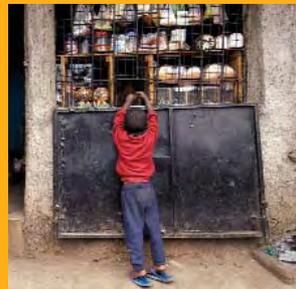




Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector



Executive Summary

About International Alert

International Alert is a UK-based peacebuilding organisation working in over 20 countries and territories around the world. We work directly with people affected by violent conflict as well as at government, EU and UN levels to shape both policy and practice in building sustainable peace. Our regional work is based in the African Great Lakes, West Africa, the Caucasus, the Andean region of South America, Sri Lanka, Nepal and the Philippines. At both regional and international levels, we also research the role of business, humanitarian aid and development, gender, security and post-conflict reconstruction in the context of building peace.

For more information, or to download or order a copy of *Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector* please visit www.international-alert.org

Since the end of the Cold War, there have been more than 125 violent conflicts around the world, killing up to seven million people.¹ While the number of conflicts has been in steady decline since the mid-1990s, those that persist are protracted and continue to exact a terrible toll. National and regional economies and development prospects are damaged, and civilians suffer death, human rights abuses, loss of livelihood, and displacement – with about 25 million people currently displaced by war around the world.² What is more, ceasefire and peace agreements that have ended open violence in many conflict contexts are fragile, and there is a real danger that those countries can relapse into war.

Preventing armed conflict, ending it if it breaks out, and building peace in its aftermath continue to pose enormous challenges. These tasks require the combined effort, skills, resources and commitment of a wide range of individuals and organisations, both from within societies affected by conflict, as well as internationally.

Published by the UK-based peacebuilding NGO International Alert, with the input and help of contributors and organisations around the world, *Local Business, Local Peace* highlights the potential of the domestic private sector to contribute to lasting peace as part of such a collective effort. It makes the case that business is often tightly bound up in conflict dynamics, and is at the same time able to play an important role in addressing these at different levels. Drawn from the experiences of businesspeople in over 20 conflict-affected countries, the study focuses on businesses' efforts to support formal peace processes; to address socio-economic issues; to build bridges between divided communities and groups; to alleviate security concerns; and lastly on the special role of women entrepreneurs.

The domestic private sector in conflict zones

Two principal currents of international thinking and policy making about the private sector in conflict zones currently inform development policy and assistance, conflict resolution and post-conflict reconstruction efforts.

The first, which emerged as a consensus within the development community after the end of the Cold War, asserts the primacy of free market economics and private sector-led growth as a route to economic development, including in countries recovering from war. This paradigm is widespread and has been articulated in a large number of contemporary policy notes and papers produced by development agencies.³ An emphasis on a critical role for both foreign and domestic private sector investment as the engine of development and poverty reduction is widely promoted to developing country governments through an array of policy instruments and interventions. It is often assumed that even in conflict zones, it is straightforward to generate a virtuous circle of economic growth leading to poverty reduction which in turn will contribute to peace, with the private sector as a critical driver.⁴

Aims of the study

Wherever there is war or instability, the domestic private sector is hugely affected. It experiences decreased investment; damaged infrastructure; direct attack; loss of opportunity, employees, capital and access to markets; as well as costs related to the unpredictability of operating in a conflict environment. Unlike foreign investors, local businesspeople are often not in a position to respond simply by relocating their investment.

Local Business, Local Peace demonstrates that because of these costs and other reasons, business is often motivated to contribute to peacebuilding. Further, it has the resources, skills and capacities to do so, across a range of peacebuilding tasks.

The study aims to provide local businesses that face armed conflict and want to contribute to peace with ideas, strategies and encouragement drawn from the experience of others facing similar challenges. It forms part of International Alert's programme of work to promote a constructive role for business in conflict zones and improve understanding of the economic requirements of peacebuilding.

As well as businesspeople, the study will also be of interest to others working to address armed conflict, notably individuals from governments and civil society, international and non-governmental organisations.

1. Smith, D. (2003) *The Atlas of War and Peace* (London, UK: Earthscan).

2. Human Development Report (2005) *International Co-operation at a Crossroads: Aid, Trade and Security in an Unequal World* (New York, US: UNDP).

3. See for instance CIDA (2004) *Sustainable Development Strategy 2004-06: Enabling Change* (Ottawa, Canada: CIDA); Norad (2004) *Peacebuilding - A Development Perspective* (Oslo, Norway: Norad); Commission on Private Sector and Development (2004) *Unleashing Entrepreneurship: Making Business Work for the Poor* (New York, US: UNDP).

4. DFID (2005) *Fighting Poverty to Build a Safer World: A Strategy for Security and Development* (London, UK: DFID); World Bank (2000) *Attacking Poverty: Opportunity, Empowerment and Security* (Washington DC, US: World Bank); SIDA (2005) *Promoting Peace and Security through Development Co-operation* (Stockholm, Sweden: Edita).

The second current of international thinking about the private sector in conflict zones qualifies this trust in the positive impact of private enterprise and economic activity, highlighting the issue of 'war economies'. A significant body of research has been assembled in the past decade that emphasises how profit-seeking business activities relate to the perpetuation of violence in many conflicts today.⁵ Allowing for differences of opinion within this body of work, the main focus has been on armed groups that profit from war, and the patterns of trade that provide a source of funds for sustaining it. Extraction of natural resources is a specific feature of both problems.⁶ Increased evidence that certain types of business activity play a powerful role in determining the duration, intensity and character of civil conflict has led to efforts to find responses that seek to limit these destructive dynamics. Taken together, research and response to war economies represent a critical new area for peacebuilding.

Taking these analytical and policy trends as its context, *Local Business, Local Peace* seeks to illuminate how, given the problems associated with some business activities in war zones, and the fact that sections of it are often tightly bound up in the wider political economy and system of governance, the private sector can contribute to peace and security. By exploring this question, the study addresses an under-researched dimension of peacebuilding and seeks to mobilise further peacebuilding awareness among business communities the world over. The study comprises nine country or regional reports on Afghanistan, Bosnia and Herzegovina, Colombia, Guatemala, Israel/Palestine, Nepal, Somalia, Sri Lanka and the South Caucasus, and 21 shorter case studies.

Local business responses to conflict – mapping a spectrum

Peacebuilding interventions by any actor, be it local or international, need to be informed by a good understanding of the intervening agency's own relationship to the conflict context and underlying issues. Without that, any efforts to contribute to peace will at best be partial and, at worst, do more harm than good.⁷ To understand the potential of the domestic private sector to contribute to peace, the full range of its potential links to conflict and peace need to be appreciated.

The case-study material in this publication reveals that business responses to violent conflict tend to involve a mix of strategies, which adapt over time to changing dynamics, circumstances and opportunities. This diversity of business responses lies along a spectrum, as depicted in Figure 1. At one end are conflict-sustaining activities, such as involvement in illicit trade that finances the continuation of armed combat, as well as the structural links between business as a social class, and the root causes of violence. In the middle are coping strategies, as business pursues its *raison d'être* and adapts to the conditions and challenges of conflict. Coping activities have both potentially conflict-sustaining as well as conflict-reducing impacts. Finally there are responses that seek to reduce conflict and enhance the prospects for peace – activities that this study terms 'peace entrepreneurship'.

Figure 1 – Spectrum of local business response to conflict



5. See, for example, Ballentine, K. and Sherman, J. (eds.) (2003) *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (Boulder, US: Lynne Rienner); Fischer, M. and Schmelzle, B. (eds.) (2004) 'Transforming War Economies: Dilemmas and Strategies' *Berghof Handbook Dialogue Series* No. 3 (Berlin, Germany: Berghof Research Center for Constructive Conflict Management); and Collier, P. (2000) 'Doing Well Out of War: an Economic Perspective' in Berdal, M. and Malone, D. (eds.) *Greed and Grievance: Economic Agendas in Civil Wars* (Boulder, US: Lynne Rienner).

6. See, for example, Le Billon, P. (2005) 'Fuelling War: Natural Resources and Armed Conflicts' *Adelphi Paper* No. 373, International Institute for Strategic Studies (London, UK: Taylor and Francis); Ross, M. (2003) 'Oil, Drugs, and Diamonds: The Varying Role of Natural Resources in Civil Wars' in Ballentine and Sherman, op. cit; Global Witness (2004) *Same Old Story: A Background Study of Natural Resources in the DRC* (London, UK: Global Witness); and Global Witness (1998) *A Rough Trade: The Role of Diamond Companies and Governments in the Angolan Conflict* (London, UK: Global Witness).

7. See Anderson, M. B. and Olson, L. (2004) *Confronting War: Critical Lessons for Peace Practitioners* (Cambridge, US: Collaborative for Development Action).

What is peacebuilding?

Efforts to promote peace are necessarily complex, mirroring the complexities of conflict itself. The causes of conflict are many, multi-dimensional and changing over time, including interacting social, cultural, political, security, economic, geographic and ideological factors. These involve a wide variety of actors, perceptions and agendas. In addressing these different dimensions of conflict, peacebuilding is a long-term process that involves a variety of activities that seek: “to encourage the development of the structural conditions, attitudes and modes of political behaviour that may permit peaceful, stable and ultimately prosperous social and economic development. Peacebuilding activities are designed to contribute to ending or avoiding armed conflict, and may be carried out during armed conflict, in its wake, or as an attempt to prevent an anticipated armed conflict from starting.”⁸

While peacebuilding will involve different strategies and activities depending on the specificity of each conflict context, these can be broadly organised into four categories: political, economic, security, and reconciliation. Issues of concern within these categories – and activities to address them – inevitably overlap and are interdependent. Without basic security, for example, businesses are unlikely to return to longer-term investments to generate economic growth. Conversely, without a healthy business sector it will be a challenge to find sustainable employment for the many combatants that need to return to a civilian life once a conflict has ended. Clearly, no single actor or institution is able to address change at all these levels. A wide variety of actors need to be involved, locally and internationally, with complementary roles and mandates.

While external actors, such as foreign governments, inter-governmental organisations and NGOs, can play an important role in facilitating conflict-transformation processes, there is virtually unanimous agreement that the primary burden in building peace lies with local actors. In fact, a strategic approach to peacebuilding promotes the primacy of local actors. It requires the co-operation of different sectors of society across political, social and economic divides. And it looks beyond national boundaries to ensure that outside interventions help local efforts.

The domestic private sector straddles all levels of society, through its existing networks and associations, and can be highly effective because of its linkages among businesspeople and with other groups.

Figure 2 – Peacebuilding actors at all levels

TYPES OF ACTORS

Level 1: Top leadership
Military/political/religious
leaders with high visibility

Level 2: Middle range leadership
Leaders respected in sectors
Ethnic/religious leaders
Academics/intellectuals
Humanitarian leaders (NGOs)

Level 3: Grassroots leadership
Local leaders
Leaders of indigenous NGOs
Community developers
Local health officials
Refugee camp leaders

BUSINESS COUNTERPARTS

Individual business leaders
National chambers of commerce
Sectoral apex organisations
Leading company CEOs

Small to medium-size enterprises
Regional chambers of commerce
Regional business leaders

Shop owners
Traders, including informal sector
Market stall owners
Small scale associations

Affected population

Source: Adapted from Lederach, J. P. (1997) *Building Peace: Sustainable Reconciliation in Divided Societies* (Washington DC, US: USIP).

8. Smith, D. (2004) *Towards a Strategic Framework for Peacebuilding: Getting their Act Together* (Oslo, Norway: Royal Norwegian Ministry of Foreign Affairs).

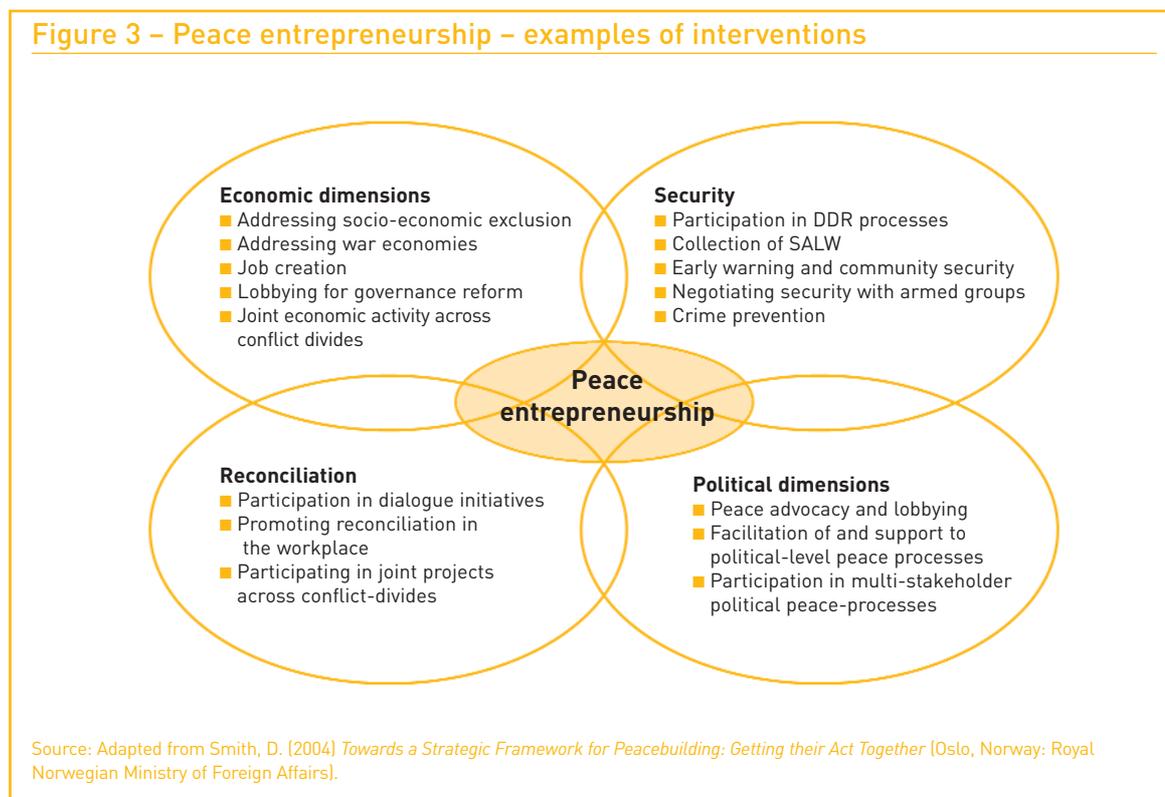
Peace entrepreneurship – an overview of cases

The case-study material collected for *Local Business, Local Peace* reveals a range of interventions by businesses seeking to promote peace in a variety of conflict settings. These are summarised on a country-by-country basis below.

AFGHANISTAN	<ul style="list-style-type: none"> ■ A high level conference encourages business to engage in dialogue with the government in order to strengthen its role in the country's reconstruction ■ Business gets involved in the Afghan New Beginnings Program, a Disarmament, Demobilisation and Reintegration (DDR) programme, providing training and employment to ex-combatants ■ Local businessmen participate in a <i>shura</i>, or council, that seeks to tackle corruption in the local administration ■ Members of the Afghan diaspora return to invest in the country's economy ■ US NGO Business Council for Peace supports women entrepreneurs in creating sustainable businesses
BOSNIA AND HERZEGOVINA	<ul style="list-style-type: none"> ■ <i>Nova Banka Bijeljina</i>, the leading bank in SME finance, lobbies authorities to achieve cross-entity harmonisation of banking regulations, creating a unified banking market and facilitating investment across different entities ■ <i>Organic Medici</i>, a business growing and processing organic herbs, works with farmers across ethnic and entity divides to source products, and employs minority returnees ■ Croatian company <i>Kras</i> reinvests in <i>Mira Prijedor</i> biscuit factory in Republica Srpska, assisting its recovery from war-time losses ■ Informal markets such as Arizona in Brcko district provide spaces for inter-ethnic economic cooperation at the same time as securing livelihoods ■ International NGO CHF's Municipal and Economic Development Initiative supports multi-ethnic business associations which form into the Regional Enterprise Network, contributing to economic policy-making at both local and national levels ■ Tuzla-based NGO <i>Ipak</i> enters into a partnership with local furniture company Score, which offers places to young refugee graduates of <i>Ipak</i>'s carpentry training
BURUNDI	<ul style="list-style-type: none"> ■ The country-wide women's network <i>Dushirehamwe</i> combines conflict transformation with economic co-operation and livelihood generation initiatives ■ Burundi Enterprise Network is formed to lobby and engage with the government to improve the business climate and create a more equitable and peaceful economy
COLOMBIA	<ul style="list-style-type: none"> ■ Business plays a high-profile role in the Pastrana administration's peace process with the armed group FARC ■ The energy company <i>Interconexión Eléctrica S.A.</i> creates the <i>Programa de Desarrollo para la Paz</i>, an initiative that tackles the root causes of conflict at the community level ■ <i>Compañía Envasadora del Atlántico</i>, in collaboration with the UNDP, helps organise farmer associations that produce passion fruit for its export business, providing them with livelihood alternatives to coca plantation ■ <i>Alianzas Red</i> works to involve the private sector in reintegration initiatives that offer training and employment opportunities to IDPs ■ The national Federation of Chambers of Commerce initiative <i>Empresas por la Paz</i> combines conflict resolution training at the micro-level with business start-up support to participants
CYPRUS	<ul style="list-style-type: none"> ■ Greek and Turkish Cypriot businesspeople participate in a cross-island dialogue initiative to develop strategies for economic co-operation and a peaceful settlement of the conflict
DEMOCRATIC REPUBLIC OF CONGO	<ul style="list-style-type: none"> ■ Local businesses in eastern Congo employ ex-combatants and co-operate with MONUC to strengthen stability at the community level and engage in policy dialogue at the national level
EL SALVADOR	<ul style="list-style-type: none"> ■ The business community actively participates in the peace process and negotiations, shaping the final agreement ■ Business leaders are involved in the citizens' initiative Patriotic Movement Against Crime, advocating for and carrying out a weapons collection scheme
GUATEMALA	<ul style="list-style-type: none"> ■ ASAZGUA, the national sugar producers' association, set up the FUNDAZUCAR, which engages in social investments to benefit sugar workers and communities, also providing development planning assistance to local governments ■ Garment factory Koramsa opens a separate production line to offer training and work placements to youths at risk of joining criminal gangs in surrounding communities
ISRAEL/PALESTINE	<ul style="list-style-type: none"> ■ Israeli fruit and vegetable export company Agrexco partners with five Gaza-based growers' associations to export their crops to EU markets, and sets up a separate brand to promote Palestinian produce ■ Logistics zones at border crossings between Israel and Palestine are set up to overcome access problems and facilitate continued cross-border flow of merchandise and economic co-operation between businesses ■ Pre-<i>intifada</i> plans for cooperation in the IT sector resurface in the aftermath of Israeli withdrawal from the Gaza strip and hold the potential for future joint ventures ■ Tourism is harnessed to promote greater cooperation between Palestinian and Israeli tour operators to maximise mutual benefit from tourism to the region ■ The Alternative Tourism Group promotes 'justice tourism' to ensure Palestinian communities benefit from tourism to the region, at the same time educating visitors about the political and conflict context ■ The Peres Center for Peace and the Center for Jewish-Arab Economic Development foster business linkages through various initiatives reaching out to Israeli and Arab business communities

KOSOVO	<ul style="list-style-type: none"> ■ The international NGO Mercy Corps promotes 'dialogue-rich development' in an initiative to foster both reconciliation and business linkages that were lost during the conflict between Albanian and Serb Kosovars
NEPAL	<ul style="list-style-type: none"> ■ The Federation of Nepalese Chambers of Commerce initiates negotiations to avert a Maoist threat to shut down industries, and to address some of their political and labour-related demands ■ 14 apex business organisations set up the National Business Initiative to support both the political peace process and just socio-economic development to address some of the root causes of the conflict ■ The Three Sisters' Trekking Agency trains and employs socially disadvantaged women, addressing both gender and socio-economic issues pertinent to the conflict
NIGERIA	<ul style="list-style-type: none"> ■ Marketplaces in Nigeria offer space for inter-ethnic economic interaction, fostering peaceful relationships and leading to co-operation on community-level security
NORTHERN IRELAND	<ul style="list-style-type: none"> ■ The Confederation of British Industry (CBI) engages in advocacy and support to the peace process, emphasising the benefits of a 'peace dividend' ■ Together with other business associations, CBI establishes the Group of Seven, which urges a settlement to the conflict through public campaigns and media statements at critical junctures during the peace process, as well as direct engagement with all parties to the conflict
PHILIPPINES	<ul style="list-style-type: none"> ■ Philippines Business for Social Progress (PBSP) facilitates public-private dialogue on governance issues relating to regional cross-border trade in Tawi-Tawi in order to protect local livelihoods ■ PBSP's initiative Young Muslim Professionals for Business and Peace offers Muslim entrepreneurs from the Autonomous Region of Muslim Mindanao (ARMM) internships in Manila-based companies to facilitate skills transfer and religious tolerance in the workplace ■ Paglas Corporation and La Frutera Inc. invest in marginalised areas of the ARMM to establish a banana plantation that offers jobs to Muslims and Christians alike, including ex-combatants, promoting reconciliation and religious tolerance in the workplace
SIERRA LEONE	<ul style="list-style-type: none"> ■ The Sierra Leonean branch of African diaspora mobile phone company Celtel partners with international NGO Search for Common Ground to launch a new mobile phone network in former rebel strongholds in the north, combining the launch with a radio-broadcast debate on the importance of national reconciliation and the role of communications ■ The Sierra Leonean Market Women's Association provides micro-finance schemes and training to market women to strengthen their livelihoods and contribution to the post-war economy
SOMALIA	<ul style="list-style-type: none"> ■ Telecommunications company Nationlink partners with UNICEF and a local NGO to provide vocational training and employment to demobilised child soldiers ■ Facilitators of the peace process involve businesspeople in a high level conference to secure their buy-in and commitment to a peace agreement and reconstruction of the country ■ Businesses support the Mogadishu Security and Stabilisation Initiative that seeks to address security concerns in the capital, including roadblocks ■ Businesspeople supply investment and goods for the running of local social services such as hospitals, and themselves provide essential public services such as electricity
SOUTH AFRICA	<ul style="list-style-type: none"> ■ The Consultative Business Movement (CBM) combines efforts with others to consult with the different parties to the conflict to facilitate an inclusive peace process; it subsequently gets invited to provide secretariat and administrative functions for the Convention for a Democratic South Africa process that brings about a new constitution ■ After the first elections, CBM and the Urban Foundation form the National Business Initiative in order to channel business support and work in partnership with government to tackle systemic problems hampering social and economic development ■ Business leaders set up Business Against Crime, a non-profit organisation to partner with the government to tackle threats to security ■ A separate Business Trust is set up to deal with the problem of unemployment, in particular focusing on job creation in the tourism industry
SOUTH CAUCASUS	<ul style="list-style-type: none"> ■ The Abkhaz Union of Women Entrepreneurs assists Georgian micro-businesses from economically marginalised Gal/i district through start-up funds and training ■ International NGO Conciliation Resources facilitates a dialogue initiative between Georgian and Abkhaz businesspeople to build trust and identify shared issues of concern in the current conflict context ■ Georgian and South Ossetian farmers exchange land located in the conflict zone between the two to protect mutual property from attack ■ Recently closed Ergneti and Sadakhlo markets were important centres for generating livelihoods as well as confidence and trust through cross-border trade between Georgians and South Ossetians, and Azeris and Armenians, respectively ■ The Caucasus Business and Development Network seeks to facilitate regional business linkages by promoting information exchange ■ The Turkish-Armenian Business Development Council is formed by Armenian and Turkish businesspeople to foster business linkages as well as providing a forum to advocate for rapprochement at the political level
SRI LANKA	<ul style="list-style-type: none"> ■ Colombo-based big business forms the Sri Lanka First campaign, which mobilises citizen support for a peace settlement in the run up to elections in 2001, helping to bring to power a pro-peace government and leading to the signature of a ceasefire agreement in 2002 ■ The Business for Peace Alliance, a working group of business members from regional chambers of commerce from across the island, promotes trust-building and joint initiatives between Tamil, Sinhalese and Muslim businesspeople, as well as policy advocacy vis-à-vis the capital

Local Business, Local Peace clusters instances of peace entrepreneurship according to the four dimensions of peacebuilding outlined above, illustrating businesses' potential to contribute to addressing economic, security, political and reconciliation issues.



Local businesses' role in formal peace negotiations

With regard to formal, political-level peace processes, the study reveals that businesspeople in a range of conflict contexts have played an important, supportive role: as 'insiders', for instance as part of a negotiation team; or as 'outsiders', helping to build trust between parties, mobilising popular opinion, providing advice and know-how, lobbying for peace and providing necessary functions, such as administrative and logistics support. At the top-end of the business spectrum, business leaders have brought essential resources and skills to bear, and harnessed their close connections with political decision makers in support of peace negotiations. Their resources and skills can be critical inputs to the implementation of agreements, including meeting expectations of a 'peace dividend'. Because the private sector is also in a position to veto peace processes by withholding crucial resources, winning its active engagement is an important part of any peace strategy.

Local business and the economic dimensions of peacebuilding

Based on the standard development discourse that emphasises a critical role for business in creating growth, much is assumed about the economic contribution the domestic private sector can make to peacebuilding. But the issue needs to be looked at more carefully. Business can perpetuate economic problems underlying conflict, often unwittingly. At the same time it is well-placed to mitigate the socio-economic exclusion that lies at the root of many conflicts. Limits to particular social groups' access to resources, jobs and other opportunities can breed resentment, distort development and lead to violence. This study shows how more thoughtful businesses can take creative steps to address the economic

causes, drivers and consequences of violent conflict. Initiatives include activities in the workplace, through wider community relations, lobbying, as well as joint economic initiatives across conflict divides. Through such interventions, business begins to fulfill its potential to contribute to the economic dimensions of peacebuilding.

Local business as connectors: rebuilding relationships across conflict divides

Relationships between communities divided by violent conflict are usually damaged and extremely precarious, with high levels of mistrust and anger over past atrocities. The study shows that, as leaders in society, domestic business can do a lot to repair broken ties across conflict divides. This can take the form of engagement in dialogue processes designed to bring individuals from both sides together; or the organisation of, and participation in, joint economic activities. Dialogue initiatives can generate a sense of common purpose among entrepreneurs enabling them to see the conflict in new ways, and to influence their home constituencies accordingly. Doing business may be one of the few remaining points of contact between two sides in a conflict – and one of the first to resume in its aftermath. In many instances, these points of contact are both profitable and inspiring as they demonstrate that peaceful interaction for mutual benefit is possible as well as desirable.

“There was a feeling of anger that these people had caused such devastation ... but then we found that we could sit and talk with them. Within seconds, we realised there were common problems.”

Regional business representative in southern Sri Lanka recalls first meeting with business counterparts from the north and east of the country

The role of local business in addressing the security dimensions of peacebuilding

Local businesses can also contribute to meeting some of the main security challenges in conflict and post-conflict contexts by: seeking to provide jobs for former combatants, either as part of a national-level Disarmament, Demobilisation and Reintegration programme, or on a more ad hoc basis; providing finance and logistics for small arms and light weapons collection programmes; strengthening official security structures; and operating as an early-warning source of information on conflict recurrence and community-level security breakdown.

In the absence of a reliable security setting or functioning state forces, businesses are often motivated to provide their own security, either by hiring private security companies or through the use of vigilante groups. While this can have positive benefits by providing non-military employment to former combatants, it also can signify further erosion of an inclusive and accountable state security apparatus. The issue needs to be handled carefully by businesses that seek to contribute to longer-term stability.

The role of women entrepreneurs in peacebuilding

Mainstream development discourse now includes a focus on strengthening women's role as economic actors, especially at the grassroots level through micro-finance. Similarly, there is increasing recognition of the role that women can play in promoting peace and mediation at different levels of society. Businesswomen are positioned at the intersection between these two capacities for intervention, and the cases confirm that they have taken a lead in several important initiatives, especially addressing gender issues in conflict. Examples include a network of women working across ethnic divides to regenerate livelihoods at the grassroots, and a women's entrepreneurial organisation that promotes reconciliation through joint economic activity between small businesses.

“After conflict, women are often a strong force for economic growth.”

Maria Livanos Cattai, former secretary-general of the International Chamber of Commerce

What motivates peace entrepreneurship?

Local Business, Local Peace sheds some light on the key question of what makes it possible for business to adopt peacebuilding strategies? In other words, what drives peace entrepreneurship?

Four key motivating factors that drive business involvement in peacebuilding emerge from the study:

Counting the cost of conflict

Awareness of the costs of a conflict to the private sector is a central issue for businesspeople. Economic downturn; loss of investment; destruction of infrastructure; damage to capital and workforces; loss of business partners across the conflict divide; lack of security in the operating environment and loss of opportunity for growth are among the direct impacts suffered by businesses during conflict. Awareness raising and conducting research and advocacy around this issue are primary tools for others to promote business engagement and has been used by larger companies to convince others to join in promoting peace.

Moral imperative

Peace entrepreneurship cannot be reduced entirely to an economic rationale: a moral imperative felt by the individuals involved is often an equally compelling factor. The desire to alleviate suffering and promote peace for the greater good of society often complements economic interests in motivating peace entrepreneurship. This factor underscores a critical distinction between local businesses and their foreign investor counterparts: the former are part of the social fabric of a conflict context, and therefore experience the trauma and destruction it brings to their own communities and families.

Opportunities catalysed by others

International development or peacekeeping agencies; armed groups; local civil society groups and their international counterparts all have actively sought to encourage business to address specific conflict issues and otherwise become involved in peacebuilding. The engagement of business can be catalysed through partners that offer space for dialogue and analysis; exchanges with individuals involved in other peace processes; political and security gains; and of course financial support and incentives. In several cases, business has been offered attractive 'win-win' opportunities that have drawn them into partnerships supporting peace.

Internalising corporate social responsibility (CSR) norms

The increasing spread of CSR norms is another trend that emerges from the case-study material. Mainly relevant to companies that have attained a certain scale, CSR can provide a framework for addressing certain conflict issues directly – for instance corruption or unfair employment practices – either through changed approaches to core business activities or broader relationships at the community and political levels. At the same time CSR principles can be a powerful mechanism for altering negative perceptions of businesses as drivers of, or collaborators in, issues that may underpin conflict.

What shapes peace entrepreneurship?

If business is motivated, it is clear from this study that certain internal and external factors can further enable its interest in peacebuilding to evolve into concrete action, and will determine the trajectory it follows:

Internal factors

Leadership

While much of the case-study material reviews the activities of businesses, it is the businesspeople driving them that make the achievements possible. Ultimately, the success or failure of any peacebuilding initiative depends on the personal strength and commitment of the individuals leading it. They are usually personalities who can articulate the case for a wider, private sector role in peacebuilding and convince doubters to engage; who can exercise their influence without fear of reprisal; and who are respected both by their peers and society at large.

Collective action

The most successful initiatives in terms of macro-level impact involve sections of the business community working cohesively to maximise influence over political dynamics, or to raise public awareness about conflict and peace. Some of the more effective initiatives have seen cross-sectoral engagement through umbrella organisations, such as chambers of commerce, that bring together different sectors. Working across the private sector can strengthen an initiative's credibility and legitimacy and facilitate an amplified agenda and impact. Competitive dynamics within the private sector need to be overcome through a sufficient sense of shared interest in achieving a jointly identified goal.

Legitimacy

For collective action and co-operation with others to be possible and effective, the private sector, like any other actor seeking to engage in peacebuilding, has to enjoy credibility, legitimacy and the backing of other sectors. This is crucial to winning acceptance both from conflicting parties and the wider public. Acquiring legitimacy can be challenging for the private sector if some enterprises have played – or are perceived to have played – a role in perpetuating conflict. Efforts to engage the business community must address negative perceptions.

Conflict analysis and self-reflection

Perceptions of conflict are often subjective, and may be based on prejudices and preconceptions about the roles played by others. A rigorous, analytical approach that includes broad consultation with other stakeholders can help to overcome bias within the private sector and build a comprehensive picture of the causes of conflict. This has to include a good understanding of the private sector's perceived role in society, and its own links with conflict dynamics. Such self-reflection is critical if business is to tackle key conflict issues in a transformative manner. It may even reveal entry-points for addressing them, for instance by improving hiring practices.

Size and type of private sector

The size of a business shapes its involvement in peacebuilding and the kinds of activities in which it is likely to become involved. Some of the most compelling examples of peacebuilding entail big companies using their influence to lobby for peace at the political level. However, small or micro businesses are by no means excluded from peacebuilding processes, although their impact tends to be more localised, because their influence on central government is often limited. Nevertheless, their contributions can be crucial because they are often located at the front lines.

External factors

The business environment

The environment in which a company operates inevitably affects its ability to contribute to peace, and will shape the kinds of interventions it makes. The unpredictability generated by conflict tends to shrink time horizons in terms of investment and profitability. Where businesspeople have no confidence in the future, investing in peace can seem a remote priority. At the same time, features of the conflict-affected business environment that stand in the way of business can provide opportunities for engagement. For example, closed borders or broken business ties undermine trade; many of the efforts described in the case-studies seek to overcome precisely these blockages.

The political context

The political space to address conflict issues openly may be restricted. A peace role for business may be difficult when government is the major source of contracts. The voice and interests of small businesses are often ignored by decision-makers. Such issues influence whether and how businesspeople develop peace entrepreneurship.

At the same time peace entrepreneurship has to adapt to a constantly evolving political context. There may be times when some options, such as directly advocating peace to conflict parties, may be impossible. In these cases, identifying alternatives with a longer term horizon will be necessary. Successful strategies are able to respond to – and even drive – the external environment, changed circumstances and opportunities. The strongest examples of peace entrepreneurship follow a flexible path, shaped by a deepening understanding of the changing context and contributing to peacebuilding on a number of fronts.

External facilitation and support

Initiatives by others – including international donor agencies, government and civil society – have been effective in catalysing and supporting a peacebuilding role for business. The material gathered in *Local Business, Local Peace* has implications for how external actors interact with the domestic private sector, and the manner in which economic development is approached in conflict-prone societies. A critical first step is to understand the complex relationships different pockets of the private sector can have to conflict. This makes an assessment of their potential to contribute to peace possible. Below are some useful entry-points:

- **Conflict-sensitive economic interventions.** To date, few international development agencies working to promote economic growth have integrated conflict analysis and sensitivity into their interventions. Interventions that are not conflict-sensitive can unwittingly exacerbate the linkages between economy and conflict, to the detriment of peacebuilding and growth alike, whether at the macro level of the national economy; through privatisation programmes; or instruments that directly target local business actors at different scales such as Private Sector Development and micro-finance activities.
- **Convening and providing a platform for peace entrepreneurs.** A number of case studies point to the valuable role that external agencies can play in bringing business together with other relevant actors, and providing a space that might not otherwise be available to explore common challenges and ideas. This convening capacity allows business to formulate its own analysis and strategies and ensures that the results will be rooted in a sense of ownership by the private sector, rather than being externally imposed.
- **Raising awareness and outreach.** Raising awareness of businesses' potentially positive and negative impacts offers further avenues for support. Sharing lessons from other conflict contexts can provide a source of ideas for businesses keen to engage. Raising awareness about CSR provides an indirect path towards understanding the deeper demands of peacebuilding, as does increased awareness of the costs of conflict to the economy and specific business sectors.

- **Building partnerships.** Partnerships between business, civil society, government and international actors can amplify the impact of initiatives, building on individual and mutual strengths. Peacebuilding is a multi-faceted endeavour, so pooling resources and expertise in specific initiatives is essential. These partnerships help businesses to gain acceptance and the trust of other stakeholders.
- **Promoting enabling environments and business networking.** The business environment is critical to stimulating growth and also has implications for peace entrepreneurship. In particular, external actors should recognise and support the active role that business can play in addressing structural problems and poor governance. Systems of organisation and networking, such as chambers of commerce or sector-specific apex organisations, can facilitate and channel collective business action in support of peace entrepreneurship.
- **Promoting cross-conflict economic activity.** The potential for business to act as a ‘connector’ across conflict divides can be maximised with external support. Business linkages lost during conflict, or new and potential areas for co-operation – which often emerge informally – can be strengthened by addressing structural obstacles to co-operation, sharing information, and providing safe spaces and opportunities for exchange.
- **Early planning.** Whatever the best route for stimulating peace entrepreneurship may be in a specific context, early analysis of both possibilities and the role of business in the conflict-affected society will be important. Incorporating businesses’ perspectives into planning and implementation early on will help ensure that initiatives are grounded in the realities they face, as well as actual capacities and readiness to engage.

The peacebuilding potential of the domestic private sector has been neglected or misunderstood for too long. Its role has either been framed by the international community, civil society and even businesses as purely economic, and therefore focused largely on growth and wealth creation, or, more recently, in negative terms, focused on its conflict-sustaining dimensions in war economies. As *Local Business, Local Peace* demonstrates, the domestic private sector has a role in peacebuilding every bit as diverse and wide-ranging as that of other actors, albeit one that draws on different competencies, skills and resources. The experiences of local businesspeople drawn together in *Local Business, Local Peace* therefore exemplify an overlooked reserve. By collecting and analysing these initiatives, this study points to a multitude of lessons, ideas and recommendations, both for businesspeople and others who are in a position to support a more pro-active and positive engagement by the private sector in addressing conflict. International Alert hopes readers will find it sufficiently stimulating to catalyse their deeper engagement in working for sustainable peace in the future.

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**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

Introduction*

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Foreword

War remains a fundamental problem of our contemporary world. Armed violence exacts a terrible human, economic and social cost. As societies descend into war, peace can seem ever more elusive. Mistrust, revenge, short-term self-interest, chaos and destruction become the order of the day. Promoting and sustaining peace is a formidable challenge for the 21st century.

The international community has shown that at its best it is capable of rising to this challenge. Though the world is still beset by war, there are fewer wars active today than a decade ago. Strikingly, since the end of the Cold War at the start of the 1990s, the world has achieved more peace agreements than it did in the entire two centuries until that date. But peace is complicated – about half of all peace agreements fail within five years of being signed.

A sustainable peace process is much more than just an agreement – indispensable though the written agreement is. Peace requires long-term commitment by political and military leaderships and the broad population alike. All social groups have a role to play – the media and academics, citizens' organisations for a wide range of interest groups and causes, and the private sector.

It is on the role of the private sector that this path-breaking book focuses. *Local Business, Local Peace* offers crucial new insights into the role that business can play in building peace.

It is often assumed that economic development led by the private sector will alleviate conflict and assure peaceful development. There is evidence for this argument, but there is also evidence that shows how misjudged private sector development can exacerbate the potential for conflict, and that in some places specific businesses have played particularly negative roles. In short, good business can be good for peace, but the mechanisms for achieving this are complicated in practice.

As this book illustrates, the first step for the private sector to be a driving force for peace is to gain an improved understanding of conflict, of its own long-term interest in peace, and of the processes by which conflict can either escalate or be moderated. Properly equipped and motivated, the private sector can set the agenda for peace and establish a favourable environment, even facilitating

contacts between opposed conflict parties. The private sector can command the credibility and broad legitimacy to become engaged in a challenging social and political task at different levels of society. And it can build bridges with other actors working towards the same end.

In the most successful cases, the commitment of local business leaders has been long-lasting, as it needs to be. It can take several years to move things forward to the point where an agreement is reached, and when that landmark is passed the real work of building peace has only just begun.

Sustaining the peace and addressing the root causes of conflict demands a flexible approach that allows for changing activities over time. This publication illustrates this by looking at myriad contributions by different types of private sector actors faced with the challenges of conflict around the world. Mobilising their economic, social and political resources the private sector can make a positive difference in ways that are all too often overlooked. One achievement of this book is to give credit where credit is due.

Local Business, Local Peace should serve as inspiration for new generations of business leaders to take up the challenge of building peace. It shows what can be achieved and by presenting a wide variety of cases it constructs a portfolio of fruitful possibilities on which business leaders can draw in ways that reflect the immediate challenges and local realities of their own circumstances. By doing this, the book will also help development agencies and national governments better understand business and broader economic policy requirements in conflict-affected societies.



Dan Smith

Secretary General
International Alert

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Introduction

Since the end of the Cold War, there have been more than 125 violent conflicts around the world, killing up to seven million people.¹ While there is broad agreement that the number of conflicts has been in steady decline since the mid-1990s, those that persist are protracted and continue to exact a terrible toll at national and community levels.² National and regional economies and development prospects are damaged, and civilians suffer death, human rights abuses, loss of livelihood, and displacement – with about 25 million people currently displaced by war around the world.³ What is more, ceasefire and peace agreements that have ended open violence in many conflict contexts are fragile, and there is a real danger that those countries can relapse into war.⁴

Preventing or ending armed conflict, and building peace in its aftermath, pose enormous challenges. These tasks require the combined effort, skills, resources and commitment of a wide range of individuals and organisations, both from within societies affected by conflict, as well as internationally.

Who should read *Local Business, Local Peace*, and why?

The domestic private sector is hugely affected by armed conflict: it experiences decreased investment; damaged infrastructure; direct attack; loss of opportunity, employees, capital and access to markets; as well as costs related to the unpredictability of operating in a conflict environment. Unlike counterpart foreign investors, local businesspeople are often not in a position to respond simply by relocating their investment.

Local Business, Local Peace demonstrates that, because of these costs but also due to other factors, business is often motivated to contribute to peacebuilding. And, it has the resources, skills and capacities to do so, across a range of peacebuilding areas. The study aims to provide local businesses that face armed conflict and want to contribute to peace with ideas, strategies and encouragement drawn from the experience of others facing similar challenges. International Alert hopes that, by collecting in one volume the enormously rich experience of businesses motivated to take steps to address conflict elsewhere, those who read it will find renewed courage and inspiration to influence outcomes in their own societies.

What is local business?

For the purposes of this book, the terms ‘local business’ and ‘domestic private sector’ are used interchangeably and understood as that part of the economy originating from the country in question and not owned by the state. This encompasses individuals as well as entities and organisations engaged in profit-oriented activity: companies and members of staff within companies; individual businesspeople; business associations such as chambers of commerce and other representative bodies; and organisations set up by businesspeople to address issues of concern. *Local Business, Local Peace* explores the activities of this wide range of actors in response to conflict across all levels (including informal), from grassroots, to small and medium-sized enterprises, to large-scale businesses.

The study will also be of interest to others working to address armed conflict, notably individuals from governments and civil society, international and non-governmental organisations. Though all these organisations make valuable inputs to peacebuilding, they often fail to involve the domestic private sector in their planning and approach – a feature that in some cases is symptomatic of a broader series of misconceptions about the links between a country’s economy and conflict. *Local Business, Local Peace* provides a body of lessons on how the strengths and resources of business might be more effectively brought into various types of future initiative. For national and international actors seeking to strengthen the private sector’s contribution to development and economic growth, the following pages are intended to act as a stimulus for thinking about new ways of working with local businesses in conflict-affected societies – putting their complex social relationship to the local context first.

Current thinking on the domestic private sector in conflict zones

Two principal currents of international thinking and policy making about the private sector in conflict zones currently inform development policy and assistance, conflict resolution and post-conflict reconstruction efforts. The first, which emerged as a consensus within the development community after the end of the Cold War, asserts the primacy of free market economics and private sector-led growth as a route to economic development, including in countries recovering from war. This paradigm is widespread and has been articulated in a large number of contemporary policy notes and papers produced by development agencies.⁵ In the words of the UK Department for International Development: “Private businesses are at the heart of economic success. Private investment and the increases in productivity it generates, drives sustainable growth.”⁶ An emphasis on

a critical role for both foreign and domestic private sector investment as the engine of development and poverty reduction is widely promoted to developing country governments through an array of policy instruments and macro and micro-level interventions.⁷ In conflict zones, a virtuous circle of economic growth leading to poverty reduction which in turn will contribute to peace is assumed, with the private sector as a critical driver.⁸

The second current of international thinking about the private sector in conflict zones qualifies this trust in the positive impact of private enterprise and economic activity through focusing on ‘war economies’. A significant body of research has been assembled in the past decade that emphasises the relationship that profit-seeking business activities have to the perpetuation of violence in many conflicts raging around the world today.⁹ There are differences of opinion within this body of work, but the broad focus has been on the motivation and behaviour of both state and non-state armed groups in profiting from war, and the internationalised patterns of trade and accumulation that have replaced Cold War patronage as a source of revenue for sustaining war financially – with particular emphasis on natural resource extraction as a specific feature linking these.¹⁰ Increased evidence that certain types of business activity play a powerful role in determining the duration, intensity and character of civil conflict has led to efforts to find responses that seek to limit these destructive dynamics in some conflicts. Taken together, research and response to war economies represent a critical new area of peacebuilding.

While it would be a misleading simplification of a rich literature to pit these two trends against each other, each places a different emphasis on the positive and negative role business can play in conflict. Taking these analytical and policy trends as its context, *Local Business, Local Peace* seeks to illuminate how, given the problems associated with some business activities in war zones, and the fact that sections of it are often tightly bound up in the wider political economy and system of governance, the private sector can be enlisted as an actor in the interests of peace and security. By exploring this question, the study addresses an under-researched dimension of peacebuilding and seeks to mobilise further peacebuilding awareness among business communities the world over. It also provides a foundation from which to close the gap in policy understanding created between the two discourses described above. In this last regard, the study is a first step in a longer-term International Alert project that aims to encourage greater alignment and more integrated approaches between policy actors concerned with peace and security, and those concerned with economic growth in conflict-prone societies.¹¹

Overview of the project and research

Local Business, Local Peace forms part of International Alert's programme of work to promote a constructive role for business in conflict zones and improve understanding of the economic requirements of peacebuilding.¹² It reflects our core message as an organisation with regard to the strategic, cross-sectoral and multi-actor approach that is required to assist recovery from war.¹³ Alert has experience of supporting different types of business actors in addressing conflict issues, including those related to the economy in Burundi, Colombia, Nepal, the Philippines, the South Caucasus and Sri Lanka. Its practical work has ranged from action research consultations with local private sector representatives in exploring conflict issues and concerns, to efforts to set up a business network across the South Caucasus, including participation from both recognised states and unrecognised entities. Alert's comprehensive programme of activities in Sri Lanka includes accompanying a delegation of business leaders on a trip to meet with South African counterparts; encouraging Tamil diaspora businesspeople to explore joint venture options in the north and east of Sri Lanka; and facilitating an island-wide network of chambers of commerce that has coalesced into a new organisation, the Business for Peace Alliance.

In order to support and learn from these experiences, *Local Business, Local Peace* was conceptualised to fill a gap in understanding of the potential peacebuilding dimension of businesses' role in conflict. Its approach has been first to harvest and then analyse a wide range of initiatives derived from Alert's experience, and beyond, in order to reflect on lessons learned and promote further action.

Research process

The scope of the research has been ambitious. *Local Business, Local Peace* represents the first large-scale attempt to gather in peacebuilding efforts undertaken by the domestic private sector from around the world, and represents a major step forward in this area.¹⁴

Having trawled available literature, internet sources and anecdotal information, the project convened an Expert Advisory Group (EAG) that met twice, together with many of the study's contributors, to work through definitional challenges and develop a common Terms of Reference for the work. Challenges inherent to the study included: which conflicts to examine and over what timeframe; the meaning of 'private sector' and whether it is possible to talk about it at a general level, given regional variations; how the research could cover the entire spectrum of conflict-exacerbating to conflict-reducing activities by business; how far it could go towards evaluating impact; how different motivations could be understood; how lessons could be drawn, given the limitations of the research; how the material could be

organised for publication; and so on. While *Local Business, Local Peace* does not resolve all these questions; it does identify the gaps on which future efforts can build, thanks to the input of its EAG members.

Boundaries of the research

Local Business, Local Peace does not, and cannot, provide definitive answers on what type of domestic private sector actor plays what kind of role in what kind of conflict economy, and what impact it has had, but it points to some interesting lessons.

With regard to the overall *impact* of initiatives on particular conflict trajectories, while the authors offer some reflections, most have still to be tested through a strict impact-evaluation lens. As in mainstream development and peacebuilding projects, even initiatives that deliberately seek to address conflict issues in the interests of peace may have negative impacts in either the short or long term.¹⁵ A comparable argument has been made that some pockets of economic activity that apparently sustain conflict could be seen to have beneficial effects from a historical perspective, despite a short-term aggravation of the violence.¹⁶ The difficulty of assessing the impact of the different business initiatives described in *Local Business, Local Peace* on overall levels of peace and security in different societies reflects the broader challenges that peacebuilding practitioners face working across a range of interventions, and point to the need for further research.¹⁷

The project did not have the resources to adopt a rigorously uniform approach to each case, and the quality of the research relies instead on the work of individual authors reading, reflecting and discussing with relevant, in-country stakeholders. In asking authors to identify initiatives and analyse how they related to the particular conflict context in which they were writing, the response was inevitably uneven in view of different authors' particular areas of expertise and their individual perspectives on the conflict. Alert does not subscribe to any single view of the conflicts discussed in this study, but rather draws on the material as a resource from which to catalyse further understanding and action.

Inevitably, events have continued to unfold beyond the research deadline in the various conflict settings reviewed. Elections in Israel and Palestine; and a recent increase in violence in Sri Lanka have markedly changed the political landscape in ways that will affect the initiatives described. The Nepalese king's climb-down after weeks of popular protest and the anticipated formation of a Constituent Assembly pose unknown challenges to all civil society initiatives for peace in Nepal, including those involving the private sector. At a less dramatic but nonetheless pertinent level for the initiatives described, the authorities have closed Sadakhlo market, near the Armenian border in Georgia where previously traders from opposing sides in the

conflicts between Armenia, Azerbaijan and Georgia had enjoyed a shared economic space. However, despite these and many other events, the analysis provides important background to understanding why business may have decided to become active at specific moments in time.

Lastly, the research could not capture all responses to conflict by the business community in any one country, especially when it comes to the sphere of informal business activity where information can be harder to access (though some interesting initiatives at the grassroots are included). The wealth of information that was found in a limited period of time with limited resources suggests that this topic could become a rich area of future research.

Organisation of *Local Business, Local Peace*

The book is organised in two parts. As a body of research, the case-study material points to various common clusters or types of response and initiative, and Section 1 consists of thematic chapters that explore each of these selecting from and highlighting case studies in Section 2. The thematic chapters are organised based on an understanding of peacebuilding as a process involving a range of interventions in different social spheres (political, economic, reconciliation, security). The typology of responses and summary findings are discussed in more detail below.

Section 2 comprises the case-study material on which the chapters for the most part base their arguments: nine country or regional reports (Afghanistan, Bosnia, Colombia, Guatemala, Israel/Palestine, Nepal, Somalia, Sri Lanka and the South Caucasus) and 21 shorter case studies of differing length (including material on Afghanistan, Bosnia and Israel/Palestine, as well as initiatives in Burundi, Cyprus, Democratic Republic of Congo, El Salvador, Kosovo, Nigeria, Northern Ireland, Philippines, Sierra Leone, South Africa and Turkey/Armenia). The material in Section 2 is organised alphabetically by country and was commissioned for the most part to in-country organisations and individuals (see p.11 for a list of contributors and their organisational backgrounds), as well as drawing on previous Alert work and other secondary material in some cases.

Findings of the study

Local business responses to conflict – mapping a spectrum

Peacebuilding interventions by any actor, be they local or international, need to be informed by a good understanding of the intervening agencies' own relationships to the conflict context and issues underlying it. Unless such an understanding exists, any

efforts to contribute to peace will at best be partial, and at worst do more harm than good. To understand the potential of the domestic private sector to contribute to peace, the full range of its potential links to conflict and peace need to be appreciated. In seeking to understand and distinguish between the different protagonists involved in war economies, researchers have made various attempts at classifying the types of economic activity that play a role. The focus of most of these inquiries has been on activities that directly enable, or closely proximate to, the prosecution of violence.¹⁸ Such classifications have clarified the terrain, and enabled more precise analysis of war economies and appropriate responses to evolve.¹⁹

Others have deepened understanding to capture wider patterns of economic activity, which may be further removed from conflict agendas. One useful approach distinguishes between ‘combat’, ‘shadow’ and ‘coping’ economies.²⁰ Combat economies entail the capture of control over economic activity to sustain conflict, or strategies of war aimed at weakening specific groups economically. Shadow economies include activities that see entrepreneurs take advantage of the regulatory vacuum created by a situation of conflict to reap profits. Chief motivations may be economic, rather than military, but shadow economies may all the same sustain conflict. Coping economies are the survival mechanisms to which population groups resort in order to maintain a basic living during conflict. A variation on this typology uses the terms ‘conflict entrepreneurs’, ‘opportunists’ and ‘dependents’.²¹ Conflict entrepreneurs are predatory elites who directly use or influence military approaches to maximise personal profit, and who may have a range of political or economic motives. Conflict opportunists do not seek to influence military outcomes, but profit from the possibilities that emerge with the violence. Conflict dependents, according to this typology, are those at the lowest level whose survival strategies become bound up in violence. Internally displaced populations, artisanal miners and those who work for warlords are all included in this category. The categories are likely to overlap and enforce each other in any war economy.

This study finds that such typologies can be modified and extended in order to correspond to the experiences that the broader domestic private sector is shown to have had during conflict as reflected in the material collected in Section 2.

Firstly, the war economies literature does not focus on the structural links between business as a social class, and the root causes of violence. The tight mesh between some sectors of the private sector and political elites or systems of governance are critical to understanding the relationship between economy and conflict, and emerge in many of the conflict situations analysed in this study.

The concept of ‘coping’, meanwhile, is also useful for describing a common business response to the onset of violence. The majority of entrepreneurs at some stage simply try to adapt their economic activity to survive the new

conditions created by conflict. Yet, many of these actors exist at a higher threshold from that presumed in the definition summarised above, which focuses on basic livelihoods.

Finally, and most importantly, the existing literature does not envisage, or attempt to describe, a potentially positive or conflict-reducing role for economic actors. Yet the cases discussed in *Local Business, Local Peace* show that activities that could be categorised as ‘opportunist’ (or ‘shadow’) can have both conflict-sustaining *and* conflict-reducing implications. Section 2 also demonstrates that the activities of domestic entrepreneurs can deliberately seek to reduce violence. This suggests a new term – ‘peace entrepreneurs’ – that can validly be used to describe business actors motivated to take actions that promote peace.

Figure 1 sets out a spectrum of domestic private sector responses to violent conflict that learns from and adapts earlier efforts emanating from the study of war economies, illustrating that business has a role to play in reducing violence and promoting peace.

Figure 1 – Spectrum of local business response to conflict



Given the aims and scope of this project, and the guidance developed for its contributors, the case studies included in Section 2 have a deliberate focus on peace entrepreneurship, or the right-hand of the spectrum. However, some authors sought to capture business/conflict and business/peace links along the spectrum. As a result, most of the longer studies also include material that confirms more negative or opportunist behaviour and that can be placed along the rest of the spectrum of responses depicted in Figure 1.

Understanding business responses to conflict to lie on such a spectrum offers a simplified model of what in reality is a web of complex interactions between actors, activities, opportunities and motivations. Determining which activities affect conflict dynamics for better or worse raises again the thorny problem of

evaluating impact. Nonetheless, Figure 1 serves well as a framework to illustrate the different types of responses that business employs.

Another layer of complexity derives from the question of intent: how conscious or aware are individual businesses – or business as a social class – of the consequences of their actions? The question of whether a business knowingly contributes to the perpetuation of violence through its strategies is clearly closely connected to the degree of responsibility it should bear for its actions. The controversies that often arise when foreign investors are in proximity to armed conflict have generated increased assertion of the principle, ‘known or should have known’, in determining whether a company or corporation has been complicit in violations of human rights, a charge that is gaining ground in international law.²² In some cases, the same kind of logic may apply locally; in others, it will be irrelevant. Whatever the degree of responsibility and accountability, the trust that different actors have earned locally and across society emerges as an important factor in assessing the ability of the domestic private sector to play a role in advocating for peace or addressing conflict issues.

At the same time, it is apparent from the case-study material in Section 2 that domestic business actors employ a mix of strategies in dealing with the challenges of operating in the midst of conflict – for example, by paying extortion money while at the same time seeking to address conflict issues through their business practices. In the words of one interviewee cited in the Colombia country report: “Often, business worships God and the devil at the same time.” Private sector responses may evolve over time, as illustrated by several of the case studies, as businesses respond to the changing dynamics, circumstances and opportunities.

Given these complexities and the paramount importance of local context in sifting through them, *Local Business, Local Peace* seeks to avoid playing the role of normative judge. Instead, it focuses on distinguishing the range of relationships between business activity and conflict that have occurred in over 20 conflict settings, with a particular emphasis on flushing out evidence at the right-hand of the spectrum depicted in Figure 1, which has been chronically under-researched.

The research reveals lessons on types of business contributions to various dimensions of peacebuilding. It also sheds light on the question of enabling factors and motivation: what makes it possible for business to place itself to the right of the spectrum through its adoption of peacebuilding strategies? Or, in other words what drives peace entrepreneurship? Further reflection on these points forms the substance of the chapters in Section 1, with overall lessons drawn together especially in Chapter 6.

As outlined above, in order to catalyse positive contributions to peacebuilding from any actor, it is first necessary to fully understand the way they are positioned in a complex conflict context. The following section summarises the types of business

behaviour highlighted by this study that appears to sit along the left and centre of the spectrum, before introducing in greater detail the primary material. This is intended to help the reader reflect further throughout the rest of this book on the complex relationship business has to peace and conflict.

Sustaining conflict and root causes

The potential for business to play a conflict-sustaining role is indicated at the far left of the spectrum in Figure 1. The debate on war economies clusters here, focusing in particular on aspects of the nexus between business and armed conflict. Section 2 confirms the salience of this nexus as a driver of conflict, pointing, for example, to the symbiotic relationship after 1992 between a new generation of entrepreneurs in Afghanistan and armed militia groups. This relationship intensified after the fall of the Taliban regime and the Pentagon's withdrawal of support to opposing groups: "Warlords and factional leaders quickly came to rely on trusted businessmen to manage their investments," writes the study's author. These groups competed fiercely for power and control of the country's lucrative opium trade. The role of the cocaine trade in sustaining armed competition in Colombia, as well as businesses' and landlords' direct support to the paramilitaries, indicate a similar pattern. Smuggling and the trade in arms through informal markets in Bosnia, Somalia and the South Caucasus – with Somalia being the primary route for weapons and other contraband to the Horn of Africa – are important sources of revenue for armed groups and criminal gangs profiting from, and contributing to, the prevalent insecurity. In the Democratic Republic of Congo, where the links between armed activity and natural-resource exploitation are well documented, the country report in Section 2 describes how local entrepreneurs in Goma maintained close ties with rebel forces, occasionally encouraging armed operations against rival operators in Butembo.

A second aspect of some businesses' relationship to conflict at the left of the spectrum emerges from the research. This relates not so much to the types of trade businesses engage in or their closeness to armed groups, but to the private sector's structural, socio-economic and political dominance in a particular society. In Colombia, deep socio-economic grievances and the historical gap between rich and poor are driving forces of the conflict. Hostile business policies toward trade unions and freedom of association; active lobbying in Congress for private sector-friendly policies that exacerbate social divides, and, in the words of the report author, 'tacit endorsement of a restrictive class system' can all be seen as conflict-exacerbating. Similar forces in Guatemala, where socio-economic marginalisation was also a critical factor in the conflict, saw the private sector align itself during the 1980s with state-sanctioned violence, push for business interests during the peace process and continue a hard-line relationship with labour up to the present. In Nepal, uneven development and social exclusion found articulation in the Maoist 'People's War',

which has targeted business as a ‘class enemy’. Structural inequalities across Sri Lanka have historically been reflected in the employment practices of southern businesses, who are perceived by businesses elsewhere in the country to enjoy political privileges and access. In both Bosnia and the South Caucasus, close links between business and ethnic elites saw business linked structurally to the earlier conflict or the existing conflict *status quo*.

Sections of the private sector are thus often tightly bound up with elites and exclusive systems of governance whose existence often lies at the heart of conflict. Interestingly, from the analyses of Colombia, Guatemala, Nepal and Sri Lanka it emerges that some members of the business communities are beginning to acknowledge these links, and the impact that their own practices can have on root causes of conflict.

Coping with conflict

The centre of the spectrum depicted in Figure 1 refers to how business pursues its *raison d’être*, and adapts to the conditions and challenges posed by operating in the midst of conflict in ways that increase chances of survival. According to the case studies, such strategies invariably impact the context for better or worse, whether intentionally or not.

Corruption, extortion and illegal taxation are features of the business/conflict nexus that sit in the ambiguous area in the centre of the spectrum. According to one report: “There is no local consensus on whether businesses that do pay are victims, war profiteers or supporters of illegal armed groups.” Wherever culpability lies, the payment of bribes or extortion money to armed groups – whether under duress or freely to secure protection – is a coping strategy that has immediate conflict-exacerbating effects. In Afghanistan, warlord revenue was generated through more conventional payment of bribes to avoid burdensome customs points and other obstacles to trade. In addition to the payment of extortion to armed groups, the Colombian private sector has more recently supported President Uribe’s ‘total war’ policy by submitting to increased taxation – a legal and legally required counterpart transaction that nevertheless cements businesses’ links to the financing of a conflict actor – a trend manifest in a range of countries where the business class is closely aligned with state interests. The levying of ‘tax’ on businesses by the LTTE in the north of Sri Lanka is another example, while in Nepal business has increasingly paid extortion since 2001 when the Maoists stepped up their campaign of bombing. While businesspeople interviewed for the Nepal research were reluctant to disclose the exact amounts paid, anecdotes indicate that the level is high, with a range of factors, including ethnicity, taken into account by Maoists in their demands.

Coping or survival responses also entail businesspeople leaving the country – what the South Caucasus report describes as ‘escapism’ – and this response was particularly apparent among the conventional business class in Afghanistan and Tamil areas of Sri Lanka. The impact that the large-scale departure of businesspeople has on conflict dynamics varies from situation to situation: diaspora business communities may represent a source of revenue for armed groups or a potential source of investment in post-conflict recovery – or both, as in Sri Lanka, Somalia and, to a lesser extent, Afghanistan.

Conflict opportunism, or pro-active embrace of the new opportunities that present themselves during the lawlessness of conflict or in its aftermath when traditional monopolies and business elites are destroyed, represents another survival response that will have either exacerbating or reducing effects. In Sierra Leone, the war directly impacted the livelihoods of market women, as prices for rice and other foodstuffs shot up. Under UN sanctions, prices for petrol went up fivefold; commercial vehicles charged passengers exorbitant fares; while those who could not afford to pay were forced to trek long distances. Some market women took advantage of the vacuum to engage in cross-border smuggling from Guinea of rice, onions, tomatoes and petroleum, collaborating with police and customs officials in both countries to pursue their business. Market women also engaged in trade with the rebels. Foodstuffs and petrol were smuggled on trailers or trucks from ‘safe’ stores in Freetown to rebel-held areas in the provinces and sold to rebel commanders. They paid either in cash or kind, including jewellery, gold or diamonds. Back in Freetown, market women either sold their diamonds to Lebanese dealers or smuggled them across the border to Guinea, enabling them to buy more foodstuffs. Trading with rebels involved high personal risk, and many women were killed by the rebels with whom they transacted.

In Israel/Palestine, Israeli export companies and Palestinian fruit and vegetable growers have adapted to the tight border controls and access problems in order to continue to transport Palestinian produce to international markets. While their joint coping strategy has beneficial effects in terms of business-to-business relationships across the conflict divides, the report’s analysis shows how it reinforces the conflict *status quo*, bringing profit to the Israeli partner while deterring the emergence of an independent, Palestinian distribution channel.

In the South Caucasus, however, ‘shadow economy’ trade across the conflict divides has created bridges and pockets of mutual understanding and shared interest – between ethnic Georgians and Abkhaz in Gal/i district; Georgians and South Ossettians at Ergneti market; and Armenians and Azeris at Sadakhlo market – that offer real peacebuilding potential to the region. On the other hand, the type of conflict opportunism that infused ‘crony capitalism’ in the

South Caucasus and Bosnia led to the seizure of state assets by elites with ethnic or political ties to government. These new monopolies have shut off growth and development opportunities for a broader section of society, exacerbated corruption and, in the South Caucasus, consolidated the conflict *status quo*. In both cases, the authors highlight the more constructive role played by small business, compared to larger actors affiliated to the conflict.

Meanwhile, Somali entrepreneurs who have an evolving relationship with warlords and often employ former militia as private security (thus taking them out of conflict-related activities) have drawn on cultural networks to take the place of the non-existent state in providing services and infrastructure. This opportunism may have its limits in the long run, however the author concludes: “In many ways, business is one of the few sources of stability in Somalia.”

Business contributing to peacebuilding

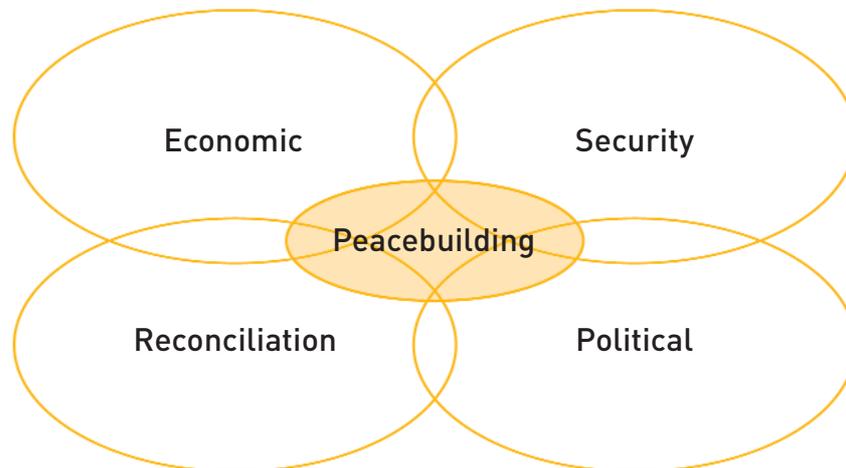
Peacebuilding – what is it?²³

Efforts to promote peace are necessarily complex, mirroring the complexities of conflict itself. The causes of conflict are many, multi-dimensional and changing over time, including interacting social, cultural, political, security, economic, geographic and ideological factors; and involving a variety of actors, perceptions and agendas. “Peacebuilding attempts to encourage the development of the structural conditions, attitudes and modes of political behaviour that may permit peaceful, stable and ultimately prosperous social and economic development. Peacebuilding activities are designed to contribute to ending or avoiding armed conflict, and may be carried out during armed conflict, in its wake, or as an attempt to prevent an anticipated armed conflict from starting.”²⁴

While the specificity of different conflict contexts requires specific sets of conditions to aid conflict recovery and peacebuilding, the formidable range of issues across conflict settings can be organised into four categories, already indicated above: political; economic; reconciliation; and security.

Issues of concern within these categories – and activities to address them – inevitably overlap and are interdependent. Without basic security, for example, businesses are unlikely to return to longer-term investments to generate economic growth. Conversely, without a healthy business sector it will be a challenge to find sustainable employment for the many combatants that need to return to a civilian life once a conflict has ended. Figure 2 depicts these overlapping spheres.

Figure 2 - Dimensions of peacebuilding



Source: Adapted from Smith, D. (2004) *Towards a Strategic Framework for Peacebuilding: Getting their Act Together* (Oslo, Norway: Royal Norwegian Ministry of Foreign Affairs).

Clearly, no single actor or institution is able to address change at all these levels. A wide variety of actors need to be involved, locally and internationally, and with various complementary roles and mandates.

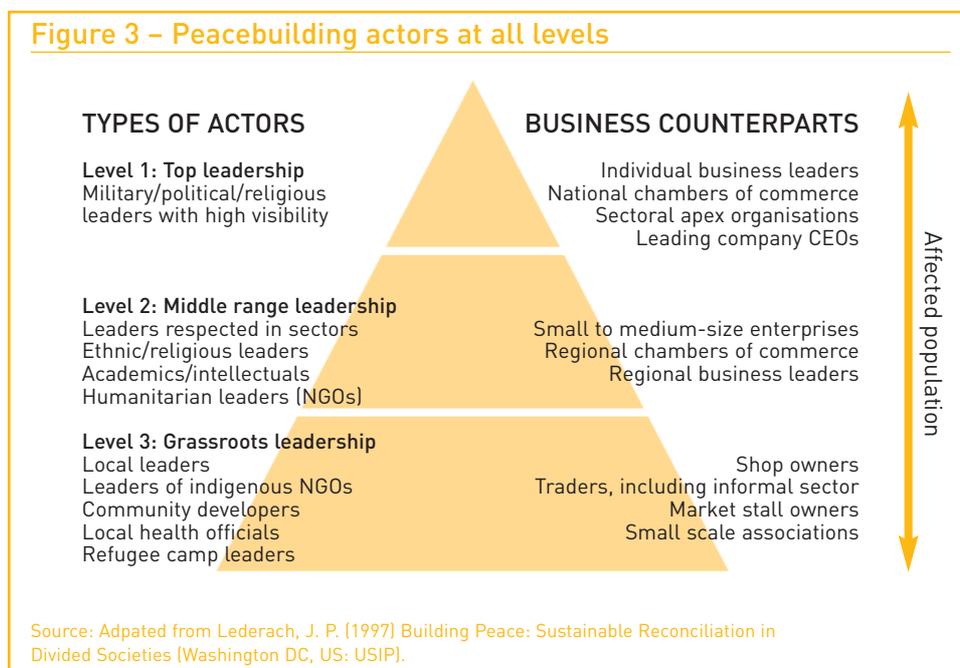
The primacy of local actors

The engagement and commitment of armed actors to making peace is essential to any peace process (as discussed in Chapter 1). High-level political processes are not of themselves sufficient guarantors of lasting peace, however. Civil society across different levels and sectors of society (spanning grassroots to mid-level leaders and high-profile individuals, as well as different kinds of mutual organisations, such as women's groups, youth groups, unions or religious-based organisations) plays a vital role in promoting and sustaining peace processes, reconciliation and recovery from the wounds of war. All the conflict countries included in Section 2 have experienced ongoing efforts and activities led by civil society actors, including: the organisation of one-off peace rallies; pressurising political parties and other actors; providing assistance to victims of conflict; mediating and helping to bring conflict sides together; strengthening ties between communities estranged by violence; and providing research on conflict issues. It is their courageous and creative actions that often generate the decisive momentum and broad-based support for peace, without which high-level peace processes would lack popular and broad legitimacy.

Theorists and practitioners of conflict transformation and peacebuilding have conceptualised the different local actors and levels of activity as a triangle, each level

of which requires the work of particular individuals and organisations, as well as different kinds of approaches to peacebuilding. The kinds of business – individuals as well as organisations – featuring in this book are added to the diagramme to highlight its significance at all levels of society.

Local business straddles all levels and through existing networks and associations can be highly effective in terms of horizontal and vertical linkages with other businesspeople and sectors, often playing a leadership role at each level. Given its resources, connections and opportunities, and the evidence in *Local Business, Local Peace*, the potential contribution of business must be recognised and included in peacebuilding practice.



Coordination between local and international actors

Bilateral relations between governments are often used to exert pressure on a government in conflict to work towards peace, and bilateral envoys or ‘groups of friends’ are employed to lobby both sides to come to the negotiating table. The international community through UN agencies also has an important role: the UNDP works in crisis-affected countries to address peace and conflict issues, for instance through Disarmament, Demobilisation and Reintegration (DDR) programmes for ex-combatants; the UN High Commission for Refugees provides shelter and protection for those displaced by conflict; international

financial institutions, such as the World Bank, have developed responses and instruments for countries affected by, or emerging from conflict, including specific funding mechanisms and coordinating functions among other donors. All these actors, as well as other national and regional organisations and institutions, have different interests, mandates and ways of working. Coordination between them and the encouragement of partnerships are great challenges, but essential for successful peacebuilding.

However, while external actors, such as foreign governments, inter-governmental organisations and NGOs, can play an important role in facilitating and assisting conflict-transformation processes more broadly, there is virtually unanimous agreement that the primary burden in building local peace lies with local actors. In fact, a strategic approach to peacebuilding promotes the primacy of local actors, requiring the cooperation and complementarity of different sectors of society across political, social and economic divides; as well as looking beyond national boundaries to ensure that external actors' interventions help rather than hinder local efforts.

Summary of types of peace entrepreneurship

Building on an understanding of the different dimensions and actors engaged in peacebuilding as outlined above, Section 1 of *Local Business, Local Peace* comprises thematic chapters presenting and analysing different ways in which local business actors have contributed, drawing on the case-study material included in Section 2. Given the crucial role that women can play in peacebuilding, a separate chapter is dedicated to the role of women entrepreneurs.

With regard to formal, political-level peace processes ('Track 1'), the cases reveal that businesspeople in a range of conflict contexts have played an important, supportive role: as 'insiders', for instance as part of a negotiation team; or as 'outsiders', helping to build trust between parties, mobilising popular opinion, providing advice and know-how, lobbying for peace and providing necessary functions, such as administrative and logistics support. At the top-end of the business spectrum, business leaders, motivated by concerns over the economic costs of conflict to the country and their own business opportunities, as well as other drivers, have brought essential resources and skills to bear, and harnessed their close connections with political decision makers in support of peace negotiations in Colombia, El Salvador, Mozambique, South Africa, Sri Lanka and elsewhere. Their resources and skills are also critical inputs to the implementation of agreements, including meeting expectations of a 'peace dividend'. However, by virtue of 'the power of capital', the private sector is also

in a position to veto peace processes by withholding crucial resources, for instance financial assistance to agreement implementation as occurred in Guatemala. Its active engagement by government and international actors is therefore an important part of any peace strategy.

Much is assumed about the economic contribution the domestic private sector can make to peacebuilding, based on a development discourse that emphasises a critical role for business in creating growth. However, this dynamic needs to be problematised, given that the private sector is often instrumental in elites' maintaining their power through corruption, patronage and clientelism, and the otherwise complex relationship it can have to conflict. Business, often unwittingly, becomes the agent of a system that has been established to benefit the few rather than the many, profiting over generations as others continue in deprivation. Issues of socio-economic exclusion lie at the root of many conflicts. Limits to particular social groups' access to resources, jobs and other opportunities can breed resentment, distort development and lead to violence. Conflict has economic causes, drivers and impacts, and the case material shows how more thoughtful businesses can take creative steps to address challenges in each of these areas. Initiatives include activities in the workplace, through wider community relations, lobbying, as well as joint economic initiatives across conflict divides. Through such interventions, business begins to fulfil its potential to contribute to the economic dimensions of peacebuilding.

