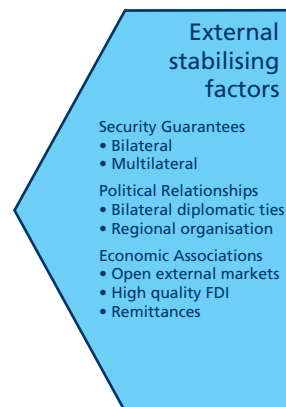
⁶⁶ Intergovernmental Panel on Climate Change

development and reduce the ability to export high value crops.

- **Internal or cross-border migration** due to shifting weather patterns, climatic variability or natural disasters will lead to the dislocation of people from their livelihoods and social networks. Migration due to droughts in south-west Asia over recent years has been linked with increased tensions in Kashmir and recruitment of displaced people into terrorist organisations. In Bangladesh, 5 million people live in regions at risk from sea level rise, and tensions over land use between agrarians and pastoralists have been cited as a contributing factor to the ongoing conflict in Sudan.
- **Small island states** are particularly vulnerable to sea level rise and extreme weather events as their economies are based on industries that are very sensitive to climatic variability. As the legitimate economy declines, they may provide increasingly attractive havens for international criminal activity and piracy.

2.4 External Stabilising Factors

External stabilising factors can help provide resilience and over time build capacity to manage the risks of instability or effects of external shocks. Most prominent external stabilising factors involve the exchange of security guarantees, political relationships and economic associations.



Traditional security guarantees act as a deterrent to potential aggressor states. A prominent example is the collective defence commitment enshrined in Article V of the NATO treaty. This security guarantee is intended to deter attacks on a NATO member state by treating such an attack on one member as an attack on all. Interpositional peace support operations, where a UN force is placed between hostile adversaries (as in Cyprus, India-Pakistan, or the Middle East in past years) are effectively another form of stabilising security guarantee, building confidence between former adversaries.

Traditional security guarantees are primarily aimed at deterring inter-state conflict and are not designed to deter internal violence in

countries. International rapid response and robust peacekeeping and policing capacities are an important part of the 'new' security guarantees that are required in intra-state conflict situations. In order to have a stabilising effect, such forces need to be engaged in situations of actual internal crisis and be capable and willing to be deployed to new crises.

Strong political relationships with other countries and regional groupings can act as a stabiliser.

Being viewed as an important ally of a major country or a member of an international or regional group can increase the legitimacy of leadership. It can also help align behaviour of governments with norms related to those groups. Two of the most successful examples of external political stabilisers are the European Union and NATO. Aspiring members of these groups are required to pursue a good governance agenda as a necessary pre-condition for club membership. The EU and NATO have provided strong external stabilising for middle and eastern European countries after the collapse of the Warsaw Pact.

A supportive external economic environment can enhance stability.

An open and rules-based international trading system has a vital role to play in helping countries to boost their economic growth and generate the resources necessary for poverty reduction. Relatively little attention has however been paid to

the impact of trade policy on stability. The withdrawal of trade preferences such as the sugar preferences in the Caribbean could have huge negative impact on stability through a rapid fall in incomes and an increase in unemployment.

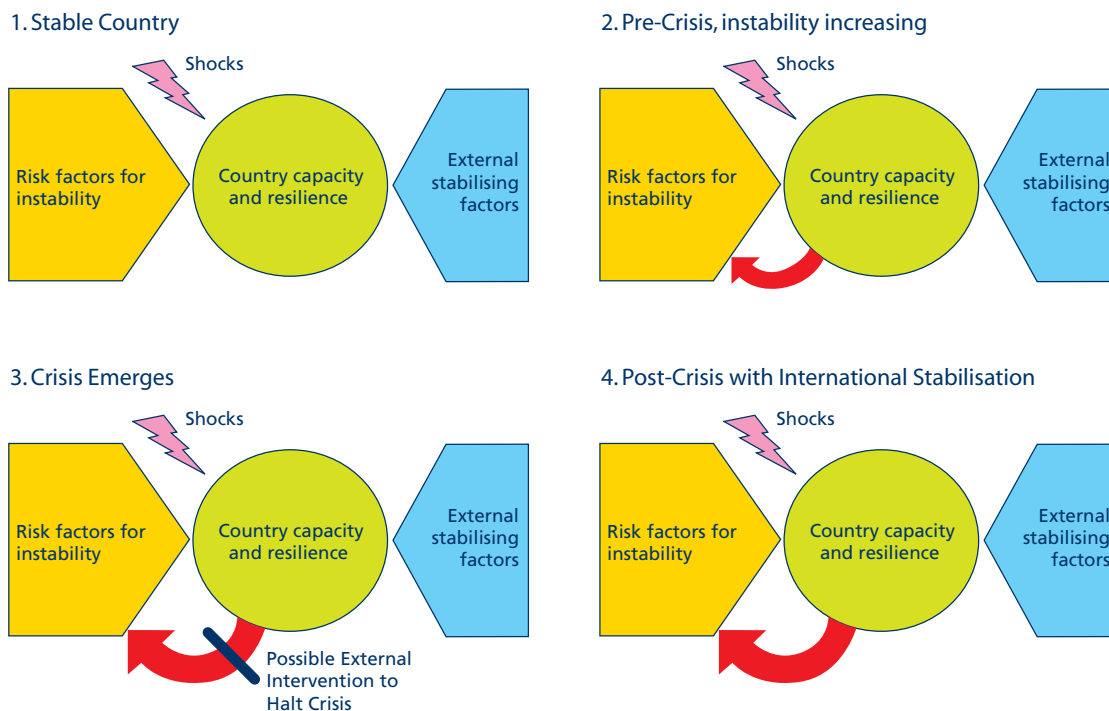
External economic stabilisers can also involve the flow of assets into a country, such as through remittances by diaspora communities (currently the largest form of external finance to developing countries), or foreign direct investment (FDI). Both these sources of funds have important effects in raising income levels and injecting capital for investment and growth. Overall remittances far exceed global development assistance (\$72 billion vs. \$52 billion, in 2001) and flow directly to households and increase wealth.

2.5 Dynamics of Instability

Instability is a dynamic phenomenon

The Instability Framework can be used to provide a snapshot of the nature and level of risk of instability any country faces at a certain moment in time. The shape of the map changes over time (see Fig. 2.6 below) to reflect overall risks of instability as country capacity is built or depleted, external stabilisers are created or removed, and structural risk factors fluctuate. The Instability Framework thus needs to be combined with projections of future trends and estimates of risk factors to be used to develop future scenarios of instability.

Figure 2.6: The Changing Instability Framework



2.5.1 Shocks

Shocks can trigger instability



All countries experience 'low probability/high impact' events – or shocks – the question is whether they have the capacity and resilience to manage and absorb them. Where capacity and resilience is low a shock will tend to further undermine country capacity to manage other risks and increase the risk of future instability. In extreme cases – such as a political assassination – such shocks may 'trigger' the emergence of

crisis. However, a crisis will generally only occur in response to a shock if other significant risk factors are also present. Analysis of underlying drivers and vulnerability to shocks allows the development of potential crisis scenarios, which in turn informs the creation of specific monitoring systems to provide early warning of the emergence of crisis.

Many developing countries are particularly prone to a number of these shocks

For many developing countries, dependence on a narrow range of exports increases vulnerability to commodity price shocks. If subsequent instability damages the country's manufacturing sector, this

will further increase its dependence on natural resources and thus increase vulnerability to commodity price shocks. Financial crises become more likely and are more difficult to manage in countries with poorly developed institutions. The Asian financial crises of the 1990s had second round effects in sub-Saharan Africa through reducing markets for exports. The international response to reducing the risk of those crises and managing them when they do occur has not been adequate.

Political assassinations, or even the natural death of a long-term leader, can also be extremely destabilising where clear succession mechanisms do not exist. The strength of the social contract and legitimacy of state institutions is vital to country resilience in the face of political shocks and crisis.

2.5.2 Manifestation of Instability and Feedback into Risk Factors

When instability emerges it feeds back to increase risk factors and further weaken country capacity. Instability can manifest in several forms which cannot be easily predicted from risk factors, but must be monitored and assessed as they occur.



Feed-back: Violent Conflict, Political Instability, Loss of Territorial Control, Economic Crisis

Instability can be manifested in many different ways. Political crises –as in Georgia and Haiti in early 2004 – are a common symptom. Economic crises can also trigger instability, as witnessed most dramatically by the Asian financial crisis in 1997, or in debt default by major countries like Argentina or Russia. Loss of territorial control by the state is another manifestation, as has happened in Colombia, Moldova and Pakistan. The most extreme manifestations include widespread violence and state collapse. Angola, Afghanistan and the former Yugoslavia serve as three stark examples.

Violent conflict often sharply reduces economic productivity, lowers incomes, deepens grievances, involves neighbouring countries, and creates new financial networks that sustain conflict. These factors increase the risks of instability faced by the country. It is not surprising therefore that half of all new conflicts are repeat conflicts⁶⁷.

It is impossible to predict accurately the type of instability which may emerge from a set of high risk factors combined with low country capacity. Instability feeds back on itself and grows or declines depending on how it is managed by national and international actors. In larger countries full-scale state failure is not usually a credible scenario, despite continued local and regional conflict (e.g. Chiapas, Mexico; Chechnya, Russia). In cases

⁶⁷ Collier & Hoeffler (2003)

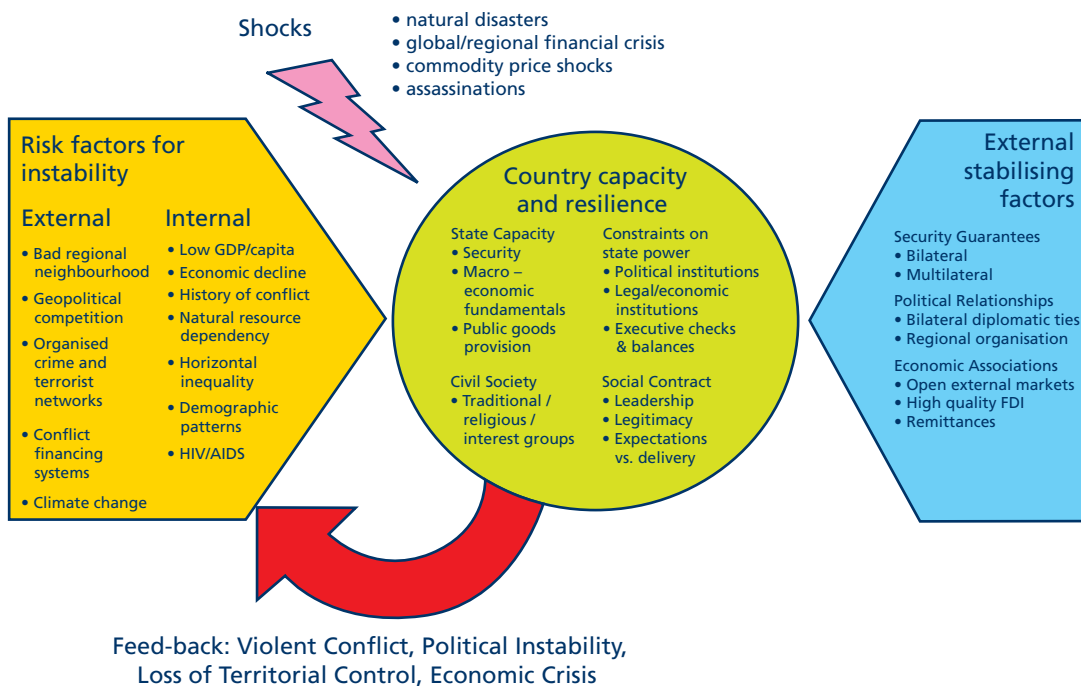
where the state is not immediately at risk, instability may still give rise to a range of adverse national and international outcomes. Low level political crisis can evolve into violent conflict if the response focuses on the suppression dissent rather than addressing fundamental underlying problems (e.g. economic decline or horizontal inequality).

2.6 Applying the Instability Framework

Understanding instability requires all key risk factors to be analysed and judged together

Bringing the evidence and analysis together enables the creation of an Instability Framework with a country's capacity and resilience at the centre; potential risk factors for instability; and some important external stabilising factors. Any country or region can be mapped in this way to gain an understanding of its stability, or alternately the nature and degree of risks it faces of becoming unstable.

Figure 2.7: The Annotated Instability Framework



The Instability Framework provides a systematic framework for assessing the nature and degree of risk faced by any country or region. It makes explicit judgements of the balance between different stabilising and destabilising factors, and ensures all factors can be considered. This provides the basis for developing an 'audit trail' for risk assessment with attendant benefits for knowledge management. 'Mapped' risk assessments can be easily updated as critical factors can be identified and monitored.

The key to developing an understanding of a country is the critical examination of the impact of each mapped risk factor, their interrelationships and the overall balance of effects. How well does country capacity actually manage key risk factors? How is instability affecting country capacity and other risk factors? Are external institutions actually helping stabilise the country? How are external risk factors linked to and magnifying internal risk factors? Answering these questions should generate a rich understanding which allows an overall risk assessment to be developed.

2.6.1 Using the Instability Framework as an Analytical Tool

The Instability Framework provides a framework to consider the right mix of responses thus enabling an assessment of how to use the full range of UK and international assets more effectively

The Instability Framework provides a tool for:

- Focusing and guiding standardised reporting at country and regional level and the creation of monitoring strategies for the emergence of crisis
- Joint departmental analysis of the risks of instability at a country or regional level,
- Structuring strategic analysis of response to instability, and helping generate and assess options for action.

A prototype 'Users' Manual' has been developed to guide analysts through a structured risk and strategic analysis over the short, medium and long term. A supporting guide shows how to design risk assessment and strategic analysis processes, using groups of experts and workshops over differing time periods⁶⁸.

Recommendation 2.1

The UK government should continue to develop the Instability Framework with a view to disseminating it and other tools amongst allies and institutional partners.

This chapter has developed a framework for mapping and understanding the causes and dynamics of instability. It argues that stability is not stasis – rather it is the dynamic outcome of various pressures. At the heart of stability is

⁶⁸ See the accompanying analytical papers available on the Strategy Unit website

the peaceful management of change. All countries face risk factors associated with instability. These risk factors have been identified through a comprehensive assessment of the statistical and case study evidence and work on future trends. The key issue is a country's capacity and resilience to manage risk factors and external shocks. External stabilisers can also help to create the conditions for stability. One of the most useful applications

of the instability framework is as a device around which different government departments, agencies and other in the private and voluntary sectors can coalesce to develop a shared view of a country or region. It can also provide the basis for systematic monitoring of risk and for structuring strategic options to reduce the risks of instability. The next chapter lays out an overall strategic approach to respond to instability.

Chapter 3: A Strategic Response to Instability

What this chapter does

- Develops an overarching strategic approach for tackling instability
- Sets out the rationale for more and better preventive action to reduce instability
- Presents the case for an effects-based approach to prevention
- Identifies four strategic principles and packages of response for better prevention and crisis response.
- Outlines how the UK should set priorities for its engagement on instability

Summary

- There is a strong invest-to-save case for prevention, but achieving this in practice is not straightforward. Making prevention real requires increasing international commitment to adopting four core principles–the ‘4 ‘S’s’
 - **Appropriate scale** of political attention and financial resources;
 - **Sustaining** action over longer time horizons;
 - Developing **systematic** approaches to action across political, development, economic, security and other dimensions;
 - Achieving greater **sophistication** of understanding of long run dynamics of instability.
- Current preventive and post-conflict interventions rarely meet these criteria, and thus fail to achieve reduction in risks of instability. Most additional international investment is currently focussed on building better crisis response capability. An effects-based approach to stabilisation will enable a better balance of investment in preventive and crisis response activities.
- An effects-based approach will require international actors to engage with countries at risk of instability on two dimensions: aligning government incentives with its domestic and international

responsibilities, and building country capacity to deliver. A government's incentives and capacity can differ on different issues. Action should focus on aligning incentives before seriously investing in capacity building.

- Four mutually supportive strategic packages of response are important:
 - investing in stability by building country capacity;
 - influencing behaviour to align incentives with long-term stability;
 - improving the international policy environment for stability;
 - improving response capacity to crises when prevention fails and providing credible deterrence against actors promoting instability.
- The UK should take a leading role in promoting an increase in international resources and commitment to addressing instability, by developing 'Partnerships for Stability' to align international efforts in key countries.

3.1 The Need for More and Better Prevention

The need for prevention has been highlighted for a decade, following a series of devastating internal conflicts in many parts of the world. But actual preventive action has been limited in both extent and effect. As a result instability levels are rising and crises continue to emerge. Despite widespread pleas for more prevention there remains a large gap between this rhetoric and the reality of action on the ground.

This chapter outlines a new framework for prevention in three steps:

- Outlining the strategic case for greater investment in prevention.
- Identifying the current barriers in decision making which stop cost-effective investment in preventive

activity on a scale that would make a difference.

- Laying out a practical approach for carrying out strategy formulation, resource prioritisation and developing policy options which will reduce the risks and impacts of instability.

There is a moral imperative to shift the focus to prevention

The UK supports the UN High Level Panel in endorsing the emerging norm that there is a collective responsibility to protect. Taking this norm seriously requires the international community to prioritise sustained and scaled up action to prevent crisis, particularly in Africa. If prevention fails responsibility to protect also requires that the international community take active steps to save lives and alleviate suffering.

Prevention requires early action to allow a country to resolve its internal tensions and potential conflicts peacefully and through legitimate channels. As explained in Chapter 2, stability does not imply the suppression of dissent or halting the natural processes of change in a country; stability is not synonymous with stasis. Effective preventive action is essentially a process of reducing risks through building the capacity and capability to manage change.

Better evidence is emerging on the cost-effectiveness of prevention

The argument that preventing conflict is cost effective – in both financial and human terms – has gained credibility as the research community has marshalled the weight of evidence and analysis to support this intuitive point. One such analysis, conducted by Bradford University, compared the cost of international intervention in Rwanda and former Yugoslavia against a hypothetical preventive package. In Rwanda, the actual cost of intervention following the genocide (in 2004 prices) was over \$5 billion, while the preventive package would have cost under \$1 billion. In former Yugoslavia, the actual cost of intervention from 1991-99 was \$54 billion, while the preventive interventions would have been around \$22 billion (this assumes a large and sustained preventive troop deployment)⁶⁹.

The current costs of instability and conflict are universally understated, resulting in underinvestment in preventive action

As outlined in Chapter 1 the data available on the costs of conflict and instability underestimate the human costs of crisis. The direct economic, health, displacement, educational and criminal impacts of conflict and instability are not systematically measured, despite compelling case study evidence on their magnitude⁷⁰. Even the direct costs of addressing a small proportion of these impacts in terms of additional humanitarian and development aid are seldom calculated.

The indirect impacts of instability on the UK and other 'stable' countries in terms of energy security, criminal activity, migration, asylum and foregone economic markets are also not included in 'spend to save' calculations. These calculations are difficult given the complex links between instability and particular harms to the UK, but this does not make these impacts any less real.

Current responses are focused on improving reactive capability. This is important but needs to be complemented by more attention to prevention

The bulk of recent investment has focused on improving reactive capability through enhanced peace support ability, post-conflict reconstruction capacity and early

⁶⁹ Chalmers, M. (2004)

⁷⁰ Lacina, B. & Gleditsch N.P. (2004)

warning systems. This complements the role of traditional diplomacy of governments the UN and regional organisations. Other preventive initiatives include security guarantees such as that provided by NATO, long-term peacekeeping, support for long-term development, and the creation of international norms and instruments that serve to promote positive behaviour and deter human rights abuses. These are important parts of an overall strategic approach, but the lack of a similar focus on preventive investment means that the overall package is unbalanced and limited in effectiveness. Development assistance is critical in addressing the root causes of instability, but needs to be complemented by economic, diplomatic, security and other tools to have a serious impact on prevention.

3.2 Moving to an Effects-Based Preventive Approach

There are political and systemic barriers to more preventive action

The most often cited barrier to a greater prevention is a lack of political will, usually directly related to the specific problem of gaining UN Security Council approval for intervention or sanction at an early stage in the emergence of crisis or

conflict. This type of ‘hard’ prevention is important, but is only one part of the whole preventive agenda.

The broader preventive agenda requires simultaneous investment and action over timescales ranging from 0-5 years to 10-15 years to impact on stability; that is, to actually produce an ‘effect’. This includes investment in institutional capacity, action to address risk factors and building reactive capability (see Figure 3.1). These investment patterns and timelines apply whether preventive or post-crisis stabilisation interventions are being undertaken.

There are examples of concerted and successful long term investment in stability – for example the EU’s investment in Eastern Europe in the 1990s. In most parts of the world, regional and bilateral relationships (as opposed to multilateral) will play the key enabling roles in this kind of long-term preventive agenda. This will provide more flexibility to construct positive political coalitions for engagement in prevention. Differences in interests between countries will of course still exist. Some of the major geopolitical challenges to building agreement on stability are addressed in Chapter 6.

Figure 3.1: Impact Horizons for Action to Promote Stability



Current decision making systematically undervalues preventive investment

The focus on political will as a barrier to action has obscured some practical and systemic challenges which can be addressed through 'technical' solutions. The complexity, number and variety of preventive investments does however present a significant challenge to military, intelligence and diplomatic systems which were developed during the Cold War based on a well-understood and enduring strategic threat.

In the current environment the strategic focus for action changes very rapidly, and systems of information gathering and analysis must be broader and more flexible than in the past. Threats to stability are less and less 'secrets' that can be

discovered - like a rebel leader's strategic intentions - but rather 'mysteries' that must be unravelled from available information, much of it in the public domain.

Gaps in data, intervention doctrine, and understanding of the impact of instability mean that a simplistic 'bottom-up' or case-by-case approach to developing strategies for instability will tend to result in under-investment in prevention, and focus on a reactive approach. This is because investments in stability are often required to pass an unrealistic threshold of certainty; for example, demonstration of how investment will prevent rather than simply reduce the risk of crisis. Similar assessments are not applied to the deployment of military forces, and humanitarian resources during crisis situation. This inconsistency leads to an imbalance of investment.

The standard economic approach to assessing investment when there is uncertainty over its impact would look at expected returns: the probability of success multiplied by the expected payoff. As research shows that prevention is usually far more cost effective than intervention, each preventive intervention only needs to have a low probability of success for its expected returns to be cost effective. In some of the cases covered by the Bradford study cited above, a 5-10% probability of preventing crisis would justify significant upfront investment in prevention.

A strategic approach to prevention requires a strategic “top-down” approach to prioritisation. This has three components; assessment of the intrinsic risk of instability of a region and countries within it; the impact of such instability on achievement of objectives and assessment of impact of possible interventions

A strategic approach to prevention requires three steps: an assessment of intrinsic risks of instability using the Instability Framework developed in chapter 2; an assessment of the impact of such instability on objectives; and an assessment of potential impact of policy packages to reduce instability.

- It is important to start by assessing the intrinsic risk on instability. The instability framework provides a starting point for such assessment. A range of experts with knowledge

of different aspects of the country or region can be assembled to pull together a comprehensive picture of the intrinsic risk.

- The next question is then how far instability in the country or region will impact on achievement of relevant UK objectives. Strategies for achieving these need to be tested against the risk of instability. If for example the energy security objectives are likely to be impeded by high risks of instability in a certain region, risk management strategies will become increasingly important.
- The third question is then how far the UK acting alone or as part of the international community can develop a set of policy responses which can address the challenges of instability. A set of strategic and costed policy options need to be developed and assessed for possible impact.

Armed with these three sets of inputs – an assessment of the intrinsic risk of instability, the impact of such instability on achievement of UK objectives, and a set of policy options for response, strategic prioritisation can be achieved.

The balance of investment between regions, and countries within regions, will depend on their relative importance in achievement of relevant objectives – for example, MDGs, migration, drugs, counter-terrorism and WMD proliferation. A regional stability strategy would

need to identify critical interests impacted by crisis in that region, and possible regional contagion and network linkages. Only with a full matrix of regional and thematic strategies (such as that for energy security) can sensible decisions be made on the appropriate priority to assign to any individual country.

Having a real impact on instability requires hard choices. Current activities which are at too low a level to create a real impact on country stability should be scaled back, and resources concentrated to deliver real effects.

Producing a real preventive effect will require increased commitment

Better prioritisation and adequate scale of effort is one part of the picture. Producing real impacts in reducing risk of instability requires the consistent application of four key principles – the ‘four ‘S’s’:

- **Scaled:** As stated above interventions often fail to have impact because they are not working at sufficient scale. In many unstable regions the critical resource needed for effective engagement is expert human capital - how and where this is deployed, to what end and over what time period are critical investment decisions made.
- **Sustained:** Building country capacity and resilience is a long-term project which requires sustained effort over many decades. The international community needs to stay engaged in order to make a lasting difference. Countries abandoned by the international community can pose a major risk to regional and global stability – Afghanistan being a striking example. Much capacity-building is institutional and will take time – often 10 years or more – to reach fruition. International partners often find it hard to stick with these slow changes.
- **Sophisticated:** In order to identify priorities for engagement and efforts that will have the intended effect on stability, it is important that international actors develop a sophisticated understanding of the country and regional situation. A deeper and longer approach to understanding the situation in particular countries and regions is required to enable effective preventive engagement.
- **Systemic:** Different parts of the international system are engaged in promoting stability in a rather piecemeal way. Achieving impact requires bringing together different tools in a more systemic manner. Targeted use of development assistance needs to be complemented by more effective use of diplomatic engagement, military assistance and other tools to be effective. These tools need to be integrated within a common strategic framework.

The removal of systemic barriers to preventive action is also of paramount importance in prevention

A key impediment to long-term prevention and response is the failure to develop coherent approaches across different issues. This is particularly acute when there are a multiplicity of actors with different agendas – including national governments, multilateral bodies such as the UN and, international financial institutions, and non-governmental organisations. Coherence is not easy to achieve, even inside one organisation or government, and a realistic aim should be to improve alignment of actors around the problem and focus coordination on the most critical tasks (these issues are explored further in Chapter 4, 5, 7 and 8). Priority areas to be addressed to improve alignment and coherence are:

- A lack of robust medium-long term risk assessments to drive investment in preventive capability;
- The insufficient understanding of the application and effectiveness of different tools and instruments that can be used to reduce risk of instability;
- Weak mechanisms within or across governments to assess and align potentially conflicting objectives (e.g. anti-terrorism cooperation and human rights protection);
- A lack of clear strategic guidance and planning tools that can align

objectives and release resources towards a common end goal.

International cooperation to address systemic gaps will not eliminate the political difficulties of gaining agreement to act, but will increase the probability of early, effective action to reduce instability and address crises.

Increased investment will pay multiple dividends, and this will improve the prospects for political agreement on action

Increased political and financial commitment and better decision-making systems will pay dividends in three respects:

- Prevention is the most effective means of protecting human security: Prevention of conflict will reduce the human costs of crises, and lay the foundations for sustained poverty reduction.
- Preventing crises in key countries and regions will reduce the likelihood of negative consequences of crisis - such as terrorism, organised crime and disruption of global energy supply – affecting the UK. Reducing the chances of crises occurring will also reduce the need to send UK and other troops into dangerous situations.
- Increased focus and resources on prevention will support peaceful democratic transitions, as emerging democracies are often the most vulnerable to instability.

3.3 International Engagement With Countries at Risk of Instability

Lowering risks in countries at risk of instability requires new forms of international engagement

The normal mode of international engagement is disaggregated. At the simplest bilateral level the diplomatic community deals with the political aspects of the relationship with another country, while development agencies focus on poverty and development issues. There may be other players involved – such as departments dealing with defence relations, trade, and immigration. But these activities have tended to happen independently of each other, with little coordination. There are some good reasons for this separation, such as the need to ensure humanitarian support activities are not driven by political imperatives. But in tackling increasingly complex situations there is a need for much more coherence across the different tools and players involved.

Development assistance is predicated on a partnership with the recipient country government. This requires that the government's interests are aligned with those of the donor in supporting national development and poverty alleviation. However, there are many situations where this may not be the case, where recipient governments are more focused on the interests of a small group of individuals, such as

a kleptocratic elite or a favoured ethnic or other identity group. In these cases, it is difficult for providers of development assistance to engage at all, since assistance is likely to be used for perverse ends. Therefore the mode of development engagement tends to be binary – either close partnership with a 'good' government, or complete disengagement.

A new approach must consistently tackle both incentives and capacity issues

In helping to frame more effective responses to these countries, it is useful to distinguish two dimensions:

- **Government incentives:** The starting point is a more explicit recognition that partner countries also have interests and objectives. How far the incentives of the government, and other key influencers, are aligned with international norms and the legitimate interests of the populace depends substantially on the extent of checks and balances holding them to account. In a country with strong checks and balances on executive authority, and a participatory political system, elite incentives are likely to be more in line with the interests of the wider population and thereby with domestic stability. Where these systemic checks are not in place, as in most countries at risk of instability, governing elites' incentives may

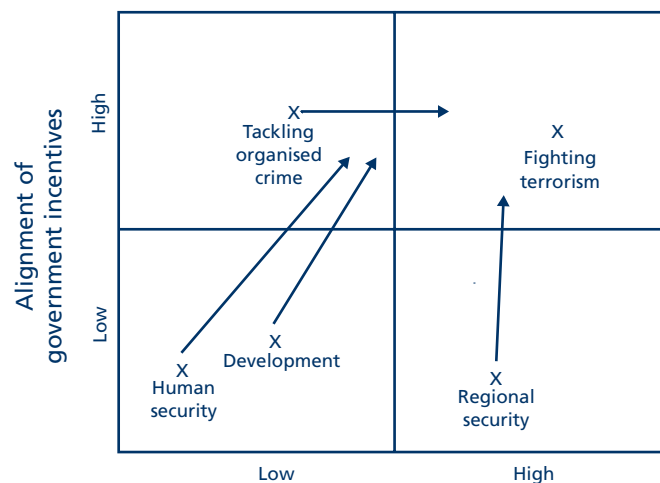
be misaligned with the requirements for longer-term stability. Where there is a misalignment of incentives, the primary focus of engagement needs to be on correcting the misalignment.

- **Capacity to act:** This pertains to how well the state is able to fulfil its obligations. Even where a government may be willing to act on a particular issue, such as poverty reduction or tackling

terrorism within its borders, it may lack the capacity to do so. In these situations, international engagement can usefully focus on building capacity, either within the state or on other domestic mechanisms that can increase country capacity.

These two dimensions allow the categorisation of a country on a range of issues that are important for stability.

Figure 3.2 Incentive-Capacity Matrix for a Hypothetical Country



Any country can be plotted on this incentive-capacity matrix over a range of different issues. For many countries, the result is likely to be scattered as shown above.

Understanding linkages between objectives is critical

Because international objectives are inter-linked – poverty reduction

cannot be achieved without addressing security or tackling organised crime, for example – it is necessary to engage in a holistic way in order to have impact. The objective of international engagement should be to move a country towards the top right hand of the matrix on the full range of issues that are important for stability. In this quadrant the government's incentives are aligned

with those of international partners across all objectives of mutual concern, and there is capacity within the country to act. The pathway towards this goal will typically entail the alignment of incentives before, or in parallel with, the building of capacity.

This matrix, like any simplification, runs the risk of obscuring the more complex reality that exists within any country. Understanding government incentives is often very difficult in practice, especially where there are different groups of reformers and traditionalists within the government. Further difficulties arise in countries where the willingness of the leadership is undermined by officials (either at the centre in the form of a strong military or bureaucracy, or in regions or districts) who block or otherwise refuse to implement policy that may run counter to their personal or institutional interests.

Country capacity can also be difficult to measure. There is no easy way to determine the strength of judicial institutions or checks and balances on executive power. Despite these problems, this categorisation is useful in framing the nature of policy choices that international actors face in a particular country. The essential next step is to generate a much deeper understanding of the particular country and society that can inform specific policy measures (Chapter 5 address some of these practical issues).

Addressing instability requires a combination of measures to build capacity and align incentives, as neither on its own is sufficient. This requirement will drive the choice of actors and institutions that are capable and willing to be involved in different parts of the preventive agenda.

3.4 Four Strategic Packages of Response

Understanding country risk factors and the balance of capacity and incentives leads to the identification of four types of strategic response: investing in stability; aligning incentives for stability; increasing international responsibility; and improving response to crisis. Collectively these are referred to as the '4 Is'.

Any action to engage with a country requires a deep country-specific understanding. Superficial diagnoses of problems can lead to bad investment decisions for engagement, and do more harm than good. The Instability Framework and Incentive-Capacity matrix provide some new tools to develop deeper understanding and guide appropriate response. These tools and a gap analysis of activity currently under way suggest a strategic response to promote stability should have 4 components.

The foundation of stability is investment in country and regional capability

The first strategic response is **investing in stability**, which involves building country capacity and resilience, particularly in terms of the provision of security and ‘rule of law’ – including checks and balances on executive power. It also involves building good governance and understanding and strengthening domestic civil society institutions that can provide a counter-balance to the state and participate in delivery of social services.

This requires coherent international political engagement and effective incentives

As the incentive-capacity matrix shows, investing in country capacity often must precede, or work in parallel with, **aligning the incentives** of elites with those of their wider society, so that elites support the reforms necessary for stability. There is a strong normative underpinning for this, which is to enhance stability in order to promote human security. Effective alignment of elite incentives consists of 3 elements:

- Better understanding of who is influential within a society, their sources of influence, and their incentives.
- Providing positive incentives through club memberships or relationships, which can deliver more sustained and effective influence than conventional diplomacy or aid conditionality.

- Ensuring consistent negative incentives that can be applied to reduce destabilising economic misconduct of elites.

Inside a supportive international environment

A unique focus on the country’s capacity and its elites is, however, insufficient. As the Instability Framework suggests, there are important external risk drivers and stabilisers that must be addressed to provide a more stabilising external environment. The third strategic response is to increase **international responsibility**, particularly in the areas of aid, trade, debt, regulation of the arms trade, observance of human rights, HIV/AIDS, accountability of the international private sector, tackling organised crime and geopolitical competition for oil and gas and proliferation of nuclear material.

Effective crisis response remains critical and should also act as a deterrent

Finally, while more emphasis needs to be placed on prevention, there is no guarantee that this will always work. The responsibility to protect norm requires the international community to intervene effectively to prevent death and suffering. There is a need to respond to crisis situations as countries become unstable. In the Instability Framework (Figure 2.7), this involves cutting the feedback loop that further bolsters risk factors. Effective

intervention should also be designed to act as a deterrent to those aiming to destabilise states. **Improving response to crises** is therefore the fourth necessary strategic response. This focuses on key gaps in current intervention capacity. The first is addressing quantity and quality gaps in military and rule of law (or justice sector) interventions. The second is addressing the systems that finance and thereby extend conflicts. These need to be backed up by better international systems to identify and manage intervention in conflict and post conflict situations.

Achieving real impact requires a coherent use of all four responses

These four strategic responses are mutually supportive. Each of them is critical to the overall strategic response to instability, and they should not be considered in isolation

from one another. Neither are they easily divided up as the primary responsibility of one or other government department, such as development assistance agencies focusing on building country capacity and foreign ministries focusing on influencing elite behaviour. A number of elements undertaken to invest in stability entail changing domestic political institutions, which thereby influence behaviour of governing elites.

An effective response to instability depends on a coherent government and international system-wide response. This in turn depends on the development of a shared understanding of the particular country challenges and common objectives for addressing them.

Box 3.1:**African Great Lakes Region: The Need for Four Strategic Packages of Response – the ‘Four Is’**

Dubbed the ‘First World War of Africa,’ the interrelated civil and state conflicts in the Great Lakes involved eleven countries as well as innumerable armed groups. Reports put the death toll during the 1990s in the Democratic Republic of the Congo (DRC) between two and three and a half million, making it the scene of the bloodiest conflicts since the Second World War (without counting nearly one million deaths in the Rwandan genocide). Civilian mortality accounted for 90% of deaths. Following the 1994 genocide, génocidaires and refugees from Rwanda established themselves in camps in the eastern DRC, already home to Burundian and Ugandan rebel groups. From here, the various armed groups launched attacks into their home countries. In 1996, the interrelated civil wars of the Great Lakes exploded, creating a major regional conflict.

Investment In Stability: The collapse of the Zairian state was central to this crisis. Mobutu and the governing elites criminalised the state apparatus, extracting and redistributing patrimonial resources along regional, ethnic, religious, and familial lines to consolidate political power. This kleptocratic machine destroyed social institutions and cohesion, the

economy - particularly the key mining and agricultural sectors – and the health system. Poverty and disease soared during the 1990s.

Aligning Incentives: The DRC has mineral riches, including gold, tin, cobalt, coltan (used in mobile telephone manufacturing), and diamonds. Rebel, political, and military leaders have incentives to prolong conflict in the DRC to exploit the richness of Congo’s natural wealth. Extra-regional actors have been identified in the report of the UN panel of experts on illegal exploitation. Foreign governments have failed to control the exploitation, conflict financing, or national companies that have been involved.

International Responsibility: Following the overthrow of Mobutu and the installation of Kabila as President, conflict erupted again between the former allies, pitting various Congolese rebels, Uganda, Rwanda, and Burundi, against Kabila, supported by Zimbabwe, Angola, and other neighbours. Despite the establishment of a government of national unity, fighting continued in the eastern DRC and surrounding countries, carried on by various governments’ troops, rebels, and militias. International powers have long neglected the Great Lakes in favour of other crises, like the former Yugoslavia, Somalia, and Iraq. Prior to the crises, international powers failed to give sufficient support to the building

of institutions supporting human rights, conflict resolution, or political participation, in the DRC, Rwanda, and other states

Improved Response to Crisis All through the nineties, armed groups have not only systematically extorted money and food from the local population, but have also massacred civilians and refugees and committed large-scale human rights abuses. In 1999, the Security Council authorised MONUC, a UN Peacekeeping Mission for the DRC, and in early 2004, ONUB, a mission for Burundi. While MONUC's strength has slowly increased over time, it still lacks the resources to deal with heavily armed rebels in a country the size of Western Europe.

3.5 Developing a Five-Year Strategic Plan

Analysis of gaps in the international system identifies priority areas for action

The international community has existing policies and initiatives in each of the four areas. For example, normal development assistance is an important aspect of investing in stability. Bilateral political engagement, the threat or use of economic sanctions and military force are all ways of influencing behaviour. Political, humanitarian and military interventions are a key part of crisis and post-crisis response.

Despite this 2-3 crises strike each year, half of which are repeat

conflicts. The international community is thus not sufficiently achieving the effect of preventing crises or stabilising countries post-crisis. A gap analysis of current activities can help to identify priority areas within each strategic response package. These priorities emerge through applying three tests:

- **Potential for impact** – where impact on stability could be high;
- **Resources** – where current resourcing is relatively low; and
- **Feasibility** – where there are existing institutions or governments that can undertake these efforts with some commitment of resources.

This together with the four key principles – scaled, sustained, sophisticated and systemic, (the 4 Ss) have been used to identify the key policy priorities set out in Chapters 4 to 8. Together these form a strategic programme for action which could be carried out over the next 5 years.

Action is needed at all levels, but more effective regional actors are critical

At the international level there is a role for both soft and hard prevention. Soft measures include norms and standards and club membership. Hard prevention includes economic sanctions and military deterrence. Coordination at the international level tends however to be difficult and delivery

of preventive responses is often too little too late. In the short to medium term greater preventive impact is likely to be achieved through a focus on strengthening mechanisms at the regional level.

Effective prevention requires a wide range of actors – governments, multilateral and regional organisations, private sector, and non-governmental actors. Despite the importance of individual international actors such as the UN, there are clear limits to what can be done by one institution alone. The UN in particular cannot take responsibility for the entire preventive agenda; but it has a critical role to play in some aspects of prevention, such as political and humanitarian diplomacy, peacekeeping norm creation, and prosecution of international crimes. Different international actors therefore need to work coherently to advance the preventive agenda. There are capabilities at different international levels and institutions that need to be enhanced to achieve this.

Recommendation 3.1

The UK government should use its G8 and EU Presidencies in 2005 to build international commitment to investment to reduce the risk of instability and improve crisis response.

3.6 Moving to 'Partnerships for Stability'

Political coherence lies at the heart of a more effective international response

As set out above, developmental, diplomatic, military, economic and other forms of engagement need to be aligned to have serious impact on stability. The UK government is committed to improving its own internal alignment. The long-term goal should be to achieve alignment with other key international actors.

This will entail developing partnerships between key international actors (governments, international bodies and NGOs) and individuals within countries at risk of instability with whom international actors can work with to promote stability.

If full scale partnerships are not possible in the first instance - the international community needs as a minimum to achieve political coherence. This needs to be framed around the paramount importance of collective security over short-term national interests.

Partnerships will have different approaches depending on the range of priority objectives and degree of alignment of interests

Given the importance of locally-owned solutions, the strategy should ideally be led by a partner government (or, where more

appropriate, a regional grouping) committed to a stability agenda. Where the partner government is either unable or unwilling to work towards a strategy for stability, international actors should take the lead, working as closely as possible with those elements in-country that are aligned with a stability agenda. In practical terms, this is likely to require an external country or institution to take a lead role. In the development sphere, this is often the World Bank. In the more political partnerships outlined here, it may be possible to build up the capacity of other international (often the UN) or regional organisations to fulfil this role.

The Partnership should be seen as a process towards clear objectives rather than a one-off event, and the strategy should set out the broad direction of travel and sequencing required between different components, rather than setting out individual activities in detail. The emphasis should be on getting the initial strategy 'good enough'. In other words, it should be effects based.

The strategy should ideally be structured around objectives and desired outcomes – peace-building, economic stability, democratic transition, rather than framed by diplomatic, military, and development tools. The challenge is to ensure coherence between such tools in delivering the desired outcomes. The focus at these more

technical levels must be on good-enough coherence.

The Partnership should define rights and responsibilities of the target country, and regional partners for example the AU, allies, and multilaterals. A pathway type approach with key milestones can be a useful tool with the chance for independent review of progress of all parties.

This approach is consistent with the good features of Poverty Reduction Strategies, based on country ownership and alignment of interests in poverty reduction. It recognises however that even in countries where such strategies are feasible, their ability to deliver is severely constrained without effective deployment of a range of other tools; and without clear alignment of the partners engaged in promoting stability and poverty reduction. This is consistent with the approach being developed by the World Bank for Low Income Countries under Stress. This uses a Transitional Results Framework for bringing together partners with security, development and diplomatic agencies.

Recommendation 3.2

The UK should be coherent in its policies and action in respect of countries at risk of instability. It should make use of approaches such as those set out in the 'Partnerships for Stability' concept and integrate those approaches within existing international frameworks on a longer term basis of 10+ years.

3.7 Enhancing Strategic Capacity to Drive Partnerships for Stability

Clear medium to long term strategic direction is the key to effective action in building Partnerships for Stability, and preventing them from become empty vehicles with no real impact on the risks of instability. Experience of successful preventive investment in stability (EU programmes in Eastern Europe) and post-crisis response (UK action in Sierra Leone, Australian action in the Solomon Islands) shows the importance of integrated strategic action. A concerted, consistent and long term focus on implementation is required to produce real changes to country governance and meaningful impacts on the incentives of key actors.

Crisis intervention often happens too late to prevent crisis escalation; the preventive UN intervention in Macedonia being a rare counter-example. Delayed action increases the difficulty of resolving or suppressing crisis, and requires longer international intervention in the post-crisis phase. Responsibility for delay often lies with political barriers to cooperation, resistance in the UN and conflicting interests among major parties; for example, Rwanda, and Darfur. However, even when political will appears to exist there are major problems in driving effective joint action on both prevention and intervention. In some cases, incoherent international action can also create new problems.

To be successful in securing longer-term stability, any international engagement should be framed within a long-term vision for strengthening the country's capacity and resilience, strengthening external stabilisers, and reducing risk factors. In a post-crisis situation a range of activities need to be undertaken, including securing basic stability, restoring trust in the state, and institutional reconstruction. These activities require coherent engagement of several international agencies with political, security, humanitarian, economic stabilisation and development remits. They require deep understanding of a country's society and dynamics, to ensure interventions are well tailored to local specificities.

Better risk assessment and early warning of instability, and more alignment of countries around risk assessment, is an essential first step towards action. The aims of a comprehensive risk assessment and early warning system should be to provide decision-makers with better early warning of instability and crisis. But improved risk assessment is only one part of improving strategic decision support. A lack of strategic capacity to create and analyse strategic options for policymakers, and often unclear processes to resolve any conflicts between objectives, limit effective policy development towards countries at risk of instability. As a result strategic proposals presented to political decision-makers often

⁷¹ UN. (2004)

fail to provide clear choices between courses of action, highlight implicit trade-offs or conflicts, take into account medium and long term risks to objectives, and have little analysis of whether the scale of proposed actions will materially impact those objectives.

Strengthened **strategic capability** is required in governments and institutions, such as the UN, that are involved in leading efforts at prevention and crisis response. The recent High Level Panel Report acknowledges this need, and calls for the establishment of a Peacebuilding Commission⁷¹. This capability should ensure that robust strategic options for action are provided to decision-makers, which provide clear direction for engagement based on medium and long term risk analysis that is grounded in deep understanding of country dynamics and evaluation of past interventions.

Recommendation 3.3

The UK Government should build on work with international partners to strengthen strategic capability and improve understanding of practical and effective approaches to prevention.

This chapter has made the case for more investment in prevention and has set out the elements of a strategy to achieve this. Achieving real impact requires the international community to scale up its efforts and integrate its development, political and security tools more effectively. New forms of “partnerships for stability” are needed which align international efforts in key countries. Four strategic packages of response are needed. The next chapter looks at the first of these – investing in stability through boosting country capacity and resilience.



Chapter 4: Investing in Stability

What this chapter does

- Makes the case for placing a higher priority to help strengthen national institutions that support democratic transitions and conflict management, and to reduce the risks from poor natural resource management.

Summary:

- Boosting country capacity and resilience by investing in stability lies at the heart of a preventive strategy.
- Investing in stability requires widening the scope of donor efforts to include a focus on political institutions, and improving the process of donor engagement, principally better coordination and focus on areas of agreed highest priority.
- Greater emphasis is needed to strengthen:
 - Core political institutions, such as the legislature, constitution, and a civil society that can hold the executive to account and protect human rights
 - Independent judiciary
 - Processes to manage identity politics
 - Security sector that is accountable to a legitimate government
 - Service delivery of basic health and education
- Improved management of natural resources is critical for stability. Focus of efforts should include:
 - Improving transparency of payments and revenues, including through strengthened conditions for International Financial Institution (IFI) lending, discouraging resource-backed loans to countries with poor fiscal management or transparency, and strengthened public expenditure management systems
 - Reducing negative macro-economic effects of resource dependence, including through market instruments to reduce price volatility, resource extraction contracts that share price risk, national oil funds, fiscal rules, and economic diversification.

4.1 Investing in Stability Through Development Assistance: Necessary but not Sufficient

Investing in stability is primarily about boosting country capacity and resilience to risk factors and shocks. It needs to be designed within a better understanding of the political context, and packaged with other responses to have impact.

This chapter argues that development assistance to boost country capacity and resilience is a critical part of a long-term prevention agenda. But, however well designed, development assistance will rarely have sustained impact if the country's leadership is not committed to long-term stability. A better understanding of the political context is thus the starting point for engagement. Other tools are likely to be needed to motivate powerful individuals to act in support of stability. As set out in chapter 5, these involve a mix of carrots and sticks that draw on political and economic instruments.

Equally, decades of development-funded investment in country capacity and resilience can be wiped out if a country plunges into crisis. The capability to respond swiftly and effectively to crises is thus also a critical part of a strategic response for stability. Chapter 7 sets out the investments needed in peacekeeping and 'rule of law' capacity to be in a position to respond when crisis strikes.

These four packages of response – investing in stability, aligning incentives, increasing international responsibility and improving crisis response capabilities – span development, diplomatic, military, economic and other tools. All need to be available for deployment in varying configurations to have sustained impact on stability. Investment in stability, through boosting country capacity and resilience, while at the heart of a preventive approach, is rarely sufficient on its own.

4.2 Limitations in Current Investment

4.2.1 Scope

A review of the evidence on instability and an assessment of the response mechanisms now in place reveals a pattern of gaps in two types of domestic institutions, namely those focused on:

- Democratic change and peaceful management of conflict
- Revenue management, especially from natural resources

Donors have traditionally focused their efforts on increasing the state's ability to provide certain core functions, particularly basic public goods. Core state functions include security (army, police), legal and economic frameworks (currency, central banking, legal system, alternate dispute mechanisms), and basic public goods (primary

education, public health, infrastructure), while examples of more sophisticated functions are secondary healthcare and education, regulation, and fiscal redistribution. International assistance to establish the macroeconomic underpinnings of economic growth has also long been an essential part of multilateral donor engagement. In recent years donors have also tended to focus increasingly on legal and economic frameworks as well as security sector reform.

Widening the scope of donor efforts is welcome. Supporting economic growth, in particular, is critical to long-term stability. However, there remains a need to give greater prominence to the political institutions that are necessary for stability. Assistance focused on this area can complement and multiply the gains from economic growth.

4.2.2 Process

There are costs for both donor and recipient governments when action is uncoordinated and spread across a wide range of activities rather than being concentrated on high priority areas. For donors, the impact of assistance is limited; and for the recipient government, which is often capacity constrained, the burden of managing a wide and uncoordinated range of donors can sap what limited capacity exists. The requirement for coordinated action is even greater in countries

challenged by instability, and there is an urgent need to strengthen existing or create new processes that can help achieve this.

4.3 Investing in Institutions that Support Democratic Transitions and Conflict Management

Conflict is common to all processes of change.

Some people or groups may gain from change, while others may lose. In most cases, the process of change is managed peacefully by domestic (formal and informal) institutions. In countries at risk of instability, these institutions are of ten either not able or are not designed to stop the change process from turning violent.

The democratic transition process is inherently destabilising.

Political transitions are vulnerable if former mechanisms of control are reduced before new systems are in place to manage change. Setting realistic goals for improved and 'good-enough' governance is therefore a central issue in supporting transitions to democracy. Any effort to invest in the peaceful management of internal conflicts and to enable peaceful political transitions should start from a deep understanding of the country. Current efforts in this area typically suffer from lack of scale or coherence.

4.3.1 Strengthening Core Political Institutions

Building capacity for peaceful political competition is a key method of reducing the risk of instability

Mismanagement in the allocation of power and resources between social groups - including where the burden of taxation falls, expenditure is allocated, and the gains from natural resources are distributed – generates divisions that are destabilising. Finding ways to ensure resources, benefits and burdens are allocated in a fair and transparent way can help prevent the emergence and strengthening of inequalities between groups, which can in turn instigate rebellion or armed insurrection.

Checks and balances on the executive are very important. Such constraints are necessarily highly country-specific and can take a number of forms. However, 6 broad categories of checks and balances can be identified as relevant to a wide range of countries facing risks of instability:

- **A strong legislature** to provide parliamentary oversight and provide a forum for peaceful political debate. External support for public financial management has tended to focus on the public administration mechanism, rather than helping parliament perform its oversight role. Transparent parliamentary debate over the allocation of public resources has an important role to play in resolving disputes over conflicts. It is more problematic to find ways to channel political competition where democracy is absent or where Parliaments do not wield sufficient authority. This challenge often arises in countries emerging from conflict. In these situations, it is important to think creatively about how traditional forms of representation can be used to secure or confer a degree of internal legitimacy to interim governments.
- **Politically impartial bureaucracies** can act as a check on executive power through their role in the formulation of policy options and the execution of political decisions. Professionalism is also key. Confidence in the state and legitimacy are supported by a civil service seen as neutral and not corrupt, with meritocratic recruitment and promotion, and a continuity of service. This permanence and continuity can be of particular importance for stability if governments change quickly or suddenly⁷².
- **An effective and independent judiciary** as a central check on executive power. Judicial appointments should not be excessively politicised; nor should judges be penalised for ruling against the executive. (See section 4.3.2)
- **Rules – ideally enshrined in a written constitution, especially when there is no strong tradition**

⁷² Turnbull. (2004)

to refrain excesses of power – are needed to bind the economic and financial powers of the executive. In practice, the distinction between the public and private spheres remains confused in many countries at risk of instability, and particularly those with a strong tradition of patronage. Such norms of governance cannot be assumed away: development assistance needs to be made to work more effectively within them, to constrain their worst excesses and make them more transparent.

- **A strong civil society** to aid in holding the executive to account. External encouragement of this can take various forms, not all of which will conform to western notions of a vibrant civil society. There is need for realism over the extent to which external actors can 'create' civil society; this suggests that strengthening local initiatives should be pursued. In particular, care is needed to ensure that civil society organisations are not merely fronts to promote elite interests. An independent media, ideally free from political affiliation, can help highlight abuses by those in power and provide information for civil society to respond to. As discussed in 2.2.2, external broadcasters such as the BBC World Service have an important role to play in providing independent voices in countries where state control is exercised

over domestic media outlets. Civil society is not necessarily an unambiguous force for good, however, as is illustrated by the role played by the media in encouraging the Rwanda genocide (see box 4.1 below).

- **Wider international pressure** may be needed where there are limits to domestic or regional controls. External pressure on executives can come from regional or multilateral bodies, or from other governments. The IMF and World Bank already demand financial accountability of executives in receipt of development assistance. External pressure is considered further in chapter 5.

Box 4.1

Pre-Genocide Rwanda: Failure to Invest in Stability⁷³

When considering whether genocide could have been prevented in Rwanda, most attention has been focused on the UN and the events of April 1994 to the exclusion of the deeper structural issues of governance detailed above. Since independence, aid from the international community had been essential to the Rwandan state. Yet, despite their influence, donors failed to apply effective pressure or invest in stability.

The authoritarian and mono-ethnic Rwandan state controlled life down to the commune level. While the economy improved from independence in the 1960s until

⁷³ Uvin (1998)

stagnation in the 1980s, high levels of income inequality prevented the poor from realising much of the benefit during that period of growth. Using nutrition instead of income as a measure of poverty would have put 50% of the pre-genocide population in the category of ultra-poverty. The elite-dominated system fostered popular discontent that would culminate in mass participation in the genocide.

Large amounts of development assistance only helped perpetuate the status quo. Aid amounted to 70% of public investment from 1982-1987, 11.4% of GNP in 1989, and increased from the \$45 per capita in the 1980s to greater than \$80 per capita in the early 1990s, when there were 200 donors operating in the country. The apolitical approach of the vast majority of donors meant that endemic ethnic and regional discrimination, state-sponsored racism, violations of human rights and civil liberties, and a climate of repression and fear were not taken into account.

In 1990, the predominantly Tutsi Rwandan Patriotic Front launched a civil war, which continued until the peace accords in 1993. The war created almost a million refugees and saw both sides murder civilians. The country also faced an economic crisis at the beginning of the 1990s. Food production had fallen dramatically in the previous decade, and Government debt had doubled to 30% of GNP, as prices

and production of the main export, coffee, suffered a downward shock at the end of the 1980s. Partial implementation of structural adjustment policies caused further suffering. The army increased from 3,000 to 40,000, consuming 38% of the budget by 1992. The mismanaged industrial sector contributed little.

Eventually, there was some political reform. By 1992, a coalition government had been formed. The international community eventually started to apply limited pressure for democratisation and against abuse of the Tutsi minority, but it was too little, too late. During the civil war, foreign embassies knew of the racism, violence, and mass internment of Tutsis, but took little action to address the structural issues at the heart of the Rwandan state that fed the genocide. Increasing pressure from human rights-focused NGOs prompted some public denunciation of the regime and consequent diplomatic pressure, which resulted in the release of those interned. At the same time, international military and economic aid to the regime actually increased.

The international community missed significant opportunities to limit human rights abuses and to prevent the genocide. On the two occasions donors exerted pressure, the government responded positively. Donors could also have funded and strengthened civil society and democratic institutions.

The checks and balances outlined above need not take the same form as similar checks in the UK or other western countries. Culturally appropriate political institutions should be preferred to those imported from countries where the underlying informal institutions will almost certainly differ.

4.3.2 Strengthening the Rule of Law

Building rule of law capacity is a complex undertaking and has rarely been comprehensively attempted.

Although external efforts have often been made to help strengthen the formal rule of law in countries facing instability, these have usually been focused on one part of the system (for example police), without simultaneously helping strengthen complementary areas such as the prisons, courts, and associated ministries. Moreover, support for the rule of law has often concentrated on training and material assistance, whilst institutional capacity building has been neglected. It is therefore important that lessons from innovative approaches to system-wide reform of the rule of law are identified and widely disseminated.

Many of the problems surrounding reform of the judicial sector are not merely technical. Effective and peaceful management of conflict requires public confidence in judicial independence – alongside a political atmosphere which protects and respects that independence.

International dialogue may help in encouraging leaders to appoint independent judges. Similarly, governments should be applauded where they accept rulings against themselves.

External actors need to be realistic about the extent to which the majority of people in countries facing instability will be able to access formal justice. Such justice is expensive, and few states possess a comprehensive formal legal system. There is also a need therefore to look at how to build on appropriate traditional forms of justice, and how the two systems can complement each other.

4.3.3 Managing Identity Politics

There are several mechanisms by which conflicts between groups with diverging interests can be successfully managed.

Identity politics (introduced in Chapter 2) is endemic to many countries, and needs to be managed actively to avoid instability. Such instability may be manifested as top down control and societal stasis, where some groups are suppressed (as in apartheid era South Africa). More dramatically, it can take the form of genocide or ethnic cleansing.

Some of the methods which states have used successfully to manage differences between ethnic, religious, regional or other identity based groups include:

- **Political homogenisation**, through integration or assimilation.
- **Consociation** or power-sharing (as seen in Lebanon or Northern Ireland).
- **Arbitration** between groups by an accepted authority, either internal (through a 'national' leader who stands above sectional interests) or external (by an outside authority, such as in Bosnia and Kosovo).
- **Territorial management** by changing national or regional borders through mechanisms such as autonomy or home rule, federation, partition into more homogeneous societies, or confederation.