Relationships between communities divided by violent conflict are usually damaged and extremely precarious, with high levels of mistrust and anger over past atrocities. The case-study material shows that, as leaders in society, domestic business can do a lot to reconnect broken ties across the conflict divide. This can take the form of engagement in dialogue processes designed to bring individuals from both sides together (in Burundi, Cyprus, South Caucasus and Sri Lanka) or the organisation of, and participation in, joint economic activities across conflict divides (Kosovo, Israel/Palestine and South Caucasus). Dialogue initiatives can generate a sense of common purpose among entrepreneurs enabling them to see the conflict in new ways, and influence their home constituencies accordingly. Doing business may be one of the few remaining points of contact between two sides in a conflict – and one of the first to resume in its aftermath. In many instances, such points of contact serve both to make profits, and to demonstrate that peaceful interaction for mutual benefit is both possible and desirable.

Local businesses also contribute to meeting some of the main security challenges in conflict and post-conflict contexts by: seeking to provide jobs for former combatants, either as part of a national-level DDR programme (as in Afghanistan and Colombia) or on a more *ad hoc* basis (Democratic Republic of Congo and Somalia); providing

finance and logistics for small arms and light weapons collection programmes (El Salvador); strengthening official security structures (South Africa and Uganda); addressing crime and operating as an early-warning source of information on conflict recurrence and community-level security breakdown (the Democratic Republic of Congo, Nigeria and South Caucasus). In the absence of a reliable security setting or functioning state forces, businesses are often motivated to provide their own security, either by hiring private security companies or through the use of vigilante groups. While this can have positive benefits by providing non-military employment to former combatants, it can also signify further erosion of an inclusive and accountable state security apparatus, and needs to be considered carefully by businesses seeking to contribute to longer-term stability.

Mainstream development discourse now includes a focus on strengthening women's roles as economic actors, especially at the grassroots level through micro-finance. Similarly, there is widespread recognition of the roles that women have played in promoting peace and mediation at different levels of society. Businesswomen are positioned at the intersection between these two capacities for intervention, and the cases confirm that they have taken a lead in several important initiatives, especially addressing gender issues in conflict (Burundi, Nepal, Sierra Leone and South Caucasus). These include a network of women working across the Hutu/Tutsi divide in Burundi to regenerate livelihoods at the grassroots, and a women's entrepreneurial organisation in South Caucasus that promotes reconciliation through joint economic activity between Georgian and Abkhaz small businesses.

As the subsequent pages testify *Local Business, Local Peace* is a rich source of ideas and experience, which Alert hopes readers will find sufficiently stimulating to catalyse their deeper engagement in working for sustainable peace.

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- 15 Anderson, M. B. and Olson, L. (2004) *Confronting War: Critical Lessons for Peace Practitioners* (Cambridge, US: Collaborative for Development Action).
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- 17 Emerging best practice on 'monitoring and evaluation' is the subject of much debate, see for instance Hoffman, M. (2004) *Peace and Conflict Impact Assessment Methodology* (Berlin, Germany: Berghof Research Center for Constructive Conflict Management).
- 18 Le Billon, P., Sherman, J. and Hartwell, M. (2002) 'Controlling Resource Flows to Civil Wars: A Review and Analysis of Current Policies and Legal Instruments', background paper, International Peace Academy 'Economic Agendas in Civil Wars Project Conference', Rockefeller Foundation Study and Conference Center, Bellagio, Italy, 20-24 May 2002 (New York, US: IPA).
- 19 See Taylor, M. (ed.) (2003) *Economies of Conflict: The Next Generation of Policy Responses. Report of the Expert Consultation on Conflict Economies and Development* (Oslo, Norway: Fafo).
- 20 Pugh, M. and Cooper, N., with Goodhand, J. (2004) *War Economies in a Regional Context: Challenges of Transformation* (Boulder, US: Lynne Rienner).
- 21 Jackson, S. (2005) 'Protecting Livelihoods in Violent Economies' in *Profiting for Peace: Managing the Resource Dimensions of Civil War* (Boulder, US: Lynne Rienner).
- 22 OHCHR (2004) 'The Global Compact and Human Rights: Understanding Sphere of Influence and Complicity', in UN Global Compact and OHCHR (eds.) *Embedding Human Rights into Business Practice* (New York, US: UN Global Compact/OHCHR).
- 23 The term was first coined in 1992 by former UN Secretary General Boutros Boutros-Ghali in *An Agenda for Peace*, in which it was used as an addition to other UN responses to the threat or outbreak of conflict: preventive diplomacy, peacemaking and peacekeeping. In this context, it was applied to mean interventions to stabilise peace in the aftermath of a conflict only. Today, the term 'peacebuilding' has been extended to include all three areas of conflict prevention; efforts to settle violent conflict once it has broken out; and efforts to stabilise and strengthen peace in a post-war situation.
- 24 Smith, D. (2004) op. cit.

Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector

Chapter one
Local businesses' role in formal peace
negotiations*

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Chapter one

Local businesses' role in formal peace negotiations¹

This chapter will trace and describe the different ways in which groups of domestic business communities have participated in formal peace processes seeking an end to conflict. It draws on case-study materials included in Section 2, including examples from Colombia, Cyprus, Guatemala, El Salvador, Mozambique, Nepal, Northern Ireland, Somalia, South Africa and Sri Lanka. This material highlights that private sector participation in peace processes takes many forms, from direct participation in negotiations to indirect activities aimed at exerting influence on negotiators; lobbying; taking messages back and forth (shuttle diplomacy); providing support to off-the-record meetings between parties; producing or disseminating knowledge about peace-related issues; and participating in multi-sectoral dialogue processes in support of negotiations. The cases of participation discussed range from high to low-profile levels of intervention; individual to collective; and explicit to inadvertent, in terms of influence on peace talks. The majority of examples depict action by big business and powerful associations, which case studies confirm are the segments of the private sector that have the operational capabilities, resources and access to policy processes that can have most influence on the dynamics of conflict.

The chapter is grounded in a growing academic and policy literature that suggests that successful peace negotiations and agreement implementation require private sector support.² As will become clear, private sector involvement in a political-level peace processes complements (and cannot be seen in isolation from) its role in addressing national, socio-economic issues, confidence building and other dimensions of broader peacebuilding that are discussed in more detail in other chapters. Businesspeople are strategic partners of any peacebuilding process.

When not included, the private sector may develop a potential as ‘spoiler’, placing it among the ‘leaders and parties who believe that peace emerging from negotiations threatens their power, world view and interests, and ... undermine attempts to achieve it’.³ In Guatemala, almost 10 years after the peace accords were signed, the private sector continues to resist paying higher taxes or to meet donor demands for greater domestic responsibility in peace implementation, partly explaining why the implementation of the Guatemalan peace accords remains suspended.⁴

Even in the absence of political motives, business decisions – whether and how to invest, produce and hire – have the power to limit or undermine the agenda and scope of peace negotiations, and their implementation.⁵ As will be shown, negotiations in very different conflict-affected countries have therefore needed to pay attention not only to the potential contributions of the domestic private sector, but also its potential to impose obstacles to agreement and the progress away from violence.

The chapter finds that the way in which private sector actors participate in peace negotiations depends on their characteristics (the size and competitiveness of individual companies or sectors, and their ability to produce and defend collective positions), as well as on the openness to private sector participation by governments, negotiating and other interested actors with the capacity to exert pressure (such as the international donor community or other civil society groups). In general, private sector mobilisation and integration in peace processes is both a decision reached internally by companies and also a response to specific opportunities and circumstances.

Finally, the way that the private sector participates in peace talks relates to its motivation. Generally, private sector participation will be more intense in scope and scale where the actual or potential cost of the conflict to business is perceived to be highest. However, this chapter finds that cost of conflict alone is insufficient to produce private sector participation. Other critical factors highlighted in the case-study material include pressure by domestic and external actors to participate, and conditions or dynamics that help overcome collective-action problems within the business community.

This chapter will now give a brief overview of how peace processes work, the main challenges faced at each point in time and the ways in which business can contribute to, or hamper, progress. It will then categorise the different ways in which the private sector became involved in peace negotiations in the different countries discussed in Section 2, reflecting on the question of motivation in each case. The discussion shows that private sector participation does not occur in a political vacuum but is shaped by the opportunities and constraints posed by specific conflict

contexts, as well as by the nature and desires of other involved actors and the characteristics of the private sector itself. The chapter ends with a summary of the main findings and an analysis of some implications for constructively integrating private sector actors and needs into future peace negotiations.

What are peace negotiations and agreements?

Negotiating an end to conflict between hostile parties and implementing the commitments made in an agreement signed by all involved are the most daunting tasks facing societies recovering from conflict. Referred to as ‘Track 1’ diplomacy, to be successful peace negotiations require inputs from a range of actors, and context-specific conducive circumstances in society to be successful. International statistics highlight that most conflicts relapse within a ‘five-year danger zone’ following the signature of peace agreements.⁶ Analysts suggest that a preponderant military victory by one side increases the likelihood of settlements ‘sticking’, rather than the negotiating process itself.⁷ The fragility of peace agreements and their relapse into conflict are attributable to different sources related to the pre-negotiation phase, the negotiation process, the agreement content and the implementation context.

In the *pre-negotiation phase*, getting parties to the negotiation table is the first hurdle.⁸ In this regard, attention has been paid to the ‘ripeness’ of a conflict, whereby the involved parties are ready to enter negotiations either because they realise that military victory is not feasible, or because influential domestic or external actors have convinced them of the social, political or economic desirability of ending the conflict.⁹

Essential to the pre-negotiation phase is the establishment of a level of mutual trust that translates into a willingness to engage in compromise and consensus building.¹⁰ Specifically, the pre-negotiation phase addresses questions ranging from logistics (where talks will be held, how often parties meet, the timeframe of negotiations and participants’ security) to substance (defining participant profiles, the role of mediators, the negotiation agenda). In these ‘talks before talks’ a crucial goal is to bolster both sides’ credibility and confidence in the process.

If the pre-negotiation phase is successful, talks will begin but can frequently collapse. Causes for failure of the *negotiation phase* include: a lack of willing and skilled negotiators and facilitators; lack of information on the costs and benefits of alternative courses of action; lack of information about the intentions of involved parties; the absence of the most interested or affected parties and, therefore, a lack of negotiator legitimacy; and low mutual confidence.¹¹ Complications can also follow in terms of *agreement content* especially where there has been an incomplete or excessively ambitious negotiation agenda. In the first case, insufficient attention may be paid to a ‘hidden agenda’ that includes issues important in shaping combatants’ decision to lay

down their weapons, but which may not figure prominently in public statements. In the second case, too many items on the agenda may cause problems of efficacy at the table, such as delay, stagnation and, ultimately, frustration.

The achievements of these two phases are put to the test in the final implementation phase. Commitments need to be translated into action in a context that is no longer marked by the urgency that an ongoing conflict imprints on the pre-negotiation and negotiation stages, but which is invariably scarred by war. Because conflict countries tend to slip off the radars of donors or supporters after the signature of an agreement, resources are harder to come by and countries are often left alone with the task of building and nurturing peace. Not surprisingly, it is in this phase that conflicts tend to relapse in the face of insufficient delivery of promised dividends to all society, but specifically to those in continued control of weapons.

Who is involved?

Different categories of actors are involved in peace talks at every stage. On the one hand, there are those actually doing the fighting – insurgent armies, secessionist movements and parties, individual warlords and state forces. These groups are the protagonists of negotiations and will ultimately sign and be responsible for the implementation of agreements. In addition, peace processes mobilise a vast array of heterogeneous, multi-interest, internal and external, individual and collective actors who have a stake in both the process and outcome, but are not direct protagonists. In this larger group, functions are variable and range from mediation and facilitation of talks to bolstering wider social support for negotiations, supplying the specific needs of the pre-negotiation and negotiation phases (such as offices, transportation or research studies), and monitoring the implementation of their results. The degree to which this group of actors will be involved in talks depends on their authority – for example, an international organisation with the resources and repressive capacity to ensure compliance or the Catholic Church, which holds religious and moral status in many countries – and on the interests of negotiating parties (often, parties who are not willing to lead successful talks will resent any involvement of neutral parties). This kind of participation is not free of risk: the thin line between facilitation and involvement has often caused talks to be interrupted or postponed.

Risks involved

In addition to the risks mentioned above, other issues merit attention. In terms of content, agreements and preceding negotiations may leave out crucial actors with the ability to question the legitimacy of the agreement and the power to sabotage its implementation. In addition, agreements and implementation

processes may fail to address vital issues that caused the parties to fight (for example, ethnic recognition, political power sharing, regional autonomy, control over resources, etc.); would motivate parties to adhere to an agreement (financing of ex-combatants); or are necessary for building legitimacy in wider society (overcoming inequality through land distribution, cultural recognition or broadening access to the political process). Agreements may also be too comprehensive, generating problems of efficacy and, when unfulfilled, of legitimacy within broader society.

As regards *context*, many agreements face implementation difficulties due to lack of adequate resources. Implementation is often contingent on swift materialisation of peace dividends, such as the disbursement of funds by international donors or the enactment of reforms designed to increase income or bring changes to the socio-economic or ethnic structure of society. Also, the presence of spoilers (actors with interests in continuing conflict because their demands were not included in the agreements, or because they benefit economically or politically from warfare) has been shown to reverse or halt agreement implementation. Adding to this, the absence of resilient alliances among international and domestic stakeholders to provide for stable agreement implementation and rapid problem resolution has been shown to challenge the situation further. Finally, so-called ‘bad neighbourhoods’, in which neighbouring states with a stake in an armed conflict, affinities with one of its actors or as a sanctuary for potential spoilers, may pose additional threats to agreement implementation.

Business and peace processes

The domestic private sector has a range of crucial roles to play in all the stages and tracks of peace processes, many of which are examined elsewhere in this book. The least visible, but perhaps most powerful form of participation, stems from what scholars have referred to as the privileged position of business in capitalist societies.¹² In fact, the ‘investment imperative’¹³ – or the need for capitalist societies to accommodate the interests of capitalists, or else face their destabilising impact – points at the private sector’s veto power over public policy, including, in many cases, peace negotiations. As discussed in the case study on Somalia in Section 2, supporters of Somalia’s ongoing peace process were very aware of the power wielded by the business community and made a strategic decision to involve business representatives in the process at the highest level to ensure buy-in (see below.) Disapproval need not be manifest, such as party support or lobbying against negotiations, but can take the form of the devastating decision to disinvest.¹⁴ As a result, private sector support, both material and nominal, is crucial for peace activity to prosper.¹⁵

High-level dialogue with the Somali business community

The increasingly constructive role placed by the Somali business community in the peace process was evident in 2000 when business leaders vocally backed the Transitional National Government (TNG) set up by the Arta peace conference in 2000, despite warlord opposition.

Seeking to capitalise on this early momentum, the Centre for Research and Dialogue, WSP International, the Inter-Governmental Authority on Development (IGAD) and the Djibouti government held a high-level dialogue in Djibouti on 21-22 July 2004. The purpose was to obtain a commitment from the business community to contribute to peace and reconciliation, and play a role in reconstructing the country. Some 36 businessmen and women attended, representing all of Somalia's economic sectors and geographical regions.

The high level of political and diplomatic participation in the meeting underscored the importance attached to the Somali business community's support to the peace process. In attendance were the President of Djibouti; the Minister of Foreign Affairs and International Cooperation of Djibouti; the Minister of Foreign Affairs of Ethiopia; the Minister of the Environment and Natural Resources of Kenya; the Assistant Minister of Foreign Affairs of Kenya; and the Special Envoy of the Kenyan government for Somalia. Also present were diplomats from the United States, Sudan and Eritrea; representatives of UNPOS, UNDP, the European Commission Delegation for Kenya-Somalia; and international organisations accredited to Djibouti. The conference was covered by key media organisations, including the BBC Somali Service, Djibouti Television, STN Television and Benadir Radio and Radio Shabelle of Mogadishu.

The conference started by recognising that the role of the business community in the implementation of peace is critical not only because of the financial and political resources it can offer to the reconstituted government, but also because its input will be vital on such contentious issues as the Disarmament, Demobilisation and Reintegration (DDR) of militia members. Central to discussions was the need to achieve a balance between the business community's national obligations and commitment, and the new government's respect for the private sector's role in the economy.

A follow-up conference was held in Nairobi attended by the contact group formed in Djibouti. The group pledged financial contributions to the government and met with IGAD and IGAD Partner Forum members. The chairman, Sharif Ahmed Sharif, on behalf of the Somali business community, requested assistance from the international community for:

- Re-establishing the Somali Chamber of Commerce and Industries, and provision of technical expertise
- Allocation of membership within various commissions for the reconstruction of Somalia, and the DDR of armed militias
- Support of any future Somali government in developing the private sector
- Appointment of an anti-corruption committee.

As summarised by the Institute of Multi-Track Diplomacy: “The business community has a great deal to contribute to any peace process. It has developed organisational and human technologies relevant to societies emerging from deep-rooted conflict, such as skills in leadership, complex systems change, visioning, strategic planning, participative decision making, teamwork, managing diversity and whole-systems thinking. Business has a global network of contacts, alliances, services and communications that can be powerful resources to a conflict-resolution process. Finally, the business world has access to the capital needed to make the investment in peacebuilding These factors all point to a natural partnership between business and peacebuilding.”¹⁶

Marketing peace to the private sector as a profitable undertaking becomes one of the crucial challenges facing all actors, domestic and external, seeking to negotiate an end to armed conflict.¹⁷ Even when the private sector is persuaded to play a role, its participation is vulnerable to the pitfalls of collective action.¹⁸ While the cost of conflict or the benefits of peace to business may seem obvious, the public-good quality of peace (that is, once obtained, nobody can be excluded from enjoying peace’s positive effects, regardless of whether s/he has paid its cost), and the view in many places that essentially the state is responsible for its achievement, may impede or postpone private sector participation. In this regard, there is a need for the calculation and dissemination of a peace dividend¹⁹ (actual or expected) as a necessary condition for overcoming collective action problems within the private sector and attracting it to activities fostering peace processes, from supporting talks to reactivating productive activity and fostering capital repatriation.²⁰

As will be described in the next section, private sector actors in several conflict-affected countries have explored different ways to shape negotiation processes, the contents of specific agreements (when they have been reached), and the implementation process. Their participation has occurred in all phases of negotiation. As will become clear from the specific cases discussed below, most business participation in Track 1 is indirect, free of formal roles and responsibilities, and the product of private initiatives. Direct participation, tied to an explicit mandate, is less common and more frequently induced by negotiating parties.

A typology of private sector participation in peace negotiations

Direct business participation (with formal responsibilities)

As part of government

Alfredo Cristiani is a good example of a business contribution to peace talks via direct participation in government, or at the centre of Track 1. The son of a wealthy, coffee-producing family in El Salvador and a businessman with interests in pharmaceuticals and the booming financial sector, Cristiani was president of El Salvador from 1989-94 and one of the architects of the 1992 Salvadoran peace accords (see below). He also led the ‘modernising faction’ in local business which, galvanised by the US-funded think-tank FUSADES, recognised at the end of the 1980s that successful viability in the new, market-oriented economic model hinged on ending the armed conflict. Cristiani’s election to the presidency with the support of business was thus explicitly linked to a dual mandate: promoting peace and revamping El Salvador’s insertion into global and regional markets.

The nexus between the private sector and government was neatly reflected in the negotiations and resulting agreements. Negotiations were swift, closely followed by FUSADES, and focused on reforming the police, military and judiciary, and guaranteeing the effective demobilisation of combatants. Later criticised for failing to address inequality on a wider basis, the accords nevertheless enjoy widespread support from the former negotiating sides. Guerrillas from the *Frente Farabundo Martí para la Liberación Nacional* (FMLN) have not resumed fighting and have enjoyed significant electoral success. Implementation and stability has also been accentuated by the continued tenure of the *Alianza Republicana Nacional* (ARENA) party, which brought Cristiani to power.

El Salvador – a firm grip on the peace process

In January 1992, a peace agreement between the government of El Salvador and the FMLN put an end to 12 years of civil war. An important part of the Salvadoran private sector acted as a crucial interlocutor in this process, shaping the design of negotiations and implementation of the final agreement. The private sector massively supported the election of Alfredo Cristiani, the president who led the peace talks, and many private sector leaders participated, both formally and informally, in negotiations and government advisory teams. They actively promoted and were involved in conflict-related research and dedicated resources to support former FMLN combatants’ attendance at Central American graduate schools to foster the development of their managerial and other skills.

Previous attempts at negotiating an end to the Salvadoran conflict had encountered business resistance. For example, José Napoleón Duarte, president

from 1984-89, shocked the business community with a reform package aimed at redistributing wealth.²¹ However, by the end of the 1980s a convergence of factors produced a favourable climate for private sector support to peace.

On the one hand, changes in the structure of the business community led to the consolidation of a 'modernising' elite, with ties to commerce, agro-business and financial services, and the weakening of the traditional elites linked to land and agriculture.²² Much of this transformation was due to the US-funded think tank, *Fundación Salvadoreña para el Desarrollo* (Salvadoran Foundation for Development, or FUSADES), which dispensed credit and supported activities in new sectors of the economy. In addition, FUSADES produced information on the costs of the conflict to the local business community, as well as the opportunities a more globally integrated economy would enjoy in the absence of conflict, thereby disseminating the idea of a peace dividend. FUSADES was instrumental in rearing a young generation of business leaders who began to occupy leadership roles in business associations and government, effectively displacing the traditional, land-based economic elite.

Alfredo Cristiani was among this group, becoming leader of the pro-business *Alianza Republicana Nacional* (ARENA) party in 1984 and leading it to presidential victory five years later. A disciple of FUSADES, Cristiani pursued a twin agenda on becoming president: economic reform and ending the conflict. Both were closely connected. The Salvadoran Ministry of Planning had estimated that the direct and indirect costs of the conflict from 1980-90 amounted to around \$1 billion.²³ The business community was a prime target of kidnapping and extortion. Destruction of infrastructure and lost investment complemented the difficulties for business. The 1980s debt crisis revealed profound structural problems in the Salvadoran import-substitution-industrialisation model and caused GDP to fall by 25 percent.²⁴ Exports to the Central American Common Market, the country's largest regional trading partner, also dropped and rampant capital flight reduced investment.²⁵ At the end of the 1980s it became clear to many in the private sector that the conflict was too high a price to pay and that the necessary economic reforms would require minimisation of the diversion of resources by conflict-related factors. Peace became an economic necessity for business.

As a result, most of the Salvadoran private sector supported Cristiani's decision to convene meetings with the FMLN immediately after winning the presidency. In addition, the government guaranteed access to the decision-making process, as well as protection and promotion of business interests. Cristiani's private sector background was matched by his close advisory team – with individuals from FUSADES, ANEP (the main business association) and ARENA maintaining close relations with the negotiating team through periodic briefings and consultations

on the peace process. As a result, the private sector maintained a firm grip, both formal and informal, over negotiations and the peace agenda.

The strong business-government connection during peace talks explains the absence of ambitious socio-economic provisions in the peace agenda: the purpose was to end the conflict and to prepare the stage for a new, FUSADES-designed economic model. FMLN leaders, while commanding an organisation that had inflicted severe damage on the private sector during the conflict, abandoned more profound socio-economic demands in exchange for political and judicial change (for which they were rewarded by FMLN's successful performance in national and local elections in post-agreement El Salvador, compared with other rebel groups).²⁶ The private sector closely oversaw the implementation of agreements reached through the negotiations, pushing for profound military and judicial reform, and obstructing attempts by labour unions and other organisations to introduce corporatist arrangements on labour issues.²⁷ Until today, ARENA has been able to keep its hold on the presidential office, providing for continued business inclusion in, and widespread support of, the clearly confined implementation process.

In return for its intensive participation, the private sector earned stability and a business-friendly investment climate, as well as new economic rules that enabled it to participate in the contemporary international macro-economic environment. Despite increasing crime levels and continued poverty, the Salvadoran economy grew by 6.2 percent on average between 1990-95,²⁸ much of it nurtured by domestic investment (as well as by remittances from Salvadorans abroad).²⁹ Gains accrued specifically to commerce, finance and non-traditional goods, confirming expectations that the post-agreement economic model would reward the 'modern' elite that supported talks in the first place.

The degree of closeness between government and the private sector in pursuing peace talks in El Salvador is uncommon and provides a unique example of the convergence of several factors that make participation an attractive option for the private sector: a steep increase in the cost of conflict; documented expectations of a peace dividend; political and economic leadership to provide for private sector unity faced with its participation in talks; and the openness of all negotiating sides to private sector participation.

As part of the negotiating team

Sitting in the president's office is one way business can participate in peace talks, although it is more common to find business people as members of negotiating teams (also Track 1). In Colombia, the government of Andrés Pastrana (1998-2002), elected with widespread business support, was anxious to pursue talks with the leftist

Fuerzas Armadas Revolucionarias de Colombia (FARC) and appointed high-ranking business leaders as members of its negotiating team. The move was appreciated both by the business community, which expected private sector participation to provide for sound discussion of the insurgents' economic and social demands, and also by FARC, which extended a warm welcome to business leaders during the talks. Despite the business role, however, central responsibility for the talks was delegated by the president to the presidential commissioner, a move that kept the business people in the negotiating team out of direct negotiations and contributed over time to increasing disaffection with the process among the business community.

The private sector also played a role in settling Guatemala's conflict (see below), with the four-member *Comisión de Paz* (Peace Commission, or COPAZ) including one business representative. In this case, the overall effects of business participation on the outcome of the peace process were problematic. Deep-rooted doubts by important business actors as to the need to hold talks at all (as opposed to pursuing a military solution) prevented business representatives from presenting a united voice at the negotiating table, or enlisting support in the wider business community.

A contentious relationship – business involvement in Guatemala's peace process

The peace accords signed between the Guatemalan government and the *Unidad Revolucionaria Nacional de Guatemala* (URNG) in 1996 were heralded as a success because they included unprecedented social and economic commitments. Almost a decade later, much of what was promised has not been delivered. Fiscal adjustment and increased taxation to address growing social needs in Guatemala are still 'pending'. In addition, the post-conflict crime rate in Guatemala has soared.

The Guatemalan peace process began as a democratisation process in the 1980s with an effort to limit the military's control over politics and the economy. The private sector organisation, *Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras* (CACIF), played a central role in this transformation. CACIF was instrumental in persuading the military first to accept economic liberalisation reforms and then democratic transition, culminating in the election of a civilian president, Vinicio Cerezo, in November 1985.

Founded in 1957, the organisation was able to play this role due to a gradual shift in business leadership from members of the traditional sectors to members of a modernising group, with family ties to traditional agriculture but active in commerce, finance and agro-industry, and with increasing connections to

international markets and networks. It was this business faction that, by the end of the 1990s and until the accords were signed in 1996, became involved in efforts to seek a negotiated end to the country's armed conflict. The *Comisión Empresarial de Paz* (Business Peace Commission, or CEPAZ) was created in 1994.

CEPAZ's official purpose was to lead CACIF in determining the private sector's positions on the peace negotiations. Its creation also suggested that the modernising faction had come to appreciate – and was willing to act more assertively on – the link between ending conflict and improving their own economic prospects. Increased conditionality on development assistance and growing international condemnation of the private sector's perceived tolerance of Guatemala's dark human rights record had also not escaped the group. As a result, CEPAZ created a group of influential businesspeople to pursue three goals: to monitor and exert influence on the peace process, particularly with regard to the socio-economic issues under discussion; and to embark on a mission of persuasion within the private sector.

Profound divisions in the business community complicated CEPAZ's ambition to participate in and shape the peace process. Incomplete economic modernisation had left a chasm between the traditional and modern sectors. In addition, different sectors had different readings of the costs of conflict. The Guatemalan conflict had lingered for decades in the countryside, was geographically confined and, except for a bloody interval from 1979-83, was generally of low intensity. The majority of businesses did not acknowledge that the conflict interferes with their economic activities, leading many to believe that a negotiated solution was unnecessary. As a result, the sectors most prone to benefit from and support negotiations gained neither economic nor political leadership, while economic hardliners remained effective in obstructing advances on the peace front.

Because of these tensions, CEPAZ did not become part of the *Asamblea de la Sociedad Civil* (Assembly of Civil Society), a group of diverse social organisations intended to serve as civil society interlocutors. Members of the pro-peace faction were included in the Peace Commission, but failed to earn the backing of the entire private sector. Illustrating the difficulties encountered, CEPAZ was unable to prevent the *Coordinadora Nacional Agropecuaria* (CONAGRO) either from withdrawing from CACIF in protest over CEPAZ's support of negotiations, or from filing lawsuits for treason against the government's negotiators.³⁰ In sum, private sector participation in peace talks was highly ineffective in terms of meeting its original objectives – either by representing business interests at the negotiating table or 'selling' the peace process to the business community. ▶

One of the most important points of contention in the peace process was the Accord on Social and Economic Aspects and the Agrarian Situation, which addressed issues of state modernisation and social development, and was among the last and most controversial to be signed. Previous attempts at reaching agreement had failed due to business resistance to tax increases and to recognition of the social function of property, one of the main demands of the URNG and Guatemala's other popular movements. The importance of these issues to the business community was clear from anecdotal evidence. "To complete the first draft of the socio-economic accord," the leading government negotiator recalled. "I met with CACIF 42 times, but only 21 times with the guerrilla leadership. Led by CEPAZ, business finally accepted a VAT increase but conditioned it to a (seemingly unrealistic) GDP growth rate of 6 percent."

That peace agreements were reached in Guatemala can largely be credited to the UN, which facilitated contacts between the parties, drafted agreements and committed funds to implementation. The role of the international community also proved crucial in exerting pressure on Guatemalan business to accept a tax arrangement. Hints by the international donor community that Guatemala's failure to meet its fiscal commitments would jeopardise further funding signalled the limits of donor patience with domestic resistance to sharing the peace burden.³¹ The dire economic prospects for Guatemala predicted by the Inter-American Development Bank instilled concerns that business stood to lose substantially in economic terms if key reforms – including fiscal reform – failed to be adopted.³²

Ten years after the signing of the accords, the Guatemalan private sector has consistently resisted key reforms, such as tax increases. By the end of 2004, most peace commitments had been rescheduled several times or had simply not been met.³³ Post-conflict Guatemala has not enjoyed high levels of economic growth, nor has it seen income from remittances as an engine for growth. When the UN mission closed its offices in Guatemala at the end of 2004, the Secretary General noted that 'serious problems' continued to 'plague Guatemalan society'. "Guatemala has fallen short of its obligations," he continued, "...to substantially increase tax revenues to pay for much needed social investments."³⁴ In this way, peace consolidation in Guatemala has been marked by instability, which is partly attributable to the contentious relationship that still exists between business and peace.

When they form part of negotiating teams, business representatives often find themselves exposed to the difficulties of having to represent private sector interests while assuming a broader political role with increased accountability to a wider public. This generates tensions, as their core constituency may feel the

representatives have relinquished their primary loyalty, while other government and civil society members may suspect that they are participating solely to further their own agendas. The case described in Guatemala, where fellow businesspeople ultimately accused CEPAZ members of treason, was an extreme example of this difficulty. Similar problems arise in negotiating processes that deal with inter-state conflicts, as in the case of Cypriot Brussels Business Group, discussed in Section 2. This initiative, which brought together big business from Greek and Turkish sides of the island with a view to mobilising them for Track 1 advocacy, was dogged by fears that some business representatives had joined the group solely to ensure that the official policies of their own side were not contradicted – while their participation was at the same time viewed with suspicion by the wider public. Maintaining authority, access and credibility with different stakeholders, therefore, is a major challenge to private sector actors in negotiations if they are to continue to serve as bridges, instead of sources of contention.

Indirect business participation (no formal role or responsibility in the process)

Most business involvement does not amount to formal participation in peace talks, but takes the form of the whirlwind of activities that peace talks – or the expectation thereof – set in motion. This kind of participation, which aims at building support for talks, bringing parties to the table and producing an agreement, is more intense in the pre-negotiation and the negotiation phases, and diminishes in intensity during the implementation period.

Helping to build trust to pave the way for negotiations

Years of fighting and the accumulation of records of grievances ensure that mistrust, an essential element of warfare, is a major impediment to agreeing to talks even when both sides acknowledge that ongoing confrontation is no longer desirable. Outsiders or third parties can play an important role in building credibility and trust, and in overcoming prejudice and fear. Persuading parties even to agree to ‘talks about talks’ is an important first step. Supra-party authorities, such as religious groups or international personalities, more often fill this role. However, the private sector has participated in such efforts, drawing on its own resources. In Mozambique, executives of Lonrho, the Africa-based mining conglomerate, shuttled between, and socialised with, representatives of the warring RENAMO (South-African supported and anti-communist) and FRELIMO (official, anti-colonial and pro-communist) groups. In Colombia, business leaders held off-the-record meetings of multi-sectoral groups (including leftist and rightist insurgents, labour and Church leaders, and minority groups such as indigenous and African-Colombian communities) in order to generate space for developing personal relationships. In South Africa, businessmen took members of the conflicting sides on fishing weekends in order to facilitate personal encounters to bridge the divide.

Providing 'good offices': financial and logistical support, and acting as intermediary

Building on these efforts to foster trust between warring parties in advance of negotiations, private sector actors have in several countries played a facilitating role to bring sides together by hosting talks or providing unofficial shuttle diplomacy. In this low-profile form of private sector participation, the building of personal relationships to facilitate effective communication and find points of common interest is very important.

Private sector support to the peace process in South Africa

The business sector was frequently criticised in the late 1980s for supporting and benefiting from the apartheid system. At the time, a small group of business leaders initiated a series of meetings with the apartheid government and a wide range of formal and informal political groupings, including black political leaders who enjoyed popular support.

Their primary purpose was to encourage a debate on South Africa's political and economic future. Progress was hampered by the repressive political climate and the fact that many political leaders were in hiding, detention, jail or exile. Despite these challenges, the relationship-building initiative continued and in late 1988, following a high-level meeting between business leaders and representatives of the Mass Democratic Movement in Broederstroom, the Consultative Business Movement (CBM) was formed.³⁵ The initial focus was on consultation and relationship building with key political players, such as the African National Congress (ANC) and the Inkatha Freedom Party (IFP). This alone was significant since broad trust was non-existent at the time.

The 1980s was a very turbulent period in South Africa, with high levels of political violence. The need for a national peace conference was undeniable, but the political dynamics and a power struggle between the government and the ANC (and other parties) presented a complex issue as to who had the legitimacy to convene such a conference. The National Party government's efforts to convene an official peace conference were opposed by the liberation movements on the grounds that the government was the primary instigator of violence. That impasse was broken when the CBM and South African Council of Churches facilitated a process that led to an inclusive peace process. The first meeting of the formal process was convened at the offices of a leading industrial company, Barlow Rand Ltd, and co-chaired by John Hall, a Barlow executive and chairman of the Chamber of Commerce, and Archbishop Desmond Tutu. This was the beginning of a long journey in which business leaders played an active role in working with political parties, women's groups, religious groups, NGOs and trade unions to foster a climate of peace.³⁶

The CBM's credibility and legitimacy were established during the peace process and laid the basis for a request for the organisation to provide the secretariat and administrative support for the Convention for a Democratic South Africa (CODESA) process. When the CODESA process deadlocked in 1992, the CBM convened local academics and foreign experts with the 'passive approval' of the major political parties in an effort to break the deadlock in negotiations about powers of the regions versus central government. The resulting report played a critical role in the major parties' thinking and proved decisive in shaping the final constitutional agreement on this sensitive issue.³⁷

With less than a month to go before the first democratic elections, the IFP refused to participate. Following a suggestion from Nelson Mandela, the CBM was asked to manage a process to secure international mediation. Dr Henry Kissinger and Lord Carrington were leading figures in the international delegation that arrived in South Africa 10 days before the scheduled election. When the mediators failed to reach a common agreement with all parties on clear Terms of Reference, the most prominent of them left South Africa. However, one of the lower-profile mediators launched a process of informal shuttle diplomacy with CBM support to secure buy-in from IFP leader, Mangosuthu Buthelezi, then president F.W. De Klerk and the ANC's Nelson Mandela.³⁸ The subsequent agreement formed the basis for the first democratic elections in South Africa's history.

In Mozambique, Lonrho's then chief executive 'Tiny' Rowland, supplied the company jet to transport RENAMO representatives to the negotiating table in Rome and the company pumped millions of dollars into keeping RENAMO involved in talks and, when an agreement was finally signed, providing for the demobilisation of its fighters.³⁹

In Northern Ireland in 1996, the Confederation of British Industry (CBI) joined with six other trade and business organisations – the Hotel Federation, the Institute of Directors, the Northern Ireland Chamber of Commerce and Industry, the Northern Ireland Growth Challenge, the Northern Ireland Economic Council and the Northern Ireland Committee of the Irish Congress of Trade Unions – to create the Group of Seven (GoS). As a collective voice of economic interests, the GoS was endowed with considerable authority which it used to advance one principal message: Northern Ireland must make a 'stark choice between a future of peace and prosperity and a destiny as one of the world's most irredeemable trouble spots'.⁴⁰ In October 1996, the GoS invited representatives of all nine political parties involved in the peace talks to a meeting in Belfast. Collective meetings, rather than individual ones, mirrored the Group's strategy of political cooperation and impartiality. At the meeting, the Group had two main objectives:

- To present the economic rationale for peace, discussing its importance for economic growth and prosperity
- To urge political parties to fortify their efforts for peace.

In a subsequent press release, the GoS said it had emphasised ‘how catastrophic it would be for the economy and for every aspect of life in Northern Ireland if the current talks were to collapse’. It also asked the parties to seek new solutions to problems that had hitherto proved intractable.⁴¹

Although the Belfast meeting provoked politically motivated complaints, it compelled political leaders to address the challenges of peace and economic growth in a holistic manner for the first time. Over the next 21 months, the GoS held five further meetings with the various political parties, contributing its input to the political debate. In April 1998, David Trimble, leader of the Ulster Unionist Party, and John Hume, head of the Social Democratic and Labour Party, announced the Good Friday Agreement, supported by eight political parties and the Irish and UK governments. While a landmark towards, rather than an endpoint to, the conflict, the agreement set out the framework for Northern Ireland’s social, economic and political future, and remains the guiding framework of the peace process.

Business can also use ‘good offices’ in this way for smaller objectives, rather than actual peace negotiations. Kathmandu-based businesses’ negotiations with the Maoists and the government, while they were also in the middle of negotiations to avert a Maoist shutdown of their industries, allowed them to act as facilitators and providers of ‘good offices’ between Maoists and government for the mutual release of prisoners.

Direct engagement with conflict parties and negotiation

Businessmen refrained from directly engaging with the rebels for a long time. “Since the Maoists perceived us as the class enemy, the business community thought that there was no room whatsoever for engagement,” said the managing director of one company. At the same time, direct negotiations meant challenging state authority. If the state, particularly the army, suspected that businesspeople were cooperating with the Maoists, they could land in trouble or prison.

In early 2000 and 2001, the Maoists detonated explosive devices in the units of several Indian subsidiaries and multinational corporations, including Surya Nepal, a subsidiary of International Tobacco Company; Nepal Bottler’s Limited, manufacturers of Coca-Cola; Nepal Lever Ltd, a subsidiary of Unilever; Nepal Battery; and Dabur Nepal Ltd, a subsidiary of Dabur India. This was consistent with the policy of opposing foreign investment in Nepal, the sixth demand in the Maoists’ 40-point demand to the government in 1996. ▶

However, when the Maoists announced on 17 August 2004 the forced closure of 12 enterprises, the business community reached its limit. These firms included locally owned and joint ventures. A week later, the Maoists announced the closure of a further 35 companies, threatening the collapse of the entire industrial sector. The Maoists switched their focus to local industries, rather than foreign subsidiaries, in order to force a sense of urgency on the business community. A list of demands on working conditions was issued, but it also included political demands, leaving businesses in the uncomfortable position of having to mediate between the government and the Maoists.

To address these threats, the Federation of Nepalese Chambers of Commerce and Industries (FNCCI) set up a task force to begin collective discussions with the affected industries, the government and legal trade unions, without initially making contact with the Maoists. After some consultation with civil society, the FNCCI contacted three well-known human rights activists. They agreed to mediate between the business community, government and the Maoists, thanks to the endorsement of the government and personal access to decision makers in the rebel movement.

After receiving government approval, the mediators brought together businesspeople and leaders of the Maoist trade unions. After a lengthy process of negotiation, agreement was finally reached on 30 September 2004. The government agreed to release two Maoist trade union leaders and make public the whereabouts of others who had been detained. The FNCCI agreed that its members would negotiate with trade unions on workers' welfare issues. As a result, the Maoists withdrew their threat to force the closure of the 47 factories.

Mobilising wider business support

Business action also focuses on ensuring the support of other business actors for peace negotiations. Reflecting distinctions within the business community in terms of the weight of the conflict burden, not all sectors and companies will be equally interested in peace talks, either because the cost is not equally spread or because some benefit from conflict or oppose talks with what they consider enemies or potential competitors. The Guatemala case illustrates this point. In this sense, attracting strategic sectors, both because of their constructiv and their spoiling potential, becomes a crucial task for business leaders seeking to promote peace talks. This kind of awareness raising can be very effective because of the basic understanding business people have of one another, perhaps more so than when other actors seek to bring business on board. In Somalia, for example, the case study in Section 2 finds that businesspeople in favour of instituting a transitional government enlisted the support of others to keep warlords at bay in Mogadishu, thereby displaying a power to neutralise potential spoilers among them. The example is even more important

inasmuch as many of these warlords had previously enjoyed business support and collaboration in the pursuit of mutual goals. In Nepal, it is an explicit objective of the recently established National Business Initiative to extend participation to more businesses, including outside Kathmandu and into the regions.

The National Business Initiative in Nepal

In February 2003, at the invitation of the Swiss Development Corporation, two prominent business leaders took part in a seminar in Switzerland on Conflict Resolution and Peacebuilding in Multicultural Societies attended by representatives of Nepal's mainstream political parties, the rebel Nepal Communist Party (CPN-M) and civil society organisations. Businesspeople perceived the group's interactions as largely positive and one was invited to draft a common statement on its behalf.

Encouraged by the experience, they returned intent on mobilising other businesspeople. Soon afterwards – together with the GTZ Private Sector Project and with advice from International Alert – the FNCCI, the Nepal Chamber of Commerce and Industry (NCCI) and the Hotel Association of Nepal (HAN) organised a national conference on the 'Role of the Private Sector in Peacebuilding, Reconciliation and Development' in which over 100 business leaders took part.

The conference provided an opportunity to share experiences from other conflict contexts, including from South Africa where the business community had played a critical role in negotiations between the ANC and the apartheid regime. One resolution to emerge was: "There can be no successful business in an unsuccessful society and there can be no successful society without successful business."

GTZ continued to provide support to business leaders who expressed interest in exploring additional possibilities for developing strategies and programmes aimed at defining specific roles and steps. This included the formation of a National Business Initiative for Peace (NBI). As part of the process, business leaders engaged more actively with NGOs throughout 2004, particularly Civil Solidarity for Peace, a coalition of hundreds of civil society organisations aimed at pressuring the government and the CPN-M to return to the negotiating table, in an effort to learn more about greater coordination on the peace issue.

The NBI comprises 14 national business organisations, including the FNCCI, the NCCI and the HAN. Its goal is to contribute to 'sustainable peace in Nepal through just socio-economic growth', while remaining politically non-

partisan.⁴² It aims to invest resources in three key areas: social capital; infrastructure; and the creation of safe spaces for peace talks and genuine, peacebuilding efforts.

These areas of activity are based on a pertinent analysis of the conflict. “The conflict is aggravated by unjust socio-economic development and political failings. Poverty, disparities, poor governance, corruption and the failure to adequately deliver essential social services and infrastructure to rural communities and marginalised groups are the other underlying causes of the conflict. Therefore, for a lasting solution, the nexus of poverty, poor governance and marginalisation needs to be urgently broken.”⁴²

The NBI acknowledges that the business community cannot act on its own, but needs to work transparently and in coordination and partnership with others, including the conflict parties and civil society. As with the business community, it recognises the need to reach out to different actors (individuals, businesses, chambers of commerce and so on) at different geographical levels.

The NBI aims to achieve the following goals by the end of 2007:⁴³

- The general public will become aware of the NBI and its activities
- There will be substantial press coverage of the NBI and its activities
- Entrepreneurs will become conscious of their role in conflict transformation and peacebuilding, and local chambers will initiate related activities
- Entrepreneurs will introduce socially responsible business practices in order to contribute to just socio-economic development
- Businesses will reach out to communities with socio-economic development activities
- The private sector will secure the cooperation, collaboration and/or contribution of larger civil society for activities/initiatives led by the private sector
- The NBI will increase its membership base
- Enterprises will be awarded a ‘peace certificate’ that will improve their public image
- Threats of harassment and intimidation against the private sector by any of the conflicting parties will decrease
- The private sector will engage in dialogue with government at various levels
- Entrepreneurs and their federations will identify topics for a future peace agenda and will table them.

It is too early to assess what impact the NBI’s work will have on the wider peace process. However its approach, inclusiveness and outreach to other actors both within the private sector and more widely evidence a willingness on the part of businesses to become involved in a strategic and sustainable way.

Mobilising public support for the peace process

Beyond the business community, peace processes need public support if they are to go ahead, have legitimacy and ‘stick’. Trying to gain public buy-in for a peace process, particularly at the pre-negotiation stage, is one of the central tasks that peacebuilders face. Business actors have historically been highly effective in mobilising society in support of peace by appealing to emotional, as well as economic, reason. Business has funded awareness-raising campaigns aimed at underscoring the suffering and devastation imposed by conflict. In Northern Ireland, the GoS urged all parties to seek peace. In Sri Lanka, posters and press advertisements sought to influence voters to support peace-oriented parties and candidates, and the Sri Lanka First (SLF) campaign (see over) focused on raising awareness about the economic costs of the war and the benefits of a ‘peace dividend’ prior to the 2001 elections. In Colombia, private sector leadership in the Citizen’s Mandate for Peace, Life and Freedom Movement collected 10 million non-binding votes in October 1997 and was crucial to conveying to the incoming Pastrana government the widespread support that peace talks would enjoy.

The Sri Lanka First campaign

Sri Lanka was, until recently, a country with steady economic growth despite its three-decade long conflict. As a result, big business had little motivation to support peacebuilding initiatives. This all changed with the bombing of Colombo International Airport in 2001 which, together with a crippling power crisis in the same year, demonstrated the vulnerability of key business sectors to violence. The combined impact of the two events pushed the economy into negative GDP growth, the first time this occurred throughout all the years of war.

As the economic costs of conflict became more evident, pressure intensified on business to do something. For the first time, members of the Colombo corporate community joined in alliances to lobby for peace. The most prominent of these ventures was Sri Lanka First (SLF).

SLF was formed by a group of trade associations in the garment, tea, tourism and freight sectors and was the first organised, high profile campaign to mobilise citizens into supporting a call for immediate negotiations and a peaceful resolution to the conflict. Big business in Sri Lanka is almost entirely concentrated in the Colombo Metropolitan Area and is predominantly export-oriented. The Colombo Chambers of Commerce (CCC) represents some 500 of the country’s biggest companies, which produce around 40 percent of national GDP. The SLF emerged from among members of the CCC in the latter half of 2001. The CCC has some influence at the government level and is also in a good position to lobby donors for funding development activities. ▶

The emphasis of the SLF campaign was on raising public and political awareness about the economic costs of the war, and the social and economic benefits of a peace dividend. SLF initiated a number of public demonstrations for peace, backed by a media campaign that lobbied for business to adopt practices that foster peace, but it stopped short of taking any political position in terms of solving the conflict. Its foremost task was to convince all parties to come to the negotiating table. The timing of the campaign was significant since it fell during the election of December 2001: SLF-sponsored posters and press advertisements tried to influence voters towards supporting peace-oriented parties and candidates. This business-led advocacy helped to bring a pro-peace government to power.

Colombian citizens' mandate for peace

The mid-1990s were a time of profound crisis in Colombia. The government was mired in corruption, the economy was on the brink of major recession and the intensity of the armed conflict soared. Against this background, civil society received an unprecedented boost. Hundreds of civil society initiatives were launched to promote dialogue, productive development projects and conflict awareness. One was the Citizens' Mandate for Peace, Life, and Freedom, a cross-sectoral initiative that mobilised 10 million votes in an informal, nationwide poll to protest against the conflict on 26 October 1997. This symbolic act, and the message of despair it conveyed to government and the armed groups, was credited with creating a political environment conducive to the establishment of peace talks between the government and the FARC in January 1999. Indeed, the 'mandate effect' (*efecto mandato*)⁴⁴ was said to explain the high level of popular approval for peace negotiations (90 percent).⁴⁵

Business was a crucial player in the Citizens' Mandate initiative. Its participation was initially spurred by concern over extortionate kidnappings, a phenomenon that plagued the business community above all other sectors. In the mid-1990s, businesses had supported and organised *No más* ('No More') marches and demonstrations across the country demanding an end to abductions. Business was also a major sponsor of País Libre, an NGO founded in 1999 with the purpose of eradicating kidnapping and assisting its victims to recover.⁴⁶ In early 1997, an unprecedented alliance emerged between civil society organisers of the Mandate for Peace and Life and anti-kidnapping business activists, triggering a change of name to the Citizens' Mandate for Peace, Life and Freedom. The union between these groups, which had often been on opposing sides of the argument in the past, was a powerful statement that no social sector was willing to compromise on the demand for peace, irrespective of the politics of the participants.

The National Business Council, comprising Colombia's largest business associations, was a key organiser of the Mandate movement. Members of the Council played prominent roles in mobilising popular support. Business leaders went on television to advocate the need to vote for the 'peace ballot' and presented their respective communities with arguments in favour of the initiative.

Participation in the movement planted the seed of businesses' participation in the peace processes that characterised the following years. After the Mandate poll, business association leaders made direct contact with guerrilla groups. Several preparatory meetings in Germany led to the first large convention of Colombian civil society and representatives of ELN in Mainz in June 1998, which ended with a signed commitment to seek a solution to the conflict. Representatives of business associations representing small and-medium-sized companies, retailers, chambers of commerce, industry and cattle ranchers also signed the accord.

The tide has since turned, and the peace talks with the ELN and the FARC ended with no success. With hindsight, the Mandate initiative was criticised for wasting political capital. Although the government formalised civil society and business participation in the peace talks (Law 434 of 1998) by way of tribute to the Mandate, such participation failed to materialise in practice. However, the Mandate's impact may lie elsewhere, specifically in its role as a learning process and a propeller for growing business involvement in the search for a peaceful solution to the armed conflict.

Providing knowledge and research

Effective negotiating, facilitating, lobbying and awareness raising require data to document positions and opinions, feeding into all tracks of peace processes. Often private sector participation in peace talks includes the pooling of resources in order to commission research to produce and disseminate information at crucial times before and during negotiations. The most recurrent of these efforts is the relationship between armed conflict and national, economic performance generally, and analysis of the costs of conflict to the private sector, specifically. It is no coincidence that important private sector think tanks, such as El Salvador's FUSADES, Colombia's *Fundación Ideas para la Paz* and the Northern Ireland CBI, were founded when conflict escalation was imposing the greatest costs.

The Confederation of British Industry and the Group of Seven – a marathon walk to peace in Northern Ireland

In the early 1990s, Northern Ireland's business community began publicly to acknowledge the explicit link between protracted sectarian conflict and slow

economic growth. Companies in the Northern Ireland Confederation of British Industry (CBI) decided that, if they wanted to improve the economic situation, they would be obliged to engage in the Northern Ireland peace process. As the collective voice of regional business and an independent, non-party group, the CBI was well placed to lead a private sector peace initiative.

Since 1991, the CBI had been engaged in partnership with the Irish Business and Employers Confederation to promote trade and business cooperation between Northern Ireland and the Republic of Ireland. Trade and business contacts have steeply increased in the past decade partly due to this initiative.

In 1994, the Northern Ireland CBI produced a landmark publication, *Peace – A Challenging New Era*. Better known as the ‘peace dividend paper’, the document spelled out in detail the economic rationale for peace and soon became a reference point for the peace process. The media adopted the term and used it extensively, giving new momentum to the peace process. Articles began to focus on the economic importance of peace in Northern Ireland.⁴⁷ The CBI paper examined the negative impact of violence in Northern Ireland, identifying the following inhibitors to economic development:

- Increased security costs for the private sector, especially in sectors such as retail
- A commercial image problem that made foreign investors reluctant to invest and tourists reluctant to visit
- Emigration of some of Northern Ireland's brightest young people, including many would-be entrepreneurs.

The peace dividend paper argued that if violence ceased, the money currently spent on law, order and protective services (some \$1.42 billion in 1994) could be reinvested in other sectors. Increased funds for education and infrastructure, for instance, could have boosted economic growth further.

In the wake of the August 1994 ceasefire, media attention was fuelled by empirical evidence that supported the peace dividend theory. During this period of non-violence, tourism rose 20 percent in a year and unemployment dropped to 11.5 percent, its lowest level in 14 years.⁴⁸ Over the following six months, \$48 million in new investment ventures were announced. Politicians in Northern Ireland began to recognise the political merit of calling for a peace dividend. Gerry Adams, leader of Sinn Fein, spoke of ‘the importance of consolidating the peace process by ensuring that an economic peace dividend, in terms of jobs and investment, impacts on the day-to-day lives of citizens’.⁴⁹

Thanks to the CBI, the idea of a peace dividend became integral to the vocabulary of peace in Northern Ireland. The new focus on economics turned into a reality

the CBI's conviction that 'politicians should [look] for areas of agreement ... and build on these'.⁵⁰ By approaching peace from a business angle, the CBI changed the terms of the debate and helped infuse new momentum into the peace process.

One of the starkest examples of the link between knowledge production and interest in producing and shaping peace talks was El Salvador. The FUSADES think tank effectively linked peace not just to diminished costs, but the implementation of the economic reforms implemented elsewhere in the world at that time, thus providing for a double transition from conflict to war, and from a state-centred import-substitution-industrialisation model to a more open, competitive economic model. Founded in 1983 with funds from USAID, FUSADES not only produced highly qualified technical reports, but was also equipped to dispense credit and support activities in new sectors of the economy to the detriment of traditional products, thus playing a key role in shifting the balance among diverse sectors of the economy. It was this shift in balance that eased Cristiani's bid for presidential power and peace.

Sri Lanka First also sought to convey the economic costs of the war, and the social and economic benefits of a 'peace dividend' by means of a fully-fledged, public media campaign. In Cyprus, the Brussels Business Group attempted to underscore the mutual economic benefits for both sides of the island if peace was attained. In this case, joining the EU, and gaining access to its economic opportunities was presented as the most significant carrot for bringing the two sides together. In Colombia the publication of documents relating to job creation once talks were underway sought to exert pressure on negotiators to maintain 'realistic' expectations as to the costs of peace.

Monitoring/ensuring implementation

The diverse list of activities performed by private sector actors illustrates the multiple fronts on which participation can take place, although most are restricted to the pre-negotiation and negotiation phases. Negotiating an end to conflict is but one step towards peace. Ensuring that promises are kept, expectations of combatants and non-combatants are fulfilled, and criminal structures are dismantled are also critical areas where the private sector also has a role.

Implementation is often compromised by difficulties in raising the required social and economic resources. Rebuilding destroyed infrastructure, establishing demobilisation and reintegration programmes for combatants, wider job creation, and reconciliation at community and political levels are all of paramount importance and can threaten agreements if not fulfilled.

Several examples from El Salvador, Sri Lanka and South Africa suggest that business has participated in ensuring agreements become reality. In El Salvador, the

continued tenure of ARENA, the business-led party that promoted and oversaw peace talks, has provided an important impulse to continued attention to agreement implementation. In Sri Lanka, businesses have engaged in team-building activities, direct advocacy for peace, and financial support to state and civil society peace interventions. In South Africa, businesses continued to be intensively involved in discussing policies for economic growth, job creation and building human capacity after 1998. Central to these examples of business participation in implementation was the continuity of business leadership and sense of mission, induced in part by the development of institutional know-how and experience during the pre-negotiation and the negotiation stages.

Notably, these examples are cases where the business community played a leading role in producing and sustaining talks. The costs of insufficiently enlisting the support of the entire business community in the pre-negotiation and negotiation stages often becomes clear at the implementation stage. In Guatemala, for example, tensions in the business sector in the pre-negotiation and negotiation stages created difficulties in inducing compliance with agreements by business actors in the implementation stage, causing severe delays in implementation and contributing to generalised disappointment with the peace accord.

Why the private sector becomes involved in Track I

When Nepali businesses were threatened by attacks from Maoist rebels, they finally overcame their fears of government and intervened to promote negotiations. Similarly, when conflict escalated in the mid-1990s in Colombia, the business community experienced a dramatic shift in its willingness to support negotiations to end the fighting. In Sri Lanka, the bombing of Colombo airport in 2001 spawned several business initiatives to bring parties together to negotiate. Finally, combat in upscale residential areas of the capital of El Salvador prompted Salvadoran businesspeople to push decisively for negotiations. In sum, the escalation of conflict and the ensuing costs to business activity – low productivity, increased transaction costs, low investment, deteriorating infrastructure – are the prime factors motivating business involvement in the search for peace. At the same time, recognition of the opportunities that peace may bring for business growth – especially through enhanced access to international markets – is also a clear driver.

However, while the rising cost of conflict and awareness of the opportunities of peace are key common denominators, they are not sufficient to explain when and what form business participation in peacebuilding will take, or what impact it will have. Other factors complement, reinforce and shape specific forms of action. This section will analyse five points: receptiveness to business of the negotiating sides; the

private sector's capacity to act collectively; the private sector's experience of social engagement; effective dissemination of a peace dividend argument; and international pressure.

Receptiveness to business of the negotiating sides

When and how the private sector participates in peace processes is contingent on whether the negotiating sides are willing to include it in negotiations and consultations. Such willingness may arise from an understanding of the political economy of conflict and peacebuilding, as well as from private sector credibility and legitimacy. El Salvador was a case where both sides in the conflict were disposed to include private sector interests; both the Cristiani government and negotiating team, and leading figures in the FMLN high command realised the need to enlist business support to reach agreement and implementation. Similarly, ANC leaders and moderate regime supporters in South Africa, followed by negotiators more widely, allowed private sector attempts aimed at bringing the two sides to the table. By contrast, confrontational attitudes by rebels and members of government in Guatemala combined with tensions inside the business community to lead to a bumpier relationship between the private sector and the peace negotiations.

Private sector capacity to act collectively

While individual interventions do occur, private sector actors more commonly join forces in the search for collective goals. However, when the benefits of collective action are not clear or when there is no effective private sector organisation, it is harder to come by. In such cases, business leadership can still play a crucial role in terms of generating awareness, trust and the mobilisation of people and resources among private sector partners. The South African case is illustrative. Only a small group of companies initially engaged in conversations with the conflicting parties, but they were progressively able to enlist broader private sector support. However, in Guatemala, despite several attempts to produce a unified position with regard to the negotiations, the progressive business faction was unable to overcome resistance by significant sections of the private sector.

Experience with social engagement

Accumulated experience in social engagement may make it easier for private sector actors to engage in activities that support peace negotiations. Many of the cases discussed here show that private sector participation in peace talks draws from

previous activities and experiences related to social engagement. Such institutional learning occurred in Guatemala where participation in the democratisation process reared a business generation that later supported peace negotiations. Similarly, long traditions of philanthropic and political activities in Colombia and South Africa provided the basis from which to draw private sector support for peace discussions.

Effective dissemination of a peace dividend argument

When looked at in aggregate figures, armed conflicts impose obvious costs on private sector activity. However, few companies undertake systematic calculations of those costs, or even those of peace. Company involvement in peace processes often requires increased awareness of the costs that may have been incurred unknowingly, and is contingent on proper marketing of the peace dividend argument to companies. In this way, research activity and mediation may help private sector (and other) actors to change their perceptions of conflict, opening space for negotiation and for private sector participation in it. This dissemination was crucial in El Salvador, Northern Ireland and South Africa. In Colombia, peace became 'fashionable' in the mid-1990s, but slipped from the private sector's agenda after peace talks failed and a new government produced tangible military results in the fight against the insurgency, weakening the peace dividend argument.

International pressure

Convincing the private sector to participate in peace negotiations may also result from targeted intervention by international actors. Prestige, trust, resources and authority are among the factors that make international intervention effective with private actors. International organisations offer relatively neutral spaces for dialogue, enjoy credibility and may be willing to incur costs that are not acceptable to local actors. The participation and sustained efforts of the PRIO and the government of Norway were key to producing contacts between the Greek and Turkish Cypriot business communities. The WSP facilitated private sector involvement in Somalia. The cases of Guatemala and the Democratic Republic of Congo, on the other hand, illustrate the role played by the UN in attracting and facilitating private sector participation in the peace process, though with better results in the latter than the former. The threat of international economic sanctions against South Africa was crucial in galvanising support among the local business community for a transition process.

However, an international presence is not always favourable to inducing private sector participation. In Colombia, resentment of accusations by international

organisations that the private sector was complicit in human rights violations caused some businesses to develop resistance and fail to engage in constructive dialogue on addressing their role in overcoming conflict. Similarly, in Guatemala, many in the business community felt that the accords were more or less dictated to the government by the UN and were not the result of autonomous action.

Conclusions

This chapter has discussed several cases of formal peace negotiations in which private sector actors have been involved. It suggests that the private sector has enormous potential for shaping peace processes because it can both impose obstacles to peacebuilding goals through its investment decisions, and lend credibility, political weight, resources, skills and know-how to all of the tracks involved in facilitating the transition of a society from conflict to peace. Because it has been the direct target of conflict, and because its economic weight fundamentally affects a country's economic performance, its actions in support of peace processes are often invested with the same credibility as those of other actors.

Why the private sector becomes involved has to do primarily with conflict costs, but is also related to factors related to context and the specific organisational capabilities of private sector actors. This section outlines some general insights and lessons for business, scholars and policy makers.

Insights for business

Promoting peace talks is difficult and requires patience

Business actors interested in promoting peace talks are at less risk of disappointment when they realise that these are complex and multiform processes that require patience as trust develops between parties and constructive dynamics are set in motion. In Northern Ireland, the business community began publicly to acknowledge the explicit link between protracted sectarian conflict and slow economic growth in the early 1990s. Nearly 10 years later, implementation of the 1998 Good Friday Agreement is still far from complete and requires ongoing private sector collaboration. Similarly, the first steps towards business involvement in the South African transition process were taken in the late 1980s when corporations were perceived to have supported and profited from the apartheid system. From then until the approval of the new constitution in May 1996 and beyond, the business community invested almost a decade and a vast amount of resources in producing the desired outcome, and it continues to be involved in addressing the socio-economic legacy of apartheid to ensure a cohesive future for South Africa.

Different stages of a peace process pose different needs and opportunities for business

The pre-negotiation stage requires investment in developing trust between the parties and support within society, while negotiations imply greater disposition for open discussion and information on agenda topics. At the implementation stage, the commitments of the pre-negotiation and negotiation stage are put to the test of harsh reality and confront businesses with difficult decisions and demands – for example, whether to participate in employment programmes, tax reform and land redistribution, or to provide jobs for former combatants.

Building alliances within business and with other social partners is crucial

Peace processes require multi-stakeholder negotiations at various levels and decision-making authority is highly decentralised – a model of working that may be unfamiliar or frustrating to businesspeople. Allies need to be identified and nurtured; and spoilers need to be identified, neutralised or included. Alliances with other social sectors strengthen the voice of business and spread the cost of organisation more evenly.

Effective participation requires building access to all negotiating parties

Business actors tend to be closer to government than rebels, but advances toward the rebel side hold great potential for pay-off. Colombian rebels, for example, appreciated efforts by business leaders who visited them in their camps, realising that they held the key to profound economic change and opportunity. Furthermore, coming from such ideological opposites, the presence of business leaders is often taken as tangible proof of a willingness to engage in credible processes. In El Salvador, after agreements were signed, rebel leaders declared that the massive presence of the private sector in the negotiating team and behind the negotiation effort contributed to increasing trust in, and the credibility of, the peace process. South Africa also provided a good example of attempts to build and nurture access to both sides as business leaders approached members of both the apartheid regime and the ANC in order to produce a fertile ground in which talks could take root.

Informed participation in peace processes requires resources and increases effectiveness

Underlying most effective business participation in peace negotiation is the production of knowledge. As illustrated in many of the cases discussed above, investment in reliable information on the links between conflict and economic performance offers great opportunities for generating awareness within business and beyond of the costs of conflict and the dividends of peace. It also provides instruments for more productive participation in talks, and more accurately describes the challenges and burdens of implementation and stabilisation.

Insights for policy makers and scholars

Not always a partner...

The cases presented here are biased by the fact that they all display some degree of private sector participation. Often, however, private sectors have been opposed to peace negotiations and, in some of the present cases, there are instances of private sector-rooted obstacles to talks. In Somalia, the private armies that protect several important private sector actors caused facilitators to fear that they might evolve into spoilers. In Guatemala, a recalcitrant business elite endangered progress by questioning the authority of the government, the credibility of the guerrillas and the legitimacy of their representatives. There are numerous other examples of those with specific economic interests blocking peace. This points to the need to develop strategies for engaging the most appropriate business leaders in constructive processes that influence others.

A combination of strategies

As in other activities, business tends to combine strategies, or to pursue different strategies simultaneously. Among the different forms of private sector participation there are important, spill-over effects. What begins as information production may easily develop into facilitation, lobbying and/or inclusion in a negotiation team. As a result, while separating the categories as done here may be useful for analytical purposes, it loses the organic nature in which initiatives grow over time.

Private sector differences

The private sector's multiple roles and diverse points of entry into peace processes underscore that it is not a homogeneous actor. The following distinctions need to be considered so as to predict which fractions of domestic private sectors are more likely to become involved in peace processes:

- **Sectoral differences.** Sectors of the economy most harshly hit by conflict (or more likely to gain from peace) are also more likely to lead private sector involvement in peace processes.
- **Regional differences.** Businesses centred in or close to the capital are most active in getting mobilised, or in mobilising fellow companies. These businesses are often not at the centre of conflict until shortly before they take the decision to participate and are typically the ones with the greatest leverage over political actors.
- **Size.** The main source of peace activism at Track 1 level are big businesses. On the one hand, they are likely to be targeted by efforts at extortion, providing them with motive. In addition, they can more easily dedicate resources to support peace-related activities. Also, as significant players in national economies, they are more likely to have established contacts with governments and other influential actors, as well as an interest in international markets, increasing their access and leverage over negotiation processes.

The need for a critical mass

To maximise impact, private sector participation in peace talks needs to reach scale and critical mass, and to move beyond the impact of any single corporation or individual. However, the cases discussed here also show that it is true that not everybody needs to be on board. The challenge is therefore how to convene crucial businesspeople around the table in order to tap their potential for convincing a broader group of business actors to join the effort or, at least, to not spoil it.

What about impact?

There is no clear answer in terms of what form of private sector participation has the greatest impact on holding talks or on shaping the agenda. The cases included in this book show that the private sector has explored quite diverse forms of participation, combining strategies at different moments in time. In so doing it has sometimes derived authority from being directly involved in negotiations, but also from shaping the opinion of stakeholders or facilitating contacts between warring parties. There appears to be no direct relationship between direct involvement and achieving high impact (with the exception of El Salvador), and sometimes direct engagement and public exposure carry costs that diminish the private sector's capacity to influence the results of a peace process. In the end, the particularities of each case need to be examined to establish when the private sector's direct participation has been most effective in reaching negotiated ends to conflict.

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**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

Chapter two
**Local business and the economic dimensions
of peacebuilding***

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Chapter two

Local business and the economic dimensions of peacebuilding

“There can be no successful business in an unsuccessful society and there can be no successful society without successful business. Prosperity requires peace.”¹

“War kills development as well as people.”² It destroys livelihoods as well as lives and undermines economic and political progress. Violence deprives people of opportunity and robs them of hope for the future. In other words, the impact of conflict is as damaging to the economic potential of a nation as it is to its social and political prospects. Over the last decade, increasing recognition of this fact has stimulated consensus about the nexus between security and development, and led to greater appreciation that peace and economic growth are inseparable.³

There is less clarity on what this means in practice. Recent research into war economies and the economic drivers of conflict emphasises the links that exist between economic factors and conflict, including the destructive consequences of shadow economies, elite capture of natural-resource revenues, and illicit trades in people, weapons and drugs (see Introduction).⁴ Importantly, this work has asserted the critical dimensions of governance inherent in addressing and rebuilding economies that have been distorted or shattered by war. In parallel, current thinking in development circles stresses the importance of stimulating rapid economic growth as the most direct path out of poverty for the estimated 1.2 billion people living on less than \$1 a day.⁵ Poverty reduction through economic growth has become the overarching goal of international development.⁶

These are not mutually exclusive agendas. Highlighting the negative, conflict-sustaining dimensions of economic activity does not preclude promoting economic

development as a means of reducing poverty and lifting countries out of a cycle of violence. Indeed, the first may reinforce the importance of the second. Nevertheless, there are important differences between the two approaches and the conclusions drawn from them that point to unresolved questions around the nature of economic development in conflict-affected or conflict-prone countries.

This tension revolves less around *what* is needed, and more *how* and *when*. Good governance and economic growth are essential for building and consolidating peace – but is one required for the other to flourish and, if so, which comes first?⁷ Issues of sequencing and prioritisation challenge peacebuilding efforts, especially with regard to the economy. Institutional capacity building, establishing (and enforcing) regulatory frameworks, rooting out corruption, and developing appropriate skills and expertise are long-term endeavours that often clash with the immediate needs of stimulating the economy, providing jobs and delivering basic services to the population.

One theory developed through observing the phenomenal growth and poverty reduction achievements of China and the ‘tiger economies’ of Southeast Asia over the last few decades holds that economic liberalisation will, over time, lead to popular demands for greater political freedom and improved governance.

However, the critical underlying factors which account for the region’s economic success, namely consistent political will on the part of successive leaderships combined with relative political stability, may not apply elsewhere. Countries that have been unwilling or unable to provide for the basic needs of at least part of their populations experience a higher likelihood of violent conflict.⁸ In such contexts, efforts to promote economic development that lack the mechanisms to tackle inequity may entrench, rather than address, latent or explicit conflict dynamics.

Yet the tendency among local and international actors, especially in pre and post-conflict situations, is to assume – even where states are otherwise ‘fragile’ – that because there is no widespread violence or a peace agreement has recently been signed, the primary focus should firmly be on stimulating the economy and reducing poverty. The consequence is to shift the emphasis away from addressing the sources and drivers of the conflict to interventions designed to increase GDP per capita.⁹ Yet it is only by addressing conflict dynamics that equitable economic growth can be achieved. In conflict-prone societies, an analysis of the conflict dynamics needs to be placed at the centre of local and international interventions in the economic and governance spheres. Prosperity needs peace but peace also depends on some measure of broad-based prosperity and both require appropriate governance systems, institutions and leadership.

Therefore the private sector’s contribution to economic success reflects and is influenced by the environment within which it operates. If the environment is

distorted, so is the private sector's impact on and relationship to the economy. What international approaches to poverty reduction miss is that because of this, business can reinforce conflict dynamics through its behaviour, as discussed in the Introduction and in greater detail below. It can never be a neutral actor: by doing nothing, it may do harm, yet with thoughtful participation it can contribute to a more prosperous and peaceful society.

The complex, interwoven relationship between the private sector, the economy and conflict lies at the heart of understanding the economic peacebuilding potential of local business, and this chapter seeks to shed some light on its critical dimensions. If the character of business reflects and influences a country's economic structure, it can also be instrumental in transforming that structure from one which drives and sustains conflict into one which builds and supports peace.

This chapter reviews initiatives where business has tried to contribute to peace in three different, though overlapping, areas: addressing the economic *root causes* of conflict; addressing the economic factors that sustain or *drive* conflict; and addressing the economic *impacts* of conflict. It includes case-study material from Bosnia, Burundi, Colombia, Israel/Palestine, Nepal, Northern Ireland, the Philippines, Sierra Leone, Somalia, Sri Lanka, the South Caucasus and South Africa. The cases reflect the spectrum of private sector activity from big corporations to market traders, and while they show that much is being done, they also suggest much more scope for the inclusion of the private sector as a bridge between economic and peace-oriented interventions in conflict-prone societies.

Exploration of the peacebuilding potential of the private sector needs to be rooted in an understanding of the ways in which it is perceived, both by itself and others, and the following pages outline some dominant themes.

The business of business is business

Uncertainty surrounds the origins of the phrase 'the business of business is business' (often attributed to economist Milton Friedman), but the underlying message harks back to Adam Smith's observation that: "It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own self-interest ... by pursuing his own interest, he frequently promotes that of society more effectually than when he really intends to promote it."¹⁰

The same argument is repeated in recent criticisms of corporate social responsibility (CSR): "Companies will best discharge the responsibilities which specifically belong to them by taking profitability as a guide, subject always to acting within the law, and they should not go out of their way to define and promote wider, self-chosen

objectives.”¹¹ For neo-liberal economists, and many in the private sector, ascribing broader social responsibilities to businesses can only be detrimental to realisation of their primary function of making money. According to this view, the private sector’s only legitimate and appropriate contribution lies in its capacity to generate wealth, create jobs and provide revenue to the state in the form of taxes.

Although peacebuilding is perceived as a particular kind of activity undertaken by specialist organisations, it is, as *Local Business, Local Peace* describes elsewhere, a multi-faceted process involving a wide range of societal actors contributing in ways that reflect their mandates, capacities and skills. The private sector can contribute in a variety of ways, including through its core function of stimulating economic growth, providing jobs and generating wealth. In conflict contexts, the way these functions are implemented, and the environment in which business operates – especially with regard to distribution of the benefits that arise from its activities – ultimately determines whether its impact will be positive. The ‘business of business is business’ approach is based on a notion of the private sector as a neutral actor fulfilling its function within the broader parameters of a society that is, to a certain extent, equitable. Where this is not the case, business’s inevitable and necessary reliance on the establishment mean its core functions of wealth and job creation may be manipulated to serve the objectives of those who control its operating environment. Moreover, its core purpose of making money can easily become a justification for abuse, rather than a source of prosperity. As this chapter argues, business in conflict-prone societies must go beyond a business-as-usual approach if the positive impacts that are assumed to result from its core activities are to be achieved.