There is no one solution that applies to most situations. Where communities are geographically concentrated and economically viable, some form of territorial management may be feasible. Where they are geographically intermingled, consociation or arbitration may be more appropriate.

External actors should be realistic about just how far they can encourage the adoption of these methods of managing ethnic and other differences. Those in power are unlikely to adopt them unless they serve their vested interests. This reinforces the need to align incentives of those in power with more effective institutions to manage group differences. This is discussed further in Chapter 5.

4.3.4 Deterring Internal Conflict through a Strengthened Security Sector

Security forces need to present an effective deterrent to would-be rebels and insurgents. Regional approaches may be appropriate in the face of chronic weakness.

While better constraints on executive authority are often needed, the opposite problem – that of an excessively weak executive – can also undermine stability. Experience from a number of countries (for example, post-Taliban Afghanistan and Sierra Leone), where military forces were too weak to deter rebels, tends to support this view.

There may be cases where the government has domestic and international legitimacy, but where the executive is too weak to exercise authority across the country. In these circumstances a powerful case can be made for assistance to strengthen the security forces. Key elements of a strategy are likely to include political neutrality, adherence to human rights and support for strengthening accountability of the security sector to parliamentary and civilian authorities. The current focus of international development policy on levels of military expenditure should be complemented by a focus on the systems needed to ensure civilian accountability for military expenditure.

In cases where security forces are chronically weak, there may be a

role for regional approaches – such as strengthening regional compacts. Where regional political coherence is weak, other approaches such as NATO's Partnership for Peace could serve as a useful model. Regional approaches or external security guarantees, whilst a useful complement, are unlikely to be a long-term substitute for domestic capacity.

4.3.5 Improving Service Delivery

Governments that are committed to stability but are chronically weak need assistance in meeting their citizens' basic needs.

Stability can be fostered by helping governments more effectively deliver basic public goods. Improving service delivery in countries at risk of instability can also help address other challenges to stability – notably the spread of HIV/AIDS.

Helping build sustained capacity for service delivery is not straightforward. Development actors are subject to a continual tension between investing effort in developing systems necessary for the state to deliver services and trying to provide the services themselves, often through NGOs. This tension is most apparent in post-conflict situations where the direct-provision humanitarian phase is winding down and assistance is becoming more developmental.

This trade off is recognised by development actors. There is considerable work underway on how best to help weak but 'willing' states deliver basic services. The following principles draw on that work to offer an approach to strengthen state legitimacy and capacity while reducing deprivation.

- **Focus support first and foremost on state capacity.** In countries where there is willingness but a lack of capacity, assistance efforts should place relatively more emphasis on strengthening state capacity. External actors can help enhance state capacity through conventional long-term technical assistance reform or by rebuilding systems, training staff and helping meet their recurrent costs. Care must be taken not to undermine state capacity by attracting scarce country resources – such as medical personnel – away from the country in order to fill short-term capacity gaps in the donor state.
- **Recognise that the state itself need not deliver the service.** Actual delivery can be by non-state actors, within a framework and to standards set by the state. Care needs to be taken in constraining such actors to ensure that this is done in ways that do not undermine the state. One method is through transparent, fair contracting arrangements, which help ensure that contractors remain accountable to the state and community.

- **Help communities demand better services or provide them themselves.** Increasing the provision of services may not be enough if there are geography-, gender-, age-related, or systemic barriers to access. Complementary support may thus be necessary for community articulation of how services need to be amended to help them and how to hold officials and providers to account for services delivered. In countries where the government is in principle willing but local officials are blocking reform, it may be possible for donors to help central government empower communities to demand change in parallel with pressure for reform from the centre.
- **Where feasible, relieve pressure on the state through preventive healthcare.** In countries with weak capacity there are potentially greater returns from promoting preventive measures, many of which can be delivered by NGOs (i.e. social marketing of condoms, bed nets to prevent malaria) or in conjunction with other services, such as health education, provision of clean water and adequate sanitation.
- **Most governments will fall between the extremes of willing or unwilling.** Many countries will vary in their degree of willingness over time or between issues. There is therefore a need for a graduated approach. External actors need to take care over how fast they move between aligned and misaligned engagement modes. Switching between modes too fast could itself create instability (and undermine the quality of services).

4.4 Investing in Improved Management of Natural Resources

Mismanagement of natural resource revenues can generate serious discontent leading to instability.

Natural resources – especially the ‘point-sourced’ resources described in chapter 2 – do not in themselves cause instability. Indeed, well managed natural resources can contribute to national development. But when they are poorly managed, controlled by a dominant group or looted for personal gain, they can exacerbate dissatisfactions within society. The plunder of state assets is made possible by weak institutions that are unable to constrain the behaviour of those in power.

Two areas of investment are critical in reducing the negative impacts of natural resource revenues:

- Reducing misallocation of resource revenues

- Improving management of the short and long-term macro-economic impacts of high resource dependency

4.4.1 Reducing Misallocation of Resource Rents

Transparency mechanisms and more direct forms of external control, such as oil funds, can improve resource revenue management.

Improving domestic transparency and judicial systems to prosecute corruption is a key to improving revenue management. Governments can misuse tax or licensing revenues generated by private sector organisations if public sector finance structures are not adequately transparent and accountable. The Extractive Industries Transparency Initiative (EITI) is intended to deliver an internationally accepted, voluntary reporting method that should increase transparency amongst participants. The strength of EITI lies in its ability to change international norms by making it less acceptable for ruling elites to hide what the government earns and for international companies to bribe their way to gain access to the mineral resources. In addition, it boosts the role and capacity of local civil society.

However, the voluntary reporting framework of EITI limits its impact on instability. The onus is on

producer countries to require all extractive companies operating in that country to publish what they pay. EITI cannot always force compliance. Additionally, EITI cannot stop governments from mortgaging the country's future by taking out loans secured against future resource revenues. In principle, there is nothing wrong with such loans, provided the funds are being invested in capacity or activities which will promote economic growth. At worst, however, these loans serve as a vehicle for corruption. Such loans have in the past helped the Angolan government buy space from official lenders, such as the IMF, limiting their ability to influence needed reforms⁷⁴.

Ultimately, international transparency initiatives will only succeed if they feed into domestic reform processes. Citizens must be able to hold their leaders to account for revenues and be able to make effective use of the transparency data. Under EITI, the UK already provides limited support to help civil society organisations (CSOs) turn transparency into accountability. In some countries it will be necessary for the international community to press the government on human rights issues in order to challenge vested interests and create safe 'space' for CSOs to operate.

⁷⁴ Global Witness (2004)

Recommendation 4.1

The UK government should invigorate and expand existing work with the IFIs, UN, other donors and relevant NGOs to promote improved transparency of revenues (from all sources, but particularly large mineral sources) and the management of public expenditure in countries. To do this the UK should continue to:

- Press for a firm commitment to transparency of payments and revenues being a condition of IFI lending for all projects with a significant impact on revenues
- Encourage the African Union to build transparency into the New Partnership for Africa's Development (NePAD) Peer Review Mechanism
- Discourage lenders from making resource-backed loans to countries which either are judged to score poorly against the IMF's fiscal transparency tests or which have not demonstrated a commitment to implementing EITI measures
- Leverage increased political support for EITI through a possible UNGA Resolution
- Work with partner countries to improve systems of public expenditure management

4.4.2 Managing the Macro-economic Effects of Resource Dependence

The long-term distortionary effects of mineral dependence are understood and can be successfully managed in the long-term.

Economies heavily dependent on a narrow range of natural resources are relatively vulnerable to external shocks. A narrow economic base can also expose countries to the 'Dutch disease' of crowded-out alternative activities. Natural resource export dependence tends to result in appreciation of the domestic currency, making other sectors within the economy internationally un-competitive. However, experience from Botswana and Chile, both of which earn a substantial portion of national income from natural resources, shows that these effects can be managed and the benefits of natural resources secured for society as a whole.

Few countries have sufficient market power to control the prices of their major natural resource exports. Most are thus forced to find ways to minimise the short-term impact of price volatility. Such price volatility can be mitigated by market instruments (e.g. futures, swaps and options) and by writing resource extraction contracts to place most price risk on the extraction company. For many resource-dependent

countries, neither of these two market-based options, however, is able fully to contain potential shocks.

Resource stabilisation funds have an important role to play

The most common arrangement is a resource (typically, oil) stabilisation fund. Although intended primarily to even out price fluctuations, these funds often contain constitutional or other constraints on the use of the revenues. Where IFI or other official finance is sought to help cover or reduce commercial risks, the lenders should secure assurances that revenues will not flow until financial management and civil society oversight is in place. Resource stabilisation funds have been used in Kuwait and Norway for decades⁷⁵, and one was recently set up in Azerbaijan⁷⁶.

Such funds are only a partial solution, however. Their main purpose is the imposition of an external institutional constraint. This can allow time for local institutions to strengthen. But funds cannot be a substitute for more fundamental reform. Complementary action is therefore needed on:

- Public financial management: although revenue funds can help ensure revenues are not misappropriated, they do not in themselves guarantee that the funds are spent effectively and for

the benefit of all groups in the country.

- The overall regulatory framework for oil exploration, notably the rules by which exploration and extraction rights are issued and managed.
- Restrictions on individuals' ability to deposit illegally sequestered funds. This is discussed more fully in Chapter 5.

Both long and short-term effects complicate the challenge of natural resource management in low income countries. However, these are not insurmountable. The central issue facing resource-rich countries is less a question of technical capacity than one of political willingness to manage macro-economic effects.

This chapter made the case that country capacity and resilience, through investing in stability, lies at the heart of a preventive strategy. Development assistance needs however to be framed within a better understanding of the political context. Gap analysis has demonstrated the need for more focus on institutions that underpin democratic change and peaceful management of conflict; and those supporting the transparent management of revenues from natural resources. Ensuring access to basic social services is of such fundamental importance to stability, that basic principles need to be

⁷⁵ Birdsall & Subramanian (2004).

⁷⁶ Pally (2003)

followed in countries where either willingness or capacity is lacking. However, well-designed development assistance in support of stability will only produce sustainable results if the key influencers within a country are fully aligned behind a shared agenda of collective security and stability. The next chapter picks up this theme.

Chapter 5: Aligning Incentives for Stability

What this chapter does

- Argues that understanding the incentives which influence elite behaviour is critical for ensuring stability.
- Lays out an international strategy for influencing elites through action to strengthen aspirational clubs, tackle predatory elites and combat economic crime.

Summary

- The actions of elites in countries at risk of instability – inside and outside government – are critical to the investment in institutions and capacity that underpin long run stability. Understanding and shaping the incentives driving elites is therefore a critical part of any approach to reduce instability.
- There are limits to outside influence on internal political incentives, and the international community must work together to maximise its positive effect.
- Changing elite behaviour requires a coherent strategy comprising both long- and short-term efforts, supported by incentives and, if necessary, targeted sanctions.
- Incentive strategies should be guided by a set of principles that emphasise long-term development and stability over politically expedient short-term gains; and avoid recreating the perverse client relationships of the Cold War.

- Priority areas for action include:
 - Improving understanding of elite groups in a given country and their motivations;
 - Strengthening the role of aspirational clubs, and particularly the EU, NATO and African Union (AU) in supporting stability;
 - Taking more robust action against predatory elites, including reviewing how best to tackle conflict financing;
 - Developing a more comprehensive framework to tackle economic crime.
- As well as developing proactive strategies for aligning national incentives, international actors must work to ensure other policies do not increase instability in vulnerable countries. Key areas for increasing international responsibility are covered in Chapter 6.

5.1 Understanding Elites

This chapter outlines that a better understanding of the elites in a country, and the incentives they face, is critical to the stability agenda. If the interests of elites – on a personal or a professional level – are fundamentally misaligned with those of their population and the international community – international investment in support of stability within the country may well be wasted or at best sub-optimal. In these circumstances the focus needs to be on smart influencing strategies with a view to achieving alignment behind a shared agenda of stability. This is fundamentally a political process and good political analysis is an essential underpinning for a strategy of influence. This chapter lays out such a strategy for influencing elites using a mixture of incentives (club membership) and disincentives (tough measures against corruption and financial crime).

Understanding elite relationships and incentives is essential to a long-term stability agenda

As the holders (both inside and outside government) of economic, political, and/or military power, a country's elites can either enable or obstruct efforts to increase state capacity. Of particular concern are 'predatory' elites that use their positions of power and influence for personal gain, or for the benefit of their families or close associates, and in extreme cases are able to 'hollow out' the state. One of the first signs of increased instability – well before crisis emerges – is the erosion of key institutions that constrain elite power and their ability to pursue private agendas through state assets.

When elites choose to act in ways that undermine the public good, it is often because they are choosing short-term, often personal, gain over the broad increases in per-

capita income, social service delivery, or strengthened democratic institutions that would accrue from long-term investments in a country.

Interests and relationships are complex and multi-faceted

The relative importance of different types of incentives will vary depending on where the primary allegiance and interests of an individual lie. Individuals will also belong to multiple elite groups, reinforcing the need to understand the incentives of specific individuals within a sophisticated analysis of the country context.

- **Public incentives** stem from a degree of perceived accountability to the general population, or some sector of it. Elites may draw legitimacy and support from the public, and thus need to deliver services or resources in return. Equally they may face strong opposition from a given sector of the public, and may need to react to neutralise this opposition. The greater the extent to which elites feel accountable to a broad constituency, the greater the chance that they will align their interests with those of the general public. In so doing they will be more likely to be supporting policies, institutions and reforms that contribute to the public good.
- **Private incentives** tend to be economic, but could also manifest

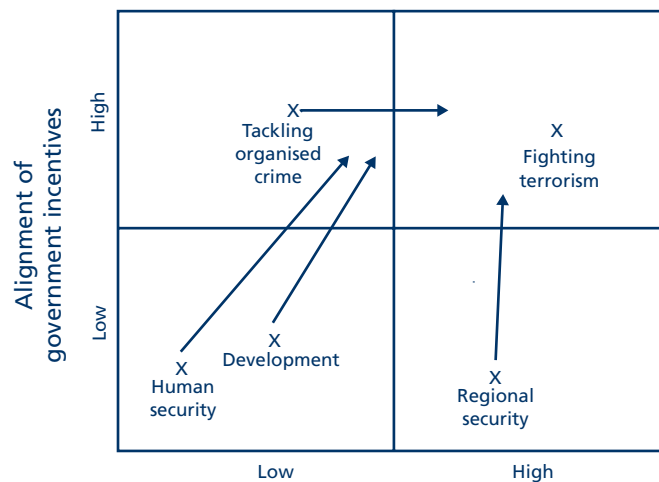
through political, familial, clan or ethnic loyalties, ideological beliefs, or other social drivers. Elites may be driven by a personal desire to accumulate wealth, power or prestige; equally they may be interested in increasing the wealth, power, and/or prestige of their elite group, family, clan or ethnic group. Sometimes elites will be primarily interested in gaining domestic legitimacy, at other times they may be more interested in regional or international recognition. Tensions within and between different elite groups – particularly between elite groups in and out of government – will also influence the behaviour of elites. The economic elite may feel marginalised by the military elite, and therefore support security sector reform. The military elite may feel that the current political elite is acting against the interests of the country, and thus support creating space for a stronger opposition party to develop. Within elite groups, power dynamics and personal rivalries may drive similar support or opposition.

As well as their own personal motivations certain elites are likely to have different positions relative to different international objectives; for example, poverty reduction and efforts to tackle organised crime. Relationships need to be framed in support of local agendas that can drive change. In some cases these may need to be institutionalised

through mechanisms such as formal security guarantees and trade agreements. International incentives must be compelling enough to impact the underlying interests of a

broad part of a country's elite, moving them towards the upper right quadrant of the Incentive-Capacity matrix (below) previously introduced in Chapter 3.

Figure 5.1 Incentive-Capacity Matrix



Influencing elites requires a common international agenda for engagement

Strategies to influence elites in support of stability require detailed knowledge of the interests of different international actors in a country, and often hard choices between different modes of engagement. While such discussions are the common currency of international policy, they are often implicit. Moving to 'Partnerships for Stability' as an approach for international co-ordination would help define a common political agenda for building long term stability, and help prevent the

counter-productive and destabilising client relationships seen throughout the Cold War.

Deterring current and future predatory elites presents a particular challenge for a preventive strategy. Predatory elites can exist in any country, but highly successful ones tend to exist in countries that possess some or all of the following features: historically corrupt state institutions; extensive natural resources; strong enough security apparatus to capture land or other resources from private owners; and a geopolitically strategic location. Some instruments exist to seek accountability for past behaviour,

but real preventive gains only come through the deterrence of such behaviour in the first place.

Recommendation 5.1

The UK government should work with partners to develop better methods for understanding internal political dynamics as part of forming coherent strategies for engaging countries in partnerships for stability.

5.2 Incentives: Clubs

Aspirational clubs can provide strong positive incentives for reform

Research has shown the limitations of non-superpower bilateral diplomacy and aid conditionality in changing behaviour of governments. Extensive studies of IMF/World Bank policy and financial conditionality in structural adjustment programmes in the 1980s and 90s show that even extremely large economic incentives (up to 50% of governmental budgets) were not able to change policies if the country's elite – or at least reforming elements within it – were not already aligned. The fact that conditionality was seen as overly coercive reduced the incentives' political legitimacy and produced a culture of 'gaming the agreements' which undermined their effectiveness.

A more successful way of providing positive incentives has been through opportunities for club membership or similar preferential relationships. These can align political aspirations

with tangible country benefits across a range of economic, security and political fields; thus allowing a broad coalition of support to be built inside the political class which promotes the conditions for stability.

There are two types of aspirational clubs: those that set conditions that must be met prior to entry, and those that aspire to improve their members' behaviour through peer-review and peer pressure mechanisms.

The EU, NATO and OECD offer useful lessons regarding the power of aspirational clubs

One of the most successful conditional entry clubs in this respect has been the European Union. By offering a package of economic and political rewards that appealed both to elites (creating top-down pressure) and to the general public (creating bottom-up pressure) the EU has been able to positively influence the development of an entire tranche of countries within Europe. Candidates for EU membership, such as Turkey, cite the benefits of political stability as the main driver for membership – outweighing even the substantial economic attractions.

Similarly, NATO – through the Partnership for Peace process – has had a positive impact on a broad range of countries. In exchange for democratic and security sector reforms, many countries in Eastern Europe and Central Asia have

received military training and technical assistance, and in some cases security guarantees, as well as a seat at the table alongside many of the most powerful military nations in the world.

The Organisation for Economic Cooperation and Development (OECD) offers a model for a peer-review club. This has become the model for the African Union's recently-adopted equivalent: the African Peer Review Mechanism – APRM). The OECD mechanism covers a wide range of issues including macroeconomics, trade, education, development and science and innovation. Its committees develop mutually agreed standards, share best practice, and routinely evaluate members on performance against these agreed standards.

Aspirational clubs are not a panacea for instability. They are constrained by the fact that they need a tangible offer in exchange for reforms. Their most immediate and demonstrable impact is on aspirant, as opposed to member, states. However, the role of peer-review clubs in preventing regressive policies should not be underestimated. Furthermore, it is true that most existing clubs already include all states within their relevant regions. Even if they do aspire to promote democracy and human rights within their membership, there is a large gap between the rhetoric and the realities they face in their efforts to implement an agenda, hold member

states to account, and function as effective political actors.

The Americas and Africa both have emerging aspirational clubs with different strengths, but gaps exist throughout the Middle East and Asia

Democratically aspirational clubs exist in the Americas and in Africa. The Organisation of American States, the Andean Pact and Mercosur all espouse democratic and human rights principles, albeit with different levels of commitment to domestic non-interference and track records in promoting these principles. In December 2004, Mercosur, the Andean Pact and Guyana signed a further commitment to integrate into a single 'South American community'. In Africa, the transformation of the Organisation of African Unity into the AU has been accompanied by a stronger commitment to upholding democratic principles and creating regional security arrangements.

Throughout the rest of the world, though regional groupings exist, clubs are largely limited to the economic and security space, remaining weak on aspirational democratic values. The role of the South Asian Association for Regional Co-operation (SAARC) is constrained by the on-going India/Pakistan situation. Equally, in the Middle East the Gulf Cooperation Council (GCC) and Organisation of Islamic Conference (OIC) play only limited roles.

In South-East Asia, the Association of South East Asian Nations (ASEAN) has made great strides towards economic integration, but privileges regional stability above taking positions on internal politics. The creation of the ASEAN Regional Forum in 1994 introduced aspirational goals for regional confidence-building, evolving into preventive diplomacy, and eventually conflict resolution capabilities. In the Caucasus and Central Asia, the Commonwealth of Independent States (CIS) aspires to a joint economic community in 2005, as well co-operation on security issues. CIS countries are also members of NATO's Euro-Atlantic Partnership Council.

The examples of the EU, NATO and the OECD offer useful lessons in the power of aspirational clubs and provide a second track along which accountable governance can be promoted. They demonstrate that reforms encouraged through a club structure have the additional benefits of creating peer pressure amongst members to meet similar standards. This promotes greater regional integration and interdependence, contributes to regional stability, and, in the case of the EU, provides an additional layer of democratic structures above national ones to ensure accountability. Channelling assistance and incentives for reform through club structures – helping clubs to improve their effectiveness and engaging at a regional level to

promote international norms and objectives is often likely to have greater long term impacts on stability than traditional bilateral engagement.

'Partnerships for Stability' should recognise and promote the stabilising role that aspirational clubs can play in all regions, helping to address gaps in national conflict management structures and improving stability.

Recommendation 5.2

The UK government should evaluate its support for regional organisations to identify where additional assistance could be provided in support of the role they play in promoting stability objectives.

5.2.1 The European Union

The European Neighbourhood Policy (ENP) can play a critical role in promoting stability in the near abroad, provided that it receives sufficient political backing from Member States and can offer the right incentives⁷⁷

Historically the EU has been successful in exporting stability to its near neighbours. This has been particularly true where the enormous incentive of eventual EU membership has had a profound impact on the elites and institutions, leading to improvements in economic growth, poverty reduction, democratic standards and human rights records of

⁷⁷ European Commission (2003)

neighbouring states. This effect has been demonstrated powerfully in Central and Eastern Europe, the Balkans and Turkey.

The EU has the ability to act as a stabilising force and change the political dynamic in its near neighbourhood, offering far larger rewards than any single bilateral relationship. Experience shows that incentives need to be significant to effect change. The Barcelona Process and Euro-Mediterranean Partnership (MEDA) are examples where potential rewards do not seem to have been large enough to warrant the undertaking of difficult and sometimes unwelcome reforms. Without a clear sense of progress towards a vision – whether eventual membership or some other form of privileged relationship highly attractive to the other party – the EU will not achieve these significant effects on stability or engender sweeping reforms.

The European Neighbourhood Policy (ENP) holds the potential, through mutually agreed country Action Plans, to provide the needed vision, as well as to set clear benchmarks for progress towards it. The European Commission's proposal for the ENP offers neighbourhood states the prospect of a stake in the EU's internal market, and the eventual 'four freedoms' of unrestricted movement of persons, goods, services and capital. The success of the ENP will depend largely on whether the timetables contained in

the Action Plans are short enough for participating countries to believe that they will see a real benefit and therefore be willing to undertake the required reforms.

Just as the EU can help promote reforms and improve stability, the EU's policies can also have a destabilising effect. Contradictory signals regarding which incentives are on the table, and which benchmarks must be met to secure the benefits can have a destabilising effect on a country's internal politics.

Box 5.1:
Slovakia: The 'Carrot' of Club Membership

The incentives of potential NATO and EU membership helped move Slovakia onto a prosperous and democratic course. In sharp contrast to the early 1990's, when Slovakia drifted into international isolation, today it has become a member of both 'clubs' and has been rated as the most economically successful country in 2003 by the World Bank and IMF.

Under the semi-authoritarian leadership of Vladimir Meciar from 1993, both NATO and the EU made it clear that Slovakia was not a candidate for membership. Whereas its neighbour, the Czech Republic, engaged in detailed membership negotiations, Slovakia stood isolated.

A succession of referendums and elections gradually limited the grip of Meciar's party on Slovakian

politics. In 1998, a reformist government emerged under Mikuláš Dzurinda and produced a flurry of reforms, including adjustments to the 'acquis communautaire' of the EU and NATO-friendly changes to Slovakia's military. The speed and effect of these reforms led to Slovak membership of both 'clubs' in the first half of 2004.

Recommendation 5.3

The UK should enhance its already strong support of the European Neighbourhood Policy as a means of promoting prosperity, stability and security along the European periphery and remain committed to ensuring that the ENP incorporates benchmarks for reform linked to credible incentives.

The EU also has a role in helping other regional organisations provide stronger incentives for reform amongst their membership.

The EU was founded on common values and a concept of a European identity. So too is the African Union a reflection of a desire to build on a pan-African identity; and the Andean Pact a reflection of a particular Andean identity. For some countries along the periphery of Europe, there will be no other club they wish to join or be associated with. For other countries, rather than distract them from developing their own regional groupings, the way forward may be not a privileged bilateral relationship for that country with the EU, but rather

a privileged multilateral relationship between the EU and a regional or sub-regional group in that region.

This could help avoid countries using up political resources to achieve EU benchmarks at the expense of their own regional arrangements; especially when it might be these same regional arrangements that in the long-term will prove more important for their own stability. Countries should join regional organisations for their own merit, not because of the potential for eventual benefits from the EU.

In particular, the EU could enhance its co-operation with the AU

One region where there is great potential for this type of multilateral-multilateral relationship is sub-Saharan Africa. The EU and its Member States' have a very diverse relationship with the region. The European Commission has had strong links with Africa since the 1960s when the first European Development Fund (EDF) agreement was signed. The EDF incorporates trade, aid and political aspects of the relationship between African, Caribbean and Pacific countries and the European Union. The current (9th) five-year EDF will provide 13.5 billion in development assistance in addition to the 9.5 billion that remains uncommitted from the 8th EDF. EU Member States also have large bilateral aid programmes (the UK's bilateral assistance to sub-Saharan African in 2003/4 was £809 million).

The UK and EU also provide large-scale security capacity building and other support to the AU. The EU maintains a 250 million Peace Facility for Africa and recently agreed an 'Action Plan for ESDP support to Peace and Security in Africa' whose purpose is to:

- support the implementation of the continental Peace and Security Policy;
- increase the capacity of the AU and sub-regional African organisations for the planning and conduct of Peacekeeping operations on the continent conducted by African forces; and
- effectively and efficiently support the conduct of African Peacekeeping operations, for which this project will provide part of the finances.

In 2003, the European Union conducted a UN-mandated military operation in the DRC to help secure the situation in the Ituri region until the arrival of reinforced MONUC troops. At the time of writing the EU is assisting the AU in its handling of the crisis in Darfur. The EU is also planning to set up a police mission in Kinshasa to help assist Security Sector Reform in the DRC. In October 2004, the UK Prime Minister proposed that EU battlegroups be specifically tasked with spearheading responses to crises in Africa when requested by the AU (see Chapter 7).

EU Member States have provided political and some financial support to the African Peer Review Mechanism (APRM), a voluntary instrument under the New African Partnership for Development (NEPAD) to which 25 African states have acceded. The APRM process produces a set of recommendations for how a country can improve its adherence to, and performance on, political, economic and governance criteria. The APRM secretariat is poorly funded, however, and some countries do not possess the mechanisms for funding needed reforms.

Recommendation 5.4

The UK should work with European and other partners to better support the African Union in developing effective capability to respond to, and long term approaches to prevent, crisis and conflict, including through:

- **promoting more coordinated and coherent use of aid flows;**
- **military training assistance to regional rapid reaction troops;**
- **capacity building support to the AU Secretariat and sub-regional organisations.**

The recommendations of the Commission for Africa will be critical in directing these efforts.

5.3 Disincentives: Individual Accountability

Several toolsets are available for the enforcement of individual accountability

Predatory elites, as the recipients of large economic rents, are not as susceptible to offers of long-term benefits that might accrue from incentives such as improved market access or increased bilateral or multilateral assistance. Disincentives through use of international norms such as human rights law, targeted sanctions and measures to tackle economic crime can however be very effective.

Elite accountability can be improved in the medium to long term through measures that foster institutional accountability, and in the short-term by applying direct pressure. These two approaches are complementary and mutually reinforcing. International accountability and deterrence come from a variety of instruments. Some of these are long-term efforts whose effect becomes more powerful over time – such as international human rights law. Other instruments have a quick impact but are not sustainable in the longer term – such as smart sanctions. Both are necessary tools, and often the legitimacy of the latter stems from the former.

Human Rights Law is increasingly important

International norms, in the form of treaties, conventions or customary

law, represent the aspirations of the international community for global standards of accepted behaviour. When conventions and treaties are fully ratified by countries they can modify domestic law in line with internationally accepted principles. The aspirational nature of international norms, there is often a lag between their codification and their actual implementation in practice.

International Human Rights Law has developed significantly since the Universal Declaration on Human Rights was adopted in 1948. The establishment of international criminal tribunals for Rwanda and the former Yugoslavia, and the recent creation of an International Criminal Court represent step changes in attitudes towards the increasing universal acceptance and enforcement of human rights, and contribute significantly to an emerging normative framework that defines what constitutes acceptable behaviour.

5.3.1 Smart Sanctions

Well-targeted smart sanctions can be very effective against predatory elites

Lessons have been learnt as to what form of sanctions are most effective in influencing the behaviour of elites. Blanket sanctions, which were criticised for punishing the poor while having little or no impact on the elites they were intended to affect, have been largely rejected.

The emphasis now is on targeted or 'smart' sanctions. These have increasingly been used to focus a coercive effect on groups or individuals with a level of specificity that ensures that only the intended individuals are affected. They are particularly effective if they deny an individual access to a location, good, or service that they are particularly interested in obtaining. Blacklisting and associated travel bans are also important instruments for deterring predatory elites.

Enforcement of smart sanctions has become easier since 9/11

UN and EU sanctions are multilateral instruments that can be the subject of protracted negotiations before they are passed. The result is that the targets of financial sanctions often have plenty of lead-time in which to move their funds to countries that are unlikely (or not required) to participate in sanctions regimes. When sanctions are implemented through the UN, the slow and public nature of the process often means that funds have been moved before freezing orders can be put in place. When a country freezes assets unilaterally, this will not usually constitute a significant enough percentage of an individual's holdings to make a difference. Combining financial sanctions with travel bans or other complementary measures, however, holds the potential to greatly increase the effectiveness of sanctions.

Sanctions need to be implemented swiftly to be effective

The terrorist attacks of 9/11 has led to increased emphasis on counter-terrorism, and improved information-sharing among financial institutions and airlines. The efficiency of many of the tools needed to enforce smart-sanctions has thus been greatly enhanced. The effectiveness of sanctions is now for the most part less constrained by technical factors than by political ones. On-the-ground enforcement can still be challenging, as has been demonstrated by difficulties in enforcing the arms embargo in the eastern DRC. Smart sanctions are not only applicable to counter-terrorism. They are equally useful for tackling overseas crime and corruption, as well as the financing of conflict (discussed in chapter 7).

Recommendation 5.5

The UK should build on current work to improve the specificity of 'smart' sanctions, ensuring that they are linked to credible incentives and complimentary measures that should have a real impact on the elites being targeted while avoiding negative impacts on the wider civilian population.

5.3.2 Economic Crime

There are many definitions for what constitutes unethical behaviour, corruption, or an economic or financial crime. Economic crime is used to encompass criminal activities such as giving or receiving bribes, looting state assets, and money laundering.

Large scale economic crime is normally conducted by elites in government or close to government.

Economic crime acts as a tax upon development and has implications for the UK

The direct and indirect annual costs of corruption regularly dwarf overseas development aid. For example, Sani Abacha and his family are estimated to have looted \$4-\$6 billion from the Nigerian state during the period in which the international community provided \$1.1 billion of development assistance to the country.

There are several options for prosecuting perpetrators of economic crime

There have been a number of international initiatives aimed at combating corruption, bribery, fraud, and money laundering but few have been effectively enforced. For example, at the time of publication 36 countries have ratified the OECD 'Convention on Combating Bribery of Foreign Public Officials in International Business Transactions' (including the UK as part of the Anti-Terrorism Crime and Security Act 2001) but there have been few prosecutions under its auspices outside the US.

The UN Convention against Corruption (UNCAC) is an important step towards effective deterrence and prosecution of financial malfeasance

The adoption of UNCAC, passed by the General Assembly in October 2003, codifies a comprehensive international agreement regarding the prevention of corruption, the criminalisation of bribery and corruption, asset recovery, and international co-operation and mutual legal assistance. The convention will come into force once 30 countries ratify the convention; at the time of publication, 13 countries have done so. Once adopted, and if actually enforced by Member States, the convention should facilitate the prosecution of existing corrupt elites, and go some way towards deterring other elites from seeking to enrich themselves or their families through corrupt acts.

Ratification of UNCAC will give the UK the legal ability to repatriate stolen assets to the country of origin. There are however concerns as to whether the recipients of returned stolen assets may themselves misuse the funds. Switzerland has pursued one possible route, by repatriating some Abacha money not to Nigeria, but to the Bank of International Settlements, for the benefit of Nigeria – effectively using the money to help write off part of Nigeria's debt. Though similar attempts were made by other countries when repatriating Iraqi assets, an issue arose due to the fact that UN resolutions (at least for Iraq) explicitly separated the repatriation of assets from debt forgiveness.

The Financial Action Task Force is an important tool in tackling corruption

As an alternative to legal measures, the Financial Action Task Force (an inter-governmental body with 33 members) and Transparency International (an NGO) have both successfully used country blacklists to influence elite behaviour on corruption issues. The FATF has also made 40 recommendations on how to most effectively tackle money laundering. These are now accepted international practice and are being implemented by regional bodies around the world⁷⁸. The implementation of the 40 recommendations is largely being left up to FATF-style regional bodies (FSRB) that have been established around the world. The UK is actively supporting these; in particular the Caribbean regional body.

Working across different jurisdictions has become easier over the last few years

The problem of working across different jurisdictions has, over the past few years, led to an increased interest in provisions for Mutual Legal Assistance (MLA), and in the European Union, for 'mutual legal recognition'.

The scope of one country's capacity to respond quickly to another's request for legal assistance – such as asset freezing or request for

evidence – differs widely. This is in part due to an unavoidable consequence of the nature of international law. MLA is a reciprocal process and flourishes in an environment based on trust. The UK should continue to make every effort to streamline and improve its implementation of mutual legal assistance, and encourage regional agreements, for example in the Commonwealth.

The actions of private companies in collaboration with corrupt elites for mutual gain needs much greater attention

The involvement of businesses in exploitative activities by predatory elites is a part of the process of financial crime which can and should be addressed more effectively. There is increasing pressure from NGOs and others to hold private companies to account for corrupt business practice. Some international instruments address this – for example, the OECD Guideline for Multinational Enterprises, or the Council of Europe Criminal Law Convention on Corruption, and there is a strong NGO pressure towards ethical business practices. This can encompass a wide range of principles from human rights and intellectual property rights to anti-corruption. (Foreign Direct Investment is discussed in more detail in chapter 6).

⁷⁸ Financial Action Task Force (2003)

Recommendation 5.6

The UK government should expand its commitment to tackling economic crime and work to strengthen the implementation of existing frameworks for addressing corruption and financial crime. In support of this the UK government should drive forward existing efforts to:

- **promote the ratification, implementation and active enforcement of the UN Convention Against Corruption**
- **develop greater domestic capacity to tackle financial crime**
- **increase the provision of technical assistance to states lacking the capacity to comply with the UNCAC OECD Bribery Convention or other multilateral framework**
- **seek to ensure that repatriated assets are not sent back into the hands of predatory elites, through the development of safeguard mechanisms.**
- **work with the private sector to develop and enforce robust standards and codes to prevent private industry acting as an accessory to corruption plunder or other economic malfeasance**
- **develop enforcement mechanisms to ensure private industry compliance with UN sanctions regimes**

This chapter has made the case for better understanding of elites as the basis for aligning their behaviour behind stability. Positive incentives in the form of club membership alongside negative incentives to tackle financial malfeasance should be used to shift behaviour. Chapter 6 analyses the main external risk factors for instability and highlights what policy changes are needed to reduce or eliminate these.



Chapter 6: Increasing International Responsibility

What this chapter does

- Identifies the main external risk factors for instability and their causes
- Highlights what policy changes are needed to reduce or eliminate these risks and create a supportive external environment
- Outlines what changes this implies for the way the international community needs to work

Summary

- There are a number of transnational issues and international policies that destabilise countries or fail to manage impacts on instability. The 'aid, trade, debt' package of policy response is vital but needs to be adapted to the more complex challenge of unstable countries
- Other policy responses may be more important in the short to medium term to create the conditions within which countries can take advantage of aid, trade and debt relief
- Increased global acceptance of human rights issues is vital in building capacity to combat instability in countries and multilateral institutions
- The proposed International Finance Facility can have a substantial and beneficial effect on the volume and predictability of development assistance, as well as providing much-needed funds for the global fight against HIV/AIDS
- A more sophisticated understanding is required of the political economy of trade reform and economic diversification in countries at risk of instability
- Debt relief is a major instrument in the process of strengthening and freeing-up country capacity to combat instability
- Global financial instability adversely affects all nations; its impact on those countries already at high risk of instability is greatly magnified and relatively poorly understood

- Increasing geopolitical competition for oil and gas will result in greater reliance on resource-rich countries whilst increasing their risks of instability
- The global fight against international terrorism, WMD proliferation and transnational criminal networks will necessitate a long-term, sophisticated approach to prevent secondary destabilising effects
- Climate change is a major threat to future global stability

6.1 Creating a Supportive External Environment

External policies will rarely alone be the cause of instability in a country, but they can play a major part – particularly if they act to reinforce internal risk factors. The international community has a responsibility to ensure the external environment acts to reinforce rather than undermine stability.

Aid, trade and debt have a critical role to play – particularly over the medium term in providing the additional resources and market access needed to support long-run sustainable development. For countries mired in conflict or other forms of instability, or seriously at risk of being so, however, these policies need to be tailored more directly in support of stability. Other policies such as control of the arms trade, and geopolitical competition to secure oil and gas are likely to be more important in the short to medium term.

This chapter goes through the critical aspects of the external environment that need to be tackled

in support of stability and makes specific policy recommendations in support of this.

6.2 Development Assistance

Development assistance should reinforce stability

A broad international consensus exists that the primary objective of development assistance should be to reduce poverty. Official donors are measuring their progress towards poverty reduction through the multi-dimensional, output-based Millennium Development Goals. A key message of this report is that in countries facing significant risks of instability the primary focus of all international engagement should be on preventing or reducing instability, including through development assistance. Given that stability is a precursor to a sustainable reduction in poverty, this is still consistent with the wider objective of development assistance.

There are five key issues that need to be addressed: the overall volume of aid, its allocation to unstable countries, the predictability of aid,

the harmonisation of donor behaviour and donor practice in country.

The overall volume of development assistance can be boosted significantly by the proposed International Finance Facility.

At a global level it is clear that meeting the Millennium Development Goals (MDGs) requires a substantial increase in development funding. Many unstable countries are not yet in a position to take advantage of increased funds. But funds need to be available at sufficient scale and for sufficient periods when conditions are right – for example in a post-conflict situation after a change of regime. Too often donors scale back resource inputs at just the time when they can be most useful.

The international community needs to increase the level and predictability of development assistance. The UK has committed both to the UN 0.7% of Gross National Income (GNI) target for development assistance, and to bring forward its own Monterrey UN Financing for Development Conference commitment to increased assistance by developing the International Finance Facility (IFF) proposal. The temporary financing mechanism of the IFF would provide up to an additional US\$50 billion a year in development assistance to all eligible countries by 2015. The IFF would function by ‘front-loading’ pledged

development assistance – bringing long-term commitments to bear in their full amount on the causes of poverty and instability as opposed to their symptoms further down the line. Additional money would be leveraged in from the international capital markets by issuing bonds⁷⁹.

There is scope for donors to improve their contribution to stability by adapting their aid allocation models

Current aid allocation models do not take sufficient account of the impact of inadequate or unpredictable resources on instability. Countries abandoned by the international community can fall into conflict and instability with the subsequent need for large scale humanitarian assistance. A more effective risk analysis of the medium and long-term risks of instability would ensure resources are allocated across countries in a way that helps prioritise investment in stability and minimises the expected cost (to countries, regions and donors – in the form of humanitarian assistance, etc) of instability.

Predictability of financial flows is critical to building capacity to manage instability in recipient countries

Unpredictable annual aid fluctuations of up to 40% make macroeconomic prediction difficult for developing countries. The planned multi-year programmes of International Finance Facility grant aid will be a key way of smoothing

⁷⁹ HM Treasury (2004)

out such fluctuations and enabling effective budgeting for governance in recipient countries. This will help to lock in the evolving longer-term focus of the IFIs' Poverty Reduction Strategy Paper (PRSP) approach. Predictability is even more important for countries with weak institutional capacity and thus will be a key element of the UK's proposed Partnerships for Stability outlined in Chapter 3.

These reforms imply better coherence among donors – harmonisation of assistance will be central

Donor coherence is often particularly weak in countries facing high risks of instability where there is no agreed national development plan to guide their work. The 'Partnerships for Stability' have at their core an agreed strategy toward a country or region to guide donors' actions.

These strategies may differ fundamentally from PRSPs. Their action plans for early years may contain only a small number of priorities, which, given the importance of security and managing conflict (set out in Chapter 4), may not be in areas traditionally supported by donors. Nonetheless, they need to seek as far as possible to build on the principles that guide the development of PRSPs, notably consultation with as wide a spectrum as possible of civil society and local ownership. The World Bank's Transitional Results Framework which brings together

partners with security, development and diplomatic agencies is another useful approach in countries in conflict or instability. The draft Principles for Good International Engagement in Fragile States, that have been developed by the Development Assistance Committee of the OECD are also an important contribution in this area.

Development assistance can inadvertently contribute to instability.

The UK's development assistance has a high reputation for quality and is widely acknowledged for its effectiveness. However, in some circumstances, development assistance can inadvertently contribute to instability. The reason for this is that donors tend to focus on discrete technical challenges and underplay the inherently political and governance-focused aspects of development.

Development assistance can contribute to instability in various ways. It can:

- **prop up predatory regimes**, by allowing elites to take advantage of uncoordinated aid to split or even play donors off against each other, so capturing resources while avoiding reform;
- **be used to finance instability**, if for example direct budget support is diverted into financing conflict through supporting military expenditure;

- **undermine key local systems**, by for example making them so dependent on external finance that they no longer need to heed or be accountable to their own citizens;
- **fail to take a sufficiently long-term view**, meaning that it fails to manage trade-offs between objectives. An example would be if efforts to cut inequality between richest and poorest across society (vertical inequality) exacerbate horizontal inequalities leading to instability.

The most effective means of avoiding these mistakes is through a much more sophisticated understanding of the local political situation. The instability framework outlined in Chapter 2 and the aligning of the incentives of elites as proposed in Chapter 5 are tools that can help ensure that development assistance framed within partnerships for stability are designed in support of long-term stability.

Recommendation 6.1

The UK Government should make maximum use of its G8 presidency to continue its advocacy of the International Finance Facility as a way of producing a near-term step-change in the level of aid resources to help the international community provide the additional resources needed to realise the Millennium Development Goals.

Recommendation 6.2

The UK Government should position its development assistance to countries at risk of instability within a coherent, whole of government approach such as that described in the Partnerships for Stability proposal. This should be part of a harmonised donor effort that should take full account of the political context and that should reinforce stability.

To assist in this effort the UK should endorse the 'Principles of Good International Engagement in Fragile States' and should encourage other bilateral governments to do likewise.

6.3 Trade

Trade rules not only hinder the ability of many countries to trade, but can reinforce their dependence on primary commodity exports

Trade openness has been associated with economic growth. The extent to which such openness contributes to poverty reduction and *stability* depends on broader economic and social circumstances and policies. Some studies have observed a correlation between a country's trade openness and its political stability⁸⁰. The links between trade, growth and poverty are now fairly well understood but the links between trade, growth and stability are less so. Trade produces winners and losers: an understanding of the overall political economy of this process is critical for a strategy in support of stability.

⁸⁰ State Failure Task Force (2000)

Existing trade rules limit many countries' ability to take advantage of international trade. Two key, inter-linked issues are tariff escalation and non-tariff barriers. Tariff escalation occurs when tariffs rise as the level of processing of a product increases. This makes it harder for countries to diversify their economies by starting or expanding value-added activities, and so tends to reinforce their dependence on primary commodity exports.

Products subject to tariff escalation account for more than 11% of least developed countries' exports to the USA, Canada, Japan and the EU. Moreover, this escalation is concentrated in labour-intensive products of particular interest to low-income countries (although such exports to the EU benefit from duty- and quota-free access for almost all products under the 'everything but arms' initiative)⁸¹. Such escalation also exists on trade between developing countries.

Although use of non-tariff barriers (NTBs) as a whole has declined over the last decade, they remain significant in some products of value to low-income developing countries, notably agriculture, textiles and clothing⁸². Moreover, new barriers are emerging in the form of health and safety standards and restrictions on rules of origin. These will tend to be more demanding on more processed goods, so their effect may

be similar to tariff escalation in deterring developing country diversification into processed and manufactured products.

One effect of these restrictions on developing country exports is to reinforce their dependence on a narrow range of unprocessed goods or commodities. Sub-Saharan Africa is particularly vulnerable to this effect as its relative factor endowments (i.e. land and minerals) will tend to result in disproportionately larger agricultural and extractive sectors than more manufacturing-friendly regions and countries in Asia⁸³. Such resource-determinism is far from set in stone – evidence suggests that comparative resource advantages can be dynamically shaped, as happened in East Asia – yet in the short term a comparatively large endowment of such factors can serve to increase these countries' risk of instability. First, when the revenue from a natural resource can be easily captured by an elite, it can create disincentives for the development of strong institutions (see Chapter 5); and second, it can leave the country at high risk of external price shocks, given the volatility of commodity prices⁸⁴.

The current Doha trade round needs to place a high priority on tackling these distortions, notably tariff escalation. The UK and others are helping build capacity in developing countries both to meet increasingly stringent health and safety

⁸¹ EC (2001)

⁸² UNCTAD (2004)

⁸³ Wood (2002)

⁸⁴ IMF (2003)

requirements on processed products and to engage in the fora in which such standards are set.

There is a need to better understand the political economy and impact of trade reform

Trade specialists tend to focus on the aggregate effects, but from a stability perspective, it is equally important to understand the political dimensions of these reforms: not only how the country gains or loses, but how these are distributed across society and, critically, between elite groups. The liberalisation of the EU sugar regime, for example, is likely to have a major negative impact on some Caribbean countries. Equally, countries that have been able to specialise in textiles and clothing, such as Bangladesh, now face severe competition from China. A sophisticated understanding of a given country is required to assess the full extent of the political economy of changes in trade flows on the instability risk factors it confronts.

Recommendation 6.3

The UK government should expand current work with EU partners and the IFIs to ensure the political and economic impact of trade reform on stability – including the withdrawal of trade preferences – is taken fully into account in the design of trade policy.

6.4 Debt

Debt relief can reduce instability by minimising the strain that servicing debts can put upon fragile governments with limited revenue generating capacity. The Paris Club plays an important role in providing debt relief on a case-by-case basis to restore sustainability, and ensuring that IMF programs can be fully financed. For many post-conflict countries prompt entry into the Heavily Indebted Poor Countries (HIPC) Initiative (which can provide relief on multilateral as well as bilateral debts) will be essential if poverty reducing expenditure is to be increased, and post-conflict social and institutional reforms are to be made. HIPC Initiative debt relief could provide about an extra US\$15 billion to conflict-affected and post-conflict countries.

Yet the major challenge for the HIPC Initiative is to match the need for an early Decision Point (when countries begin to receive debt relief) with the need to ensure that debt service savings can be directed towards poverty reduction. Most of the countries eligible for HIPC that have not yet entered the Initiative have recently emerged from, or are still engaged in, conflict, and many are struggling with severe governance problems. At the same time, these countries have a particularly acute need for debt relief, because of their major reconstruction requirements and the urgent need for speedy and effective action to help break the

cycle of violence, low growth, and severe poverty. It is therefore vital that the IFIs and bilateral donors work together to increase the capacity of these countries to use additional resources to finance reconstruction and pro-poor growth.

Debt relief can have a similar impact to direct budget support, in that it provides governments with untied resources. For countries with weak expenditure control programmes, and/or a weak commitment to ensuring broad-based poverty reduction, deeper debt relief (as with direct budget support) is unlikely to lead to a strong pro-poor outcome. Therefore there is a need for differentiation for these countries, with aid being provided in the form of specific projects and technical assistance until such time as public expenditure management controls are in place. Debt relief under such circumstances needs to be carefully phased.

For reforming countries, however, debt relief presents additional benefits as a resource transfer mechanism. The Enhanced HIPC Initiative has demonstrated that debt relief can provide a much greater degree of predictability than other sources of development financing. The predictability provided by debt relief allows governments to make the long-term investments necessary to achieve the MDGs. Debt relief, by allowing countries to spend their own resources on their priorities for

poverty reduction, supports the efforts of reforming governments to improve the lot of their people. Debt relief is an extremely efficient aid modality. Since resources are untied when in the form of debt relief this minimises distortions in the use of funds and the transaction costs that come with many other aid instruments. The administrative burden on the countries themselves is also minimal. The UK has also proposed 100% multilateral relief for HIPC countries once they reach Completion Point, and we are beginning to fund our share (10%) of this debt service relief to the World Bank and African Development Bank.

Debt relief can be part of an overall financing envelope, both when it begins to flow to a post-conflict HIPC, and as the package of significant debt stock relief available at completion point. This potential financing envelope can promote consensus around reform. As part of the process of debt relief countries are encouraged to start preparing an interim poverty reduction strategy paper as soon as political and security conditions permit, specifying measures to help stabilise the political and security situation and help restart economic activity.

Recommendation 6.4

The UK should work with pre-decision point HIPCs, multilateral institutions and other donors to ensure that post-conflict HIPCs receive debt relief as soon as

realistically possible. The UK should also work with the international community to increase the financial envelope potentially available to countries through 100 per cent multilateral debt relief, including for non-HIPCs. The UK should continue to work through the Paris Club to ensure appropriate debt relief for other non-HIPCs.

6.5 Human Rights & Good Governance

Multilateral efforts to increase international responsibility in the field of human rights and good governance are important in combating future instability

Human rights – universal standards that transcend cultural and national boundaries, encapsulated in the Universal Declaration of Human Rights of 1948 – gain strength from the signing and ratification of international treaties. A key building block in the emerging norm of ‘Responsibility to Protect’ and developing human security agenda, the promotion of human rights, democracy and good governance also underpins the UK’s Sustainable Development strategy⁸⁵. The corollary of good governance – the effective delivery of state services to the populace – promotes respect for human rights by mitigating internal and external destabilising factors and reinforcing country capacity and resilience. Democracy provides the best long-term foundation for human rights and good governance to be sustainable.

As outlined in Chapter 1, human rights violations are one indicator of instability, often signalling underlying problems of governance or unrest in a country or region. Equally, repressive regimes may institutionalise human rights violations in order to try and maintain the brittle stasis that often enabled Cold War combatants to ‘look the other way’ in the mid-to-late 20th century. Current examples of such countries attempting to suppress instability by committing human rights abuses include Zimbabwe, Burma and North Korea. The ending of the bipolar international system and advent of the complex interdependence of today has brought the themes of human rights and governance to the fore of international policy and given them real prominence in framing progressive strategies of engagement with countries at risk of instability.

International human rights law provides a tool for bringing transgressors to justice and a powerful incentive to observe international conventions

Increasing international responsibility towards human rights is a complex task and needs a thorough legal and procedural underpinning. The codification of international human rights law in 6 key UN treaties – including the International Covenant on Civil and Political Rights and the Convention against torture and other cruel,

⁸⁵ FCO (2005)

inhuman or degrading treatment or punishment – provides such a framework. The International Criminal Court (ICC) is an especially important tool in curbing such abuses and has benefited from UK support and issue leadership throughout its existence. As outlined in Chapter 5 above, mechanisms such as the ICC for deterring predatory elites from committing human rights abuses are an important plank in a strategy of aligning incentives for stability.

The UK is at the forefront of international work in human rights and will continue to build on its track record in 2005

Building capacity in international institutions and individual countries for the observance and maintenance of human rights is increasingly important in this modern, globalised world. The UK works in partnership with such institutions, other countries and the NGO sector in furtherance of this vital agenda. Key institutional partners include:

- **The UN;** the key body for promoting compliance and development of universal human rights standards;
- **The EU;** where the UK actively participates in the Council Working Group on Human Rights (COHOM) and helps to oversee complementary Commission funding initiatives;

- **The OSCE;** where the UK supports the work of the Office for Democratic Institutions and Human Rights (ODIHR).

UK country strategies give prominence to human rights and governance issues. The proposed Partnerships for Stability outlined in Chapter 3 encompass this emphasis.

Recommendation 6.5

The UK government should use its EU Presidency in 2005 to further the international human rights agenda. This should include:

- **Defending the legitimacy of country-specific action at the UN to maintain international focus on the worst offenders against human rights**
- **Promoting cooperation between the EU and OSCE**
- **Further embedding the principles of human rights mainstreaming across EU institutions**
- **Ensuring good governance remains at the heart of cross-departmental UK government country strategies.**

The UK government should also place human rights at the centre of work on developing the concept of Partnerships for Stability.

6.6 The AIDS Pandemic

Aspects of the international system have made it harder for committed countries to slow the spread of HIV and AIDS, which will have large impacts on country stability

Futures work undertaken for this report summarised in Chapter 1 identified HIV/AIDS as one of the biggest risks to future instability.

Despite considerable international attention and resources devoted to AIDS, HIV infection continues to spread globally and the death toll continues to grow. The development challenge has been greatly magnified by the toll HIV/AIDS is taking on the productive capacity of many developing countries⁸⁶. The global funding gap for HIV prevention, AIDS treatment and orphan care is £4 billion/year at present, but is likely to rise, though the proposed International Finance Facility (IFF) could potentially help to meet in full this shortfall. The UK's response is set out in a comprehensive strategy, 'Taking Action'⁸⁸.

There are two aspects of the international system that need further attention if the spread of HIV/AIDS is to be dramatically slowed: adequate funding for research into prevention technologies and cost-effective drugs; and reducing the cost of AIDS treatment.

There has been inadequate funding for research and development

Only 10% of global spending on health research is devoted to diseases that account for 90% of the global disease burden⁸⁹. Although AIDS is not exclusively a disease of poor countries, pharmaceutical companies tend to base their profit estimates on sales in developed countries, where the market is relatively small. This has reduced the expected profitability of HIV prevention technologies (vaccines and microbicides – drugs which reduce the risk of transmission to women) and AIDS treatments and so the amount of privately-funded research undertaken. The same is true for health products to tackle the opportunistic infections to which people with AIDS succumb, such as tuberculosis (TB). These products have also been marked by inadequate private and public funding for new drugs.

There are now a number of international initiatives to fund research into HIV and AIDS medicines and new prevention technologies. At the 2004 meeting at Sea Island, the UK and other G8 countries agreed to establish the Global HIV Vaccine Enterprise to accelerate research and development of an effective vaccine. However, there remains a major shortfall in research and development funding. In 2002 international spending on vaccine

⁸⁶ Lockwood (2005)

⁸⁷ DFID (2004a)

⁸⁸ DFID (2004a)

⁸⁹ Global Forum for Health Research (2000).

development was \$570 million compared to estimated annual needs of \$1.2 billion, while microbicide funding in 2003 was only \$79 million compared to the estimated \$1 billion needed.

Despite progress, the price of HIV/AIDS treatment remains prohibitively high for many

The WTO Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement sets out minimum standards of intellectual property protection. A key issue of debate has been the extent to which national IPR regimes permit the importing of goods from the cheapest legitimate international source. This has been a particular concern in relation to antiretrovirals (ARVs) which have been prohibitively expensive for many developing countries. International agreement has now been reached to allow developing countries to produce and import generic ARV drugs. Competition between branded and generic first-line drugs has led to a considerable fall in prices, from approximately \$10,000 to \$300 per person per year. Despite this, first-line ARVs remain prohibitively expensive for many developing countries where annual health expenditure is less than \$20 per person.

UNAIDS and WHO are leading an international effort to increase the number of people in developing countries receiving treatment from 440,000 to 3 million by the end of

2005 – (the ‘3 by 5’ target). Even if successful, this will still only represent about half the number of people living in developing countries who need treatment if they are to survive the next two years⁹⁰ (and only 7.5% of the 40 million people currently living with HIV).

The international IPR regime became more complex on 1 January 2005 when the TRIPS agreement came into force for most WTO signatories, requiring them to grant 20 year patents to new pharmaceutical products. Although the WTO agreement will allow countries facing emergency situations, which may include severe AIDS epidemics, to over-ride these patents, use of this flexibility in the TRIPS agreement is difficult in practice, requiring high quality technical administrative and legal capacity in the developing country. There are thus fears that from this year onwards it will be harder for generic copies of patented medicines to be produced (typically second and third-line ARVs, but also those for the treatment of opportunistic infections), with the effect of restricting availability and driving prices up.

Integration of international and national efforts is needed

International efforts to tackle HIV and AIDS have generally been insufficiently integrated into national health systems. This has tended to divert scarce local human and financial resources and

⁹⁰ Dyer (2004)

undermine weak health systems⁹¹. This is critical, given that it is extremely difficult to halt or even slow the spread of HIV in countries with weak health systems. Problems over donor co-ordination have also been recognised.