The business of business is development

“Unless poverty can be eliminated, the future of the ‘global village’ will be one of economic decline, conflict escalation, increases in human suffering and disease, and environmental degradation. Eliminating poverty is the key challenge facing governments, business and civil society in the quest for sustainable development.”¹²

Over the past decade, the issue of poverty has risen to the top of the global agenda as the primary focus of international attention. While the number of people living in absolute poverty has declined in recent years, an estimated 1.2 billion continue to survive on less than \$1 day. Poverty is not simply a lack of money. It infects every aspect of people’s lives, robbing them of opportunity and hope, stripping them of choice and freedom, and leaving them vulnerable to disease, disasters and exploitation. Nor is it confined to the individual. Its impact on societies is equally profound, stunting growth, destroying the environment and trapping countries in cycles of spiralling decline.

In response to this challenge, the international community came together in 2000 to commit itself to a series of ambitious, poverty-reduction targets, known as the Millennium Development Goals (MDGs). These targets have led to an increasing focus on the importance of economic growth as the *sine qua non* of poverty eradication. The empirical evidence to support this emphasis is persuasive. In East Asia and the Pacific, annual per capita GDP growth of 6.4 percent throughout the 1990s resulted in a 15 percent decline in the rate of poverty, whereas negative growth over the same period increased poverty rates by 1.6 percent in Sub-Saharan Africa and 13.5 percent in Europe and Central Asia.¹³ According to some analysts, a 1 percent increase in per capita GDP is equivalent to a 1 percent rise in the income of the poor.¹⁴

There is a growing consensus that if growth opens the door to poverty eradication, the private sector holds the key. “Private businesses are at the heart of economic success. Private investment, and the increases in productivity it generates, drives sustainable growth.”¹⁵ Thus, harnessing the private sector’s potential becomes fundamental to achieving the MDGs, not only as the engine of growth but as a means of generating resources for investment in services, as a potential provider of those services, and as a partner in trade and technology transfers.¹⁶

This enthusiasm for maximising the private sector’s role in poverty reduction has proved infectious with many influential global businesses, which express solidarity with the objectives and advocate their own contribution towards meeting the challenges. In the words of one organisation: “Business plays a central role in creating opportunities for empowerment and development. The members of the World Business Council for Sustainable Development are ready to play an even bigger role in creating sustainable livelihoods and building prosperous societies through their core business activities.”¹⁷

Clearly, business – both international and local – is well placed to contribute, but the virtuous-circle theory of private sector, economic growth and poverty reduction raises as many questions with regard to addressing conflict and building peace as the ‘business of business is business’ approach.

Critical and misleading assumptions are made with regard to the links between poverty and conflict that have important implications. Recent statistical analysis by the World Bank seemingly presents a simple equation: poverty leads to conflict and, in turn, conflict sustains poverty.¹⁸ This analysis is derived from the observation that 16 out of the 20 poorest countries suffered violent conflict in recent years, and many relapsed into conflict soon after apparently successful peace initiatives and agreements. Others contest this causal link: “There is a widespread assumption that poverty is a source of violence, despite there being no direct causal relationship between the two. Although today most violent

conflicts take place in poor countries, they do not necessarily occur in the poorest of them, nor are all poor countries involved in conflict. Some middle-income countries are also prone to violent upheaval. The risk of conflict is highest where there is real or perceived oppression of groups and institutional mechanisms are unable to manage grievances peacefully.”¹⁹ Nonetheless, in international approaches to development, the link is assumed, leading to a circular logic: if poverty causes conflict, then poverty reduction is the key to peace. In other words, development kills war.

In analysing the undoubted correlation between poverty and conflict, it might be better to ask not whether a country is poor, but rather why it is poor and who within it is most affected. None of this is to diminish the importance of alleviating poverty (and the contribution business can make to that objective) but it does suggest that the ways in which it is approached will necessarily be different in countries threatened or affected by violence.

The business of business is peacebuilding

Current paradigms understand peacebuilding as a set of activities undertaken in parallel to initiatives aimed at economic development and establishing enabling environments. However, this implies that peacebuilding can be seen simply as one issue among many others. But violent conflict is not an issue; it is the manifestation of a profound breakdown within a society. Peacebuilding therefore needs to be a comprehensive transformative process: it is not an adjunct to economic growth, but rather the function of economic growth in conflict contexts. It is also a process that intimately involves the private sector because of its core function in the economy. Harnessing this potential so that it serves the requirements of peacebuilding is the objective of many of the initiatives illustrated below and in more detail in Section 2. What distinguishes the businesses described in these pages – despite their enormous range – is their recognition that peace cannot be left to others. As businesses, they have both a responsibility and interest in laying the foundations for more prosperous societies, which in turn must include a greater measure of equality. Prosperity needs peace, but peace can only come if the drivers of the conflict are resolved and threats to long-term stability addressed.

Addressing the economic root causes of conflict

Conflict comes about for a number of reasons, including those related to the economy. These include: socio-economic exclusion of one or more population groups; the structure of a country’s economy, especially reliance on natural-resource

exploitation; weak governance, corruption and instability in the political system; and, as discussed, poverty.²⁰ At its core, it is political in the sense that it is about power: who has it and who does not; what is done with it and what is done without it; who benefits and who loses. The economy, in this sense, can be understood as politics by other means. To some extent, taking international dynamics into account, 'politics', including poor governance, is at the heart of each of the economic issues identified – which point to a failure by the governing elites to rule their countries in the interests of development, progress and the rights of their citizens.

In such contexts, the private sector can be over-controlled, in the sense that, as a source of critical revenue, it can be instrumental in the elite's maintenance of power. Thus business, often unwittingly, becomes an agent of a system established to benefit the few rather than the many, profiting over generations as others continue in deprivation. This can lead to business being directly targeted during armed rebellion, as in Nepal or Colombia.

Nepal – business as 'class enemy'

Until recently, Nepal was caught in a vicious, triangular conflict involving King Gyanendra, the political parties and Maoist rebels. The insurgency is primarily class-based, and there is common agreement that uneven development, and social and political exclusion are among its root causes. While it is not a secessionist insurgency, the Maoists have co-opted disenfranchised ethnic groups by promising them regional or local autonomy. In that sense, the insurgency has ethnic as well as class dimensions. Support for the insurgents' agenda among these groups has increased as the conflict progressed, reflecting their economic and social exclusion.

Since the insurgency is a class-based struggle, the business community is perceived as its class enemy. To that extent, businesses have a direct interface with the conflict. The Maoists oppose the free-market economy and see the business community as deriving undue benefit from the state policy of deregulation launched after the reinstatement of democracy in the 1990s.

The Marwaris are one of two dominant business classes in Nepal. In the wider population, there is resentment against the Marwaris as outsiders. For Maoists, who say they are fighting Indian expansionism, the domination of Marwaris in the business community is a more serious issue. Maoists have bombed many Indian subsidiaries operating in Nepal, including ones of non-Marwari origin, such as Surya Nepal, Nepal Liver Limited, Colgate Palmolive, Nepal Battery and Dabur Nepal. The management of these factories claim they were bombed for refusing to comply with Maoist extortion demands.

The Maoists also target businesses part or fully owned by King Gyanendra, for instance, the Soaltee Group, in which the king and his family have a majority stake.

When conflict emerges or threatens to emerge, business can become motivated to reframe its role in society to address these economic root causes by actively confronting issues of socio-economic exclusion and governance.

Reaching out to socio-economically disadvantaged groups

Socio-economic exclusion represents one of the most pervasive and intractable causes of conflict. It leads to entrenched, vertical inequality – a large gap between rich and poor within a society – and/or horizontal inequality, manifested in significant differences between otherwise comparable social, religious or ethnic groups.²¹

Although inequality is most often the result of political decisions, its greatest impact is often economic, emphasising the symbiotic relationship between the two. Patronage, through corrupt payments and limited access to economic opportunity for the wider population, becomes the primary mechanism for sustaining a political power base. This effectively turns the economy into an instrument of oppression.

Until recently in Burundi, there had been continuous political domination by the minority Tutsi group over the Hutu majority through control of the state and army, perpetuated by unequal access to education. This pattern of exclusion gave rise to a series of uprisings, genocidal massacres and brutal repression over a period of 40 years that led to entrenched inter-ethnic fear and antagonism. The ‘civil servant’ culture instilled by Belgian colonialism, together with increasing land scarcity, caused the state and its payroll to be seen as the only route to advancement, and inter-ethnic competition for government jobs and patronage has been literally deadly.

Clearly, this has implications for the private sector. It means not only that the structure of the economy, of which the private sector is a significant part, can actively entrench discrimination, but also that individual businesses may reflect and exacerbate this inequality in their workforces – by employing one ethnic or religious group to the exclusion of another.

According to the Sri Lanka country report in Section 2, 68 percent of small businesses interviewed for the research employed only workers from their own

ethnic community; 25 percent employed workers from two different ethnic communities; and only 7 percent employed workers from all three ethnic communities. In the worst instances, workplace discrimination forms part of a wider ‘ethnic cleansing’ strategy carried out during violent conflict. A recent Amnesty International report on Bosnia Herzegovina, for example, points out that the ethnically biased recruitment by companies before and during the war is still apparent in the composition of their workforces. Discrimination continues and is a serious obstacle to refugee and IDP return.²²

This form of exclusion may be unintentional, for example when a desire to recruit the most qualified staff entails perpetuating an historic imbalance in access to education. Nevertheless, through such practices the private sector effectively reinforces conflict dynamics at a social and individual level.

Recognising and understanding socio-economic exclusion in society is the first step towards identifying ways to address it, and many of the case studies in Section 2 illustrate this evolving consciousness. Where it is understood, many business associations and companies actively seek to harness their capacity to generate wealth and create jobs, and direct it toward addressing structural imbalances in society. Often, there is a strong, even overwhelming, economic rationale for this. Ultimately, businesspeople need the best workers and the broadest customer base, regardless of ethnic considerations, but they may also explicitly recognise that the perpetuation of inequality reinforces instability in society, which imposes a range of direct and indirect business costs.

In Sri Lanka, the devastation caused by the 2001 airport bombing forced the private sector to wake up to the destructive impact of the conflict, leading many to confront some of its causes. In the words of the country report authors in Section 2: “The majority of company representatives from Colombo conceded that common business practices, such as discrimination, played a large role in how businesses can create conflict through reinforcing structural dynamics, even unknowingly. At the same time, discrimination was related to the broader marginalisation experienced by some people in society, and it was noted that if businesses did not provide equitable opportunities for all, this could escalate or legitimise conflict. They recognised that the way businesses approach or operate in a given conflict or peace situation could heighten or defuse social tensions.”

In Nepal, some businesses are gradually coming to terms with the fact that they too need to address some of the structural injustices prevailing in society. More than that, they are beginning to accept that such injustices are evident within their own operations, as this public statement released by the recently formed National Business Initiative testifies.

Nepal – the National Business Initiative

The National Business Initiative (NBI) was formally established in 2005 with the aim of contributing to sustainable peace in Nepal through just, socio-economic growth. It identified three key areas of potential intervention: social capital, infrastructure and the creation of safe spaces for peace talks and the legitimisation of peacebuilding efforts. The NBI comprises 14 national business organisations.

The NBI acknowledges that the business community cannot act on its own, but needs to work transparently and in coordinated partnership with others, including the conflict parties and civil society. Similarly, it recognises the need to reach out to different actors within the business community (individuals, businesses and chambers of commerce) at different geographical levels.

Shortly after its inception, the NBI published its commitment to a set of basic principles:

- We are committed to improve the quality of life of all Nepalese through development of entrepreneurship, creation of opportunities and generation of wealth
- We believe that there can be no successful business in an unsuccessful society, and there can be no successful society without successful business. Prosperity requires peace.
- We are part of the Nepalese society, therefore we are committed to investments for socio-economic betterment of all of us together
- We are committed to the overall well being of our society
- We believe that businesses have to be transparent and sensitive to the needs of all, including the poor and the marginalised regardless of their politics, ethnicity, caste, religion and gender
- We oppose forced and intimidated contributions in cash or kind to any parties
- We employ people on the basis of suitability and qualification only
- We are non-political, and are open to cooperate in all genuine endeavours for peace
- We do not accept being subjected to violence, abduction, destruction, intimidation, extortion or threats to the rights of free, peaceful citizens in any manner.

The pattern is repeated in Colombia where big business has long had a contentious relationship with the conflict. Increasingly, businesses are showing signs of awareness and response to the security-development nexus. In the context of segregation in Northern Ireland the Confederation of British Industry perceived the problem of sectarianism in the workplace quite early. In 1998, together with Community

Relations Council, an independent charity, it sought to counter the threat of sectarian discrimination in the workplace, publishing a set of guidelines entitled 'Doing Business in a Divided Society'. The guide makes the case that a religiously diverse and tolerant workplace is good for business, and provides a checklist for spotting whether sectarian discrimination is an issue in one's own company.

In the Philippines, the Philippine Business for Social Progress' Business and Peace Programme has been working since 2001 to enhance the capacity of local companies to adopt and implement internal management policies that promote peace, cultural diversity and unity in the workplace. Among its activities is an exchange programme for young Muslim businesspeople to work in Christian businesses, both to transfer skills and knowledge, but also to generate religious sensitivity in the host companies. From 2006 onwards, PBSP will pilot training for companies on fostering religious diversity in the workplace.

Corporate social responsibility (CSR) – channelling awareness of socio-economic exclusion

There is debate on the pros and cons of CSR, its potential, and the soundness of some of the key principles that underpin it.²³ While originating in the global North, CSR norms and standards are increasingly being used by domestic and foreign companies operating in developing countries, and now forms part of donors' 'pro-poor' growth strategies.²⁴ However, concerns surround the practicalities of integrating what are regarded as costly and time consuming ideas into companies which are often struggling to survive. Nevertheless the importance of certain CSR principles in countries experiencing violent conflict can be significant.

This is partly because CSR provides a conduit through which companies can channel recognition that their traditional role in society may be problematic from a conflict perspective. This can lead to innovations within their core business activities and the relationships that companies try to build with wider communities. It can be problematic for business to engage in something as ambitious and wide-ranging as peacebuilding if some of the fundamentals of socially responsible business are neglected.

In addition, many CSR tenets can support peacebuilding whether by addressing corruption or embedding fair employment practices in countries where discrimination may be a conflict factor. Finally, the principles of CSR, if properly mainstreamed and adopted, can be powerful mechanisms for changing wider negative perceptions of business as drivers of, or collaborators in, some of the issues that underpin conflict. Other stakeholders will not trust the private sector to contribute constructively to peacebuilding, if it is seen as part of the problem. The starting point of any company must be itself.

Acting locally and in response to specific conflict situations, local business initiatives, often (though not always) arising from new corporate commitment to CSR, can offer a refreshingly grounded approach to addressing socio-economic exclusion.

ISA, Prodepaz and the Peace and Development Programmes (PDP)

Interconexión Eléctrica S.A. (ISA) is the largest electricity transporter in Colombia and one of its most successful, homegrown enterprises. It has seven subsidiaries, international operations and its shares trade on the US stock market. ISA is also one of the companies that have suffered the most guerrilla attacks in Colombia: electricity pylons have been bombed more than 1,200 times since 1999. As with other companies, the conflict escalation was a factor that drove the company to reflect more deeply on armed conflict, the possibility of having a sustainable business in such an unstable environment and the need to focus its social programmes in order to contribute towards long-term peace.

“There was a sense of crisis,” said an ISA spokesman. “The nature of our business binds us to the territory over the long term. We cannot go away or move. Besides, we provide a vital service, important both to the state and the people. We had to do something that could bring long-term stability and sustainable peace; a quick fix would not suffice.” ISA also had a well-established community affairs programme and was seeking to improve its impact. “We were very worried about the situation in Antioquia. People were paying the toll of war, and we were troubled because our social programmes weren’t having the results we expected.”

Helped by its corporate culture, good understanding of the conflict and a senior-level commitment to addressing the issue, ISA became convinced that the company should invest in Peace and Development Programmes (PDPs), whereby community relations and social investment are directed entirely towards addressing conflict issues and the promotion of peace. PDPs are long-term macro-projects with multiple components (economic development, environmental protection, strengthening of institutions, civil society empowerment, the promotion of a peace culture, and education, health and housing) that are implemented in several municipalities at the same time. Since then, ISA’s policy has been to support the country’s 18 PDPs and to convince other companies to do the same.

Realising that it could not achieve its new objectives alone, ISA forged partnerships with ISAGEN, an energy supplier that splintered from ISA in 1995, and the Sonsón Dioceses. The Catholic Church has a strong influence in ISA’s region of operation, Antioquia, and the company believed that partnering with the Dioceses gave its projects greater legitimacy. ▶

ISA was also aware that beneficiaries needed to have ownership over projects. “It is counter-productive to step in and do everything for them,” said one employee. “The idea is for local communities to develop skills, become self-sufficient and learn to participate in a peaceful and democratic manner.”

Prodepaz, established as part of the programme, has operated since 1999, benefiting around 2,380 families in 28 municipalities. Today, its main activities include participating in project formulation and implementation, and promoting local and regional participation in development planning. In addition, Prodepaz is in charge of:

- Maintaining the *Sistema de Información Regional para la Paz* database, which contains basic demographic and economic data that help identify projects, beneficiaries as well as other potential partner organisations, including private sector companies
- Providing technical assistance in entrepreneurship, community-level development, and project monitoring and accountability
- Financing and assisting business-development projects. Currently it is working on three core projects: Coser, a garment factory (\$108,124); Proyecto Panelero, a sugar and honey factory (\$81,064); and Hortalizas, a vegetable farm (\$20,170).

More than \$33 million has been invested in the activities, including Prodepaz’s contribution (23 percent), community support (13 percent), local municipalities (14 percent), and private sector and international cooperation (50 percent). ISA has contributed \$3.9 million to social programmes in Colombia, of which \$1.2 million went to Prodepaz.

Success in terms of bringing absolute or relative peace to the region is difficult to measure for many reasons. First, while armed conflict dynamics differ from region to region, it is also a national phenomenon; as long as illegal groups keep on fighting, there can be no absolute peace locally. Second, PDPs aim mostly at addressing the structural causes of conflict, such as unemployment, poverty and the absence of democratic values, which means some results can only be seen in the long term and may be contingent on other factors. Prodepaz projects have had important effects, such as visible improvement of livelihoods for vulnerable, local populations and the creation of a new socio-economic model of development that aims towards social empowerment.

Innovations in the arena of employment policy provide further examples. Deliberate efforts to provide equal opportunities to traditionally marginalised groups can bring real gains in terms of mutual confidence building between groups.

Empowering disadvantaged groups in the workplace – La Frutera Inc.

Datu Paglas is located in an area of Mindanao in the Philippines where some of the most intense conflicts have taken place. Peace and stability were threatened by political and armed agitation for Bangsa Moro independence. The town has seen confrontations between the Philippine Armed Forces (AFP) and the Moro rebel forces of the MNLF and MILF for more than a decade.

The conflict has its root causes in land issues, as the local Muslim population since colonisation has had to struggle for access to land with competing Christian settlers and multinational corporations. Ibrahim ‘Toto’ Paglas III, the son of the late mayor, returned to Datu Paglas in 1985 with the aim of improving stability in the town through socio-economic development.

Paglas recognised that the conflict had its roots in history and Muslim socio-economic grievances, such as lack of access to education, the loss of land to settlers, horizontal inequalities and poverty. Despite the risk, he persuaded a group of overseas investors to establish La Frutera Inc. (LFI) to manage a new banana plantation.

Initially, Christian plantation workers were hired as trainers and supervisors, and Israeli experts were brought in to provide the technology. This created sharp tensions in the community. However, Toto gave assurances that the newcomers would be under his personal protection, and located their accommodation close to his own.

While Christians initially trained Muslim workers, today the plantation employs Muslim supervisors and a former MILF combatant is the most senior supervisor. As a result, Christians and Muslims are more integrated in the workplace as well as in the wider community. In the words of one Christian trainer: “Today, Muslims and Christians peacefully work together. Christians are no longer viewed as superiors, or any more specialised than Muslim employees. The company organises regular workshops to increase understanding and tolerance between the two cultures. Religious leaders from both sides give seminars on Islam and Christianity. Christian workers avoid eating pork at lunchtime in front of their Muslim colleagues.” LFI’s Community Relations Unit conducts regular seminars and workshops on cultural and religious sensitivity.

The plantation is now one of the most profitable in the Philippines. In its first six years of operations, production grew to 10 million tonnes of bananas a year, generating annual revenues of around \$15 million. By 2002, La Frutera employed directly and indirectly 2,000 local workers, 85 percent of them Muslims, on 1,300 hectares.

The treatment of workers is a major issue. The Maoists in Nepal, for example, frequently raise concerns about the working conditions of labour and the exploitative terms that characterise the industrial sector. Many employees are denied basic minimum wages, let alone benefits. Since most work without contracts, there are few channels for official complaint. Such poor conditions have developed into a deep sense of resentment against management.

The Maoists have taken advantage of this discontent. In August 2004, they announced the closure of 47 enterprises until a set of 11 demands was met. Some were political in nature – for instance, the release of imprisoned, Maoist trade union leaders – but others related to the welfare of employees and included:

- Appointment letters to all workers backdated to the day of their employment
- Permanent employment letter to workers after they had worked for 180 days continuously
- Compensation (twice the salary of their working period) to labourers in case of redundancy
- Increasing the minimum wage from \$20 to \$40 per month.

A more progressive and socially responsible approach to employer-employee relations can build confidence in business.

The Three Sisters' Trekking Agency

Despite making up 42 percent of the workforce, women in different sectors earn between one third and one quarter less than men. At the same time, women suffer disproportionately from conflict impacts and have been filling the ranks of the rebellion. Female fighters are said to be attracted to the Maoist cause because of its more egalitarian attitude to gender and the hope that it will 'liberate Nepali women'.

Established as a restaurant in 1991 by three sisters from Darjeeling, India – Lucky, Nikki and Dikki Chhetri – the Three Sisters' Trekking Agency quickly evolved into a 'trekking company of women for women' with an underlying commitment to empower Nepalese women. The agency employs 30 girls and women from underprivileged families, including Dalits (the so-called 'untouchables'), and trains them to guide clients on their vacations. As a result, the Maoists have refrained from asking for donations and have made no other demands. The issues the sisters are trying to address – women's empowerment and the abolition of caste-based discrimination – also form part of the Maoists' political manifesto.

Another example comes from Colombia where one company has gone so far as to completely overhaul its labour force structure in part to address underlying conflict over land.

Reframing labour opportunities to address conflict issues – Indupalma in Colombia

Insecurity has increasingly led companies in Colombia to allocate budget resources for the protection of staff, equipment and operations. In the case of Indupalma, one of the largest companies in the palm-oil extraction business, the losses derived from conflict were becoming so heavy that the company was forced to react if it wanted to survive. Founded in the 1950s, Indupalma is located in the centre of the Middle Magdalena River region, a hot spot in Colombia's geography of violence. Its 10,000 hectares of palm plantations supply the national market in cooking fat and contribute to Colombia's exports to Brazil, Peru, the UK and Venezuela.

Escalating costs of conflict and the economic downturn brought the company to the brink of bankruptcy. After measures to cut the workforce failed to improve matters, Indupalma took a bold step in 1995. Under the direction of a new general manager, the company was radically restructured, creating the backbone of its present corporate model: it outsourced most production to its former workers organised in cooperatives. In exchange for a commitment to buy their output of palm-oil beans, Indupalma sold the cooperatives equipment and seeds, and acted as guarantor for credits that allowed members to buy up the land they had formerly worked. In addition, the company provided training in software use, accounting, strategic planning, social insurance and successful leadership practices.

With access to land constituting a root cause of Colombia's war, Indupalma's decision was symbolic of the company's interest in addressing the local sources of conflict. Contracting out to workers allowed Indupalma to concentrate on its core business – exporting palm oil – while shedding its labour burden and resolving problems with the unions, but it also helped to enhance its production environment. Workers gained inasmuch as they kept their jobs and incomes, received training and became property owners. The project is consistent with the company's peacebuilding rhetoric, which is centred on the promotion of wealth creation and the formation of an entrepreneurial community – 'turning peasants into entrepreneurs' – as the solution to both economic hardship *and* conflict.

This case is based on Rettberg, A. (2005) 'Business-led Peacebuilding in Colombia: Fad or Future of a Country in Crisis?' Working Paper No. 56 Crisis States Programme (London, UK: London School of Economics).

Clearly, the impact of such initiatives is likely to be limited to the individual company's immediate operating environment and will not necessarily aggregate up to influencing conflict dynamics at the national level. Such initiatives can even co-exist with more negative practices by the same companies at a political level. Other initiatives by companies motivated to address the issue of social exclusion in the workplace have had mixed results, or been limited in scope (see the Koramsa case in the Guatemala country report in Section 2). Nonetheless, such efforts can be an important first step towards more harmonious social relations.

Promoting better governance

While some businesses prosper over generations through close links to ruling elites, or in the short term during the chaos and opportunism of a war economy, broad-based economic growth demands a predictable operating environment where business can plan and invest within medium and long-term horizons, and compete according to known and enforced rules. This requires an effective government ruling in the interests of all its citizens; strong rule of law; enforcement of property rights; effective regulation, and a relatively level playing field. It also requires peace and stability.

In its report *Unleashing Entrepreneurship: Making Business work for the Poor*, the UN Commission for Private Sector and Development describes four key building blocks of private sector growth:²⁵

- Global macro-environment – including access to markets and adequate trade rules
- Domestic macro-environment – including peace and political stability, good governance and sound macro-economic policies
- Physical and social infrastructure – roads, power, ports, water, telecommunications, basic education and health
- Rule of law – professional bureaucracy, fair and transparent judiciary.

Given the private sector's dependence for success on the environment in which it operates, it has a natural role and interest in impacting positively on a country's governance architecture and contributing to deeper systemic change. Issues of corruption, lack of transparency and accountability, and non-existent or discriminatory property and land rights are all 'economic' issues that affect the private sector directly, but are symptomatic of wider conflict dynamics. Taking steps to address them can therefore be both in businesses' self-interest and the interests of broader change. In this way business can indirectly affect political contexts through leveraging its influence over economic public policy issues.

Anti-corruption networks involving civil society and local business have coalesced in numerous countries, especially influenced by the NGO Transparency International, and are working to promote improved governance, framed as a more competitive business environment.²⁶ These networks demonstrate precisely the convergence of interest in economic and political reform. Even in the chaos of war-torn Afghanistan, the country report in Section 2 reveals efforts by businesspeople to reduce corruption and mafia control of borders that impose a stranglehold on the internal movement of goods, though with limited success. Lobbying for the removal of obstacles to business in order to create the right conditions for growth, important in its own right, can also have positive consequences for the way society is governed and its longer-term stability.

Burundi Enterprise Network

Burundi's recent history is characterised by sustained structural violence punctuated by violent outbreaks of conflict. The most recent began in 1993 and has resulted in 250,000 deaths and over a million displaced or refugee people. Damage to the social and economic fabric has been equally severe. In Burundi, the state provides the sole means of access to employment, power and advancement, and this fuels violent competition for the levers of power. This has blocked private sector growth, and reform of the country's outdated and inefficient economic institutions. Sustainable peace will depend on rolling back the state's control of the economy, engineering a shift in mindset among elites towards national interests, and generating avenues for popular participation in both political and economic decision making.

As a first step, there must be greater awareness of the issues, more accessible analysis and opportunities for debate, and sustained lobbying and advocacy of policy makers. International Alert has been working in support of the Burundi Enterprise Network (BEN) since 2004 to achieve this. BEN was launched in 1999, with the objective to establish a permanent dialogue between the private sector and government, aimed at improving the business climate. It is made up of some 20 local businessmen and women.

BEN has an office in Bujumbura with a full-time coordinator. It produces a monthly newsletter and reports on business matters; lobbies policy makers, both Burundian and international, to bring about change in the environment to stimulate commerce; and emphasises the importance of regional business links. Its members believe that a stable and more equitable economy will create employment and help to bring about long-term peace – and that, without it, there is every chance of a return to conflict and/or increased criminality. ▶

The same principle of using economic self-interest as a basis for influencing broader policy is equally applicable to cross-border conflicts, as the example of the Turkish-Armenian Business Development Council illustrates.

The Turkish-Armenian Business Development Council

Both the Turkish and Armenian business communities understand that their countries have suffered economic damage from the blockade of Armenia, though there is no official information on the actual costs. The border closure restricts Armenia's access to 44 percent of the regional market and Turkey is denied the most logical routes for taking its goods to markets in the Caucasus. The Turkish-Armenian Business Development Council (TABDC) was co-founded by an Armenian and a Turk in May 1997 after the summit of the Black Sea Economic Cooperation Pact in Istanbul. The first legal link between Turkish (mainly Anatolian) and Armenian business circles, the TABDC was envisioned as a bridge between the two societies, as well as a forum for hosting inter-governmental interactions. The TABDC was founded to promote reconciliation by demonstrating the benefits of direct cooperation between the two private sectors.

The TABDC not only brokers business contacts between the Turkish and Armenian private sectors, it aims at systemic change in relations between the two countries in general. To achieve this, TABDC employs a variety of tactics, namely:

- Lobbying home governments and international business for the inclusion of Armenia in the South Caucasus oil pipeline routes, and re-opening railway and road traffic from Turkey through Armenia
- Raising awareness of peace dividends within society through press conferences, media interviews and public events
- Direct action via reconstruction of Armenian historic sites in Turkey, earthquake aid, etc.
- Networking to expand the 'peace constituency'
- Consolidating EU and US political support to peacebuilding between Turkey and Armenia through the promotion of positive experiences of cooperation between the two countries' private sectors and civil society sectors.

Joint lobbying takes on a greater importance when the issue addressed is, or was, an integral part of the conflict dynamic. In Sri Lanka the urban/rural divide is an overlooked dimension of the country's wider crisis. In the 1980s, resentment at underdevelopment in the south relative to the capital, Colombo, precipitated outbreaks of violence and their recurrence remains a threat. Elsewhere in the country, a strong perception remains that Colombo takes care of itself, while largely ignoring the regions.

Partly in response to this dynamic, the Business for Peace Alliance was founded in November 2002 with support from International Alert and the UNDP. The BPA is a working group of business members from the 17 regional chambers of commerce representing all Sri Lanka's provinces and ethnic business communities. Its objectives are to support reconciliation, business-to-business relationships across the ethnic divide and regional inclusion in the peace process.

The Business for Peace Alliance – public policy advocacy

As its activities have deepened, members of the Business for Peace Alliance (BPA) have become more vocal in their efforts to influence policy makers with regard to development and the challenges they face as provincial enterprises. The BPA has already had some successes. For example, the group lobbied the government to launch a small and medium-enterprise (SME) bank with low-interest loans, not reliant on collateral, to assist business and reconstruction. SME bank branches now operate in Ampara, Galle and Jaffna. In another instance, the BPA lobbied the government's Peace Secretariat to open an additional fishing channel on the Jaffna coast. It also lobbied for the A9 road to Jaffna to remain open 24 hours, rather than only in daylight. This road, which crosses LTTE-controlled territory, is an important supply route and the only land connection between the north and the rest of the country. In the aftermath of the tsunami disaster the BPA lobbied (through its Colombo-based partner network, Sri Lanka First) that its representatives in the local chambers of commerce be invited to participate in the district-level taskforces set up by government to coordinate and direct relief and rehabilitation in the affected regions.

Despite widely divergent contexts, the initiatives reviewed share a number of common characteristics. Firstly, a mutual, economic self-interest that overrides the natural competition existing in the private sector and provides an incentive for adopting a collective approach. Secondly, access to relevant parties. This means that public policy lobbying is more often undertaken by dominant economic players, though this is not always the case. The BPA enlisted the support of bigger business colleagues through Sri Lanka First to help it gain access to relevant decision makers, pointing to the need for business to build effective partnerships in undertaking this kind of work.

However, the private sector's influence on political and public policy can be a double-edged sword, and does not always have peacebuilding intent or impact. Ten years after the signature of the Guatemalan peace accords, as discussed in Chapter 1, the private sector has consistently resisted key reforms, such as tax increases, through organised, vocal and effective lobbying at the highest levels of power. By the end of 2004, most peace commitments had been rescheduled several times, or

had simply not been met.²⁷ Post-conflict Guatemala has not enjoyed high levels of economic growth, nor did it benefit from remittances. When the UN mission closed its offices in Guatemala at the end of 2004, the Secretary General noted that ‘serious problems’ continued to ‘plague Guatemalan society’. “Guatemala has fallen short of its obligations,” he continued, “... to substantially increase tax revenues to pay for much needed social investments.”²⁸ In this way, peace consolidation in Guatemala has been marked by an instability that is partly attributable to the contentious relationship that exists between business and peace.

Nonetheless, this type of activity by business represents an important component of its contribution to peacebuilding. The Guatemala example serves to remind that the private sector is not monolithic and does not have a uniform agenda. Its interests are varied, providing both opportunities and challenges in identifying its potential contribution to peacebuilding. Recognising that economic agendas can be so influential in driving conflict and stalling peace, and the value of the initiatives reviewed above, it becomes critical that external and local actors alike seek to identify the private sector’s potential positive contribution.

Addressing economic drivers of conflict

‘Economic drivers’ of conflict describe dynamics within an economy that sustain violence and threaten the achievement of peace in the immediate sense. Examples include capture of trade that provides revenue for armed groups, or underemployment particularly among young men. These factors can be distinguished from the ‘economic causes’ discussed in the previous section, which refer to the long-term, structural features of the political economy that have led to the emergence of conflict – and which, if unaddressed, will see it continue.

War economies

Once conflict is underway, some business-related activities are either ‘captured’ or become bound up in providing armed groups with a source of revenue that is used to purchase weapons or to sustain other logistical and personnel requirements. Others seize the opportunities that the war economy presents in order to profit or survive. The activities of ‘conflict entrepreneurs’ and the broader economic activity that sustains violent conflict have been the focus of much recent research, as discussed in the Introduction, leading to international efforts to address key aspects, especially the links between natural-resource exploitation and war. Examples from Section 2 in which these dynamics have been addressed locally in the interests of peace have demanded conscious efforts by international actors to try to harness the entrepreneurialism evident in many conflict-sustaining activities

(including smuggling, drug trafficking and illicit, cross-border trade), in order to turn it towards legitimate commerce.

In eastern DRC the relationship between local business and warlords was initially destructive, with businesspeople in one community encouraging and providing support for attacks on a neighbouring town to stifle business competition. Entrepreneurs reportedly had an ambivalent perspective on the conflict and the peace process, based on economic pragmatism and self-interest. On one hand, the conflict provided economic opportunities, lower taxes and the opening of new markets. On the other, increased insecurity became an obstacle to the use of formerly productive property and reduced entrepreneurs' access to credit to expand their activities. As the peace process began to make itself felt, entrepreneurs, whose experience of state authority in the past had not been positive, were anxious at the restoration of state control, yet eager for the benefits to their trade of rebuilt roads and infrastructure, which only a state can bestow. The elements of a 'common ground' slowly appeared. The UN peacekeeping force, MONUC, began to dialogue with entrepreneurs and it was agreed that while MONUC would facilitate access to donors and support business interests in peace negotiations in the capital, the entrepreneurs would support the peace process by renouncing destabilising activities, such as contacts with armed groups and weapons smuggling. The economic and entrepreneurial bonds that had led to cooperation between this group of businesspeople and militia groups were therefore harnessed towards more constructive ends.

In Bosnia and Herzegovina (BiH), Arizona market emerged in the immediate aftermath of the conflict as a centre for informal – including illicit – economic activity, and a place where traders from opposing sides of the conflict could meet to do business. Its formalisation had positive impacts both on the local economy and inter-community relations.

Arizona market – formalising the informal

Based in Brcko, a district located between BiH and Republika Srpska, Arizona is the most famous open market in southeast Europe. Brcko had been the target of bitter fighting with all three sides to the conflict aspiring to absorb it within their new borders. Although the Serbs eventually won the town, its outskirts remained Bosniak or Croat. When the war ended, the US military set up Checkpoint Arizona, where separated families used to meet and former foes trade. A year later, the shanty of stands, stalls and dwellings was attracting thousands to Arizona every day, not only from Brcko, but also BiH, Croatia and Serbia. Today, Arizona market sprawls over 25 hectares of land and is the main engine of the district's growth. ▶

Indeed, so precious was the market to Brcko that the local bureau of the Office of the High Representative (OHR) issued a supervisory order in November 2000 (the year all other informal markets in BiH were closed down) that legalised trading at Arizona, and ordered all taxes and fees collected to be paid into Brcko's district budget. The 2,500 stalls and shops at Arizona now sell everything from fruit to livestock, and from grain to electronic goods.

In the past, the lack of regulation had led to serious breaches of public safety, health, and trade and taxation rules. In contrast to the smaller markets at Gornji Rakani and Jezero, Arizona's size attracted human trafficking and the sale of stolen goods and narcotics. Safety standards for the storage of food were far from ideal. Trade blossomed, but millions were lost in uncollected revenues.

At the same time, the international community perceived Arizona as a peacebuilding opportunity, viewing it as a 'neutral space' for the three ethnic groups to interact economically. While there were well-founded concerns about the criminality of some of the market's transactions, its potential as an engine of growth was recognised. The OHR did not want to deprive Brcko of income, preferring to explore the options for transforming Arizona into a legal and regulated market, privately managed and with better infrastructure and services.

Since neither BiH nor Republika Srpska would directly benefit from taxes at Arizona, due to Brcko's special status under the Dayton agreement, neither was excessively keen on regulating the market. Instead, the Brcko authorities and the OHR, with guidance from USAID, opted for Arizona's gradual transition to a private shopping mall. Italproject, an Italian company, won the tender to implement this project in 2001 with an estimated investment of \$144 million for the construction, finance, design and management of the market for 20 years. The first part of the project, a covered shopping area of 40,000 m², was opened in late 2004. Today, the market employs around 5,000 people.

Formalisation and regulation was accompanied by a Special Trafficking Operations Program, implemented by local and international police, to crack down on the most visible signs of organised criminal activity at the market, especially human trafficking. Many brothels and bars were closed down.

The large-scale donor involvement demonstrated that the international community recognised the value of spontaneous, open markets like Arizona, both from economic and peacebuilding perspectives. The case also highlights the importance of separating informal from criminal activity in order to regularise the former and curb the latter. Today, Brcko is hailed as a 'rare Bosnian success story' because different ethnic groups live side by side, and because peace has brought real economic dividends. Brcko district boasts the highest average wages in the country.

Individual companies investing in regions where conflict trade continues to sustain violence can also take steps to divert entrepreneurial energy away from such activity by creatively providing alternatives, as occurred with a food and canning firm in Colombia, working in partnership with UNDP.

Compañía Envasadora del Atlántico and UNDP – aligning business and peace agendas

Compañía Envasadora del Atlántico (CEA) is a family-owned fruit company founded in 1982. CEA grew substantially in the 1990s and today exports 500 containers of fruit pulp to 39 countries around the world. In 2001, the company decided to produce passion-fruit pulp due to high demand from regular, international clients. This involved a number of challenges because of small growers' low level of training and the political economy of the conflict. Finding farmers willing to grow the fruit was difficult because much of the land in the coastal region had been planted with coca. Additionally, farmers who were interested in becoming providers needed to obtain credit, meet a number of technical requirements and commit to delivering the required tonnage on time. This involved an investment of CEA's time and money in talking to farmers and training them in agricultural techniques and business skills. The conflict also posed security problems since both CEA and the contracted farmers could become the targets of guerrilla and paramilitary harassment. The presence of armed groups in the coastal regions has increased over the years due to their role as drugs and arms-trafficking routes.

Since 2003, CEA has helped to create agri-business associations in vulnerable areas that have been, or could have become, sites for narcotics production, thereby feeding the drugs trade, illegal armed groups and the conflict. It is clear that the company's motivation was oriented more towards profit than peacebuilding, and expectations that it might later benefit from profitable peace projects, sponsored by international donors, may have also influenced CEA's calculation. Activities that are directly connected to company interests may receive greater attention from company executives and appear to be more stable, but since they still depend on market fluctuations they can also be unstable. Nonetheless, CEA has remained faithful to most of its commitments so far.

CEA approached UNDP, which proposed that they work together on a narcotics-prevention project that complemented the company's business interests. UNDP's objective was to foster legal economic development involving private companies that would impact on the conflict by creating alternative livelihoods for farmers who had been lured into the drug trade. UNDP designed a programme that offered growers training in forming associations with the goal of maximising their profits

and promoting social capital; workshops on business skills; and a guaranteed buyer of their crop over a number of years. CEA saw an opportunity to develop what it needed, a stable supply of passion fruit produced by growers with adequate technical and associative skills. CEA identified another benefit from partnering with UNDP. Widespread corruption, lack of state presence and the distrust spawned by decades of armed conflict had made it difficult for the company to interact with local communities. CEA believed that it could use the UNDP's reputation to build trust between the company, growers and local communities. CEA invited UNDP to act as a fiduciary and to administer the loans made to the associations. An agreement was signed between CEA and UNDP in June 2003 that provided for the planting of 1,483 hectares in 24 municipalities in five departments in northern Colombia – Cesar, Guajira, Córdoba, Sucre and Magdalena – which, it was estimated, would provide direct employment to 813 families.

Besides functioning as a 'window of transparency' for all actors, UNDP was expected to facilitate the raising of additional donor funding. In June 2004, a local USAID sub-contractor agreed to join the project and began providing CEA with additional resources in the form of technical assistance, processing plant design and managerial services.

Recently, the Office of the High Commissioner for Peace approached CEA with a view to exploring ways to develop similar productive projects involving reintegrated members of illegal armed groups. Another potential spin-off is the installation of the third EU-sponsored Peace Lab in the Montes de María sub-region in the department of Córdoba. CEA is one of many companies involved in the provision of the 'productive' component of the Peace Lab initiative.

Not all CEA and UNDP efforts to create grower associations have worked. In the northern department of La Guajira, growers simply abandoned the project, according to CEA's projects coordinator. "They were never disciplined enough and were too connected to the easy life of contraband. Some shifted to tobacco when a company came and offered them money." By contrast, others, such as that at San Antonio Sahagún, in Córdoba, have been a real success.

Generating employment

Job creation is a critical, perhaps the critical, priority in many countries where underemployment has implications for both poverty levels and wider peace and security, especially when it comes to ex-combatants. The spectre of thousands of young men roaming the countryside with nothing to do but fight, no qualifications except killing and no possessions beyond their weapons haunts every society emerging from war.

The private sector is increasingly seen as the key to job creation, particularly in immediate ‘post-conflict’ environments where the need is greatest. Chapter 4 discusses initiatives by business to provide jobs for ex-combatants, through engaging formally or informally in DDR-type programmes – in Afghanistan, Colombia, Democratic Republic of Congo and Somalia for instance.

Meanwhile the case-study material illustrates that informal markets and trade can provide for livelihoods, at least in the short term.

Sadakhlo market – cross-border trade supporting livelihoods

With a population of 13,000 Azeris, Sadakhlo is situated in Georgia near the Armenian border. Sadakhlo market was established in the early 1990s and, until its closure, was the main source of income for tens of thousands of Georgians, Armenians and Azeris. This was not by chance. Sadakhlo is adjacent to Kvemo Kartli region, which is largely populated by Azeris and Armenians. It is, therefore, a place where three countries meet. It is also on the true periphery of Georgia. While the poverty level in Georgia was 52.3 percent in 2004, the figure for Kvemo Kartli was 78 percent, of whom 30 percent lived in extreme poverty. Most Azeris in Sadakhlo do not speak Georgian and their chances of employment are light. In Soviet times, the farmers’ dairy produce, fruit and vegetables were prized, but Georgia has since prohibited the purchase, privatisation or rental of land in the border regions, and Azeris and Armenians lost their access to soils and pasture.

Sadakhlo market was a manifestation of the abyss that exists between the rich and poor in Georgia, Armenia and Azerbaijan. This inequality is so dramatic that one trader said: “The conflict is not really between Armenia and Azerbaijan, but between a class of people who gain and a class of people who lose.” Even at the peak of the war between Armenia and Azerbaijan, ordinary Azeris and Armenians continued to trade at Sadakhlo.

The market was open daily. Armenians reached it through a gate guarded by Armenian and Georgian customs officers and border guards. Traders from Azerbaijan entered Georgia via the Krasny Most (‘Red Bridge’) border checkpoint and took the bus to Sadakhlo. On a busy day, around 5,000 people could be found trading and all 72 Azeri villages in Georgia were dependent on Sadakhlo market to some extent.

The material also shows that informal markets can be vulnerable and unstable, as discussed below. At the same time efforts to engage business in creating jobs

for ex-combatants need to address the fact that there can be business resistance to hiring them, as the Afghanistan and Colombia cases illustrate. It is clear from the examples that the challenges faced by business in job creation are significant and that the expectations placed on it often unfeasibly high. For the private sector to flourish, and therefore to be in a position to generate employment, it needs certain conditions, as already discussed – conditions that may have been destroyed by conflict and which require a much longer timeframe to re-create than the pressing need for jobs allows for. Greater emphasis on mechanisms that create the right kind of conditions for business to maximise its potential for addressing underemployment is required.

Despite good intentions, international approaches to post-conflict reconstruction tend to undermine, rather than support, the private sector's potential to create sustainable jobs. The problem is one of haste. The understandable desire to 'rebuild' as quickly as possible for both political and practical reasons means that the real benefits of post-conflict donor funding often accrue mainly to foreign companies and consultancies. As discussed in the country report on Afghanistan in Section 2, the local private sector is rarely, if ever, seen to be capable of undertaking substantial reconstruction contracts (despite clear if weakly enforced 'local content' provisions).

This has multiple effects: it inhibits the growth and expansion of local businesses; denies local companies invaluable experience; reduces the economic benefits to the country through expatriation of profits and; distorts the local job market through temporary salary inflation. It also causes resentment and anger. The international community needs to go to much greater lengths to ensure local companies benefit from the immediate opportunities, and are therefore in a better position to generate growing numbers of jobs. This requires joint planning between international agencies and local business especially for the 'reintegration' element of DDR programmes and infrastructure reconstruction projects.

Addressing economic impacts of conflict

Doing business across the conflict divide

The many examples in Section 2 of entrepreneurs actively doing business across ethnic and conflict divides (Burundi, Bosnia, Kosovo, Israel/Palestine, the Philippines and the South Caucasus) illustrate how economic activity can help to rebuild ties and break down divisions during and after conflict. In addition to the peacebuilding potential such trade represents (discussed in more detail in Chapter 3), this kind of business provides income and livelihood in the otherwise stagnant, economic circumstances and conditions that war creates. It addresses, and is a pragmatic response to, the economic impacts of conflict.

Driven by economic necessity during and after conflict, traders both from Arizona market in BiH, as well as Sadakhlo and Ergneti markets in the South Caucasus, came together to do business with ‘the enemy’. In such situations, the informal trade sustained by such markets is frequently deemed illegal due to the hostile political climate and closed borders. Though it may include trade in commodities that sustain war or be susceptible to capture by armed groups, such business is also an economic ‘coping’ measure, not necessarily a practice carried out with criminal intent. At one level, it can be viewed as legitimate commerce in an illegitimate situation of war: it is not the activity that is the problem, but the rules. As discussed in the section on war economies above, finding ways to formalise the informal and harness entrepreneurialism for constructive ends should be a priority for peacebuilders. The fact that the authorities have since closed both Sadakhlo and Ergneti markets is a serious blow to the economic and political prospects of each region.

Ergneti market

Ergneti market became the most reliable source of income for thousands of Ossetians and Georgians after 1999 when it became less profitable to smuggle alcohol from Georgia to Russia. Petrol, cigarettes, food and industrial products from Russia were traded in Ergneti and smuggled to Georgia, while a counterstream of agricultural products from Georgia flowed north into Russia, via South Ossetia. Ergneti market served as a price-setting mechanism for the entire region.

In interviews conducted for the regional report in Section 2, Ergneti was considered an important development mechanism in South Ossetia, with significant peacebuilding implications. Most small entrepreneurs at Ergneti acted within an unwritten code of conduct and conflicts only occurred when someone had violated the rules of business, rarely as a result of ethnic differences.

The volume of trade at Ergneti market was estimated at between \$101-133 million per year in 2004. Theoretically, Georgia should have collected duties at the border with Russia, but this part of South Ossetia was not under its control. The establishment of customs posts at the *de facto* border with South Ossetia would have meant that Georgia had conceded the breakaway state’s claim to sovereignty.

The closure of Ergneti market in 2004 had a devastating impact on small traders, but failed to halt the flow of contraband, which instead became concentrated in the hands of a smaller number of players. The closure underscored how difficult it is for micro-businesses influence political decisions.

Not all cross-conflict joint business contributes to peacebuilding. The flow of arms through several of the markets has been highlighted. Trade that builds on unjust socio-economic inequalities and asymmetric economic relationships, leaving one side no choice but to work with the other on unfair terms, is also problematic. The Israel/Palestine report in Section 2 looks at this question and tries to assess whether Palestinian businesses actually have a choice when entering the partnerships they have made with Israeli companies in order to access Israeli and international markets, and the services only Israeli companies can provide. Some initiatives try to address these socio-economic inequalities, as discussed below, by providing preferential access to credit and training to the economically disadvantaged side, at the same time as fostering linkages.

Precisely this thinking underpinned the establishment of the Municipal and Economic Development Initiative (MEDI) in central Bosnia from 2001-04. MEDI was administered by CHF, a US-based development NGO, and had two distinctive features. First, it supported multi-ethnic business associations in 14 municipalities. Second, MEDI worked with municipal administrations to increase their efficiency and responsiveness to constituents' needs. The business associations and municipalities later combined to form a Regional Enterprise Network, which contributes to economic policy making at regional and national levels.

It was a condition of CHF's involvement that the associations should be multi-ethnic and democratically managed. In many towns they were the first such civil society organisations to be set up since the war. The overall ethnic composition of the 14 associations was 71 percent Bosniak, 26 percent Croat, 2 percent Serb and 1 percent 'other', largely reflecting the region's post-war demographics. The associations currently employ some 14,000 people.

This inclusive approach contrasted with the divisive strategies of Bosnia's leading political parties, which notoriously used ethnic rivalries as a means of mobilising and rewarding followers. The multi-ethnic, participatory business associations have helped to strengthen the social and economic foundations of peace, and illustrate how business can help to transform, rather than reinforce, politically motivated exclusion.

Raising awareness about economic impacts of conflict

Business initiatives for peace have frequently, and naturally, taken concern at the economic costs of conflict as their starting point, and used arguments about them to influence political outcomes that support peace processes, as discussed in Chapter 1. In Northern Ireland, the Confederation of British Industry produced a landmark publication, widely known as the 'peace dividend paper', which spelled out in detail the economic rationale for peace. As a result, the idea of a 'peace dividend' became

integral to the peace vocabulary. A similar approach was adopted in Sri Lanka where Sri Lanka First (SLF) was formed by a number of trade associations in the garment, tea, tourism and freight sectors.

Any reference to how that peace dividend was likely to be realised was largely absent from the initiatives. The concept of the campaigns was to focus people's minds on the economy in the conviction that prosperity is a shared ambition, even where tension over distribution of resources may be high. If politics is too sensitive an area for the private sector to engage in explicitly, at least in a peacebuilding context, the economy may be a more appropriate vehicle in which it can promote wider change. Peacebuilding is partly about identifying common interests. Business is well placed to build on this potential by framing the economy as just such a common interest.

Creating a peace dividend

The pressure to turn a political settlement into a tangible benefit is intense during the immediate aftermath of conflict. Although the end of violence brings its own rewards, it also generates enormous expectations. Jobs, housing, infrastructure, security, basic services – all need to be provided to a population exhausted by war, but still suspicious of its former enemies.

In many circumstances, the business community is expected to play a leading role in creating the peace dividend by virtue of its perceived access to resources and to funds. Although many companies are in a position to contribute towards and support causes and projects, they often do so as a form of philanthropy and not necessarily in a coordinated manner. In Sri Lanka however, SLF is transiting into a more formalised organisation to raise and channel resources better to lobby for peace at the political level, but also to support regional development efforts in marginalised areas and to extend assistance to regional businesses affected by violent conflict and natural disasters.

This approach follows the model in South Africa where there was a significant mobilisation of the business community, which generated a number of related initiatives with specific areas of focus. The key to the business contribution in terms of social investment lies in coordinated, collective and strategic initiatives.

A peace dividend in South Africa

The National Business Initiative. In 1995, a year after the country's first democratic election, the Consultative Business Movement amalgamated with the Urban Foundation to form the National Business Initiative (NBI). The

objective was to demonstrate a renewed, private sector commitment to the new, democratic South Africa. The NBI was designed as a not-for-profit, public interest and business-based organisation dedicated to reconstruction and development. The NBI said from the start that it aimed to tackle systemic problems, and to work in partnership with government by mobilising business and management skills to address public issues, facilitate the business community's collective contribution to reconstruction, and build constructive relationships and trust between government and business.

Business Against Crime. In 1996, nearly 500 business leaders met at the World Trade Centre in Johannesburg to deliberate on how the private sector could contribute to the fight against crime in South Africa. Following dialogue with then president Nelson Mandela, a new organisation, Business Against Crime (BAC), was established to partner with the government in dealing with threats to security in the new democracy. The NBI facilitated the process and served as the BAC's managing agency until the organisation was established as a separate legal entity. This new, non-profit organisation provided support to many industry-specific responses to crime, including those by the banking, tourism, IT and motoring sectors. BAC also provided analysis, conceptualisation and planning skills for the integration of the criminal justice system, including the required IT infrastructure, identification services and integrated case management.

Housing Delivery Task Team. In 1996 the Department of Housing approached the NBI to assist with the delivery of housing aimed at assisting the government to meet the challenge of 'housing for all'. The NBI established the Housing Development Support Team (comprising businesses) to improve the delivery system. Attention was paid to fixing information management and other management systems, as well as reducing bureaucratic delays and building the capacity of provincial officials. These efforts resulted in the number of capital subsidies awarded to first-time homeowners rising from 220,000 in 1996 to over one million in August 1999. At this stage the NBI began preparations to hand back management of the systems to the relevant national and provincial housing authorities.

Colleges Collaboration Fund. The NBI played a leading role in mobilising the South African private sector to appreciate the importance of further education and training (FET) colleges in meeting the country's skills and employment needs. Over R80 million (\$12.5 million) was invested in restructuring the FET sector, and building leadership and management capacity in colleges. The NBI helped shape the FET policy and subsequently formed the Colleges Collaboration Fund to partner with government for the implementation of the system transformation. Key focus areas included: repositioning the previously

neglected FET system as a desirable option for students; expanding overall enrolments; securing growth and diversification in programmes; securing a more equitable staff-equity profile; and exposing senior college staff to global best practice through an international exchange programme.

Business Trust. In 1998 a group of business leaders and organisations cooperated in intense discussions with the government on the challenges of economic growth and job creation. A firm foundation for the initiative was the broader goal of leading businesspeople concerned about unemployment. An important outcome was the formation of the R1 billion (\$156.7 million) Business Trust, a five-year project designed to focus on the creation of jobs and capacity building. An early focus was to develop a stronger business approach to international tourism marketing as a basis for sustainable job creation. The private sector worked with the public sector in appointing senior business representatives to the board of a restructured South African Tourism, developing a sophisticated market segmentation strategy and implementing a value-for-money business plan. By 2002, South Africa was the world's fastest-growing tourist destination, with international arrivals increasing by 20.2 percent.

In terms of providing social services, even in a context of ongoing conflict in stateless Somalia, the business community has been able to fill some of the gaps in social services and infrastructure created by conflict and left unaddressed through the absence of central government. Although provision of social services and infrastructure by the private sector can fill critical gaps, it may have problematic long-term implications: firstly, in terms of universal access to these services; and secondly through a further erosion of the social contract between state and citizen.

Somalia – filling the gaps in public services

The prolonged collapse of the state and the absence of state provision of essential services in Somalia clearly imposes costs and insecurity to businesses. Interestingly however, the Somali private sector has played a role in rebuilding infrastructure – providing much-needed services to Somalis and profiting in the process. In addition to physical infrastructure such as ports, many of the areas of social infrastructure that were damaged during the conflict are also now being serviced by business. Services are more effective in populated areas (where profits are higher) than in smaller towns or the rural areas. Services are provided on a cost-recovery basis and fees are often covered by remittances. In stateless Somalia, healthcare is a private good, rather than an inalienable right. Within the context of Somali culture and Islamic principles, there are however some limited provisions for those who cannot afford to pay – several hospitals in

Mogadishu (Banadir, Keysaney, Medina and SOS) offer subsidised or quasi-free services for those in need.

Conclusions

As an economic actor, the private sector is intimately bound up in the wider relationship between the economy and the conflict. To the extent that the economy itself is or has been a factor in driving or sustaining war, business will be, or will be seen to be, part of the same dynamic. For the same reason, it has the potential to influence and even transform that dynamic.

This implies a peacebuilding role within the economic sphere which stretches beyond business's core business of job creation and wealth generation. The private sector's dependence on an appropriate enabling environment means that without addressing issues relating to the economic structure of a society, its ability to fulfil this role will in any case be limited. More importantly, it may serve to reinforce inequality and exclusion. Identifying such a role is therefore in the private sector's interest.

Given the right circumstances and the right approach, the economy can become a space for dialogue and the basis for identifying common ground. Prosperity is a universally shared ambition: helping to develop a common and inclusive vision of economic development amongst conflict parties and the wider society can be a powerful peacebuilding contribution. The desire for rapid economic growth must be grounded in an understanding that the nature of that growth is more important in conflict contexts than its speed. The private sector's role in ensuring this is not only in the public policy sphere. It strongly relates to how individual companies conduct their own business.

A shift in attitudes is required, away from a one-dimensional perception that the 'business of business is business', divorced from the wider peacebuilding process; or from a focus that only understands negative drivers of conflict. The examples profiled in this chapter suggest that the local private sector remains one of the most underestimated of peacebuilding actors. They also suggest a number of useful lessons for how business's potential in the economic sphere can be better understood and fulfilled in the interests of peace.

Lessons for business

Understanding the conflict

The starting point for the private sector – as with any other actor wishing to contribute to peace – must be an understanding of the conflict. This must include

analysis of its own relationship to that conflict. The ways in which business may be sustaining structural injustices through its relationship to conflict parties, however unintentionally, as well as reflecting those injustices in its own operations, are fundamental to identifying how it can contribute to peace. This suggests a conscious effort on the part of businesses to understand this dynamic. This in turn can only be achieved through self-reflection and consultation with a broad range of other actors. The private sector, as with other agencies seeking to contribute to peace, must place the conflict at the centre of its thinking.

Focusing on economic aspects of conflict

There are three critical aspects to the business, economy and conflict nexus where business can make a contribution: structural underlying economic causes (e.g. ingrained socio-economic exclusion and poor governance); economic drivers (e.g. war economies and underemployment); and economic impacts (e.g. blockades, costs of conflict and the peace dividend). This provides a useful framework for determining where and how the private sector should focus its role. Peacebuilding has to be seen as a comprehensive transformative process; not an adjunct to economic growth but rather the function of economic growth in conflict contexts. Throughout their operations, businesses need to be addressing conflict dynamics. Doing nothing beyond business as usual may be doing harm. It is clear from the cases discussed in this chapter that there are creative steps that can be taken in addressing all three aspects in the interests of peacebuilding.

Understanding the diversity of the private sector and mobilising collective action

The private sector is a hugely diverse actor within which there may often be significantly divergent interests. The approach and impact of one company in the same context might be directly contradicted by another. This relates to how business is perceived by others within society, which may be very different from the way individual companies perceive themselves. It is often the case that those who ignore or even exacerbate conflict dynamics define the private sector's image within society. This emphasises the importance of working collectively as well as individually and of changing mindsets and approaches amongst the wider business community. In this sense, the private sector is its own first constituency – particularly in addressing its own socio-economic relationship to the conflict. Building strong coalitions with the right mix of corporate leaders and business associations can be a powerful mechanism both for enlisting the support of an ever-widening circle of businesses and for countering negative perceptions about business.

Addressing conflict issues through internal practice

Business as a whole succeeds best when operating within the framework of certain standards dictated by national and international regulation. But where such standards do not exist, are weakly enforced or easily circumvented, abuse is

inevitable, corruption within the private sector flourishes, discrimination on religious, gender or ethnic lines is accepted and exploitation of employees is rife. In such circumstances, business and business associations need to take the initiative in setting and promoting their own standards. Companies which lobby for those standards and which actively implement voluntary CSR-type policies are both setting a positive example to others and potentially making a peacebuilding contribution. Some measure of social responsibility therefore becomes not an unnecessary distraction but a means of operating in a way which does not reflect but rather addresses conflict dynamics.

Addressing conflict issues through investment

The relatively substantial resources at the private sector's disposal, both human and financial, can usefully be directed towards raising awareness about conflict impacts and providing tangible evidence of a peace dividend. This can include support to infrastructure repair, provision of basic services such as health clinics and schools, and training and job opportunities for disadvantaged or vulnerable groups. Business can also develop or expand through investment into places badly affected by violent conflict, while ensuring the support of local communities. Additionally, harnessing the power of mutual economic interest through cross-border or inter-ethnic business activity can simultaneously ensure the sustainability of a business in difficult times as well as provide a model of co-operation between individuals divided by war or the memory of it.

Addressing conflict issues through public policy dialogue

The influence wielded by business is a double-edged sword. At one end of the spectrum, the nepotism and cronyism which characterises the relationships between the state and the private sector in certain contexts effectively blurs the distinction between the two. This almost symbiotic connection facilitated by pervasive corruption is frequently both a cause and symptom of violent conflict and has a number of additional impacts, including stifling business growth and job creation. At the opposite end of the spectrum, however, business can harness its individual and collective influence to promote the positive transformation of structures which may have underpinned the conflict. This can be achieved in a number of different ways: by holding out the prospect of an economic peace dividend as a means of mobilising society and putting pressure on political leaders; by using the economy as an issue of common interest around which constructive dialogue between conflicting parties is possible; and; by strong involvement in helping to shape 'post-conflict' economic policies in ways which provide for more equitable growth. The ability of the private sector to play this kind of role hinges on a number of factors: firstly, that it is seen to have the legitimacy to involve itself; secondly, that it can turn an issue of such contention (i.e. the economy) into a 'neutral' space which provides an opportunity to envision the future whilst acknowledging the past; and finally, that businesses can harness their individual strengths in support of collective initiatives.

Lessons for others

Conflict-sensitising economic interventions

The Private Sector Development (PSD) programmes of intentional donors agencies have largely been untouched by the growing debate around operationalising conflict-sensitivity in mainstream development and humanitarian programmes. In addition, there is limited coherence between these two arms of development policy within and between donor agencies. Both issues need to be addressed. Economic interventions where conflict-sensitivity is fundamental include activities at the macro level, privatisation programmes and reforms, and those that directly target business actors in-country or different scales.

The objective should be a holistic approach to economic development grounded in the reality of the complex links between the economy and conflict. In practice, this means all economic interventions operating within the framework of a comprehensive development strategy guided by an ongoing conflict analysis and conscious of the ambivalent position the private sector often holds within a society. Failure to do so can mean that interventions unwittingly serve to exacerbate structural linkages between economy and conflict to the detriment of peacebuilding and growth alike. The enormous potential of business in driving economic growth should not blind donors to the dangers of viewing the private sector as an unmitigated good. This relates to the fact that ‘pro-poor’ growth is not necessarily the same as equitable growth.

Partnering with the private sector

The diversity of roles played by the private sector illustrated in this chapter emphasises the importance of seeing business as a partner in peacebuilding rather than simply an agent of economic development. By supporting the adoption and implementation of relevant CSR-type policies, providing incentives and stimulus for conflict-sensitive investment and even collaborating on public dialogue initiatives, other agencies and organisations can help to reinforce and enhance the peacebuilding impact of the private sector in the economic sphere as in other areas discussed in this book.

Creating jobs

The employment-generating potential of local business is clearly significant, though in practice often undermined by donor strategies themselves, despite unrealistically high expectations. The way in which international donor agencies approach infrastructure reconstruction and DDR in particular need to be improved. Joint planning with local business would help maximise opportunities to use these interventions to stimulate private sector growth and engagement. Partly this can be achieved by writing more stringent and more stringently enforced partnership requirements between international and domestic companies into contracts, with strong capacity-building components, but also by providing support earlier and with greater consistency and

duration. Only through such approaches from external agencies will the job creation potential of the domestic private sector begin to be fulfilled.

Promoting cross-border and inter-ethnic co-operation

If the local private sector is rarely able to generate the quantity of jobs needed, more thought needs to be given to how employment creation can address conflict divides. This chapter has discussed several examples of third parties promoting economic activity across borders and between peoples currently or previously at war through technical support, advice and financial incentives. The value of shared economic ties comes both from providing communities with a powerful self-interest in not fighting but also serves to break down barriers between individuals through exposure, contact and mutual need.

Formalising the informal

The desire to trade is universal and economic survival often makes dealing with ‘the enemy’ a necessity. This ‘apolitical pragmatism of trade’ has proved to be a powerful motivation in many of the cases described in this book. One particularly interesting area that emerges is its manifestation in the spontaneous establishment or revival of markets. Informal markets deserve attention for their peacebuilding potential. The role of external parties in helping to formalise rather than criminalise such economic activity can do much for job and wealth creation as well as for cementing ties between divided peoples.

Focusing on governance

Ultimately, the prospects for the private sector, and its contribution to peacebuilding, will be dictated by the environment within which it operates. Political will and political stability are critical to its economic potential. Although this is well understood, in practice the timeframes within which the donor community operates mean that immediate ‘achievable wins’ are a priority which cannot wait for the right governance structures. A better balance needs to be struck. Governance reform needs to be mainstreamed into all donor activity, whether support to the private sector or delivery of basic services such as health and education. Without the appropriate governance institutions and systems, the risk of a return to conflict will continue to be high and the private sector will remain a contentious force within society.

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**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

Chapter three
**Local business as connectors: rebuilding
relationships across conflict divides***

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Chapter three

Local business as connectors: rebuilding relationships across conflict divides

“Relationship is the basis of both the conflict and its long-term solution.”¹

For violence to end and co-existence to become re-established, it is necessary – but not sufficient – for armed actors to come to a formal peace agreement. Sustainable peace has to grow slowly and regain its roots in communities that have been divided and traumatised as a result of violence.² Achieving peace is a process that needs to take account of deep-seated fears, prejudices and the rejection of the other side as the ‘enemy’. This process, which looks at the relational dimension of peacebuilding, seeks to foster peaceful relationships and mutual confidence.³ The focus is not on a single outcome or point in time, such as a peace agreement, but on a process – the way peace is conceptualised, negotiated and implemented at all levels – that involves inter-linking efforts, evolution and adaptation over the long term.

Elsewhere in this book, peacebuilding is presented as a multi-faceted, multi-layered effort that needs to address cause-and-effect factors in the security, economic, political and reconciliation spheres. Relational dimensions sit squarely in the reconciliation sphere, but it is clear that, though they can be distinguished from other, more structural aspects, tackling conflict requires understanding and integrated efforts to address all of its factors. Where structural injustice works to the benefit of one group in society, severely disadvantaging another, no amount of relationship building will be adequate as a response to the conflict between them; underlying inequities need to be explored with mutually satisfactory outcomes. Similarly, it is unlikely that any progress in the economic, security or political spheres will be lasting without rebuilding war-torn relationships over time.⁴

This chapter presents some of the ways in which local business communities have acted as ‘connectors’ across conflict divides. It draws on examples in Section 2 from Bosnia, Cyprus, Israel/Palestine, Nepal, Northern Ireland, the Philippines, Sierra Leone, Somalia, Sri Lanka and South Caucasus. An exhaustive account of the slow and complex processes used to assist divided communities in strengthening relationships is beyond the scope of this chapter; it focuses instead on those that emerge from the case-study material.

Two categories of business participation emerge from the studies: participation in dialogue processes and participation in economic activities that strengthen peaceful transactions between divided communities. As will become clear, these two categories are not completely distinct and many initiatives contain elements of both, with differing degrees of emphasis. The second area is discussed in more detail in Chapter 2; this chapter examines the relational gains that can be made through joint activities. It is hoped that the examples given will provide inspiration for further engagement.

Before presenting the business experiences, this chapter will explore some issues involved in the relational dimensions of peacebuilding, including the actors that have a part to play at different levels and the context in which these initiatives take place.

The impact of violent conflict on relationships

It is widely recognised that violent conflict destroys the ‘social fabric’ of communities. What does this mean? As one study puts it: “Relationships involve the whole fabric of interaction within the society in which conflict takes place, as well as beyond to other societies ... these relational aspects of conflict are crucial. Poor relationships between groups are all too often a trigger for conflict and remain a critical hindrance to peacebuilding efforts after the violence is over.”⁵

Hostility and physical violence are the more obvious manifestations of conflict and division between groups, but inequalities embedded in a society’s structures and institutions (called ‘structural violence’) also hinder peaceful relationships.⁶ Socio-economic and political structures may keep one group at a disadvantage vis-à-vis another by denying them access to certain jobs – as with the Dalits in Nepal (as discussed in the country report in Section 2) – or to land, or by imposing restrictions on movement and access to markets (see the Israel/Palestine case study). The potential for more open hostility is always present in such societies and needs to be addressed by tackling the structural issues directly (for instance, discrimination in the legal system and education, or access to economic opportunities), as well as by strengthening peaceful relationships between communities.

In what ways are social relationships damaged by structural and open violence, and what kinds of relationships are likely to lead to conflict, rather than peaceful co-existence?⁷ At the least, conflict can lead communities to avoid one other and unjust structures are divisive. In the extreme, communities become segregated to the point where internal divisions are reflected in the re-drawing of territorial boundaries (Bosnia Herzegovina, Georgia/Azerbaijan and Israel/Palestine are cases in point). With reduced social, cultural, economic and political interaction, further space is created for prejudice and mistrust to develop, shored up by anger or fear of ‘the other’. These attitudes are easily manipulated for political ends by media and leaders, feeding into a cycle of violence that widens by sucking in new actors and intensifies by affecting more victims.⁸ Where issues may once have been dealt with calmly, the resort to violence sets a precedent, silencing peaceful dialogue and interaction, and shrinking the space for people to express opposition to violence. Hostility and mistrust become the norm.

Re-opening channels of communication and interaction is therefore crucial in several ways: it reasserts a shared humanity; challenges prejudices and forces opponents to consider ‘the other side of the story’; shows individuals that violence is not the only means of addressing conflict issues; creates opportunities to address structural issues; and gives space to those who want to effect peaceful change.

Achieving change through relationship building

Experience shows that by bringing people together, whether through dialogue or joint activities, some of the changes necessary for resolving conflicts can occur at three connected levels: personal transformation, transformation of relationships at the group level and transformation of the wider conflict context.

Personal transformation

Through sustained peaceful interaction with ‘the other side’, individuals increase their understanding both of the other’s perspective, and their own assumptions and prejudices. In the long run, this affects the way individuals relate to one other and behave in the conflict context. Through long-term contact and joint experiences people can regain confidence and trust in each other.⁹

There is a strong element of such personal transformation in the cases discussed in this chapter. Participants at the initial meetings of the Business for Peace Alliance in Sri Lanka, an island-wide network of Chambers of Commerce from Tamil as well as Sinhalese areas, vividly recall their suspicions of one another, their perceptions of insecurity and how their relationships changed over time.

The Business for Peace Alliance – building relationships

The Business for Peace Alliance (BPA) was founded in November 2002 with support from International Alert and the UNDP. The BPA is a working group of business members from the 17 regional chambers of commerce representing all Sri Lanka's provinces and ethnic business communities. Its objectives are to support reconciliation, business-to-business relationships across the ethnic divide and regional inclusion in the peace process.

It emerged from a lengthy process of consultation with individual chambers, identification of appropriate individuals and trust building among the participants. "We had no business or personal connections with the south during the war," recalled one northern member at the first meeting. "The north sat on one side and the south on the other. We were a bit suspicious. There was a little friendship over tea, but we ate lunch separately. In those two days, we met many southerners. But soon after we became friends. It was a real experience for us and the first time we started moving with southerners." Another member described how initial prejudices were slowly overcome and commonalities established. "It took time to understand each other's experiences. We had the feeling that they were terrorists. Their appearance intimidated us. There was a feeling of anger that these people had caused such devastation ... but then we found that we could sit and talk with them. Within seconds, we realised there were common problems."

Regular bi-monthly meetings facilitated by Alert and UNDP, combined with visits of each other's chambers across Sri Lanka, created a strong spirit of fellowship that is already a significant achievement. Ongoing ideas for joint ventures and technology-transfer programmes between regional chambers are indications that new relationship structures are being nurtured between northern and southern businesses, without interference from Colombo. In addition, strong friendships and levels of trust have been built across the group at a personal level.

More spontaneous manifestations of relationship building through trade in market spaces are described in the case studies in Section 2, with traders from Arizona market in Bosnia, and Sadakhlo and Ergneti markets in South Caucasus relating how the interaction changed their perceptions of the other side. In the words of one trader at Ergneti, where Georgians and Ossetians maintained trade relations despite a political blockade: "People seemed to have put aside the violence, and traded and interacted in a friendly way, regardless of ethnic origin."

Transforming relationships within and between groups

By their nature, dialogue and joint activities involve only a relatively small group of people at any one time. These experiences can be repeated, however, and the individual learning shared by word of mouth or expanded to include larger numbers of people through a network. A critical area of transformation occurs when the individuals involved in dialogue or joint activities crystallise into a *group* with shared vision and opinions.