Recommendation 6.6

The UK government should continue its work towards a more comprehensive approach to tackling HIV/AIDS by:

- **Advocating the International Finance Facility as a mechanism that could provide resources for closing the global AIDS funding gap;**
- **Working with other countries to create an advance purchase scheme for HIV vaccines, providing greater incentive for research in this area;**
- **Continuing to support the right of affected countries to use TRIPS flexibilities and helping to build their technical capability to do so;**
- **Advocating internationally that developing countries should not be obliged to go beyond TRIPS in bilateral or regional trade agreements, including lobbying the US and the pharmaceutical industry to adopt a similar position;**
- **Continuing to press for pharmaceutical companies to make ARVs and other drugs available at affordable prices.**

6.7 International Financial Stability

There is inadequate international investment in global financial stability

International financial stability and efficiency is an important global public good underpinning sustainable growth of the world economy. The benefits are especially significant for poor people in developing countries and emerging economies. As with other global public goods there is a tendency to under-investment, as the public benefits are larger than the benefits to individual actors or even individual countries.

The costs of output foregone due to instability are large. Over the last quarter century, currency and banking crises, related to an under-provision of the global public good of financial stability, are estimated to have reduced incomes of developing countries by 25%, a high cost in economic, human and social terms⁹². This does not take account of lower growth in developed countries due to reduced trade opportunities and investment with crises-affected countries.

International financial stability has two components: the provision of significant long-term stable capital flows; and the avoidance and better management of currency and financial crises.

⁹¹ Performance and Innovation Unit, Cabinet Office (2001).

⁹² Eichengreen (2004)

6.7.1 Volatility of Capital Flows

Capital flows to developing countries have increased but a large percentage of these flows is volatile and concentrated in Asia

Private capital flows can be a vital financing source to support sustainable growth and poverty reduction in developing countries. Capital flows declined dramatically

in net terms from 1996 to 2001 linked to the Asian and other crises, with a slight recovery in 2002. In 2003/04 a partial recovery occurred in flows to emerging markets. This was associated with the world economic recovery and low international interest rates, and to some extent to improvements in macroeconomic fundamentals and policies in emerging markets.

Table 6.1 Net Private Capital Flows to Emerging Market Economies

US\$ billion	1995	1996	1997	1998	1999	2000	2001	2002	2003 ^a
Total	234.3	324.5	283.5	143.3	155.7	187.2	126.5	124.2	187.5
Direct Investment	75.5	92.7	118.0	122.3	151.6	138.8	139.8	112.1	93.6
Portfolio Investment	29.9	33.1	22.2	11.2	14.5	13.1	7.7	1.1	30.3
Bank Lending	96.8	118.0	59.6	-55.0	-48.4	-0.9	-26.7	-6.2	18.9
Bond Flows	32.0	80.7	83.8	64.7	37.8	36.2	5.8	17.2	44.7

Source: Institute of International Finance (2004). ^a Estimates.

The recent increases in capital flows should however be treated with caution. A large part of the flows comprise equity and bond flows which tend to be the more volatile components of total flows. These flows are concentrated mostly in Asia, to the exclusion of other developing regions. Moreover a large group of poorer developing countries continue to be heavily dependent on development

assistance to meet their external financing needs.

Volatile and reversible capital flows are a major determinant of costly currency and banking crises

Managing volatile capital flows is mainly a challenge for large, more developed countries, such as Indonesia as few smaller countries benefit from significant private flows. Oil and other mineral-rich

economies, such as Nigeria, receive substantial FDI flows, but these tend to be long-term investments and so fairly stable. The smaller countries, and clearly the more indebted ones, are more likely to be hit by any rise in interest rates associated with the volatility.

The economic instability arising from volatile and reversible capital flows presents particular challenges, because, as noted in Chapter 2, it can induce political instability by igniting distributional conflicts between and within elites, as people seek to protect themselves at the expense of others. Both the volume and the predictability of finance to countries need to be increased as a critical foundation for stability within these countries but also as foundation for global stability.

6.7.2 Avoidance and Better Management of Currency and Financial Crises

Some progress has been made on international financial reform but it has not yet gone far enough to reliably avoid or manage crises

Frequent currency and banking crises in the second half of the 1990s and early 21st century generated a broad external consensus that fundamental reforms were required in the international financial system.

Some progress has been made. IMF financial facilities have been expanded and adapted and the Fund's total resources have been

increased. Important institutional innovations have been introduced such as the Financial Stability Forum and the G20. Developing countries have taken a number of important steps to make their countries less vulnerable to crisis. These include macroeconomic policies on the basis of internationally agreed codes and standards. The IMF and World Bank have a critical role to play in helping countries respond to shocks.

But these reforms do not go far enough to address the costs associated with inherent imperfections of financial systems. First, most effort has been centred on implementation of better codes and standards in developing countries, and not enough on improvements in global regulations. Secondly, international financial and banking markets tend to be less willing to undertake risks in difficult times.

This implies that far closer cooperation is required than presently exists between financial regulators and macroeconomic authorities. There is also a strong case for public institutions to play an explicit counter-cyclical role to help compensate for the inherent tendency of private flows to be pro-cyclical. Potential trade-offs need to be considered, however, between sufficiently counter-cyclical regulation of the financial sector to prevent crises occurring and on the other hand ensuring adequate credit to support economic growth.

Recommendation 6.7

The UK Government should continue to push for stronger IMF crisis prevention through more objective and credible surveillance and expansion of the IMF's range of facilities.

The UK should support efforts by the World Bank and other donors to make financial access / inclusion a priority in developing countries.

The UK Government should press for an evaluation of the effectiveness of measures to prevent and measure financial crises.

6.7.3 Foreign Direct Investment

Though critical for the development of a country – and thus for long-term stability – foreign direct investment can also prove destabilising

Countries facing risks of instability need to attract foreign direct investment (FDI) to help fund the sustained economic growth, which is important for long-term stability. But the domination of an economy by a small group of multi-national enterprises (MNE) means their behaviour can have a major impact on country stability, particularly if there is elevated risk of, or actual violent conflict.

There are some cases of companies acting in ways which are clearly destabilising (such as engaging in bribery or doing business with rebel

groups). More usually however such impact on instability can be inadvertent. Companies can, for example, reinforce local tensions by arming private security forces to protect their assets.

Pressure from NGOs and shareholders has helped to raise awareness amongst companies of the importance of taking these issues seriously. Many MNEs are now making use of social and conflict impact assessments to guide behaviour. A key challenge is how to ensure similar behaviour changes among the smaller companies and those from non-OECD countries, including state-owned enterprises, especially in the extractive sector, which are not subject to the same public pressure.

Governments can help clarify 'acceptable' behaviour and deter destabilising behaviour

Companies already have some guidance on the most obvious forms of stabilising and destabilising behaviour. Some of this is set out in multilateral agreements, (the OECD Convention on the bribery of foreign government officials); or international law (the EU money laundering directive); some in domestic law (UK Health and Safety regulations) and some in the myriad of voluntary agreements (such as the Code of Conduct for Diamond Traders, endorsed by the World Diamond Council, which runs in parallel to the Kimberley Process Certification Scheme for Rough

Diamonds). Other such agreements include the Extractive Industries Transparency Initiative, the Ethical Trading Initiative, the Wolfsberg Principles on International Finance, the US/UK-led Voluntary Principles on Security and Human Rights, the UN Global Compact.

However, there is less agreement on what can be expected of business behaviour in the middle ground between these extremes of good and bad. To encourage responsible investment, companies need a degree of certainty that they will be free from retrospective persecution or attack from groups seeking higher standards of behaviour than those agreed if their behaviour meets contemporary accepted standards. The absence of such standards may be deterring investment in key countries.

It is in the interests of investors, governments committed to stability and civil society to clarify what behaviour promotes stability and what is destabilising. This will not be straightforward. Acceptable behaviour may legitimately differ between markets and countries.

Much of the detail of acceptable standards of behaviour will have to come from companies themselves, as well as governments and NGOs. The Office of the UN High Commissioner on Human Rights has recognised the value of a multi-stakeholder process to exploring the parameters of the role of business with regard to human rights. Some UK-based

companies have already started to test what a more precise set of consolidated principles might mean for their business, including the potential implications for their supply chain under the auspices of the Business Leaders' Initiative on Human Rights. Business should be encouraged in such efforts and to learn from each others' good practice.

Government can also help through ensuring companies receive appropriate advice. Good company practice in countries facing risks of instability could also be synthesised and fed into the revisions of the OECD Multinational Enterprise Guidelines.

Recommendation 6.8

The UK government should increase support to international efforts, in particular by the UN and OECD, to set out the behaviour and norms – in respect of human rights, social, economic and environmental impacts – to ensure that foreign direct investment contributes to, rather than detracts from, country stability.

6.8 Geopolitical Interests and Transnational Threats

Greater coherence is needed in tackling global issues

In a globalised, interconnected world, countries share mutual interests and face common threats. Geopolitical competition for oil, international terrorism, the proliferation of nuclear technology, transnational criminal networks, and arms sales are among the complex problems facing the world today. Tackling such issues discretely without considering their links to other issues is likely to be ineffective and inefficient and may increase the risk of instability of particular countries. This is particularly true when governments pursue narrowly defined national and foreign policy goals and inadequately manage the trade-offs between short and long-term objectives.

6.8.1 Oil and Gas

Global demand for oil and gas will continue to rise, making countries challenged by instability more important in an intensifying geopolitical competition for energy supplies

Over the last decade, the growth in global demand for oil has averaged around 1.8% per annum and it is unlikely that this growth will slow significantly over the next two decades. Potential reductions in oil use by developed countries will be counterbalanced by increases in

demand in emerging economies. Demand from India and China is predicted to double between 2000 and 2020⁹³.

The flexibility of oil demand and supply is also likely to diminish. This has three strategic consequences: the growing importance of oil and gas from countries that are threatened by instability, geopolitical competition for oil and gas, and structurally higher oil prices subject to increased volatility.

While the Middle East will remain the largest oil-producing region in the world, other regions (i.e. Central Asia, the Caucasus, parts of Africa and Latin America) are becoming important suppliers of oil. Many of the new oil states already have many of the risk factors associated with instability: with low country capacity, an undemocratic polity and often oppressive regimes, high instance of political coups, low overall GDP and high income inequalities and poor human rights records.

Liberalisation of energy markets has a key role to play in ensuring adequate investment in exploration and exploitation necessary to provide future supplies, including transparent and non discriminatory petroleum investment regimes. It is not however a universal approach and major oil importing countries are increasingly striking bilateral agreements to secure long term energy supplies.

⁹³ IEA (2002)

So long as oil is seen as a strategic resource, external involvement in oil producing states is more or less inevitable. Where managed sensitively, outside involvement in these states can provide a potential stabilising influence. Global consumer interest in the stability of producer countries, and in the sustainability and growth of their production, is inevitable and likely to become more acute.

Countries which are import dependent on oil and gas will therefore deploy considerable efforts to ensure continued supply. Multilateral and bilateral dialogue between consumers and producers, in the direction of liberalising energy markets, will have a stabilising influence. However, where energy security strategies involve financial, military and political support for authoritarian regimes, external involvement can be profoundly destabilising over the medium to long-term. In addition, by conferring a degree of legitimacy on undemocratic regimes, such support exacerbates existing problems and encourages dependence on oil export revenues. In these conditions, there is no incentive for economic reform or developing country capacity that would reduce the risk of instability.

A debate is also underway regarding the accuracy of oil reserves. If known reserve figures are accurate, and necessary investments in exploration and infrastructure are made to

exploit known reserves, world supplies of oil and gas should be sufficient to meet this demand in the next two decades. But these are big 'ifs'. The high degree of uncertainty around known reserves means that there is also great uncertainty as to the future trajectory of the price of oil. This reinforces need to invest in energy efficiency and alternative energy sources as a hedge against the hugely disruptive effects of a sharp and sustained rise in the oil price.

Recommendation 6.9

The UK government should develop coherent and comprehensive 'Partnerships for Stability' with major oil and gas producing partners.

Recommendation 6.10

The UK government should continue and expand work with EU partners to promote renewable energy use and support developing countries' access to clean and efficient non-hydrocarbon technologies.

6.8.2 International Terrorism

International terrorism presents a complex and networked threat that is linked to instability and requires a comprehensive, long-term approach

Although international terrorism is not reliant on unstable countries, it is linked to them through two broad mechanisms:

- **Poorly governed space provides a potential haven** for leadership cadres, bases and training. In Afghanistan, Al Qaeda took advantage of conflict and the receptiveness of the Taliban regime to establish extensive bases. Insurgency and conflict also provide opportunities for recruits to obtain the necessary basic military skills that can be used in organised terror groups.
- **National insurgency and terrorism in unstable states and regions can become linked to broader international terrorism** if instability is tackled in an overly aggressive manner that does not address the underlying causes of the tension. Terror tactics are often utilised by insurgents in civil conflicts and tend to be designed to achieve specific objectives, rather than driven by a strong ideological motive. However, the core grievances that motivate national terrorism also provide an opportunity for extremists to align themselves with the struggle – either by using the grievances to attract and motivate recruits or by more direct involvement. For example, Al Qaeda and affiliates exploit the conflict in Chechnya as one part of their message to mobilise network of supporters and allies in a global campaign against the US and its allies.

Current responses are not sufficiently focused on the causes of instability and can in some cases

increase it. Governments should assess the impact of their policies on other countries' stability. For example, UK and US relations with Pakistan have shifted considerably since 11th September 2001. This helped the intervention in Afghanistan, but fomented anti-Western sentiments among Pakistani opposition groups.

The unpredictable and fluid nature of the threat often encourages a purely short-term response. This tends to undermine a focus on developing a long-term strategy which would also address the underlying instability issues and grievances that lead people to participate in terror groups. For example, the Middle East requires a complex political settlement that addresses underlying causes of tension in the region such as economic development, migration, equitable use of resources and water scarcity.

Recommendation 6.11
The UK government should incorporate instability analysis into development of its long-run counter-terrorism strategy.

6.8.3 Proliferation of Nuclear Technology

Nuclear technology can present a threat to stability but also embodies important energy options; however, current controls on its use are problematic

The acquisition or development of Weapons of Mass Destruction is appealing to states that feel threatened or are weak in comparison to militarily powerful adversaries. The more widespread their ownership, the greater the risk of their use. Nuclear weapons present a particular concern, in part due to their devastating power, but also because of the presence of ex-Soviet nuclear material (Russia - focus of critical G8 work to manage the Soviet nuclear legacy - is home to an estimated 90% of all fissile material outside the US), and the growing numbers of nuclear energy programmes⁹⁴. Through proliferation of technology a growing number of countries may be able to develop nuclear weapons. Dual-use nuclear technology presents a dilemma. On the one hand, developing or expanding civil nuclear energy programmes is one option to meet increasing demands for energy, diversify national energy portfolios, increase energy security and reduce greenhouse gas emissions. On the other hand, such technology can be used for weapons creation.

Nuclear power is expected to play a growing role in a number of emerging economies. For example, in East and South Asia alone there were 100 nuclear power reactors in operation in late 2004, 20 under construction and plans to build a further 40. In addition there were about 56 research reactors in 14 countries in the region⁹⁵.

Furthermore, a number of countries challenged by instability have nuclear reactors of one form or another⁹⁶.

There are increasing concerns that controls on access to dual use technology may not be robust enough. The UK firmly supports the IAEA in its efforts to verify the non-military use of such technology and coordinate wider nuclear security work. However, systemic corruption, organised crime and terrorist activity occur within some states and increase the risk of proliferation. The tension embodied in the verification and peaceful use provisions of the Nuclear Non-Proliferation Treaty (NPT) does not make for easy enforcement of its aims. Furthermore, as outlined in earlier chapters of this report, some countries are also particularly vulnerable to non-democratic regime change, and sensitive technology may become less secure after a coup.

Recommendation 6.12

The UK government should work with international partners to assess the extent to which programmes and policies on nuclear proliferation, nuclear energy and energy security are aligned in support of a stability agenda.

⁹⁴ Allison (2004), DTI, FCO & MOD (200x)

⁹⁵ World Nuclear Association

⁹⁶ Data on nuclear reactor locations from International Atomic Energy Agency

6.8.4 Transnational Criminal Networks

Transnational criminal networks (TCNs) undermine governance and have direct impacts on UK objectives including terrorism, narcotics, illegal migration, and arms trafficking.

Transnational criminal networks, like all organised crime, undermine governance and the rule of law in countries. They achieve this by, for example, seeking to corrupt individuals in government, and creating a culture of impunity by sending a signal that criminality is accepted. This challenges legitimate state authority, reducing a country's capacity to manage external shocks, and creates increased risk of instability.

TCNs are involved in the production, transit, and sale of the narcotics, illegal migrants, and arms that make their way to industrialised states, including the UK. As noted in Chapters 1 and 3, much of what is supplied is sourced in countries at risk of instability. These networks also play a facilitating role for international terrorism. Operating on a market model, they do not discriminate as to whom they provide goods or services: proven links have been found between transnational criminal networks and the terrorists that perpetrated 9/11, the Madrid bombing, and to a lesser extent the Bali bombing.

Such networks pose a particular threat to states in the immediate

post-conflict phase. As states rebuild in the aftermath of conflict, there is often a large political and security vacuum that can be filled by organised crime with links to TCNs. UN missions, transitional administrations, and other arrangements struggle to fill this vacuum, but often find themselves battling organised criminals who have already bought political candidates (or are candidates themselves) and who have an explicit interest in preventing the full implementation of the rule of law. This has been the case in Bosnia as well as in Afghanistan.

The UK has recognised the need to move further upstream to address criminal networks. This has included secondments of liaison officers to posts in key countries, capacity building efforts with local law enforcement agencies, and carrying out interdiction operations in source and transit countries. This is intended to reduce the supply of illicit goods, as well as improving countries' ability to combat the criminal networks.

Gaps remain, particularly with regard to regional approaches, in capacity building, and tackling both supply and demand.

TCNs present a complex challenge. New criminals soon replace those who are caught, quickly filling any vacuum. Furthermore, as long as efforts to tackle them – even when upstream – are limited to tackling networks in individual countries,

there will always be displacement or 'balloon' effects. Using counter-narcotics operations as examples, this has been seen in Jamaica with respect to the rest of the Caribbean, Colombia with respect to Peru, and Afghanistan with respect to Pakistan.

Lastly, and above all of this largely demand focussed work, rests the never-ending problem of demand. So long as there is demand for narcotics, illegal migrants, or even cheaper tobacco, there will be a market in which TCNs can operate. Any effort to tackle TCNs needs to address both supply and demand issues.

Recommendation 6.13
The UK government should evaluate its strategy to tackle transnational criminal networks to ensure that supply and demand issues, regional approaches, and capacity building are all adequately and coherently addressed.

6.8.5 Arms Sales and Brokers

International policy on arms sales needs to become more strategic

While the availability of arms does not cause conflict, and a government needs arms to protect its citizens, easy access to arms by non-state actors facilitates violent conflict.

The UK along with other major powers has a legitimate economic interest in maximising its share of the

global arms market, but also needs to balance the consequences of specific exports with the impact on stability in recipient countries. The EU Code of Conduct on Arms Exports, which governs UK exports (using the current interpretation of its 8 criteria, based largely on assessments of the importing country's actual or anticipated behaviour), does not necessarily block the export of arms to a number of countries facing significant risks of instability. Assessing the criteria against medium to long-term risks of instability (such as trends in the risks of conflict or in the country's human rights record, etc) could well dictate a more restrictive pattern of exports. This would be particularly important for weapons with a lifespan of a decade or more.

The scope for improving controls over the trade in small arms should be explored

Most current conflicts are internal, and the parties rely largely on small arms and light weapons (SALW). Such weapons also facilitate violent crime. Some weapons are sourced or even produced regionally. Weapons and munitions sourced outside the region can be supplied by organised criminals, but arms brokers also play a role. Most of these brokers are operating in something of a legal vacuum⁹⁷. This is recognised: controlling arms brokering is, for example, part of the G8 Action Plan for Africa.

⁹⁷ Mephram (2004); Cross, Flew & McLean (2004)

A process already exists with the potential to reach international agreement on brokering in the medium-term through the UN Programme of Action (PoA). The UK will play an active role in this PoA in the run up to the 2006 UN Small Arms Review Conference and beyond.

At present, only a minority of governments have legally-binding regulations to control arms brokers operating in their countries and an even smaller number have legislation that governs the behaviour of their nationals operating in other countries. While this extra-territorial control is desirable in principle, it is costly to enforce effectively. The speed at which any UN agreement can have an effect will depend on enforcement capability in signatory countries. The 55 members of the OSCE that have already signed up to guidelines on brokering should be encouraged to move at a faster pace. OSCE members need to translate obligations into national brokering laws and implementation capacity to effectively enforce new and existing national laws.

Better regulation of arms brokers is necessary but not sufficient. It needs to be complemented by assistance to countries needing support in controlling small arms stocks and policing illegal arms exports.

Recommendation 6.14

The UK government should continue and focus its work with G8 and EU partners towards securing more effective international control over arms brokering, preferably as part of a wider Arms Trade Treaty. This should include exploring cost-effective options for blocking or hindering the operations of transportation agents who facilitate unlicensed arms transfers.

6.9 Climate Change

The impact of climate change will be an increasingly significant contributor to instability; a mixture of adaptive and mitigating action is required in response

As discussed in Chapters 1 and 2, changing weather patterns and climate variability are already contributing to the risk of instability in a number of vulnerable countries. Food and water scarcity, changes in land use, natural disasters and environmental migration can all play a part in escalating tensions; and environmental stresses have been linked to political tensions and violent conflict in a number of specific cases. Looking ahead, it is likely that climate change will exacerbate many of these factors⁹⁸. It is expected that the impacts of climate change will be felt most severely in poorer countries, which have only limited capacity to adapt.

⁹⁸ DEFRA (2004)

Changes in climate and climatic variability can be predicted in the short to medium term. The changes in climate that we will face over the next 30 to 40 years are largely dictated by past and present emissions of greenhouse gases and inertia in the response of the climate system. Consequently, reducing the impacts of climate change over these timescales will require adaptive responses to enable countries at risk to develop suitable 'coping strategies'. There are limits to adaptation however, and thresholds beyond which it becomes impractical or impossible to adapt to further change, either because the response necessary is too costly, or because the technology required is unavailable. To address the longer-term, and potentially much more extreme, impacts of climate change and to limit the extent of irreversible change, immediate and sustained action to curb the emissions which cause climate change is required.

The UK already promotes initiatives to tackle the problem through ambitious domestic emissions reduction targets. However, there is a need for greater diplomatic and technical efforts to make the case and an opportunity to take a stronger international lead in pushing for effective emissions controls.

Developed countries account for the highest greenhouse gas emission levels: The US and the UK emit 22 and 16.2 tonnes per capita

respectively, while China and India emit 1.8 and 0.6 tonnes per capita respectively. Progress on climate change is a top priority as the UK takes on the G8 Presidency in 2005.

Recommendation 6.15

The UK government should use its presidency of the G8 to reinvigorate the climate change agenda and emphasise the links to future risks of instability and crisis as an additional justification for immediate action on climate change.

Recommendation 6.16

The UK government should mainstream risk management of climate change impacts into development programmes through:

- **Increased investment in climate change modelling capabilities and work to assess the human impacts of climate change;**
- **Investing in improved data collection and modelling for regions where data is insufficient to make detailed impact predictions;**
- **Undertaking early risk assessment of the impact of climate change on development to ensure long-term sustainability and resilience of programmes;**
- **Providing technical assistance to develop adaptation and response policies for those countries most vulnerable to the impacts of climate change.**

This chapter has demonstrated that the international community has a major role to play in creating a more conducive external environment in support of stability. External policies will rarely alone be the cause of instability but they can play a major part – particularly in they act to reinforce risk factors. Much of the current debate is focussed on the need for more aid, fairer trade and less debt. These are a critical part of policy response. But for countries mired in conflict and instability, or seriously at risk of being so, other policy responses may be of more importance in the short to medium term.

Chapter 7: Improving Response to Crises

What this chapter does

- Underlines the importance of responding early and more coherently to crises and identifies some key gaps in international response capacity
- Provides detailed assessment of those gaps and outlines how they can be addressed

Summary

- Three key areas in international crisis response capacity need to be strengthened:
 - The 'Responsibility to Protect' agenda. This requires:
 - an early response, identifying a 'special advocate' for every region that can highlight emerging crises and generate political attention for response;
 - mediation, strengthening 'good offices' capacity of multilateral organisations through developing their professional political officer cadre;
 - strengthening strategic capability in multilateral organisations, particularly the UN, and within governments that can work jointly to create a common long-term international strategy for peacebuilding.
 - Conflict financing interdiction. Three main sources of conflict financing are external powers, exploitation of natural resources, and organised crime. To stem crises, it is essential to reduce financial flows from these sources. Actions should include: reviewing how to tackle the financial nexus of conflict financing; increasing legislation and enforcement mechanisms to disrupt trading in 'booty futures'; tackling external power funding, with the creation of an independent reporting system that provides transparency of financial flows to conflicts from governments and other sources, and sanctioning such behaviour; and finally, regulating conflict commodities, by strengthening and extending existing commodity certification regimes

- Support and staffing of Peace Support Operations (PSOs). The effectiveness of PSOs is hampered by a gap between instability-driven demand and supply of up to 100,000 troops and civilian staff and the need for better mission support. The G8 Sea Island commitment is a welcome step towards closing this gap and should frame global capacity-building for PSOs.

7.1 Key Gaps in International Response

The international community needs to improve its crisis response and crisis prevention capabilities

The major emphasis of this report is how to translate the collective responsibility to protect into practical action. It has argued that a major shift towards investment in prevention is needed if this responsibility is to be taken seriously. Crises will still occur. The responsibility to protect norm also requires the international community to intervene effectively to save lives and alleviate suffering. This chapter sets out the steps needed to make this happen.

The international community is already engaged in a range of efforts to respond to crises. These include humanitarian assistance, political and diplomatic engagement, financial sanctions, coercive diplomacy, military intervention, civilian support, and international prosecution for human rights violations.

These efforts have been very important in reducing human suffering and providing the basis for longer-term resolution of conflicts. International involvement in the Balkans, Cambodia, El Salvador, and Mozambique has helped move those countries and regions out of crisis towards greater stability. Yet, despite international involvement, other countries and regions remain mired in conflict.

When crises erupt it is essential that response is early, effective, and coherent. A more coherent and credible international framework for response will make interventions more effective, deter would-be protagonists, and could substantially decrease the long-term need to intervene.

Most critiques highlight the fact that crisis interventions are generally too small, launched too late, and too short in duration. To address these, the international community needs to fill some key gaps in its capacity to respond:

- Supporting the ‘**Responsibility to Protect**’ agenda through practical

steps to enable early response to crises;

- Improving systems to **stem conflict financing**;
- Increasing the effectiveness and speed of deployment of **Peace Support Operations (PSOs)**.

7.2 Supporting 'Responsibility to Protect' Through Increased Capability

In order to achieve a coherent and credible international framework for crisis response, the UK is supporting the emerging norm of 'Responsibility to Protect' at regional and international levels and promoting concrete measures to make it operational.

Translating this norm into reality is a multidimensional process. Three important and practical steps are addressed here.

7.2.1 A 'Special Advocate'

Currently, crises receive international political attention at a late stage, when a dire humanitarian situation brings them into the media spotlight. Calls for action by internationally prominent figures help gain earlier attention for crises. Nevertheless, it is frequently not until a government, regional organisation, or group of countries with the capability and willingness to intervene calls attention to a situation that international action is catalysed.

There are two types of roles for such 'special advocates':

- Highlighting the level of humanitarian suffering in specific crisis situations, to alert the 'international conscience' and catalyse action;
- Helping coordinate the international community's response to crisis, at an international political level. During situations of humanitarian catastrophe a special advocate would typically make high-profile statements to the media as well as exert pressure on international organisations to act. If need be, it should expose the failings of the international community to respond effectively and coherently to crisis.

At present, a special advocate for any crisis emerges in an ad hoc manner, if at all. As a result, some crises get early and/or sustained attention (e.g. the Balkans) while others do not (e.g. DRC or Sudan). One way to improve early action in emerging crises is to be more systematic about defining international responsibilities for special advocates for every region of the world, to focus attention and galvanise action. Prominent examples of a special advocate role are South Africa for the crisis in Burundi, Norway in Sri Lanka, UK in Sierra Leone, or the Canadian-led 'African Great Lakes Group of Friends' initiative.

7.2.2 Strengthening the 'Good Offices' Capacities of the United Nations and other Multilaterals

The UN has a long track record of political involvement in conflicts through the provision of the Secretary General's good offices, including the appointment of special envoys and representatives for particular conflicts. In several intra-state conflicts, such as those in Namibia, Mozambique and El Salvador, the UN succeeded in bringing the opposing factions to a peaceful agreement. Other regional organisations, such as the EU or the OSCE, as well as individual states have also contributed to peaceful resolution of crises, for example in Macedonia (see box 7.1 below). The African Union has also increased its efforts in this area, building on the legacy of the OAU.

This capacity should be enhanced. The UN's Department of Political Affairs would benefit from the development and training of its officers, and the strengthening of its strategic capacity and resources. These are necessary underpinnings of improved effectiveness and the ability to capitalise on its successful work (e.g. in the African Great Lakes region), and the redirecting of its resources to high priority tasks and regions. The scale of the challenge is such that further development of the cadre of professional political officers is now necessary.

7.2.3 Improving the Strategic Capability of Multilateral Institutions for Peacebuilding Operations

Half of all new conflicts are recurrences of old conflicts. To break this feedback loop, the international community should develop a coordinated, sustained, and effective post-conflict reconstruction strategy for each engagement.

In many post-crisis situations, international action is not well coordinated and there is no common strategy for achieving the desired end result of long-term stability. This typically results in crisis response efforts of limited duration, which do little to rebuild country capacity or create long-term stability. Incoherent international action can also create new problems.

There are two key reasons for lack of a common long-term strategy for stability: the multiplicity of objectives of different agencies and countries; and a lack of strategic capability to develop a common approach among national governments, multilateral bodies like the UN, international financial institutions, and non-governmental organisations.

There are some common principles of engagement that emerge from recent experiences of the international community in a range of post-crisis countries⁹⁹:

⁹⁹ Joint Utstein Study of Peacebuilding (2004)

- Be realistic about the **length of overall international engagement** necessary to ensure sustainable transition out of crisis (plan for 10 year timeframe).
 - Ensure that **international engagement is politically informed**. As a minimum, international actors need to understand and engage with key players and elites, taking into account their interests and sources of power.
 - **Minimise the risk that solutions to short-term imperatives compromise the long-term sustainability of exits from crisis**. The enormity of the scope and depth of the tasks involved, combined with limited local capacity, demands careful planning.
 - **Prioritise**, to ensure that limited capacity and political will is not wasted by being spread too thinly.
 - **Time events carefully**, to minimise trade-offs between objectives.
 - Strike an appropriate balance between getting things done and the need to **develop local ownership to ensure sustainability**. Reformers should be supported and spoilers' influence reduced.
 - **Understand** that **informal institutions** and structures may well be more important than formal institutions.
 - Acknowledge that the international community is not always an unambiguous force for good, especially if actors are self-serving or poorly co-ordinated.
 - Recognise any regional or wider networked dimensions of the crisis.
- Applying these principles in a post-crisis situation requires strategic leadership, normally provided by the UN, a multilateral organisation, or a government leading a coalition of willing states. Such leaders need to first align their own departments and agencies and establish joint responsibility; then work with other international partners to build a common, long-term international strategy.
- The Peacebuilding Commission, proposed by the UN High Level Panel on Threats, Challenges and Change in December 2004, could offer a means to achieve such coordination¹⁰⁰. This approach will help ensure the development of common financial mechanisms, such as trust funds, that lock donors into long-term political commitments and phase the funding to match local absorptive capacity.
- Recommendation 7.1**
The UK government should work with international partners:
- **to explore options for the development of new and future Special Representatives for the UN, AU, and OSCE;**

¹⁰⁰ UN (2004a)

- **to support the creation of strategic planning and operational capability in the UN, EU, AU and OSCE without duplicating existing capacity;**
- **to develop professional backstopping capacity for preventive diplomacy, peacemaking and post crisis stabilisation;**
- **to ensure the development of integrated post-crisis stabilisation strategies.**

7.3 Conflict Financing

Reducing the amount of funding available to conflict protagonists can shorten a war or lessen its intensity. Tackling conflict financing is a complementary approach to arms controls (embargoes, export controls, stockpile security and gun amnesties): both seek to reduce the ability of conflicting parties to resort to violence.

Conflict financing can come from multiple sources:

- **Funding by external powers:** during the Cold War superpower funding allowed conflicts such as those in Mozambique and Angola to persist for many years. More recently funding from external powers has been important in the DRC and Afghanistan. Moreover it is possible that development assistance can cross-subsidise state spending on unsuitable military activities.
- **Sale of natural resources:** cross-country studies find that the presence of drugs and gems (especially diamonds) is associated with lengthy conflicts. For example, in Angola UNITA generated US\$3.7 billion from diamond sales¹⁰².
- **Funding from factional Diaspora groups:** important in Kosovo, Sri Lanka and Somalia. It is estimated that some US\$1 billion per annum in expatriate remittances is transferred to conflict zones (though this is a tiny proportion of overall remittances)¹⁰³.
- **Organised crime:** extortion, kidnapping, and smuggling are all known to have been used to fund conflict protagonists. In Colombia the National Liberation Army (ELN) received US\$20m from a western company which allowed it to re-equip and re-organise at a time when it was militarily weak¹⁰⁴.

There are three broad approaches which can be taken to combat conflict financing:

- **Disrupting the availability of finance to conflict protagonists.**
- **Increasing the diplomatic pressure and rules governing development aid to limit external power funding.**
- **regulating 'conflict commodities'.**

¹⁰¹ Fearon (2004)

¹⁰² Gamba & Cornwell (2000)

¹⁰³ Addison & Murshed (2000)

¹⁰⁴ Collier & Hoeffler (2003)

7.3.1 Disrupting the Financial Access of Conflict Protagonists

Conflict protagonists often enter into the global economy and financial networks when seeking to raise finance. Conflicts in Angola, Somalia, the DRC, Congo (Brazzaville), and Sierra Leone have seen combatants use booty futures - borrowing commercially against future earnings from nature resource wealth or selling exploitation rights, to pay for arms. In 1997, for example:

- in the Republic of Congo, Denis Sassou-Nguesso funded his uprising through the sale of oil exploitation rights¹⁰⁵;
- in the DRC, Laurent Kabila sold future diamond exploitation rights.

As long as conflict protagonists have potential access to financial markets to 'mortgage' their potential natural resource booties, this system will continue to fund conflict. The UK has developed laws allowing the seizure of assets linked to terrorism and organised crime. Improving the ability of the international community to cut conflict financing would require:

- agreement on the definition of conflict financing (as distinct from current action on terrorist financing);
- increased effort to collect information and evidence on the sources of conflict financing;

- agreement on when an international smart sanctions regime should be automatically applied through pre-agreed benchmarks.

7.3.2 External Power Funding

Funding from other states to conflict protagonists can be direct (financial sponsorship of rebel groups or an allied government) or indirect (development aid for education or healthcare may free up local revenue for or may be diverted to military expenditure). Financial support for conflict can also be intentional or unintentional, depending on the declared purpose of the funder and the attitude of the recipient toward the funds. Where funding is intentional and/or direct, political and diplomatic pressure can most easily be applied to the provider of funds.

Where countries are simultaneously involved in military aggression and are the recipients of large amounts of development assistance the donor community may inadvertently be 'cross-subsidising' conflict. This occurred to some extent in Rwanda and in the wars in the DRC. In some cases, military expenditure may be appropriate – a legitimate government may be defending itself against internal or external aggression. Funds not intended for such use should be clearly marked, and further assistance made conditional upon the transparency of their use.

¹⁰⁵ Ross (2002)

7.3.3 Regulating Conflict Commodities

The sale of natural resources played a central role in funding several of the civil wars of the 1990s, (e.g. in Sierra Leone, Liberia, Angola, the DRC and Cambodia). These experiences contributed to the creation of commodity certification initiatives for diamonds (the Kimberley Process) and timber (FLEGT).

Ultimately, there will be a limit to the effective extension of such certification regimes to other commodities. The diamond market has particular characteristics: an opaque trading system, a near monopoly by one company – DeBeers, and dependence on a single category of high-value good which consumers are increasingly willing to boycott if they believe its purchase might fund conflict (i.e. so-called ‘blood diamonds’).

The Kimberley process has shown positive impacts on stemming the financial revenues of conflict protagonists

The Kimberley Process is intended to introduce increased levels of transparency for the diamond business through granting certificates of origin for rough diamonds. This should ensure that diamonds from conflict zones cannot be sold on the market unless they are certified by participating government authorities. The Kimberley process (along with the

termination of conflicts in Sierra Leone and Angola) has made significant inroads in reducing the number of illicit diamonds that have reached the world market. Recognising this, in December 2004 the UN General Assembly endorsed the Process and urged the participation of all member states¹⁰⁶.

The EU timber initiative (FLEGT - Forest Law Enforcement, Governance and Trade) provides another opportunity of conflict commodity regulation

The EU has taken the lead in attempting to reduce the amount of illegal timber that enters world markets. There is evidence that illegal timber finances conflict in countries such as Liberia and Cambodia. Though not aimed exclusively at preventing the financing of conflict, FLEGT is a voluntary programme by which countries can sign up to a bilateral certification scheme. Once agreements are in place, timber from participating countries will not be allowed to enter the EU if it is not certified as legal.

Though a welcomed first step in addressing illegal timber, the voluntary nature of the programme means that countries that are not FLEGT signatories can still export timber to the EU without any checks. This can lead to market distortions where these countries become transit points for illegal timber from other countries. Part of the reasoning for the voluntary

¹⁰⁶ UN (2004b)

nature of the programme is the possibility of legal action through the WTO if the programme was to be made mandatory to gain access to key EU markets. The EU accounts for over 90% of African sawn wood and about 50% of African round wood. The EC is currently exploring how FLEGT can be further developed.

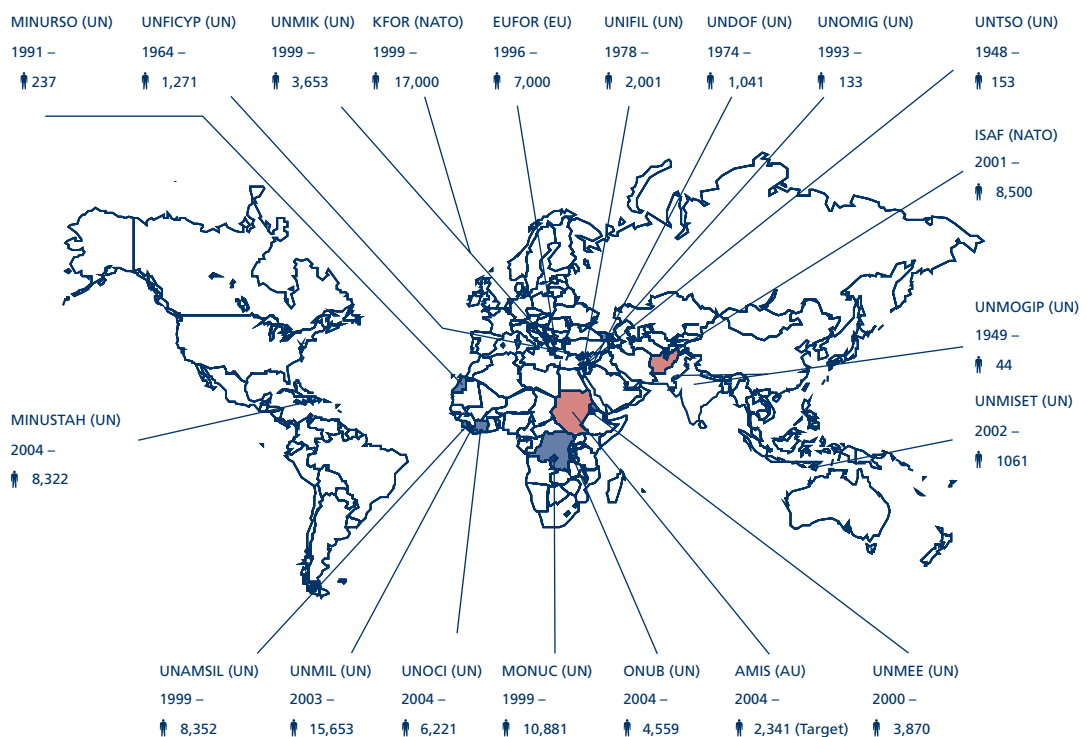
7.4 Peace Support Operations

Peace Support Operations can save lives as well as provide long-term stability

Peace Support Operations (PSOs) are very much the public image of intervention in the face of instability. Increasingly, PSOs seek

to organise elections, to provide safe space for capacity-building by NGOs and other countries' development assistance programmes, and prevent human rights abuses and outbreaks of armed conflict. Although the UN has been deploying 'blue-helmet' peacekeepers since 1948, modern peace support operations are much more complex and multi-layered than 'traditional' truce supervision and peacekeeping. While most are run by the UN (see Figure 7.1 below), there are examples of others carried out by member states or coalitions; e.g. the UK intervention in Sierra Leone in 2000, the EU's Operation Artemis in DRC in 2003, and the French action in Côte d'Ivoire in 2004.

Figure 7.1: Active Peace Support Operations: November 2004¹⁰⁷



¹⁰⁷ Source: UN, SU Analysis

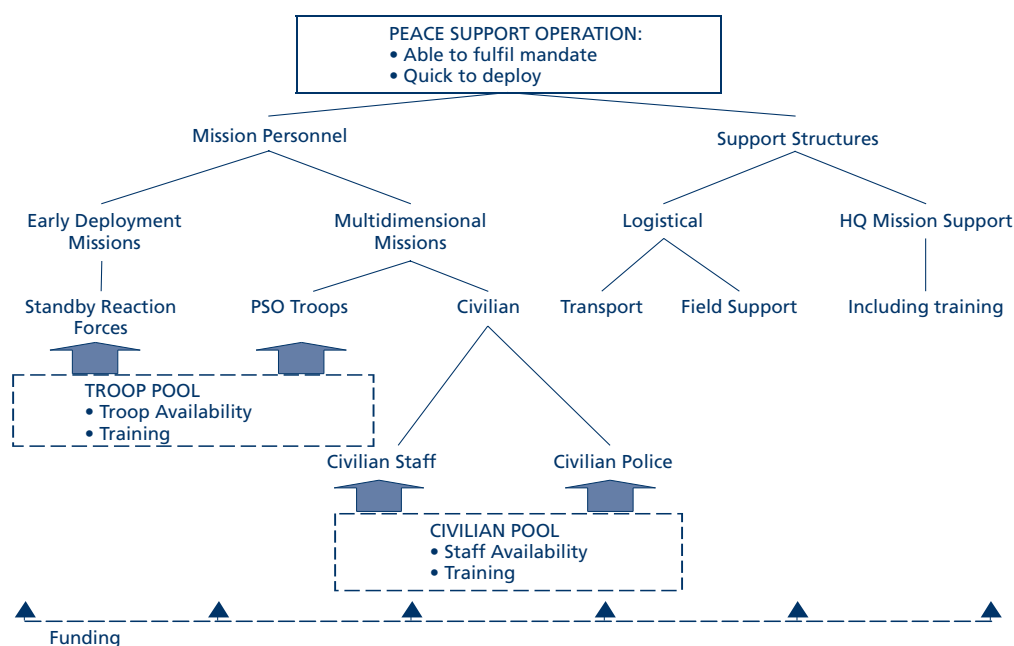
As outlined in Chapter 3, investing in the capacity for early intervention in unstable areas is more cost-effective than leaving intervention until a crisis has become too large to ignore. Furthermore, although emphasising prevention, the emerging international norm of Responsibility to Protect provides for intervention in a state or region in the event of actual or imminent large scale loss of life or ethnic cleansing¹⁰⁸. The UN High Level Panel report of 2004 reaffirmed that national governments have primary responsibility for the well-being of their citizens and detailed 5 criteria of legitimacy, supported by the UK, that any such intervention in extremism should be assessed against¹⁰⁹. These are:

- **Seriousness of threat** (i.e. genocide or ethnic cleansing)

- **Proper purpose** (i.e. clarity and agreement on the objectives of action)
- **Last resort** (i.e. have all other options been exhausted?)
- **Proportional means** (i.e. is the scale of the proposed operation appropriate?)
- **Balance of consequences** (i.e. are the consequences of intervention likely to be not worse than the consequences of inaction?)

PSOs are complex undertakings and the goal of a capable, quickly deployable pool of personnel depends on many factors. Figure 7.2 (below) breaks down a typical PSO into the critical capability drivers necessary for effectiveness on mission.

Figure 7.2: Capability Drivers for Peace Support Operations



¹⁰⁸ International Commission on Intervention and State Sovereignty (2001)

¹⁰⁹ UN (2004a)

Peace support operations can take many different forms. Preventive deployments (see box 7.1 below) are a key tool with which the international community can contain and defuse the instability-driven tension before it erupts into crisis and conflict. Often, the rapid stabilisation of a conflict situation can require a two-stage mission,

with an initial quick-response military deployment followed up by a larger multidimensional operation. The follow-on force, typically a UN mission, needs to possess the full spectrum of military, policing and civilian political skills needed to disarm and reintegrate combatants, cementing peace.

Box 7.1:
Rapid Response in The Former Yugoslav Republic of Macedonia

Macedonia teetered on the brink of civil war ten years after it gained independence in 1991. A combination of successful mediation, instant military support for a peace agreement and a follow-on policing mission stemmed the fighting and provided the country with a chance to develop peacefully.

In November 1998 parliamentary elections led to the emergence of a new governing coalition in Macedonia which for the first time since independence did not include representatives from the Albanian Democratic Party. Albanians form a minority of 25% of the population in a country where mostly ethnic Macedonians (64%) live. Resulting interethnic tensions turned to violence in February 2001. The so-called National Liberation Army – funded largely by organised crime – gained territorial control in northern and western Macedonia.

International mediation led to a ceasefire between the warring

factions in July 2001. As a consequence, the government coalition was expanded to include the Albanian political parties and a constitutional amendment improved the civil rights of people belonging to minority groups and allowed the deployment of NATO personnel into Macedonia. Two days after NATO authorised the mission, a British, Czech and French force arrived in Macedonia, followed by a wider NATO force with a peace support and arms collection mandate. The twin-track Operation Amber Fox combined operational and advisory elements to assist the government in taking full ownership of security in Macedonia. On 31 March 2003, the European Union CONCORDIA mission succeeded NATO. In addition, at the invitation of the Macedonian President the European Union seconded 200 police officers to assist and train the Macedonian police.

Successful mediation coupled with immediate international military presence and long-term 'policing deployment saved Macedonia from sliding into a protracted civil war.

In addition to its core intervention mission, global PSO capacity can serve an important deterrent purpose. A deployable, tested 'ready reserve' of PSO troops, police and civilian administrators would send a powerful message to would-be combatants. Commitment is as important as capacity: the deterrent effect of a PSO response force is all the more apparent if troop-contributing nations can demonstrate the political will to sustain a mission through the multi-year course of effective peacebuilding.

7.4.1 Gaps in PSO Capacity

Instability driven demand for PSOs consistently exceeds the international community's capacity to supply troops, logistics and funding

The shortfall in personnel deployable on PSOs can be analysed by looking at 4 factors:

- The **quantity** of deployable personnel in the global force pool;
- Personnel **quality** in terms of training and troop capability;
- **Deployment support** in the areas logistics and headquarters capacity;
- **Funding** to launch and sustain operations.

The quantity gap: the international community has a history of deploying too few personnel on PSOs

The consistent under manning of UN missions reflects the global reality that supply of personnel for peace support deployments has consistently failed to meet demand. As demonstrated in Chapter 1, and encapsulated in the rise in PSO deployments shown in Figure 7.3 below, instability will be a significant and enduring factor in the strategic landscape of the 21st century and demand for PSOs is not likely to fall.

Having an adequate number of troops available, suitably trained and equipped, and ready to be deployed in peace support operations is only part of the solution. The other part is the political willingness of governments to send troops when asked. Training troops must be complemented by work at the political level to obtain firm commitments that are turned into action when new missions arise.

By cooperating effectively, the UN, EU, AU, NATO and troop contributing member states of these bodies can fill the PSO gap, and ensure that each organisation's contributions are complementary and mutually supportive. Developments including the EU Battle Groups, NATO's NRF, the African Standby Force, and the UN's Strategic Reserve concept represent positive steps towards these ends. The UK's presidencies of the G8 and EU will provide excellent opportunities to advance international cooperation and

coordination, and the provision of any support for the ASF requested by the African Union.

Analysis of the roughly 100,000 troops deployed on worldwide peace support operations throughout the 1990s suggests a major numerical shortfall existed in the personnel required to meet the full range of challenges in responding to instability. It can be estimated that realistically-sized PSOs in response to crises in Liberia, Rwanda and the DRC alone would have required at least another 50,000 troops by mid-decade. A further deployable 'ready reserve' of 20,000 troops, and the political will for its deployment would have been needed to provide a credible deterrent effect. As a result of this gap, regional conflicts continued to fester, feeding instability.

At the start of the new century, the gap is estimated to be even larger. Shortfalls in uniformed personnel for current, mandated PSOs runs at roughly 30,000. In addition, there is a difference between military planners' estimates versus what is politically agreed in an operational mandate. This difference can be estimated conservatively as a need for an additional 10,000 personnel. At the end of 2004, with the continuing strong demand for extra UN deployments, particularly in sub-Saharan Africa, there is a need for the equivalent of two additional full-spectrum PSO deployments

(15,000 per mission), amounting to 30,000 troops. A deployable 'ready reserve,' which would provide a credible deterrent (that could be filled by initiatives like the NATO Reaction Force), would require 20,000 more troops. Finally, additional civilian police for operations would amount to another 10,000 personnel. Hence, the aggregate shortfall in PSO capacity is estimated at 100,000 troops and police¹¹².

Evidence suggests that the quantity gap is getting wider

Accurate estimates of the supply-demand gap in PSO capacity are inherently difficult; the above analysis is a 'best guess' figure with the consequences of the 1990s failure to act in Rwanda and the international community's experience of long-term peacebuilding in the Balkans given due weight. Although estimates of its size can vary, the existence of a global shortfall in deployable PSO personnel is undeniable. Future trends in instability will augment this gap if deployable capacity is not enhanced.

The capacity gap of the 1990s continues into the present century. By November 2004 some 64,000 uniformed personnel were deployed in the 16 peace support operations run by the UN. The vast majority of those personnel were involved in 8 'multidimensional' PSOs – those deployments, still at an early stage

¹¹⁰ O'Hanlon (2003)

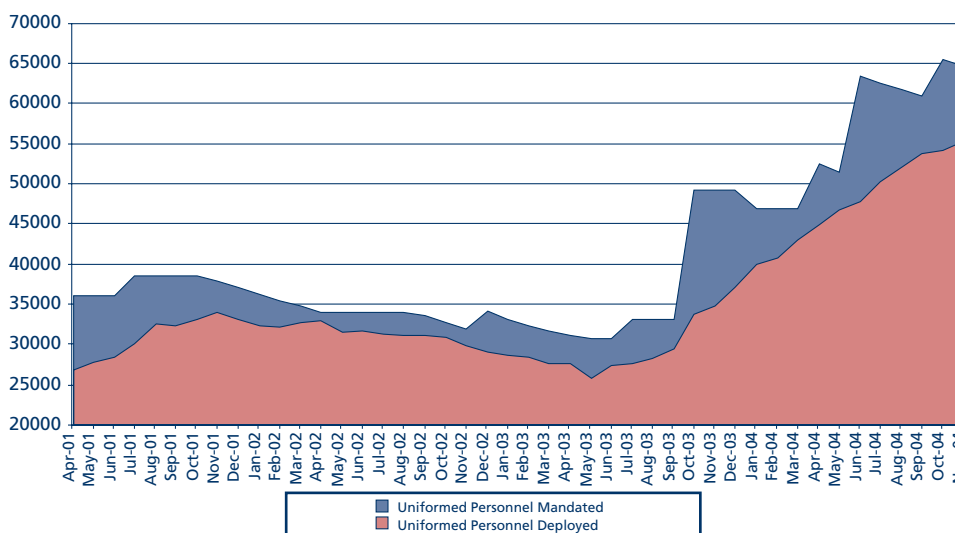
¹¹¹ O'Hanlon (2003)

¹¹² O'Hanlon (2003), SU Analysis.

in the lifecycle of a UN mission, comprise a large troop contingent, supplemented by military observers and civilian police. These missions, launched since October 1999, were

collectively understaffed by 14% below their mandated level. Figure 7.3 (below) shows the aggregate deployment picture for these 8 missions.

Figure 7.3: Mandated vs. Deployed Number of Uniformed Personnel, Multidimensional UN Peace Support Missions 2001-2004



This informs the wider picture of a running deficit of up to 10,000 uniformed personnel on all existing UN peace support operations¹¹³. Mandated levels may themselves fall short of numbers recommended by military planners and have had to be increased on several past missions in response to deteriorating security situations.

Civilian staff and 'rule of law' personnel are integral components of PSOs, yet the international pool of candidates for deployment suffers from the same numerical anaemia as that of military forces. The civilian

policing contingent requirement is typically about 10% of the total military strength¹¹⁴. 'Rule of Law' includes civilian police and carabinieri-type units, prison personnel, legal professionals, human rights experts, and a range of civilian personnel necessary to help monitor and re-build the State's rule of law institutions. Mission expertise in training local counterparts is essential to provide a foundation for stability and security.

Several UN missions have experienced supply-driven delays in deployment of police

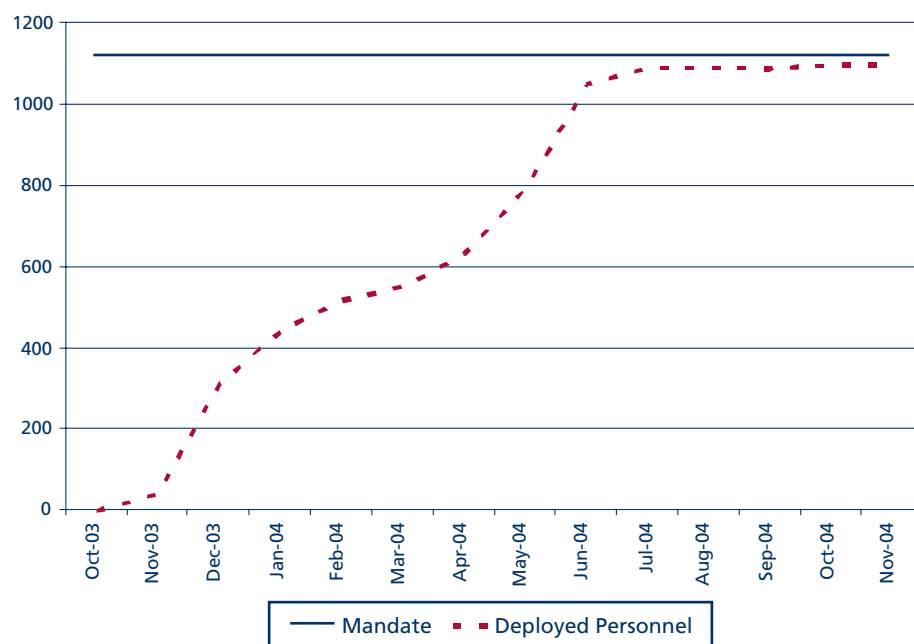
¹¹³ Source: UN DPKO, SU Analysis.

¹¹⁴ Source: UN DPKO, SU Analysis

personnel. Figure 7.4 shows such delays in staffing UNMIL (Liberia). 9 months elapsed before the police mandate was substantially fulfilled, and deploying half the mandated number took 6 months. Similar

difficulties occurred in staffing MINUSTAH (Haiti), which was given a mandate for 1,622 civilian police on 1 June 2004, but had only 224 officers on staff by the end of August 2004.

Figure 7.4: UNMIL (Liberia): Mandated vs. Actual Police Deployment



The skills and equipment of PSO personnel are also critical factors in improving global capacity for intervention

It is important to recognise that the gap in current PSO capability is not just a numerical shortfall. The preparedness and quality of troops are crucial enablers for multinational PSOs. Peace support operations require troops to be skilled in performing very varied tasks like 'hard' peace enforcement and 'softer' interpositional truce observation, working with integrated multinational commands,

observing human rights, and exercising awareness of HIV/AIDS.

Carabinieri, gendarmes and other police forces are increasingly playing a vital and robust role in PSOs, deriving their 'heavy' policing value from their ability to operate in the space between troops and civilian police. There is a finite pool – mostly in Europe – of police of this specialised type and the attention paid to their training initiatives by the G8 at Sea Island (see below) is indicative of a demand for their services that exceeds the deployable supply.

In contrast to the early 1990s, when 8 of the top 10 UN PSO troop-contributors were developed countries, the position has been reversed and African and Asian personnel now bear the majority of the global PSO burden. Developed countries' contributions have dropped to a very low level in terms of 'blue helmet' multidimensional operations – 6% of UN PSO personnel in Africa, for example¹¹⁵.

The deployment support gap: significant transport and headquarters capacity is needed to deploy PSO personnel in a timely manner

Shortfalls in the availability of appropriately trained PSO uniformed personnel are often compounded by similar gaps in the global planning, rapid deployment, and mobile headquarters capacity needed to move them. The consequent time lag between establishment or expansion of a UN PSO mission and the deployment of the majority of its personnel is typically around 6 months.

The ability to move large numbers of troops quickly to intervene in often unstable, isolated and infrastructure-starved areas is restricted to a very few actors. Strategic airlift remains essentially the preserve of the United States and to a limited extent Russia and the Ukraine, forcing the UN to devote 30% of peacekeeping procurement expenditure to air transport in 2002¹¹⁶. The UK's small

fleet of C-17 aircraft give it a valuable niche capacity but global PSO airlift potential will not receive a significant boost until the delivery of the European A400M theatre transport aircraft from 2007. Furthermore, the global dearth of available of in-theatre air transport (particularly helicopters) necessitates larger numbers of PSO troops on missions than would ideally be required, to compensate for restricted mobility.