The discovery of common ground generates a fundamental shift in group perception: an exclusive ‘them’ and ‘us’, derived from previous opposed positions, is gradually replaced through sustained engagement with a more inclusive, common identity based on shared interests and needs. Joint business activity and dialogue across conflict divides can help to change group interactions and generate new identities – for instance, from two sides of a conflict who nevertheless trade together in the same market place – vis-à-vis the majority of their societies, who do not.

Transforming the wider conflict context

The impacts that these interactions have at the individual and group levels are significant, but they can occur without influencing the wider political progress towards peace. “Peacebuilding efforts that focus on building relationships and trust across conflict lines, increasing tolerance, increasing hope that peace is possible often produce dramatic transformations in attitudes, perceptions and trust. But evidence shows that impacts for the broader peace are more significant if these personal transformations are translated into actions at the socio-political level.”¹⁰

The challenge, therefore, is to channel personal and group transformations in ways that will affect ‘peace writ large’.¹¹ This can happen in a variety of ways. Activities can evolve into visible manifestations of concern for peace, including through groups addressing a structural issue they have identified as unpinning the conflict. Dialogue initiatives that lead to creative solutions by the group involved, and which the official negotiating parties later adopt, are another example. Or, participants may simply decide to publicise their involvement in a dialogue initiative in order to modify or influence public opinion.¹² The creation of new networks, organisations or institutions with a peacebuilding focus is another way the wider context can be affected, further strengthening the broader peace constituency.¹³

Joint activities constitute concrete effort to affect the wider context in particular when they address specific conflict issues and/or seek to generate ‘peace dividends’ for society in order to mobilise support for peace. For example, businesses from both sides of a conflict set up a joint venture to generate both symbolic and economic

value, or an organisation brokers business activities across the divide precisely to demonstrate the viability and necessity of peaceful economic relations – as illustrated by the work done with Israeli and Palestinian businesspeople by the Peres Center for Peace. Businesspeople involved in such activities can also actively lobby government to reform governance or legal frameworks that are both obstacles to business, and at the same time symptomatic of the conflict, as discussed in Chapter 2.

There are several examples of relationship-building exercises that have had an impact on the wider context and on prospects for durable peace. Sri Lanka's Business for Peace Alliance, mentioned above for its purely relational dimensions, is one.

The Business for Peace Alliance – practical efforts to influence the conflict context

The BPA has convened 12 times at different locations throughout the country and launched a series of projects that combine private sector interests with peacebuilding:

- Business exchange visits between chambers in the rest of the country and the Jaffna Chamber of Commerce. The visits are intended to create cross-regional economic activity, as well as community and inter-personal understanding.
- Peace visits designed to replicate the reconciliation and cooperation that the BPA has provided to its own members. The BPA acts as a coordinator for members of regional chambers who wish to make business and peace visits to other areas of the island. The visits always contain a business dimension, such as finding sectoral matching for investors, suppliers or distributors, but they also promote understanding and reconciliation.
- Training workshops focusing on topics such as communication and presentation skills, peacebuilding and corporate social responsibility
- Coordination of the production of a directory of regional businesses that was distributed by the BPA in 2004, in conjunction with the Colombo Chambers of Commerce and the Federation of Chambers of Commerce and Industry Sri Lanka
- Acting as coordinators for local dialogue in the north and east that will identify economic and social development issues for the two regions
- Establishing a 'peace bridge', an inter-regional trade and investment fair, promoting peace, and including contextual sharing of food, music and cultural items
- In response to the tsunami, BPA member chambers supported district coordinators in meeting local populations and communicating their needs to those responsible for planning and reconstruction.

Similarly, the Turkish-Armenian Business Development Council (TABDC), created by a Turkish and an Armenian businessman, seeks to facilitate dialogue, business connections and cultural exchanges between the business communities of two countries that have no official diplomatic, political or economic ties. The TABDC seeks to influence the wider context as part of its wider strategy.

Business groups from two sides of a conflict have also tried to impact on public opinion by making joint media statements to influence the debate about the need for peace, as was done by the Brussels Business Group of Greek and Turkish Cypriot business leaders during their three-year dialogue initiative.

While the effect of such interventions is incremental, they point towards the potential of linking the different levels of relational transformation – personal, group and context – in order to work holistically towards peace. The following two sections present in greater detail experiences of businesspeople contributing to the relational dimension of peacebuilding through dialogue and through joint business activity across conflict divides.

Businesses strengthening relationships through dialogue

What is dialogue, and what is it for?

In peace practice, dialogue is defined as “deliberate, arranged conversations across conflict lines organised and often facilitated by peace agencies or individuals. Dialogue provides opportunities (meetings, structures, processes, ‘space’) for direct contact and communication between people on opposing sides of conflict.”¹⁴ In emphasising ‘listening, learning and the development of shared understandings’ between ‘enemies’,¹⁵ dialogue contributes in important ways to rebuilding relationships across conflict divides. It can take the form of one-off events, such as a confidential meeting or public conference but, reflecting the complexity of most conflict contexts, dialogue usually takes the form of a series of meetings between selected participants over many months or years.

Dialogue initiatives can evolve over time from an initial focus on meeting, talking, building trust and so on to more ambitious goals, such as jointly analysing and trying to solve shared problems (finding ‘common ground’), and planning and implementing joint activities.¹⁶ In Georgia and Abkhazia, what began as unorganised meetings and communications to maintain relationships between businesspeople on either side led to a joint trip to a trade fair in Istanbul and, from that, to a more structured dialogue initiative aimed at analysing shared problems (trade blockades and the lack of economic integration) and the initiation of a process of developing joint solutions (see below).

Dialogue can take place across conflict lines or involve different groups from one society, such as hardliners and moderates, or different sectors. As well as ‘horizontal’ dialogue between individuals at the same level, ‘vertical’ dialogue between grassroots, middle and high-level leaders is also valuable. By inviting individuals with common identities, roles or problems regarding a conflict (for example, youth, women and academics), participants may be able to identify issues of shared concern, and empathise with and understand one other better.

Ideally, participants should be ‘well networked’, enabling the effects of the encounter to be multiplied and its key messages passed along. Businesspeople tend to be well-networked individuals, both as a group (through business associations and clubs) and also with regard to other groups, including politicians.

Some dialogue initiatives specifically involve individuals who are opinion makers and/or leaders in their communities. Businesspeople have a distinct role to play here, as is evident from several of the cases reviewed below. Businesspeople used their position as community leaders to influence opinion and urge dialogue in Northern Ireland where, before the signature of the Good Friday Agreement, the Group of Seven lobby group circulated a letter to employees urging them to recognise the need to move away from sectarianism and towards peaceful settlement of the conflict.

Other initiatives target individuals with access to, and influence over, political actors in Track I processes. This was the rationale for bringing together the business communities from divided Cyprus with influence over their respective political leaderships.

Depending on the point in a conflict when dialogue takes place (for instance before, during, or after Track I negotiations), it will naturally have differing aims and impacts.¹⁷ Establishing peaceful dialogue in the midst of, or at the onset of, violence, for example, sends an important peace message, reaffirms mutual recognition and may provide the momentum for initiating a Track I process. During negotiations, unofficial dialogue can help address the problems encountered at the official level and propose solutions in the form of joint recommendations. Dialogue at this point can also help to demonstrate public support for the peace process and put pressure on political actors to maintain momentum. As argued above, dialogue is instrumental in rebuilding relationships and reconciling different groups after a peace settlement.

Types of dialogue involving the business community

‘Business-focused’

The examples in Section 2 show that business involvement in two distinct types of dialogue: either focusing primarily on businesspeople or business-related issues, as in Abkhazia/Georgia, Cyprus and Sri Lanka; or as part of a broader, more socially

diverse group. Successful dialogues sustained over time often evolve both in focus and membership as their agenda, and the context around them, shift.

One advantage of starting with a ‘business-focused’ dialogue is that the participants come together through shared identities (as businesspeople affected by conflict), mentalities (pragmatism and ‘business sense’), interests (doing more business) and, to some degree, through language (‘talking shop’ with the other side), providing fertile ground for fostering cross-conflict relationships. The cases show that businesspeople from opposing sides often find themselves to share the same challenges vis-à-vis conflict, which facilitate the emergence of a shared agenda and strategies. The description of the BPA in Sri Lanka shows this in practice, as does the box below on Abkhazia/Georgia.

Abkhaz and Georgians talking business and peace

In 2002, UK-based peacebuilding NGO Conciliation Resources (CR) organised a series of study visits to London for Georgian and Abkhaz politicians, businesspeople, officials and civic figures to understand the experience of Northern Ireland. The first, for those engaged in the economic sphere, explored the ways that economic and business impacts on a peace process can contribute to the dynamics of conflict transformation.

After the visit, one participant – an ethnic Georgian factory director in pre-war Abkhazia who had been displaced to Georgia – made efforts to keep in touch with the Abkhaz participants. He asked CR to facilitate a further meeting in Gal/i. An informal meeting was arranged under CR’s auspices, although the NGO was not actually present.

Maintaining relations, and discussing issues and options were considered more important than putting any concrete business proposals on the table at this meeting. One practical outcome of the meeting was a joint visit to a trade fair in Istanbul in May 2004, with the support of a group of Turkish businesspeople. The initiative came from the Georgian and Abkhaz interlocutors, but CR issued the invitations, liaised with the relevant authorities, arranged travel with UN assistance and co-funded the trip with the British Embassy in Georgia.

Regular communication and interactive analysis of the opportunities for building bridges between the two private sectors was a challenge for Georgians and Abkhaz alike. All agreed it would be useful to convene a meeting in Moscow in September 2005 as a means of considering ways to move forward. CR felt it was important to link this process to International Alert’s work on business and conflict in the South Caucasus. The meeting was designed to

explore the challenges and opportunities involved in economic cooperation within a context that circumscribes the room for legal economic endeavour.

In Moscow, the mixed group of businesspeople, officials and politicians came to the joint conclusion that, with the political process deadlocked, cooperation between businesspeople presented an opportunity to change the dynamic. In the view of some participants, operating a parallel, economic approach could help unlock the political stalemate. Despite the legacy of war, a number of factors provided encouragement for economic cooperation, such as the lower transport costs of working directly with those in close geographic proximity, as well as evidence of shared attitudes.

The most obstructive impediments from the participants' perspective were groups who benefit from the current *status quo* through smuggling illegal and legal goods, the prevalent atmosphere of political deadlock, lack of public optimism and the tendency of politicians to engage in war rhetoric that reinforces public insecurity.

Though the meeting was not framed with a 'problem-solving' agenda, participants made suggestions that could empower local businesspeople for future engagement, many of which reflected a willingness to think both jointly and creatively.

'Mixed'

The examples of 'mixed dialogue' contained in the case-study material describe businesspeople brought together with others as a cross-sectoral group of opinion makers and community leaders – sometimes only from one side – to garner support for a particular issue. The Somalia country report in Section 2 describes how the business community is perceived as a key actor in a range of political, social and economic issues, including security, and its consequent involvement in various cross-sectoral dialogue initiatives to tackle specific issues.

Business participation in the Mogadishu Security and Stabilisation Initiative

After the formation of the Transitional Federal Government (TFG) in late 2004 and as part of local efforts to stabilise Mogadishu, the Somali peacebuilding NGO, Centre for Research and Dialogue (CRD), convened a day-long meeting of opinion makers in Mogadishu in June 2005. The 72 participants included former presidents Ali Mahdi and Abdiqassim, high-level politicians, religious leaders, civic and women's groups, the media, as

well as nine members of the Somalia business community. The aim was to advance a plan of action for the Mogadishu Security and Stabilisation Initiative (MSSI), and generate consensus and endorsement for the initiative by the broad-based group. Live broadcasts on radio ensured a high degree of public awareness.

The meeting agreed to clear all roadblocks with immediate effect. The following day, with the participation of the civic movement, all checkpoints were dismantled or circumvented. Funds were mobilised from the local community, the business sector and diaspora to support the encampment and training of 2,000 militia in two locations outside the city, together with the cantonment of 100 heavy weapons.

In August 2005, CRD was asked to provide technical assistance at a follow-up meeting attended by 25 representatives of the business sector, the Islamic courts, civil society and the TFG. Discussions focused on continuing support for the militia in cantonment camps, the removal of the remaining checkpoints and the establishment of a regional administration through a broadly participative process. Though sustaining momentum with these goals has proved challenging in the context, continuing talks were recognised as essential to progress.

Joint training or study trips can have an indirect relationship-building effect, strengthening a network of like-minded individuals within a divided society. Exposure to such activities in two cases led businesspeople to take the issues forward in their own sphere of influence. In the Georgia-Abkhazia case, a study trip to Europe led the Georgian factory owner to approach CR to facilitate a dialogue between Georgian and Abkhaz businesspeople. Similarly, a training seminar by the Swiss Development Cooperation (SDC) for members of different sectors of Nepalese society gave participants the opportunity to explore together their own context. This informal dialogue ultimately led to the creation of the National Business Initiative.

Unexpected outcomes from cross-sectoral dialogue on conflict – a Nepalese businessman’s account

“In February 2003, I was invited by SDC to join a group of 25 people in Switzerland for a seminar on ‘Conflict Resolution and Peacebuilding in Multicultural Societies’. The group contained representatives from all political parties, civil society, two Maoists and two, including me, from business. We spent one week in retreat in a village. The lessons from the experience and knowledge of the resource persons, presentations on Jura Canton and South Africa, and a conceptual framework for analysing and

resolving conflicts, were all presented as inputs in looking at the Nepalese conflict in a proper perspective. On the final day, we decided to have a closed-door session only among the Nepalese participants. This was a satisfying end to a good programme. I was very encouraged by the spirit of friendly consensus in this meeting. The group asked me, a representative from business, to draft a statement on their behalf. To my surprise I found that the statement was accepted unanimously by the group with very few changes. This planted a hope in my mind that perhaps the business community can play a useful role in conflict resolution.”¹⁸

The advantage of ‘mixed’ dialogues is that the dialogue is as diverse as the society it reflects, and the suggestions or agreements emerging from the process will reflect broader input and legitimacy. Through the process, business links up with a wider range of social actors and has to take account of ‘non-business’ concerns and views. Such encounters have the added benefit of illustrating to business participants the variety of actors working for peace in their own communities, and making them more inclined to work with a broader coalition.

On the other hand, such multi-sectoral initiatives can be slow and common ground less easy to find. Businesspeople used to an efficient *modus operandi* may find participation frustrating. Some businesspeople involved in Somalia’s MSSSI, for example, voiced frustration at the initiative’s lack of progress or clear leadership. There is therefore a need to be clear in the agenda about purpose, planning and progression.

Working to scale – different sizes of business get involved

Dialogue involving big business

As mentioned above, dialogue between influential members of societies with access to political leadership can serve to provide input into, and pressure on, Track I peace processes. External actors – especially different members of the international community – often initiate such processes, ensuring the participation of national business leaders in order to in turn secure their support of peace agreement implementation. The emphasis is thus often less on immediate pragmatic requirements. Many of the relevant cases are discussed in more detail in Chapter 1.

The 1997 initiative by Richard Holbrooke, then US Special Envoy to Cyprus, and the International Peace Research Institute Oslo to bring together Greek and Turkish Cypriot business leaders explicitly combined relationship building with more pragmatic objectives. The goal was to shore up business support for a negotiated settlement by exploring with invited representatives the economic benefits that a

peace agreement could bring, as well as influencing public support for peaceful settlement. As described below, the opportunities offered by high-level business participation in such dialogue initiatives have to be carefully weighed against their loyalty to political elites, which can serve work against dialogue objectives.

The Brussels Business Group – mobilising business to influence political agendas

Richard Holbrooke and International Peace Research Institute Oslo (PRIO) created an opportunity for 32 Greek and Turkish Cypriots with high standing in business, politics and the public sphere to begin discussions around issues of shared concern pertaining to the Cyprus conflict. The international community demonstrated its support by involving the EU Special Envoy to Cyprus, as well as ambassadors and former foreign ministers.

After exploratory meetings, it became clear that the group wanted to continue and it requested help from a PRIO facilitator for regular meetings. What became known as the Brussels Business Group (BBG) made joint statements to the media and political leaders through Richard Holbrooke. These contained sentiments of good will towards a settlement that all could accept, with more focused remarks about particular cooperation projects without specific commitments. The statements became highly influential in the Turkish Cypriot community and strengthened the pro-settlement political group in the north. One of the group's other aims was to propose areas for confidence building involving businesspeople that were feasible in the absence of a political settlement, and could prepare the ground for solutions.

Paradoxically, the underlying rationale of bringing together individuals with close relations to political elites on both sides was also one of the initiative's main challenges: for most, business success depended on ensuring good relationships with the authorities. Participants in the process supported the long-term goal of a peaceful settlement, but could not afford short-term risks and were highly conscious of political suspicions surrounding the initiative. As a result, many participants' political positions were closely aligned with their governments', making them less open to creative solutions.

Despite its dissolution in 2002, the BBG achieved several things: its outreach was effective and its statements informed public debate. An important element of its work was symbolic in that it brought together prominent businesspeople and encouraged other bi-communal groups. From the relational perspective, contacts between individual participants are still strong and several former members are active in similar initiatives.

Dialogue involving small and medium-sized enterprises

Small and medium-sized enterprises (SMEs) can be important leaders with connections both to the ‘grassroots’ in the communities where they operate and through their employees, as well as upwards to political and other decision makers. Most cases in Section 2 show how, due to size and exposure, SMEs are particularly hit by conflict and may often share common challenges. Encounters between SME entrepreneurs offer fertile territory for reaching across dividing lines and building relationships based on shared concerns and ways of tackling problems.

The BPA in Sri Lanka is one example. BPA members are influential in the regions where they operate, and have access to politicians, officials, international organisations and other decision makers. They also have connections with the conflicting parties. The evolution of the BPA provides evidence that building relationships requires time and the sustained involvement of participants and facilitators. Its first meeting was preceded by lengthy background work by facilitators travelling across Sri Lanka to meet with participants, and to prepare them for the process. Initial mistrust was overcome as the group developed relationships and trust.

Maintaining momentum is essential if an initiative is to develop into more than a single encounter. Comparative research on dialogue initiatives shows that participants become frustrated if organisers do not build on the enthusiasm generated by their initial meetings.¹⁹ In the BPA case, momentum was sustained by regular, bi-monthly meetings facilitated by Alert and UNDP, which resulted in the creation of a permanent, island-wide network of chambers of commerce.

Members’ recognition of the shared ground that existed between them also contributed to their relationships gaining traction. Many felt remote from policy makers in Colombo. In response, the BPA evolved a programme of regional dialogues to feed information and local concerns to decision makers in the capital. For example, the group lobbied Colombo to ensure that the sole motorway leading to LTTE-held areas, a lifeline for the local economy, remained open longer in the evenings.

In Georgia and Abkhazia, SMEs’ shared concerns include closed borders, competition with smugglers and the absence of a legal framework for economic cooperation, leading participants in the first dialogue to discuss solutions to their joint problems. While this particular dialogue is at an early stage and faces challenges in how to progress it further, the participants’ suggestions and the follow-up joint trip to a trade fair were evidence of longer term commitment.

Grassroots dialogue and joint economic activity for interpersonal reconciliation

The *Dushirehamwe* women’s network of Hutu and Tutsi women in Burundi illustrates how community-level dialogue can create meeting spaces for communities

that have grown apart through conflict in a bid to foster personal encounters and strengthen human relations.²⁰

This network, spanning various grassroots initiatives by individual female, conflict-resolution trainers, underwent a natural evolution from dialogue and conflict resolution-centred encounters to joint economic activities after the organisers realised that reconciliation would be incomplete without addressing one of the participants' most urgent problems – securing livelihoods. Addressing the issue of livelihoods was facilitated by the fact that many *Dushirehamwe* groups bring together individuals working in the same sector, such as beekeepers, cattle herders and craft workers.

Dushirehamwe established farming cooperatives, achieving economies of scale through the joint production and sale of agricultural products. But these activities were not conducted solely for economic and market motives: *Dushirehamwe* used the benefits to extend the chains of community solidarity beyond the core groups by donating cattle, sheep and seeds to others in need.

This approach created a virtuous cycle in which the joint activities ensured participants a decent living from sales of produce and strengthened in turn their relationships with others. “The various economic activities carried out by different groups serve shared interests and reinforce the cohesion between different ethnic groups. The groups also offer forums in which members can freely express their concerns. In this way people are able to see beyond the stereotypes formerly attached to members of different ethnic groups, leading to greater mutual acceptance. It becomes difficult for external political forces to manipulate and divide people along ethnic lines when they already share a common interest.”²¹ Therefore, what began as a grassroots, dialogue initiative evolved to address the participants' immediate economic needs.

Lessons emerging from business participation in dialogue

Several lessons emerge from the studies, and these reflect the issues and concerns raised about dialogue initiatives more broadly.

Participation

The BBG experience in Cyprus demonstrates that choice of participants is a crucial element in a successful dialogue. Tension may arise between balancing access to political players and participants' willingness to take political risks. Convenors should try not only to involve ‘moderates’, though meetings of moderates from both sides can result in innovative ideas. Problems may arise from involving hardliners who may be closer to conflict actors. The ideal balance seems to consist in involving ‘neither the

softest doves nor the harshest hawks'.²² Some recommendations are available for the gradual inclusion of hardliners, for instance by first involving them in bilateral meetings to explore their positions and agendas.²³

Dialogue initiatives can inadvertently emphasise a division between 'insiders' and 'outsiders', de-legitimising those who do not directly participate.²⁴ The BPA's broad and inclusive approach in Sri Lanka is a good model, although even here the relationship between the group and the network of chambers of commerce from which its members are drawn is an issue that the BPA strives to define to the satisfaction of all stakeholders.

Where there are significant power or capacity differentials between the two sides, the format of the dialogue may not be viable, if the participants are unable to talk to one another as equals.²⁵ Other activities may be necessary to complement the dialogue, or to pave the way toward it. Examples in the final sections of this chapter point to possible ways forward in this regard.

Moving from 'talking' to 'doing'

Dialogue is likely to reach a dead end if it does not lead to action, generating frustration among participants who have invested time and effort, and leading to an eventual loss of commitment. Where excessive emphasis is placed on talking, rather than doing, people – especially businesspeople – may experience 'dialogue fatigue', or suspect that talk has displaced action on the structural issues of conflict that require urgent attention.²⁶ This was the case with the BBG when participants had ideas for concrete activities, but were unable to put them into effect due to the political context and lack of group cohesion.

At the time of writing, the Georgia/Abkhazia dialogue is at a critical stage because, despite an eagerness to combine talking with doing, there is doubt as to whether politicians will adopt the group's suggestions, or if the group will be able to sustain its focus. The BPA managed to put together a programme of activities that addresses the dimensions of peacebuilding listed above and works hard to implement them, despite challenges and frustration with the slow pace of action.

Duration, logistics and external facilitation

The timeframe for dialogue initiatives is important. Depending on the purpose of a dialogue, groups may come together for a limited period of time and be dissolved after a primary objective has been attained (such as developing recommendations for a particular conflict-related problem); or external circumstances change, and either prohibit or no longer require the group's continued existence. In general, it is fair to say that any dialogue that targets the relational dimensions of peacebuilding has to be continued over a sustained period of time until it is transformed into something durable, such as self-sustaining relationships, a network or an organisation. The BPA managed to

achieve this but, in the Georgia/Abkhazia case, external facilitation was required to assist with logistics, administration and the organisation of meetings in third countries. Practical considerations are important since holding events across conflict borders can be prohibitive for participants. In the four cases examined – the *Dushirehamwe* network, the BPA, the Georgian/Abkhaz dialogue and the BBG – initial contacts and progress were only made possible by external financial assistance.²⁷ In most cases, the role of an external facilitator or facilitating organisation is initially crucial.

Joint business activity across conflict divides

Continuing contacts and shared stakes in joint business activities are an important factor in normalising relationships and peaceful encounters in the midst of violent conflict. Such contacts mean that individuals continue to encounter one other and interact as business partners, colleagues and friends, which goes a long way towards countering negative group stereotypes.

Joint business activity has the additional benefit that it generates livelihoods in difficult times. Two basic motivating factors for collaboration emerge in the case-study material. Some activities come about because they are profitable for both sides and support their participants' ability to cope in the midst or aftermath of conflict. Such economic interactions can provide platforms on which to construct further peacebuilding, though this is not always the case. Secondly, there are joint economic initiatives that were deliberately set up to foster peaceful relations.

This distinction is not clear-cut: contacts established out of economic necessity can lead to personal and group transformations, potentially strengthening the peace constituency if there are channels to voice their support for peace (as argued in the South Caucasus regional report). On the other hand, the underlying rationale for setting up collaborative business structures across conflict divides to foster peaceful relations is often to demonstrate precisely potential peace dividends and viability of economic integration, as reflected in the work of the TABDC and the Peres Center for Peace.

The distinction is useful for several reasons. Firstly, doing business, while addressing socio-economic needs, may not translate into wider change; sometimes it may entrench the status quo. Secondly, structures set up specifically to promote peaceful relationships are more likely to develop into activities that address conflict issues related to the business and economic spheres, which purely 'doing business' cannot achieve. For instance, the Center for Jewish-Arab Economic Development in Israel works to integrate the Arab Israeli population into the Jewish Israeli economy by fostering Arab entrepreneurship, and by providing access to training and credit that are not available to Arab entrepreneurs in the current climate.

As with dialogue initiatives, the key question is whether, and how, practical joint activities can concretely contribute to peace. While impacts cannot be traced in a straightforward, causal manner from a single activity to the wider peace, a discussion of various examples below will highlight this question in each case, focusing on relational dimensions.

Business and economic activities as ‘connectors’

The primary motive for business to do business is not to foster good human relations. When business decides to continue or re-establish trade ‘with the enemy’, it is because it makes business sense to do so, or is the only way to secure a living.

From a peacebuilding perspective, continuing linkages across conflict divides by a range of actors are described as ‘connectors’ – spaces or activities that bring people together for peaceful interaction despite divisions and violence. Connectors can be contrasted with ‘dividers’, i.e. behaviour, attitudes and structures that keep conflicting sides apart. “Markets, infrastructure, common experiences, historical events, symbols, shared attitudes, formal and informal associations; all of these continue to provide continuity with non-war life and with former colleagues and co-workers now alienated through conflict.”²⁸

It is apparent from a number of the case studies that market spaces, usually informal and created spontaneously on borders between two parties to a conflict, play a vital role by providing ‘neutral spaces’ that require predictable and trustworthy behaviour from all participants if they are to continue to interact and reap the benefits. Some case studies suggest that these continuing relationships have ‘normalising’ effects on the individuals involved and extend to interaction in other areas over time (for instance, joining in the other’s family celebrations etc). One trader, quoted in the Nigeria case study, states this pointedly when referring to rival ethnic groups working in the same market: “The Igbos and Hausas in this market are one – they are all eating from the same pot. We are one family.”

Similar sentiments are expressed at markets in the South Caucasus that are some of the very few places where individuals from opposing sides of the different conflicts in the region can meet: Azeris and Armenians in the ‘no-man’s-land’ in Georgia that until recently housed Sadakhlo market, for example; and Georgian and South Ossetian traders who used to do business at Ergneti market in the border region between the two entities. These commercial interactions change perceptions of what the conflicts are about “The conflict is not really between Armenia and Azerbaijan, but between a class of people who gain and a class of people who lose,” observed one Sadakhlo trader.

How these ‘connectors’ impact on the wider conflict and how participants act outside the market space need to be determined through further research on a case-by-case basis. Since they are not part of a formal and explicit peacebuilding effort, the sustainability of these ‘side-effects’ is not guaranteed. Such markets are often linked to other, more negative trading activities that sustain conflict in different ways. The opportunities they provide for building and extending peaceful relationships between divided communities have to be understood in all their complexity.

In some instances, authorities recognise the positive dimensions of trade across conflict divides and have formalised spontaneous structures, as in Arizona market in Bosnia Herzegovina. However, official regulation is often not appreciated by those engaged in informal activities, especially when it is perceived as bringing costs and no real benefits. In other cases, authorities perceive the informal nature of such markets and their occasional overlap with illicit activity as overwhelmingly negative, leading to closure and the impoverishment of those who once depended on them.

Joint projects designed to promote peace

Joint projects usually take place at the local level and are designed to bring together participants across dividing lines with the aim of providing a space for individuals to ‘encounter one another in a conflict-free zone of cooperation’.²⁹ The expectation is that better relationships will be rebuilt through shared initiatives that demonstrate the possibility of peaceful cooperation and offer tangible benefits to all sides.

Where it is difficult for such joint projects to come about spontaneously due to lack of access, communication, information or continuing mistrust, a third party may be better placed to provide the framework for initiating and carrying them out.

The NGO Mercy Corps conducted a series of projects in Kosovo from 2000-02 with the aim of promoting peaceful co-existence based on economic interaction and mutual benefit. The projects addressed one of the main impacts of conflict in Kosovo – the sharp drop in business linkages across ethnic divides. Mercy Corps integrated dialogue dimensions into its development work with Kosovar businesses in what it called ‘dialogue-rich social and economic development’. All initiatives were staffed either by external conflict-transformation experts or personnel trained in dialogue processes. The activities focused on supporting businesses with multi-ethnic workforces, procurement and business links between ethnic groups; and events that brought together individuals engaged in similar activities, as well as in upstream and downstream, supply-and-demand chains.

The mixture of participants in a series of agri-business conferences meant that business contacts were made. By dealing with the threats and opportunities identified in conference discussions, both across ethnic lines and within their own groups, participants developed new strategies for conducting business with one other. For example, transactions were concluded by Kosovar Albanian dairymen to supply milk to Serb cheese manufacturers, and Kosovar Serb and Kosovar Albanian beekeepers came to an agreement by which honey would be marketed under a single, multilingual label. In some sectors, for example dairy, cooperation now exceeds pre-war levels.

The value of bringing people together around business-related joint projects is clear: if the relationship offers advantages to all sides, it is more likely to be sustainable and evolve from a short-to-medium-term 'project' to a continuing relationship between equal partners.

In some of the case-study material, this logic is taken to the regional level in the hope that it will impact on political developments. The Peres Center for Peace in Israel believes that the enhancement of economic cooperation in the region is the key to unlocking the conflict and has developed various initiatives, such as bringing together Egyptian, Israeli, Jordanian and Palestinian professionals from related fields with a view to identifying and promoting solutions to specific problems, and advancing cooperative initiatives. In many instances, it is lack of information about business opportunities on the other side, and lack of meeting spaces and opportunities, that make work difficult at the regional level. Business forums, joint trade fairs and participation in trade fairs abroad can help address these gaps. Another way of facilitating regional business integration is through online business databases and internet platforms, such as the recently established Caucasus Business and Development Network.

The Caucasus Business and Development Network

The Caucasus Business and Development Network (CBDN) is a unique platform for dialogue and information exchange between business communities and other interested parties in the South Caucasus. Geographically, the CBDN covers Armenia, Azerbaijan, Georgia and Turkey, and includes the unrecognised entities of Abkhazia, Nagorny-Karabakh and South Ossetia. In a region where cross-border contact is often forbidden, it promotes economic cooperation as a means of building confidence and peace, and encourages initiatives that have a positive impact on conflict dynamics. In early 2006 the network established a bilingual, Russian/English website. Among other services, it provides users with frequent electronic bulletins on the economies of the region, discussion forums and a business database. It can be accessed at: www.caucasusbusiness.net

Training and capacity building

Beyond doing joint business, the Peres Centre for Peace (PCP) and the Centre for Jewish-Arab Economic Development (CJAED) demonstrate the ways in which business skills training can be used to build relations between businesspeople across conflict lines. In the case of the PCP, this is achieved through a focus on strengthening the capacities of Palestinian businesspeople who would otherwise find it hard to access skills training and business opportunities with Israeli counterparts. The CJAED's Building Business Bridges MBA programme reaches out to young Arab Israeli, Jewish Israeli and Palestinian entrepreneurs through joint studies, with the explicit aim of improving personal bonds between participants and increasing mutual understanding with a view to fostering future joint ventures.

Encouraging business cooperation in the Middle East – training activities of the Peres Center for Peace and the Center for Jewish-Arab Economic Development

The PCP engages in capacity-building programmes and vocational training seminars designed to provide additional skills and know-how to specific business sectors, particularly to the Palestinian private sector. The aim is to decrease the negative economic effects of the recent violence, which has significantly distanced the two private sectors, and to bridge the gap between the economies of the region. Examples include:

Business training courses for SMEs. As a result of the conflict, Palestinian businesspeople have limited opportunities to develop business skills. The PCP runs seminars to enhance the capacities of Palestinian SMEs, which make up one of the largest components of the Palestinian economy. A four-day training programme was held in Tel Aviv for businesspeople from the Bethlehem area that included lectures and workshop sessions on topics such as writing a business plan, micro financing and human resource development. The course served the further purpose of bringing together Palestinian and Israeli businesspeople to forge professional and personal relations.

The CJAED aims to strengthen the entrepreneurial and management skills of young Arab and Israeli professionals in order to promote equal access to management positions. Under the Management Training and Integration focus area, the CJAED carries out the following programmes:

Building Business Bridges MBA. Among the various activities in this field, the Building Business Bridges MBA programme stands out as one of the most interesting. First launched in 1998, the initiative was conceived as a training

programme for Israeli and Palestinian business executives in cross-cultural management, but since 2003 it has evolved into a fully accredited Masters degree in business administration. Taught by the Graduate School of Business at the University of Haifa, the course brings together Israeli, Arab Israeli and Palestinian professionals with the aim of educating a young business leadership committed to furthering the objectives of cross-border partnerships and cooperation in the Middle East. One of the goals of the programme is to create and foster a network of Israeli and Palestinian business leaders with personal bonds, and understanding of one another's cultures and business environments. The programme aims to provide laureates with the inclination, knowledge and tools to engage in joint partnerships and ventures. Parallel with the academic syllabus, students are involved in extra-curricular activities that raise awareness on issues related to the conflict. To date, some 90 students have graduated.

Women's empowerment programmes. CJAED provides Arab Israeli women with support and skills training with the goal of strengthening women entrepreneurs, and allowing them not only to generate income for themselves, their families and communities, but also to employ others. CJAED offers a basket of activities for potential women entrepreneurs. The process begins with training courses, both for individual and group enterprises, after which graduates present their business plans. The next stage is a mentoring service to start-up businesses that emerged as a result of the various CJAED courses. Another aspect of the agency's ongoing support are seven businesswomen networks. Each comprises senior and starter businesswomen who conduct regular meetings, workshops and exposure visits to an array of businesses. Following on the success of the networks, CJAED is now working to establish a National Businesswomen's Network to unify the regional networks and create a strong body to represent businesswomen at the national level. Another important aspect of CJAED's assistance to women entrepreneurs is the Women's Loan Fund, which has so far resulted in the addition of over 90 women to the workforce.

The case-study material provides evidence that joint projects can be initiated without external help or facilitation. Businesspeople have used their own skills and resources to bring people together to strengthen networks or develop joint ventures. Some do it because it makes business sense, while others believe in the importance of building capacity and integrating business ties in the absence of political solutions to local conflicts. In Abkhazia, the Abkhaz Union of Women Entrepreneurs provides start-up funds and training to Georgian Abkhaz micro entrepreneurs in Gal'i, an eastern region of Abkhazia bordering Georgia, whose inhabitants have been left in a vacuum due to the protracted conflict. According to the businesswomen involved, profit is not the primary motive of these initiatives: they are impelled to promote better relations and strengthen ties with marginalised Georgian Abkhaz.

The strength and legitimacy of some of these initiatives derives from their joint creation by individuals from *both* sides of the conflict, as with the Turkish-Armenian TABDC, Sri Lanka's BPA or the Jewish and Arab Israeli CJAED. Others were set up by one side to reach out to the other (for instance the Abkhaz Union of Women Entrepreneurs and Israel's PCP), which requires more careful confidence building if participants from the 'other side' are not to perceive their activities as threatening external interventions. This perception can come about especially in cases where beneficiaries are economically disadvantaged, as is the case for Palestinians and Georgian Abkhaz.

Conclusions

Rebuilding mutual confidence between communities damaged by conflict is one of the key tasks of peacebuilding. As argued in this chapter, the business community has much to contribute to the relational dimensions of peacebuilding through dialogue and joint business activities. Continued business linkages constitute some of the few 'connectors' between divided communities in times of violent conflict.

Several important lessons can be learned from the cases in this volume, both for businesses and others.

Lessons for businesspeople

Understanding the conflict and choosing the right response

Conflicts have relational as well as cause-and-effect dimensions, and peacebuilding efforts need to reflect this. This does not mean that all actors need to work on all aspects of conflict but, as is hopefully clear, the private sector is well placed to identify a role for itself. Business has the strong networking and outreach capacities required to strengthen relationships; its need to 'do business' can lead to contacts with the 'other side'; it has the ability to address structural inequalities, such as access to jobs; and it often has access to policy makers.

Linking levels of transformation

Changes can happen at personal, group and wider levels. While this does not mean that initiatives always achieve changes at all three, awareness of these dimensions can inform peacebuilding approaches. The personal transformation of one businessman in Nepal through exposure to training on peacebuilding provided him with the impetus to seek to transform the wider context by rallying a national business alliance seeking to affect peaceful change.

Acting with patience

A businessperson's mentality often values efficiency and outcomes. Peace, by

contrast, is a complex and ambitious goal, and a marathon mentality may be required before a meaningful contribution can be made. Businesses trying to contribute should not become frustrated or disappointed when direct returns are not immediate. Patience and pragmatism are crucial, as is the ability to be flexible in response to changes in the situation.

Dialogue for what?

There is a multitude of ways in which dialogue can be used for different ends, involving different people. Before engaging in dialogue, questions need to be asked as to what is the ultimate purpose of any given initiative. Is it to effect a change of mind among political decision makers? Is it to reach out to a workforce to raise awareness about conflict issues? Dialogue within the business community, for instance to strengthen business support for a peace process, can be just as important as dialogue across conflict divides.

Work with others

In many conflict situations, suspicion and logistical hurdles make it difficult to reach out to the other side. In many of the cases, businesspeople have benefited from the help of peacebuilding or development practitioners with the ability to bring groups together in safe environments, and to provide continuity in the process.

Not any kind of business

As has been explained, doing business can be a strong and sustainable connector across conflict zones. Businesspeople engaged in it need to ask themselves, however, if it is the right kind of business activity to contribute to peace more broadly. Activities that entrench and build on inequalities do not serve long-term peace objectives. Although they may work as a short-term survival strategy, they need to be carefully assessed to see if they can be adapted to work towards longer-term peacebuilding goals.

Lessons for others engaged in peacebuilding

Including business in analysis and planning

By understanding business activities as one possible connector between divided communities, businesspeople's perspectives of the conflict, and the range of other roles that business can play in supporting peace processes, other actors can draw business actively into peacebuilding efforts.

Exposing businesses to peace-related activities

Sharing peacebuilding ideas with members of the business community and involving them in activities such as study tours are effective ways of mobilising them to become part of a peace constituency.

Providing opportunities for encounter

In many instances divisions run so deep that encounters are almost impossible. External actors can help by providing opportunities for encounters, for instance joint visits to trade fairs, joint training, workshops and conferences.

Clarity of purpose and ways of working

To most businesspeople, the methods and aims of peacebuilding, and the actors and organisations involved in it, will be novel. It is important to be open about the purpose of engagement, as well as the limitations and likely challenges that will be encountered.

Building capacity

Involving businesses in peace-related initiatives requires capacity building. Where there is inequality between the two sides, capacity building has to target the disadvantaged side to ensure that meetings and conversations take place on more equal terms.

Learn from business

Business can bring a lot to a peacebuilding initiative. Entrepreneurs often have a problem-solving orientation, are willing to take risks, can be flexible in responding to opportunities, and are by definition networkers. They will also have grounded perspectives on the conflict that can inform analysis. Others should try to tap into these qualities and learn from them.

Endnotes

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- 2 For more on the psychological damage done to individuals during conflict, see Seymor, C. (2003) 'Social Psychological Dimensions of Conflict' in Burgess, G. and Burgess, H. *Beyond Intractability* (Boulder, US: Conflict Research Consortium).
- 3 See Maiese, M. (2003) 'What it Means to Build a Lasting Peace' in Burgess, G. and Burgess, H. op. cit.
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- 25 Maiese op. cit.
- 26 CDA (2004) op. cit.
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**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

Chapter four
**The role of local business in addressing the
security dimensions of peacebuilding***

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Chapter four

The role of local business in addressing the security dimensions of peacebuilding

Security covers a wide range of issues, including national security (protecting the state from attack), environmental security (security of the natural environment and adequate resources), and human security (people going about daily life without the threat of violence). All of these are important from the peacebuilding perspective, but especially human security – both as an endpoint and as a factor that needs to be addressed throughout the peacebuilding process. Insecurity or feelings of insecurity make armed groups reluctant to give up their weapons, and civilians wary of placing their trust in state security forces. Furthermore, without a secure environment, the rebuilding of social infrastructure and the requirements of development, including the ability to attract economic investment, will not be possible.¹

The private sector is usually acutely aware of the direct link between security and business opportunity. While some local business actors may directly benefit from, and be active parties to insecurity, the majority of the domestic private sector suffers. The security environment directly affects businesses by impacting on their operations, investments and, ultimately, their profits. As much of the case-study material in Section 2 illustrates, businesses can become the targets of extortion due to their access to resources and money. Insecure environments may require the use of security guards and their provision is an additional cost to business. Damage to infrastructure and restricted access to markets pose other challenges. The unpredictability of a conflict environment becomes a further cost as businesses lose the ability to plan or rely on essential capital and social inputs.

The security aspects of peacebuilding are therefore key both to the population at large and the domestic private sector. As part of the affected society, local

businesspeople often share personal as well as professional interests in peace. There is increasing recognition that business has the potential to play a valuable role in security initiatives that take place as part of broader peacebuilding, but there has to date been no substantial research in this area.

This chapter presents an overview of the common current approaches to addressing the security dimensions of peacebuilding. Referring to specific case studies in Section 2, it outlines the activities local business has conducted with the aim of building a more stable environment and promoting a reduction in armed violence; the benefit/cost of becoming involved; as well as its common motivations. Activities include efforts by business to address ‘hard’ security issues, such as the reintegration of ex-combatants and collection of small arms and light weapons, and there is also evidence that business can be a source of early warning regarding the onset of violence and a beacon of calm due to its community contacts and local leadership status. The chapter argues that the scale of private sector involvement in the security sphere has been limited to date, partly because its potential to play a more significant role has not been adequately assessed or planned for by other leading actors.

Establishing a secure environment

A number of key processes are launched in post-conflict settings with the aim of establishing a more secure environment and a reduction in armed violence, ranging from Disarmament, Demobilisation and Reintegration (DDR) programmes for ex-combatants to Small Arms and Light Weapons (SALW) collection, to Security Sector Reform (SSR). International experience highlights that these processes need to be designed and implemented in a coherent and holistic manner, backed by long-term commitment on the part of national and international participating actors, if they are to be successful.

A brief outline of these processes is offered below:

- **Disarmament, Demobilisation and Reintegration.** DDR programmes aim to disarm combatants (who may include men, women, boys and girls) by collecting weapons, demobilising them (disbanding armed units and breaking the command chain), and helping to reintegrate individuals and groups back into the community. As part of the reintegration component, ex-combatants are offered training and education packages with the intention that new skills will help them to make a new life for themselves. Combatants who successfully complete DDR programmes are seen as former/ex-combatants.

While DDR is a crucial aspect of peacebuilding, it can become a source of tension if pledges regarding payments, training and support are broken, or if the

pace of demobilisation and the treatment of different sides to a conflict are uneven. Ex-combatants may become disgruntled and contribute to further insecurity by agitating for a return to conflict, or by joining criminal gangs. Community resentment that ex-combatants are receiving ‘special’ treatment and being rewarded for previous atrocities can also emerge. DDR needs to be carefully managed and community support is vital.

- **Small Arms and Light Weapons collection.** SALW, including revolvers, rifles, sub-machine guns, portable anti-tank weapons and anti-aircraft guns, contribute to the deaths of hundreds of thousands of people each year and cause insecurity in many regions across the world.² The weapons are readily obtainable, cheap, and easy to use and maintain. Unlike other conventional weapons, small arms can be used by a variety of actors, including civilians, private security companies (PSCs), and criminals and youth gangs. They fuel conflict, facilitate the use of child soldiers (being light enough for them to carry) and are used to kill, injure and intimidate civilians. After a war has ended, they are often used for criminal purposes, undermining efforts to build peace, security and development. Removing weapons and addressing the causes of their proliferation are essential to promoting security and creating safer societies.

Weapons collections can be part of DDR programmes, but can also be carried out in other contexts and as ongoing processes. There are a variety of different types of weapons collections, including ‘weapons for development’ whereby communities are rewarded with development projects, depending on the number of weapons handed in. In recent years there has been a general move away from offering individual incentives, whether in cash or kind, towards the provision of communal benefits. The advantages and disadvantages of both approaches are explored later in this chapter.

- **Security Sector Reform.** The security sector in its broadest sense consists of all actors responsible for protecting the state, and the individuals and communities within it. The sector therefore plays a key role in the provision of human security but can, if not functioning properly, have hugely counter-productive impacts, distorting development and fuelling human rights abuses. The creation of a functioning and accountable security sector is a vital step towards ensuring state sovereignty and nation building, as well as the provision of human security. However, SSR projects must balance the need for an effective, professional security sector with demands that it be representative and accountable. SSR requires that respect for human rights and good governance (especially anti-corruption) be kept to the fore, as trust in and respect for the security sector are often low among civilian populations after a conflict.

- **Privatisation of security.** The increasing privatisation of security across different conflict contexts and the effects this trend has on the overall security architecture are often overlooked, with SSR processes traditionally focusing on the state-controlled police, military and intelligence services. Today, PSCs provide police-style security for banks and other buildings; and private military companies (PMCs) offer military services (although usually not in direct combat operations), such as training, equipment, logistics and strategic advice. Jobs in PSCs and PMCs are often offered to ex-combatants for whom other employment may be scarce. In some instances this may negatively impact on security, if companies are insufficiently regulated with few controls on how they operate (which is often the case), increasing the likelihood of human rights abuses and the prevalence of weaponry in the country.

The factors that jeopardise security are widespread and diverse. Furthermore, efforts to establish security often become entangled in a ‘chicken-and-egg’ dilemma: without the provision of security, the elements necessary for the provision of security, such as DDR, SALW collection and SSR, will be difficult to achieve. Implementation of these core security processes is often led by governments, in partnership with international bodies such as the UN and international NGOs. There is, however, substantial potential for the involvement of local businesses in these processes, which this chapter will explore.

Business involvement in initiatives tackling insecurity

“Thriving markets and human security go hand in hand.”

United Nations Secretary General Kofi Annan³

The activities of local businesses are directly affected by the environment in which they operate. While some entrepreneurs profit from the lack of regulation and chaos of conflict, on the whole an insecure environment has a negative impact on business activities. It is therefore in the interests of local businesses to initiate and support initiatives that attempt to tackle insecurity.

DDR processes

Objectives of DDR⁴

- To contribute to security and stability by facilitating reintegration and providing the enabling environment for rehabilitation and recovery to begin
- To restore trust through confidence building among conflicting factions and with the general population

- To help mitigate future violent conflict
- To contribute to national reconciliation
- To free up human and financial resources, and social capital for reconstruction and development.

Failure to reintegrate ex-combatants socially and economically has immediate and long-term consequences. In the short term, disaffected ex-combatants may threaten peace processes by continuing to fight in-country; across borders in neighbouring conflicts; or by joining violent, criminal gangs. In the long term, groups agitating for benefits and support may threaten a country's economic and social development.

DDR tends to emerge as a result of political negotiations. This can cause the process to be flawed from the outset by poor planning; parties under or over-estimating the size of their forces; political pressure for implementation before the infrastructure is in place; and the under-resourcing of programme activities. Furthermore, the international community has tended to use a 'one-size-fits-all' approach. DDR is a highly complex process that needs to address many areas, including political, military, security, humanitarian and socio-economic elements, and failure to take the local context fully into account can also seriously hamper success.⁵ According to the country report on Afghanistan in Section 2, the Afghan DDR programme was based on international experience garnered primarily in African conflicts. Fundamental differences in the pattern of combatant recruitment were not taken into account – notably the fact that Afghan fighters were not generally uprooted from their communities, but continued in their occupations as farmers or herders between fighting – which had important implications for local understanding of 'reintegration' and was a major factor behind its limited success in Afghanistan.

One key issue that arises during the planning stages of DDR is precisely who is eligible for the programme. Often it is not only the fighters, but also the groups that service them, namely cooks, porters, cleaners, sex workers and other camp followers who are just as badly in need of training and reintegration. While some programmes have tried to be inclusive, the costs naturally go up. Funds are generally prioritised in the initial 'DD' stages, leaving little over for the 'R'. Because of the benefits on offer it is tempting for other people, who had nothing to do with the fighting, to try and qualify for the programme, stretching the funding even further.

There are limited job opportunities in post-conflict environments so work is hard to find for ex-combatants even after training, especially if they are viewed with suspicion. Reintegration involves sending people back to communities where they

may have caused harm and where people are also struggling to make a living. The perception that ex-combatants have benefited from their notoriety further stokes resentment. A frequent complaint by villagers in Liberia was that returning ex-combatants would be more welcome if they were self-sufficient and could make some contribution to the community.⁶

Recognising the limitations of international DDR programmes, a number of initiatives have been launched to explore ways in which they can be improved. The UN has developed Integrated Standards on DDR (IDDRS)⁷ that aim to provide a comprehensive resource for 14 UN agencies, funds, programmes and their mission staff to ensure integrated operational planning. The IDDRS came about because the UN is the main institution charged with the design and implementation of DDR programmes, although the World Bank has been lead-agency on some occasions in the Great Lakes region of Africa. In the past, different UN departments, such as the Department of Peacekeeping Operations, the Disarmament Department and UNDP have been responsible for different areas of DDR and there has been little coordination between them. In addition to the IDDRS, the UN has established a DDR working group that is creating a joint training and capacity development strategy for UN agencies.

In 2004 the Swedish government launched the year-long Stockholm Initiative on DDR (SIDDR).⁸ It aimed to hold an inclusive discussion on the challenges and shortcomings of DDR within the broader political framework, and to come up with recommendations and guidelines on the design and implementation of DDR programmes in future. One challenge that the SIDDR report highlights was the difficulties surrounding reintegration and the need to establish parallel programmes to support host communities so that ex-combatants are more positively received.

Business engagement in formal DDR processes

International actors' understanding of DDR best practice remains a 'work-in-progress' as lessons are absorbed from different contexts. Meanwhile, the experiences of conflict-afflicted societies in regard to 'what to do' with former combatants continue to threaten post-conflict security. The key challenge is to find gainful employment for ex-combatants, an area in which local business can play a useful role.

Experiments to involve local businesses in the employment and training of ex-combatants as part of formal DDR processes are explored in some of the cases described in Section 2. For example, the Afghanistan New Beginning Program, coordinated by UNDP, built incentives for local businesses into the design of the DDR programme, though with only mixed results.

Involving the Afghan private sector in DDR

The most significant attempt to engage business in peacebuilding in Afghanistan occurred within the framework of the Afghanistan New Beginning Program (ANBP), coordinated by UNDP. The programme, an outcome of the Bonn Agreement that initiated the peace process in Afghanistan,⁹ began implementation in late 2003 with the disarmament of the first units of the Afghan Military Forces, the sections of the militias that had been recognised by central government and incorporated into the structures of the Ministry of Defence. After disarmament, units were to be disbanded and their members reintegrated into society.

The DDR programme's reintegration phase explicitly envisaged a role for the private sector. Former militiamen were offered a chance either to start their own business, or to join a training or apprenticeship scheme run by NGOs and businesses in partnership with ANBP. ANBP's caseworkers, 'a mixture of a social worker and an employment officer' in its own words, were charged with 'assisting the ex-combatant with choosing the appropriate reintegration package by assessing his skills and aspirations'.¹⁰ Ex-combatants were offered opportunities in a range of sectors, including agriculture, vocational training and job placement, small businesses and de-mining. The reintegration phase began in 2004 and was well underway by mid-2005, although only preliminary information is currently available as to what has been achieved. Figures in June 2005 showed that nationally 42 percent of demobilised fighters had opted for agriculture, 25 percent for vocational training and job placements, 22 percent for starting a business, with 11 percent making other choices.

The incentive offered to businesses for engaging in the programme was the opportunity to employ DDR trainees at no cost for 4-12 months. Ex-combatants would be treated like any other trainee and be supervised by the NGOs that had signed up as implementing partners. The NGOs received funds from ANBP for reintegration activities that were defined in a contract between ANBP and each partner. ANBP officials monitored implementation. ANBP identified other 'implementing partners' among businesses that had volunteered and satisfied certain requirements. Early surveys indicated that small to medium-sized construction firms played the biggest role in offering meaningful opportunities, followed by small shops. The only big business that volunteered was the mobile-phone operator, Roshan, but not to the apprenticeship component of the programme. Instead, it agreed to offer special conditions for ex-combatants who were willing to set up telecoms shops.

To explain the limited reach of the scheme, some ANBP sources interviewed for the research regretted that there was too little publicity about the programme. ►

But there may also have been socio-cultural barriers derived from the conflict, leading businessmen – like many in Afghan society – to see former combatants as lazy and troublesome.

Ex-combatants who opted to start a business were offered training courses, a grant of \$700 and ongoing support from caseworkers. ANBP intended to assemble small construction teams, though few ex-combatants volunteered for this option. Under the original plan, ex-combatants opting to go into business, or consolidating an existing one, were expected to have had previous experience of running a business and ANBP caseworkers were instructed to actively discourage those without it. In practice, many who insisted on benefiting from this opportunity had only limited business experience. The majority were farmers seeking to diversify their incomes. The typical business started by ex-combatants was a small grocery shop, accounting for 70-80 percent of all businesses started. Shops selling building materials and cooking gas followed in order of importance, although there were some attempts in the telecoms sector.

Though official figures do not exist, some estimates put the business failure rate at between 60-80 percent. The factors explaining this include the small size of the initial ANBP start-up grant and recipients' limited ability to manage credit. Another relevant factor may be the overall level of poverty, which has reduced the purchasing power of Afghans. Small shops in Afghanistan operate primarily by supplying credit to selected customers who may take up to 90 days to repay. Shop owners quickly exhaust their stocks, leaving shelves empty. With little to offer, sales decline rapidly and, with them, income. The shopkeeper's family may then start using goods for its own consumption, further eroding the capital base of the business. Important electrical appliances, such as generators and refrigerators, may also be sold to meet urgent family needs.

Some vocational training was geared to lead toward the establishment of small artisanal businesses in tailoring, carpentry and weaving. In all these trades, however, the market is close to saturation, making it difficult for new entrants to earn a living. By mid-2005 ANBP was discouraging these options, while finding it difficult to identify viable alternatives.

In the Kivu region of the Democratic Republic of Congo (DRC), after *ad hoc* initiatives by entrepreneurs to address the prevalence of armed groups in their operating environment, the UN peacekeeping mission, MONUC, realised that local businesspeople could play a role in helping to defuse conflict by using their economic and political influence with the combatants.

Business engagement in DDR processes in eastern DRC

In spite of political uncertainty and years of conflict, Goma businesspeople had reinvested profits locally and were keen to see past business activities regenerate – including plantations and tourism – as well as to create new interests in manufacturing. Both individually and in groups, entrepreneurs turned to implementing initiatives that *de facto* complemented the goals of DDR programmes in order to expand their operations.

In 2002, a Goma businessman bought one of the region's largest tea plantations. He paid a relatively low price since it was located in an insecure area and could not be exploited unless security improved. Although an influential member of the Banyarwanda ethnic group and well connected with the military, the businessman did not try to secure a strong military presence in the area. Instead, taking into account the local balance of power, he hired several hundred local workers and combatants from local armed groups, which 'eased' relations with their former comrades. Other businesspeople operating around former tourist spots adopted a similar approach.

The Butembo business community faced similar concerns over its previous activities in ranching, vegetable exports and commodity trading. Insecurity and racketeering imposed significant costs. Under the umbrella of the *Fédération des Entrepreneurs du Congo*, local businesses supported the RCD-ML governor's attempts to demobilise local armed groups by using their influence to convince RCD-ML commanders who opposed the efforts, and by providing in-kind support to demobilisation camps. Within six months, these initiatives led to the disarmament of some 1,500 combatants. However, the support did not extend to the provision of employment due to the poor state of their businesses. During the same period, the national DDR programme was stalled, making the business initiative the most promising effort to demobilise combatants at that time.

Because of these experiences, MONUC proposed to include entrepreneurs in the DDR programme being developed by international agencies as part of its 2003 Kivu strategy. Keen to avoid the short-term problems that arise from semi-successful DDR programmes (whereby demobilised combatants become frustrated with a lack of opportunities and begin agitating for resumed hostilities), MONUC proposed a different concept for reintegration that emphasised a role for business. Entrepreneurs could become 'partners' in the process by hiring former combatants, while benefiting from credits or reconstruction programmes funded by international donors. DDR could thus become linked to an economic recovery policy.

The limited successes in engaging business in addressing reintegration in the Afghan and DRC DDR programmes were undermined by a lack of planning and foresight by the international organisations coordinating security efforts. In DRC, delays in the formal DDR process meant that there was insufficient time to make major changes to it if the deadline for the transitional process was to be met, so outreach was limited and the potential of the MONUC/Kivu entrepreneurs' initiative unrealised. In Afghanistan, the reintegration element was implemented some two years after regime change, which meant that many former combatants had already found a means of making a livelihood and were not motivated to make a success of the opportunities on offer.

Businesses need to make their voices heard during the planning stages of DDR if they are to have a more substantive role. This would help to ensure that the opportunities offered to ex-combatants by international donors fit better with the private sector's needs. Awareness-raising and trust-building programmes to overcome the perception that ex-combatants make bad workers could also help.

Improved clarity on the roles and responsibilities of different contributing parties to the DDR process would also assist in achieving a more constructive contribution from business. The country report on Colombia in Section 2 describes the private sector's frustration with government for failing to give them a clear role, which is now being addressed in the current wave of demobilisation. Business collaboration in creating jobs for ex-combatants is set to increase now that Colombian businesses today believe 'successful DDR is a national priority', and perceive that their collaboration is both necessary and in their best interest.

A role for the private sector in the Colombian DDR process

The reintegration of former combatants is an enormous challenge in Colombia.¹¹ One reason is the sheer magnitude of the phenomenon. In the early 1990s, the government reintegrated five insurgent groups and some urban militias, adding up to only 5,000 men and women. Today the number of armed actors is significantly larger. The fact that demobilisation is taking place before a final settlement to the conflict adds a further layer of complexity. Some ex-combatants receive death threats from former comrades or adversaries; armed groups try to recruit them back into the conflict; criminal organisations try to lure them into their networks; and local communities are not welcoming. In particular, the demobilisation of paramilitary forces faces particular difficulties. Some perceive the terms of the negotiation as too soft given the groups' appalling human rights record and their connection to drug trafficking.

When a new wave of demobilisations began in 2002, the state had insufficient human or financial resources to reintegrate so many, especially since economic

assistance and protection must also be extended to the families of former fighters. By the end of 2005, important adjustments had been made, but inter-institutional coordination has yet to improve.¹²

So far the government has turned to international donors and the private sector for help with funds and technical assistance. At first the response was meagre. The UN criticised the government's policy of promoting individual demobilisation on the grounds that it was not an 'instrument of peace' but a strategy by President Uribe to avoid negotiations with the FARC. The UN also had misgivings over the terms of negotiations with the paramilitary forces.¹³ It refrained, therefore, from assisting DDR in Colombia. The World Bank was also shy. A technical objection was that Colombia did not qualify as a post-conflict nation and many of the Bank's formal DDR projects could not therefore be implemented. Only the Organization of American States, backed by Sweden, the Netherlands and the US, offered a verifying mission to accompany the first phase of paramilitary DDR, while the Netherlands and the International Organisation for Migration (IOM) helped the Ministry of Interior refine its *Programa de Reincorporación a la Vida Civil* (Programme for the Reincorporation into Civilian Life). After several debates in the US Congress and despite Democratic Party opposition to Washington's policy in Colombia, the US government began in late 2005 to support DDR.¹⁴

The private sector initially held back from helping out more vigorously. Business had apprehensions regarding the conduct of former combatants, who are seen as pre-disposed to crime, and their lack of appropriate skills. Concerns were expressed that hiring former combatants would create unease among the firm's existing employees and scare clients away. Others saw the possibility of sabotage or retaliation by the armed groups that remain active.¹⁵

An additional impediment to mobilising private sector support for DDR was poor government management and coordination. In the view of many businesses, the government had not designed a concrete plan to engage the private sector, which in turn had no clear idea what it should contribute. Could former combatants become micro-entrepreneurs? Could they be trained in a short time to compete in the labour market? How would a company contact and hire a former combatant? Would companies have any guarantees? Above all, businesses feared being left to bear the full legal and political responsibility for their reintegration.

National and local authorities have begun to refine their approach in a bid to win private sector support for reintegration activities.¹⁶ One improvement was the design of specific schemes and proposals, such as the development of agribusinesses involving ex-combatants. The Office of the High Commissioner for

Peace, which manages paramilitary reintegration jointly with the Ministry of Interior, has come up with a model to set up agri-businesses in which former combatants can work and profit as part-owners.¹⁷ The Ministry of Interior has also had positive results. It committed state contractors to hiring individually demobilised combatants for road-building projects. Firms receive financial incentives, such as tax reduction, and the state covers social security costs.

The Ministry of Interior helps former combatants set up their own businesses or finds them employment opportunities. In 2005, 1,164 business projects were launched whereby each individual receives \$3,480 as seed capital. So far, more than 33 private sector companies collaborate in different ways; some charge for services but others contribute *pro bono*. Two fiduciaries manage the moneys provided to former combatants; wholesalers have agreed to train former combatants and supply their mini-markets; while other businesses are directly providing jobs.

One main challenge for the Ministry has been to select 'reliable' candidates for companies willing to hire. In Antioquia, local authorities have led a rigorous training and selection programme that has partly assuaged businesses' security concerns, and the mayor of Medellín was able to secure 158 direct jobs in local firms for ex-combatants in 2005. The mayor's office relied on the IOM for assistance in planning and monitoring, training, and for psychological assistance programmes.

Business engagement in smaller reintegration initiatives

The multi-actor and politically complex process of formal DDR programmes poses problems and raises questions of roles and responsibilities, as well as coordination across actors. These over-arching challenges impact on business engagement as much as the success of the processes themselves. Parallel, smaller-scale efforts by business to assist in the reintegration of ex-combatants are further testimony to businesses' motivation to contribute to the goals of DDR and have reaped interesting results, as indicated in the initiatives taken by entrepreneurs in Kivu prior to MONUC's engagement. Similar experiences in Colombia and Somalia recounted in Section 2 illustrate that when business interests are directly affected by the activities of armed groups, businesspeople can independently devise local solutions that promote DDR in a more flexible manner.

From clan gunmen to hired staff in Somalia

The relationship between business and warlords in Somalia is complex and has evolved over time. Recently, there have been efforts to provide job opportunities to clan gunmen in a bid to de-escalate violence and insecurity. Thousands of young men have been diverted from the militias into the workforce. ►

Businesspeople try to sever links between marauding gunmen of their own clan and freelance militias, ostensibly to avoid the danger of becoming the targets of clan-wide, revenge killings. In Mogadishu many businesses 'rehabilitated' gunmen related to them by hiring them as drivers, security personnel or store-keepers.

Also in Somalia, a partnership between UNICEF, the Canadian International Development Agency (CIDA), a local peacebuilding NGO and a Somali telecommunications company established an agreement for a rehabilitation and reintegration programme for child soldiers. The company provided training and offered placements to graduates at the end of the programme. Widespread community support was established and a network of actors set up to negotiate with the militia warlords controlling substantial numbers of child soldiers.

Tripartite partnership for the rehabilitation of child soldiers in Mogadishu

Children as young as 11 control many Mogadishu checkpoints. They do not carry guns, but undertake duties such as clearing the way after vehicles have paid fees, or flashing torches to alert vehicles approaching the checkpoint at night. Girls are often engaged in cooking food and making tea. They may also engage in prostitution or act as informers.

UNICEF, CIDA, the Elman Peace Centre and the telecommunications company, Nationlink, established an agreement in August 2001 to undertake a programme on child soldiers' rehabilitation and reintegration. Nationlink provided equipment, expertise and training in a dedicated centre, agreeing to offer placements to graduates of the programme. Vocational training courses included non-formal education in numeracy and literacy, telecommunications technology, computing, driving and office administration. Children received four days per week of vocational training. The programme also included two days per week of counselling and training in conflict resolution.

The recruitment process involved community elders, warlord associates, women's groups and peace activists. As 'intermediate actors', members of the network worked to win the consent of the warlords controlling the militias from which children were to be rehabilitated. The network advocated the banning of child soldiers recruitment. Sixty child soldiers under the age of 18 (10 of whom were girls) were recruited from Mogadishu checkpoints. The project was implemented in two phases of six months each.

At the end of phase two, Nationlink hired 12 of the 30 telecommunications trainees. Several others were employed at local power stations. A number of trainees failed to win placements and, in the absence of alternatives means of livelihood, went back to the checkpoints, highlighting the importance of a placement component in any DDR programme.¹⁸

The case of the garment factory Koramsa in Guatemala is illustrative of a similar effort to address DDR-type issues, though it is actually focused on the employment of youths at risk of joining violent gangs. At the invitation of a community group which aimed to provide opportunities and support to young people, the company set up a separate production line, away from other employees, for 140 youths it had taken into training and employment as part of the initiative. The establishment of a separate production line partly addressed employees' concerns about security, but also provided space in which to give extra training to at-risk youths whose skill levels were lower and whose outputs were of lesser quality than the standard production lines. Koramsa also paid grants for school fees.

In terms of other DDR models, the separation of beneficiaries from the workforce scarcely contributes to meaningful reintegration, and may fuel suspicions by fellow workers. The project suffered from the fact that some participants were exposed to threats and attacks by gang members, though it is unclear if this was a response to their participation in the initiative, or reflected levels of violence in the community more broadly.

There are common concerns across initiatives about retaliation against business representatives and scheme participants, as well as a mistrust of ex-combatants by potential employers. These need to be addressed if business is to play a substantial role in DDR programmes in future. Despite this, it is apparent that local businesses can play an important role and that the most effective area for their engagement is reintegration through job creation and trust building. While trying to make sure that their voices are heard at the 'formal' level, local business initiatives can also play a hugely important role in tackling insecurity caused by the presence of armed ex-combatants in and around a community.

Collection of Small Arms and Light Weapons

SALW are a major cause of insecurity and kill hundreds of thousands of people each year. After conflicts, SALW may fall into the hands of criminals, be used as instruments of power, solve petty disputes or be used in acts of domestic violence. It is essential that any ongoing peace process includes a component focused on collecting the surplus SALW circulating within society.

There is no universally accepted definition of SALW, but the most widely used is the one in the United Nations *Report of the Panel of Governmental Experts on Small Arms* in 1997.¹⁹

Definitions of SALW

Broadly speaking, small arms are weapons designed for personal use and light weapons are those designed for use by several persons serving in a crew.

- **Small arms** include revolvers, self-loading pistols, rifles and carbines, sub-machine guns, assault rifles and light machine guns.
- **Light weapons** include the above, as well as heavy machine guns, grenade launchers, portable anti-aircraft guns, portable anti-tank guns, recoilless rifles, portable launchers of anti-tank missile and rocket systems, portable launchers of anti-aircraft missile systems and mortars of calibres less than 100mm.
- **Ammunition and explosives** for SALW include cartridges (rounds) for small arms, shells and missiles for light weapons, anti-personnel and anti-tank grenades, landmines, explosives, munitions for single-action, anti-aircraft and anti-tank systems.

Given that the widespread flow of arms impacts on security, hindering an enabling climate for the private sector, it is in the interest of local businesses to engage with the issue. There are different kinds of weapons collection programmes and the private sector may identify which is most appropriate in its context.

Types of SALW collection programmes²⁰

- **Voluntary Weapons Collection Programmes (VWCPs)**. These fall into two main categories: those that take place in the context of DDR and post-conflict activities, and those that take place in 'peaceful' contexts as part of crime-prevention programmes. Given the tendency of post-conflict countries to return to fighting, this distinction may sometimes blur. VWCPs can be used as part of a 'carrot and stick' approach in which voluntary surrender is followed by increased policing, search and seizure operations, and stiffer penalties for illegal weapons possession. Others are the kick-off for longer-term education and outreach programmes, or part of broader rehabilitation programmes for ex-combatants in former conflict areas. ▶

- **Amnesties.** Amnesties can create a space for unlicensed or lapsed-licence owners to register firearms; and for weapons that are due to become illegal under new legislation to be collected. Amnesties are often a component of gun buy-back or exchange programmes. In such cases, the weapon is turned in during an amnesty period for one of the above reasons, but some incentive is offered for the firearm.
- **Gun buy-back programmes.** Instances in which a weapon is bought by the collecting agency for cash, or vouchers redeemable for cash. Other forms of remuneration, such as gift vouchers, farming tools, toys and computers, are technically in-kind incentives that replace cash and form part of the exchange programmes discussed below. The term ‘gun buy-back’ is often used to refer to all types of VWCPs. The basic premise is that a community, an organisation or a government decides that weapons currently in circulation should be collected. Collection points are identified; cooperation with law enforcement agencies is agreed; a set of prices for compensation is devised; a duration is set for the programme; and a publicity campaign is initiated. Organisers have found that the number of weapons surrendered is greatly influenced by the prices offered, the amount of publicity and the location of the collection site. For example, if a location site is a police station in an area where there is mistrust of law enforcement agencies, this deters participation.
- **Exchange programmes.** Exchange programmes are popular with implementing agencies due to some of the negative effects of paying cash for weapons. Rather than cash, in-kind incentives are used as ‘payment’ for a weapon. Incentives vary greatly, depending on the needs of the community in which the VWCP is operating. In Nicaragua, farm implements, clothes and vehicles were used as incentives, while in the United States concert tickets, old computers and gift vouchers are popular. Recently there has been a move away from offering individual incentives in favour of collective community-based incentives through Weapons for Development (WfD) projects.²¹ WfD projects also have problems because groups can use them to barter for aid and the community incentive may be insufficiently lucrative to appeal to ex-combatants. However, they have to date proved a good way of bringing communities together to discuss SALW issues and security in general.

Business supporting weapons collection

Initiatives to organise a VWCP come from many sources, including the UN, the World Bank, other international donors and the Catholic Church. In one case in Section 2, a VWCP was driven by the business community. The *Movimiento Patriótico Contra la Delincuencia* (Patriotic Movement against Crime, or MPCD) was created by a citizens’ group in El Salvador that included leaders of the business

community. The primary driver of the process was the Association of Distributors of El Salvador (ADES), which cited the impact of gun crime on their members' activities as a rationale for their actions. ADES delivery trucks were constantly under attack by men armed with weapons left over from the conflict and employees were under increasing threat while travelling between home and work.

The MPCD designed a weapons-exchange project, called Goods for Guns, in which individuals handing in weapons would be compensated for contributing to the security of El Salvador with vouchers for supermarkets, drug stores or clothing. The programme was implemented from 1996-99 during which 23 collection weekends were held. Such programmes need to be closely coordinated with government and other influential bodies, such as the Catholic Church in the case of El Salvador, but local businesses can also play a significant role in organising, designing and implementing the programme, including awareness raising through the media. Because of their influence in communities, businesses can engage both the target groups for the collection and the groups needed to support and help coordinate efforts.

The programme in El Salvador demonstrated how many different kinds of businesses have a contribution to make: the transporters and distributors who organised it; the advertisers who gave free publicity; the print-news media for reporting and editorials; and the many supermarkets, pharmacies and shoe shops that provided resources or in-kind goods. One contentious question in VWCPs is the site where weapons are handed in since both the organisers and owners of SALWs need to feel it is a secure environment. Business premises, if perceived as neutral, are a potentially good location in some places.

While businesses can contribute much to VWCPs, there is a need to ensure that technical professionals experienced in the handling and destruction of weapons are involved from the very outset and remain responsible for the technical aspects of implementation. It is also critical that the collected weapons and ammunition are destroyed in a safe manner to ensure that there is no chance of weapons leaking back into circulation.

Security Sector Reform

“Security Sector Reform is not just about disarmament or reducing the size of the army, but also about security in the wider sense – the security of every single human being within society.”²²

The term ‘security sector’ comprises a variety of actors with different roles that are relevant for understanding any reform process. These are summarised below.

Security sector actors²³

The security system includes the following actors:

- **Core security actors.** Armed forces, police, gendarmeries, paramilitary forces, presidential guards, intelligence and security services (military and civilian), coastguards, border guards, customs authorities, reserve or local security units (civil defence forces, national guards, militias)
- **Security management and oversight bodies.** The executive, national security advisory bodies, legislature and legislative select committees, Ministries of Defence, Internal Affairs and Foreign Affairs, customary and traditional authorities, financial management bodies (Finance Ministries, budget offices, financial audit and planning units) and civil society organisations (civilian review boards and public complaints commissions)
- **Justice and law enforcement institutions.** Judiciary, Justice Ministries, prisons, criminal investigation and prosecution services, human rights commissions and ombudsmen, customary and traditional justice systems
- **Non-statutory security forces.** Liberation armies, guerrilla armies, private bodyguards, private security companies, political party militias.

An accountable, effective security sector contributes to a safer environment and ensures the conditions for stable development by enabling governments to ensure the security of citizens, the safety of investments and the strengthening of state institutions. In countries emerging from conflict, SSR is vital in mitigating the risk of a return to war. Businesses have an interest in operating within a secure, local environment for professional and personal reasons. It is in their interest to support SSR when appropriate.

What does SSR involve?²⁴

SSR initiatives address four broad areas:

- **Political dimension.** Democratic, civilian oversight of security sector forces. The central task of reform in this area is good governance, including the capacity of civil society (media, NGOs, researchers and the public) to facilitate debate on security priorities as well as ensure civilian oversight of security forces.
- **Economic dimension.** Allocation of resources. The rational allocation of human, financial and material resources to the security sector is a ▶

precondition for its efficient operations. An excessive security apparatus deprives other sectors of scarce resources and arguably creates an inefficient security sector. At the same time, an underfunded security sector cannot ensure the security of the population. Reforms include identifying the needs and key objectives; determining what is affordable; prioritising resource allocation; and ensuring efficient use of resources.