There is a need for increased HQ and planning support for PSOs. In the early 1990s, the unprecedented growth in missions overstretched the roughly 400 PSO support staff at UN headquarters. The situation improved after the Brahimi Report in 2000 with the addition of almost 200 staff, but the burden of missions has since increased. In 2003, the UN had 14 missions underway, and in 2004 it launched three new ones and had a fourth to plan for. Outside the UN, NATO and the EU maintain and are augmenting an ability to deploy formed HQs. The capacity to manage operations is stretched thinly elsewhere, in organisations like the African Union.

The funding gap: shortfalls in funding are a major constraint on PSO effectiveness, timeliness and planning

A UN peace operation cannot possess a budget and incur costs until it has been formally approved by the Security Council. To achieve quick deployment, the UN Secretary-

¹¹⁵ Durch (2003), Durch et. al (2003); IISS (2004)

¹¹⁶ Durch et al. (2003)

General possesses a peacekeeping reserve fund that allows him to authorise expenditures up to US\$50 million per mission with a fund cap at US\$150 million at any one time. Start-up costs for UN missions are increasing and often breach the prescribed targets. UNOCI in Côte d'Ivoire incurred an estimated US\$69 million of costs in the start-up phase; equivalent costs for United Nations Operations in Burundi (ONUB) were US\$99 million. The cluster of new missions in 2004 has seen the cap on the overall reserve fund become a major impediment to the Department of Peacekeeping Operations' (DPKO) ability to plan and run operations.

The AU is in a worse position. Many members' contributions are significantly in arrears and foreign contributions are unpredictable and often highly conditional. Even the expanding NATO's hitherto-workable 'costs lie where they fall' model is under increasing stress as a few nations find themselves providing most of the allocated PSO infrastructure.

7.4.2 Closing the Gaps

The G8 Sea Island commitment to enhancing global PSO capacity brings together the training, logistical and financial paths toward filling the PSO capacity gap.

The lack of global capacity for the timely deployment of peace support personnel detailed above is being addressed by many different actors

and initiatives. Significant work needs to be done to ensure concrete progress is made. The commitments made by the G8 at Sea Island in 2004 to increase the effectiveness of peace support operations should frame the global effort. The G8 pledged to:

- Train and, where appropriate, equip a total of approximately 75,000 peacekeeping troops worldwide by 2010;
- Coordinate with African partners, the UN, the EU and others to maximise individual efforts to enhance African peace support operations capabilities and their related activities;
- Build peace support operations capabilities in other regions by 2010;
- Develop a transportation and logistics support arrangement to improve deployment speed and support to units in the field;
- Increase contributions to the training of carabinieri/gendarme-like forces¹¹⁷.

Effective training is the best way of turning troops into deployable peacekeepers and filling the PSO capacity gap

The headline commitment to train 75,000 new peacekeeping troops is an important step in addressing the global supply-demand imbalance for PSO personnel outlined above. Core

¹¹⁷ G8 Action Plan: Expanding Global Capability for Peace Support Operations (2004)

PSO capacity remains constrained by the insufficient size of the pool of available troops and police.

Although the 're-hatting' of an initially-deployed and fairly capable (i.e. AU) force into a multidimensional UN mission is not unprecedented, the bulk of the global shortfall of up to 100,000 PSO personnel derives from a lack of trained and available 'follow-on' troops to fulfil the multi-year commitments of interpositional peacekeeping and post-conflict peacebuilding. Existing PSO troops and police are increasingly drawn from Africa and South Asia and are supported by outside training for their peacekeeping skills.

Some existing bilateral training initiatives will help to meet the Sea Island commitment. Examples include the UK's British Military Advisory and Training Teams (BMATT), British Peace Support Teams (BPST), the French Reinforcement of African Peacekeeping Capabilities (RECAMP) programme, German support of the Kofi Annan Peacekeeping Training Centre in Ghana and the extensive, recently-funded US Global Peace Operations Initiative.

Reaction force initiatives complement but do not always replace core PSO capacity

The 21,000 soldier NATO Response Force (NRF) and the EU initiative for 13 battlegroups of 1,500 troops form the kind of credible, capable

and quickly deployable 'ready reserve' forces for PSOs that were unavailable to the international community in the 1990s. The NATO force was declared operational in October 2004 and the first two EU battlegroups are due to become ready in 2005. The NRF is sustainable for 1 month, while EU battlegroups will be able to take on deployments of 3 months duration. The UK has specifically cited the EU initiative as filling the gap in forces able to respond rapidly to instability and crises in sub-Saharan Africa¹¹⁸. For longer-term PSOs, EU member states intend to have a pool of 60,000 troops that could be deployed at 30 days notice and sustainable for up to 1 year.

Lingering issues of 'double-counting' amongst EU and NATO initiatives make certainty as to available force levels and deployability difficult to achieve.

The African Union is creating an African Standby Force, comprising 5 regional brigades of about 3,000 troops each. The regions are at very different stages in the planning process. While some component brigades will be operational sooner than others, the overall deadline is 2010. This is an ambitious timetable and significant support is needed to ensure it is met.

The Sea Island commitment to train 75,000 troops potentially fills three-quarters of the current shortfall in PSO personnel by 2010 but needs careful monitoring in implementation.

¹¹⁸ Prime Minister Tony Blair (2004)

75,000 new, trained, deployable PSO troops by 2010 will go a long way towards providing the capacity the international community needs to staff UN and other missions to their mandated levels and achieve the 'surge' ability to deploy peace support personnel behind 2 rapid reaction force interventions in a given year. This will only happen if trainees are made available for PSO deployment (not simply absorbed into national militaries) and if existing bilateral training programmes are fully exploited. It should be emphasised that Sea Island, though significant, is a first step: 75,000 new deployable troops and police by 2010 only narrows gradually the gap of 100,000 deployable PSO personnel that is apparent at the end of 2004.

Recommendation 7.2

The UK government should make the case internationally for a substantial increase in deployable PSO troop capacity to cover the current shortfall. This should comprise:

- **working with G8 partners and existing PSO troop contributors as well as the African Union, sub-regional organisations (to support the African Standby Force) and new troop contributors to build medium term PSO capacity. The UK military should explore ways of enhancing its partnerships to provide such training for current and new PSO troops.**
- **working with partners to increase the international community's**

civilian staff and police deployment capacity, and the speed of this deployment in line with current and projected needs.

- **increasing its own ability to rapidly deploy civilian staff and 'rule of law' personnel by exploring means to attract more UK police officers for international missions.**

Investments in increased logistical and headquarters support for PSOs need to be made

By committing to the development of a logistics support arrangement at Sea Island, the G8 acknowledged that investing in access to strategic airlift and in-theatre transport improves speed of deployment and widens the area that can be covered by PSO troops. Returns on this investment are realised in reductions in the start-up and maintenance costs of peace operations. The UN Logistics Base at Brindisi represents a big step forward in in-theatre logistics support. Smaller equipment dumps such as those established by France and the US in Africa could be utilised for PSOs. Such initiatives need to be coordinated, particularly with the AU ASF, and taken further. Developed countries have an important role to play in providing logistical support and equipment for PSO troops from around the world.

The UN DPKO's considerable experience and expertise in running complex multidimensional missions around the world should be built on

and its mission support HQ expanded to match the increasing number of PSOs. The G8 has pledged to assist African initiatives and support the nascent planning capabilities of the AU Secretariat to strengthen its capacity and enable it to play a complementary role to DPKO.

Recommendation 7.3

The UK government should expand current work with its international partners to improve deployment support for PSOs, particularly in the areas of:

- transport (to and within theatre)
- field logistics
- HQ mission support

through a number of specific steps, e.g.:

- the sharing of G8 member troop projection assets with other countries and organisations
- working to increase and improve DPKO mission support
- supporting the long term leasing or acquisition of air transport for the UN Logistics Base
- working with the AU Secretariat to increase its capacity for deploying and sustaining PSO troops.

Changes to methods of financing will enable PSOs to be launched more quickly

PSOs need to be fully financed if they are to fulfil their mandates and effectively reduce further instability. In addition to material support,

developed countries should consider increasing their financial support to PSOs run by other nations or organisations on a case by case basis. This is a question of improving the efficiency of current spending as well as of funding levels.

Recommendation 7.4

The UK government should attach a high priority to current work with partners in international organisations to improve financing mechanisms (e.g. the Secretary General's Reserve Fund or the replenishment of funds and equipment for the UN Logistics Base in Brindisi) so that budgeting and financing do not turn into bottlenecks impeding PSOs.

This chapter has focused on how the international community can ensure the emerging norm around responsibility to protect can be made operational when crises occur. Critical gaps need to be filled: special advocates, effective use of "Good Offices", cutting access to conflict finance and filling quality and quantity gaps. In order for the UK to respond effectively as outlined above, its systems of response must be designed appropriately. This too, goes for other countries and organisations, including the EU and UN. The final chapter of this report discusses how the UK's capability to think and act in order to prevent instability, and react better to a crisis should be shaped by an understanding of the risks of instability.

Chapter 8: Strengthening Systems for Responding to Instability

What this chapter does

- Explains how governmental systems should be strengthened to deliver better responses to countries at risk of instability
- Analyses the strengths and weakness of current systems addressing countries at risk of instability
- Lays out priority proposals for strengthening UK and international systems

Summary

- Implementing a more preventive and strategic approach to countries at risk of instability will require significant improvements in international and UK government decision support, strategic analysis and delivery systems. Current systems do not drive adequate preventive investment in long run stabilisation, either through country partnerships or the building of regional and global institutions.
- The key barrier to more effective action is a lack of common or aligned strategic approaches. Political differences and divergent interests will always inhibit cooperation, but building better systems to develop solutions will increase the likelihood of cooperation
- System weaknesses are common across all countries and key international institutions such as the UN, AU, and EU. The UK is ahead in implementing better joined-up approaches to delivery, but could improve its decision support, strategy and evaluation systems. Current systems could more effectively utilise existing information sources and build stronger medium to long term analytical capability and knowledge management.
- Better international collaboration will require better cooperation between countries and institutions to drive change across the international system focusing on four areas.
 - Better Risk Assessment and Early Warning;

- Strengthening Strategic Decision Making Capability and Processes;
- Implementation Planning and Evaluation;
- Building Platforms for International Co-operation.
- The overall impact of these changes should be to produce more effective and efficient use of existing resources, and to provide necessary strategic analysis to underpin proposals for scaled-up and sustained preventive action.

8.1 Meeting the Challenge of Instability

Tackling instability effectively requires systematic and sustained strategic approaches, driven by new decision support and implementation systems

This chapter explains how governmental systems need to be strengthened in order to deliver the four strategic packages of response to instability outlined above.

The UK's international objectives will not be achieved in a global context where country instability and crisis continues to be endemic. A strategy focused on better crisis response is not sufficient to address these risks, and will result in delayed action, overstretch of available international resources and over-investment in reactive capacity at the expense of more cost-effective preventive instruments.

Analysis of current work on conflict and crisis prevention, both in the UK and internationally, has highlighted a set of key components needed to underpin strategic preventive interventions:

- **Robust medium-long term risk assessments** based on the widest range of information to drive investment in preventive action, and develop national/regional capability to better manage crises if they emerge.
- **Clear analysis** of how economic, institutional, political, environmental and external risk factors interact to drive the dynamics of instability.
- **Common understanding** across actors of how all levers – developmental, legal, diplomatic, military, economic – can be used to reduce risks of instability.
- **Mechanisms to align any potentially conflicting objectives** (e.g. anti-terrorism cooperation, human rights protection) across all actors and sectors.
- **Clear strategic planning** that can align objectives and release resources and action towards a common end goal.

No one approach – diplomatic, military, developmental etc – is

sufficient to address these situations effectively. Unless they can be joined up the result is likely to be inaction, as each individual actor realises they can have no meaningful impact on their own. A similar logic motivates a focus on long term investment. Early investment in institutions and capability will help better to manage crises when they occur. A lack of investment in preventive capability limits options for responding to short term crises and hence there is likely to be less political will to act.

The increased investment in additional international capability, such as additional peace support and policing capacity, is a necessary but insufficient part of improving responses to countries at risk of instability. Without the tools and capability to design effective strategies for prevention and intervention it is unlikely that a significant increase in effectiveness will be achieved.

8.2 Assessing UK and International Systems

Systems for addressing Countries at Risk of Instability have been improving

UK and international systems for addressing instability faced by countries have been constantly evolving over the last decade. The UK has been a leader in innovation around joining-up cross-government action through the Conflict

Prevention Pools and more recently the Post-Conflict Reconstruction Unit. Similar and complementary approaches have been developed by other actors including the US, EU, UN, Australia, New Zealand, Germany and the Netherlands. Significant investments have also been made in peace support, policing and humanitarian capability.

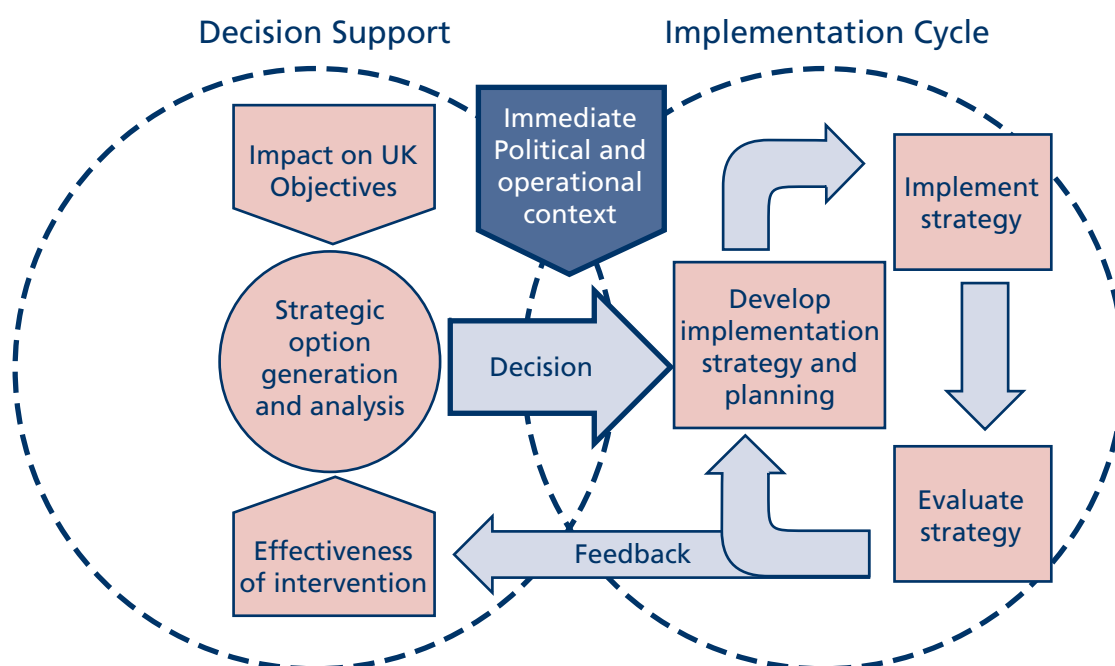
To identify specific weaknesses and gaps a detailed and systematic mapping of current UK and international systems was undertaken. The analysis was based on structured interviews based around the generic process in Figure 8.1, which splits the process into three main blocks:

- **Decision Support:** How analysis of risks of instability, their impact on UK objectives and the effectiveness of potential interventions is brought together to develop options for action along with analysis of cost, impacts and risks.
- **Decision:** The ministerial decision where, how and with what level of resources to act is taken based on the options generated by the decision support process. This must also take into account the immediate political and operational context (e.g. existing military commitments; positions of major allies/regional groupings; public attitudes).

- **Implementation Cycle:** The broad direction decided by ministers is developed into a detailed implementation/contingency plan. This is then implemented and goes through a cycle of constant evaluation and review. Periodically, or if implementation is far off track, a strategic review will be undertaken with a revised strategy going again to decision makers (represented by the bottom feedback arrow between the circles)

Strategic approaches to countries and regions undergo a constant iteration through this process, as events and impacts on UK interests drive a greater or lesser focus on a particular area. Most decisions and implementations also involve intense international engagement, and this generic process also applies at the UN and in other regional bodies.

Figure 8.1: Generic Organisational Process for Addressing Instability



There are nonetheless areas for improvement

The overview results of this assessment are given in Figure 8.2 and are divided by major UK international thematic objectives. The assessment focuses on the effectiveness of cross-

governmental activity and is measured relative to the standard of current best-practice collaboration seen across all governmental policy (domestic and international areas).

The UK system has a strong capability for assessing short term security and

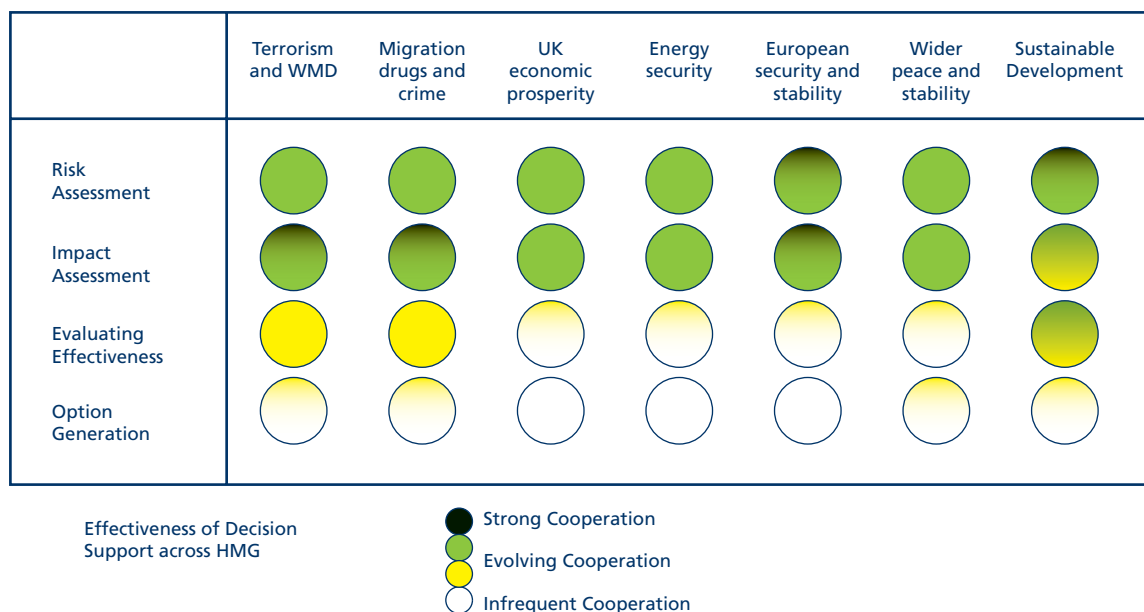
humanitarian crises. Detailed understanding exists of the short run impacts of instability on some individual security, economic, development and humanitarian objectives, but understanding of network impacts (e.g. criminal networks; energy security) is less mature.

On risk assessment, medium and long term analysis is the main area requiring strengthening – except on poverty and environmental objectives where long term analysis is well developed internationally. Medium term impact analysis outside the security sector could be improved, especially understanding linkages between objectives and regional level effects.

As a whole, risk and threat assessment systems are stronger across all objectives than evaluation/lesson learning and strategic option generation and analysis. However, in other respects implementation systems are more developed than decision support systems; for example, implementation has dedicated cross-governmental bodies such as the Conflict Prevention Pools and Post-Conflict Reconstruction Unit.

Weaknesses in strategic option generation result from the structural difficulties of multi-disciplinary working between departments. This issue was also identified as the main challenge in all countries and international institutions consulted.

Figure 8.2: UK Cross-Governmental Decision support and Evaluation



Source: SU Analysis

These weaknesses are also present in some parts of the international system

The international system, whether at the UN, regionally in EU/OSCE/AU or in key allies, suffers from some similar problems. This reduces the ability of the international community to act quickly and collaborate on longer term preventive approaches. There are particular problems with:

- The lack of a common international approach to assessing risks of instability, especially given inability to reach agreement on the Brahimi proposals to build risk assessment and early warning capacity inside the UN;
- Weak capacity in all key institutions to generate strategic analysis, options and planning in advance of crises;
- Lack of joint processes to build understanding of best-practice and joint doctrine in prevention and intervention across all sectors (e.g. as compared to the OECD Development Assistance Committee);
- Persistent institutional, constitutional or legal constraints to acting in a coherent and co-ordinated manner across the stability agenda;

There is no technical or institutional fix which will ensure international

agreement on action in all cases. However, a better joint understanding of the causes and dynamics of instability, and better ways to reduce risks and intervene in crises where necessary, will improve the likelihood of more investment in prevention and quicker international action in response to crisis.

8.3 Strengthening UK and International Systems

Priorities for strengthening governmental systems have been developed based on the gap analysis above, and through wide consultation with governmental and non-governmental experts from many countries and institutions.

The recommendations cover four main areas:

- **Better Risk Assessment and Early Warning** to provide a shared basis for prioritising investment and driving responses to emerging crisis.
- **Strengthening Strategic Capability and Processes** to develop better and more robust options for decision makers that have real effects on instability.
- **Implementation Planning and Evaluation** to ensure strategic planning translates into joint action and lessons are learnt which can drive future strategic analysis.

- **Building Platforms for International Co-operation** to allow enhanced co-operation on technical issues, share experience and lay the foundation for international co-operation.

Recommendations apply to both the UK and the international system, as improvements in the UK will have limited impact on their own, and discussions with other countries show a strong appetite for enhanced collaboration on instability-related issues, particularly around risk assessment and early warning.

8.3.1 Better Risk Assessment and Early Warning

The UK has multiple risk assessment and early warning systems, but they need to make better use of available information

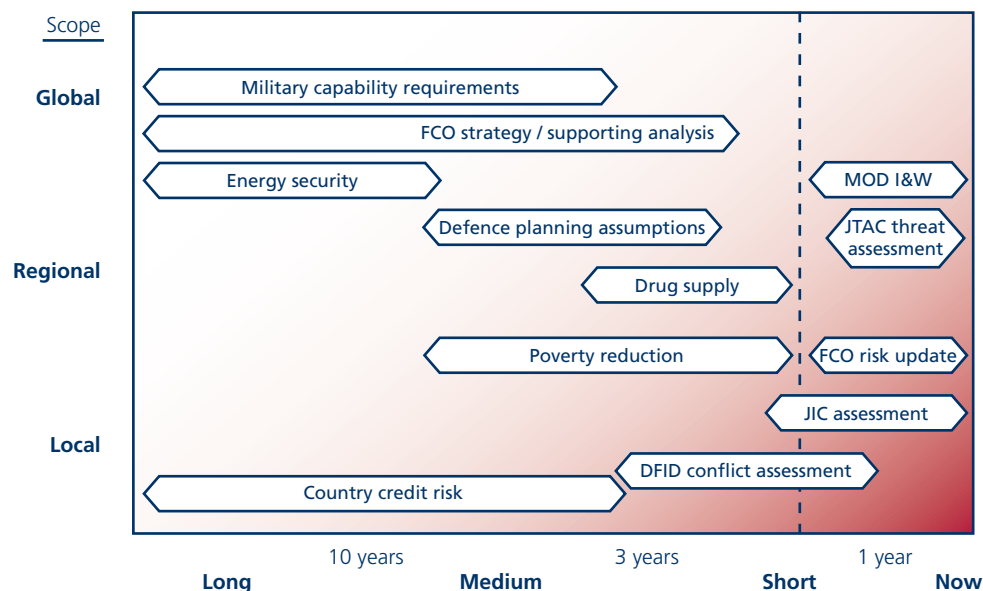
The need for better risk assessment and early warning of instability has emerged as a constant theme in all countries and institutions consulted. There is a need for better

assessment, and more alignment of countries around risk assessment as a basis for action. As outlined in Chapter 2 a distinction should be made between risk assessment and early warning. Assessing the risk of instability involves analysing 'structural' factors and can be carried out over variety of timescales from 1 to 15 years. Early warning involves targeted monitoring of emerging signs of crisis and instability. Monitoring strategies should be designed in the context of understanding, generated by longer term risk assessments; they do not attempt to 'predict' crisis but ensure early signs of instability are picked up effectively¹¹⁹.

Figure 8.3 shows the UK has a range of existing different risk analysis and early warning systems, the shading denoting the strength of analysis in each area. This shows the current focus on short term analysis. There are separate risk assessment systems in many departments which are tailored to specific tasks, cover different aspects of instability and have different geographical focus.

¹¹⁹ See the accompanying analytical papers available on the Strategy Unit website.

Figure 8.3: Current Scope of Existing Major UK Risk Assessment Systems



Source: SU Analysis

There is no 'magic bullet' solution for good risk assessment

A review of existing and proposed methods and tools in the public and private sector is given in Annex 1 at the end of this chapter. On the basis of this analysis it is clear that there is not a quick solution to better risk assessment. The process is highly dependent on expert judgement and knowledge. However, improvements are possible by more systematic use of all the available tools and information, inside a structured framework such as the 'Instability Framework' outlined in Chapter 2. The key principles which underlie undertaking good assessment and producing useful outputs are:

- **clarity** of assumptions and origin of data sources;

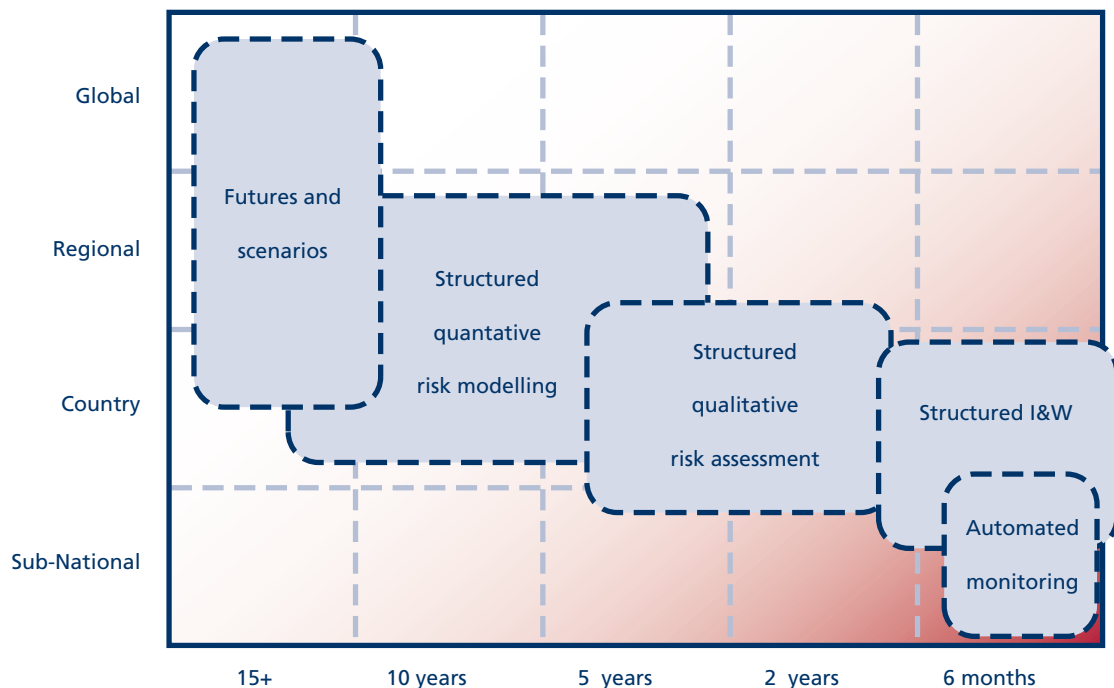
- **comprehensive** use of a complete range of relevant sources and approaches;
- **contestable** approach using a structured process and assessments produced by different methods and sources which produces an explicit audit trail;
- **comparable** assessments between different countries and regions.

The system should also provide risk 'products' focused on the strategic needs of decision makers. This will require risk assessment over a range of timescales in order to support the longer term investment and medium term resource allocation described in Chapter 3. This implies a set of different approaches as shown in Figure 8.4 many of which will require a degree of innovation and experimentation to develop useable

systems. There must be adequate investment in the system to allow exploration of cutting edge solutions

and the production of new data, as well as producing better assessments based on the existing approaches.

Figure 8.4: Scope of Different Risk Assessment Methods



Features of improved risk assessment systems

The key aims of improved risk assessment and early warning system should be to:

- Provide decision makers with better early warning of instability and crisis.
- Provide new systems for medium and long term risk analysis to drive preventive action and investment.
- Increase the consistency and quality of risk assessments,

through clear process and comparison/cooperation with external sources.

- Utilise all relevant resources and assets in risk assessment and prevent wasteful duplication of analysis across departments.

The system requires several different functions. The core is the co-ordination the production of risk assessments using existing data streams and assessments. The system should focus on using open source and UK Government data, across the full range relevant to instability (e.g. using existing Treasury/Bank of

England economic risk models and ECGD credit risk modelling).

Regular comprehensive risk assessment of all countries should ensure that countries where risks are increasing are flagged to policy makers before they are assessed for importance to UK and international objectives, thus preventing institutional 'blindness' to emerging crises in countries currently of low importance. The assessment should provide an ability to identify emerging instability across the full range of countries, maintain sustained focus on instability in countries of high strategic importance, and identify fast rising instability.

Production of such assessments requires a structured process for producing near-term and medium term risk assessments for use in policy and strategy processes. The Instability Framework provides a basis for this, and as recommended in Chapter 2 should be further developed into a workable assessment tool¹²⁰.