- **Social dimension.** Guaranteeing the security of citizens. The prime task of the security sector is to guarantee the internal and external safety of the population. Security is not the same as the security of the state that is provided by the armed forces. It includes the security of the population from attacks of all types on their life, health or property.
- **Institutional dimension.** The structure of the security sector and the separation of various institutions. The different security forces can only be accountable if their institutional tasks are clearly defined. Institutional overlap between domestic public security and external defence increases the danger of intervention by the military in domestic affairs. The concept of security should not become an excuse for militarised police forces or the armed forces to take a major internal role.

Potential for local business involvement in SSR

While many of the dimensions of SSR require buy-in at the highest level, including the Office of the President and a number of ministries, there is a need to foster local ownership and awareness of the process. To improve relations between the police and citizens after the former have been retrained, for example, local awareness must be raised so that people understand what to expect and what exactly their rights are. Because local businesses often have the contacts and ability to bring people together, this is one aspect of SSR in which they could become involved.

Businesses can play a direct role in supporting SSR when it is recognised that complex situations and underfunding will impact on the ability of the formal security sector to operate effectively. In South Africa, the Business Against Crime (BAC) initiative was set up in 1996 at the request of then president Nelson Mandela. BAC's aim was to support the government by complementing its limited resources with the entrepreneurial, managerial and technology skills of the South African private sector. "Business, being the economic engine of society, is both directly and indirectly impacted by crime. Directly, regarding the theft of property and money, and indirectly through reduced business confidence, loss of investment, emigration and the steady erosion of the foundation upon which the economy is built."²⁵ BAC provides technical and policy support, which includes management training for police and the refurbishment of strategic police stations, as well as running an education project to

raise awareness in disadvantaged communities. This type of engagement shows the positive impact local businesses can have when working with official systems.

This can also occur at a more localised level, as demonstrated in the example below from Uganda.

Driving crime figures down

To overcome some of the difficulties in establishing security and public adherence to the law, the Ugandan authorities are collaborating with the private sector to develop an innovative policing initiative for taxis in Kampala.

The Uganda Taxi Operators and Drivers Association (UTODA) was set up in 1986 as a forum for owners and drivers to express their views to the local authorities. Representing around 30,000 drivers in Kampala alone, UTODA articulates its views through an elected committee and has considerable political influence since taxis are a principal means of transport. Relations with police, however, are frequently problematic and there are complaints that many officers extort payments from drivers at roadblocks. These difficulties have largely been overcome as a result of a joint collaboration in which Kampala local council contracts UTODA to operate as the primary policing authority for taxis.

UTODA has taken on responsibility for additional areas of traffic policing. UTODA's Traffic Wardens Department enforces road regulations, directs traffic during congested periods and provides assistance at children's crossings. Its Law Enforcement Department, whose personnel are trained by police and local councils, ensures adherence to the law in the taxi parks, and its officers have the power to arrest thieves and other criminals. Although the police have lost influence, they are benefiting from the additional resources and inside knowledge, and the community has welcomed the initiative.

This case study is from Baker, B. (2004) 'Post-conflict Policing: Lessons from Uganda 18 Years On' Journal of Humanitarian Assistance. Available at jba.ac/articles/a138/btm

Local business and private security provision

One key area of engagement in SSR for local businesses is around non-state security actors, in particular private bodyguards, PSCs, vigilantes and militias. In times of insecurity, when the state security sector does not provide adequate protection for citizens, local businesses often resort to their own solutions.

The provision of security in and around markets is a major issue and where state security is inadequate, local businesses usually make their own provisions. In several Nigerian market towns, as reported in Section 2, traders' associations are 'perceived as a major locus of economic support for vigilante/ethnic militia groups, with some of the most well-known groups originating from initiatives and payments from traders'.

Similarly, the Somalia report describes how each sector of Bakaara, the largest market in the region, has its own security staff paid for by stores in the area. While guards are allocated to specific areas, they also work as a network. "We know each other very well," said one security officer. "Some of us are only limited to the protection of one or two stores, but you cannot be independent from each other. We help each other." In a context of state collapse or weak governance, such informal systems of security provision are inevitable and can play a positive role in stabilising the situation, not least through the provision of reliable jobs to former or potential combatants. However, there are limits to the security coverage that such *ad hoc* approaches can provide to all citizens. Indeed, when run parallel to formal structures, as in Nigeria, private security contributes to the further weakening of state institutions. In this sense, reliance on private security and vigilante groups, and the lack of a strong and accountable security sector are mutually reinforcing.

Local businesses can play a role in supporting SSR by paying careful attention to their use of PSCs. When there is no alternative to hiring PSCs, businesses should ensure that their employees operate responsibly²⁶ and consider the additional interventions that could be made to support the emergence of a reliable state security sector in the long term. At a local level, the relationship that has evolved between the local police and the grain and livestock associations in Sokoto market in Nigeria represents a positive step in this regard. The associations have been asked by police to be the people's representative and have the authority to go directly to the commanding officer should trouble erupt.

Negotiating security

Businesses' efforts to ensure the security of their operations frequently lead to direct negotiation with armed groups. This may result in the payment of bribes or extortion (direct revenue) in return for pledges of security. The impact of extortion payments on the wider peace and security context are likely to be dubious; though negotiation can at times strengthen dialogue channels between conflicting parties.

Nepali businesses refrained from engaging in direct negotiation with the Maoist rebels in this way out of fear of both the armed group and possible retaliation by the army – though payment of extortion is common. When the Maoists began to shut down businesses in August 2004, however, the private sector decided it had to act. The

Federation of Nepalese Chambers of Commerce and Industries enlisted the help of three human rights activists to mediate between themselves and the Maoists, a process that was endorsed by the government. The negotiations were successful and, after the release of two of the trade union leaders, the Maoists withdrew their closure order. This shows how sensitive action by businesses can both help their own security and have a beneficial effect on the wider context – though such interactions need to be viewed in the wider frame of business relationships with armed groups.

In Datu Paglas in Mindanao, Philippines, the former mayor and chairman of the largest, local investor in nearby plantations used his prestige and personal contacts with the Moro Islamic Liberation Front (MILF) to persuade rebels to grant the district the status of a ‘no-go’ zone for insurgent activities. This ensured a stable environment for the company’s operations and the wider community, many of whose members were former rebels employed on the plantations. Investors stress that they have never paid ‘donations’ to the MILF.

In a conflict context, businesspeople tend to nurture whatever relationships are necessary for their security and the security of their assets. In some cases this may have a positive effect on broader community security, but it is likely that, unless business actors fully think through the impact of the compromises they feel forced to make, they can also exacerbate negative dynamics.

Early warning and community security

Because businesspeople are physically close to communities in which they operate as well as through their workforces, they are often able to identify early signs of potential violence and provide warning. This was apparent in the Nigeria case. In Sri Lanka, nearly half of respondents (49.3 percent) in a survey of members of the business community knew of tensions in their area that could lead to violent conflict in future. “This suggests that there may be potential for business perceptions at a local level to serve as indicators for increased threats of violent conflict,” comment the country report authors in Section 2.

The South Caucasus regional report describes how the village of Khetagurovo on the *de facto* border between Georgia and South Ossetia was divided in two after the 1991-92 war. Villagers on either side agreed to monitor the movements of paramilitary forces and to prevent their own fighters from attacking their former co-villagers. The motive behind the agreement was the determination of villagers to protect their livelihoods and businesses, and was based on trust.

Localised knowledge can also be used to diffuse aggravated security situations. In the DRC, businesses’ standing in the community was such that their calls for calm

during a violent protest were more effective in stabilising the situation than any effort of the international community.

In 2004, tensions in Bukavu erupted in clashes between the Congolese Tutsi and other communities. MONUC, which was perceived as biased in favour of the Tutsi and the 'Rwandans', was also targeted. The demonstrations turned into riots. Without any request from MONUC, business leaders resorted to using their influence and personal connections in a bid to calm the situation, broadcasting conciliatory messages on local radio. Since, wrongly or rightly, they were perceived as hostile to the 'Rwandans' and Tutsi, their messages may have had more impact than similar ones broadcast by MONUC.

In Northern Ireland, the business community publicly called for an end to violence on several occasions, both by appealing to employees and making public media statements. This included one episode when business mediated a stand-off between the organisers of Orange Order marches and residents of the Catholic area through which the marchers were supposed to pass.

Conclusions

There are many security dimensions to peacebuilding that are of direct relevance to the domestic private sector. With regard to DDR, weapons collection, SSR, early warning and community security, as well as crime prevention, local business actors can make useful contributions in terms of providing financial, in-kind or other assistance; by fostering 'the right kind' or relationships with security sector bodies and individuals; and by constructively using their influence.

Lessons for businesspeople and others

Providing resources

Some of the crucial elements of security-related initiatives are often under-resourced. One important role the business community can play is to provide resources strategically, by linking up with relevant actors at the right time. The BAC's in-kind and management support to local police stations in South Africa, and the business community's support to the weapons collection programme in El Salvador show that this does not have to be financial assistance, but can include skills, know-how and other contributions that the private sector has at its disposal.

Understanding value-added

Those who work on security initiatives will receive more favourable responses from business if they engage early in order to understand its needs, capacities and

perspectives, leading to well-thought-out plans and ways of involving the private sector. Working with business requires analysis of business actors and their relationships to conflict, as well as a good understanding of what they can bring to security initiatives.

Involvement in DDR programmes

The examples discussed above demonstrate that business can play an important role in supporting reintegration by providing training and job opportunities for ex-combatants. Being candid about the risks, such as ex-combatants' low skills levels, businesses' lack of confidence in their abilities and the security implications for all participants in DDR processes, is essential and helps both the implementing agency and the business community draw up joint plans to address these facts or perceptions. This implies that other actors, particularly international organisations and NGOs, must have the capacity to accompany the DDR process beyond the point when a job has been found for an ex-combatant, for instance by providing inputs that a business cannot cover, such as psycho-social support where necessary.

Work with technical experts

Many elements of security-related interventions are highly technical, such as the disposal of SALWs. Where businesses have the motivation to mobilise or participate in such initiatives, they need to link up with those who have expertise in working on the technical aspects.

Community outreach and mobilisation

Many of the security initiatives mentioned in this chapter depend for their success on buy-in from local communities. Reintegrating ex-combatants, for instance, will only work if communities are willing to welcome them. Weapons can only be collected if community members feel they can give them up with confidence – or receive sufficient incentives to do so. The business community can do much to provide outreach and mobilisation to local communities, for example by sensitising their workforces to working alongside ex-combatants, making them feel safe and partnering with civil society actors, such as religious organisations, human rights groups, and so on.

Showing commitment to and working with official structures

A principal challenge in post-conflict situations is the weakness of official structures, especially those related to security. While it is inevitable that local businesses, when they have the resources, will provide for their own security by hiring PSCs, a publicised commitment to public institutions, accompanied by initiatives that aim to strengthen them, sends an important signal that may influence the way others behave. Policy dialogue with public institutions and other partners may be one way of influencing security issues.

Extending understanding of security

Conflict situations contract the way people think about their daily lives: the time-horizon for planning activities such as investments shortens. Equally, security concerns tend to narrow to the most immediate surroundings, for example a company's premises. Businesses can think of ways of broadening out this concern to influence the wider security environment.

Awareness of potential security risks

Businesspeople through their daily operations, links with customers, business-partners and staff have the opportunity to pick up signs of rising tensions or security risks that can help in conflict avoidance, if communicated to the relevant authorities. International agencies and NGOs working on strengthening early warning and early response capacities should think more clearly about how to involve local businesses in their efforts.

Endnotes

- 1 In the words of a recent GTZ publication: "Without reliable protection against violence and crime, human and social development is impossible." GTZ (2004) *Security - A Key to Sustainable Development* (Eschborn, Germany: GTZ).
- 2 According to the think-tank Small Arms Survey, it is estimated that on an annual basis SALW are responsible for approximately 300,000 deaths during armed conflicts in developing countries, while millions more suffer from non-fatal injuries and crippling disabilities. Small Arms Survey (2002) *Small Arms Survey* (Oxford, UK: Oxford University Press).
- 3 Address to the World Economic Forum, Davos, 31 January 1998 (press release SG/SM/6448).
- 4 From UNDP (2006) *Disarmament, Demobilisation and Reintegration of Ex-combatants*. Available at www.undp.org/bcpr/practice_notes/ddr_practice_note.pdf
- 5 Ibid.
- 6 From author's interviews in Liberia, December 2005.
- 7 UNDP Intergrated Disarmament, Demobilisation and Reintegration Standards forthcoming 2006.
- 8 For further information see www.sweden.gov.se/sb/d/4890
- 9 See Rubin, B. R. (2003) 'Identifying Options and Entry Points for Disarmament, Demobilization and Reintegration in Afghanistan' (New York, US: Centre on International Cooperation).
- 10 See UNDP (2003) *Partnership for Peace: Afghanistan's New Beginning Programme (ANBP)* (New York, US: UNDP).
- 11 See Guáqueta, A. (2005) *Desmovilización y reinserción en El Salvador: Lecciones para Colombia* (Bogotá, Colombia: Fundación Ideas para la Paz).
- 12 The Ministry of Interior's *Programa de Reincorporación a la Vida Civil* manages the reintegration of individually demobilised combatants. During the two-year process, beneficiaries receive psychological assistance, vocational training and about \$2,800 to start up small businesses. Collective demobilisation is managed by the same office jointly with the Office of the High Commissioner for Peace in the Office of the Presidency (OACP), which led the negotiations with the paramilitaries. Their reintegration has followed a somewhat different path, partly because the paramilitaries have substantial resources of their own, and the capacity to design, fund and implement agri-business projects in their former zones of influence.
- 13 Interview with official from Ministry of Interior's DDR programme, Bogotá, 2005; *El Tiempo*, 14 July 2005; *El Tiempo*, 17 May 2003.
- 14 Public Law 109-102, enacted on 14 November 2005, earmarked up to \$20 million for individual and collective DDR.
- 15 In 2005, the Colombian NGO Fundación Ideas para la Paz (FIP) interviewed different business associations in Colombia's main cities to gauge the private sector's willingness to support DDR projects and conduct a preliminary assessment of what type of incentives would be needed to mobilise greater interest. See Del Pilar Velaco, M. P. (2005) *Recomendaciones de política pública y sector privado en la reinserción de desmovilizados colectivos e individuales* (Bogotá, Colombia: FIP).
- 16 In January 2006, the government finally designated a three-person, high-level team to coordinate contacts with businesses willing to help.
- 17 Each demobilised combatant is given \$900 as seed capital. Several can then join together and partner with a private sector investor previously identified by the OACP through local consultations in the communities where former fighters intend to re-settle. By January 2006, 14 such projects employing 800 demobilised fighters had been established. Some claim, however, that such projects are actually funded by paramilitary and drug traffickers, an emerging 'entrepreneurial class' that has begun to invest in legal activities.
- 18 Elman Peace Centre (EPC) (2003) *Assessment of the Child Soldiers Rehabilitation and Reintegration Programme* (Mogadishu, Somalia: EPC).

- 19 United Nations (1997) *Report of the Panel of Governmental Experts on Small Arms A/52/298* 27 August (New York, US: UN).
- 20 Adapted from Meek, S. (1998) 'Buy or Barter: The History and Prospects of Voluntary Weapons Collection Programmes' *Monograph No. 22* (Pretoria, South Africa: Institute of Security Studies). Available at www.iss.co.za/Pubs/Monographs/No22/Contents.html
- 21 For example, in Liberia the UNDP has initiated a WfD project in an attempt to try and collect many of the weapons that were not handed in during the DDR programme. Communities will benefit from development projects, the value of which will be determined by the number of weapons handed in. See www.lr.undp.org/sa.htm
- 22 See www.undp.org/bcpr/jssr/4_resources/documents/Berghof%20Handbook_2004_SSR.pdf
- 23 OECD (2005) 'Security System Reform and Governance' *DAC Guidelines and Reference Series* (Paris, France: OECD 2005).
- 24 Adapted from www.undp.org/bcpr/jssr/4_resources/documents/Berghof%20Handbook_2004_SSR.pdf pg 14
- 25 See www.bac.co.za/
- 26 Foreign firms investing in the extractive industry have begun to address this area through developing and implementing an industry code, the Voluntary Principles on Security and Human Rights, that stipulates best practice in security arrangements in unstable contexts. See www.voluntaryprinciples.org

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**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

Chapter five
**The role of women entrepreneurs in
peacebuilding***

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Chapter five

The role of women entrepreneurs in peacebuilding

“After conflict, women are often a strong force for economic growth.”¹

The important and active role that women can play in building peace and resolving conflicts – whether as advocates for peace, mediators and facilitators of dialogue, or through building confidence between conflicting parties – is increasingly valued.² Less attention has been paid to the contribution that women’s entrepreneurial activities can make to rebuilding post-conflict societies. This is partly because of the ‘invisibility’ of these initiatives which, due to the subordinate role that women have in public and economic life, often take the form of informal, small-scale business activities, and as such are rarely documented or recognised. Many of the challenges women face, economically and with regard to conflict, interact and overlap, as do their responses. The development community has long recognised the economic role that women entrepreneurs play at the grassroots level, and a whole industry in ‘micro-finance’ has evolved that targets them, precisely because of the magnified success their increased productivity can have on communities.³ However, less attention has been paid to understanding women’s role in contributing to post-conflict economic growth. Against this background, the important link between women as economic actors and women as peacebuilders warrants further study.

The different roles women can play in conflict situations reflect the broader inter-relatedness of different elements of peacebuilding as outlined in the introduction to this volume. Many peacebuilding initiatives seek to develop shared identities and ‘common ground’ across conflict divides (see Chapter 3). Women are often at the forefront of peacebuilding and reconciliation initiatives since they are enabled to find common ground across conflict divides through

their shared experience as women in patriarchal societies. This chapter draws on the case-study material in Section 2 to analyse women entrepreneurs' initiatives that seek to address conflict issues. Their strategies build on the skills and resources they have gained as economic actors, and often combine elements of peacebuilding and economic activity in innovative ways.

Women's positive economic contribution in conflict contexts is an under-theorised aspect of peacebuilding, and the limited recognition of it in policy and practice prevents its potential from being maximised through support from other actors. This chapter will share and promote important lessons to encourage further activity in this field, drawing on examples from Afghanistan, Burundi, Georgia/Abkhazia, Nepal, Sierra Leone and Sri Lanka. It outlines the ways in which violence and conflict impact on women, and the different roles women play in preventing – as well as perpetuating conflict – and contributing to peacebuilding and economic development in post-conflict settings.

The gendered division of labour and structural gender inequality

While sex refers to the biological differences between males and females, gender refers to the socially constructed identities of men, women, boys and girls.⁴ Gender dynamics structure social life, assigning different characteristics and roles to males and females. Typically, the roles and traits associated with femininity are valued less than those associated with masculinity in many societies. An obvious example is the traditional gendered division of labour, historically constructed around a male 'breadwinner'. This division systematically subordinates women's participation in paid employment to that of men, while women have primary responsibility for unpaid household and family labour. This gendered division of labour is still deeply entrenched in most societies, with men expected to enter the public realm of business and politics, while women remain in the domestic domain, providing unpaid labour and care to family members.⁵

Women face numerous practical and structural obstacles in becoming active as economic actors, and when they succeed, they are underpaid compared to men and often locked into low-paid jobs.⁶ In most developing countries, women and girls have the highest illiteracy and poverty rates, and the lowest opportunities to acquire the education and skills necessary to fulfil their economic potential.⁷ Their economic activities, as a result, tend to orientate around unpaid or low-paid jobs. Gendered social norms, and stereotypes about women's conduct and lifestyle impose further constraints. Within the household, women are usually financially dependent on male family members and lack decision-making power and control over household assets. Structural barriers, such as women's lack of legal rights to land or resources, are further impediments. The case study on Sierra Leone in Section 2 describes one context where market women endure

pervasive discrimination, with their domestic subordination compounded by a gendered taxation system that allows male stallholders (the minority) to pay fixed rates of 1 percent to predominantly male tax collectors, while the women pay dues every day amounting to about 5 percent of their earnings. Husbands must also act as guarantors if women are to obtain loans from banking institutions.

Violence against women during and post-conflict

Structural and physical violence against women is a common feature of many societies during ‘peace’ as well as war. Sexual and gender-based violence against women during and after conflict often reach horrific proportions.⁸ Sexual violence against women is often used as a systematic weapon of war, as was the case in the Balkan wars where rape was an integral part of a military strategy to destroy the productive and reproductive capacities of enemy ethnic groups.⁹ The dehumanising and debilitating violence women and girls face during conflict does not cease post-conflict. In Burundi, the DRC and Rwanda, for example, it became more widespread in the post-conflict period.¹⁰ Domestic violence also spikes after conflict as brutalised or traumatised combatants return to their homes and communities.

Sexual and gender-based violence of this order can have dire economic, as well as social, repercussions. Because it is predominantly women who cultivate the land in countries like DRC, they are specifically targeted to ensure that entire communities cannot be sustained.¹¹

International efforts to reconstruct societies post-conflict can exacerbate, rather than reduce, violence against women, while at the same time missing opportunities to actively engage women and hence increase chances for positive impact. The gendered and socio-economic impacts of poppy-eradication programmes in post-conflict Afghanistan are not addressed by an international community that channels funds into them for instance, despite evidence that in the absence of economic alternatives to poppy, farmers frequently resort to ‘giving’ their daughters away to settle debt.¹² Women’s local knowledge of the whereabouts of weapons in their homes and communities, as well as involvement of local figures in war crimes, is often lost when consultation does not reach beyond traditional, male-dominated leadership structures.¹³

Women as combatants and combatant associates

Women and girls are increasingly involved in various conflicts around the world as combatants, a traditionally male role, as well as combatant associates, providing a critical labour pool that sustains armies and conflicts.

Though the majority of women and girls involved in fighting groups serve as combatant associates – cooks, carriers, spies or ‘combatant wives’ – a large number are active in combat roles in conflict zones around the world. In Nepal, it is estimated that one third of the Maoist fighters are women and in some districts the figure may be as high as 50 percent.¹⁴ Though not in such high numbers, women have played an important role as combatants in Sierra Leone and Colombia, and previously in Guatemala, Mozambique and Namibia.¹⁵ The rationale for women’s involvement as combatants vary. In Colombia, one woman said her main reasons for taking up arms were the lack of protection offered by the state and the sense of being a vulnerable target for abuse.¹⁶ In Nepal, women combatants cite economic survival as a reason for joining the Maoists who offered them a small basic salary. Personal security is also cited, since the majority of men from some rural communities have either been abducted, killed or joined the conflict.¹⁷ Female fighters are also said to be attracted to the Maoist cause because of its egalitarian attitude to gender relations and their hope that it will ‘liberate Nepali women’. In the Sierra Leonean conflict, women were said to represent up to 30 percent of the fighting forces; an estimated 12,000 girls, many of whom were abducted by rebel or pro-government troops, were actively involved.¹⁸ They were not just sex slaves, but frontline fighters, spies and even commanders who managed camps and planned raids, as well as cooks, medics and diamond looters. Post-conflict, such involvements place women in a double jeopardy, whereby return to their communities became difficult as they are stigmatised either for having fought or for their sexual activities, however abusive, during the conflict.

Female combatants and combatant associates are usually neglected in Disarmament, Demobilisation and Reintegration (DDR) programmes in post-conflict situations because they are not regarded as significant actors in ceasefire agreements, or are not involved in formal peace processes. Women rarely benefit from training and reintegration initiatives and, when they are included, provisions can be inadequate due to gender assumptions by intervening agencies.¹⁹

Women as peacebuilders and economic actors post-conflict

In spite, or perhaps because of, the continued physical and structural violence women face within the home and outside it both during and after conflict, they often become particularly active in local peacebuilding initiatives. Women’s groups and networks are often at the forefront of civil society initiatives to build peace, working as community mobilisers, mediators, and facilitators of dialogue and reconciliation initiatives between conflicting parties. There are numerous examples of such initiatives that have been very effective, such as the Women in Peacebuilding Network in Liberia, which was critical in bringing about an end to the fighting; and women peacebuilders in Bougainville, Papua New Guinea, who were able to access the rebel no-go zone and successfully lobby rebel

leaders to engage in peace talks.²⁰ Because women are not usually perceived as enemy combatants, they are not viewed as threatening and so are often able to work across conflict divides and activate peacebuilding initiatives.

Women often become involved in peacebuilding out of necessity, driven to address the insecurities that impact on their daily lives and threaten their and their families' survival.²¹ In conflict zones, restrictions on mobility due to insecurity impact on opportunities for generating incomes, as was the case in Uvira region of DRC's South Kivu province where accessing crops made women targets of attacks from the forests surrounding their fields. As described above, such attacks were part of a deliberate strategy to create starvation in the villages. In desperation the women organised a group to negotiate with militia leaders and request the cessation of the attacks.²²

Despite the high costs borne by women during and after conflict, war can create opportunities for women's greater participation in decision making at the household, community and national levels. Experiences in several post-conflict countries show potential gains in gender equality in the aftermath of violent conflict, for example in women's increased political participation as they mobilise to ensure their priorities are addressed during the transition. In South Africa, women who had advocated and fought against the apartheid regime secured post-conflict victory by insisting on linking the country's liberation with that of women in the post-conflict period. This led to new legislation and social priorities in budget expenditure, as well as changes to the electoral system designed to address structural obstacles to women's political participation as voters and candidates.²³ Rwanda, meanwhile, ranks first in the world for the highest number of women engaged in political decision making (48.8 percent), while other post-conflict countries, such as Afghanistan, Burundi, Mozambique, Namibia and South Africa, are in the top 25 (compared to the United State's 68th position, with just 15.2 percent).²⁴

The dramatic social disruption caused by conflict can also loosen up socially-gendered economic roles, with the traditional division of labour blurring as men are killed, wounded or otherwise absent due to fighting. Women and girls are often the survivors, or those who remain at home holding the household or local community together. In such contexts, out of necessity women can become the main economic providers, seeking economic opportunities outside of the home to sustain family members. In many fragile, war-affected economies, women are the first to embark on small enterprises.

Strengthening women's roles in broader peace processes

Women's peacebuilding work usually remains outside the formal political sphere and is typically not built into Track 1 processes. This is despite recognition of their critical

role at the highest policy levels: the adoption of UN Security Council Resolution 1325 on Women, Peace and Security in October 2000 was a watershed in this regard.²⁵ It is the first formal Security Council document to endorse the inclusion of civil society in formal peace processes; to require parties in a conflict to respect women's rights; and to support their participation in peace negotiations and post-conflict reconstruction. It particularly focuses on the importance of mainstreaming gender considerations into international peacekeeping initiatives. In the context of DDR, the resolution emphasises the specific needs of women who are either combatants or dependent on combatants.

Resolution 1325 has created international recognition of the importance of integrating civil society voices and gender perspectives in peace and security, and has been useful in raising awareness of women peacebuilders' work. Many organisations around the world, both local and international, are actively working to further strengthen this role.²⁶ But the systematic inclusion of women in Track 1 peace processes or DDR initiatives remains a goal rather than a reality. The UN has developed a system-wide action plan for the implementation of 1325 and a number of governments have developed, or are in the process of developing, their own national action plans.²⁷ However, as crucial as women peacebuilders' work is and despite progress at the policy level, many efforts lack funding or serious recognition in specific conflict contexts.²⁸

Businesswomen as peacebuilders

In all the case-study conflicts reviewed in Section 2, women have had, to one degree or another, limited access to education, land, assets and credit; limited influence on formal peace processes once underway; and little or no opportunity for reparation. For this reason, most women's peacebuilding initiatives that emerge from the case-study material – unlike those led by men – relate to activities at the grassroots level, where businesswomen engaged in informal micro-level business activity, such as handicrafts, second-hand clothing retail, or growing and selling produce in local markets as the means to address conflict issues.

Businesswomen are well placed both to address economic and conflict issues (which often overlap), and to help empower other women to do the same. A basic typology of peacebuilding activities led by businesswomen is presented below. Research for this book suggests that many more such examples exist, and this area is ripe for future, in-depth research.

Several of the case studies portray entrepreneurial initiatives that consciously target women in order to empower them and address gender inequality, while at the same time 'connecting' women across conflict divides. Other initiatives do not take an

explicitly gendered approach, but are the result of efforts by professional women leaders who have taken the lead in linking their economic activities with peacebuilding, to address conflict and security issues. The types of activities that emerge from the cases are: working for women's socio-economic empowerment; working with vulnerable populations; rebuilding social and economic security post-conflict; addressing conflict issues across divides; using leadership and professional skills to address conflict issues; and training and funding. There is overlap between these different activities, and some individual cases address more than one. However the typology is useful for highlighting the various dimensions of women entrepreneurs' peace and economic development work.

Working for women's empowerment

While addressing socio-economic inequalities between men and women is not a priority for most businesses in conflict-affected regions, women entrepreneurs may be attracted to such issues. The Three Sisters' Trekking Agency, based in Pokhara, Nepal where the tourism sector has been particularly hard-hit by conflict, is one example. The three women founders consciously chose to adopt inclusive hiring as a best-business practice to address the gender and caste-based, socio-economic inequalities that are at the root of the conflict by training and employing disadvantaged women from the region. In a country where women are discriminated against across ethnic and class divides, those of lower caste or indigenous origin face the greatest political and economic disadvantages. This is evident in the sphere of employment: while making up 42 percent of the workforce in Nepal, women earn between one third and one quarter less than men. At the same time, women have suffered disproportionately from conflict impacts – while also filling the ranks of the rebels.

While the sisters' work began prior to the eruption of the insurgency, and was therefore not a direct response to it, their activities address issues that are pertinent in the conflict context. It shows how a business explicitly committed to social justice and gender equality can survive in a conflict context by empowering women and providing a model of a business run by, and for, women.

Three Sisters' Trekking Agency, Nepal

One example of good business practice that addresses underlying conflict impacts is the Three Sisters' Trekking Agency (TSTA).²⁹ Established as a restaurant in 1991 by three sisters from Darjeeling, India – Lucky, Nikki and Dikki Chhetri – their business quickly evolved into a 'trekking company of women for women' with an underlying commitment to empower Nepalese

women. The launch of the TSTA coincided with growing dissatisfaction among women trekkers with their male guides. Accounts of harassment, swindling and rape were reported in local papers. The Chhetri sisters not only own the trekking company, they are also guides and accompany their guests on challenging routes.

Today, the agency is both an inspiration for many women and an example of how good practice can insulate business from the adverse impacts of conflict. The Chhetris have made an organisational commitment to be guided by egalitarian principles. “We want to support disadvantaged women and promote social justice,” said one of them. The agency employs 30 girls and women from underprivileged families, including Dalits (the so-called ‘untouchables’), and trains them to guide clients on their vacations. Twice a year, in partnership with the NGO Empowering the Women of Nepal, candidates from remote villages can participate in an intensive training course on sustainable tourism and trekking. At the end of four weeks, women have the opportunity to participate in an apprenticeship with the TSTA during which they earn full wages. Since 1999, between 10-25 women have participated in the training programme every year. The training serves a dual function. On the one hand, it generates economic opportunities for women from deprived rural areas. On the other, it brings together women from different backgrounds, regardless of caste and status, giving them a sense of equality and empowerment.

Many of the initiatives driven by women in Section 2 promote women's empowerment in one way or another. Some take a conscious, bottom-up approach to addressing socio-economic gender and class inequalities, as in the TSTA. In Burundi, the grassroots women peacebuilders’ network *Dushirehamwe* (meaning ‘Let’s Reconcile’) takes a specific gender and conflict-transformation approach in order to empower women and promote a sense of common ground across the ethnic conflict divide.

***Dushirehamwe* network in Burundi – restoring peace and strengthening livelihoods**

Since the eruption of the crisis in 1993, Burundian women have been active in establishing associations to work for peace at different levels. Alert, UNIFEM and the NGO Search for Common Ground sought to support their initiatives by providing financial, moral and technical support, including a ‘training of trainers’ programme in conflict-transformation techniques with a specific focus on gender issues. The objective of the programme was to strengthen the capacity of the women’s organisations so they could participate more effectively in the transformation of Burundi’s conflict.

The programme started in 1996 with 25 women from all ethnic groups, who were chosen for their active involvement in mobilising and raising women's awareness on conflict issues. Over 170 women trainers have subsequently taken part in activities on gender and peaceful resolution of conflicts and social transformation, and a further 210 community leaders have also participated. The leaders are responsible for more than 238 groups of returnees from the conflict, displaced people and people who 'remained on their hills'.³⁰ Activities have reached people in 13 of Burundi's 17 provinces.

The programme has given birth to other activities such as community discussion on the peace process and advocacy. Women now claim their right to participate in decision making from the bottom to the top of society. This is reflected in the high percentage of women in Burundi's political institutions: women make up 31 percent of the National Assembly and 35 percent of the Senate. A significant number of women have also been elected to Commune Councils, resulting in enhanced representation of women in local institutions.

Dushirehamwe's activities contributed to the creation of 238 groups composed of returnees and displaced people, bringing together individuals who work in the same field, such as agriculture, cattle rearing, arts and crafts, beekeeping, trading and food production. One such group, *Urunani Ababuza Mitima* ('Collective of Friends'), was established in the village of Mutaho, bringing together 250 women, 40 men and 30 young girls. The association started in 1998 when two women leaders who had attended the first *Dushirehamwe* training course on conflict-transformation techniques took the initiative to visit displaced camps and villages in the hills to discuss the situations there.

Seeing the extreme poverty, misery and idleness, especially in the IDP camps, the two women set up a farming cooperative because, as the Burundi saying goes, 'a hungry stomach has no ears'. The women started income-generating activities by cultivating pineapples on a four-hectare piece of land.

Selling what they grew enabled each group member to buy cloth and soap. This whetted their appetite to work together more, and now they also grow potatoes and beans. Because the women needed access to credit, they contacted the EU-funded *Programme de Relance de l'Economie du Burundi* (PREBU) and received a donation of cows and sheep. When the cows and sheep multiplied, the women gave some of the young to groups that had not been so lucky in their applications to PREBU. This gesture strengthened the chain of community solidarity.

Today the association is considered a model organisation that satisfies its members' basic needs and also helps the wider area, for example through distribution of seeds. It also serves as a model of how people can come together

around activities of common interest. In the past, people had negative stereotypes of each another. Today their common concern is how to improve agricultural production and produce a surplus to pay for school fees, healthcare and clothes, and which one day they could deposit in the local savings and credit cooperative.

The Sierra Leone Market Women's Association also takes women's empowerment as a starting point and addresses socio-economic gender discrimination. Among the majority of rural and low-income urban women dwellers, market women describe themselves as the 'poorest of the poor'. As women entrepreneurs, they face numerous obstacles, leading a group of them to set up an organisation to give voice to their needs and priorities.

Sierra Leone Market Women's Association

The Sierra Leone Market Women's Association (SLMWA) was established in 1996. Its members originally belonged to the Petty Traders' Association, the largest organisation representing traders and market sellers in Sierra Leone, but frustrated by the discriminatory way they were treated, a group of women splintered to form their own organisation. They complained that though they were all fee-paying members and contributed equally to the import of goods from Guinea, they did not benefit equally from the market status quo.

Launched on a voluntary basis with no full-time staff or external resources, the SLMWA has grown into a registered, nationwide NGO of around 6,500 women with five staff and a national executive fully supported through membership fees.

Transformation with micro-credit

After the war, the livelihoods of most market women were in ruins. With support from the Campaign for Good Governance (CGG), a national NGO that had previously provided them with financial and technical assistance, a recovery plan was devised that entailed a revolving loan scheme to enable market women to restart their trading and productive activities.

Micro-credit schemes have become fashionable with the World Bank, governments and development practitioners who see them as effective, poverty-alleviation mechanisms for poor women. Micro-credit not only generates financially sustainable lending institutions, it can also facilitate the institutional relations needed for furthering women's empowerment. Though this has not always been true in other contexts, micro-credit played a significant role in rebuilding the economic productivity and livelihoods of market women in Sierra Leone.

Taking advantage of a \$50,000 grant from the UK Department for International Development (SDFID) the SLMWA introduced micro-credit schemes in 2000 to increase the livelihoods of its membership. The project was launched by the UK's then development minister, Clare Short, in one of Freetown's central markets.

The SLMWA enjoyed a unique advantage from the micro-credit scheme because it was a grassroots organisation closely connected to women and their households. The scheme ran successfully, as evidenced by the wide access of market women to credit support. Some 90 percent of the credit fund was used to help the women, 70 percent of micro-credit recipients benefited from the support and nearly 80 percent of the loans were recovered. Based on the Freetown experience, micro-credit was later extended to market women in Bonthe, Bo, Kono, Makeni Kabala and Kambia districts.

The SLMWA's objectives include providing opportunities for members through the provision of loans, which increased the employment of borrowers in activities such as second-hand clothing and gara tie dying. This in turn provided employment to members of the borrowers' immediate families. Thus, the credit programme had a multiplier effect that contributed to the national development goals of creating economic self-sufficiency and improving standards of living.

The micro-credit scheme also transformed the women's perceptions of themselves, thus contributing to self-development. The scheme generated training opportunities for the SLMWA to increase its members' knowledge and skills, and to strengthen their perceptions of the dynamics of market competition. Apart from these gains, micro-credit benefited women by increasing their participation in local political organisations, awakening a sense of involvement in the economic reconstruction of their communities.

Though the experience with market women demonstrated that micro-credit could help them become more economically independent, there has been little change in other areas of their lives. Two of these are the division of labour between women and men for the provision of household income, and the distribution of household tasks. Market women continue to ensure that the family's basic needs are met, but they continue to do all the domestic work despite being successful entrepreneurs in their own right.

Working with vulnerable populations

Where women are employers, as in the Nepal case, or the Afghan weaving company supported by the Business Council for Peace described below, deliberately inclusive

hiring practices can be targeted at vulnerable populations. The Afghanistan case shows how outside agencies can encourage such practices through targeted support.

Livelihoods for widows in Afghanistan

The Business Council for Peace (Bpeace) is a New York-based NGO working to build the capacities of women entrepreneurs in countries emerging from conflict, and opening international markets for their products. It provides support to selected businesswomen in sequential stages over three years, changing the services and training provided as the business develops. Basic business courses and mentoring are provided in year one; accelerating demand and capacity are the focus of year two; and the provision of tools to help associates become vocal for peace takes place in year three.

In Afghanistan, Bpeace supports 19 businesswomen, employing over 400 Afghans in various industries, including apparel, construction, hospitality, consulting services and physical fitness. By supporting women who have already leapt the hurdle of providing sustenance and schooling for their families, Bpeace hopes to impact on a wider circle of Afghans whose livelihoods depend on them.

A 28-year-old mother of three, Bakhtnazira immediately impressed her Bpeace interviewers with her embroidered products, her commitment to business, and her grasp of her customers and the local market. Bpeace learned that CARE International was offering a one-year grant to an Afghan women entrepreneur, and was prepared to fund a retail shop and workshop for 30 widows who had been trained to sew. Bpeace helped Bakhtnazira think through the CARE grant application and translate her ideas into a brief business plan. After interviewing several candidates, CARE selected Bakhtnazira and the new retail dress shop was launched in Kabul.

The widows enjoyed the independence their salaries gave them. Bpeace is still assisting Bakhtnazira to secure more commercial contracts. Her first was producing curtains for a security firm.

Some sub-projects facilitated by *Dushirehamwe* also targeted returnees from refugee camps together with women in receiving communities in rural areas of Burundi. Creating environments for collaboration towards meeting joint needs assisted significantly in the reintegration of the returnees. The collaborative income-generation initiatives facilitated by *Dushirehamwe*-trained community leaders trained have in some instances engaged youth and men in order not to create tensions through an exclusively female focus.

The Abkhaz Union of Women Entrepreneurs, based in the unrecognised entity of Abkhazia, also supports both men and women in developing business skills and opportunities. Though it initially started working with Abkhaz women in joint entrepreneurial activities, its training and grants are much sought after by men as well. By bringing women from different regions of Abkhazia together for business training, it not only empowers women but also works across social and ethnic divisions to build peace. The Union also works with Georgian Abkhaz entrepreneurs in the border region of Gal/i, where the ethnic Georgian population has been marginalised by both Georgia and Abkhazia and faces a lack of opportunities. The Union deliberately targets this vulnerable population, knowing that joint economic and training activities will serve to build bridges and prevent further division between communities.

The Abkhaz Union of Women Entrepreneurs

The Abkhaz Union of Women Entrepreneurs was founded in April 2002 by a group of enthusiasts led by an Abkhaz businesswoman, and involves successful entrepreneurs, mostly women, but also men. Their businesses include hotels, farms, construction companies, trade and others. Since its inception, the Union has developed into a resource centre and an incubator for SMEs in Abkhazia.

The Union's aim is to assist entrepreneurs with training, and low or no-interest credits and grants for business start-ups. To date, it has implemented projects in partnership with DFID, International Alert, the Swiss Agency for Development and Cooperation, the Swedish NGO *Kvinna till Kvinna*, UN Volunteers and UNHCR. So far, several training courses and 15 small businesses have been the outcome.

The organisation is one of a few prominent Abkhaz NGOs, and is staffed by ethnic Abkhaz. However, it is committed to SME development throughout Abkhazia and across ethnic divisions. The head of the Union was the driving force behind an initiative to involve Georgian returnees in Gal/i, Ochamchira and Tkvarchal/i districts, where poverty levels and war devastation are the highest in Abkhazia. The widening gap between rich and poor, and between the regions, creates a potential for violence. The divisions between haves and have-nots coincide with ethnic division, which is dangerous in a society that has been through conflict.

The project pioneered a series of trainings and a grant competition for start-up entrepreneurs in Gal/i. The first trainees included the owners of a small gift shop, a tailoring business, a bakery, a small poultry farm and a centre offering free and paid training courses. The pilot training and grant competition project were started with finance from Union members with no external assistance. ►

It is the first and only Abkhaz initiative to generate business activity in a district with a Georgian population, and where there is no other private sector input or development. The leaders of the Union say their motivation is to develop an independent private sector in Abkhazia, because its members believe that private initiative, hard work and enhanced skills will provide affirmation and hope to entrepreneurs. It is their hope that they will become pioneers who break the cycle of hardship and helplessness, and ensure a breakthrough in the Abkhaz economy.

Rebuilding social and economic security in post-conflict societies

When it comes to reconstruction, some of the earliest pioneers are women, who often constitute the majority of a post-conflict population. While international reconstruction efforts play an important role, local economic revival by individuals with no other choice but to develop strategies for their basic survival is also essential.

The *Dushirehamwe* network is illustrative in this regard. By bringing women together across the ethnic divide and identifying common priorities, its members recognised that displaced persons, the majority of them women and children, could not address conflict issues while confronted with economic insecurity. *Dushirehamwe* devised a strategy of combining joint economic activities with addressing the security needs. Working across ethnic divides helped to strengthen cohesion and the bonds of solidarity between group members. In many districts, income-generating projects have been developed across the conflict divide in order to meet the basic needs of all. These practical initiatives provided concrete, inter-ethnic peacebuilding examples for others to follow.

Another project that highlights women rebuilding economic security in a post-conflict context is the case of the Sierra Leonean market women. While they do not take a particular conflict-transformation approach as in Burundi, their grassroots mobilisation has made a large contribution to post-conflict economic reconstruction, as already discussed. The initiative had the double effect of rebuilding economic security while empowering women to address the gender inequalities and structural obstacles to women's economic activity. This set precedents for other women to follow and contribute to economic and political progress, and to tackle the inequalities that lie at the root of conflict.

Addressing peace and economic issues across the conflict divide

In conflicts where ethnic, religious or political divides have been the causes of tension, trust building is a critical first step towards peacebuilding. Women are often the initiators of such confidence-building initiatives, many of which have

been presented in this chapter. As the *Dushirehamwe* case study demonstrated, creating joint economic projects across ethnic conflict divides is an effective method of conflict prevention. In South Caucasus, the Abkhaz Union of Women Entrepreneurs initiative contains a number of peacebuilding elements. In building economic bridges across the ethnic divisions within Abkhazia, the Union is creating a spill-over effect on the larger conflict context of the blockade between Georgia and Abkhazia, and setting a precedent for cross-border economic and peacebuilding cooperation.

The studies show that confidence building is a difficult process, but that women have been successful at it. The creation of trust is also crucial to the launch of joint business ventures that will benefit both parties to a conflict. Once this initial hurdle is overcome, the development of successful joint businesses further consolidates confidence building and interdependence.

Bpeace also recognised the potential of cross-conflict economic links between women in the Middle East, where the organisation has used its convening power to bring together businesswomen from Israel and Palestine to foster joint ventures and create socio-economic, win-win situations. Examples such as this, as well as others discussed elsewhere in this book (see Chapter 3), show that external facilitation is frequently necessary to make these initial contacts possible, as conflict contexts in many cases make it difficult for individuals to meet across the divide.

The 'Jerusalem Candle of Hope'

The 'Jerusalem Candle of Hope' was a joint venture that combined the handiwork of Palestinian and Israeli craftswomen, many of whom are their families' sole breadwinner. Through correspondence and a mission to the Middle East in 2004, Bpeace identified Israeli candle-makers from northern Israel and Palestinian embroiderers from the villages around Bethlehem. While they cannot work side by side, the women have developed a joint product as a result of Bpeace's facilitation: the Israelis make lamps of beeswax to hold votive candles, which are sold along with pouches embroidered by Palestinian women. The 2004 holiday season saw the sale of 4,000 candles and pouches.

Using leadership and professional skills to build peace

While many examples referred to in this chapter deal with grassroots issues, businesswomen also use their leadership and professional skills to work on conflict issues at national and regional levels. Though the Sri Lanka First case study discussed below does not take a gendered approach or address women's

issue, it is an example of an individual successful businesswoman who was instrumental in mobilising a popular movement calling for peace talks between the conflict parties. Neela Marikkar made use of her marketing, advertising and public relations skills to raise awareness of the cost of war and the economic need for a negotiated solution. Reaching out to business leaders across Sri Lanka and internationally, she helped to transform the war into a national demand for peace in the run-up to elections.

A Sri Lankan businesswoman mobilising for peace

Neela Marikkar is president of Sri Lanka First (SFL), a group of business leaders advocating a negotiated settlement between the government and the Liberation Tigers of Tamil Eelam (LTTE). In her efforts to promote peace, stability and development, she has worked with the UNDP, the government and the country's Chamber of Commerce with the aim of reviving Sri Lanka's war-torn economy and increasing foreign investment.

Marikkar is managing director of Grant McCann-Erickson, a member of the McCann-Erickson Worldwide network, and has worked in advertising, promotions and public relations for over 20 years. In addition to the many other communications programmes she initiated on the costs of war, she worked on 'Turning Point', a 21-episode television series that educates Sri Lankans on the causes of the conflict and the issues that will arise during any transition to peace. Her goal is to build support for the compromises both sides will have to make to ensure that peace is sustainable.

In her own words: "Of all of the events that brought the war into our lives, the attack on 24 July 2001 [on Colombo airport] was the turning point. Our national carrier lost half its fleet, which had been parked on the ground for the night. Because the air force shares a runway with the commercial airport, eight of its 11 aircraft were destroyed as well.

"All over the world, there were severe warnings not to visit Sri Lanka because it was dangerous. Insurance premiums went up. Every aircraft that wanted to land was charged \$150,000. Every passenger who got off would pay \$80. Every ship that called at our ports would be charged \$100,000. It meant that tourism, one of our key industries, crashed overnight. It meant we couldn't get our exports out, and tea exports are a major source of revenue. It meant we couldn't get food and other imports in because the ships had stopped calling.

"This was a dire situation. We'd had terrible media fallout internationally so I volunteered to do damage control with a group of people directly affected by

the fallout. While working with this group and looking at what went wrong with airport security, I came to the realisation that patchwork wasn't enough. There is no fence high enough to guarantee security, so putting up a 10-foot electric fence wasn't the answer. Bringing in a foreign security company to take care of the airport wasn't the answer either. Going back to the root cause was the answer. The only way to stop terrorism was to stop the war, and the only way to stop the war was to get back to the negotiating table.

“The more I thought about it, the more it was clear I had to get a group together to start looking at the conflict in our country. We started reaching out to other business leaders who were reeling from the impact of the bombing. We knew that one more attack would cause business in the country to collapse. People would have no jobs. The repercussions were very, very serious.

“The 24 July attack was a wake-up call for the Sri Lankan business community. It was time to get involved and pressure our political leaders to put the interests of the country ahead of their party agendas. We called ourselves Sri Lanka First. The idea was that we had to put the country first - not our businesses.

“Political leaders don't always pay attention to what individuals or businesspeople have to say; they do what they think the voters want. Those of us in SLF knew we had to have grassroots support. We felt that Sri Lankans would back peace negotiations if they knew what the war had cost the country over 20 years – what it had done to us economically and psychologically. So we launched a media awareness campaign through newspapers, radio and television in the north and the south. We had poster campaigns, distributed leaflets through retail outlets and held community meetings in rural areas where mainstream media do not penetrate. We went all out to educate people about the cost of the war – and about what we had lost, and would lose, if we didn't get our leaders to work toward a settlement.

“The high point of our campaign was a peaceful demonstration. We had advertised widely, asking everyone to step outside at noon on 19 September 2001 and hold hands to let the government know that they wanted peace. It was an experiment. We didn't know whether anyone would really come out and stand.

“I woke up that day thinking: ‘What if nobody comes out?’ That was a tremendous concern, especially because the 9/11 attacks in the United States had happened just a week before. We came under severe criticism from the media because the whole world was saying: ‘We've got to wipe out terrorism’. And we were saying: ‘No, we want to talk. Let's try to resolve this through negotiation. Let's not continue this war’.



“The extreme voices were loud about not talking to terrorists, but we took a deep breath and went ahead. Out of a population of almost 18 million, more than one million people came out into the streets. It was an amazing sight. They poured out of their homes and offices and stood holding hands for 15 minutes in the midday sun. Reuters reported that people came out even in the north, in the LTTE-controlled areas we didn’t have access to.

“The turnout on 19 September proved to Sri Lanka’s political leaders that our people were committed to peace. We were able to marginalise the extreme voices and empower the silent majority – the moderate voices – by organising this very simple demonstration. You just had to come out of your building. You didn’t have to hold cards or protest. It was a very gentle display of solidarity.

“Not long after the demonstration, the government faced a no-confidence vote. Since it seemed likely that it would lose the vote, parliament was dissolved and we had new elections. SFL was active, urging people to vote for candidates who stood for a negotiated settlement. We didn’t care which party won because we believed that such candidates in parliament would work toward a positive outcome for peace.

“A new government won on the peace mandate and a week after they took office, the LTTE declared a ceasefire, saying that for the first time it saw that the people wanted peace. Our government reciprocated on 24 December and since then we have had a cessation of hostilities. A final ceasefire agreement was signed in February 2002 and is still holding.”

This case study is based on a profile of Neela Marikkar included in Women Waging Peace ‘In Their Own Voices’. See www.womenwagingpeace.net

Providing training and funding

Many of the initiatives reviewed contain elements of training and funding to strengthen businesswomen’s roles in post-conflict economic reconstruction; some are initiatives by external organisations, others are home-grown, self-help initiatives. In the Nepal study, the women entrepreneurs provide training and a safe, empowering space for women from disadvantaged sectors of society to learn and work together. The Burundi case demonstrates the potential of gender and conflict-transformation training of trainers, and the cascade effect they can have on empowering women economically, and reaching out to motivate a wide spectrum to build peace and address socio-economic gender inequality.

The Abkhaz case includes examples of training in practical business skills, such as business plan writing. Though the examples of training and funding have

peacebuilding elements, most, except for the Burundi case, do not explicitly include conflict transformation and peacebuilding training, or are necessarily linking up with peacebuilding actors.

Bpeace mobilises businesswomen from New York to provide skills training, business and marketing advice, financial support and distance mentoring. Their work is based on the belief that women play an important role as economic actors in conflict and post-conflict settings, and that supporting them to grow sustainable businesses is crucial for broad-based post-conflict, socio-economic rehabilitation. It is also essential for strengthening women's confidence in taking a pro-active role in the reconstruction of their livelihoods and societies.

The case study on Sierra Leone highlighted the role played by micro-credit in rebuilding the livelihoods of market women, as well as helping them to become more self-sufficient and assertive. However, there has been little change in other areas of the women's lives. Market women continue to be the ones that ensure the survival of the family and that its basic needs are met. Although most of the women who participated in the micro-credit experiences are successful entrepreneurs, they continue to do all the domestic labour.

When development agencies or private sector agents target women for economic initiatives, it is important that a 'double burden' is not placed on them through oversight of their gendered role at home. Although micro-credit is a good entry point to support women entrepreneurs, it is not a stand-alone solution. If inequalities are to be challenged, building the potential for women's engagement in more substantial businesses needs to be a parallel focus, alongside equal access to education, training and the assets from which businesses can be developed.

In post-conflict situations micro-credit schemes can also be instrumental in re-engaging the targeted community in legitimate economic activities, as the Sierra Leone case underlined. With sufficient resources and training, these small businesses can develop into medium-sized enterprises.

Different actors involved in business initiatives supporting women and peacebuilding

There are a number of key actors that emerge from the case-study material whose contribution warrants further research. First and foremost of course, the women themselves who are able to motivate others at the community level towards collaborative efforts and to communicate across conflict divides. Here, support for the women's peacebuilding capacities may be enhanced through conflict-transformation training, as illustrated by the studies in Burundi and the South Caucasus.

Resourcing such local initiatives is key to sustainable peacebuilding, as is the creation of opportunities for small business development and poverty alleviation that are sensitive to conflict dynamics and women's potential. Donors or micro-credit lenders are therefore another set of key actors. In terms of providing training and support for women, local, national and international NGOs and UN agencies, such as UNIFEM, have appropriate, capacity-building expertise. The challenge is to combine peacebuilding strategies and initiatives with business development assistance to women.

The support of national and local government structures in ensuring equitable access to resources, such as land, loan schemes, markets and education is critical if women's micro-businesses are to grow and fulfil their economic potential. This support should be based on legislation and practice that establish women's legal entitlement to equality of access to resources. Support and attention to women entrepreneurs by the national and local business community and chambers of commerce are also critical for the future role of women in business, and their ability to engage in peacebuilding.

A multitude of businesswomen networks, and women's peacebuilding organisations and networks would benefit from working more closely together.³¹ One international businesswomen's organisation that provides support to women in developing countries, and also works on women and peacebuilding advocacy is Soroptimists International, a member of the UK's Gender Action for Peace and Security network.³²

Conclusions

Women are faced with unequal gender dynamics both in the domestic and the public sphere, involving lack of access to resources, education and economic opportunities as well as inequality and discrimination. Despite or perhaps because of these structural obstacles, as well as the high levels of gender-based violence often experienced by women during and after conflict, women can be the most active agents of peacebuilding and reconciliation initiatives across conflict divides and in mobilising their communities for peace. Moreover, they are critical economic actors in rebuilding post-conflict societies and can combine peacebuilding and economic initiatives especially at the grassroots level in innovative ways. Peacebuilding strategies need to target women entrepreneurs in order that this potential is reinforced.

Lessons for the business community and other actors

Empowering women

Businesses themselves need to ensure that their employment policies and practices in the workplace are inclusive and sensitive to gender dynamics, ensuring equal

pay and opportunities, especially for those women who face double discrimination due to class, caste, ethnicity, race, religion, marital status etc. External actors can provide training and access to credit that offers opportunities for women to engage actively in the economic sphere. Micro-credit has played an important role economically, often seeing that the entire family and community benefits; however, financing must be accompanied by women's social and political empowerment if structural gender dynamics are to be addressed. Failure to do so can place a double burden on women, who are forced to juggle both primary economic provision in addition to familial and domestic responsibilities. In conflict-prone societies financial interventions to support women entrepreneurs should take account of conflict dynamics and seek not to reinforce them.

Reconciliation led by women

Women often share similar experiences and priorities with women from the 'other' side and can find common ground as women to support social and economic peacebuilding initiatives, which cut across conflict divides. Because women are at the heart of communities, economic cooperation and joint training activities can not only strengthen women's confidence in taking a pro-active role in the reconstruction of their communities' livelihoods, but also assist in initiating reconciliation of relations between divided communities and former enemy groups.

Enabling change

All actors should use their influence in lobbying national governments and local authorities to address unequal gender dynamics by ensuring women have equitable access to resources such as land and capital and to opportunities in both education and employment, both in legislation and in practice. Advocating for women's full participation at all levels in peace processes and political decision-making can facilitate the conditions and opportunities for economic development of the poorest sectors of society and support women's entrepreneurial activities.

Alliances with women peacebuilders

Strategic alliances between business networks and women peacebuilding groups can be a powerful route to reinforcing peacebuilding interventions. Women peacebuilders would benefit from working with businesses by exchanging strategies, learning practical business skills and accessing resources and training.

Supporting organisations

Local, national and international organisations can play an important role in supporting women's groups. This can occur in a myriad of ways such as by directly providing training, resources, networking and support to women's groups in conflict-affected areas in order to promote them, and their economic and peacebuilding potential. It is also critical for gender issues to be integrated into planning and implementation of broader initiatives.

Endnotes

- 1 From Cattai, M. L. (2005) 'The Women Vector' Open Democracy Debate focus on Women, Peace and Security. Available at www.opendemocracy.net/democracy-resolution_1325/economy_2978.jsp
- 2 See International Alert and Women Waging Peace (WWP) (2004) *Inclusive Security, Sustainable Peace: A Toolkit for Advocacy and Action* (London, UK: Alert/WWP); El-Bushra, J. (2003) *Women Building Peace: Sharing Know-How* (London, UK: Alert); and Rehn, E. and Johnson Sirleaf, E. (2002) *Women, War, Peace: Progress of the World's Women, Volume 1* (New York, US: UNIFEM).
- 3 Mayoux, L. (2000) 'Micro-finance and the Empowerment of Women: A Review of the Key Issues' *Social Finance Unit Working Paper No. 23* (Geneva, Switzerland: International Labour Organisation); Chant, S. (1997) *Women-Headed Households: Diversity and Dynamics in the Developing World* (New York, US: St Martin's Press); OECD (1998) *Women Entrepreneurs in Small and Medium Enterprises* (Paris, France: OECD); and Brambilla, P., Bell, E. and Sever, C. (2001) 'Gender and Microcredit: Useful Resources' *Bridge Report No. 61* (Brighton, UK: University of Sussex). Available at www.bridge.ids.ac.uk/reports/r61%20microcreditw2web.doc.
- 4 Often, sex and gender are used interchangeably. This means that 'gender' issues are mistakenly viewed as synonymous with 'women's' issues. This chapter takes a gender-specific approach but focuses on the role and potential for women entrepreneurs in support of peacebuilding, as women's roles have historically been far less documented and warrant specific study.
- 5 Kandiyoti, D. (1988) 'Bargaining with Patriarchy' *Gender and Society* Vol. 2, No.3; Kabeer, N. (1994) *Reversed Realities: Gender Hierarchies in Development Thought* (London, UK: Verso); Elson, D. (1995) *Male Bias in the Development Process* (Manchester, UK: Manchester University Press); and Stichter, S. and Parpart, J. L. (eds.) (1990) *Women, Employment and the Family in the International Division of Labour* (Basingstoke, UK: Macmillan).
- 6 See Key Indicators of the Labour Market (KILM) programme of the International Labour Organisation. Available at www.ilo.org/public/english/employment/strat/kilm/
- 7 See gender-related data in UNDP (2005) *Human Development Report 2005* (New York, US: UNDP). Available at hdr.undp.org/reports/global/2005/pdf/HDR05_HDI.pdf. Also see publications at www.mdgender.net/
- 8 For a discussion of sexual and gender-based violence see Spees, P. (2004) *Gender Justice and Accountability in Peace Support Operations: Closing the Gaps* (London, UK: Alert); and International Alert et al. (2005) *Women's Bodies as a Battleground: Sexual Violence Against Women and Girls During the War in the Democratic Republic of Congo, South Kivu (1996-93)* (London, UK: Alert).
- 9 See Allen, B (1996) *Rape Warfare: The Hidden Genocide in Bosnia-Herzegovina and Croatia* (Minnesota, US: University of Minnesota Press); and Human Rights Watch (HRW) (2000) *Kosovo: Rape as a Weapon of 'Ethnic Cleansing'* (New York, US: HRW).
- 10 See Human Rights Watch (2002) *The War within the War: Sexual Violence against Women and Girls in Eastern Congo*. (New York, US: HRW); *Shattered Lives: Sexual Violence during the Rwandan Genocide and its Aftermath* (1996) (New York, US: HRW); and International Alert et al. (2005) *Women's Bodies as a Battleground* op. cit.
- 11 International Alert et al. (2005) *Women's Bodies as a Battleground* op. cit.
- 12 Adrian-Paul, A. and Naderi, P. (2005) *UN SC Resolution 1325, Women, Peace and Security: Issues and Instruments - The Afghan Context* (London, UK: Alert and Afghan Civil Society Forum).
- 13 See Johnston, N. et al. (2005) *Putting a Human Face to the Problem of Small Arms Proliferation: Gender Implications for the Effective Implementation of the UN Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All its Aspects* (London, UK: Alert).
- 14 'Maoist Leader: Women Driving Movement', National Public Radio, 5 May 2006. Available at: www.npr.org/templates/story/story.php?storyId=5387419&ft=1&f=1004
- 15 For example, see McKay, S. and Mazurana, D. (2004) *Where are the Girls? Girls in Fighting Forces in Northern Uganda, Sierra Leone, and Mozambique: Their Lives During and After War* (Montreal, Canada: International Centre for Human Rights and Democratic Development).

- 16 Personal communication with author in 2004.
- 17 See Gautam, S. (2001) *Women and Children in the Periphery of Peoples' War: Study of Women Living in Conflict Situations in South Asia* (Montreal, Canada: McGill University); and Johnston, N. (2003) *UNSC Resolution 1325: South Asian Women's perspectives* (London, UK: International Alert).
- 18 *International Herald Tribune*, 12 March 2004. Available at www.womenwagingpeace.net/content/articles/0393a.html
- 19 See chapter on DDR in International Alert and WWP 'Inclusive Security, Sustainable Peace', op. cit.; and UN Development Fund for Women (2004) *Women, War, Peace and Disarmament, Demobilisation and Reintegration* (New York, US: UNIFEM). Available at www.womenwarpeace.org/issues/ddr.htm
- 20 For example, see Baksh, R, Etchart, L., Onubogu, E. and Johnson, T. (eds) (2005) *Gender Mainstreaming in Conflict Transformation: Building Sustainable Peace* (London, UK: Commonwealth Secretariat); International Alert and WWP (2004) 'Inclusive Security, Sustainable Peace' op. cit. Also see ISIS-Women's International Cross-Cultural Exchange website at www.isis.or.ug/
- 21 El-Bushra, J. (2003) op. cit.
- 22 International Alert et al. *Women's Bodies as a Battleground* op. cit.
- 23 Naraghi-Anderlini, S. (2004) *Transforming the Security Sector: Women in South Africa's Transition to Democracy* (Washington DC, US: Women Waging Peace).
- 24 See 'Women in National Parliaments' at www.ipu.org/wmn-e/world.htm
- 25 UN Security Council 'Resolution 1325 (2000) on Women, Peace and Security'. Available at www.un.org/events/res_1325e.pdf
- 26 See www.peacewomen.org and www.womenpeacesecurity.org for more information.
- 27 UN Security Council (2005) *Report of the Secretary General on Women and Peace and Security S/2005/636* (New York, US: UN).
- 28 See Alert and WWP 'Inclusive Security, Sustainable Peace', op. cit.
- 29 See www.3sistersadventure.com/
- 30 The key community-level administrative unit in Burundi is the *colline*, or hill, each of which comprises approximately five villages. There is often tension between people who 'remained on their hill' and those who were either displaced internally (mainly Tutsis), or fled abroad (mainly Hutus).
- 31 This includes, for instance, the World Association of Women Entrepreneurs, available at www.fcem.org/www/default.asp. For a list of national businesswomen's associations, see rru.worldbank.org/External/psd-gender/
- 32 See www.soroptimist-gbi.org/. The Gender Action for Peace and Security network (GAPS) was formerly known as the UK Working Group on Women, Peace and Security.

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Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector

Case study
Afghanistan*

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Afghanistan

Afghanistan: exploring the peacebuilding potential of the private sector

Antonio Giustozzi

The Afghan conflict lasted 24 years and, despite its complexity, evolved through several distinct phases. It began as a popular insurrection against a revolutionary regime (1978-79), but evolved into a jihad against occupation by the Soviet Union (1980-89). After 1989 it mutated into a civil war between the communist regime and its enemies (1989-92) but, after the collapse of Soviet communism, it continued as a civil war between the factions. From 1992 onwards, central government effectively collapsed, but while factional fighting was rare in the south, southeast and east from 1992-94, lack of policing and the existence of roaming bands of gunmen led to large-scale abuses against the civilian population, including rape, summary killings and repeated looting.

Partly as a result of the loss of external support brought about by the end of communism, military commanders increasingly faced the problem of how to fund their armies in the face of the civilian population's declining propensity to contribute to the war effort.¹ Warlordism became a prominent feature of the Afghan conflict from this point, though its origins can be traced back to the early years of the war.² Though not the only factor sustaining conflict, revenue collection became a dominant preoccupation for factional leaders, increasing predation on the civilian population, and stimulating their involvement with international criminal networks.

In reaction to these conditions, an extreme movement such as the Taliban, with its promise to restore order, found it fairly easy to win acceptance. From 1994, the conflict increasingly pitted Afghanistan's various factions and warlords against the Taliban, which captured Kabul, the capital, in 1996. This phase of the conflict came to an end in 2001, due to the direct intervention of the United States on the side of the anti-Taliban coalition, known as the United Front.

The legitimacy of the warlords had started to wane in Afghan eyes with the withdrawal of the Soviet Army in 1989,³ but the end of the war against the Taliban in December 2001 was another major turning point. Soon, social groups other than the military class represented by the commanders began to reassert themselves. The educated class began to claim entitlement to positions of responsibility while the old landed elite cautiously attempted to play a public role, with some success in the tribal areas of south and east Afghanistan. The commanders' response was to entrench themselves in the state administration and police. Distribution of power at the local level remained an unresolved issue at the time of writing.

The ability of the state to maintain a monopoly on power and the overall effectiveness of its institutions are central to the future stability of Afghanistan for two reasons. First, the continuing weakness of the state allows local conflicts to develop into challenges to central authority, as shown by a number of violent protests in Herat, Maimana, Jalalabad and other regional capitals from 2003-05. Second, the government's adoption of centralising policies has the potential to backfire and foster new conflicts by antagonising regional forces. As of 2005 the main conflict actors in Afghanistan were a number of regional strongmen: former warlords trying to turn into politicians and tribal leaders seeking a share of state power.

Following the US-led intervention, international efforts to rebuild Afghanistan had seen over \$13.4 billion pledged, \$9 billion committed and almost \$4 billion disbursed by early 2005, although projects worth just \$900 million had been completed. In dollars per capita, Afghanistan ranks slightly below the average for recent international reconstruction efforts.⁴ The slow speed of reconstruction is typical of externally financed efforts whereby more or less generous pledges must first be approved by complex expenditure-monitoring mechanisms in donor countries, and where political will can all too easily dampen once the particular disaster falls off the pages of international news. Surveys and planning then have to occur and large projects take a long time to complete even once they have started. Security concerns have also delayed many projects.

The task of addressing the problem of the military class and its dominant role in society fell to the UNDP through a campaign to disarm the legal militias incorporated under nominal control of the Ministry of Defence. After lengthy planning, UNDP initiated a \$167 million Disarmament, Demobilisation and Reintegration (DDR) programme at the end of 2003 that offered militiamen a series of incentives, including a food package and the opportunity to join a reintegration programme. Despite many setbacks, DDR was nearly complete by mid-2005 and a new phase was underway to disarm and demobilise the significantly larger number of 'illegal' militiamen. Given that many of these illegal militias appeared strongly opposed to disarmament, it seems likely that this new phase could lead to significant increases in tension.

Afghanistan's economy: between war and peace

Different models of warlordism emerged through the 1990s in the regions of Afghanistan.⁵ Each had its own implications for the local economy and business sector. The main actors and regions are reviewed below. This paper will then proceed to an overview of the wider economic situation.

Different models of warlordism

One-man rule was established in western Afghanistan (Herat), where Ismail Khan proclaimed himself *amir* and set up something resembling a traditional Islamic emirate, relying on the customs revenue produced by trade with Iran.

Northern Afghanistan saw a number of factional organisations, with one dominant grouping (*Junbesh-i Milli* of General Rashid Dostum) sometimes competing, sometimes cooperating with two other political factions, the regional branch of *Jamiat-i Islami*, led by Ustad Atta, and the local branch of *Wahdat-i Islami*, a Shi'ite group led by Mohammad Mohaqeq. This factionalised environment encroached on the various pillars of society, including business. One outcome has been that entrepreneurs or traders have not been able to prosper without a relationship with one or other of the main factions.

In northeast Afghanistan, the lack of a strong centralising figure led to a multitude of medium-level local commanders controlling a few districts each. In part due to the absence of any large city in the region (none of the provincial centres of Kunduz, Toluqan, Pul-i Khumri or Faizabad exceeds a few tens of thousands of inhabitants), large businesses have failed to emerge. As a result, the middle-ranking warlords who dominate the northeast are not as active in the legal economy as their larger counterparts in the north, tending to focus on exercising as much control as possible on the drug trade, which is deeply entrenched in the region.

In the central region, the economic interests of the Panjshiri warlords gravitated around Kabul where some of them, chiefly Marshal Mohammad Fahim, minister of defence from 2001-04, imposed a firm grip on a number of key businesses, including the first Afghan mobile telephone network and the property market. Smaller commanders were more interested in occupying positions in central government than business, possibly due to the lack of financial resources (the drug trade has never been rife in this region).

In the east, the main centre is Jalalabad where the local governor's family plays a central role in the economy. The situation there is similar to that in the southern city of Kandahar where Governor Gul Agha, together with the family of President

Hamid Karzai, share a strong influence over local businesses. However, the Jalalabad environment is not as strongly tribalised as that of Kandahar where Gul Agha established himself as the unchallenged leader of the Barakzai tribe and privileged his followers over those belonging to other tribes. In both regions, strong military leadership failed to develop during the *jihad* period and as a result warlordism did not emerge on any significant scale, although this did not necessarily create a more positive environment for civilians.

Overview of the war economy

Afghanistan's economy changed significantly during the many different phases of the war. The importance of agriculture and livestock declined, not because of outright destruction but due to outward migration, and the subsequent abandonment of fields and villages. Internal trade also suffered greatly; crossing the frontlines between factions was difficult and often impossible. Most of Afghanistan's industrial base disappeared, especially after the collapse of the communist regime. A few factories remained active, primarily in northern Afghanistan, but their profitability declined because of lack of investment and maintenance. A few mines (precious stones, salt) remained active because they provided a reliable source of revenue to armed groups and did not require much investment. But the promising gas and oil industry went into steep decline after Soviet withdrawal, with production ceasing entirely in 1997. By contrast, external trade expanded, not least because of the collapse of state control, which made smuggling easier. This expansion went hand in hand with the rise in poppy cultivation, which existed before the war but grew massively during the years of *jihad*.⁶ Because narcotics had to be exported to be profitable, foreign currency became available for importing goods into Afghanistan, although much of it was also invested abroad.

Although militias levied taxes on farmers in most parts of Afghanistan, their main sources of income were customs and 'road tax', in addition to drug smuggling. From 1992, the majority of conventional businessmen moved their operations abroad, chiefly to Pakistan and the Gulf, leaving the economy open to a new generation of entrepreneurs who worked closely with the militias and were ready to adopt a 'high risk/high return' approach to making profits in a civil war context.

Without doubt, the single biggest change in the economic landscape was the rise of the drug economy to its current prominence.⁷ By 1990, Afghanistan's poppy area already covered 41,000 hectares, following a period of stagnation (at around 30,000 hectares) throughout the 1980s. An even steeper increase started from 1992 when central government collapsed. Apart from some fluctuations caused by climatic variations, the increase was steady until 2001, never falling below 54,000 hectares. In 2001, a ban enforced by the Taliban cut the harvested area to 8,000 hectares but, with the fall of

the regime, crop recovery was quick and by 2002 poppies covered a surface area of 74,000 hectares. Although the profitability of the drug economy is diffused due to the presence of a multiplicity of actors, ranging from 250-350,000 farmers to many local commanders, traders and warlords, its overall size and significance became a key driver in pushing the warlords and local strongmen to seize control of the state structure after 2001 in order to protect the trade, and their role within it.

The post-war economy

With an estimated annual GDP of \$5 billion in 2004 (excluding the shadow economy), the legal economy is overwhelmingly based on trade, although the construction industry experienced a boom in 2003-05, largely fuelled by drug money.⁸ Agriculture, which accounts for 64 percent of the total, provides a livelihood for the majority of Afghans, but is still in the process of recovering from the war. Livestock (4 percent of GDP) suffered terrible losses due to war and drought; the average family owned 1.22 cattle in 2003, compared to 3.7 in 1995. Farming is expected to improve in 2005 following abundant rain and snow for the first time in several years. However, although there is considerable potential for the export of meat and vegetables, the lack of freezers, processing plants, etc. will impose significant restrictions on productivity for some time to come. The government's inability to act as a supervisor and/or guarantor of Afghan traders represents another limitation. The quality of exports in terms of cleanliness and reliability is so low that Afghan business often loses out to foreign suppliers.

Trade (6 percent) and industry (9 percent) suffer from lack of credit – Afghan banks do not offer loans to entrepreneurs – and this is another major limitation to growth. Several newly established factories have had to forego expansion plans and in some cases have closed down due to their inability to raise loans. The dire state of land routes and communications, and the inefficiency or corruption of the administration are other factors that push down competitiveness so that Afghan products find it difficult to compete with imports, particularly from Iran and China. Industrial development so far has been limited to light industry, mainly food processing and a few assembly plants, but even in these cases profitability is precarious.