Quantitative modelling should play a more central role in providing a comparator to structured expert assessment, and is needed to provide probabilistic projections of instability for medium term resource allocation decisions. Many different quantitative models have been developed over the last decade (see Appendix 1 and Box 8.1), and are beginning to provide useful results though somewhat limited by data availability and accuracy, and a lack of systematic

assessment of forecasting performance. The common interest of all countries in improving risk assessment argues for a co-ordinated approach to developing improved approaches and data sense.

Box 8.1:
US Centre for Army Analysis
ACTOR model

The ACTOR (Analysing Complex Threats for Operations and Readiness) approach seeks to analyse the relationship between macro-structural factors in a country and historical instability, with a view to forecasting likely future instability over different time horizons.

The data inputs cover all countries from 1975-1999, spanning 12 macro-structural variables selected on the basis of prior theory. The FASE pattern classification algorithm is used to analyse the relationships between the configuration of structural variables and historic conflicts. Decision rules are used to allocate an expected intensity of instability to each country year, the model is also capable of allocating a 'not sure' value at this stage.

When the evolution of structural variables is known, the ACTOR method is capable of anticipating likely levels of instability 5 years in advance with about 80% accuracy. It also achieves 75% average recall (correctly predicted conflicts / all conflicts) and 66% average precision (correctly predicted conflicts / all predicted conflicts).

¹²⁰ See the accompanying analytical papers available on the Strategy Unit website.

To provide the full context for risk assessment a capability to consider fundamental future changes such as the impact of climate change, globalisation and HIV/AIDS on the risk of instability is needed. Many governmental and non-governmental groups perform such futures and trend analysis, but this is seldom consistently applied to risk assessment and strategic analysis. A clear structural understanding of country risk is needed for policy advice¹²¹.

Producing these regular risk products with the minimum of bureaucracy will require better knowledge management systems, based around intranet sites for individual countries. The role of staff retention and longevity should also be seen as a crucial part of knowledge management including and developing new systems for training and retaining analytical capability.

Recommendation 8.1

The UK government should strengthen its risk assessment and early warning systems addressing countries at risk of instability covering the following components:

- **A process to produce an agreed regular risk assessment of countries at risk of instability.**
- **A structured process for producing near-term (12-24 month) and medium term (3-5 year) risk assessments to inform strategic analysis.**
- **Exploring the potential for enhanced use of quantitative modelling techniques.**
- **Work on international futures and horizon scanning.**
- **Enhanced knowledge management systems.**

A key component of improving UK systems is having good comparable risk data and analysis from other governments and non-governmental sources in order to 'triangulate' UK assessments and collaborate on new methods and approaches.

Recommendation 8.2

The UK government should strengthen work with EU, US, NATO and other partners and institutions to improve existing risk and early warning analysis approaches and processes and where appropriate share assessments.

The strategic process should propose monitoring strategies for particular countries. An additional flexible monitoring capability should provide 'surge' resources to quickly strengthen in-country monitoring capability.

This should be complemented by further developing automated news feed monitoring and indicator systems, which would provide a consistent flow of numerical indicators based on far larger amounts of data than can be analysed by posts or analysts individually. These types of systems are already being used by the US

¹²¹ See the accompanying analytical papers available on the Strategy Unit website.

Army, European Commission, and various NGOs and private sector bodies.

Both NGOs and private companies provide an additional source of comparable assessments and innovative data and analysis; though the quality of assessment is sometimes patchy. The creation of an authoritative, independent public risk assessment platform (the 'Moody's' equivalent for instability) would provide a vital public risk measure and resource. This could be funded by interested governments or by private foundations with an interest in this area.

Finally these new systems should be supported by stronger analytical and strategic skills across all relevant departments. Given the importance of human judgement in this area, it is also vital to ensure continuity of staffing in critical areas as a part of a knowledge management strategy – avoiding 'leakage' of accumulated skills and knowledge into unrelated areas. Building a broader cadre of analysts should allow specialists to follow a career path in a range of related analytical areas including: economics, politics, development, institutional, country and regional analysis. A complementary approach would be to develop a pool of external expertise to be employed when required.

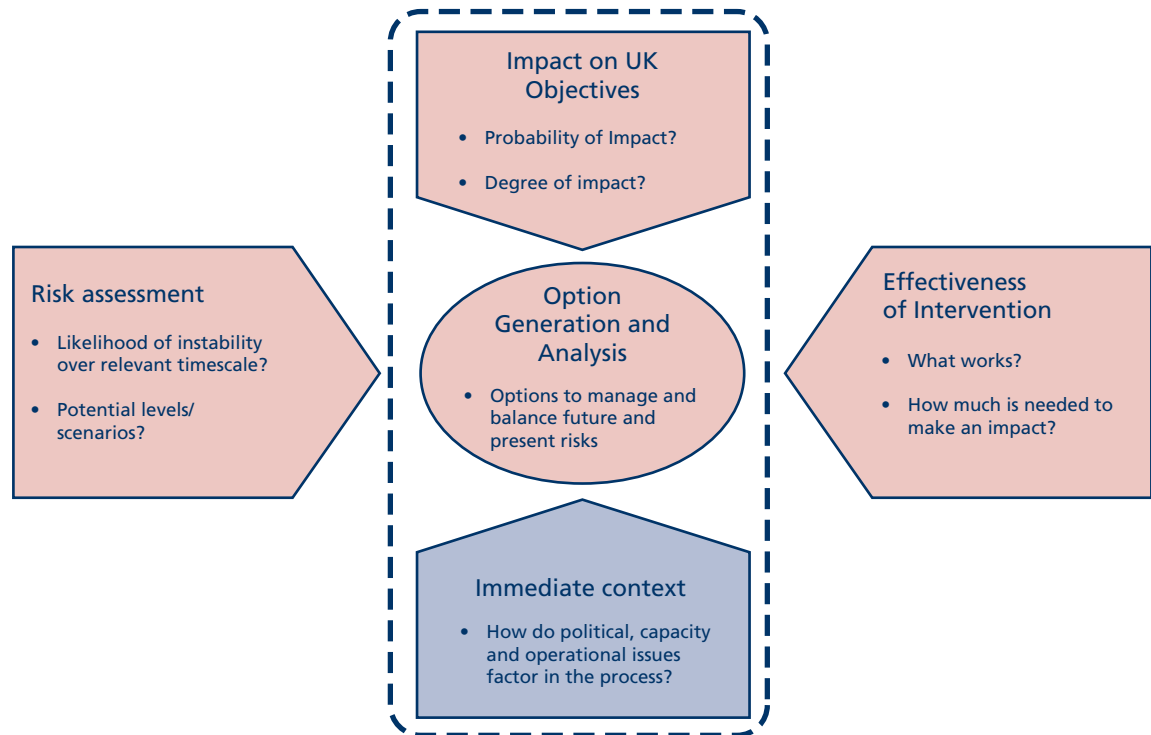
8.3.2 Better Strategic Decision Making Capability and Processes

There is a need to strengthen capability for strategic analysis and option generation

As shown in Figure 8.5, better risk assessment is only one part of improving strategic decision support. A common gap identified by all countries consulted is a lack of capacity to create and analyse strategic options for policy makers. As a result strategic proposals going to decision makers often fail to: provide clear choices between courses of action; highlight implicit trade-offs or conflicts; take into account medium and long term risks to objectives; and provide deep analysis of whether the scale of proposed actions will materially impact the risk of crisis in a country.

The result is that there is often unclear strategic direction for operations on the ground, which lowers the effectiveness of all diplomatic, developmental and military deployments. This strategic role cannot be achieved during the implementation phase of operations and programmes, as this is too 'downstream' in the process to ensure alignment of objectives, approaches and resources across the medium and long term.

Figure 8.5: Elements of the Strategic Decision Support Process



Strengthened systems for strategic analysis

The aims of an improved system for strategic analysis should be:

- **To ensure robust strategic options for action** are given to decision makers for decisions, which provide clear direction for action and end goals.
- **To ensure impacts on all issues are coherently and consistently considered** across countries and regions during the prioritisation process.
- **To provide sufficient capacity** to lead high-quality strategic processes.
- **To consistently incorporate medium and long term risk**

analysis and evaluation of past interventions into strategic analysis.

As argued in Chapter 3, it is impossible to make prioritisation decisions about a country in a vacuum. Sensible strategic options must draw on thematic and regional strategies; for example, decisions on any particular country may need to be made in the context of the UK's terrorism, migration and energy security strategies. Developing a full range of effective regional and thematic strategies is therefore vital to guide priority setting for country engagement.

To develop priority strategies requires multidisciplinary teams working in a dedicated manner. Experience from this report suggests

that a team of around three full time staff should be able to carry out an initial strategic analysis in 2-3 weeks and a detailed analysis in 2-3 months. This assumes coordination of a full range of interests across and extensive external consultation and research¹²². There is also a need to ensure best-practice strategic methods are embedded in these processes, drawing on best practice in strategic analysis.

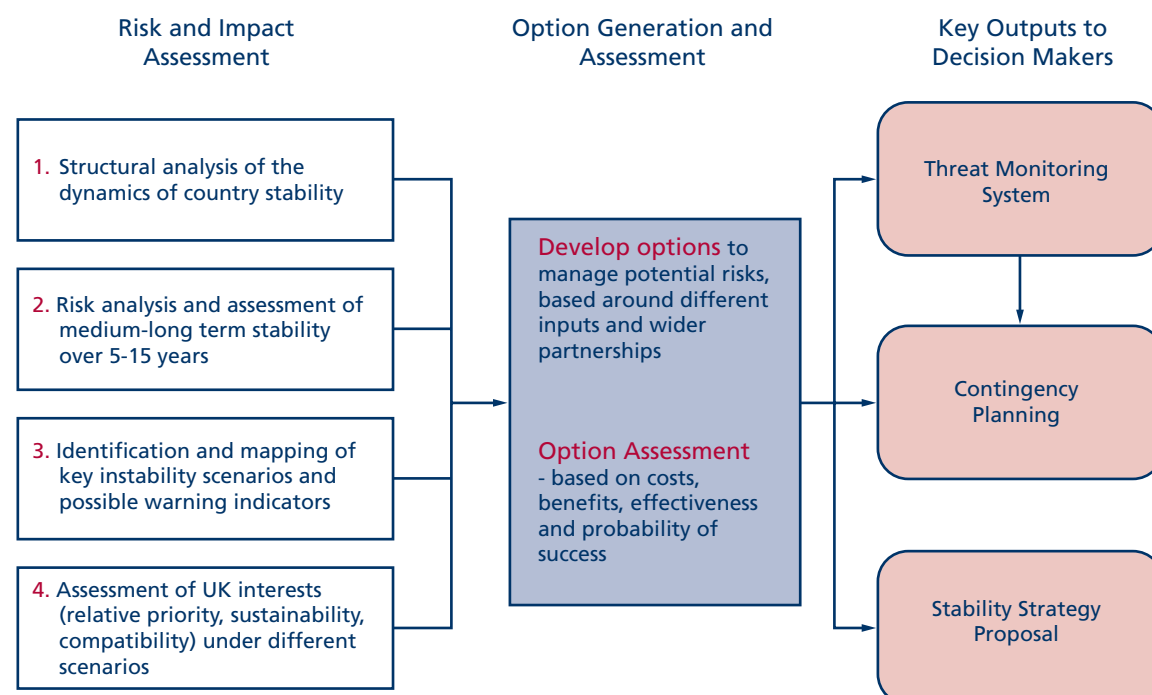
Recommendation 8.3

The UK government should strengthen governmental capacity to carry out strategy formulation on countries at risk of instability; improve strategic methods and skills and develop the 'Instability

Framework' as a strategic analysis tool.

The scope of the recommended strategic process is outlined in Figure 8.6. This involves a full medium and long term risk analysis and scenario generation, structured review of impacts on UK objectives and a comprehensive option generation and assessment process. This should result in the production of: a strategic options paper with resource implications and probabilities of success; recommendations for contingency planning; and a country monitoring strategy to drive development of country early warning indicators.

Figure 8.6: Outline Strategic Process for Countries at Risk of Instability



¹²² See the accompanying background papers available on the Strategy Unit website: www.strategy.gov.uk.

Identification of priority countries at risk should release adequate resources for the relevant level of strategic assessment. The agreed strategy should also guide the allocation of programmatic and departmental funding.

Weakness of strategic capability is a problem across all countries and institutions. By developing and sharing strategic process and tools the UK will help strengthen other actors. However, given the range of tools at its disposal the UK priority should be to strengthen strategic capacity and alignment in the EU in support of the European Security Strategy. Key to this is building an EU practitioners network on instability and intervention between Member States and the Commission structures; similar to the existing EU Green Diplomacy Network.

Recommendation 8.4

The UK government should work with the European Commission and Council in 2005 to develop an EU practitioners network on countries at risk of instability between Member States and the Commission structures.

8.3.3 Implementation Planning and Evaluation

Once a decision has been made on the type and level of engagement in a country the strategy is moved onto the implementation cycle. In general, UK mechanisms for implementation are better developed than the decision support

system, particularly through the Conflict Prevention Pools and the Post Conflict Reconstruction Unit.

There is a requirement for more systematic evaluation of the impact of UK interventions and the use of evaluation and lessons learned in strategic processes. The system also needs to develop systematic mechanisms for coordinating preventive programmes across departments in country, once a common strategic approach has been agreed. There are also areas where implementation capacity needs to be strengthened which were identified above (outside the peace support and policing), notably analysing key change agents and influencing and addressing the economic drivers of instability.

The aim of strengthening implementation and evaluation systems is to:

- Provide a clear framework for implementing and reviewing strategies
- Build additional evaluation capacity into the current system
- Strengthen key operational parts of the Whitehall system

Implementation itself should be led by multi-disciplinary teams, with the lead departments changing as the focus of work shifts from long term prevention to more concerted crisis prevention. To improve joint working, a Generic Planning

Framework should be developed, to help align departmental activities on 'Partnerships for Stability' as proposed in Chapter 3 and on intervention/post crisis activity.

Recommendation 8.5

The UK government should continue work on a cross-departmental Generic Planning Framework. This should align departmental activities on 'Partnerships for Stability' and intervention/post crisis activity.

More effective periodic evaluation systems for major issues are needed to complement the regular operational reviews of implementation. These could be carried out by cross-departmental teams.

Recommendation 8.6

The UK government should work to strengthen evaluation systems, including through periodic priority reviews of major policies and operations by independent cross-departmental teams.

With the reduction in state sponsors of conflict, the economic drivers of instability have become even more vital. Actions to tackle these factors include providing effective deterrence and punishment of economic crime, corruption and kleptocracy as a preventive measure, and swift intervention to hinder financial flows of conflict financing to help reduce conflict duration.

Tackling the financial aspects of these issues is a specialised and

complex task. In the UK this is currently split between many departments and agencies. This is in contrast to the US where the Treasury provides a centre of operational excellence and expertise on these issues, with tasking by other departments. International systems for tackling these issues need greater priority and resources, as discussed in Chapter 7.

8.4 Building Platforms for International Co-operation

The UK rarely acts in stability-challenged countries on its own, and prefers to operate through multilateral or regional bodies or coalitions of the willing. Therefore, changes to UK systems will have little impact on reducing instability unless other countries undertake similar programmes. Discussions with the other countries and institutions reveal a strong interest in better international collaboration, and a similar analysis of the weaknesses in the current system.

More systematic collaboration on these issues, including the proposals for co-operation outlined above, will bring benefits to all parties and minimise the costs of helping to reduce instability. These could include two major institutional proposals: a new intergovernmental forum on countries facing risks of instability; and regular academic assessments of the incidence, impact and responses to instability.

Understanding of best practice on prevention and intervention is at an early stage and politically contentious in some fora. However, better joint interventions require a deeper shared understanding of risks, structural drivers of instability, effectiveness of different interventions and common practice in operating on the ground. Ongoing discussions on peace support doctrine and development aspects do not cover the full range of issues, and sometimes fail to include countries that make large contributions to UN missions. The UK has a range of bilateral relations on military, policing and judicial cooperation with some of these countries, but these do not cover in a sufficiently systematic way the full range of integrated approaches.

An informal and flexible approach to sharing analysis and building stronger consensus for action could be established with the aim of developing a permanent network, if strong enough support exists.

Recommendation 8.7

The UK government should work with international partners to share technical approaches and best practice on dealing with countries at risk of instability. This should involve funding regular academic assessment of instability risks and the effectiveness of mitigating actions.

Despite a relatively long history, the systematic academic study of conflict, civil war and instability is

still immature. The field consists of a small number of research institutes who own core data sets, and a critical fringe of independent researchers. The majority of political science researchers are focused on individual countries and regions and so cannot provide (on their own) the type of critical comparative studies which help inform longer term policy making. The commercial risk field has variable levels of analytical rigour and many will not release their methods for reasons of commercial confidentiality.

As a result the data and analysis of the incidence, impacts and trends in conflict and instability is incomplete and unreliable, reducing the accuracy of analysis of preventive and operational effectiveness, and patterns of crisis recurrence. This lack of a common analytical understanding of whether international efforts are reducing the level and impact of instability undermines international cooperation, and makes prioritisation of investment and action problematic.

One way to overcome this is to develop a regular academic assessment of instability risks and intervention effectiveness, by funding leading researchers on instability to carry out a bi- or tri-annual assessment of risks, impacts and effectiveness of reducing instability. A similar process has been used to synthesise knowledge on the science, impacts and solutions to

climate change over the last 10 years – the International Panel on Climate Change (IPCC). With small modifications the IPCC model can be adapted to this area to both inform policy makers and stimulate a more policy useful approach in academia.

Recommendation 8.8

The UK government should work with others to initiate a regular academic assessment of instability, by funding leading researchers on instability to carry out a bi- or tri-annual assessment of instability risks, conflict and crisis levels, human security impacts and the effectiveness of actions to reduce instability.

This final chapter has outlined some priority steps for strengthening the systems needed to implement the strategic response to risks of instability described in the main body of the report. It is not an attempt to define a final blueprint of an ideal system, but starts a process of change and improvement. The challenge of creating and maintaining effective international and domestic systems which can help drive action for a safer and more stable world is daunting but achievable. The United Kingdom will do its part in working with other countries and international institutions to accelerate progress on this agenda.

Annex 1: Review of Key Existing Structured Risk Assessment Approaches

Product	Objective	Domain	Technique	Comment
Phase III Report (Political Instability / State Failure Task Force)	ID likelihood of state failure: revolutionary war, ethnic war, adverse regime change, genocide/politicide Horizon: 2 years	Populations 500,000+ 1955-1998 251 events 135 consolidated cases	Case-control methods Logistic regression Neural network Expert survey	Only assessed in-sample, actual forecasting performance not reported
Improving Forecasts of State Failure (King & Zeng)	Peer-review and update SFTF model	As PITF	Case-control corrections Process improvements	Additional variables and neural net approach outperforms SFTF model
State Failure Full Bayesian Neural Network Predictions (Corr & Pearlman)	Further update of King & Zeng procedure	As PITF	Data cleaning and interpolation, variant neural net estimation	Marginal further performance increase
US ACTOR (Sean O'Brien, US Army CAA)	ID watchlist Horizon: 5, 10 and 15 years	Populations 500,000+ KOSIMO events 1975-1999	Fuzzy analysis of statistical evidence (FASE)	Macrostructural approach to vulnerability, not prediction <i>per se</i> . Marginally outperforms econometric approach.
Objective and subjective measures of conflict probability (University of Bradford)	Suggest rules-of-thumb to systematise estimation of conflict likelihood Horizon: 15 years	Global	Baseline probability matrix based on past history of conflict	Dominated by backward-looking analysis, requires considerable case-by-case refinement
CIFP Risk Assessment Template (Carleton University)	Relative risk index, contemporaneous	West Africa and South East Asia	Iterated indicator ranking, weighting and averaging	Relative index based on ad-hoc weightings

Product	Objective	Domain	Technique	Comment
CIFP Creating a Watchlist (Carleton University)	ID watchlist Horizon: 1-3 years	Cascaded	Meta-filter procedure Expert survey	Subjective criteria for final shortlist questionable
Peace and Conflict Ledger (University of Maryland)	Ranking according to peace building capacity	158 countries	Seven factors colour coded and averaged	Only three risk categories; risk not quantified
Internet-based Early Warning Indicators (SIPRI)	Country crisis index	Global	Structural data plus expert survey into weighted average	Choice of weights unclear, assumes expert judgements consistent
DESIX (Eurasia Group)	Index of country risk	Emerging markets	Linear weighting system; variables scored by central analysts and in-country stringers	Largely contemporaneous, performance untested
Country Risk Service (EIU)	Index of country risk	Emerging markets + heavily indebted European countries	Index from quantitative model and expert judgement	Largely contemporaneous
CRG bespoke analysis (Control Risks Group)	From risk assessment to security and investigative Horizon: c.5 years	As required	Weighted toward qualitative analysis, scenarios used for long term (10-15 years)	Bespoke assessments not designed for comparison
Systematic Early Warning of Humanitarian Emergencies (Barbara Harff US Naval Academy)	Early warning Horizon: c.1 year	Minorities at Risk dataset Reuters World Service	Accelerator / de-accelerator coding and monitoring	Overlaps with both structural assessment and closer monitoring
FAST Early warning system (Swisspeace)	Early warning Horizon: c.3 months	Global	Software-based local report coding plus qualitative analysis	Feasibility demonstrated using Indonesian case study
US FORECITE (Sean O'Brien, US Army CAA)	Early warning Horizon: c.3 months	Global	Automated monitoring of Reuters news feeds plus quantitative forecasting	Very fast; performance demonstrated for Iraq, Afghanistan

UK Government				
Product	Objective	Domain	Technique	Comment
Overseas Investment Insurance (ECGD)	ID risk of default on payments to capital goods exporters Horizon: 10 years.	Emerging markets	Logistic regression Expert survey Further development in method underway	Systematic, based on economic theory
Country Forward Look papers (FCO)	Discuss likely country futures Horizon: 10+ years	Global as required	Expert judgement	Risks over-emphasis on central scenario
Monthly Risk Update (FCO)	Impact-likelihood matrix Horizon: 0-3 months	Global	Expert judgement Negotiation	Largely contemporaneous
I&W / Project Stirling (DIS)	Early warning on internal stability and external threats	Global	Expert judgement	Assessment relative to country-specific normalcy
Financial stability (Bank of England)	ID risk of future financial crises	UK exposure driven, focus on developed and emerging markets	Indicators and monitoring Economic theory Expert survey	Based on economic theory, but slow to learn



Annex 2: Acronyms

APRM	African Peer Review Mechanism
AQ	Al Qaeda
ARV	Anti-Retroviral
ASEAN	Association of Southeast Asian Nations
ATCS	Anti-Terrorism, Crime and Security Act
AU	African Union
BBC	British Broadcasting Cooperation
CARICOM	Caribbean Community
CPP	Conflict Prevention Pools
CSOs	Civil Society Organisations
DAC	Development Assistance Committee (of the OECD)
DEFRA	Department for Environment, Food and Rural Affairs
DESO	Defence Export Services Organisation
DFID	Department for International Development
DIS	Defence Intelligence Service
DOP	Defence and Overseas Policy
DRC	Democratic Republic of Congo
DSTL	Defence Science and Technology Laboratory
DTI	Department of Trade and Industry
EC	European Commission
ECGD	Export Credits Guarantee Department
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EITI	Extractive Industries Transparency Initiative
ELN	Ejército de Liberación Nacional de Colombia
ENP	European Neighbourhood Policy
ESDP	European Security and Defence Policy
EU	European Union
FATF	Financial Action Task Force

FCO	Foreign and Commonwealth Office
FDI	Foreign Direct Investment
FLEGT	Forest Law Enforcement, Governance and Trade
FSRB	FATF-style regional bodies
GCHQ	Government Communications Headquarters
GDP	Gross Domestic Product
HMG	Her Majesty's Government
HMT	Her Majesty's Treasury
HO	Home Office
HZDS	Hnutie za demokratické Slovensko
IAEA	International Atomic Energy Authority
ICC	International Criminal Court
IFF	International Financing Facilities
IMF	International Monetary Fund
IPCC	International Panel on Climate Change
IRA	Irish Republican Army
JIC	Joint Intelligence Committee
JTAC	Joint Terrorism Analysis Centre
KOSIMO	Konflikt-Simulations-Modell
LDC	Least Developed Country
LRA	Lord's Resistance Army
MAG	Ministerial Advisory Group
MDGs	Millennium Development Goals
MEDA	Euro-Mediterranean Partnership
MEPP	Middle East Peace Process
MINUSTAH	Mission des Nations Unies pour la stabilisation en Haïti
MLA	Mutual Legal Assistance
MLC	Congolese Liberation Movement
MNE	Multi-National Enterprises
MOD	Ministry of Defence
MONUC	United Nations Mission in the Democratic Republic of Congo

NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organisation
NCIS	National Criminal Intelligence Service
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organisation
NPIA	National Police Improvements Agency
NPRC	National Provisional Ruling Council
NPT	Nuclear Non-Proliferation Treaty
NTB	Non-Tariff Barriers
OAS	Organisation of American States
OD	Overseas and Defence
ODA	Official Development Assistance
ODSec	Overseas and Defence Secretariat
OECD	Organisation for Economic Co-operation and Development
OLAF	European Anti-Fraud Office
ONUB	United Nations Office in Burundi
OPEC	Organisation of the Petroleum Exporting Countries
OSCE	Organisation for Security and Cooperation in Europe
PCRU	Post-Conflict Reconstruction Unit
PEP	Political Exposed Persons
PMDU	Prime Minister's Delivery Unit
PoA	Programme of Action (UN)
POCA	Proceeds of Crime Act
PRSP	Poverty Reduction Strategy Paper
PSO	Peace Support Operation
RAU	Risk Assessment Unit
RCD	Rally for Congolese Democracy
RUF	Revolutionary United Front (Sierra Leone)
SALW	Small arms and light weapons
SHIRBRIG	(UN) Standby Force High Readiness Brigade
SOCA	Serious and Organised Crime Agency

SOG	Senior Officials Group
SPLA	Sudan People Liberation Army
SU	Strategy Unit
TB	Tuberculosis
TRIPS	Trade-related aspects of intellectual property rights
UK	United Kingdom
UN	United Nations
UNAMIR	United Nations Assistance Mission in Rwanda
UNCAC	United Nations Convention against Corruption
UNDPKO	United Nations Department of Peacekeeping Operations
UNEP	United Nations Environment Programme
UNGA	United Nations General Assembly
UNITA	União Nacional para a Independência Total de Angola
UNLB	United Nations Logistics Base
UNMIL	United Nations Mission in Liberia
UNSG	United Nations Secretary General
USA	United States of America
WIDER	World Institute for Development Economics Research
WMD	Weapons of Mass Destruction
WNIS	Western New Independent States
WW2	World War 2

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Annex 5: Project Team

The report was prepared by a multidisciplinary Strategy Unit team, guided by joint sponsor Ministers and advised by a 'Red Team' of external experts.

Core Project Team		Seconded from:
Matt Bassford	Policy Analyst	MOD
Nick Donovan	Policy Analyst	
Oliver Hall	Policy Analyst	UN
Wendy Hart	Policy Analyst	
Ameen Jan	Team Leader	
Jan Ole Kiso	Policy Analyst	
Catriona Laing	Deputy Director of PMSU	
Nick Mabey	Co-Team Leader	
Jonathan Marshall	Policy Analyst	FCO
Tina Nelson	Policy Analyst	Citigroup
Owen Pengelly	Policy Analyst	
Stephen Petrie	Policy Analyst	MOD
Michael Roberts	Policy Analyst	
Malcolm Smart	Policy Analyst	DFID
Richard Stebbings	Project Co-ordinator	
Leo Tomlin	Policy Analyst	
Chris Yiu	Policy Analyst	
George Zachariah	Policy Analyst	

Contributions from:

Karin Christiansen	Policy Analyst
Ann Freckleton	Policy Analyst
Lt. Col. Andrew Gossage	Policy Analyst
Melanie Greenall	Project Co-ordinator
Dinah McLeod	Policy Analyst
Bernadette Makena-Wanjiku	Project Co-ordinator
Natalie Maglio	Project Co-ordinator
Prashant Mandalia	Policy Analyst
Rohit Singh	Policy Analyst
Fiona Thompson	Policy Analyst
Magui Torres-Moreno	Policy Analyst

Seconded from:

ODI
DFID
MOD
FCO
DFID

Sponsor Ministers:

Rt Hon Hilary Benn MP	Secretary of State for International Development
Rt Hon Jack Straw MP	Secretary of State for Foreign and Commonwealth Affairs

Red Team:

Maj. Gen. Tim Cross	UK Armed Forces
David Mepham	Associate Director, Head of International Programme, Institute of Public Policy Research
Laurie Nathan	Visiting Fellow, London School of Economics and Political Science
Jeremy Oppenheim	Partner, McKinsey & Company
Dan Smith	Director, International Alert



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Strategy Unit, Admiralty Arch, The Mall, London SW1A 2WH

Tel: 020 7276 1881

Email: strategy@cabinet-office.x.gsi.gov.uk

Website: www.strategy.gov.uk

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