Trade – other than smuggling – has fared marginally better, but it is mostly speculative in character. Few traders operate consistently with specific foreign companies. In most cases, importers select whatever is cheapest and take it back to Afghanistan. This leads to very low-quality goods finding their way into the country, leaving consumers and buyers with little recourse when they prove unsatisfactory.

Considering that official imports accounted for \$2.1 billion in 2003-04, it is clear that trade dominates the economy today. Exports, on the other hand, only amounted

to \$143 million over the same period. Even factoring in the illegal economy, the Afghan economy is unusually extroverted for its level of development. Drug money, international aid and money spent by the colony of foreign residents – a major economic factor in itself – largely goes towards purchase of imports.

The transport, telecoms and power sectors (8 percent taken together) have been among the fastest to develop since 2001. Small entrepreneurs launched a number of transport businesses – often consisting of a single vehicle – that now cover most of the country despite the poor state of roads. Transport has benefited from the reduction in banditry and factional control of the roads, which in turn has contributed to the upturn in trade. Power was targeted with major investments from the government and all major cities had a good supply of electricity by mid-2005. The telecoms sector boomed in 2003-05 with the launch of the first two mobile networks. Despite high prices for sim cards and calls, there were 600,000 users in mid-2005. The sector also attracted the attention of warlords and stories abound of the bribes paid to win mobile licences and the shares given to powerful members of the administration.

The public sector share of the economy is essentially limited to Ariana national airline, the Milli bus transport company, a few mostly non-operational factories and some mines, which either operate below capacity or have their revenue siphoned off by local strongmen. However, the state employs a large bureaucracy, reportedly in excess of 400,000, including the security, health and education administrations.

There are no reliable figures for unemployment, which is predominantly limited to the main cities and is especially felt in Kabul where many former refugees have opted to resettle, crowding out the job market. Afghans with languages or other specific skills, by contrast, are in high demand from NGOs and international organisations, and their salaries have skyrocketed. It is not uncommon that a relatively junior Afghan will earn 40 or 45 times the salary of a government clerk.

Underemployment is a major problem in the countryside, however, with large numbers of people depending for their livelihood on small family farms. There is widespread seasonal employment, especially related to poppy, which is labour-intensive. Underemployment has facilitated the survival of the militias, which are able to offer a modest pay. Serving in militias also offers opportunities for additional income from looting, stealing and illegal taxes.

Because trade represents the most profitable economic activity, avoiding customs yields a major source of extra profit, especially on luxury items which attract duties as high as 10-20 percent. This provides an incentive for businessmen to establish connections with the mafia groups that control many provinces. Access to land is another bottleneck that can force businessmen to approach local mafias. Due to the

unclear legal status of much land, local judges and authorities (usually both under the control of mafias) have plenty of room to manoeuvre in their arbitrations.

Overall, the informal sector accounts for 80-90 percent of the Afghan economy, including the drug trade (at least 35 percent of GDP), and also almost all the remaining agriculture and livestock production. Only industry and the public administration are entirely part of the formal sector, while trade, transport and construction have large chunks in the informal economy too. The development of a more modern economy faces huge obstacles, not least because of low levels of education. According to UNICEF statistics, 51 percent of adult Afghan males and 80.4 percent of females were illiterate in 2003.⁹ Apart from refugees returning from abroad, Afghans aged 20-30 rarely have higher education. A market in fake degrees and diplomas complicates the situation further.

Despite the beginnings of economic recovery in 2002, Afghanistan's population is experiencing growing income disparity. Official statistics show that the two poorest fifths of the population were worse off in 2003 than they were in 2002, while the two richest were markedly better off.¹⁰ This trend is likely to have continued in 2004, although statistics were not available at the time of writing.

The potential of business to play a role in rebuilding Afghanistan

As discussed above, civil war in Afghanistan caused many conventional businessmen to relocate abroad, leaving space for the emergence of a new generation of businessmen to emerge that had close ties with the factions and warlords.¹¹ After the fall of the Taliban in 2001, this generation set out to expand its activities and take the place of the established business families. At the same time, the warlords and factional leaders had financial reserves available for investment, and were looking for ways to guarantee their long-term financial autonomy once direct foreign aid to the militias stopped. After 9/11, US support to selected warlords and strongmen was resumed on a large scale, with at least \$70 million being distributed.¹² In some cases, this money proved vital to the resurgence of armed groups that had been away from the scene for years, especially in the south, southeast and east of the country. However, the handouts mostly ceased after the fall of the Taliban regime. Warlords and factional leaders quickly came to rely on trusted businessmen to manage their investments in the legal economy, with the construction industry emerging as a favourite.

This alliance of traders with the military class highlighted the political importance of entrepreneurs at the local level, raising it to a level unknown in unified Afghanistan, but not uncommon in Central Asia's previous history.¹³ While the military class tends to exploit the countryside, whether through seizure of land,

imposition of taxes, forced recruitment or other exactions, warlords have mostly displayed a more positive attitude in cities, particularly towards the merchant class. Order is relatively well maintained in most cities and big traders rarely have complaints, although small businessmen are regularly asked to pay bribes to police and local authorities. *Hawala* and currency exchange dealers do not require armed guards, even when their shops hold hundreds of thousands of dollars. It is also telling that one of the main successes of the 2002-04 transitional period was the removal of the road-blocks that had imposed illegal taxes on traders and hampered the development of commerce. Such a success could not have been achieved without the active involvement of the leading warlords and regional strongmen.

Although violence and intimidation never disappeared entirely, factional conflict and abuses against the civilian population declined markedly during 2004 and were a rare occurrence in the north by mid-2005.¹⁴ At the same time, some sectors of the economy experienced a genuine boom in 2002-04, creating new opportunities and incentives for warlords and strongmen, who came increasingly to rely on money and influence over business as a way to maintain their position and status.

It could therefore be argued that the growing influence of businessmen (however rogue some may have been) over warlords did help prevent a return to conflict in Afghanistan, or at least a return to the same type of conflict that had characterised the 1990s. In some cases, they contributed to a transformation in the style of regional strongmen, making them less rapacious and more inclined to seek revenue from the creation of virtuous cycles of economic development.

This dynamic had clear limitations, however, from the long-term peacebuilding perspective. As a rule, warlords and strongmen were rarely able (or willing) to adopt the perspective necessary to create the conditions for industrial development in their regions, and even in Kabul industrial projects rarely developed beyond the planning stage.¹⁵ In addition, from 2002 onwards this relationship gave rise to the spread of mafia-like networks, consisting of warlords-turned-investors, their business friends, local and national politicians, and police. Such networks used intimidation and selective violence (in an environment where law enforcement remains inefficient) to gain competitive advantages over other players. This resulted in the exclusion from the Afghan market of other businessmen and over the longer term threatens increased violence as factions struggle for control of these adapted markets. In this sense the role of business in promoting a reduction in violence could more accurately be described as a hiatus, or a realignment of forces, rather than anything resembling reconstruction or peacebuilding.

In the current environment, there is little space in which Afghan private businesses can play a conscious, direct or active role in peacebuilding. In the past, some of the largest business families invested in social development by building schools or

hospitals, as was the case of the Barat family in Mazar-i-Sharif. Nowadays, the profit margins of legal and formal sector businesses are often so low – and threats from the mafia networks so real – that there is little left over for investing in longer-term perspectives. Moreover, the space for implementing reconstruction and social development projects has largely been occupied by international organisations and NGOs. The impression that emerges from the interviews carried out for this paper is that the generous international pledges (not always honoured) and the plethora of proposed projects may actually act as a disincentive to Afghans interested in contributing to social development.

Even efforts to mobilise Afghan businessmen to defend their own interests vis-à-vis the government, mainly by the Afghan International Chamber of Commerce (AICC), have had only a modest impact. The AICC is a new concept in Afghanistan, as the older Afghan Chamber of Commerce and Industry was effectively a parastatal organisation that never took an independent stand. The AICC's main activity has been to lobby the government in favour of more business-friendly legislation and to strengthen private businesses by mobilising them behind its leadership. If achieved, this could have magnified the chances of Afghan businesses becoming more assertive towards local strongmen. However, with less than 10 percent of Afghanistan's large and medium-size businesses joining as members, the AICC is scarcely representative and its main strength remains US support. The AICC is particularly weak in the provinces where it is still trying to establish a foothold.¹⁶

The involvement of private businesses in any activity related to social development is hindered by the long-standing hostility towards business that characterises the Afghan bureaucracy, which has been exacerbated by recent alignments between sections of the business community and the warlords. While the status of businessmen was hardly high before the war, 14 years of communist rule left their mark on the civil service, and the decade of factional and Taliban rule did little to improve it. In 2001-04, some factions involved in the civil war carried out large-scale recruitment to fill positions in Kabul with their cronies, further compounding the problem. The majority of state employees earn very low wages and resort to bribetaking to support their families, adding to the burden on businesses.¹⁷ The small size of the majority of Afghan companies represents another hurdle; according to the government investment body, Afghan Investment Support Agency (AISA), 99 percent of current investment projects are worth less than \$10 million and 85 percent less than \$1 million. Small companies are forced to adopt a survivalist mentality.

It comes as little surprise that conscious efforts by business to contribute to the consolidation of peace and stability in Afghanistan have been limited to date. This does not necessarily mean, however, that there is no potential for future developments or that every opportunity in the past has been negligible. Following is a review of initiatives and analysis of trends that could point to possible ways forward.

Private sector and DDR

The most significant attempt to engage private business in peacebuilding in Afghanistan occurred within the framework of the DDR programme, run by the Afghanistan New Beginning Program (ANBP), and coordinated by UNDP. The programme, an outcome of the Bonn Agreement that initiated the peace process in Afghanistan,¹⁸ began implementation in late 2003 with the disarmament of the first units of the 'Afghan Military Forces', the sections of the militias that had been recognised by central government and incorporated into the structures of the Ministry of Defence. After disarmament, units were to be disbanded and their members reintegrated into society.

The reintegration phase of the DDR explicitly envisaged a role for the private sector. Former militiamen were offered a chance either to start their own business, or to join a training or apprenticeship scheme run by NGOs and businesses, in partnership with the ANBP. ANBP's caseworkers, 'a mixture of a social worker and an employment officer' to use its own words, were in charge of 'assisting the ex-combatant with choosing the appropriate reintegration package by assessing his skills and aspirations'.¹⁹ Ex-combatants were offered opportunities in a range of sectors, including agriculture, vocational training and job placement, small business opportunities and de-mining. The reintegration phase began in 2004 and was well underway by mid-2005, although only preliminary information is currently available as to what has been achieved. Figures in June 2005 showed that nationally 42 percent of demobilised fighters had opted for agriculture, 25 percent for vocational training and job placements, 22 percent for starting a business, with 11 percent making other choices.²⁰ For the purposes of this report, it is the 47 percent (close to 30,000 ex-combatants) who opted for training, placements or business that matter.

The incentive offered to businesses for engaging in the programme was the opportunity to employ DDR trainees at no cost for 4-12 months. Ex-combatants would be treated like any other trainee and supervised by the NGOs that had signed up as implementing partners. The NGOs received funds from ANBP for reintegration activities that were defined in a contract between ANBP and each partner. ANBP officials monitored implementation. The ANBP identified other 'implementing partners' among businesses that had volunteered and satisfied certain requirements. Early surveys indicated that small to medium-sized construction firms played the biggest role in offering meaningful opportunities, followed by small shops.

The only big business that volunteered was the new mobile-phone operator, Roshan, but not to the apprenticeship component of the programme. Instead, it agreed to offer special conditions for ex-combatants who were willing to set up telecoms shops. To explain the limited reach of the scheme, some ANBP sources interviewed

for this research regretted that there was too little publicity about the programme.²¹ But there may also have been socio-cultural barriers derived from the conflict, leading businessmen – like many in Afghan society – to see former combatants as inherently lazy and troublesome.

Ex-combatants who opted to start a business were offered training courses, a small grant of \$700 and ongoing support from caseworkers. ANBP also intended to assemble small construction teams, though few ex-combatants volunteered for this option.²² Under the original plan, ex-combatants opting to go into business, or consolidating an existing one, were expected to have had previous experience of running a business, and ANBP caseworkers were instructed to actively discourage those without it. In practice, many who insisted on benefiting from this opportunity had only limited business experience. The majority were farmers seeking to diversify their incomes. The typical business started by ex-combatants was a small grocery shop, which accounted for as many as 70-80 percent of all businesses started. Shops selling building materials and gas followed in order of importance, although there were some attempts to do something in the telecoms sector.

Though official figures do not exist, some estimates put the business failure rate at between 60-80 percent. The factors explaining this include the small size of the initial ANBP start-up grant and most recipients' limited ability to manage credit. Another relevant factor may be the overall level of poverty, which has reduced the purchasing power of most Afghans. Small shops in Afghanistan operate primarily by supplying credit to selected customers who may take around up to 90 days to repay. Shop owners quickly exhaust their stocks, leaving shelves empty. With little to offer, sales decline rapidly and, with them, income. The shopkeeper's family may then start using goods for its own consumption, further eroding the capital base of the business. Important electrical appliances, such as generators and refrigerators, may also be sold to meet urgent family needs.²³

Some vocational training was geared to lead toward the establishment of small artisanal businesses in tailoring, carpentry and weaving. In all these trades, however, the market is close to saturation, making it difficult for new entrants to earn a living. By mid-2005 ANBP was discouraging these options, while finding it difficult to identify viable alternatives.

On the whole, the reintegration phase of the DDR was dogged by a number of critical flaws and challenges. The programme was essentially a political concession that was incorporated into the Bonn agreement to entice the leaders of the militias into sharing power with civilian representatives. Most international experience in implementing DDR programmes had been gathered in Africa's many civil wars, which see the large-scale uprooting of fighters. In Afghanistan, by contrast, the

majority of combatants had never left their villages in the first place. The delay in implementing DDR, which only got underway two years after the conflict ended, meant that most combatants had effectively been demobilised already, or authorised to stay at home if their units had not yet been disbanded.

These two factors meant that the social demand for reintegration in Afghanistan was comparatively weak. Ex-combatants had no reason to object to the reintegration offer, but little motivation in making it work since most already had a sufficient livelihood and could count on the support of their families. Reintegration could still have had a positive impact by creating confidence in the international reconstruction effort among parts of the Afghan rural population – if not necessarily in terms of providing a sufficient incentive for ex-combatants to stay away from militias – but its overall limitations prevented this too. Because the cash value of the package was modest, the long-term impact of the programme was modest also. It is too early to assess the role of private business in reintegration, but here the motivation also seems to have been weak. Businesses volunteered on the basis of the modest incentives provided, and not because of wider considerations, such as a desire to contribute to peace.

A further problem that has undermined DDR efforts throughout the world stems from the de-prioritisation of the reintegration element, which is often considered subsidiary to disarmament and the making of political deals with commanders. Evidence of this de-prioritisation in the Afghanistan case can be seen in the fact that, even as the programme got underway, the reintegration component was still being defined. In the end, there was insufficient time to adapt the original reintegration concept more closely to Afghan realities, and insufficient capacity devoted to convincing businesses to participate. Even the decision to involve private partners appears to have been the product of a more general trend in DDR strategic thinking, rather than the outcome of an Afghan-based process.

Attempts at 'DDR' by Afghan strongmen, by contrast, have been relatively more successful, particularly where they have approached businessmen with requests for their men to be employed.²⁴ Businessmen may have seen compliance as a way to earn the benevolence of the strongmen. Indeed, from the interviews carried out for this research in the provinces of the north, northeast and centre, it emerged quite clearly that many businessmen work hand in hand with warlords and strongmen, or accept some form of cooperation with them, with the result that the overlap between mafia networks and private enterprise will be further entrenched. The best-known cases are in northern Afghanistan, where most of the leading businessmen are linked to one or other faction. Elsewhere the situation is not too different. One source in Kabul mentioned that local strongmen are very eager to offer hospitality to businesspeople travelling around the country and that the businessmen are just as keen to accept.²⁵

Businessmen mobilise on the periphery

Beyond their partial involvement in DDR, Afghan businesspeople have not participated in, or launched any other explicit, peacebuilding initiatives to date. This is not to say that they are insensitive to the lawlessness and violence that still reigns in many parts of Afghanistan, and the costs this environment imposes on certain business activities. Despite the preferential relationships that some enjoy, a significant minority is hostile to the rule of strongmen. In some provinces remote from Kabul, groups of businessmen have even managed to organise themselves in order to become more active in confronting corrupt administrations run by warlords and factional leaders, by joining other civil society actors and opposition politicians to openly challenge the status quo.

The clearest evidence of this comes from the northeast province of Teluqan, where a *shura*, or council, was established in early 2004, incorporating some influential local businessmen. Initially, the authorities opposed the *shura* and delayed its meeting for two years, but eventually they had to accept it.²⁶ The *shura*'s aim was to fight corruption in the local administration and to kick-start reconstruction.²⁷ It produced detailed information about instances of corruption and the theft of public money intended to fund reconstruction projects. Its main weakness was that it focused on attracting the attention of the international community, rather than gathering local support. As a result, when neither central government nor any international organisation responded to its efforts, by replacing corrupt officials for example, the *shura* was marginalised.

Similarly, in Faizabad, Badakhshan province, a number of businessmen organised in late 2003 to challenge the misrule of the circle associated with Prof. Burhanuddin Rabbani, the former president and leader of the *Jamiat-i Islami* party. They campaigned for the removal of the governor and the appointment of a more competent and honest administration.²⁸ The main interest of the businessmen in both cases was to create a more efficient operating environment for trade, but the two initiatives might have also encouraged an environment more conducive to business involvement in peacebuilding activities, had they been successful.

According to the available information, such examples of political mobilisation and lobbying have achieved little, and do not appear to have been widespread. The lack of response from central government, which continued to appoint incompetent administrators, or the international community, which remained indifferent to the Ministry of Interior's appointments policy, has discouraged all involved.²⁹ Nonetheless, the efforts point to a deeply felt impulse towards creating more predictable and safe operating environments for business, closely linked to peace and stability.

The unfulfilled potential of Afghan diaspora business ventures

The international community and many Afghans expected the Afghan diaspora to be a major source of support for the reconstruction process after the downfall of the Taliban.³⁰ Despite some interesting ventures and external efforts to stimulate more concerted efforts on the part of the diaspora (see box below) these expectations and, by implication, the diaspora's potential to contribute to peace and stability in Afghanistan, have not been fully realised.

Facilitating a business voice in reconstruction: Swisspeace trade and investment workshop³¹

Swisspeace is an action-oriented peace-research institute working in the area of conflict analysis and peacebuilding. The organisation began work on Afghanistan in 2000, through its early warning project FAST.³² The importance of the private sector in Afghanistan was pointed out in one of the project's risk assessments, suggesting that if the business community was instrumental in assisting the Taliban to rise to power, it was equally important to involve it in contributing to a peaceful solution to the Afghan conflict.

This analysis led Swisspeace to invite influential members of the Afghan private sector to the first Afghan Civil Society Meeting in Bad Honnef, Germany, in 2001, which ran in parallel to the Political Conference at Petersberg leading to the Bonn Agreement. At that time Swisspeace began involving Afghan businessmen in dialogue with other members of civil society and the emerging government. This initial engagement gave rise to the idea of a larger, separate meeting where a dialogue could be initiated both within the Afghan private sector, but also with the Afghan government, to discuss business involvement in the reconstruction of the country. Thus the idea of a four-day 'Workshop on Trade and Private Investment in Afghanistan' was born.

Swisspeace pursued this idea with members of the Afghan private sector, the Afghan Assistance Coordination Authority (AACCA), and later on also the Afghan Ministry of Trade and Commerce. After a series of consultations with Afghan businessmen through smaller meetings, all three agreed that there was a need to initiate a wider dialogue.

The workshop took place in Kabul in July 2002, organised by Swisspeace in coordination with the Ministry of Trade and Commerce. Participants included more than 270 Afghan businessmen and investors from inside and outside the country, Afghan ministers with trade and investment-related portfolios, other high-ranking government officials and members of the local banking sector. The

workshop, opened by President Hamid Karzai, was aimed at:

- Providing the Afghan business community with a platform for dialogue in order to encourage collective action and a competitive trade environment
- Providing the Afghan business community with a platform for dialogue with the government in order to reach agreement on how an enabling environment can be created for the revival of the Afghan economy
- Showing the international community that Afghanistan and the Afghan business community hold great potential for reviving their own economy that should not be overlooked, but encouraged and supported
- Building confidence among the Afghan business community in its capacity to revive the economy and rebuild the country.

Over four days the business community had an opportunity to voice its concerns and present recommendations to the government authorities. For most businessmen, both local and diaspora, this was not only an opportunity to network with each other, it was also the first time they were able to openly interact with the government and discuss relevant issues. The fact that President Karzai and over half of his cabinet – including the Commerce, Finance, Interior, Foreign Affairs, Justice and Reconstruction ministers – attended the workshop illustrated the government's recognition that the revival of the private sector is one of the priorities for Afghanistan. Having access to the most senior members of government had the effect of raising the perception of the business community that it was being listened to, that it mattered and had an important role to play in Afghan reconstruction.

The conference provided momentum for various initiatives: by the end of 2003, the government had put in place regular open-door meetings at the Ministry of Finance with the business community; begun revision of the investment laws; introduced a new and more stable currency; opened the Afghanistan Investment Support Agency (AISA), a 'one-stop-shop' to facilitate investments (as had been promised by President Karzai at the conference); abolished the request for back-taxes not paid during the Taliban regime; and facilitated the process of obtaining business licenses.

However, the conference also raised issues around the independence of the private sector from the government. One of the ideas brought up during the conference by businessmen was to form an independent commission on trade and private investment with elected representatives from the Afghan private sector to function as a permanent body to represent the concerns of Afghan businessmen vis-à-vis the government. There were even preparations to hold an election for such a body at the end of the conference. Unfortunately the Ministry of Trade and Commerce considered it too threatening at such an early stage and

discouraged its formation. Several businessmen were rather disappointed at this forceful intervention, but took the issue up again subsequently, creating a private business organisation the following year: the Afghan Traders' and Industrialists' Center (MATSA) and in 2004 the Afghanistan International Chamber of Commerce (AICC), a joint venture of MATSA and the Afghan-American Chamber of Commerce (AACC).

Following on from the conference and suggestions of members of the Afghan private sector, Swisspeace developed the concept of the International Business Club (IBC). The idea was 'to help the Afghan business community to organise themselves, provide a venue for information and capacity building, and to link them to international actors and businesses ... It should be seen as a platform and tool that can be used by multiple actors in various ways to develop, support and strengthen the Afghan private sector and in turn the economy.'

Unfortunately, due to the limited capacity of Swisspeace in Afghanistan, but also lack of donor interest, this concept was not realised. Donors felt that a business club should be financed by the Afghan private sector and while some pledges were made by the Afghan business community, they expected additional seed-funding from the donor community. Nevertheless, given the proposal's wide circulation among the Afghan private sector and others in Afghanistan and extensive discussion, the ideas contained in it may have inspired other entities, such as the AICC and others.

The most important examples of investment by diaspora entrepreneurs are the Afghan Wireless Communication Company (AWCC) mobile company (\$70 million),³³ Tolo TV, Baghlan sugar factory (\$18 million),³⁴ Hyatt Regency Hotel (\$40 million), the Afghanistan International Bank (\$10 million) and the Intercontinental Hotel (\$50 million).³⁵ During 2004, investment projects registered by AISA were mainly in the construction sector (51.3 percent), followed by services (37.6 percent) and industry (10.7 percent).³⁶ Though many diaspora Afghans visited to explore opportunities after 2001, concrete proposals fell far short of what was expected, considering that the combined Afghan diaspora is estimated to be worth about \$5 billion (of which \$2 billion is based in Dubai).³⁷

Among the success stories, the most famous is that of the Mohseni brothers who in 2004-05 launched Arman Radio and Tolo TV, the most popular television station in Afghanistan. The media has generally had an easier time in its interaction with warlords and mafia groups, compared to other sectors, so long as it remains prudent in its treatment of news and local mores.³⁸ The case of the AWCC mobile-telephone company proved more controversial. Although it was undoubtedly successful in generating profit for its main stakeholder, Ehsan Bayat, complaints about its

operations emerged and by 2004 the company was rapidly losing ground to its main competitor, foreign-owned Roshan.³⁹

Even where returning Afghans have been able to generate profits in the current business environment, there is little evidence of a concerted focus on contributing to the longer-term reconstruction of their country. The only exception discovered in the course of researching this report is the Afghan Reconstruction Company (ARC), run by diaspora businessmen based in the US, which is active in construction. ARC built a section of the Kabul-Kandahar highway and the Hyatt Regency Hotel, among other ventures. Possibly taking inspiration from US corporations, it established a foundation that has carried out a number of social projects, including improving schools in Kabul, the donation of a building for a girls' school, digging deep wells in villages along the Kabul-Kandahar highway, the construction or renovation of mosques, and minor public infrastructure improvements. Even here the main purpose appears to be related to maintaining good public relations, including in the US.

Other members of the diaspora, interviewed by the press at the time of the US-led military intervention, expressed their interest in investing in Afghanistan and some seemed motivated by a desire to contribute to peace.⁴⁰ However, according to AISA, while diaspora businesspeople had registered investment projects with a value close to \$1 billion by May 2005, most never materialised. While \$300 million is transferred annually from Afghans living abroad to their relatives, business investments have been put on hold because of the obstacles facing investors of any nationality – an oppressive bureaucracy, and lack of law and order.⁴¹ Although no firm figures are available, it is probable that most remittance money is spent for personal consumption, rather than being invested. Along with competition from warlords-turned-businessmen and their cronies, concerns about long-term stability and lack of government cooperation are major disincentives.⁴² There is anecdotal evidence that investment from Afghan diaspora and even foreign entrepreneurs is actively discouraged because they are seen as a threat to the status quo. Overall, the environment is such that private investors are pushed into making deals with protection networks, rather than investing in improving relations with the larger public, for example by financing social development projects or taking a pro-active role in peacebuilding.

The donor community and Afghan private business: helping or hindering?

This report has explored the limitations to international efforts to engage Afghan businesses as partners in the DDR. The missed opportunities arising from the broader reconstruction effort are much greater. Reconstruction contracts for a total value of \$3 billion were awarded by the end of 2004, but local companies won very few, and

none of the larger ones. By and large, Afghan businesses have been confined to the role of sub-contractor. According to local engineers and skilled workers, the rates charged by foreign firms are around one third higher than local rates. Foreign firms then sub-contract to NGOs or Afghan companies, which may further sub-contract to smaller players. In the end, the task is executed by Afghans or Afghan companies, but on greatly reduced margins; each sub-contracting phase reduces the original value of the contract by 5-20 percent.⁴³ Some contracts require bidders to ‘maximise Afghan business opportunities and employment’, but this rule is not always implemented due to lack of donor supervision. According to sources in northern Afghanistan, it is common practice for multinational companies to charge \$1,500 a month for each Afghan engineer employed, even if only US\$500 ends up in the engineer’s pocket. If true, this suggests that claims of higher costs due to the better quality of the work are not always justified.⁴⁴

Afghan entrepreneurs have long complained of bidding rules that make it difficult or impossible for them to compete with foreign companies. By June 2004 President Karzai had become openly critical of the role of foreign contractors. Though donors tend to safeguard domestic interests in ways that are quite explicit, (USAID stipulates that US contributions have to be spent on projects contracted to US companies),⁴⁵ the central rationale for setting high standards is to guarantee that projects are properly implemented. As explained, sub-contracting often means that much of the work is still done by local firms, but with a major cut to their profit margins. However, criticism on issues of quality is directed just as much at international projects as ones carried out by local companies. The quality of the Kandahar-Kabul highway contract, which was won by US company Louis Berger at a cost of \$270 million, stirred particular controversy.⁴⁶

The Deputy Minister of Public Works, W.M. Rasooli, publicly stated that his ministry had the capacity to build roads at half the price foreign contractors charge,⁴⁷ although a group of Afghan-American businessmen concluded that the Afghan private sector would not be able to ‘take the lead’ in large reconstruction projects while quality issues remained.⁴⁸ While the capacity and quality of different companies’ output is clearly important when considering the optimum implementation of reconstruction projects, longer-term gains to the Afghan economy and local business capacity appear to have been excessively sidelined in the debate.

It is unanimously accepted by the donor community, in Afghanistan as elsewhere, that entrepreneurial activity in a free market context is crucial to stimulating the economy and broad-based development.⁴⁹ However, concerns have been raised about adopting such an approach without deeper analysis of the market dynamics prevailing in the country at present: “This approach has stripped the market of its wider dimensions, as well as underestimated the strength of informal markets and patterns of trading that have developed over many years and operate according to well-established patterns. It

neglects aspects of market performance that depend on extra-market conditions, including history and non-market institutions, which combine to exclude many from taking part and enjoying the benefits of participation. These aspects include social and economic structures, gender relations, ethnic identities and spatial patterns of production. This view also ignores the potential for current patterns of economic growth to destabilise the country politically.”⁵⁰ Equally, it could be argued that it will in all likelihood overlook the potential entry points for identifying the right partners to involve the private sector in promoting stability in the country.

A further complication arises from the drain of skilled Afghans away from productive business or locally owned technical activity toward employment by NGOs and foreign companies. In their efforts to recruit skilled Afghans with languages, international organisations and NGOs caused salaries to inflate to 10-40 times the average of a state employee, clearly distorting the market. The phenomenon of ‘business-oriented non-governmental organisations’ is rife in Afghanistan, with many registered NGOs actually functioning as for-profit ventures. The government recently drafted a law to prevent NGOs from bidding for reconstruction contracts in the hope of diverting skilled staff back to the ministries and registered private companies.⁵¹ Both sides subsequently compromised: NGOs are still allowed to bid, but construction companies disguised as NGOs must re-register as companies. While it is positive that the government is trying to address the problem of capacity drain, it cannot be assumed that individuals will automatically switch to the government and private sector as intended. Even if a significant transfer of skills does take place, it will take time for human capital to translate into economic growth. Far from providing the incentives and support to local business growth that are urgently required for Afghanistan’s long-term stability and reconstruction, the international presence appears to be working against itself in many critical areas.

Conclusions

Despite the large-scale involvement of the international community in Afghanistan, much remains to be done. As aid flows decline, locally led peace constituencies will become more important. As this report has sought to show, few Afghan businesses are able to do more in the current climate than survive, including those from the diaspora, which have not played the leading role that many had anticipated. A modest effort to link private sector activity to reconstruction efforts occurred within the framework of DDR. But the dominant interaction between ex-combatants and business resulted in the emergence of consolidated mafia networks that, while contributing to a reduction in levels of violence, have evolved into forces that reduce opportunities for longer-term growth and a more rounded social role for business. The current policy of reshuffling governors from one province to another every few months does little to encourage the stable environment that leads to the investment

of resources in a particular area. Wider uncertainties about laws, access to land, reliable power supplies and security mean a business may suddenly face significant and unexpected changes in the conditions under which it operates.

Why has the international community been less successful than warlords and strongmen in attracting or supporting Afghanistan's business community? One restriction on the effectiveness of international actors' across policy areas is their confinement to Kabul. To most Afghan businessmen, there is simply no alternative to the development of collaborative relationships with strongmen. Moreover, the international community has been unable to identify long-term partners among Afghans, sometimes flirting with warlords, at other times trying to mobilise civil society, but mostly supporting a modernising government that has not yet found a solid, political foundation in the provinces. The government has been slow to sort out the legal malaise that affects Afghanistan. President Karzai and some of his ministers admitted at the Swisspeace investment conference in 2002 that corruption and bureaucracy were major disincentives, but the situation has worsened since then.⁵² Such conditions must change if Afghan businessmen are to display greater interest in investing in the social development of the country, although there is evidence that such an impulse is there.

Without proper law and order, the prospects of businessmen becoming involved in peacebuilding remain dim. Reform of the Ministry of Interior has been widely discussed by government and the international organisations involved, but no credible strategy to confront the problem has emerged. The resignation of Interior Minister Ali Ahmad Jalali at the end of September 2005 was a further blow to the credibility of the government, not least because of the delay in choosing a successor.⁵³ The creation of a modern, merit-based administration has not progressed much either, despite numerous commissions and much debate. Assuming that these problems will be tackled one day, a number of measures could be taken to prepare the ground for peacebuilding activities by providing incentives to business people. The process that started with the establishment of the AICC should be encouraged and strengthened in the provinces. While donors have sponsored a number of national and international meetings of businesspeople, further help is required to engage provincial businessmen by fostering the circulation of ideas and development of shared interests. Afghan businessmen would benefit from more knowledge of the use of social responsibility as precursors to active peacebuilding, especially if diaspora businessmen were also involved.

Such developments would be helped if the opportunities inherent in reconstruction were made more available to Afghan companies. Although most local companies do not yet have the skills required for the larger reconstruction projects, this is partly due to the brain drain caused by the wage inflation stimulated by the international community and NGOs. If Afghan companies were actually winning contracts, they would find it far easier to attract skilled labour and management.

Acronyms

AACA	Afghan Assistance Coordination Agency
AICC	Afghan International Chamber of Commerce
AISA	Afghan Investment Support Agency
ANBP	Afghan New Beginning Program
ARC	Afghan Reconstruction Company
DDR	Disarmament, Demobilisation and Reintegration
GDP	Gross Domestic Product
NGO	Non-governmental organisation
UNDP	United Nations Development Programme
USAID	US Agency for International Development

Endnotes

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- 12 Woodward, B. (2002) *Bush at War* (New York, US: Simon & Schuster) cited in *The Washington Post*, 16 November 2002.
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- 15 The only real exception to this is Herat where Ismail Khan invested a large part of his revenue in the development of the city, which led to the most significant industrial development in the whole of Afghanistan. This was made possible by a particular set of circumstances, chiefly Khan's seizure of the lucrative local customs revenue. He did not need to rely on links with the merchant class, which may explain why he was unpopular in Herat. His independence from a merchant class focused on short-term speculation, and his own determination to create his own Emirate with clear 'rules of conduct' were very likely the main factors that played in favour of the industrial development of Herat.
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- 20 The latest figures can be found at www.anbpafg.org
- 21 Interview with former ANBP official, Kabul, May 2005.
- 22 For example, in the western region only 2 percent chose the construction teams. See UNDP ANBP (2005) *UNDP/ANBP/DDR Western Region Newsletter Issue 3*.
- 23 This paragraph is mainly based on the findings of field research carried out by Simonetta Rossi for a University of York master's dissertation on reintegration.
- 24 In interviews with businessmen throughout the country, it emerged that they often employ former militiamen as bodyguards.
- 25 Interview with official of international organisation advising the Afghan government, Kabul, May 2005.
- 26 Interviews with various *shura* members, Teluqan, March 2004.
- 27 Interviews with various *shura* members, Teluqan, March 2004.
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- 31 This box is based on Swisspeace (2002) op. cit. and the concept paper for the International Business Club – Afghanistan (Kabul, Afghanistan: Swisspeace, 2003 internal document), as well as input from the former Swisspeace Afghanistan country-representative, Dr. Susanne Schmeidl.
- 32 The objective of FAST International is the early recognition of impending or potential crisis situations in order to prevent violent conflict.
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- 43 *Der Spiegel*, 26 March 2005.
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Business Council for Peace: working with women entrepreneurs to promote peace

The important role played by women in building peace in war-torn countries, whether as peace advocates, witnesses to past atrocities, or mediators and facilitators of dialogue and confidence between the conflicting parties, is increasingly being acknowledged.

A group of New York-based businesspeople came together in 2002 to work on strengthening precisely this role. Today the Business Council for Peace (Bpeace) is a non-profit coalition of over 200 members with experience as entrepreneurs, consultants, and executives in major international companies. Bpeace members volunteer their skills and experience to help women in war-torn countries grow sustainable businesses.

Bpeace's work is based on the belief that women play an important role as economic actors in conflict and post-conflict settings, and that helping them to grow sustainable businesses is crucial for broad-based, post-conflict, socio-economic rehabilitation. It is also essential for strengthening women's confidence in taking a proactive role in the reconstruction of their livelihoods and societies. And, joint economic activities between women across conflict divides can be an important tool for confidence-building and the normalisation of relations between former foes. Joint business activities create a shared stake in a peaceful economy, providing tangible peace dividends.

Bpeace believes that when women are economically stronger, they will have a more influential voice for peace in their communities and societies. For women in conflict and post-conflict countries, like Afghanistan, Rwanda and in the Middle East, Bpeace provides distance mentoring; training; access to financing and networking opportunities; the development of local and international markets for their products and services; and awareness of their remarkable talent and courage.

Bpeace 'fast runner' strategy

Bpeace selects and assists businesswomen who are most likely to succeed. They have demonstrated their potential by already operating businesses, being literate in their own languages and by having a real commitment to creating jobs for others. Bpeace makes a three-year commitment to these emerging entrepreneurs, who are called 'fast runners'. It provides support to each individual, moving her along a continuum from training and mentoring to increasing local demand for her products, and promoting her social and economic standing. The process eventually leads to the

provision of advocacy tools to enable her to use her economic viability to promote a more favourable environment for businesswomen in the community and to become a voice for peace.

Bpeace provides support in sequential stages over three years, shifting the services and training provided as the fast runner's business develops. Basic business courses and mentoring are provided in year one; accelerating demand and capacity are the focus of year two; and the provision of the tools to help associates become visible and vocal for peace takes place in year three.

'Fast runners' in Afghanistan

Bpeace has 19 Afghan fast runners, employing over 400 Afghans in various industries, including apparel, construction, hospitality, consulting services and physical fitness. By supporting women who have already leapt the hurdle of providing sustenance and schooling for their families, Bpeace hopes to impact on a wider circle of Afghans whose livelihoods depend on these women.

Each Afghan associate has a mentor who supports her in growing her business. Mentors are experienced businesspeople and Bpeace members in the United States, Europe and Canada. They help associates write business plans, access finance and connect with retailers for their products. Fast runners have participated in a series of business and technical training courses conducted by Bpeace volunteers in Afghanistan and New York. As associates move into year two, Bpeace continues to provide advanced training and mentoring while casting a net for a second group of businesswomen.

Bakhtnazira Nevazi – Kabul, Afghanistan

A 28-year-old mother of three, Bakhtnazira immediately impressed her Bpeace interviewers with her embroidered products, her commitment to business, and her grasp of her customers and the local market. Several days later, while conducting a training class for more than 60 Afghan women, it was hard to ignore Bakhtnazira's intelligence and facility with product and budgeting concepts. Bpeace recognised Bakhtnazira as a fast runner who was way out ahead.

Bakhtnazira became one of 12 Afghan women in the Bpeace programme who are engaged in the apparel, accessories and home décor businesses. Bpeace brought them to New York's Seventh Avenue where they worked with top business leaders and educators in an intensive three-week programme. They

attended specially tailored classes at the Fashion Institute of Technology and on-site work sessions with designers and retailers.

Bpeace learned that CARE was offering a one-year grant to an Afghan women entrepreneur, and was prepared to fund a retail shop and workshop for 30 widows who had been trained to sew. Bpeace helped Bakhtnazira think through the CARE grant application and translate her ideas into a brief business plan. After interviewing several candidates, CARE selected Bakhtnazira and the new retail dress shop was launched in Kabul.

The CARE grant was just the beginning of the Bpeace- Bakhtnazira relationship. Bpeace provided her with mentoring, business training, access to better fabric and other raw materials, customer traffic and design inspiration, to differentiate her shop from others in the capital.

Eventually, CARE stopped its financial support and Bakhtnazira was on her own. Suddenly, she had the widows' attention. They liked the independence their salaries gave them. More than one said she did not want to return to the support and influence of her brother-in-law.

Bpeace is still guiding Bakhtnazira to secure more commercial contracts. Her first was producing curtains for a security firm.

Today, only 16 months after Bpeace first met her, she has money in the bank, a shop, a workroom and 36 workers, including her husband and the widows. Through a Bpeace grant, her husband is learning to use a computer. Bakhtnazira is taking English lessons and will soon take computer lessons as well. She is a founding member of Rangeen Kaman Afghan Trading, a group of businesswomen in Kabul that Bpeace helped to organise.

This case is based on interviews with Toni Maloney, Marla Gitterman and Rachel Golden at Bpeace. For more information, see www.bpeace.org

**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

**Case study
Bosnia and Herzegovina***

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Bosnia and Herzegovina

Bosnia and Herzegovina: doing business to cement peace

Boris Divjak

The peacebuilding process in post-war Bosnia and Herzegovina (BiH) is influenced by a range of complex issues relating to the genesis of the new state, the process of transition, the establishment and development of the private sector, and the prominent role played by the international community.

Since the settlement of the armed conflict, a multitude of initiatives by various actors have sought to re-establish trust and channels of communication between the ethnic groups that were its protagonists.¹ These initiatives have had an important impact on society and a return to violence is considered unlikely. While the business community has not been directly involved, it has an important role to play in creating the kind of economic environment and opportunities that will help to cement the peace. This report argues that efforts by the business community to generate growth and provide jobs for Bosnians represent a critical peacebuilding intervention at the current advanced stage of post-conflict reconstruction. Secondly, while local political leaders frequently play the ‘ethnic card’, taking advantage of and manipulating lingering fears, ‘neutral’ business activity provides an important counter-balance to this tendency, showing that inter-ethnic cooperation holds dividends for all.²

This report focuses on case studies where businesses have made efforts to extend their activities across the country, doing business with Bosniaks, Croats and Serbs alike, and identifying instances of cross-boundary cooperation they have fostered. It finds that their efforts are hampered by an environment that creates obstacles to peacebuilding initiatives. Limited equitable private sector development, economic downturn and weak institutions all undermine confidence-building through business, and are an ‘alarming cause for concern’ from a conflict perspective.³

The research conducted for this report explored economic activity at different levels, and highlighted some of the difficulties faced by the private sector in contributing to a sustainable and progressive society. The methodology consisted of desk research and in-depth interviews with managers of the businesses selected as case studies.

Political and economic background

BiH was one of the six constituent republics of the former Socialist Federal Republic of Yugoslavia. After Yugoslavia's disintegration in the early 1990s, BiH, Croatia, Macedonia and Slovenia became independent states, while Serbia and Montenegro formed a loose federation.

Half a century of cooperation between the former republics still influences and shapes the economy of the successor states. Over 80 percent of the GDP of the former Yugoslav republics crossed their geographical boundaries.⁴ In almost all instances, production relied on inputs from a number of other republics, and this division produced multiple dependencies and uneven development. This was particularly true for BiH, which provided raw materials and semi-processed products, mostly ores, metal and electricity, with an unfavourable ratio of 3:1 between industry and agriculture. Although BiH was a major 'exporter' of military equipment and ordinance, the sector was entirely run by the Yugoslav army. BiH's role as a source of raw materials and semi-processed products for the more developed republics led to it being especially badly hit during and after a civil war that demolished the linkages between the new states.

Yugoslavia's post-World War 2 planned economy took shape in the 1970s with the introduction of autonomous workers' councils, although they were effectively controlled by the political elite. State control reduced production and competition while workers' councils directed most of their subsidies to payroll, neglecting investment in research and development. Economic breakdown was inevitable and the disintegration that arguably led to the war began with Yugoslavia's debt crisis in 1979 and the subsequent stagnation in GDP growth, which converged with the rise of nationalism in the 1990s.

Businesses in BiH are marked by low development of human resources, management and marketing skills. These weaknesses have their origins in the structure of the Yugoslav economy, particularly the habit of entrusting marketing to specialist firms in Belgrade, Ljubljana and Zagreb. Local capacity only began to develop when Yugoslavia's three most successful companies, Energoinvest, Sipad and Unis, commenced large-scale exports in the 1980s. The gains that were made then were subsequently lost when marketing professionals deserted the country on the outbreak of war.

The conflict

Three nationalist parties won 76 percent of the vote in BiH's first elections in 1990. Two years later, the country held a referendum on independence, which the majority of Bosnian Serbs boycotted on the grounds that it was unconstitutional. On 6 April 1992, the EU formally recognised BiH's independence. The Serbian Democratic Party organised a separate referendum in which 100 percent of the country's Serbs allegedly expressed their desire to remain in Yugoslavia. The Serbian Republic of Bosnia and Herzegovina declared independence a day later. On 12 August, all reference to BiH was dropped when the enclave named itself the Republika Srpska.

In the midst of the wider Yugoslav conflict, the situation in Bosnia quickly escalated. On 18 November 1991, the Croats of Herzegovina formed the 'Croatian Community of Herzeg-Bosnia' (*Hrvatska Zajednica Herceg-Bosna*), a national organisation that claimed to protect their interests.

Soon after independence was declared in April 1992, the Serb-controlled Yugoslav People's Army was deployed around BiH in a bid to seize control of all major geo-strategic points. In response, the Croats organised the Croatian Defense Council; the Bosniaks formed the Armija BiH; and the Serbs created the Vojska Republike Srpske (VRS). Elsewhere, smaller paramilitary units, such as the Serb White Eagles, the Bosniak Patriotic League and Green Berets, and the Croatian Defence Forces, were active.

The war between the three constituent nations of BiH was Europe's bloodiest since World War 2. In June 1992, the mandate of the UN Protection Force (UNPROFOR), originally deployed in Croatia, was extended into BiH to protect Sarajevo International Airport. In September, UNPROFOR's role was expanded to provide humanitarian aid and assist in the delivery of the relief to the whole of BiH, as well as to protect civilian refugees.

Initially, Bosniaks and Croats fought together against the Serbs, who had the upper hand due to heavier weaponry. The latter quickly established control over the Serb-populated rural and urban regions, excluding the larger towns of Sarajevo and Mostar.

The Bosniaks controlled most of Sarajevo, the capital, but the VRS deployed troops and artillery in the surrounding hills to prevent the Armija BiH from being deployed outside the city. On 2 May 1992, a blockade was imposed on traffic moving in and out of Sarajevo.

In 1993, after the collapse of the US-backed Vance-Owen peace plan, which proposed the division of the country into three ethnically pure parts, conflict broke out between Bosniak and Croat units in a grab to secure a larger share of the 30

percent of territory they both held. At the time, Serbs held 70 percent of BiH, Croats 20 percent and Bosniaks 10 percent – although the latter constituted 44 percent of its population. The fighting led to the creation of more ethnic enclaves and further bloodshed. Bosnian Croat military operations received direct support from the government of Croatia. In an attempt to protect civilians, UNPROFOR's role was extended in 1993 to protect the 'safe havens' it had declared around a number of towns, including Sarajevo, Gorazde and Srebrenica.

NATO became involved on 8 February 1994 when its jets shot down four Serb aircraft over central Bosnia in a UN-declared 'no-fly' zone; this was the alliance's first use of force since its foundation in 1949.

In March 1994, Bosniaks and Croats in Bosnia signed the Washington peace agreement, creating the Federation of Bosnia and Herzegovina (FBiH). This narrowed the number of warring parties to two. The conflict continued throughout much of 1995 but, after Croatia invaded the Serb region of Krajina in early August, the Bosniak-Croat alliance gained the initiative, capturing much of western Bosnia from the Serbs. At that point, the international community pressured then presidents Slobodan Milošević, Franjo Tuđman and Alija Izetbegović of Serbia, Croatia and BiH, respectively, to the negotiations that led to the Dayton Peace Agreement on 21 November 1995.

The Dayton Peace Accords ended a war that had raged since 1991. The agreement created two multi-ethnic, constituent 'entities': the Federation of BiH (FBiH) and the Republika Srpska (RS). The FBiH has a majority population of Bosnian Muslims and Croats, while the post-war RS has a Serb majority. The division into entities is a strictly administrative solution, with no historical, economical or geographic precedents. A number of recent initiatives, commemorating the 10th anniversary of Dayton in BiH and abroad, have triggered the idea of 'moving beyond Dayton' towards stronger integration of the country and the creation of a centralised state.⁵

Each of the three regions adopted its own regulations during the war, so that by the end of it three economic systems were in place, all built on the remnants of the former Yugoslav system and resembling the legal environments of Serbia and Croatia. One of the most important tasks facing BiH has been development of a modernised legal system (democratic institutions, a new criminal code, election law, etc.). National and international focus on this has, however, delayed introduction of an efficient system of government; the development of private entrepreneurship; and an effective transition to a market economy. In the post-war period, BiH's economic performance has been poor – it still claims one of Europe's lowest GDPs. Poverty, unemployment and corruption are widespread.⁶

Economic impact of the conflict

An estimated 200,000 people out of a total population of 4.4 million were killed from 1992-95.⁷ Transportation, power and communications infrastructure were almost completely obliterated. Various estimates put the cost of direct and indirect damage at over \$50 billion.

By 1995, GDP had shrunk to \$2.1 billion, less than a third of its pre-war level, and per capita GDP to \$500. Industrial production fell by more than 90 percent.⁸ Table 1 illustrates the state of the economy at the beginning and immediately after the war.

Table 1 – Economic indicators before and after the war

	1991	1995
GDP (\$ million)	8,670	2,105
Per capita income (\$)	1,979	501
Non-agricultural unemployment rate (%)	27	53
Average monthly net wages (\$)	400	57

Source: World Bank (1997) *Bosnia and Herzegovina: From Recovery to Sustainable Growth* (Washington DC, US: World Bank).

The war halted flows between former republics and split a large number of conglomerates that had previously run pan-Yugoslav operations. For example, Zenica, once a major steel mill, accounted for 40 percent of Yugoslavia's steel output in 1990, but produced only 100,000 tonnes in 1992. It cut employment from 25,000 to 4,700 workers in the same period.⁹

Public companies remained under government control during the war. The private sector was restricted to grassroots and micro businesses (handicraft and small trading companies), which faced frequent stoppages due to employees being drafted into the armed forces, power cuts and war activities. Citizens drained their pre-war savings and purchasing power was reduced to basic necessities. State companies all but ceased manufacturing because of the lack of electricity, resources or markets in which to sell products. The workplace was affected by ethnic cleansing policies before and during the war, a fact which is still reflected in the ethnic composition of many.¹⁰

The conflict thus all but extinguished the nascent private sector and production fell by more than 90 percent.¹¹ A new ethnically divided elite emerged with close ties to political leaders and military formations. The bulk of surviving business actors switched to trading in arms and black market activity. Many criminalised aspects of the conflict were state-sponsored and directly served political interests. In this sense,

the disintegration of Yugoslavia and BiH benefited those who were able to gain control of cross-border trade during a time of high barriers. The movement of around 80 percent of goods and services in the former federal republic was suddenly under the control of a few politicians, who benefited from licensing, permits, procurement and taxation.

Given the UN sanctions on arms, the Serbs held an advantage on access to weaponry since much of the former Yugoslav armoury was located in the RS. Bosniaks and, to a lesser extent, the Bosnian Croats had to resort to criminal networks, black market traders and embargo-busters for weapons and ammunition. As the siege of Sarajevo demonstrated, criminal gangs performed important defensive roles while at the same time robbing or abusing those they were paid to defend.

Many store-owners involved in black market trading were officially registered as humanitarian organisations, making it possible to obtain coveted government permits to exit and enter the city.¹² A key supplier of black market weapons to the Bosniak government was Third World Relief Agency, a supposedly humanitarian NGO that funnelled \$350 million to the Bosniak government from 1992-95, at least half of which was used to purchase and smuggle weapons.¹³

Such networks were perfectly positioned to fuel a post-conflict market that enjoyed high demand for illicit goods and services from the local population and the peacekeeping forces. War profiteers turned into criminal networks on good terms with political elites, sharing responsibility for smuggling, large-scale tax evasion, and the trafficking of women, drugs and stolen cars.¹⁴ A new class was born, composed of mafia-style businesspeople with close links to, or directly involved in, politics. This new class had access to opportunities to invest in the post-war privatisation process.

The economy today

Basic economic indicators

BiH's main post-war achievements are a stable currency, functioning central bank, sound private banking sector and on-going reforms to the tax system,¹⁵ although critics claim that these reforms have not yielded satisfactory results. Business associations in both the FBiH and RS maintain that the international community has not tackled the central obstacles to business or strengthened the single market.

BiH received one of the largest per-capita assistance packages in recent history, with over \$5 billion, mostly in grants, committed in the first five years after the war.¹⁶ Ten years of reform has however failed to create a favourable investment climate for

private sector growth, and BiH has fallen behind most transition countries. A rough estimate of the private sector's portion in the country's GDP is around 40-44 percent.¹⁷

International assistance is now diminishing, but it leaves behind a legacy that is ambiguous at best. Low credibility of the political establishment has driven away foreign and domestic investors, and discouraged business start-ups.¹⁸

Nominal GDP in 2004 was around \$7.8 billion and GDP per capita \$2,041. Real GDP growth is around 5 percent, a significant decrease compared to the 10 percent rate of 1999.¹⁹ In December 2003, official unemployment stood at 44 percent in FBiH and 37.1 percent in the RS.²⁰ According to World Bank poverty figures, 19.5 percent of the BiH population live below the poverty line, while 30 percent are considered close to it. There is a marked difference between the entities: 24.8 percent of the population in the RS is estimated to live below the general poverty line, compared to 16.3 percent in FBiH.²¹ Average net wages in 2005 were \$304 for all of BiH, but \$322 in FBiH and \$254 in the RS.

According to public opinion surveys by Transparency International BiH in 2002 and 2004, citizens broadly share the same concerns as the business community. Nearly a third of respondents cited unemployment (31.5 percent), followed by corruption (20.1 percent) and political instability (12.3 percent) as their most serious problems. Remarkably, only 3.3 percent of respondents believed that poor inter-ethnic relations lay at the root of their discontent.

Preliminary estimates by the IMF suggest that the informal economy currently stands at about 40 percent of official GDP, much of it generated by the understated value-added of registered businesses. A high percentage of 'grey economy' is a common characteristic of post-war economies, and it is a frequent 'ghost' of the transition and privatisation processes. However, it is unusual for the sector to play such a dominant a role as it does in BiH, especially after a decade of intense reform.

Development of the private sector in BiH

It must be stressed that BiH is both a post-war and a transition country. Though transition started with significant delays compared to other countries in southeast Europe, privatisation has been an important part of this process. The institutional and legislative framework for privatisation was completed in 1998 and a voucher privatisation has also finished. According to an EU feasibility study, 70 percent of companies in FBiH and 47 percent in RS had been sold by 2002.²² For larger enterprises (with more than 50 employees or around \$300,000 in equity),

privatisation has been slower: only 24 percent of larger companies in FBiH, and 42 percent in the RS had been privatised by the end of 2002. The biggest difficulty concerned the so-called 'strategic enterprises'.²³ Notwithstanding international support, only 17 of 56 strategic companies had been sold in FBiH and four out of 52 (or 80, if holding companies are counted) in the RS by the end of 2002. Only nine strategic enterprises in FBiH and three strategic enterprises in the RS were sold by public offering and tender sales during the past year.

The slow process of privatisation exacerbated the mismanagement of public property and discouraged foreign investors, who have been more attracted to Croatia, and Serbia and Montenegro. The second obstacle is corruption in privatisation tenders, which has resulted in enterprises being sold under suspicious circumstances or at very low prices. This may be related to the fact that new company owners, formerly economic warlords in BiH, maintained close ties to the political elites in control of the process. A new, non-war affiliated business leadership did not emerge until recently. It took years for the international community to realise that, without a strong small and medium-sized enterprise (SME) sector, a development strategy that relied solely on privatisation of the existing enterprises would not yield the desired progress. A strong SME sector is equally important for consolidating the peace.

There has been a strong donor presence in BiH since the end of the war. Reconstruction and development have been supported by numerous international organisations, including the EU, the OSCE, various UN agencies, the World Bank and the IMF. Successes were achieved in some areas: 100 percent of homes have been returned to their pre-war owners and all refugees who chose to come back have returned; most physical infrastructure is now repaired; and persons and goods can move freely throughout BiH. However, the business infrastructure still lacks the basic features required for higher growth.

In the area of SME development, some micro-finance institutions that run branch offices across the country have proven that, where there is economic interest for all, different ethnic groups will happily work together. The formation of client groups that incorporate members of all ethnic and religious backgrounds demonstrates that cooperative work makes businesses more successful and groups more sustainable. In addition, the international community embarked on support programmes that target host enterprises which employ a certain number of returnees. These programmes are not always market-driven, but the approach produces a dual success: sustainable return as a social issue and development of SMEs as an economic issue.²⁴

Despite the growth in numbers of private firms since 1996, especially in the trade and transport sectors, and despite numerous initiatives (some of which are reviewed below), the private sector is nowhere near its potential, partly because

donor attention and assistance has only recently begun to really focus on business development. Most critically, none of the earlier efforts to develop the private sector took into account the views of the local business community, and 'ownership' was therefore entirely foreign with few references to development needs and priorities.²⁵

The limitations of the steps that were taken is shown by new research that suggests that BiH entrepreneurs still face the dilemma of whether to speed up the registration of their businesses with a bribe, or not to register the business at all.²⁶ According to this analysis, it takes 59 days and 12 separate procedures to register a new business and the total costs amount to 51.8 percent of income per capita.²⁷ This contrasts starkly with a number of high-income OECD economies, where it takes one to four days to register a new business and costs range between 0-1 percent of income per capita.²⁸

Forging a new beginning: positive examples of private sector initiatives in post-war BiH

Long-term economic planning did not exist until 1996 when anxiety over a possible resurgence of hostilities began to give way to greater public confidence and an increase in purchasing power (brought about by the international community's support to BiH). This report explores several examples of cross-entity expansion and investment by enterprises trying to reach out and do business with customers and businesses, regardless of ethnic origin.

For the first years after the end of the conflict, businesses focused primarily on reaching a larger market by crossing the inter-entity boundary and, in some instances, by reaching out to former enemies in Croatia or Serbia. Businesspeople were not vocal in advocating closer, cross-border ties and the need for them only became apparent once it was realised that the smaller, post-conflict markets would only support their ambitions for a very limited period. Crossing boundaries to do business was neither simple nor risk-free, and added to the cost of goods and services. Meanwhile, firms that inherited preferential status from the war period, when they were privileged by the ruling elites, continued to raise their profits by operating in the grey economy. The international community finally realised the disadvantages of limiting businesses' reach and strived to create more favourable conditions for the free movement of people and goods. The case studies below elaborate how selected businesses drew up plans to maintain profitability in the early aftermath of the conflict and the challenges they face today in an environment that still hampers cross-entity investment. They also illustrate how early cross-border economic activity served to re-establish some of the trust that was lost during the war.

Nova Banka Bijeljina

Nova Banka Bijeljina was established by 176 stockholders in 1999. The bank was orientated towards building a domestic profile by developing a unique banking market through cooperation between citizens and SMEs. *Nova Banka* is the leading bank in SME financing and the only bank financed exclusively from domestic resources. In the past five years, *Nova Banka* has displayed continuous growth in deposits and profits. Its balance-sheet value in 2004 was KM159 million (around \$96 million), up from KM20 million (\$12 million) in 2003. The bank runs 11 branches with 286 employees. *Nova Banka* contributes through its core operations to addressing macro-economic issues, balancing the ratio of citizen-corporate finance, SME development, investment across entities and hiring employees regardless of their ethnic background, as well as through its work with international organisations.

Changes in the macro-economic environment and enlargement of the BiH banking sector led the board to increase *Nova Banka's* capital by linking up with Holland's Poteza Adriatic Fund BV in April 2005. The bank management expects the change will allow easier access to global financial institutions, such as the European Bank for Reconstruction and Development, the European Investment Bank, the International Financial Corporation and the German Kredit für Wiederaufbau group, which provide significant lending funds at competitive rates to commercial banks in BiH. A further reason behind the decision is the generally low level of public trust in domestic financial institutions. This has roots in the pre-war era, when foreign currency accounts were stripped of their contents, as well as mismanagement of deposits after the war.

Foreign banks mostly concentrate on financing consumer loans, which increase imports and negatively affect the foreign trade deficit and balance of payments.²⁹ *Nova Banka's* professed goal is to achieve an equal ratio of citizen-corporate financing and ultimately to have a long-term impact on BiH's macro-economic balance.

The first two years of *Nova Banka's* history were marked by the development of its market in northeast RS where it opened branches in Bijeljina, Brcko and Zvornik. In parallel to an additional capitalisation in 1999, new branches were opened in Banja Luka, Istocno Sarajevo, Doboje and Trebinje.

The lack of a harmonised banking market initially restricted the bank to the RS. To redress the problem, *Nova Banka* actively lobbied the entities' banking agencies to launch a process of harmonisation, which resulted in the creation of a single banking market. However, managers at *Nova Banka* stress that contradictory laws and regulations are still the main obstacle to doing business in FBiH and the RS.³⁰ For example, they claim that it is easier to employ a foreigner in the RS than an employee

from the FBiH. Workers' employment regulations, pension and health insurance from FBiH are almost impossible to replicate under RS law, and vice versa.

Development of the bank's network in FBiH evolved from its initial presence in Sarajevo, Mostar and Tuzla where even a small market share provides for profitable operations. Further development has led to the opening of new branches in Ljubuski and Kljuc. In spite of the bank's lower tariffs, these branches' share of the market is less than in its RS branches. The management expects that its long-term investment in trust will lead to a normalisation of its market share.

Investments by *Nova Banka* and other BiH stakeholders in the former Turist Banka Beograd in Serbia allowed for the development of *Nova Banka* Beograd SCG, which allows *Nova Banka* to offer clients a service that speeds up connections between entrepreneurs from BiH and Serbia and Montenegro at significantly lower tariffs.³¹ Such financial investment by BiH citizens of different ethnic backgrounds in Serbia and Montenegro has contributed to a rise in trade.

Nova Banka is the only bank in BiH that can claim to have its origins in the local community. It has created special credit lines for SMEs through the provision of funds by the RS Development Fund, a World Bank project, and strong financial support for exports from the BiH Investment Guarantee Agency, initially set up with World Bank Multilatera Investment Guarantee Agency funds. *Nova Banka* also participates in an agricultural project in BiH financed by the World Bank. It was nominated a partner for the Ministries of Agriculture of both entities. The bank has been granted a Central Bank licence to run a countrywide register of movables – a register of assets that can be leased or credited against – as opposed to property that can be mortgaged. This is a critical tool for lending institutions and allows for easier access to capital, particularly for business start-ups. This is the first private sector register to combine data from both entities, marking a significant breakthrough for *Nova Banka*.

Organic Medici GM

Organic Medici GM (GM) was established in 1994 as a family business that began its operations producing twig brooms for use in factories and warehouses. After a few years, production was expanded to include the growth, collection and processing of natural products from Bosnia's hills and woods, such as chamomile, juniper and other herbs, processing them into teas, essential oils and dried fruit. These products now make up the majority of the company's turnover.

GM is owned by a former employee of the the Banja Luka conglomerate, Incel, one of the biggest chemical factories in former Yugoslavia. Production stopped during the war, forcing the family to look for a new source of income.

Organic herb production requires a constant exchange of information and experience, coupled with partnerships between producers countrywide. There are 50 firms in FBiH dealing with the production and sale of wild or cultivated herbs and the sector has good potential for cross-entity cooperation.³²

GM forged links with farmers of different geographic and ethnic origins to operate under a single umbrella. Although the products are dried and packaged in Banja Luka, they come from farms across the north of Bosnia. Chamomile is collected from 10 family farms that have signed contracts with GM. The work is seasonal and lasts only a short time, but provides farmers with an opportunity to add to their income. Juniper berries are processed into oil, retailing at \$90 for a small bottle. All products are organic and produced without pesticides, a legacy from the war when land stayed fallow.

When GM started to produce organic herbs, its organisational structure naturally changed. The company began to cooperate with the 30 farms that now grow, collect and dry the herbs, while GM packages and sells them to pharmacies and health-food stores in FBiH and the RS. Farmers sign contracts under which they receive top-market prices for herbs collected, and GM provides tools, machinery and know-how where required.

The international community played a critical role in the early days. In 1999, the German aid agency, GTZ, began a technical assistance project aimed at the growing and collection of wild herbs through training seminars, and the networking of buyers and sellers. In September 2001, the International Finance Corporation's Southeast Europe Enterprise Development (SEED) agency organised a Balkan Herbal Forum in Portoroz, Slovenia, which the GM's owner identifies as the real turning point for the company. The Swedish Agency for Development (SIDA) contributed by helping growers to win organic certification under KRAV.³³ A local certification organisation, named OK, was also established within the SIDA project.³⁴

GM also cooperated with CARE International through a business development programme in 2000 and was a beneficiary of the EU's Quick Impact Facility (QIF), the goal of which is to create jobs and sustainable returns to BiH by encouraging firms to employ minority returnees. The QIF grant was used to buy a chamomile processing plant.

GM regularly participates in trade fairs in Banja Luka, Sarajevo and Novi Sad, is a co-founder of the RS Association for Medical and Aromatic Herbs, and a member of a herbal business association that comprises 13 companies. The RS Association is now looking to its FBiH counterpart for further cooperation and eventual unification of the network. The herbal producers' share of the domestic market is

small, but they hope to see it grow through a joint marketing strategy directed at public awareness of natural products. Export plans will be developed once the domestic market is fully covered.

Mira Prijedor biscuit factory

Biscuit manufacturing in Prijedor dates back to 1928, but industrial production started in 1948 in the *Mira Cikota* factory, which was subsequently nationalised. In 1967 the factory was associated with the biscuits and sweets manufacturer, Josip Kras, based in Zagreb, Croatia. *Kras* became the largest biscuit manufacturer in former Yugoslavia and *Mira Cikota* is the largest biscuit and sweets factory in BiH. From 1967-91 *Mira* was a successful exporter of biscuits and waffles with an annual output of 12,000 tonnes, much of which was sold to European countries, the United States, Saudi Arabia, Canada and Australia. *Mira* was privatised and established as a joint stock company in 2001, and re-acquired by *Kras* two years later. This led to consolidation with greater export potential for both *Mira* and *Kras*.

Mira is a classic example of an RS company established before the war that has reverted to Croatian control. The case is particularly interesting because *Mira* is located in an area where the workforce is majority Serb, but the management is Croatian.

The war and loss of its foreign markets, and its links with markets and producers inside former Yugoslavia resulted in a tenfold decrease in production compared to pre-war levels. *Mira's* debts grew to KM12 million (\$7.2 million), and staff pensions and social security went unpaid. *Mira* was on the brink of bankruptcy.

After an offer from *Kras*, the RS government signed a contract in April 2003 that re-defined the property, status and legal issues of *Mira*, and delivered the state's 30 percent share to *Kras* in recognition of the investments the Croatian company had made from 1967-91. The contract obliged *Kras* not to alter *Mira's* traditional activities and to resolve any labour surplus through appropriate redundancy packages. *Kras* gained additional ownership of 45.68 percent of *Mira's* stock through a public offering in November 2003 and has since taken control.

Kras has invested \$2.2 million in production since 2003 and an additional \$240,000 in on-the-job and vocational training for workers, in addition to higher social security payments. Under *Kras* management, *Mira* has re-opened its former markets in Australia, Canada and the US and established new ones in Croatia, the Czech Republic, Macedonia, Montenegro, Serbia, Slovakia and Slovenia. Production grew to 3,000 tonnes in 2004 and was expected to hit 4,400 tonnes in 2005. Besides investments in production and social programmes, *Kras* has increased the salaries of

blue-collar workers, abolished the salary-coupon system and corrected its salary payment performance.³⁵

Although *Mira* exports 75 percent of its products and procures all raw materials domestically, the company's general manager regards the investment environment in Prijedor as unfriendly to foreign investors. Slow administration, overlapping public competences and an unwillingness to create efficient conditions for business are some of the obstacles *Mira* faces. The grey economy hinders business through unfair competition. However, a more significant problem is the lack of a long-term strategy for food processing, which the authorities and investors consider one of the more promising sectors of the BiH economy. *Mira's* management points to the need to depoliticise the public sector, the creation of a single system of administration and a more stimulating investment climate as the priorities of development, in addition to further reform of the legal system.

Formalising the informal: Gornji Rakani and Arizona markets

In 1994, the Federal Republic of Yugoslavia joined other nations in imposing UN-mandated sanctions on RS, including an embargo on external trade, and a freeze on assets and accounts. Though sanctions were lifted in March 1996, the RS economy experienced a lower inflow of donor funds (by 2000 it had received only 16 percent of the overall aid package to BiH) and developed at a much slower rate than FBiH.³⁶

As a consequence, prices were much lower in RS than in the larger entity. The population of FBiH had higher purchasing power, as well as more options available for choosing where to buy products. Wholesale goods sold into the FBiH often came from markets based in RS due to its lower prices. While fear and mistrust of crossing inter-entity boundaries remained high, by the end of 1996 the economic needs of the local populations had begun to overcome them. Three markets between the entities at Loncari-Arizona, Ivanjska-Gornji Rakani (Blatina) and Jezero emerged. "We had to trust each other," explained one trader. "If we hadn't traded with each other, we would have starved, and it was easier to be involved in a black market than to plough a field."³⁷

These markets offered produce from the RS, as well as textiles, cosmetics and technical products smuggled from China, Hungary, Italy and Serbia. In Ivanjska, the market was initially located in a field with no infrastructure. It generated sufficient trading activity and customer confidence for it to be moved three kilometres inside RS territory to the village of Gornji Rakani three years later. The successful transfer was an indication that trust had developed to a level where FBiH residents felt safe to travel some distance inside RS territory, although this pattern was not repeated in larger cities. Trading, accompanied by meals and drinks, contributed to this

building of trust between residents, as did the introduction of credit – the postponement of payment until sales were completed.

Fees for a stall were initially KM5 (\$3) per day until 2000 when local authorities introduced an obligation to register trade under the same regulations as other enterprises. Local traders could not meet the costs of registration while keeping their profits intact, but mutual trust and increased freedom of movement eventually permitted economic activity to shift to the cities.

While activities on these markets straddled the grey and sometimes the criminal economies, they played three positive roles in the post-war period:

- Suspicion and distrust among former foes diminished through the contacts established in the markets
- Commercial relations between former enemies contributed to freedom of movement and the establishment of business connections
- The markets were the sole source of income for many families in the post-war period.

In BiH, all other market places were closed at the beginning of 2000 except for Arizona, the largest market in northeast BiH. Based in the district of Brcko, located between the two entities, Arizona is the most famous open market in southeast Europe. Brcko had been the centre of bitter fighting, with all three sides aspiring to absorb it into their territories. Although the Serbs eventually won the town, its outskirts remained either Bosniak or Croat. When the war ended, the US military set up Checkpoint Arizona, which is where separated families used to meet and former foes trade. One year later, a shanty-town of stands, stalls and dwellings was attracting thousands to Arizona every day, not only from Brcko, but BiH, Croatia and Serbia. Today, Arizona market sprawls over 25 hectares of land and is the main engine for economic growth in the district.³⁸ Indeed, so precious was the market to Brcko that the local OHR office issued a supervisory order in November 2000 that legalised all trading activities, and ordered all taxes and fees collected to be paid into Brcko's district budget.³⁹ The 2,500 stalls and shops at Arizona now sell everything from fruit to livestock, and from grain to electronic goods.⁴⁰

In the past, the lack of regulation has led to serious breaches of public safety, health, and trade and taxation rules. In contrast to the smaller markets at Gornji Rakani and Jezero, Arizona's size and the presence of traders from the wider region stimulated human trafficking and the sale of stolen goods, including cars, illicit drugs and so on. Safety standards for the storage and sale of food were far from ideal. Trade blossomed but millions were lost each year in uncollected revenues, making the market an attractive target for regulation by the authorities.⁴¹

The international community perceived Arizona as a peacebuilding opportunity, viewing it as a 'neutral space' for the three ethnic groups to interact economically. While there were well-founded concerns about the criminality of some transactions in the market, its potential as an engine of growth was recognised. The OHR did not want to deprive Brcko of an income, preferring to explore options for transitioning Arizona into a legal and regulated market, privately managed and with better infrastructure and public services. But as neither entity would benefit from taxes at Arizona, due to its special status under the Dayton agreement, neither was excessively keen to regulate the market. Brcko district and the OHR, with guidance from USAID, opted for a gradual transition to a private shopping mall. Italproject, an Italian company set up in post-conflict BiH, won the tender to implement this project in 2001 with an estimated investment of \$144 million for the construction, finance, design and management of Arizona Market for 20 years. The first part of the project, a covered shopping area of 40,000 m², was opened in late 2004. The company's website states that the market 'operates seven days per week, opening before 7.00 am and closing after 5.00 pm'.⁴² Today, the market employs around 5,000 people.

While addressing some of the major concerns of the international community and the district, the process of regulating the market and bringing it under external control generated some resentment among those who began the trading there, including former landowners, and is reported to have pushed many out of business. Indeed issues over ownership of the land on which Arizona is sited persist, slowing implementation of the project.

Formalisation and regulation was accompanied by a Special Trafficking Operations Program, implemented by local and international police, to crack down on the most visible signs of organised criminal activity at the market, especially human trafficking. Many brothels and bars were closed down.

The large-scale donor involvement demonstrated that the international community recognised the value of spontaneous, open markets like Arizona, both from economic and peacebuilding perspectives. The case also highlights the importance of separating informal from criminal activity in order to regularise the former and curb the latter. Today, Brcko is hailed as a 'rare Bosnian success story', because different ethnic groups live side by side, and because peace has brought real economic dividends. Brcko district boasts the highest average wages in the country.⁴³

Conclusions

While the BiH business community took few planned steps to address the conflict and continues to suffer from its economic legacy, most entrepreneurs interviewed considered peace a key factor for success. Business in BiH has the potential, and in

some cases is taking pro-active steps, to contribute to some of the most urgent requirements for consolidating peace. This entails creating economic prospects, broadly shared across the country, and an environment that supports a vibrant and expanding private sector, as well as efforts to deal with the legacies of war, including its criminalised economy and ethnic divides.

The report has presented some of the challenges and requirements involved. The international community and local institutions are increasingly addressing them, by harmonising procedures across entities or encouraging multi-ethnic hiring practices through grants allocated by donors. Much remains to be done however. The case studies illustrate that businesspeople have in many cases overcome a lack of confidence in doing business with ‘the other side’, but continue to be hampered by an unfavourable environment. Some benefited from access to political elites and the high stakes of operating during and immediately after the conflict, and continue to benefit from relations and patterns developed during that period. A more diversified business sector and the break-up of monopolies are the most promising ways of addressing these negative legacies. Most people interviewed for this report believe that increased trade and better living standards contribute to increased confidence between entities. Fewer barriers to cross-entity business and greater volumes of trade will contribute to normalisation of life across BiH.

BiH companies have an interest in peaceful and progressive economic reintegration of the entities and the re-establishment of the country’s historical, regional connections. This will lead to broader market share and fresh opportunities. A truncated market, divided along ethnic lines, benefits only the ruling elites with power to appoint preferred traders to maximise profits at the expense of the entrepreneurial community. While it is often assumed that poor inter-ethnic relations are BiH’s core problem, respondents consulted for this research generally stressed that they were ready and willing to do business across BiH, regardless of partners’ and customers’ ethnic background, but were hampered by political and regulatory issues, lack of stability and the prevalence of corruption.

The grey economy continues to play a major role in BiH. It would be a mistake for the authorities to prosecute families who make small amounts of unregulated money to survive. Instead, they should focus on making the SME environment more flexible and strengthen the rule of law. Powerful elites and the mafia sponsor the smuggling industry and the government has inadequately addressed this problem. When the investment climate changes, and laws are altered to broaden the base and rate of taxation, there will be a shift from the informal to the formal economy.

Years of conflict and restructuring have left BiH with a negative image both among its citizens and potential external investors. This image means additional costs and obstacles for local businesses:

- Low levels of trust in BiH companies and their products
- Requirements for advance payments, lack of trade crediting abroad and other costs
- High interest rates and short-term financing for trade
- Low levels of foreign direct investment.

The cost of doing business has become a central concern of the reconstruction efforts in Bosnia. This is good news. The bad news is that these costs remain among the highest in the region and indeed other European transition economies. Unless the environment for doing business is significantly improved, Bosnian businesses will continue to find it difficult to maximise their contribution to recovery.

This suggests several recommendations:

- **Local ownership for stimulating business activity.** As several cases have illustrated, initiatives driven by the international community are frequently perceived as external interference and are liable to suffer from weak local commitment and uptake as a result. There was neither sufficient public nor private sector engagement in the projects that have been experimented with, which were largely managed by donors. Increased public-private dialogue should strengthen local ownership over such processes, involving both local business actors and civil society in identifying areas of regulation and institutions that require reform to foster SMEs. There are some promising initiatives in this area that may provide further learning (see for instance John Bray's contribution in this volume).
- **Harmonisation and integration.** The different regulations between the cantons and the entities must be harmonised at the entity level, creating a single economic space.
- **Continued privatisation.** The private sector is underdeveloped because of a slow privatisation process characterised by a monopolistic and poor investment environment, as well as state management of the economy. Where public management of enterprises continues to maintain monopolies and political involvement in business encourages corruption, privatisation programmes must complete restructuring of these enterprises, or liquidate them where necessary.
- **Efficient public sector management.** Generally, BiH and its business sector require a regulatory, instead of a repressive, control mechanism that is professional and well coordinated. A regulatory process of governance can reduce legal regulations to a minimum while focusing on optimisation and functionality. While non-tariff barriers are being removed in BiH, it is important that they are also removed from the western Balkans on which the economy is heavily dependent.
- **A new image for BiH.** Internal and external perceptions of BiH linger predominantly on ethnic tensions and the legacies of war. The country's economic image needs to be improved, showing it to be pro-business and open

to local and foreign investors. Institutional and regulatory improvements, coordinated among all stakeholders (relevant government institutions, the international community, the business sector and civil society), will serve to rebuild trust both within and beyond the BiH borders.

- **Linking up with civil society.** While important reconciliation work continues to be done by local and international civil society actors across Bosnia, including youth work, dialogue forums etc., these should begin more pro-actively to reach out to the business community to explore partnerships in addressing common concerns, such as job creation. Only a few examples exist to date of such synergies (see for instance Martina Fischer's contribution in this volume). Likewise, civil society networks and outreach have a lot of learning that they can share with businesses that are seeking ways to operate across the entities and want to work together, regardless of ethnic background.

Acronyms

BiH	Bosnia and Herzegovina
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
GM	Organic Medici GM
GTZ	Gesellschaft fuer Technische Zusammenarbeit
IFOR	Implementation Force (NATO-led peacekeepers)
IMF	International Monetary Fund
KM	Convertible Marka
MIGA	Multilateral Investment Guarantee Agency
NATO	North Atlantic Treaty Organization
OHR	Office of the High Representative
OECD	Organisation for Economic Co-operation and Development
OSCE	Organisation for Security and Co-operation in Europe
RS	Republika Srpska
SEED	Southeast Europe Enterprise Development
SIDA	Swedish Agency for Development
SME	Small and Medium Enterprises
USAID	United States Agency for International Development
VRS	Vojska Republike Serpske

Endnotes

- 1 See Riskin, S.M. (ed.) (1999) 'Three Dimensions of Peacebuilding in Bosnia: Findings from USIP-sponsored Research and Field Projects' US Institute for Peace (Washington DC, US: USIP); and Fischer, M. (ed.) (2005) *Peacebuilding and Civil Society in Bosnia-Herzegovina: 10 Years After Dayton* (Münster, Germany: Lit Verlag).
- 2 Institute for War and Peace Reporting *Balkan Crisis Report*, 28 October 2005. Also John Bray in this collection.
- 3 Kostic, R. (2002) *Bosnia and Herzegovina Conflict Analysis* (Uppsala, Sweden: SIDA).
- 4 Southeast Europe Legal Development Initiative (2002) *Anti-Corruption in Southeast Europe: First Steps and Policies* (Sofia, Bulgaria: SELDI). Available at www.seldi.net
- 5 None of these initiatives have claimed 'success' in terms of their initial goals and expectations, and the country does not appear to have a unified view as to where its future stands. The development of the single market was more dynamic, and at times has seemingly forced the political situation to respond.
- 6 IMF (2004) 'BiH: Selected Economic Issues' *Country Report* No. 54/04 (Washington DC, US: IMF); Transparency International BiH (2004) *BiH National Integrity Systems Study* (Banja Luka, BiH: TI); World Bank (2003) *BiH Poverty Assessment Vol. 2* (Washington DC, US: World Bank).
- 7 Bray, J. (2004) 'MIGA's Experience in Conflict-affected Countries' *Multilateral Investment Guarantee Agency Paper* No. 13 (Washington DC, US: World Bank).
- 8 World Bank (1997) *BiH: From Recovery to Sustainable Growth* (Washington DC, US: World Bank).
- 9 Steblez, W. G. (1993) 'Mineral Industries of Europe and Central Eurasia 1992' *Minerals Yearbook* Vol. 3 (Washington DC, US: US Government).

- 10 Amnesty International (2006) *Bosnia and Herzegovina – Behind Closed Gates: Ethnic Discrimination in Employment* (London, UK: Amnesty International).
- 11 World Bank (1997) op. cit.
- 12 Andreas, P. (2004) 'The Clandestine Political Economy of War and Peace in Bosnia' *International Studies Quarterly* No. 48 (Oxford, UK: Brown University).
- 13 Washington Post, 22 September 1996.
- 14 Seldi op. cit.
- 15 BiH did not have a unique currency during the war, illustrating the contemporary state of the economy and currency flows. The national currency, the convertible mark (*konvertibilna marka*, or KM) was only created in 1998. Until then, four different currencies were in circulation: Bosnian *dinar*, Yugoslav *dinar*, Croatian *kuna* and the German mark. At its inception, the KM was pegged to the mark by a fixed currency board regime on a one-for-one basis and maintained by the IMF-controlled Central Bank; since January 2002, the euro has been the KM's anchor currency.
- 16 OECD Development Assistance Committee and Creditor Reporting System 'Database on Aid Activities'. See www.oecd.org
- 17 EBRD (2003) *Strategy for BiH*. Available at www.ebrd.com
- 18 BiH Central Bank (2005) 'Statistical Reports' (Sarajevo, BiH: Central Bank). Available at www.cbbih.gov.ba
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- 23 The inventory of strategic companies includes large, unstructured and obsolete industries, such as mining, refineries, outdated vehicle spare parts, and so on. Other companies on the list are more profitable utilities, all monopolies, and other monopoly cash cows, such as tobacco and breweries. Their inclusion is due to tight political control of their privatisation, as well as postponement of the process, enabling political parties to appoint their management.
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- 33 A key player in the organic market in Sweden, KRAV develops and monitors organic standards and promotes farmers' products. See www.krav.se

- 34 OK (Organska Kontrola) was established in Sarajevo in February 2003 as a non-profit organisation representing scientific institutions, farmers, processors, traders and consumers. With support from Grolink, OK is training organic agricultural inspectors all over the country. In 2003, it developed the systems and procedures for organic inspection and certification, and started offering local certification services a year later. See www.organska.ba
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Bosnia: CHF's Municipal and Economic Development Initiative project - a case study in local and regional peacebuilding¹

John Bray

By the early 2000s Bosnia and Herzegovina (BiH) had passed the stage where there was an immediate risk of renewed conflict on the scale of the 1992-95 war, but it remained a divided society. At a political level the country was divided between two entities: Republika Srpska (RS), dominated by Bosnian Serbs; and the Federation of Bosnia and Herzegovina (FBiH), dominated by Bosniaks (Bosnian Muslims) and Croats. At a social level, these political divisions – and the still-recent memory of ‘ethnic cleansing’ in the early 1990s – translated into a deep lack of trust between individuals belonging to different ethnic groups. Meanwhile, economically the country needed to graduate from dependency on foreign aid, but was only just beginning to develop its own indigenous private sector. BiH was no longer at war, but it had yet to attain a sustainable peace.

This case study reviews the contribution of the Municipal and Economic Development Initiative (MEDI) to peacebuilding in central Bosnia from 2001-04. MEDI was administered by CHF, a US-based development NGO, and had two distinctive features. First, it supported multi-ethnic business associations in 14 municipalities. Second, MEDI worked in parallel with municipal administrations to increase their efficiency and responsiveness to their constituents’ needs. The business associations and municipalities later combined to form a Regional Enterprise Network (REZ), which contributed to economic policy-making at both regional and the national levels.

Businesspeople need the best workers and the broadest customer base, regardless of ethnic considerations. This inclusive approach contrasts with the divisive strategies of BiH’s leading political parties, which have notoriously used ethnic rivalries as a means of mobilising and rewarding their followers. Multi-ethnic, participatory business associations can help reinforce both the social and the economic foundations of peace.

The impact of war on central Bosnia

The MEDI programme took place in the Central Bosnia and Zenica-Doboj cantons in the middle of BiH, which have a mixed ethnic composition. Before

the war, Bosniaks had an overall majority in Zenica-Doboj, and were the largest single group in Central Bosnia. However, in several municipalities Bosnian Croats had – and still retain – substantial local majorities. The region was therefore fiercely contested during the first stage of the Bosnian war, and witnessed its share of atrocities. The emotional scars are all the deeper because of the deeply personal nature of the conflict. People not only lost relatives in the war, in many cases they knew which of their former neighbours killed them.

Since the war, thousands of former refugees and displaced persons have returned to their former homes. However, there have been significant changes both in the ethnic distribution and age pattern of the population. Many younger refugees who went to western Europe have chosen to stay there due to more favourable economic opportunities. Already the smallest of the three main communities in both cantons, the number of Serbs is now even fewer. Bosniak and Croat returnees have preferred to settle in districts where their community is in a clear majority.

Novi ('new') Travnik, one of the towns that took part in the MEDI programme, is an example of this social polarisation. Before the war, the town was ethnically integrated. There are now distinct Bosniak and Croat halves in the town, with 'Bosniak' and 'Croat' cafés at opposite ends of the long main street. For several years after the end of the war there were two separate municipal administrations: these have reunited, but the schools remain divided between rival Croat and Bosniak establishments. A few miles away in 'old' Travnik, the two schools operate side by side in a late 19th century gymnasium: the two halves of the building are painted different colours, and the space in front is divided by a wire fence.

Even without the war, central Bosnia would have faced all the problems of post-socialist transition. In socialist Yugoslavia the local economy revolved around large state-owned factories, many of which were no longer economically viable. There was an urgent need both for new foreign investors and local entrepreneurial initiatives. Novi Travnik is a particularly stark example. The town was created in the 1950s to serve the *Bratstvo* ('Brotherhood') factory, which was part of Yugoslavia's arms industry. The factory still exists, but in late 2003 was running at 10 percent of its capacity. The economic rationale for the town's existence had effectively disappeared.

Some new businesses had emerged in central BiH by the early 2000s. They ranged from cafés and betting shops to firms engaged in electronics and food processing. However, many of the new business leaders lacked basic business skills, for example cash flow analysis. They also found it difficult to obtain credit from local banks and complained that the local administration was unresponsive to their needs (see also Divjak in this volume). These were the kinds of problems the MEDI programme was intended to address.

The MEDI programme

The MEDI project ran from September 2001 to September 2004, and benefited from funding of \$6.8 million from United States Agency for International Development (USAID) and a subsequent grant of \$510,000 from the Swedish International Development Cooperation Agency (SIDA). CHF International, the US-based NGO that administered the project, places particular emphasis on community development, and drew on the earlier experience of a similar project in Romania.² MEDI involved a total of 14 municipalities in Central Bosnia and Zenica-Doboj Cantons: Kiseljak, Kreševo, Vitez, Travnik, Novi Travnik, Busovaca, Fojmica, Visoko, Kakanj, Zenica, Zavodivíci, Malgj, Žepče and Tasanj.

The MEDI project had two main components:

- CHF worked with local firms and private individuals to set up business associations in each of the 14 municipalities. CHF undertook to provide the associations with technical and management training, and USAID provided funding for the REZ-FOND micro-credit scheme. This scheme was one of the main 'hooks' encouraging people to set up associations. By September 2004, REZ-FOND had provided loans to 606 SMEs, and interest from the loans provided a significant ongoing source of income to the associations, thereby increasing their chances of survival once the project was completed.³ It was a condition of CHF's involvement that the associations should be multi-ethnic and democratically managed from the outset. In many towns they were the first such civil society organisations to be set up since the war. The overall ethnic composition of the 14 associations was 71 percent Bosniak, 26 percent Croat, 2 percent Serb and 1 percent 'other', while 12 percent were returnees. This breakdown roughly reflected the region's post-war demographics. Between them, association members employed some 14,000 people.
- The second component of MEDI was CHF's work with the municipal administrations in the 14 towns. Members of the public had previously complained that they often had to pass through several different offices before they could accomplish even routine tasks at the municipal offices. CHF worked with office staff to set up databases and improve procedures for key transactions, including the administrative machinery for approving business regulations and planning applications. In this way the municipalities became more service-oriented and more accountable.

Local advocacy

CHF's involvement with both the business associations and the municipalities meant that it was well placed to mediate between them. Collaboration with the business

community had never been part of official culture. BiH's socialist past was one reason for this: government officials had little experience of working with private business and, in some cases, were openly hostile. Such attitudes had practical consequences. The municipalities were typically short of financial resources, which meant that their natural inclination was to interpret tax regulations strictly: they wanted to maximise short-term revenue even if the taxes threatened the viability of the companies that paid them. Legally registered companies complained that they, rather than businesses operating in the black economy, were penalised by overly strict interpretations of outdated regulations.

Business leaders felt that they were in a stronger position to approach the municipality if they were part of a larger association. For example, in Zavidovići, high local taxes were such a concern that some local start-ups were moving their businesses elsewhere. With CHF's help the business association managed to negotiate a reduction in the tax rate and now holds monthly meetings with the municipality. Elsewhere, the business association and the municipality have worked together to draw up economic plans for their towns. Altogether, MEDI advocacy resulted in 127 'effective actions' of this kind.

Regional and national public-private partnership

In late 2002 the 14 MEDI business associations and municipalities combined to form the REZ.⁴ REZ has contributed to national reform through its participation in successive phases of the Bulldozer Initiative.⁵ Paddy Ashdown, the former High Representative in BiH, launched the first phase of the initiative in November 2002. Its aim was to identify 50 business-friendly reforms and to ensure that they were enacted in 150 days. REZ members successfully proposed 13 out of the first 50 Bulldozer reforms and 11 out of the second 50, all of which were successfully enacted.

Meanwhile, REZ has been participating in the EU's Regional Economic Development (RED) strategy, which promotes regional economic planning as a first step towards BiH's eventual accession to the EU. In February 2004 REZ officially became the Central BiH Regional Development Agency (RDA), which will be responsible for coordinating a regional development strategy in association with official agencies, business associations and civil society. CHF continues to provide support to REZ-RDA through its Regional Economic Development Initiative (REDI), the successor to MEDI.

Also in February 2004, the number of municipalities taking part in the initiative increased from 14 to 16. Significantly, one of the newcomers was from the RS, on the other side of BiH's internal boundaries. From an economic and geographic point

of view, its participation made obvious sense. It was, nevertheless, something of a breakthrough that economics and geography had begun to erode political divisions.

Lessons learned: business as a vehicle for inter-ethnic cooperation

If companies are to develop their markets in a country as small as BiH, they have no choice but to operate across ethnic boundaries. In an interview in November 2003, a local businessman pointed out that, paradoxically, this principle had always been apparent to ‘extremists’. Even during the war, there was a history of smuggling across political and military borderlines, and this had been authorised by political leaders on either side. Once the conflict ended, extremists with organised crime connections were quick to resume business links with their former enemies. By contrast, ordinary people were much slower to rebuild relationships with people from other communities because they were still traumatised by the war.

In the immediate aftermath of the war, small and medium actors felt that they had little practical influence over the way the country was developing. There were few civil society organisations and those that did exist were often restricted to a particular ethnic group. The business associations in the MEDI programme benefited from international start-up loans but from the beginning were run on democratic lines, and have since been encouraged to develop their own sources of funds. All too many BiH initiatives started from the country’s leadership and trickled downwards: MEDI worked from the grassroots upwards.

Perhaps the most significant contribution of the MEDI business associations and now REZ-RDA is that they have created a mechanism whereby people with enthusiasm and initiative, but little political power, could achieve constructive change. The hope is that these changes, though small, will have an incremental impact and, in the words of one MEDI business participant, ‘create an avalanche that cannot be stopped’.

Endnotes

- 1 This case study is based on research conducted in BiH on behalf of CHF in November 2003. See: CHF International (2004) ‘Effects on Conflict Dynamics and Peacebuilding’ *Stable Society Study* (Silver Springs, US: CHF). Available at www.chfinternational.org. The author and editors gratefully acknowledge CHF’s permission to draw on this research for this article.
- 2 See www.chfhq.org
- 3 The figures cited in the report come from CHF International BiH (2004) *Municipal and Economic Development (MEDI) Project: Final Report* (Sarajevo, BiH: CHF).
- 4 *Rasvojna Ekonomska Zajednica*. See www.rez.ba
- 5 For background, see Herzberg, B. (2004) *Investment Climate Reform: Going the Last Mile. The Bulldozer Initiative in BiH* (Washington DC, US: World Bank).

Young people build the future: income generation in eastern Bosnia

Martina Fischer

The NGO Ipak (meaning ‘despite everything’) was founded in Tuzla, Bosnia and Herzegovina (BiH) in reaction to a grenade attack that killed 72 youngsters during a youth celebration day on 25 May 1995. Since 1997, Ipak has run a youth centre in Simin Han, a Tuzla suburb where internally displaced persons (IDPs) have formed the majority of the population since the Bosnian war. Ipak started out as an international NGO with Bosnian staff, but is now registered as a local NGO.

Ipak’s activities focus on income generation and include business start-up training, a nationally accredited course in carpentry and a print workshop. Ipak also provides psycho-social counselling, trauma work, addiction therapy, and seminars on conflict management and democracy. Its work is targeted at the 13-26 age group, mostly IDPs from Gorazde, Srebrenica, Bratunac and Zepa in eastern Bosnia. More than 400 young people joined Ipak when it opened and by the late 1990s 1,500 were regular users of its services.

Partnering with a local company to create perspectives

Ipak ran a successful carpentry project aimed at employment training for young refugees. During the start-up phase, it received support from the German development agency, GTZ, and the Tuzla Development Corporation, a consortium of international and local actors engaged in improving conditions for economic development. Machinery for the workshop was supplied by Germany and, in some cases, re-conditioned by the German Agency for Refugee Return and Reconstruction.¹ Ipak entered into an agreement with a local furniture company, Score, which offered places to the trainees who graduated with the best grades. During the three-year project, 20 young people completed the course and were awarded official diplomas. Five have since found jobs with local companies, and the other 15 have gone on to attend the Small Business School, a seminar run by Ipak to equip young people with business skills.

After 2000, most IDPs returned to the Drina valley in Republika Srpska (RS) where they had lived before the war. Some were anxious at going back because the region was insecure and they could not see that their villages would offer them any economic future. Ipak was familiar with these fears. Experience had shown that returnees faced such dire prospects in the rural areas of RS that they soon make their way back to the cities. Supporting the return process in eastern Bosnia, therefore, appeared an urgent necessity.

The project was conceived by young people who had previously been involved with the youth centre in Simin Han. First of all, young people needed vocational training and better conditions for income generation to prevent them from entering illegal markets or criminal networks. Secondly, they needed incentives to contribute to integration and to bridge the gap between ethnically separated communities. The idea of starting a pilot project for youth empowerment, networking and income generation developed further with support from the Berlin-based Berghof Research Center.

'Youth building the future'

In 2002 Ipak was awarded three years worth of funding by the German NGO, Schüler Helfen Leben. The project was launched in August of that year and began a second, three-year phase for 2005-08. The Berghof Research Center supports the project through financial management and project evaluation.

The project aims to support the integration of young returnees through a combination of community work, income generation and training. A youth centre, craft and training workshops, and greenhouses were set up in Krizevici, a village in Zvornik municipality in the Drina valley. Young people were directly involved in construction of the centre, a condition of the contract awarded to a local building firm. Through training and job-oriented community work, the project intends to improve young people's lives and contribute to local community development. It is also designed to have a conflict-defusing and preventive effect.

The project benefits returnees from the Bosniak community and young Bosnian Serbs in eastern Bosnia. The aim is to encourage them to participate in joint community building and reconstruction, as well as in vocational training and production. This includes international youth-exchange programmes and seminars in conflict transformation and democracy building. Of course, the 'fun factor,' with sports activities and cultural events, is also important. A further priority is to provide psycho-social care, trauma work with young people and teachers, and drug-prevention measures.

The key objectives, as outlined by the stakeholders, are:

- To support the social integration of young returnees and local refugees in rural communities in eastern Bosnia
- To facilitate capacity building and promote peaceful relations among families from different ethnic groups at local level
- To change the widespread attitude in Bosnia that encourages dependency on foreign support and provide an impetus for young people to invest more of their energy in their country's reconstruction

- To provide incentives that encourage young returnees to overcome their lethargy, and take on responsibility for rebuilding economic and social life
- To offer young people economic prospects through income-generation measures
- To overcome the gap between urban and rural areas, and ensure that young people in the countryside have the chance to participate in social activities
- To offer young people a space where they can develop their creative potential and social skills while providing them with opportunities to deal with the past.

Vocational training and a youth cooperative

As well as training in computers and languages, cultural exchange and self-help initiatives, Ipak provides certified courses in agricultural production and woodwork. Metalwork and welding courses are currently in the pipeline. Workshops for young entrepreneurs on marketing are also provided. After two years, 25 teenagers (10 girls and 15 boys) successfully completed courses in tomato and paprika cultivation. In addition, eight young people participated in small business workshops and three have launched their own horticultural businesses. The programme was carried out in cooperation with the agricultural college in neighbouring Sapna. Ipak plans to add courses on the cultivation of strawberries, lettuce, spinach, cucumbers and green beans.

The pressing question is how young people can use their new qualifications to earn an income. To achieve this, Ipak founded a cooperative to assist with buying and marketing produce, and to link youth with employment opportunities in local and regional firms. So far, 48 individuals have joined. An application has been submitted to the authorities and registration is pending.

The cooperative idea reaches back to the socialist system, but conditions have fundamentally changed. Then the function of youth cooperatives (which were party organisations) was to provide young people and students with an opportunity to work with their hands during their vacations. Ipak's model, by contrast, is democratically organised; members define their goals and tasks in joint meetings. The cooperative is envisioned as a clearinghouse for information and a buyer of products and services from its members.

Challenges

The most important task that Ipak identified was to create opportunities for training and employment. When the centre was first conceived, it was important for young people to build it and that they should be paid. The same principle applies to the cooperative. More such opportunities will follow. If, for example, schools are rebuilt as part of the reconstruction effort, the cooperative will bid competitively for

the work in order to provide its members with jobs. The advantage of the cooperative is that it can offer a wide range of products and services, from agricultural production through carpentry to metal or construction work.

A further challenge is to integrate girls into the centre's activities. So far, participation in project activities is evenly distributed: in leisure and training, 40 percent of participants are young women; in agricultural production, the female share stands at 45 percent. The Ipak team plans to take gender aspects more into account in the next project phase.

Conclusions

The project fills a gap acutely felt by the young people of Krizevici and its surrounding villages. Schools and technical colleges in the district offer no applied courses, nor do they prepare youth for starting their own businesses. Young people graduating from these schools have no relevant practical skills and little chance of learning them elsewhere. Ipak has consciously chosen its approach to address this gap. Young people, parents, teachers and political decision makers of both Bosniak and Bosnian Serb background all argue that the project is urgently needed in the area.

The international organisations charged with implementing the Dayton peace agreement in BiH, including the Office of the High Representative and the OSCE, recently introduced measures to implement educational reform and identified youth organisations as a target group. But little has been done to date to integrate young Bosnians into the labour market. Moreover, the education system does not meet the requirements of the market economy. There are few job opportunities for young people in the formal employment sector, which is underdeveloped as a result of the war and generally limited to smaller service providers or the retail trade. Most opportunities arise in the informal sector.

A major challenge is to create economic and employment prospects for young people in order to stem out-migration from BiH: the loss of talented young people poses a major threat to the country's development. Increased out-migration since the war is partly due to the lack of vocational training opportunities in Bosnia. The launch of appropriate training programmes in technical occupations or crafts, commerce and industry could improve young people's prospects in the job market and do much to encourage them to remain in their country. Appropriate projects can and must be initiated and supported by international development agencies that have access to national decision makers. At the same time, domestic and foreign companies must be encouraged to assist this process. It is important to ensure that these measures are not primarily designed *for* young people; instead, young people must be actively involved in needs analysis, project design and implementation.

Endnotes

- 1 The German Agency for Refugee Return and Reconstruction (*Deutsches Beratungsbüro für rückkehrfördernde Maßnahmen und Wiederaufbau*) was established by the German Ministry for Development in 1996 with the aim of supporting and advising church-based organisations, NGOs and government agencies on their work with reconstruction and return in Bosnia and Herzegovina. Training measures also fell within its remit. The DBB was dissolved in 1999.

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**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

**Case study
Burundi***

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Burundi

***Dushirehamwe* Association in Burundi: linking peace and development activities**

Scholastique Harushiyakira

In 1993, the first democratically elected president of Burundi, who belonged to the majority Hutu ethnic group, was assassinated along with his close collaborators. The killing triggered the massacre of innocent Tutsi by members of the president's party. Acts of revenge followed, leading to the creation of militias within both groups, and the ensuing fighting Balkanised entire neighbourhoods. The retaliations escalated into a full-scale civil war and an associated rebellion in Hutu refugee camps in Tanzania, the Democratic Republic of Congo and Rwanda. Civil war resulted in the loss of an estimated 300,000 lives and a massive displacement of people both internally and as refugees. It also destroyed the country's precarious social fabric, leading to extreme suspicion between people of different ethnicity.

The role of women in restoring peace

Since the eruption of the crisis in 1993, Burundian women have established associations to work for peace. International Alert, UNIFEM and Search for Common Ground sought to support their initiatives by providing financial, moral and technical support, including a 'training of trainers' programme in conflict transformation techniques with a specific focus on gender issues. The objective was to strengthen the capacity of the women's organisations so they could participate more effectively in the transformation of Burundi's conflict.

The programme started in 1996 with 25 women from all ethnic groups, who were chosen for their active involvement in mobilising and raising women's awareness on conflict issues. Over 170 women trainers have taken part in programmes on gender and peaceful resolution of conflicts, and social transformation, and a further 210 community leaders have also participated. The leaders are responsible for more than

238 groups of returnees, displaced people and people who ‘remained on their hills’.¹ Activities have reached people in 13 of Burundi’s 17 provinces.

A core of women leaders has been set up in each of the provinces where the training took place. They share a similar vision of Burundi’s conflict and are active in mobilising the population for peace and reconciliation. The women mediate in family conflicts at the community level, advocate and lobby authorities to promote grassroots women’s groups, and provide early warning of threats to their communities. They are known as the *Dushirehamwe* (‘Let’s Reconcile’) network.

The programme has given birth to other activities such as community discussion on the peace process, and advocacy. Women now claim their right to participate in decision making from the bottom to the top of society. This is reflected in the high percentage of women in Burundi’s political institutions: women make up 31 percent of the National Assembly and 35 percent of the Senate. A significant number of women have also been elected to Commune Councils, resulting in enhanced representation of women in local institutions.

The link between peace and joint economic activities

Dushirehamwe’s activities contributed to the creation of 238 groups composed of returnees and displaced people, bringing together individuals who work in the same field, such as agriculture, cattle rearing, arts and crafts, bee-keeping, trading and food production. One such group – *Urunani Abahuza Mitima* (‘Collective of Friends’) – was established in the village of Mutaho, bringing together 250 women, 40 men and 30 young girls. The association started in 1998 when two women leaders who had attended the first *Dushirehamwe* training course on conflict transformation techniques took the initiative to visit displaced camps and villages in the hills to discuss the situations there. After overcoming initial suspicion, they used cultural gatherings of children dancing to bring people together and to talk about the causes of the conflict. The songs touched on the problems brought about by the war. As the children danced, local dignitaries would get up and speak. The two women took the opportunity to express messages of reconciliation.

Each Sunday the group went from hill to hill, and people would come to listen and join in. Seeing the extreme poverty, misery and idleness, especially in the IDP camps, the two women set up a farming cooperative because, as the Burundi saying goes, ‘a hungry stomach has no ears’. The women started income-generating activities by cultivating pineapples on a four-hectare piece of land.

Selling what they grew enabled each member of the group member to buy cloth and soap. This whetted their appetite for working together more, and now they also

grow potatoes and beans. Because the women needed access to credit, they contacted the EU-funded Programme de Relance de l'Economie du Burundi (PREBU) and received a donation of cows and sheep. When the cows and sheep multiplied, the women gave some of the young to other groups that had not been so lucky in their applications to the PREBU. This gesture strengthened the chain of community solidarity.

Today the association is considered a model organisation that satisfies its members' basic needs and also helps the wider area, for example through distribution of seeds. It also serves as a model of how people can come together around activities of common interest. In the past, people had negative stereotypes of each another. Today their common concern is how to improve agricultural production and produce a surplus to pay for school fees, healthcare and clothes, and which one day they could deposit in the local savings and credit cooperative.

A second example is the *Habamahoro* group from Karuzi province, which consists of 30 women. One of them, a female trainer who attended the first gender-sensitive training courses on conflict transformation techniques, was outraged at the behaviour of fellow Tutsis in her community who would incite Tutsi IDPs to kill any Hutu who passed near the camp on their way to hospital or the market. On the other side, Hutus killed Tutsis when they came to the hills to collect whatever they had been growing before they were forced to flee their homes.

The *Dushirehamwe* trainer invited 15 Tutsi women from the IDP camp and 15 Hutus from the hills to her house, in order to discuss the situation. She wanted to share the training she had received and explain to them the negative impact of conflict on women, and women's role in the development of the family and the country.

The women decided to create a structure that would allow them to meet and find joint solutions that could restore peace among them. Hutu women decided to convince their brothers not to harm Tutsis when they came to harvest their fields. Tutsi women met with young Tutsi men to prevent them from killing Hutus and denounced anyone who committed such a crime.

A few days later, the women organised a meeting with other women from the hills and the IDP camps. The two groups decided to elect representatives who would give an account on the situation in the hills and the camps. They also created an association that would focus on promoting peace through dialogue, but which would not immediately undertake any production activity.

Soon, however, the leaders of *Habamahoro Karuzi* – like those of *Urunani Abahuza Mitima* before them – realised that poverty and misery needed to be addressed, in

particular as they made them vulnerable to the manipulations of politicians who would promise them material goods in exchange for their participation in acts of murder. They decided to start cultivating potatoes and beans with the support of the Provincial Department for Agriculture. Today, thanks to abundant production, the women are able to sell part of their produce and keep the rest for domestic consumption.

Another interesting case is the group of Buganda, where a woman who was forced to flee the hills settled in the town of Gatumba, near Bujumbura. After receiving the training and participating in visits between the displaced and those who remained on their hills, she returned to her own hill to organise similar gender-focused encounters. She discovered that the women in the displaced people's camps had no work and lived like beggars. She decided to form a group, which specialises in the production and commercialisation of soap and manioc. Each of its 45 women members now has a stall in the local market.

The various economic activities carried out by the different groups serve shared interests and reinforce the cohesion between different ethnic groups. The groups also offer forums in which members can freely express their concerns. In this way people are able to see beyond the stereotypes they formerly attached to members of different ethnic groups, leading to greater mutual acceptance. It becomes difficult for external political forces to manipulate and divide people along ethnic lines when they already share a common interest.

However, the general poverty into which Burundi has sunk has impacted on the members of these groups, as it does on the entire population. Lack of organisation and leadership, and scanty knowledge of management are the groups' main challenges. These weaknesses lead some members to become discouraged and seek personal gain, instead of working towards joint solutions to their shared problems. Conflicts of different kinds erupt, which prevent groups from developing and compromise their original mission and purpose.

Because these groups were established on the initiative of the trainers and leaders of *Dushirehamwe*, they feel a sense of responsibility about contributing to finding solutions to the problems they encounter so as to enable them to become cornerstones of peacebuilding at a community level. Capacity building, training and monitoring the groups therefore remain *Dushirehamwe's* highest priority.

Endnotes

- 1 The key community-level administrative unit in Burundi is the *colline*, or hill, which comprises around five villages. There is often tension between people who 'remained on their hill' and those who were either displaced internally (mainly Tutsis) or fled abroad (mainly Hutus).

Burundi Enterprise Network

Burundi's recent history has been characterised by sustained structural violence punctuated by violent outbreaks of conflict. The most recent began in 1993 and has resulted in over 200,000¹ deaths and over a million displaced or refugee people.² An elected government has been in power since August 2005 and much of the country is now at peace. However, damage to the social and economic fabric has been severe, with total GDP contracting 30 percent since the 1990s³ and all human development indicators (literacy rates of 59 percent, school enrolment of 57 percent, life expectancy of 42 years and infant mortality rates of 114 per thousand) among the lowest in the world.⁴

Thus far, national and international efforts have focussed on a top-level political solution of the conflict, involving leaders of the various groups. While jobs in the state sector have been created to absorb them, there is pressure on the state from the hundreds of ex-army officers returning to civilian life and the estimated 55,000 regular soldiers and former rebel fighters being demobilised over the next few years.

The state provides the main means of access to employment, power and advancement, and this fuels violent competition for the levers of power. This has had a terrible toll on the economy, blocking private sector growth and reform of the country's outdated and inefficient economic institutions. Sustainable peace will, therefore, depend on rolling back the state's control of the economy, engineering a shift in mindset among elites towards national interests, and generating avenues for popular participation in both political and economic decision-making.

As a first step, there must be greater awareness of the issues, more accessible analysis and opportunities for debate, and sustained lobbying and advocacy of policy-makers. Alert has been working in support of the Burundi Enterprise Network (BEN) since 2004 to achieve this.

BEN was launched in 1999. Its objective is to establish a permanent dialogue between the private sector and government, aimed at improving the business climate. It is made up of some 20 local businessmen and women and organises seminars which bring together leaders of business, the government and donors to discuss issues of mutual interest. BEN claims that 'a deliberate policy of job-

creation in Burundi and the Great Lakes is, economically speaking, the only way to bring long-term growth, and politically the only way to ensure lasting peace’.

BEN has an office in Bujumbura with a full-time coordinator. It produces a monthly newsletter and reports on business matters; lobbies policy-makers (both Burundian and international) to bring about change in the environment and to stimulate commerce; and emphasises the importance of regional business links. Its recommendations emphasise the importance of a stable and more equitable economy that will create employment and help to bring about long-term peace.

Endnotes

- 1 International Crisis Group (1998) ‘Burundi Under Siege: Lift the Sanctions; Relaunch the Peace Process’ *Africa Report* No. 1.
- 2 International Crisis Group (2003) ‘Refugees and Displaced Persons in Burundi – Defusing the Land Time Bomb’ *Africa Report* No. 70.
- 3 World Bank (2005) ‘Burundi’ *Countries at a Glance*. Available at http://devdata.worldbank.org/AAG/bdi_aag.pdf
- 3 Ibid.

**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

**Case study
Colombia***

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Colombia

Doing business amidst conflict: emerging best practices in Colombia

Alexandra Guáqueta¹

This chapter examines private sector involvement in peacebuilding and conflict prevention in Colombia. The first section offers a description of the political and economic dimensions of the conflict. There has been an intense debate, shaped by ideology, on the nature of the conflict in Colombia and the policies most likely to resolve it. The only clear consensus to emerge is the need for its end. Such controversies and the dynamics on the ground are the setting in which Colombian businesses, large and small alike, decide on how to deal with the conflict. The challenges faced by businesses and their responses are discussed in the second section.

The third section describes cases where business has tried to play a positive role, and each teases out the motivations behind private sector involvement in peacebuilding. Actors and incentives that make engagement possible are identified, as well as practical aspects of creating and managing peace initiatives. Though more data is needed to know how much the private sector is actually doing, the report finds that businesses are increasingly supporting projects that can be classified as peacebuilding. They are also more aware of human rights, transparency and democracy issues than before. A combination of factors, such as the spread of corporate social responsibility (CSR) and the engagement of international donors may account for such trends. The concluding remarks reflect on these issues and offer preliminary lessons on the obstacles and opportunities businesses face when supporting peace.

The Colombian conflict

Colombia's conflict is 40 years old. At first glance, the country lacks the ingredients that ignited or prolonged conflicts in Africa, the Balkans, the Middle East and Asia. Colombia has not experienced long, oppressive dictatorship; it has been a

constitutional democracy for most of the 20th century and has stable, independent institutions. Colombia is widely identified as a 'Western' country and is considered a respectable member of the international community. It has not suffered deep cultural cleavages. None of its regions has seriously advocated separatism; religion has not been a source of tension; and inter-ethnic relations are peaceful. Colombia is not rich, but neither is poverty extreme; with a GDP per capita of \$2,000, Colombia ranks 69th out of 177 countries, according to the UNDP's *Human Development Index* for 2004.

The economy, moreover, has been stable for a long time, with no severe meltdowns, no dependence on volatile commodity markets and a significant degree of industrialisation. Agriculture accounts for 12.3 percent of GDP, industry 29.4 percent and services 58.8 percent.² More than 44 percent of the land is used for agriculture. There are about 7,000 registered manufacturing firms, 89,000 retail businesses and 400 multinationals in Colombia.³

The conflict cannot be attributed to a bad neighbourhood either. The Andean region has witnessed weak governance and political instability, but little in the way of entrenched civil conflict.⁴ Colombia has not been entangled in local wars since a 1932 border dispute with Peru. South America is one of the most peaceful continents in the world as far as inter-state wars go.⁵ Colombia, however, does have illicit coca crops and drug trafficking, and these have undoubtedly prolonged the war by funnelling millions of dollars to illegal armed groups. But illegal drugs do not provide a sufficient explanation for the war.⁶ Local Marxist guerrilla groups emerged long before the cocaine industry flourished and other countries with illicit crops, like Bolivia and Jamaica, have not suffered similar problems. So, what started the conflict, what was it about and what are its main features today?⁷

A key antecedent of conflict was *La Violencia*, a power struggle in the 1940s and 1950s between sympathisers of the Liberal and Conservative parties, the two dominant forces in Colombia's political history. The 1955-58 dictatorship of General Rojas Pinilla was a formula to placate the violence, and ended when Liberals and Conservatives agreed to co-exist peacefully. In 1957, party leaders – members of the social elite – pushed to reinstate democracy and signed a power-sharing agreement, the National Front, which allowed them to take turns at the presidency during the next four terms. However, the less privileged, rural political base perceived the arrangement as exclusive, while others resented the fact that socialist ideologies were *de facto* banned from power. Expressions of state authoritarianism also raised discontent, adding to socio-economic grievances related to unequal development and the widening gap between rich and poor. Against this background, and influenced by Cold War dynamics, the *Fuerzas Armadas Revolucionarias de Colombia* (FARC) and the *Ejército de Liberación Nacional* (ELN), the two main Marxist guerrilla groups active today, as well as other

insurgencies that demobilised in the early 1990s, appeared in the 1960s and 1970s with the goal of instating a socialist system to redress political and economic inequalities.

The violence was relatively contained until the early 1980s. Unlike other Cold War conflicts, neither the US nor the Soviet Union provided significant funding or weapons to Colombia. The guerrilla groups were small, survived on petty theft and extortion, recruited in less populated rural areas and sometimes acted as authority figures in localities with little state presence. Confrontation with the armed forces was infrequent and usually occurred far from Bogotá, the capital. As time passed, however, the conflict evolved. The 1980s saw a slow but steady swell of the illegal armed groups, especially FARC and ELN, which found financial support for military expansion through kidnapping, cattle theft and extortion from large landowners. During the same decade, illegal, right-wing paramilitary groups emerged as independent counter-insurgency forces in different parts of the country, supported by cattle ranchers, emerald traders, agricultural entrepreneurs and large landowners frustrated at the lack of state protection.⁸ Since then, a segment of the private sector has been closely associated with the paramilitary forces.

Over the same period the illegal drug industry began to play a significant role in the escalation of the conflict. FARC strategically decided to tax the cultivation of coca bushes and the production of cocaine to obtain finance. Some paramilitary groups, like *Muerte a Secuestradores* ('Death to Kidnappers', or MAS), were also tied to drug traffickers in the use of their private armies to protect clients' business and properties from possible extortion. The pressure of the global drug market, the interests of Colombian traffickers, lawlessness in remote areas and the increasing motivation of armed groups to finance their political ambitions with illegal drugs eventually led to a meteoric rise in cocaine production. Colombia went from a few hectares of coca bushes to approximately 40,000 hectares in 1990 and 169,800 in 2001. By then Colombia represented 76 percent of the world's total coca cultivation.⁹ Drugs and war fed each other.

FARC, ELN and the paramilitaries expanded their influence throughout the 1990s. The methods through which they sought to gain control over local populations, authorities and politicians became more and more gruesome. Groups routinely resorted to murder, massacre, terrorist attack and displacement. They also assertively competed for financial resources, especially through coca cultivation and trade. In 1996, an unprecedented escalation of armed hostilities began. FARC displayed its power through a series of attacks against police, military forces and garrisons, and one year later the scattered paramilitary groups united under an umbrella organisation, the *Autodefensas Unidas de Colombia* (AUC). According to official estimates, FARC forces grew from a few thousand fighters in the early 1980s to 15-18,000 a decade later; ELN grew to 5,000; and the paramilitary recruited at

least 15,000.¹⁰ The Colombian armed forces also stepped up their response, improving military and law enforcement capabilities with US assistance.

The magnitude and severity of conflict began to take its toll. Internal displacement tripled to about 280,000 per year, civilian massacres and homicides increased with the dirty war, and terrorist attacks in towns and cities became more frequent.¹¹ Partly as a result, there was negative economic growth for the first time since the 1930s. Unemployment hit 20 percent, making war and criminal activities more attractive. The government estimates that violence and conflict cost Colombia around \$6 billion between 2000-05.¹²

Successive governments have combined negotiation with military and judicial measures, as well as investment in social programmes, in a bid to end the conflict. Where the balance between these policies should lie has long been a matter of national controversy. In 1998, the Pastrana administration (1998-2002) launched a round of talks with FARC, and the president invited the international community to support his peace strategy politically and economically – the first time a Colombian president had appealed internationally in this way. The UN and EU responded by increasing economic and humanitarian assistance, while the US helped with Plan Colombia, a large anti-narcotics, anti-terrorist package with a strong military component. As will be discussed below, for the first time business leaders played an active role supporting the talks, which however failed in 2002. Pastrana offered FARC a temporary, demilitarised zone in which to further peace talks, but the rebel movement used this locality for further training and regrouping. Domestic and international observers began to question whether FARC had turned into a greed-based criminal organisation. The result was general disillusionment with political solutions to the conflict, and increased rejection of conflict-related violence and crime. The mood provided a base for President Álvaro Uribe (2002-06) to launch, with US assistance, an all-out war against FARC and ELN, as well as the right-wing paramilitary groups. All were labelled terrorist organisations.

FARC is still trying to re-conquer territory, though it has suffered significant losses. ELN is nearly vanquished and is pondering full demobilisation, though its cells are still active. Violence, extortion and kidnapping still occur but both guerrilla groups have lost much of their political base and capital. While socio-economic grievances remain, the old claims of political exclusion no longer seem relevant. Colombia has gone through constant democratisation since the 1980s and there is more pluralism than before; left-wing parties participate actively in politics at national and local levels, and civil society has been relatively empowered. The popularity of the guerrilla movements has also waned because of their appalling human rights record and links with narcotics. An example of this was the watershed gesture by union leaders, NGOs and left-wing politicians, who harshly condemned the FARC's bomb attack at El Nopal club in 2003, as well as the donations to FARC by the Danish NGO Rebellion in 2004.¹³

FARC, ELN and the paramilitary have also suffered unprecedented waves of desertion. Since 2002, more than 9,280 combatants have left their groups to join the Ministry of Interior's widely advertised Disarmament, Demobilisation and Reintegration (DDR) programme. In addition, some 23,346 paramilitary collectively demobilised in 2005-06 after negotiations with the Uribe government.¹⁴ Colombia has previous experience with reintegrating former combatants – five guerrilla groups totaling about 5,000 combatants were reintegrated after peace negotiations in the early 1990s – but the government is now having difficulties.

Demobilising the paramilitaries has been a difficult and frustrating process. These combatants engaged in particularly horrific massacres against rural populations and were more closely linked than other armed groups to the narcotics industry. Therefore, some Colombians regard the terms under which they were allowed to demobilise, inscribed in the 2005 Justice and Peace Law, as too lenient. The fact that it was the current administration, which is widely sympathetic to right-wing thinking, which struck the deal also raised concerns. On the other hand, a stricter law might have failed to convince paramilitary leaders to disengage. Colombia has tried hard to balance the issues of justice and order, but the fact remains that the power and influence of the paramilitaries have not disappeared with their formal demobilisation. Many leaders are connected with local politicians and businesses, and former combatants have mutated into mafia-style groups.¹⁵

Overall, the government's security policies have brought greater safety to several regions in the country, but the lenient terms of paramilitary demobilisation and the armed forces' emphasis on counter-insurgency have been strongly criticised by local and international NGOs, the Colombian left, progressives in Europe and the US, as well as UN agencies. Beneath the controversy, fundamental disagreements exist in Colombia and internationally on the nature of the conflict and whether poverty, inequality and class-based discrimination might lie at the heart of the problem. Uribe's alliance with the US in the wars against drugs and terrorism also causes irritation. The Colombian president, however, enjoys a 70 percent approval rating and, at the time of going to print, was still the candidate thought most likely to win the 2006 elections, having garnered enough support in Congress to change the constitution and allow him to stand for re-election.

The private sector and peace in Colombia

From the start of the conflict until the late 1990s, the private sector was generally absent from the politics of peace. This coincided with a period when the conflict was relatively contained and largely manifested itself in remote rural areas where few businesses had a presence. The conflict had little or no impact on growth and foreign investment, and the private sector was able to develop, along with industry,

manufacturing and the services sector. Consequently, as many business leaders admit today, the private sector had no compelling reason to mobilise in favour of ending the conflict, whether through a peace agreement involving fundamental social reforms or a stronger military campaign. This attitude was embedded in a specific constellation of ideas regarding the nature and roles of government, private sector and civil society. For instance, there were fewer expectations at the time that business had any particular responsibility in promoting the public good, and conflict and peace were viewed as strictly state affairs. During the Betancur administration (1982-86), only a handful of business leaders attended peace talks – and when they did it was often as a result of the personal commitment of a few and their solidarity with the president, who specifically requested their advice.¹⁶ The private sector played no significant role during the peace processes that led to the demobilisation of the M-19 armed group, along with others, between 1989-94.¹⁷

Business interest in public policy and political issues became noticeable in Colombia during the Samper administration (1994-98). This was mostly due to the unprecedented political crisis that affected the country and key business interests at the time. Links between Samper and the Cali drug mafia had been uncovered and the President and many of his closest collaborators underwent legal investigations that triggered bitter power struggles between the judiciary, Congress and the executive. The scandal prompted diplomatic tensions with the US, which threatened to impose economic sanctions unless Samper delivered significant results in the war against drug trafficking. Business associations lobbied in Bogotá and Washington to ease US-Colombia tensions and to avoid any negative impact on trade. Afterwards, business association leaders, notably from Fenalco, the national retailers' association, participated in rounds of talks with the ELN – amounting to limited participation in a failed process.

The domestic and external crises undermined the government's legitimacy and capacity to manage the challenges posed by the escalation of conflict. War-related violence intensified; the presence of armed groups increased in cities; and guerrillas and paramilitaries targeted more businesses and people to raise funds through extortion and kidnapping. From 1996-2003, 20,700 persons were kidnapped, of whom 22.5 percent were business owners or those who worked in the industrial sector.¹⁸ Furthermore, the historically stable economy suffered an unprecedented recession, from 1996-99. A heightened perception of insecurity emerged among businesses and Colombia's poor economic performance was partly blamed on the escalation of the conflict. This triggered a change in attitude among several business leaders, who began to realise in a general sense that something had to be done on several fronts, including armed conflict.

The first signs of private sector peace activism emerged as part of the Citizen Mandate for Peace, Life and Freedom, a civil society initiative against conflict

that garnered 10 million votes in an unofficial poll on 26 October 1997. Encouraged by the success of the movement, business associations led efforts to resume contacts with guerrilla groups in search of a negotiated solution to the conflict. Beginning in 1998, private sector associations established contacts with imprisoned leaders of the ELN. Subsequent meetings between ELN and civil society organisations led to the signing of a good-will accord asserting a commitment to seeking a solution to conflict.

Afterwards, the election of Pastrana in August 1998 opened the door for new peace talks with FARC as well as meaningful private sector engagement in the peace process. For the government, private sector backing of the peace talks and an eventual peace process was crucial since it expected business both to provide funding and to agree to reforms on labour, land tenure and taxation issues. FARC had also expressed its interest in having large Colombian businesses at the negotiating table. For the illegal armed group, such businesses (the owners of capital) were a key pillar of power in society and hence a determinant factor in achieving deep, 'structural' changes. Pastrana thus invited the private sector to formally participate in the talks through a seat in the government's negotiating team.

Business support to peace talks during the Pastrana administration

The Pastrana government named a High Peace Commissioner and a small negotiating team to lead contacts with FARC. Nicanor Restrepo, president of the National Industry Association's (ANDI's) executive board and of Suramericana, one of the largest firms in the financial sector and part of the Grupo Empresarial Antioqueño (the leading business conglomerate in Colombia), was the first member of the business community to make part of the team. Construction businessman Pedro Gómez, former Exxon president Ramón de la Torre, and Ricardo Correa, ANDI Secretary General, successively occupied the position up to 2002.

There was no unanimity within the private sector on aspects of the peace process and thus its participation through representatives of leading firms and associations was challenged from the outset.

Manifestations of business enthusiasm also included an offer by the cattle ranchers' association to donate land as a contribution to abating conflict between landowners and peasants. The industry's association offered to finance ex-combatants to guarantee effective demobilisation. Business also agreed to support 'peace bonds,' an obligatory investment to collect revenues for social and military investment.¹⁹

One group of business leaders created a small think-tank, *Fundación Ideas para la Paz*, to assist with technical and academic know-how, obtain broader, private sector support for peace negotiations (since many businesses were ideologically opposed to Marxist guerrillas) and generally raise awareness among entrepreneurs on the need to exercise their ‘democratic citizenship’ by engaging in public affairs for the common good.²⁰ Numerous workshops and other events saw businesspeople refer to the importance of a peaceful solution to conflict and to the private sector’s responsibility in peacebuilding. At the same time, other business-led peace initiatives emerged, each with its own interpretation and usually in the form of specific projects in economic development, social reconciliation and assistance to the victims of conflict, especially displaced persons.²¹ On the other hand, notably absent from all this activity and debate, was discussion of more controversial issues, such as business connections to paramilitary groups and to drug trafficking in some regions of Colombia.

The collapse of peace talks with FARC, and perceptions that the armed group had cheated and taken advantage of Pastrana tilted the balance back in favour of using more stick and less carrot, i.e. towards a predominantly military solution to ending conflict. President Uribe, who proposed zero-tolerance to guerrilla violence and tougher security measures, was elected with a 22 percent margin over his rival in the first round of the 2002 presidential elections, a clear sign of national disenchantment with the leniency of Pastrana’s strategy. Business has since been encouraged by the Uribe administration to contribute higher taxes to the war effort, which has seen Colombia’s national defence budget reach an unprecedented high of 4.5 percent of GDP.

Despite the roll-back from late-1990s’ enthusiasm for a peace process, peace-related initiatives with private sector participation have continued. More businesses – and not just large groups with developed philanthropic strategies – have joined different types of programmes that target poverty, inequality, social exclusion and institutional weakness. Others are promoting human rights and democratic values; creating job opportunities for war widows, displaced persons, former combatants, handicapped soldiers and youth in danger of being recruited by armed groups; or helping to replace coca with legal produce. The private sector is involved in ‘Peace Labs’ and some of the Peace and Development programmes across the country, and in illegal crop substitution through agricultural projects funded by the US Agency for International Development (USAID). The Grupo Empresarial Antioqueño has structured a regional response to the reintegration of former combatants articulating the work of local authorities, national level policies and NGOs. The work carried out with IDPs by major corporate-funded foundations, such as Corona, Carvajal, Santo Domingo, and Restrepo Barco are also strong examples. Many more exist though it was beyond the scope of this research to conduct a systematic national survey in order to identify all of these.

Factors affecting business peacebuilding initiatives

No one single factor determines businesses willingness to engage in peacebuilding. Clearly, conflict costs are one incentive. In Colombia, the escalation of conflict and a sense of generalised economic and social deterioration prompted leading businesses to engage more actively in the politics of peace, and during the Pastrana administration specifically to support a peace process as such. However, two other factors have contributed to the continuation of business interest in different peace-related initiatives into the 21st century.

The first is the increased engagement of international donors in Colombia. According to the Colombian Agency for International Cooperation, Colombia received \$86.43 million in bilateral and multilateral aid in 1998. By 2003, it had more than tripled to \$294 million.²² Donors have made significant amounts of funding for peace projects available, for which private sector participation has been sought both for co-funding and management expertise. Under former head of mission Alfredo Witschi, for example, the UNDP actively sought private sector collaboration from 2002-05 in a range of projects across the country. In 2004, a US Government Accountability Office report on alternative development in Colombia concluded that private sector involvement was necessary to guarantee the sustainability of many projects.²³ The US Embassy in Bogotá helped to raise awareness among Colombian businesses on the need to engage more directly in the reintegration of paramilitaries and guerrillas. The donor-supported Peace Labs, which will be discussed in further detail below, all include strong private sector participation.

The other factor has been growing adherence to corporate social responsibility (CSR) norms, that have directed companies' attention towards conflict prevention and peace issues.²⁴ Since the late 1990s Colombian companies have increasingly set up CSR-related activities at the same time as integrating ethical policies into their management practices. International influence (progressive multinationals, NGO advocacy, the UN Global Compact) has been key in getting more businesses in Colombia attuned with CSR.

In conclusion, businesses' support for Uribe's security policies has been accompanied by engagement in peace-related, social projects. It is not uncommon in Colombia to find companies that support stronger security measures (and an end to conflict through military means) at the same time as being actively involved in social entrepreneurship that seeks to address the root or proximate causes of conflict. Some may argue that the above examples are worthy actions, but might fall short of tackling the 'big' issues of conflict resolution, as well as certain 'bad practices' that have fuelled grievances. These include the private sector's historical animosity towards unions and freedom of association; the support by some landowners and

ranchers to the paramilitary forces; undue lobbying in Congress to influence sectoral policies that are not in the wider public interest; turning a blind eye to drug trafficking and money laundering; ideological intolerance; and tacit endorsement of a restrictive class system. Others understand a pro-peace approach by business as exclusively favoring a peaceful settlement with FARC and opposing a military response and therefore disregard the political relevance and impact of the new wave of peace-driven CSR.

Private sector responses to peace and conflict, as will be discussed below, are not necessarily coherent. In part, this has to do with the nature of the challenges posed by armed conflict. As one clergyman working with businesses in Colombia revealed when interviewed as part of this research, the reality can be very complex: “Often businesses worship God and the devil at the same time.” This means that they may covertly strike arrangements with, or pay ‘protection fees’ to, guerrilla or paramilitary forces for short-term benefit, while supporting the state in its quest to defeat the groups and helping local communities mitigate their grievances. Nevertheless, the more detailed case studies presented below show private sector’s potential contribution to peace in Colombia.

Conflict costs to business

A brief review of the challenges posed to business operating in the midst of Colombia’s conflicts helps shed light on the range of possible obstacles to obtaining greater commitment and support from the private sector for peace. Though the direct costs of conflict have never been measured, testimony suggests that most businesses, whether in large cities or small, rural towns, have been affected in one way or another by attacks on roads, bridges, power-lines, pipelines, public transport, state buildings, police stations and stores. Threats by illegal armed groups and their influence on local authorities and politics, which can affect how local markets behave, also hinder companies.

Typically, large firms can afford to pay for private security and insurance, or have access to guaranteed public protection for top managers and assets through extraordinary contributions to local police and military units. Medium and small companies are more vulnerable. Kidnapping and extortion – with the latter used as a means of fending off kidnapping – are the main direct costs. Extortion, whether by guerrillas or paramilitaries, is a well-developed activity, with its own rules and routines. Payments are negotiated depending on the size of a business. In a small city, payments can range from \$40-425 per month. Payments from large landowners are determined according to the size of the estate and the type of products they produce; cattle ranchers may pay \$10 per hectare per month. Money is collected daily, weekly or monthly, which means that businesses are constantly monitored, and punished if they fail to

‘cooperate’. The terror is such that people give in to extortion even if the perpetrators are not physically at the door. Payments can be arranged by telephone.

Apart from the economic and emotional consequences of these crimes, victims who surrender to extortion may face further dilemmas, as a small merchant harassed by FARC in Huila revealed. “At first, FARC members come to a shop demanding protection money. For a while, the owner pays his fees in cash, anywhere from 5-10 percent of his earnings, but soon the financial burden is too high. He then offers contributions in kind and asks FARC for help to sell his products. As time passes, the relationship is transformed. The guerrilla group becomes a ‘good business connection’, one that offers new clients to the shop-owner in return for ‘friendship’ and ‘support’, meaning occasional donations and useful information about what goes on in town. If the shop-owner fails to deliver, FARC kills him. Some simply get caught in this dynamic and become part of FARC’s support network.” A similar situation occurs with paramilitaries in their zones of influence.

Under such circumstances, collective action to counter the pressure from illegal armed groups is difficult. Years of war have eroded social capital and there is profound distrust between people. “You never know who’s who,” said one small businessman. In addition, there is no local consensus on whether businesses that do pay are victims, war profiteers or supporters of illegal armed groups. Moreover, most businesses do not inform the local authorities, either because they distrust the public security forces or perceive them as inefficient in conducting proper investigations. According to some testimonies, small and medium businesses in urban areas pay private security in some cases: ‘to make sure businesses in the neighbourhood pay their extortion fees in order to prevent possible bomb attacks that could affect them all’.

As these experiences demonstrate, there is room for improvement in private sector behaviour. At the same time – while there has to date not been a repeat of the effort under Pastrana to engage in high-level peace lobbying on the part of Colombian business – the significance of growing involvement by businesses in specific peacebuilding projects should not be underestimated. Many of these projects, usually based on concerted efforts to contribute locally to economic development, have also become opportunities for cultural transformation inside firms. The emergence of more progressive understanding about socio-economic issues, as well as business engaging in trust-building with NGOs and social organisations that were traditionally perceived as ‘enemies from the left’, are all important developments.

The following section describes in detail some of these emerging peace initiatives. Each highlights a particular feature of private sector engagement, including its motivations and incentives, ideas and understandings on conflict and peace, its interaction with other actors and the nature of the projects carried out.

ISA, Prodepaz and the Peace and Development Programmes (PDP)

Interconexión Eléctrica S.A. (ISA) is the largest electricity transporter in Colombia and one of its most successful, homegrown enterprises. It used to be state-owned and today is partly private. It has seven subsidiaries, international operations and can sell over-the-counter stocks in the US. ISA is also one of the companies that has suffered the most guerrilla attacks in Colombia. Energy pylons have been bombed more than 1,200 times since 1999. Colombia's escalation in violence was one factor that drove the company to reflect more deeply about armed conflict, the possibility of having a sustainable business in such an unstable environment and the need to focus its social programmes in order to contribute towards long-term peace. One outcome was ISA's initiative to create the *Programa de Desarrollo para la Paz* (Prodepaz), a regional peace and development programme (PDP). Since then, ISA's policy has been to support the other 19 PDPs in the country and to convince other companies to do the same.

Ideas and incentives behind ISA's engagement

ISA was familiar with conflict issues when it created Prodepaz. The construction of large hydroelectric projects in eastern Antioquia in the 1960s and 1970s involved the relocation of entire villages, sparking deep social tension. Companies lacked experience on resettlement and impact prevention and mitigation. According to local history, as conveyed by two former mayors, civic movements and grassroots organisations emerged to demand better compensation packages and reduced electricity rates. "Hectares of forest were destroyed," said one. "Besides, if the water was ours, why did we have to pay as much as the rest of country?" Later on armed groups took advantage of local grievances and sought to win civic movements over. Then, 'many of the grassroots leaders were assassinated', which they believed changed the course of events. "In a way, it thwarted the development of non-violent social movements in Antioquia since people learned that peaceful opposition and mobilisation were doomed to be blocked, it was then that guerrillas increased their influence in eastern Antioquia. First came the Carlos Alirio Buitrago Front of the ELN. FARC and the drug traffickers arrived in the late 1980s. And the paramilitaries came in the 1990s."

This early experience with social conflict encouraged the company to transform its practices, develop relocation protocols, social and environmental impact methodologies and adopt a more regional-oriented perspective of its effects. These were incorporated in national regulation. However, the escalation of armed conflict overwhelmed existing company capacities. The situation in eastern Antioquia

worsened in 1997, when paramilitaries massacred 14 people in El Carmen de Viboral and forced civilians in several municipalities out of their homes; FARC sabotaged the local elections to prevent paramilitary influence; and ELN kidnapped election-monitoring officials sent by the Organization of American States (OAS). Extortion, selective assassination and displacement severely increased after territorial disputes between the three groups, and the guerrillas stepped up kidnapping and attacks against the electricity grid.²⁵ The blowing-up of pylons emerged as a guerrilla tactic to hit state finances, distract and wear down the military forces, and to pressure civilians to support peace negotiations on terms favourable to the guerrillas.

“There was a sense of crisis,” said an ISA spokesman. “The nature of our business binds us to the territory over the long term. We cannot go away or move. Besides, we provide a vital service, important both to the state and the people. We had to do something that could bring long-term stability and sustainable peace; a quick fix would not suffice.” ISA also had a well-established community affairs programme – the result of its past learning – and was seeking to improve its impact “We were very worried with the situation in Antioquia. People were paying the toll of war, and we were troubled because our social programmes weren’t having the results we expected.” According to ISA, both factors motivated a strategy review.

Other processes helped too. “Something that pointed us into a new direction was our realisation, when working on a specific project with ISAGEN, an energy supplier that splintered from ISA in 1995, and Empresa Públicas de Medellín that the conventional approaches shaping our framework for relations with local communities, such as the usual environmental and social impact assessments, were not appropriate for dealing with the complexities of armed conflict.”²⁶ Risk management had to include prevention strategies to target the root causes of conflict, not just short-term mitigation plans. ISA – helped in part by its corporate culture, good understanding of the conflict, and commitment at a senior level to addressing these issues – became convinced that the company should be investing in Peace and Development Programmes (PDPs), whereby community relations and social investment are directed entirely towards addressing root causes of conflict. PDPs are long-term macro-projects with multiple components (economic development, environmental protection, strengthening of institutions, civil society empowerment, the promotion of a peace culture, and education, health and housing) and implemented in several municipalities at the same time.

Learning about the private sector’s value through social entrepreneurship

At the outset ISA staff had a general idea of what they wanted: a ‘large’ programme that addressed what they believed were the root causes of conflict (poverty, lack of

social capital) and its triggering factors (unemployment); and other partners to ‘chip-in’ financial support, political backing or technical know-how. They also wanted to generate local ownership and greater awareness of peace issues among other companies. The company was able to enrol ISAGEN and the Sonsón Dioceses. Historically, the Catholic Church has a strong influence in Antioquia and ISA believed having the Dioceses on board gave greater legitimacy. In addition, the Dioceses had been active in conflict prevention and peacebuilding through assisting IDPs and seeking local peace arrangements (of all actors in Colombian society, only the Church enjoys the ‘political licence’ to approach all sides of the conflict for humanitarian purposes).

The next step was to research and learn from similar experiences. The partners visited the pioneering Magdalena Medio PDP (MM-PDP), which had become a social intervention ‘model’ for international donors (leading the EU, for instance, to adapt its country strategy based on the MM-PDP). The trip was critical in shaping ISA and its partners’ own version of a PDP. The group noticed that while the MM-PDP was strong on peace promotion, it was weak on generating sustainable job opportunities. This was an important shortcoming, since addressing underemployment, as a root conflict cause, was necessary to working successfully on other issues, such as peace culture. In order to succeed, the partners concluded, their PDP would have to have active private sector participation. “After all, they are the ones who know how to set up businesses, they know the market and have the capital to invest,” remarked the Dioceses priest.

ISA was well aware that beneficiaries needed to have ownership over projects. “It is counterproductive to step in and do everything for them. The idea is for local communities to develop skills, become self-sufficient and learn to participate in a peaceful and democratic manner,” said one employee. With this in mind, the Dioceses, ISA and ISAGEN returned to Medellín, invited others partners, like Corporación Empresarial del Oriente and Pro-Antioquia to join the core group, and officially formed Prodepaz in September 1999, to take forward implementation of the programme.²⁷

Prodepaz

Prodepaz has operated since 1999, benefiting around 2,380 families in 28 municipalities. Today, its main activities include participating in project formulation and implementation, and promoting local and regional participation in development planning. In addition, Prodepaz is in charge of:

- Maintaining the *Sistema de Información Regional para la Paz* database, which contains basic demographic and economic data that help identify projects, beneficiaries as well as other potential partner organisations, including private sector companies

- Providing technical assistance in entrepreneurship, community-level development and project monitoring and accountability
- Financing and assisting business-development projects. Currently it is working on three core projects: Coser, a garment factory (\$108,124); Proyecto Panelero, a sugar and honey factory (\$81,064); and Hortalizas, a vegetable farm (\$20,170).

More than \$33 million has been invested in the activities, including Prodepaz's contribution (23 percent), community support (13 percent), local municipalities (14 percent), and private sector and international cooperation (50 percent). ISA has contributed \$3.9 million to social programmes in Colombia, of which \$1.2 million has gone to Prodepaz.²⁸

Success in terms of bringing absolute or relative peace is difficult to measure for many reasons. First, while armed conflict dynamics differ from region to region, it is also a national phenomenon; so as long as illegal groups keep on fighting, there can be no absolute peace. Second, PDPs aim mostly at addressing the structural causes of conflict, which means their results can only be seen in the long term and may be contingent on other factors. Bearing that in mind, Prodepaz projects have had important effects, such as visible improvement of livelihoods for vulnerable, local populations and the creation of a new socio-economic model of development that aims towards social empowerment and a change of structures in order to guarantee project sustainability.

Prodepaz and the Peace Lab

Another Prodepaz achievement was to host one of the EU's Peace Labs. The first EU Peace Lab was launched in 2002 to support the MM-PDP. Afterwards, the EU adjusted its strategy to channel aid through such social intervention models with the underlying assumption that poverty and inequality were key causes of the conflict, and therefore that ending the war and forging sustainable peace required a strong social component, as opposed to an exclusively military strategy. A total of \$50.6 million, of which 82 percent came from the EU, was invested over five years in several small projects, benefiting 29 municipalities in the departments of Bolívar, Antioquia, Santander and Cesar.

The purpose of the Peace Lab is to use an alternative development model directed towards strengthening local and regional institutions, as well as working with civil society to protect people from armed conflict. This created a mechanism to transmit good governance and counteract the violence. Peace Lab II was approved in 2005 and involves three clusters of projects, one in eastern Antioquia led by Prodepaz, and the other two in Norte de Santander and Macizo Colombiano (in the departments of Cauca and Nariño, respectively). Funds of \$39.6 million will be invested over three years. Peace Lab III is currently under preparation for Montes de María and Meta regions, with EU funding of \$28.8 million.

Aligning business and peace agendas: CEA, UNDP and rural development

Compañía Envasadora del Atlántico (CEA) is a family-owned company in the food and canning industry founded in 1982. CEA grew substantially in the 1990s and today exports 500 containers of fruit pulp to 39 countries around the world. In 2001, the company decided to produce passion-fruit pulp due to high demand from international clients. This involved a series of challenges because of small growers' low level of training and the political economy of the conflict. Finding farmers willing to grow the fruit was difficult because lands in the coastal region were being used to plant coca. Additionally, farmers who were interested in becoming providers needed to obtain credit, meet a specific number of technical requirements and commit to delivering the needed tonnage on time. This involved an investment of CEA's time and money in talking to farmers and training them in agricultural techniques and business skills. The conflict also posed security problems since both CEA and the contracting farmers could become targets of guerrilla and paramilitary harassment. The presence of armed groups in the coastal regions has increased over the years due to their importance in the drugs and arms trafficking routes.

Since 2003, CEA has helped to create agri-business associations in vulnerable areas that have been, or could become, sites for narcotics production, thereby feeding the drug trade, illegal armed groups and the conflict. It is clear that their motivation in peacebuilding in this sense has been as much about concrete business opportunities in the short term, with an eye to the international passion fruit market, as other considerations. Expectations that it may benefit from profitable peace projects in future, sponsored by international donors, might also have influenced the company's calculations. Activities that are directly connected to company interests may receive greater attention from company executives and appear to be more stable, but since they depend on market fluctuations they can also be unstable. So far, CEA has remained faithful to most of its commitments.

Partnering with international donors

International 'conflict-aid', in the form of multilateral, bilateral and foreign NGO assistance for socio-economic development and peacebuilding, is much more readily available now than in the past. CEA approached UNDP and received a proposal to work together on an illegal crop prevention project that complemented the company's business interests. UNDP's objective was to foster legal economic development, involving private companies, which would have an impact on conflict by creating alternative livelihoods for farmers who had been lured into the drug trade. UNDP had designed a programme that offered growers training on how to organise in associations with the goal of maximising their

profits and promoting social capital; workshops on business skills; and a guaranteed buyer of their produce over a number of years. CEA saw an opportunity to develop what it needed: a stable supply of passion fruit produced by growers with adequate technical and associative skills. CEA identified another benefit from partnering with UNDP. Widespread corruption, lack of state presence and the distrust spawned by decades of armed conflict made it difficult for the company to interact with local communities. CEA believed that it could use the UNDP's good reputation to build trust between the company, growers and local communities. CEA invited UNDP to act as a fiduciary and to administer the loans made to the associations. An agreement was signed between CEA and UNDP in June 2003 that provided for the planting of 1,483 hectares in 24 municipalities in five departments in northern Colombia – Cesar, Guajira, Córdoba, Sucre and Magdalena – which, it was estimated, would provide direct employment to 813 families.

Besides working as a 'window of transparency' for all actors, the cooperation with UNDP was expected to facilitate the raising of additional donor funding. In June 2004, a local USAID sub-contractor agreed to join the project and began providing CEA with additional resources in the form of technical assistance, processing plant design and managerial services.

Recently, the Office of the High Commissioner for Peace approached CEA with a view to exploring ways to develop similar productive projects involving reintegrated members of illegal armed groups. Another potential spin-off is the installation of the third EU-sponsored Peace Lab in the Montes de María sub-region in the department of Córdoba. CEA is one of many companies involved in the provision of the 'productive' component of the Peace Lab initiative.

Not all CEA and UNDP efforts to create grower associations have worked. In the northern department of La Guajira, growers simply abandoned the project, according to CEA's projects coordinator. "They were never disciplined enough and were too connected to the easy life of contraband. Some shifted to tobacco when a company came and offered them more money." By contrast, the association of San Antonio Sahagún, in Córdoba, has been a real success.

San Antonio Sahagún

San Antonio Sahagún is a small village in eastern Córdoba, birthplace of the leading AUC bloc and a region strongly marked by drug trafficking. Sahagún, however, is relatively quiet. While the armed forces and police are well regarded, local government is largely absent. Few can point to good works performed by previous administrations. Judicial disputes are settled through negotiated

agreements overseen by the police, as a way of sidestepping judicial inefficiency and in response to the community solidarity that exists. It is possible that paramilitary dominance in the region may have contributed to this local 'order'. "If someone commits a burglary," said a local farmer, "the 'paras' warn him not to do it. They tell him this behaviour is not accepted within the community, and will offer to help him find a job. If he steals again, he receives another, more pressing warning. The third time, he can get killed. This hasn't happened very often in Sahagún though."

Before CEA's arrival on the scene, clients for the region's passion fruit were limited to a few local farmers and sporadic visits by larger buyers. In most cases, transactions between farmers and buyers depended on an intermediary who would reap most of the profit. In time, growers realised that they would not gain access to better prices, stable buyers and bank loans by working alone. They began to form a passion-fruit producers' association. So when CEA and UNDP arrived with their proposed project, local growers were receptive. The small, informal association was transformed into a larger, formal organisation, which was legally registered as Pazcoop (short for 'peace cooperative') in the chamber of commerce. For several months, UNDP trained Pazcoop's 120 growers on how to run an association, democracy and conflict resolution, in compliance with its mandate to foster peaceful development in zones of conflict through community work. Later, CEA and Pazcoop signed a three-year contract in which CEA agreed not to buy passion fruit from growers who were not Pazcoop members, while the association would provide 2,800 tonnes of fruit a year within a guaranteed price range.

In general terms, the project has worked well. But CEA and Pazcoop have recently encountered problems of mutual non-compliance that suggest that market forces may eventually jeopardise the agreement. In August 2005, CEA discovered that a local grower had lied about his production in order to supply a rival buyer who had offered a higher price, while Pazcoop learned of a parallel transaction between CEA and a Pazcoop member outside the framework agreement, circumventing Pazcoop rates. Last September the parties met in Sahagún to settle the issue. "If such problems start recurring, the association might start to suffer from a credibility crisis," warned Pazcoop's manager. "I needed the fruit pretty quickly," responded the CEA representative, "but I understand your point." The assembly lasted two hours and CEA and Pazcoop are keen to maintain their agreement and to avoid future defections. CEA offered an improved assistance package for more hectares and a facilitator to sort out differences between Pazcoop members. However, the defections could happen again if CEA decides to expand its passion-fruit exports or if occasional buyers show up and try to alter Pazcoop's existing price agreement.

Enlisting private sector support to IDPs

International donors are not the only actors encouraging business to support peace-related work. The *Alianzas Red* (Network Alliance) office in the government's *Acción Social* (Social Engagement) programme, for example, is a leading actor in pursuing private-public collaborations that focus on projects to assist and reintegrate IDPs. Businesses have been visibly more willing to collaborate with the government in projects to assist IDPs than to reintegrate demobilised combatants from the FARC, ELN or AUC. Some business leaders claim they are not disinterested, but that they expect government to present structured plans and indicate exactly what companies are expected to do.²⁹

Alianzas Red: partnering with business to support IDPs

Internal displacement is one of the gravest consequences of Colombia's conflict. In 2003, it was estimated that there have been over 3.1 million victims in the previous two decades,³⁰ and recent reports indicate that numbers are still rising.³¹ In 2005, following criticism by NGOs, the government signed a special decree to demonstrate the seriousness of its commitment to protecting IDPs and prevent further displacement.³² *Alianzas Red* (AR) is one of the offices now devoted to the issue, and was created in 2001 with funds donated by the Japanese Social Development Fund through the World Bank, and with technical assistance from UNDP, which administers the programme's finances. AR's mission is to build alliances between public and private sectors, and local communities and international donors to create employment opportunities for IDPs. The project, stresses Maria Lucía Vallejo, coordinator since January 2005, was conceived as a 'demonstrative' experience. Its main purpose was not only to get displaced people back to work, but to develop a methodology for alliance building that could later be replicated in other places facing similar problems.

A total of 22 projects have been implemented since June 2003, benefiting around 5,750 families (23,995 persons) in Bogotá, Soacha, Cali, Medellín and Barranquilla, the main 'destination' cities for displaced people; and in Rionegro province in Cundinamarca, the municipalities of La Palma and El Peñón, Cali, 14 municipalities in eastern Antioquia and Ciénaga Grande de Santa Marta, the main sources of IDPs. Four basic strategies were designed:

- Strengthen existing associated businesses that seek to build alliances between public and private organisations in order to foster associative businesses where displaced persons could find work. Initial training of IDPs is the responsibility of the businesses involved. This strategy includes support for IDPs' readjustment to a labour environment, technical

qualification, purchase of machinery, adjustment of facilities and support during training.

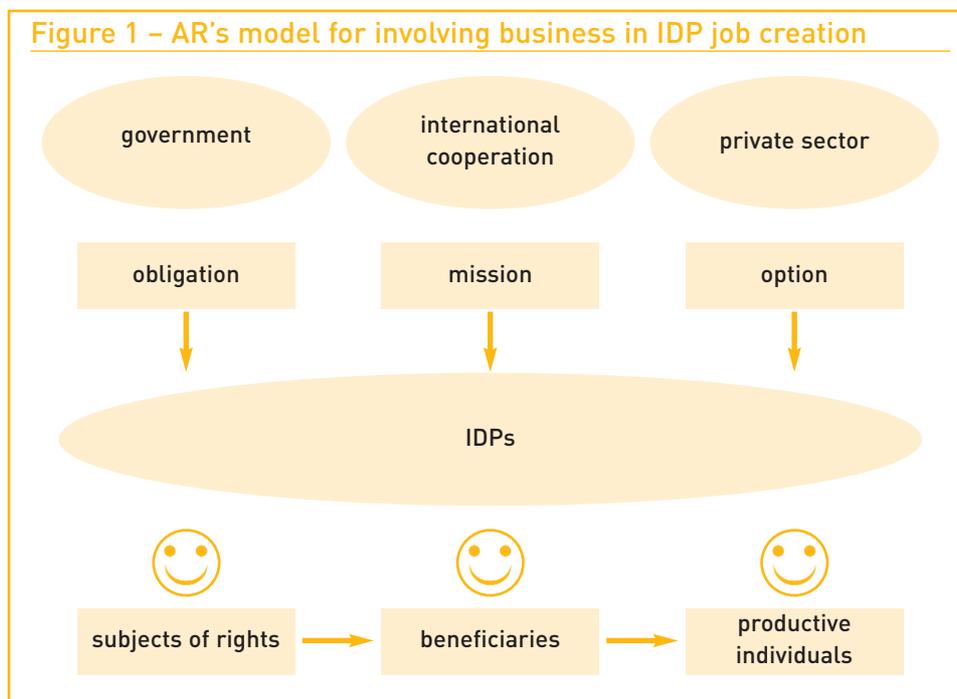
- Involve displaced persons in public projects, particularly infrastructure, through affirmative action with positive discrimination clauses under which tenders for state contracts must include a minimum quota of IDPs (10-15 percent). Free training agreements are signed with organisations working in social entrepreneurship. The strategy includes support for readjustment to the labour force, occupational orientation and technical qualification.
- Build alliances with urban private sector companies to encourage them either to hire IDPs or to fund an economic development project that can provide jobs to IDPs on a large scale, accompanied by training (psycho-social aid included) and allowances during the training phase.
- Create rural economic development projects based on agreements between the private sector, regional governmental agencies and local communities through agro-industrial associative alternatives, food security, technical qualification and social infrastructure improvement.

AR's main task is to find companies willing to support projects. "The idea of CSR is not widespread," explained Vallejo, "so I quickly learned I couldn't appeal to CSR notions to get their collaboration. You have to talk hard to them – show them figures, prove that you know more about their businesses than they do - otherwise they won't buy it." Consequently, AR developed a graphic (see figure), which is shown to every company lobbied. It is a visual explanation of the responsibilities and roles of each actor involved with IDPs, including government, international donors and the private sector. IDPs are portrayed to companies as *potentially productive individuals* who can be integrated in their corporate structures. Another issue addressed with companies is profitability. Vallejo says that each time she talks with executives, she has to explain how participation does not lead to losses since the financial sustainability of projects must be secured from the beginning, mainly through feasibility studies. Thanks to this scheme of negotiation, on average, the private sector's contribution to projects is up to 70 percent.

In the first phase, AR had to provide tangible benefits as incentives for companies. In some projects, it provided the human and financial resources for the training period; others were offered new machinery. The number and type of companies approached varied, depending on which company best fit the programme needs.

Companies are typically concerned with security. Since some projects are in violent areas, defining roles and ensuring companies do not embark on tasks with which they are unfamiliar is vital, as is limiting the paperwork and bureaucratic obligations.

Figure 1 – AR’s model for involving business in IDP job creation



AR usually offers to set everything up so as to minimise the time invested by companies and their managers. It advises businesses of the good publicity they can expect, how it will increase demand and improve their relations with local communities. If companies are still hesitant, AR adopts a different tactic. Depending on the project, some companies complain about the costs. “That’s when we really need to get tough with them,” says Vallejo. “We have to make them see that if they don’t chip in, things as they are – conflict and social unrest – won’t change; the situation will worsen. We ask them questions, like: ‘Do you feel it is right to have to ship away your kids to school so they don’t get kidnapped?’ Or: ‘Do you want to continue to feel constrained from getting out of the cities because there’s a war going on out there?’”

In terms of private sector solidarity, regional differences are noteworthy. For example, in regions such as Antioquia, one of the richest in the country and well known for its strong social capital, it is easier to engage private sector companies in social projects. Working with private universities is also fruitful, especially through internships or research agreements.

Another challenge has been to change the attitudes of displaced communities, who must go from regarding themselves as passive entities entitled to care and protection, to an image of themselves as productive individuals with some responsibility in the projects and an interest in their own social improvement.

The duty-free zone of Barranquilla

One private group that engaged in a project with *Alianzas Red* was the duty-free zone of Barranquilla, a coastal city in the north. Duty-free zones (DFZs) enjoy special customs, fiscal and exchange regimes, devoted to fostering the industrialisation of goods and the provision of services for the export market. The Barranquilla DFZ is a conglomerate of 92 companies from many sectors.

According to the project coordinator at the Barranquilla DFZ, it was just one of many companies in the city approached by AR. “Many others turned them down,” she admits. There is a successful alliance between the AR programme and nine textile companies in the DFZ, with the help of the Cooperative Housing Foundation (CHF) and a local NGO, *Corporación Dominicana Opción Vida, Justicia y Paz*. “When the local AR team approached our company, our president thought it was ‘interesting’, but didn’t quite know what to make of it, or how to give it a proper start-up.” The project coordinator stresses that the president’s interest was not based entirely on what he heard during the AR presentation. “He had gone to Asia, either Japan or China, and had heard of a similar entrepreneurial exercise with excellent results. That’s why the alliance with AR rang a bell with him.” In her opinion, it also had to do with personality. “He’s a young enthusiast, a visionary of great charisma,” she said.

Together they created a year-long project, Dreamweavers, whose aim was to reintegrate displaced persons from the area, train them and employ them in *maquila* garment factories. Around 600 persons, mostly young women or single mothers, aged 18-35, responded to the initial call. They underwent a rigorous 60-day selection process and were provided with sophisticated social and psychological adjustment. In the end around 240 made the final cut and were given steady jobs. The nine companies signed a commitment with AR that guaranteed that 80 percent of the people who were trained would receive year-long contracts with full benefits and insurance. Some would remain with the company after that year, although job stability typically depends on the cyclical nature of the business.

The experience defined the DFZ in a positive way and changed its approach to CSR. It recently created the *Fundación Zona Franca de Barranquilla*, which will be devoted to replicating similar types of project.

The chambers’ ‘Businesses for Peace’ programme

For many years Colombia’s scholars and politicians have debated whether poverty and inequality are the key, structural underlying factors of conflict in Colombia. In the 1980s and 1990s, the predominant view was that they had nothing to do with

the violence and that drug trafficking was the root of Colombia's problems. There is much at stake in the debate since it raises political questions such as whether policies of fundamental redistribution – for example, of land – should be implemented to address the source of conflict, and how to treat guerrillas if it is true that they had 'legitimate' reasons for fighting.

The debate has not been resolved, but many Colombians agree that sustainable peace cannot be attained without first alleviating poverty and increasing economic development. Lack of employment, for instance, has been a consistent element in the peacebuilding experiences registered in this study. The chambers' *Empresas por la Paz* (Businesses for Peace) project provides an insight into the issue by addressing micro-level aspects of the debate and suggesting further that micro-dynamics among individuals are part of macro-level phenomena, such as armed conflict.

Empresas por la Paz

Confecámaras, the national confederation of chambers of commerce, carried out the *Empresas por la Paz* programme from 2003-04 with financial support from USAID through the International Organization for Migration (IOM), which provided \$46,077,³³ with local chambers contributing in kind for specific events. It sought to foster the creation of scenarios for sustainable peace through 'social reintegration projects' based on two main components: peaceful conflict-resolution at the micro-level (families and the workplace) and entrepreneurship. The project was a spin-off from a previous joint effort between *Confecámaras*, IOM and others that focused on developing pedagogy for peacebuilding in three conflicted areas in Bogotá. "Thanks to this successful precedent we determined that violence and different types of conflicts begin and end with economic issues," said *Confecámaras*' coordinator of social programmes. "Our vision is that conflict isn't just 'armed conflict' (guerrilla and paramilitary), but that it all starts at the ordinary, everyday level."

An IOM official connected to the programme agrees: "You can't talk to people about peace if they don't have money for their basic needs. No theory of peace will work if people cannot pay for food or transportation." This led *Confecámaras* to design a project to break the vicious circle. In its view, with sufficient organisation, a good plan, a small amount of capital and training in conflict-resolution, sustainable businesses could emerge. These, in turn, would alleviate poverty and prevent people from participating in conflict out of material need or ideological conviction – or by becoming helpless victims of war.

Confecámaras approached IOM with a plan to identify candidates in three different cities who could formulate successful business plans. The IOM, which was interested in supporting projects that stemmed from civil society rather than

government, accepted, but suggested that the project be carried out in smaller cities and focused on poor neighbourhoods that typically receive less attention and are more vulnerable to conflict dynamics. The people who signed up to the project, around 200 per city, were mostly young women and men in their 20s. The project first trained them in on how to solve everyday conflicts peacefully through seminars, pedagogic activities and role-playing workshops. These courses were facilitated by the Bogotá chamber's Centre for Conciliation, which is dedicated to promoting peaceful conflict-solving in community contexts.

Visits were organised with executives from the few private companies supporting the project, who talked to participants about their own entrepreneurial experiences, histories, struggles and achievements. "They had to learn not to be frustrated by difficulties," said the *Confecámaras* coordinator. Alliances with the private sector were crucial. "Basically, we needed them to become godparents of this process." One criterion for participation was that companies needed to be well established in their zones of operation. In all, only 10, mostly small companies – local department stores, dairy companies, restaurants, fruit merchants and hardware shops – responded to the call. "We had to 'sell' our idea by showing them CSR as a true investment," explained the coordinator. "Basically, you tell them that not every contribution they make might be profitable for them in the short term or in a direct way, but they will trigger transformations in their environment that will bring stability and benefits in the long term."

Those that took part acknowledged later the significance of the exercise. "They realised that helping and motivating transformations within the framework of 'what *can* be done' [through entrepreneurial initiatives] wasn't just an act of philanthropy, but a more structured activity," said the coordinator. But reputational benefits were an incentive. For the chambers it was a chance to become more visible in their communities and shed their image of being 'unreachable'. For local companies the incentives were two-fold; first, increasing the number of their customers and secondly, shielding them from unwanted pressure from illegal groups thanks to their social engagement with the community.

Of the initial 200 participants per city that enrolled in the process, around 25 with a 'better sense of responsibility' and greater chances of success were chosen to continue to the final stage. They were asked to form groups and the winning group for each city was awarded \$2,100 as start-up money. Most proposals were in agro-business, but one formed a garment factory, and another a candle-making business. According to *Confecámaras*, another useful product to come out of the experience was a series of educational booklets on conflict-resolution and communitarian entrepreneurship, which have been distributed to chambers and businesses across the country.

Ideally, *Confecámaras* would have built on this experience, but follow-up and monitoring of the process and business plans, as well as replication in other places,

was not possible due to lack of funds. However, some chambers have tapped into local resources. For instance, in Popayán and Pasto, alliances were established with SENA (National Learning Service) and local universities to secure further technical or educational assistance for a few of the projects. Some of the companies involved also contributed, either by committing to buy the produce of certain projects or through donations in kind, such as hardware for agro-businesses. “In Colombia nobody invests in entrepreneurship,” concludes the coordinator. “It is extremely hard to find the money to develop business projects.” Others working with entrepreneurs say it’s the other way around. “The money’s there but the problem is finding high-quality projects worth investing in,” claimed one expert.

Private sector and DDR

As of March 2006, 32,626 men and women from FARC, ELN and paramilitary organisations had demobilised. Of these, 9,280 combatants chose to leave their groups even though a full-fledged peace negotiation was not in place. Preliminary government assessments attribute ‘individual’ desertions since 2002 to increased pressure by the armed forces; the inability of groups to ensure loyalty through ideological indoctrination; the frequent use of violence and abuse to maintain group discipline; and the fact that combatants are being offered less risky and more viable options out of uniform, mainly through government-sponsored programmes.³⁴ In addition, 23,346 paramilitaries demobilised collectively, by blocks, in 2005-06 after reaching an agreement with the Uribe administration, with another 3,000 expected to follow in 2006.

The reintegration of former combatants is an enormous challenge in Colombia.³⁵ One reason is the sheer magnitude of the phenomenon. In the early 1990s, the government reintegrated five insurgent groups and some urban militias, but they added up to only around 5,000 men and women. Today the number is significantly larger. Moreover, the fact that demobilisation occurs before a final settlement to the conflict adds a further layer of complexity. Some ex-combatants receive death threats from former comrades or adversaries; armed groups try to recruit them back into the conflict; criminal organisations try to lure them into their networks; and local communities are not welcoming. In particular, the demobilisation of paramilitary forces faces political difficulties. Some perceive the terms of the negotiation as being too soft given the groups’ appalling human rights record and connections to drug trafficking.

When this new wave of demobilisations began in 2002 the state had insufficient human or financial resources to reintegrate so many, especially since economic assistance and protection must also be extended to the families of former fighters. By the end of 2005, important adjustments had been made, but inter-institutional coordination has yet to improve.³⁶

So far the government has turned to international donors and the private sector for help with funds and technical assistance. At first response was meagre. The UN criticised the government's policy of promoting individual demobilisation on the grounds that it was not an 'instrument of peace', but a strategy by President Uribe to avoid negotiations with the FARC, which would presumably have entailed not just specific concessions, but also broader, socio-economic adjustments. The UN also had misgivings regarding the terms of negotiations with the paramilitary forces.³⁷ It refrained, therefore, from assisting DDR in Colombia as it did for example in Central America. The World Bank was also shy. A technical objection was that Colombia did not qualify as a post-conflict nation and many of the Bank's formal DDR projects could not, therefore, be implemented. Only the OAS, backed by Sweden, the Netherlands and the US, offered a verifying mission to accompany the first phase of paramilitary DDR, while the Netherlands and the IOM helped the Ministry of Interior to refine its *Programa de Reincorporación a la Vida Civil* (Programme for the Reincorporation to Civilian Life). After several debates in the US Congress and despite Democratic Party opposition to Washington's policy in Colombia, the US government also began in late 2005 to support DDR.³⁸

The private sector initially held back from helping out more vigorously. Businesses had apprehensions regarding the conduct of former combatants, who are often seen as pre-disposed to crime, and the combatants' lack of appropriate skills. Concerns were expressed that hiring former combatants will create unease among the firm's existing employees and scare clients away. Others see the possibility of sabotage or retaliation by the armed groups that remain active.³⁹ An additional impediment to mobilising private sector support for DDR was poor government management. In their view, government has not designed a concrete plan to engage the private sector and has no clear idea what it wants from businesses. Could former combatants become micro entrepreneurs? Could they be trained in a short time to compete in the labour market? How would a company contact and hire a former combatant? Would companies have any guarantees? Above all, they fear bearing the full legal and political responsibility of reintegration.

National and local authorities have begun to refine their approach in a bid to win private sector support for reintegration activities.⁴⁰ One improvement has been the design of specific schemes and proposals, such as the development of agri-businesses involving ex-combatants. The Office of the High Commissioner for Peace (OACP), which manages paramilitary reintegration jointly with the Ministry of Interior, has come up with a model to set up agri-businesses in which former combatants can work and profit as part-owners.⁴¹ The Ministry of Interior has also had positive results. It committed state contractors to hiring individually demobilised combatants in road-building projects. Firms receive financial incentives, such as tax reduction, and the cost of hiring is cheaper because the state covers social security costs.⁴²

Employment opportunities for individually demobilised combatants

The Ministry of Interior helps former combatants set up their own businesses or finds them employment opportunities. In 2005, 1,164 business projects were launched whereby each individual receives \$3,480 as seed capital. So far, more than 33 private sector companies collaborate in different ways: some charge for their services but others contribute *pro bono*. Two fiduciaries manage the monies provided to former combatants; wholesalers have agreed to train former combatants and supply their mini-markets; while other businesses are directly providing jobs. One main challenge for the Ministry has been to select 'reliable' candidates for companies willing to hire.

In Antioquia, local authorities have led a rigorous training and selection programme that has partly assuaged businesses' security concerns; the mayor of Medellín was able to secure 158 direct jobs in local firms for ex-combatants in 2005. The mayor's office relied on the IOM for assistance in planning and monitoring training and for psychological assistance programmes.⁴³

Given the trends examined in this chapter, it is likely that business collaboration in creating job opportunities for former combatants will increase. In the 1980s and 1990s, it was rare for private entrepreneurs to believe either that they should or even could play a role in DDR programmes. Many felt such activities were the state's responsibility. By contrast, businesses today consider successful DDR a national priority in which their collaboration is both essential and in their own best interests – although, invariably, business leaders still refer to public sector's lack of effective leadership in the matter.⁴⁴

Conclusions

Why private businesses engage in peacebuilding

Businesses usually behave rationally, reacting to circumstances that undermine their ability to compete in the market. However, managers of firms are also subject to incentives that favour a focus on the short term (e.g. end-of-year bonuses tied to costs reduction, meeting sales targets or finding new client accounts). For many years, the internal conflict in Colombia had little or no impact on the operations of domestic enterprises. From the 1930s to the 1980s, businesses developed according to local and national economic growth patterns, as affected by domestic regulation and world market trends. Moreover, Colombia's political, legal, institutional and economic environments were relatively stable and transparent by the standards of the developing world. As a

result, there was no compelling reason for businesses to concern themselves with conflict or with peace issues. On the contrary, their tendency to focus on short-term goals prevented any deeper reflection on the conflict's dynamics or the possibility that events would deteriorate further if they failed to engage.

Business leaders' ideas on the role of the private sector in society and the conflict reinforced inaction. In their view, it was neither the private sector's responsibility to provide security to faraway regions, nor to meddle in negotiations between the government and insurgent groups. With regard to the nature of the conflict, as members of Colombia's socio-economic elite, many private sector representatives believed that Colombia's violence had more to do with ideology and politics, topics with no bearing on their lives. It was only when the conflict dynamics and ideas on corporate citizenship changed that local businesses finally decided to engage more actively in trying to address Colombia's problems.

By the mid-1990s, the conflict had begun to impose higher costs on business operations and the economy, and businessmen and women were experiencing the consequences of violence, notably kidnapping. A threshold was finally reached and businesses, along with the rest of society, stopped thinking of the conflict as a routine phenomenon. The deterioration of the conflict took place at a time when liberal democratic norms and CSR principles had gained strength globally and in Colombia, which helped to change business leaders' ideas on their range of options. This setting made it possible for businesses to view their engagement as necessary, desirable and feasible.

Not all Colombian businesses have reached this conclusion yet. As the above cases demonstrate, specific business actors have helped to tilt the balance in decision-making with regard to peacebuilding projects. International donors have played an important role through pro-peace advocacy to show what businesses can do; making funds and know-how available to share the burden of engaging in activities not directly connected to the core business; and by providing incentives, such as setting up peacebuilding projects as business opportunities. Government agencies have done similar work. International donors and governments have learned to talk the language of business. Usually, a senior executive within a company plays the role of 'norm entrepreneur' – a person who pushes for supporting a peacebuilding project out of personal conviction or professional ambition. Eventually, a domino effect occurs after one company decides to engage in a peacebuilding project. Contractors, business rivals and business partners join in, either to comply with a lead-company's requests, to share the same benefits or simply in emulation. But here size and corporate culture matter. Larger, urban companies tend to have more financial and human resources and are more attuned to mainstream democratic standards, while smaller, rural companies have less resources, more difficulty in fending off threats from illegal armed groups and are behind in internalising CSR norms.

Understanding of peacebuilding

Many Colombians interpret peace as ending conflict through a political negotiation between government and guerrillas, whereby the former acknowledges the latter's claims to sharing power, and begins to address issues of inequality and social exclusion. A maximalist version of this interpretation equates peace to a structural transformation of society, the economy and politics at large along social democrat lines. Those holding these views think that the demobilisation of right-wing paramilitaries does not contribute to peace and would rather see this group of illegal combatants in jail. A more modest interpretation defines peace as simply the end of violent confrontations, either through peaceful means, because guerrillas and paramilitaries decide to demobilise, or because they are defeated by the armed forces. The issue of whether to fight illegal armed groups through military means or not has been a controversial issue and there is no consensus on the matter. Colombians, though, claim protection from illegal armed groups' abuses, which entails a minimum state capacity to provide physical security to citizens through the use of legitimate force.

To ascertain corporate preferences, a larger sample of cases would be required. However, the peacebuilding initiatives found through this research show that businesses have established a conceptual connection between socio-economic variables and the roots of conflict. Improving the livelihoods of poor populations prevents them from joining illegal armed groups. This does not necessarily mean that all businesses have an intention to introduce structural changes or alternative development models, but the development-security nexus has definitely been identified.

Another reason why businesses have chosen to engage in programmes that focus on starting up new businesses to provide jobs to vulnerable populations or youth is that businesses have naturally gone for what they understand best, namely creating profitable, economic activities. Some have gone beyond economic development by building into their projects components to foster solidarity, social capital, non-violent methods of conflict resolution, democracy, human rights and tolerance. The trend is significant even if the peacebuilding initiatives have not yet taken the form of a national movement, and eschew addressing key topics related to corporate behaviour and the high concentration of wealth in Colombia. The private sector is helping to maintain a momentum in favour of the development of the country's marginalised zones. Businesses are increasingly exposed to NGOs and social organisations with different ideas and are learning to coexist without hostility, although trades unions have yet to be brought into the process. Moreover, by simply engaging in public debates about how to end the conflict, businesses have inevitably been forced to reflect more thoroughly on their own identity and conduct.

Acronyms

AUC	Autodefensas Unidas de Colombia
AR	Alianzas Red
CEA	Compañía Envasadora del Atlántico
CSR	Corporate social responsibility
DDR	Disarmament, Demobilisation and Reintegration
DFZ	Duty Free Zone
ELN	Ejército de Liberación Nacional
FARC	Fuerzas Armadas Revolucionarias de Colombia
GDP	Gross Domestic Product
IDP	Internally Displaced Person
IOM	International Organization for Migration
ISA	Interconexión Eléctrica S.A.
OACP	Office of the High Commissioner for Peace
OAS	Organization of American States
Prodepaz	Programa de Desarrollo para la Paz
PDP	Peace and Development Programmes
USAID	US Agency for International Development
UNDP	United Nations Development Programme

Endnotes

- 1 This chapter benefited from the research assistance of Gerson Arias, Alexandra Castro, Morelca Giraldo and Giovanni Mantilla from the Fundación Ideas para la Paz (FIP). They collected information for the various cases examined during investigations conducted in Antioquia, Bogotá, Córdoba and Huila in Colombia in 2005. The author also wishes to thank all those who agreed to be interviewed. The content of this paper is the author's responsibility and does not represent the official position of FIP.
- 2 According to World Bank 2003 figures.
- 3 Sectoral statistics from Departamento Administrativo Nacional de Estadística and Coinvertir. See www.dane.gov.co and www.coinvertir.org
- 4 This could change in the future. Security staff in Colombia and Ecuador suspect Venezuela's President Hugo Chávez may be financing radical rebel groups, including the FARC in Colombia and the new *Ejército de Liberación Alfarista* in Ecuador.
- 5 See *Correlates of War* in www.correlatesofwar.org and Russett, B. (1994) *Grasping the Democratic Peace* (Princeton, US: Princeton University Press).
- 6 Díaz and Sánchez argue, for instance, that coca production is due to the effects of illegal armed activity, and in contrast, coca crops can only be used to explain a small part of the armed conflict in Colombia. See Díaz, A.M. and Sánchez, F. (2004) 'A Geography of Illicit Crops (coca leaf) and Armed Conflict in Colombia' *Working Paper* No. 47 (London, UK: Crisis States Programme, London School of Economics).
- 7 For a discussion of the 'greed and grievance' elements in the Colombian conflict, see Guáqueta, A. 'The Colombian Conflict: Political and Economic Dimensions' in Ballentine, K. and Sherman, J. (eds.) (2002) *The Political Economy of Armed Conflicts: Beyond Greed and Grievance* (Boulder, US: Lynne Rienner).

- 8 See Echandía, C. (1999) *El conflicto armado y las manifestaciones de violencia en las regiones de Colombia* (Bogotá, Colombia: Presidencia de la República de Colombia, Oficina del Alto Comisionado para la Paz, Observatorio de Violencia); and Romero, M. (2003) *Paramilitares y autodefensas, 1982-2003* (Bogotá, Colombia: IEPRI-Planeta).
- 9 Estimates of the size of the illegal drug industry tend to vary. Two key sources on cultivation and eradication in Colombia are the yearly US International Narcotics Control Strategy Report, which uses figures from the Central Intelligence Agency, and the United Nations Office on Drugs and Crime.
- 10 Data for FARC and ELN was obtained in July 2002 from the Dirección de Justicia y Seguridad at Colombia's Departamento Nacional de Planeación. Paramilitary figures are a rough estimate. Recent demobilisations show higher figures. Some speculate they could have recruited right before demobilisation.
- 11 See UNDP (2004) *El Conflicto: callejón con salida. Índice Nacional de Desarrollo Humano*, 2003 (Bogotá, Colombia: UNDP).
- 12 Cárdenas, M., Cadena, X. and Caballero, C. (2005) *Análisis del incremento en defensa y seguridad: resultados y sostenibilidad de la estrategia* (Bogotá, Colombia: Fedesarrollo).
- 13 Central Unitaria de Trabajadores de Colombia (CUT) 'La CUT condena acto terrorista' (Bogotá, Colombia: CUT); *El Tiempo*, 17 February 2003; *El Tiempo*, November 5, 2004; 'Spokesman for Danish Organisation Charged with Funding Terror' BBC Monitoring International Reports, 1 December, 2005; and 'Colombia, Danish Group Clash Anew Over Rebels', Agence France Presse, 25 March, 2005.
- 14 Programa Atención Humanitaria al Desmovilizado, Ministry of Defense; Oficina del Alto Comisionado para la Paz, www.altocomisionadopalapaz.gov.co
- 15 Misión de apoyo al proceso de paz en Colombia (MAPP/OEA). Sexto informe trimestral del secretario general al consejo permanente sobre la misión de apoyo al proceso de Paz en Colombia. 1 March, 2006. <http://www.oas.org/main/main.asp?sLang=S&sLink=http://www.oas.org/OASpage/esp/ultimasnoticias/ultimasnoticias.asp>
- 16 For a historical review of private sector participation in peace processes, see Correa, R. (2004) 'Empresarios, conflicto armado y procesos de paz en Colombia' in *Síntesis 2002-03. Anuario Social, Político y Económico de Colombia* (Bogotá, Colombia: FESCOL, IEPRI, Nueva Sociedad). Correa was Secretary General of the Asociación Nacional de Industriales, the national industries association, and participated in the talks with FARC during the Pastrana government.
- 17 In the 1990s the reinsertion advisory commission was created so that private sector could assist the government in reintegrating M-19, the PRT, the EPL, the indigenous-based MAQL and the CRS. However, no systematic documentation of these experiences can be found that can attest to the private sector's actual involvement. When consulted, Nicanor Restrepo claims he was invited to take part in the Commission but does not recall having ever been invited to a meeting. Author's conversation with Gerson Arias, 22 September, 2005.
- 18 Correa op. cit. Original data is from Fondelibertad.
- 19 *El Tiempo*, 22 July 2002.
- 20 See www.ideaspaz.org
- 21 The cases of Vallenpaz (founded in 2000) and Entretodos (founded in 1996) are documented in Rettberg, A. (2004) *Business-Led Peacebuilding in Colombia: Fad or Future of a Country in Crisis*, Working Paper No. 56 (London, UK: Crisis States Programme, London School of Economics). Available at www.crisisstates.com
- 22 Agencia Colombiana para la Cooperación Internacional (ACCI) (2006) *Asistencia Oficial al Desarrollo 1998-2006* (Bogotá, Colombia: Acción Social).
- 23 Government Accountability Office (2004) 'US Non-military Assistance in Colombia is Beginning to Show Intended Results, But Programs are Not Readily Sustainable' (Washington DC, US: Government Accountability Office).
- 24 Rojas, M. C. And Morales, G. (1999) *Filantropía y cambio social: el caso de las fundaciones empresariales filantrópicas en Colombia* (Ford Foundation, CCRP); also Rojas, M. C. (2002) 'Corporate Philanthropy: A Reflection Based on the Colombian Experience' *ReVista Harvard Review of Latin America* Spring 2002.

- 25 Observatorio del Programa Presidencial de Derechos Humanos *Panorama actual del Oriente Antioqueño* (Bogotá, Colombia: OPPDH).
- 26 ISA had reached the same conclusion as multinationals in the extractive industry. Typically, companies that have revised their traditional risk and impact analysis methods are multinationals connected to Western-based networks working on avant-garde CSR, which is why ISA's behaviour begs for further research on how CSR norms form and evolve within corporations. So far, it has been identified that early exposure to social conflict marked their learning process.
- 27 The first is a local business association with 75 affiliated companies, and the second is a business-funded non-profit organisation promoting education, technological research, development and entrepreneurship in Antioquia.
- 28 Prodepaz documents.
- 29 See Velasco, M.P. (2005) 'Recomendaciones de política pública y sector privado en la reinserción de desmovilizados colectivos e individuales' (Bogotá, Colombia: FIP). Study commissioned to FIP by USAID.
- 30 CODHES (2003) 'Guerra y confinamiento, ¿desplazados sin salida?' Boletín Informativo No. 46 (Bogotá, Colombia: CODHES).
- 31 CODHES (2005) 'Desplazados en el limbo' *Boletín Informativo* No. 56 (Bogotá, Colombia: CODHES).
- 32 Presidencia de la República (2005) Decreto 250: 'Por el cual se expide el Plan Nacional para la Atención Integral a la Población Desplazada por la Violencia y se dictan otras disposiciones' (Bogotá, Colombia: Presidencia de la República).
- 33 Total project cost amounted to \$97,752.
- 34 Conversations with officials at the Ministry of Defence and Ministry of Interior, 2004-05.
- 35 See Guáqueta, A. (2005) *Desmovilización y reinserción en El Salvador. Lecciones para Colombia*, Informes FIP (Bogotá, Colombia: FIP).
- 36 The reintegration of individually demobilised combatants is managed by the Ministry of Interior's *Programa de Reincorporación a la Vida Civil*. During the two-year process, beneficiaries receive psychological assistance, vocational training and about \$2,800 to start up small businesses. Collective demobilisation is managed by the same office jointly with the Office of the High Commissioner for Peace in the Office of the Presidency, which led the actual negotiations with the paramilitaries. Their reintegration has followed a somewhat different path, partly because the paramilitaries have important resources of their own, and the capacity to design, fund and implement agri-businesses in their former zones of influence.
- 37 Interview with official from Ministry of Interior's DDR programme, Bogotá, 2005; *El Tiempo*, 14 July 2005; *El Tiempo*, 17 May 2003.
- 38 Public Law 109-102, enacted on 14 November 2005, earmarked up to \$20 million for individual and collective DDR.
- 39 In 2005, FIP interviewed different business associations in Colombia's main cities to gauge the private sector's willingness to support DDR projects and conduct a preliminary assessment of what type of incentives would be needed to mobilise greater interest. See Velasco, M.P. (2005) *Recomendaciones de política pública y sector privado en la reinserción de desmovilizados colectivos e individuales* (Bogotá, Colombia: FIP).
- 40 In January 2006, the government finally designated a three-person, high-level team to coordinate contacts with businesses willing to help.
- 41 Each demobilised combatant is given \$900 as seed capital. Several can then join together and partner with a private sector investor previously identified by the OACP through local consultations in the communities where former fighters intend to re-settle. By January 2006, 14 such projects employing 800 demobilised fighters had been established. Some claim, however, that such projects are actually funded by paramilitary and drug traffickers who had begun investing in legal activities, an emerging 'entrepreneurial class'.
- 42 Interviews with Ministry of Interior staff, Bogotá, January 2006.
- 43 As recounted in the FIP-sponsored seminar 'Reconstruction and Region', held in Medellín in November 2005.
- 44 FIP will conduct a research project in 2006-07 to evaluate private sector engagement in DDR.

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**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

**Case study
Democratic Republic of Congo***

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Democratic Republic of Congo

Bringing entrepreneurs into the peace process in the Democratic Republic of Congo

Pierre-Antoine Braud

After five years of conflict in the Democratic Republic of Congo (DRC) involving six foreign armies,¹ a power-sharing agreement was signed in December 2002. A government of national unity, representing the former warring parties, the political opposition and civil society, was installed in June 2003. During the transitional period, a new constitution was drafted to pave the way for elections.² The military groupings agreed to integrate part of their forces into a national army, while demobilising the remainder and reintegrating them into civilian life. Reforming the security sector and establishing the rule of law have also been part of the government's agenda. A UN peacekeeping mission (MONUC) was established to support the transition after monitoring the ceasefire. A *Comité d'Accompagnement de la Transition* (CIAT), including the main embassies and MONUC, was created to facilitate the transition. International financial institutions (IFIs) resumed their activities, while international donors have provided important financial support to the DRC.

This was an usual framework for modelling a post-conflict situation. It aims at establishing improved governance in DRC to overcome the consequences of the two conflicts that followed the collapse of the Mobutu Sese Seko regime. Though Mobutu was removed in 1997 by a regional coalition that brought Laurent-Désiré Kabila to power,³ a similar style of governance prevailed. A 'winner-takes-all' approach remained the cornerstone of any strategy. Lengthy, stalled negotiations, antagonistic agendas, recurrent power struggles and entrenched distrust threaten political settlement and the implementation of a peace agreement.

Persistent international mediation was required until 2003 to prevent a return to military operations, or to overcome recurrent crises. Most mediation dealt with DRC's political and military leaders, but in 2004 a MONUC team attempted to

involve Congolese entrepreneurs in Kivu as part of a 'Kivu strategy' aimed at stabilising the eastern region and bringing economic matters to the fore. This approach to peacekeeping did not stem from strategic considerations alone, but from the realisation by MONUC that Kivu businesspeople could be encouraged to use their political and economic leverage to help defuse the conflict. Their activities, moreover, had the potential to support the sustainable reintegration of former combatants. By the end of 2003, Kivu entrepreneurs were brought publicly into the peace process in an attempt to draw attention to economic governance and recovery, and to mitigate the excessive focus that existed on institutional and power struggles between rival political leaders. Such an intense focus had sidelined economic issues, although they were closely intertwined with political matters.

Encountering Kivu entrepreneurs through crisis management

The provinces of North and South Kivu face intertwined issues of local power rivalries, economic competition and community cleavages that are complicated by shifting alliances, as well as religious, commercial and personal connections that cut across the main lines of opposition. These intertwined issues led to numerous crises in 2002-04 involving the opposing armies of Rwanda and Uganda, the opposing rebel movements - the *Rassemblement Congolais pour la Démocratie* (RCD), the *Mouvement pour la Libération du Congo* (MLC) and the *Rassemblement Congolais pour la Démocratie-Mouvement de Libération* (RCD-ML) - Congolese and foreign armed groups,⁴ and 'strategies of tension' by the presidency to undermine the RCD.

It was in the wake of these recurrent crises that MONUC staff encountered the business communities of Kivu. Initially limited to northern Kivu, MONUC's interactions with local businesspeople gradually extended to the provinces' other main business communities.

In 2002-03, three offensives against the RCD-ML drew international attention to its stronghold in Beni-Butembo, North Kivu where there was only a limited MONUC presence,⁵ and regular missions were dispatched from Kinshasa to the area. While not apparent from Kinshasa, the economic and political influence of businesspeople was obvious on the ground. These were not small-scale traders. Three generations ago, they had begun to accumulate wealth by smuggling across the Belgian and British colonial borders, gradually extending their networks from Kisangani, in central DRC, to Kampala, the Ugandan capital. Profits were reinvested in plantations, local manufacturing and the import of textiles. They steadily became internationalised, working with suppliers in Dubai, Hong Kong, Jakarta and Shanghai.

The entrepreneurial culture in Kivu blends community dimensions and resilience to a changing environment. Companies belong to members of a single family, or to

families linked by marriage, and the capital to start new companies is usually provided by a prominent member of the same extended family. While this does not prevent entrepreneurs from competing with one another, it has contributed to the maintenance of strong links with their community and area of origin, or *terroir*. In spite of their wealth, the bigger entrepreneurs continue to live in their native areas where they sponsor important social activities, such as health clinics, schools and even Butembo University.

In spite of the war context, they continue to reinvest part of their profits locally. One group of four businessmen raised \$4 million from 15-20 other local businesses to invest in a dam to provide the area with energy. The project was motivated by both commercial and industrial considerations. With 600,000 inhabitants, Butembo town is a vibrant market for electricity in the absence of any alternative power plant, but a sustainable source of energy was also considered a key path to increased profits. Instead of importing textiles, businesspeople want to create an industrial zone to enlarge their manufacturing and increase the added value on the products they sell in DRC and neighbouring countries.

When a MONUC team initially interacted with them, it focused on political issues. While the entrepreneurs feared looting in the wake of the 2002 and 2003 offensives, they agreed to use their influence to pressure local armed groups into supporting a political settlement. This did not, however, prevent several of them from contacting the attacking forces with a view to securing their own assets should the RCD-ML be defeated. This two-pronged strategy is a constant with local businesspeople. While this development did not reinstate economic issues on an agenda that still focused on crisis management, it gave some indication of the potential role that entrepreneurs could play in decision making. Some also proved to be valuable sources of information on the trade routes used for smuggling raw materials and military equipment.

The RCD's offensive against the RCD-ML in May-June 2003 provided a second encounter with Kivu businessmen. To manage the crisis MONUC was compelled to assess the intentions of the Banyarwandan community,⁶ which had provided most of the attacking forces. Though the offensive broadly fitted with Rwanda's strategy of tension, it also stemmed from the Banyarwandan leadership and its fear of being crushed by the Congolese presidency.⁷ In Goma, capital of North Kivu, influential figures were supportive of a military offensive. Civilian leaders wanted to impose their power over the entire province in order to guarantee it would remain under their control during the transition. The military raised security concerns because Kinshasa had deployed troops in Beni-Butembo. The business community was willing to weaken its economic competitors in Butembo, whom it accused of dumping.

As in Butembo a year earlier, security and political issues led MONUC to take account of local economic players and their influence, either as a lobby or as

individuals connected to civilian and military decision makers.⁸ In the wake of the Butembo precedent, it was less unusual for MONUC to interact with economic players to channel their influence to obtain a political settlement. However, they were contacted more as influential community players, rather than as entrepreneurs *per se*. While the crisis context dictated the need for temporary contacts with entrepreneurs to address a specific issue, the dialogue could not be sustainable until their economic concerns were also taken into consideration and accommodated within MONUC's priorities.

Nevertheless, the recurrent crises enabled MONUC staff to overcome one key obstacle to interaction with economic players: bureaucracy. Major peacekeeping operations have been underway for more than a decade and broadly similar doctrines are established.⁹ Missions focus on institutional, political, humanitarian and security issues, to the exclusion of economic affairs in spite of the latter's political dimensions. The IFIs and UNDP exercise prerogatives on economic matters or related issues, such as corruption. But IFIs and peacekeeping operations juxtapose their activities, rather than seek complementary approaches or share information. Left out of mandates, economic issues and players are usually neglected by peacekeepers. As a consequence, civilian authorities, military players and civil society are their main, sometimes their only, points of reference. Nor is there any incentive for interacting with business beyond the immediate requirements of crisis management. In the DRC, internal advocacy was necessary to further the interaction with businesspeople.¹⁰

Finding common ground

As entrepreneurs, their agendas were ambivalent with regard to both the conflict situation and the peace process. On the one hand, the conflict provided new economic opportunities – lower taxes, the opening of new markets¹¹ or new economic activities.¹² On the other, increased insecurity is a major obstacle to economic activity. Moreover, the conflict rendered uncertain the profitability of lootable investments and reduced opportunities to obtain credits and enlarge activities. However, the peace process was geared towards the 're-establishment of state authority'. In spite of their rivalries, entrepreneurs in Butembo and Goma alike shared the same concern regarding the latter. As a legacy of Mobutu's rule, Kinshasa had been nicknamed *Kin la prédatrice* ('Kin the predator') and the state apparatus turned into an 'embezzlement enforcement agency'. Since Mobutu's fall, no great changes had occurred in these tendencies. However, in the wake of the peace process, international donors were planning to rebuild infrastructure, particularly roads. This would facilitate trade and investment in currently inaccessible areas. The preliminary elements of a 'common ground' slowly appeared. MONUC would facilitate access to donors and support business interests vis-à-vis the capital for a

negotiated economic reunification; entrepreneurs would support the peace process by relinquishing any destabilising activities, such as contacts with armed groups, using them as contract killers, or weapons smuggling.

The business case for addressing insecurity

In spite of political uncertainty and years of conflict, businesspeople in Goma had been reinvesting their profits locally. Resuming past profitable activities – plantations, tourism - or developing manufacturing to increase profit margins are considered crucial. Both individually and in groups, entrepreneurs have turned to implementing initiatives that *de facto* amount to DDR programmes in order to expand their operations.

Goma used to be a tourist destination, and a centre for plantations and ranches before the conflict. Foreign and Congolese armed groups, as well as soldiers, looted most of the assets and the plantations were abandoned after their value fell. In 2002, a Goma businessman bought one of the region's largest tea plantations for a relatively low price since it was located in an insecure area and could not be exploited unless the security environment improved. Although an influential member of the Banyarwanda and well connected with the military, the businessman did not try to obtain a strong military presence in the area. Instead, taking into account the local balance of power, he hired several hundred local workers and combatants from local armed groups who 'eased' relations with their former comrades. A similar approach was developed around the former tourist spots.

The Butembo business community faced similar concerns over its previous activities in ranching, vegetable exports and commodity trading. Since the RCD-ML had never been disciplined, numerous armed groups imposed their 'bounties'. Insecurity and racketeering caused significant additional costs. Under the umbrella of the *Fédération des Entrepreneurs du Congo*, local businesses supported the RCD-ML governor's attempts to demobilise local armed groups by using their influence to convince RCD-ML commanders who opposed such a move,¹³ and by providing support in kind to demobilisation camps. Within six months, these initiatives led to the disarmament of some 1,500 combatants. However, they did not provide any employment due to the poor condition of their business prospects. During the same period, the national DDR programme was stalled, making this business initiative the most effective DDR process at the time.

The beginnings of a strategy

By the end of 2003 the United Nations Department of Peacekeeping Operations (DPKO) asked MONUC to come up with a 'Kivu strategy', thereby providing an

opportunity to bring economic issues and players onto the official agenda. The potential of the approach was not fully discussed within MONUC, but was mainly conceived by the team that had been quietly enlarging its contacts with Kivu businesspeople.¹⁴ In its initial conception, it was a double-track approach at provincial and national level.

Existing contacts with Butembo and Goma businessmen were extended to Bukavu, the provincial capital of South Kivu, as part of the confidence-building process already being implemented with political leaders in Kivu.¹⁵ Distrust, reinforced by community differences, prevailed between entrepreneurs in all three cities. In particular, the existing confusion between Rwandan nationals and Rwandan-speakers led to prejudices against Banyarwandan businesspeople in Goma.¹⁶ There was additionally a rooted rivalry between the three towns. Each wanted to be perceived as the most important in order to attract donors.

By brokering meetings between these players, common positions appeared on the east/west cleavage in the DRC built around a common opposition to the predatory practices of central government. By drawing attention to the current reunification process, the MONUC team aimed to mitigate local tensions and prevent economic players from participating in them. If the national issue was significant enough, the Kivu entrepreneurs had to adopt a common position so as to be able to address it in Kinshasa and increase their chances of obtaining remedies. Previous delegations from each town had travelled to Kinshasa without result. To encourage this embryonic network to overcome its local cleavages, the Kivu strategy included the provision of support to a joint delegation to Kinshasa and the facilitation of access to donors and embassies.

Part of the trade-off between local entrepreneurs and MONUC was conditional on them relinquishing activities that could have a destabilising impact on the situation in Kivu, such as trading weapons, and supporting efforts to defuse local tensions.

The delegation that went to Kinshasa with MONUC's support in March 2004 was a first attempt to address economic issues that had political consequences as well as a public relations exercise for the different parties. The intention was to expand the group with entrepreneurs from other provinces in a bid to create an economic lobby.

Unsurprisingly, the entrepreneurs focused on containing tax and customs increases in the wake of reunification and they obtained significant concessions in these areas. The support they received from embassies also earned credit for MONUC's brokering role. The businesspeople also agreed to raise the issue of corruption, a key obstacle particularly to the integration of the army. On one hand, the number of soldiers was consistently overestimated to allow middlemen to embezzle the pay of 'ghost soldiers'.¹⁷ On the other, the transitional government

regularly failed to pay former rebel combatants. This periodically increased tensions between them and heightened the risk of violence. Entrepreneurs were more concerned with the soldiers' ensuing racketeering. They regarded corruption as 'more expensive' than taxes.

Because of their experience of ex-combatants, it was proposed to include entrepreneurs in the DDR programme being developed by international agencies. Demobilised fighters usually receive a financial grant as part of the disarmament programme, though this does not usually lead to sustainable reintegration. In the short term, the methodology can even weaken the peace process since combatants with limited alternatives to fighting can turn into a constituency that supports dissatisfied leaders advocating a resumption in fighting. In the longer term, former combatants may become involved in criminal or mercenary activity in neighbouring conflicts.¹⁸ Hence, a different concept for reintegration was proposed. Entrepreneurs could become 'partners' in the process by hiring former combatants, while benefiting from credits or reconstruction programmes funded by international donors. DDR programmes could thus become linked to an economic recovery policy.

Results

The initiative did not succeed at a national level. Although several branches of the *Fédération des Entrepreneurs du Congo* contacted MONUC,¹⁹ economic issues soon disappeared from the national agenda. Corruption remained unaddressed until 2005 when the EU and several embassies brought pressure to bear. By May 2004, all MONUC staff involved in the initiative had left the mission and no significant follow-up had been made, and ultimately the 'Kivu strategy' was abandoned. DDR programmes were already too delayed to integrate any significant change of procedures if they were to meet their deadlines.

Better results were obtained at the local level. In March 2004, a weapons-trafficking scheme involving businesspeople and a senior officer was dismantled. Though MONUC had prior information on this trade, it could not supply hard evidence. It resorted instead to peer-pressure among businesspeople to cut the supply line, while the officer involved fled abroad.

During the same period, tensions in Bukavu erupted in clashes between the Congolese Tutsi and other communities. MONUC, which was perceived as biased in favour of the Tutsi and the 'Rwandans', was also targeted. The demonstrations turned into riots. Without any request from MONUC, business leaders resorted to using their influence and personal connections in a bid to calm the situation, broadcasting messages on local radio stations. Since, wrongly or rightly, they were

perceived as hostile to the 'Rwandans' and Tutsi, their messages may have had more impact than similar ones broadcast by MONUC.

Meanwhile, in June 2004, unpaid soldiers in North Kivu, commanded by Banyarwandan officers who felt marginalised by the peace process, mutinied and tried to crystallise local opposition to alter the course of the transition. Supplied with weapons from Rwanda, they took over Bukavu. Facing a major crisis on their doorstep and with diminished contacts at the UN, local businesspeople adopted a 'wait-and-see' position. Joint military and diplomatic initiatives ended the mutiny, although it significantly weakened previous confidence-building measures.

Since the first contacts were made with Kivu entrepreneurs in June 2002, positive impacts have occurred where there was a shared interest in managing a crisis. Entrepreneurs gradually became regular contacts of a limited number of UN staff. Developing complementary agendas was facilitated by the particular character of these entrepreneurs,²⁰ who maintained a commitment towards their communities and a propensity to reinvest locally. Hence, an improved security environment was crucial for their type of economic activities. Where concrete prospects to improve this environment existed, they tended to depart from their customary, cautious behaviour. Moreover, their limited political connections in Kinshasa left them in a weak lobbying position, and they needed support and mediation to obtain government concessions. This provided the base for a trade-off with international players: a more active role in defusing tensions; the possibility of enlarging cooperation to include issues related to economic governance; and concrete incentives for their economic environment.

Beyond the need to assess the profiles and activities of key economic players, international actors do not usually favour an approach such as the one described above. The economic priorities of post-conflict or transitional programmes tend to be limited to budget policy and macro-economic indicators, when they are not reduced to stemming the predatory practices of the 'war economy'. The ambivalent agendas of local economic players may not even be assessed by international staff who tend to replicate similar approaches in all conflict situations. In the usual framework of conflict management, entrepreneurs remain the forgotten players.

Endnotes

- 1 Angola, Namibia and Zimbabwe fought on the presidential side while the rebel movements (*Rassemblement Congolais pour la Démocratie*, which controlled central and eastern DRC; *Mouvement pour la Libération du Congo* in northern DRC and *Rassemblement Congolais pour la Démocratie-Mouvement de Libération* in northeastern DRC) were supported by Rwanda, Uganda and, to a lesser extent, Burundi.
- 2 A referendum to adopt it was pending at the time of writing.
- 3 In 1995, Angola, Rwanda and Uganda established an alliance to overthrow the Mobutu regime. The conflict started in October 1996 in Kivu in eastern Zaire and ended seven months later. Three years later, the three former allies were all on opposite sides.
- 4 In particular, the Rwandan *genocidaires* who fled to former Zaire in July 1994.
- 5 Three military observer teams were then deployed in this area, two in Beni and one in Butembo.
- 6 The Banyarwandan community represents around 40 percent of the North Kivu population. As in Rwanda, it is composed of both Hutu and Tutsi though, unlike Rwanda, conflict between the two groups has been limited.
- 7 The government was deploying troops in RCD-ML areas at the time, while a xenophobic media campaign in Kinshasa attempted to portray Congolese Rwandan-speakers as identical to Rwandan nationals.
- 8 In Goma, one of the governor's main advisors was the brother of its most prominent businessman and in Butembo, a major entrepreneur was 'wedding godfather' of the RCD-ML's president.
- 9 Although the extent of the mandate varies, the UN Security Council issues mandates with strong similarities: supporting a transition period under a power-sharing agreement during which various recurrent programmes, such as DDR, Security Sector Reform (SSR), rule of law, human rights, and child protection, are supported.
- 10 In the case of MONUC, the support of the Deputy Special Representative of the Secretary General was crucial to pursuing this approach.
- 11 In the territories of the rebel movement they were close to.
- 12 Such as selling weapons or exploiting natural resources. However, these activities had a limited profitability, as they were mainly implemented by political leaders, military or intelligence officers.
- 13 Several businesspeople in this area had personal knowledge of the militias since they had resorted to them in 2002 as gunmen to limit – eventually definitely – the activities of rivals.
- 14 Such a situation is not unusual in a peacekeeping operation. The various divisions and sections that compose a mission often have juxtaposed activities. Internal sharing of information remains a constant issue.
- 15 In a further stage, the 'Kivu strategy' was intended to associate community leaders and Churches to reinforce the approach, but this was never implemented.
- 16 In a meeting of representatives of the three towns in Goma, a Butembo businessman asked a MONUC member of staff if it was safe to drink what had been offered by a Goma entrepreneur. He was concerned about being poisoned.
- 17 The EU mission on SSR addressed this problem in 2005. It estimated the number of waged soldiers as 150,000, rather than the 350,000 claimed. The mission's attempts to monitor payments of wages faced constant obstruction by military leaders and key presidential advisers.
- 18 As occurred in Ivory Coast with Liberian ex-combatants.
- 19 From Bunia (Ituri), Kisangani (Orientale) and Kindu (Maniema).
- 20 An assessment of Kasai entrepreneurs, whose activities are mainly based on the exploitation of diamonds, did not seem to offer similar opportunities. Local investment was limited and profits tended to be made by crossing borders. In Kinshasa, businesspeople were reluctant to engage in such a process. Their frequently foreign origins – Europeans, Lebanese and Indians – led many to adopt a low profile. Meanwhile, numerous Congolese businesspeople could not properly be considered entrepreneurs since their economic activities often relied on political connections that helped them to monopolise a specific market.

Local Business, Local Peace:
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Case study
El Salvador*

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El Salvador

El Salvador: a firm grip on the peace process

Angelika Rettberg

In January 1992, a peace agreement between the government of El Salvador and the *Frente Farabundo Martí para la Liberación Nacional* (Farabundo Martí Front for National Liberation, FMLN) put an end to 12 years of civil war. An important part of the Salvadoran private sector acted as a crucial interlocutor in this process, shaping the design of negotiations and the implementation of the final agreement. Many private sector leaders participated, both formally and informally, in negotiations and government advisory teams and business as a whole threw its weight behind Alfredo Cristiani, the president who led the peace talks. They actively promoted and were involved in conflict-related research and dedicated resources to support former FMLN combatants' attendance at Central American graduate schools to foster the development of their managerial and other skills.

Previous attempts at negotiating an end to the Salvadoran conflict had encountered business resistance. For example, José Napoleón Duarte, president from 1984-89, shocked the business community with a reform package aimed at redistributing wealth.¹ However, by the end of the 1980s a convergence of factors produced a favourable climate for private sector support to peace negotiations.

On the one hand, changes in the structure of the business community led to the consolidation of a 'modernising' elite, with ties to commerce, agro-business and financial services, and the weakening of the traditional elites linked to land and agriculture.² Much of this transformation was due to the US-funded *Fundación Salvadoreña para el Desarrollo* (Salvadoran Foundation for Development, or FUSADES), which dispensed credit and supported activities in new sectors of the economy. In addition, FUSADES produced information on the costs of the

conflict to the local business community, as well as the opportunities a more globally integrated economy would enjoy in the absence of conflict, thereby disseminating the idea of a peace dividend. FUSADES was instrumental in rearing a young generation of business leaders who began to occupy leadership roles in business associations and government, effectively displacing the traditional, land-based economic elite.

Among them was Alfredo Cristiani, who in 1984 became a leader of the *Alianza Republicana Nacional* (ARENA), the pro-business political party, and led it to presidential victory five years later. A disciple of FUSADES, who surrounded himself with other private sector background individuals as part of his advisory team, Cristiani pursued a twin agenda on becoming president: economic reform and ending conflict. Both were closely connected. The Salvadoran Ministry of Planning had estimated that the direct and indirect costs of the conflict from 1980-90 amounted to around \$1 billion.³ The business community was a prime target of kidnapping and extortion. The destruction of infrastructure and lost investments compounded these difficulties. The 1980s debt crisis revealed profound structural problems in the import-substitution-industrialisation model, and caused the Salvadoran GDP to fall by 25 percent.⁴ Exports to the Central American Common Market, the country's largest regional trading partner, also dropped, and rampant capital flight reduced investment.⁵ At the end of the 1980s it became clear to many in the private sector that the conflict was too high a price to pay and that the necessary economic reforms would require a minimisation of the diversion of resources by conflict-related factors. Peace became an economic necessity.

As a result, most of the Salvadoran private sector supported Cristiani's decision to convene meetings with the FMLN immediately after winning the presidency. In return, the government guaranteed access to the decision-making process, as well as protection and promotion of interests. Cristiani's private sector background was matched by his close advisory team – with individuals from FUSADES, ANEP (the main business association) and ARENA maintaining close relations with the negotiating team through periodic briefings and consultation. As a result, the Salvadoran private sector maintained a firm grip, both formal and informal, over the negotiations and peace agenda.

The strong business-government connection during peace talks explains the absence of ambitious socio-economic provisions in the peace agenda: the purpose was to end the conflict and to prepare the stage for a new, FUSADES-designed economic model. FMLN leaders, while commanding an organisation that had inflicted severe damage on the private sector during the conflict, abandoned more profound socio-economic demands in exchange for political and judicial changes (compensated by enabling FMLN's stunning performance

in national and local elections in post-accord El Salvador, compared with other rebel groups).⁶ The private sector closely oversaw the implementation of peace agreements reached through negotiations, pushing for profound military and judicial reform, and obstructing attempts by labour unions and other organisations to introduce significant concessions on labour issues.⁷ Until today, ARENA has been able to keep its hold on the presidential office, providing for continued business inclusion in – and widespread support of – the implementation process.

In return for its intensive participation, the private sector earned stability and a business-friendly investment climate, as well as new economic rules that enabled it to participate in the contemporary international macro-economic environment. Despite increasing crime levels and continued poverty, the Salvadoran economy grew by 6.2 percent on average between 1990 and 1995,⁸ much of it nurtured by domestic investment (as well as by remittances from Salvadorans abroad).⁹ Gains accrued specifically to commerce, finance and non-traditional goods, confirming expectations that the post-accord economic model would reward the ‘modern’ elite that supported talks in the first place.

The degree of closeness between government and the private sector in pursuing peace talks in El Salvador is uncommon and provides a useful example of the convergence of several factors that make participation in peace talks attractive for the private sector: a steep increase in the cost of conflict; documented expectations of a peace dividend; political and economic leadership to provide for private sector unity faced with its participation in talks; and the openness of all negotiating sides to private sector participation.

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Goods for Guns: business involvement in a voluntary weapons collection programme in El Salvador

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As armed violence reached a critical stage in El Salvador in 1995, it became clear that the excessive availability of the tools of violence had to be addressed, as well as the root causes. Immediately after the Peace Accords the government developed a weapons collection effort, asking citizens to turn in arms to designated army posts, with little response. Since the formal Disarmament, Demobilisation and Reintegration (DDR) process had been completed, it was not possible to have the UN reinstitute weapons collection.

In November 1995 a citizens group that included leaders of the business community alarmed by the impact of armed violence on the economy formed the Patriotic Movement Against Crime (Movimiento Patriótico Contra la Delincuencia, or MPCD). By April 1996 the MPCD had decided to conduct a weapons collection programme.¹

The organisation was formed for three key reasons. First, members of the Association of Distributors of El Salvador (ADES) were continually having their delivery trucks assaulted by men armed with military weapons. Second, ADES members were increasingly concerned about the security of their employees in transit between work and home. Third, ADES was looking to collaborate with government and civil society to reverse the growing violence affecting all Salvadorans.² It should be noted that this was not a grassroots programme. No attempt was made to be inclusive of all levels of society. Had the opposition parties, especially the FMLN, been involved in the planning and implementation, the outcome would have been different, certainly spreading beyond the urban areas.³

The 'Goods for Guns' programme

MPCD agreed on the following course and sequence of actions for the weapons collection programme:

- Develop a strategic plan
- Seek the support of the Rotary Club of El Salvador, the Catholic Church, legislative assembly, public security and defence authorities
- Designate a funding committee

- Design paperwork, forms, publicity, campaign materials and logistical details
- Seek the participation of the National Media Advertisers Association (AMSP) and of other modes of national mass communications
- Contract the services of a respected auditing firm
- Design a system for the storage, transport and elimination of armaments
- Estimate the quantity, and designate the final destination, of the weapons to be collected and destroyed
- Erect a peace monument (location, design and construction).

It was decided that the programme would not be a 'buy-back' in the sense that the MPCD would be purchasing weapons. Rather, citizens would be compensated for contributing to the development of a peaceful and secure future for El Salvador. The act of turning in weapons was the most important objective, and as long as citizens continued to turn in weapons, the programme would be deemed a success.

Coordination with government

The MPCD programme was closely coordinated with the government from the beginning. One reason for this was the fact that the organisations involved were those that reflected the interests of El Salvador's middle and upper classes, which were key supporters of the ruling ARENA party of then president Armando Calderon Sol. Secondly, the MPCD decided to focus on military-style weapons.

This clashed with the recent passage of a law on firearms, ammunition and explosives, which prohibited civilians from possessing weapons exclusive to the military. Since this law would be an obstacle to the implementation of any Goods for Guns programme, it was necessary to attain a temporary decree that allowed citizens to bear illegally-held, military-style arms, strictly for the purpose of turning them in on established dates at designated collection sites. After extensive lobbying by the MPCD, the Legislative Assembly issued Decree 819, which allowed the MPCD to implement, in strict keeping with the law, the Goods for Guns programme.

At the first collection session on 21-22 September 1996, citizens turned in not only firearms, but also ammunition, grenades, explosives and other articles not envisaged in the decree. For that reason, MPCD initiated new discussions with the legislature to amend the original decree. This facilitated collection of the previously authorised firearms, ammunition, explosives and similar devices exclusively to the military and any other type of weapon not prohibited by law and permitted for civilian use.

Weapons collection as part of a broader strategy to fight crime

The Goods for Guns programme organisers shared a wider concern with crime and the initiative took place within the context of other projects designed to deal with armed violence. The development of the National Civilian Police (PNC) was a major part of this, as was UNDP assistance in programmes designed to develop expertise in weapons tracing, seizure, collection and destruction. By January 1997, the PNC had succeeded in improving security in the two major areas where weapons, especially hand grenades, were being used – urban market places and public transportation.⁴

There is no evidence that the MPCD programme was formally linked with larger social and economic development programmes funded by external assistance. It was conceived and implemented by the business community and designed to create a climate more conducive to the development of the private sector economy in El Salvador, mainly in San Salvador, the capital. Although some funding was secured from Canada, Norway, Mexico, Sweden, Luxembourg and the Organization of American States, half the total came from the government and the national private sector.

Timing and duration

Goods for Guns was designed as a multi-phased programme, fitting with longer-term objectives of raising awareness and fostering citizen participation in combating crime. It was designed around collection weekends preceded by extensive publicity. In all, 23 collection weekends took place between September 1996 and June 1999. The philosophy of the MPCD leadership was ‘build it and they will come’. Several collection weekends were conducted with deficit financing. While the MPCD did make several marginally successful efforts to collect weapons in the country’s interior, almost all the collection efforts took place in the capital. The Catholic Church consistently provided the Cathedral in the heart of San Salvador and Christ the Redeemer Church on the outskirts as weapons collection sites.

Storage and destruction

Given the sensitivity of collecting military weapons whose possession was against the law, the government developed extensive procedures to receive, store and destroy them. The Logistics Division of the Ministry of Defence (MOD) developed a set of procedures that called for the public destruction of all arms collected. These procedures were more than technical procedures. Objectives listed in the decree included:

- Effectively cutting the flow of weapons into the black market through collection and destruction

- Influencing public opinion in favour of the programme's continuity
- Publicising the primary aim of the MPCD's Goods for Guns programme as facilitating and providing incentives for the civilian population to exchange firearms and explosives exclusive to the military.

In addition to the military, the PNC participated in this phase of the operation. A detailed set of procedures for the transportation and destruction of explosive materials collected by MPCD were developed by the PNC Weapons and Explosives Division, which was charged with implementing them. These procedures also recognised the programme's larger goals.

Collection and destruction procedures

Due to the failure of a previous government programme that had used army bases as collection sites, the Goods for Guns programme used churches. Each collection site was staffed by a minimum of nine people from the PNC, the MOD and civil society.

The sites operated simultaneously from 8 am to 4 pm. Procedures for turning in a weapon included a welcome, an evaluation of the weapon by the military, the distribution by the MPCD of a voucher for supermarkets, drug stores or clothing, and the recording of serial numbers. Weapons were stored and on the Monday following each weekend collection, the MPCD gave a press conference in the PNC storeroom. After the conference, the PNC transferred control of all weaponry to the MOD for destruction.

Documentation, transparency and publicity

Each weapon received was documented individually, with every form signed by representatives from the MPCD, Rotary Club, PNC and the MOD. The forms and paperwork provided a paper trail that ensured the transparency and legitimacy of the programme. Since the exchange was anonymous, no prosecution of persons surrendering weapons could take place. However, all weapons that were once part of government inventory were noted and reconciled with the government accounting of property.

The collaboration of the AMSP allowed for a strong publicity campaign throughout the 23 rounds of weapons collection. In the week running up to the collection, the MPCD advertised daily news of the upcoming event in the country's two largest newspapers, *El Diario de Hoy* and *La Prensa Gráfica*. In rural areas the message was disseminated by radio at lunchtime when many people listen to the national news. In all the Goods for Guns weekends, peasants arrived from faraway to turn in weapons after hearing the radio announcement. Television was also used, mostly on the day preceding the collection.

Incentives

The incentives for turning in weapons were vouchers for supermarkets, pharmacies and shoe stores, according to fixed exchange values. During the first rounds of Goods for Guns, \$15 was given for grenades and mines, but the large quantities of these weapons made it impossible to sustain this level of reward. MPCD received ammunition but did not provide compensation. It is important to note that the MPCD did not 'purchase' weapons, but rather 'compensated' the person turning in a weapon for his or her gesture of goodwill.

Scope of collection

A wide variety of citizens participated in the 23 rounds. It should be noted that weapons were not turned in as part of the disarmament of militias or similar groups. By and large, such groups had ceased to exist as the result of the DDR process. Rather, in the case of El Salvador, weapons had proliferated so widely among the citizenry that many people had them in their possession for any number of reasons. Because the surrender of weapons took place on anonymous terms, very little testimony and information was gathered from the programme's participants.

Results and evaluation

Thousands of pistols, assault rifles and grenades had been turned in by the end of the 23rd round on 19-20 June 1999.

No systematic polling of the population took place with regard to the efficacy of the Goods for Guns programme. The only evidence available was the steady stream of citizens that continued to turn in weapons during the 1996-99 period. By far the most impressive aspect of the programme was the camaraderie between the different collaborators and the expressions of goodwill (albeit undocumented) by those turning in arms.

In its report on the MPCD program, the British American Security Information Council (BASIC) concluded: 'Private and state initiatives similar to that sponsored by the MPCD have had a psychological as well as practical impact in El Salvador; the perception that a weapon is necessary for protection and self-defence has diminished. In a recent survey around 15 percent of San Salvador's citizens polled supported the view that owning a gun might be necessary for self-protection. Nevertheless, there is still a widespread concern over the levels of gun ownership, especially in the capital where 52,270 people carry weapons.'⁵

The *Tutela Legal del Arzobispado de San Salvador* (Archbishop's Office for Human Rights) qualified the Goods for Guns programme as a positive experience in that citizens were persuaded to surrender instruments of death and violence. However, the *Tutela Legal* did not think the programme was efficient and that the money spent on administration and incentives could have been better spent elsewhere. It pointed out that El Salvador was not less armed now than it was at the end of the conflict. Rather, 48,620 more new firearms were legally imported into the country during the Goods for Guns collection period. These figures do not take grenades and other military equipment into account.

It can be argued that most of these weapons were not designed to military specifications, and are bought and sold legally. However, add to this the unknown quantity of weapons in the black market and it is easy to see that El Salvador is still a society that is armed to the teeth. If the MPCD's original and only goals were to remove a specific percentage of weapons from circulation in El Salvador, then the programme could be considered a failure – though this was not the case. Nevertheless, the legal availability of weapons casts doubt over the value of continuing with the Goods for Guns programme without any restraint on the legal arms market.

The lack of reliable statistics on firearm-related crime, injury and death within El Salvador, especially outside the capital, makes it difficult to evaluate the impact of Goods for Guns on violent crime. From a public health standpoint, the 9,527 weapons and more than 100,000 rounds of ammunition collected represent thousands of accidents that did not happen. It is important to note that, beyond the weapons collected, there were significant, intangible benefits of the Goods for Guns programme in the area of civil society, private sector and governmental collaboration toward the common goal of reducing crime and violence.

In conclusion, the MPCD Goods for Guns programme:

- Removed thousands of military-style weapons from circulation, comparable in quantity to those collected during the 1992 UN peace operation, thus preventing their continued circulation in an already saturated black market
- Demonstrated its autonomy and ability to mobilise resources from the public and private sectors within El Salvador
- Provided a systematic and well-documented set of procedures that provide a model for programmes to be developed in other countries
- Fostered relationships built over time between the private sector, civil society, media, government, police and military
- Demonstrated the possibility of conducting a public relations campaign on a national scale with the support of the media
- Demonstrated that it is possible to collect highly lethal and operating weapons from civil society concerned with their misuse in criminal activities.

Shortcomings of the Goods for Guns programme:

- Funding, especially by donor states, was uncoordinated due to the issue of small arms and light weapons being new to the international agenda. Those states and international organisations that supported the programme did so mainly because of the global paucity of programmes addressing the small arms problem.
- The organisers were concerned primarily with the impact of small arms and light weapons on crime involving the middle and upper classes. As a result there was only a limited range of publicised negative effects from these weapons. For example, the use of such weapons to violate the human rights of citizens was not part of the programme. This resulted in there being no link between this programme and the country's overall economic development. This was seen in the failure of Goods for Guns to move outside of the capital.
- There was no attempt to use the collection programme to foster the development of other types of violence prevention programmes (e.g. gang violence reduction, firearms surveillance systems, etc)
- While useful linkages developed between the private sector and the government, the programme was not used as part of community building *per se*
- Other than having citizens continue to turn in weapons, there were few programmatic objectives that could be used in evaluating the programme. In addition, no attempt was made to interview participants as to their motives and experiences, a technique used successfully in other collection programmes.
- The programme was not linked to policies designed to limit the re-supply or restocking of weapons into the country during the programme period. This was critical to donors who discontinued their support.

Adapted from Laurance, E.J. and Godnick, W. (2003) Goods for Guns in El Salvador: An Assessment of a Voluntary Weapons Collection Programme, paper prepared for the UN Office for Coordination of Humanitarian Affairs (Geneva, Switzerland: OCHA).

Endnotes

- 1 At the time, a new concept to address the tools of violence had emerged in other parts of the region. UN peace operations in Nicaragua (1992) and Haiti (1994) had begun to use a 'gun buy-back' approach, in which citizens were asked to turn in weapons in their possession in exchange for rewards of some kind. In the Dominican Republic (1995) this approach was used in a country suffering from gun violence that was not part of a civil war but rather apolitical crime.
- 2 Interview with MPCD staff, July 1998.
- 3 The UN weapons collection proposal of 1995 was inclusive, with the FMLN due to play a major role.
- 4 Interviews with PNC officials, January 1997.
- 5 British American Security Information Council (1997) 'Breaking the Cycle of Violence: Light Weapons Destruction in Central America' BASIC Occasional Paper No. 24 (London, UK: BASIC).

**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

**Case study
Guatemala***

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Guatemala

War and peace: the ongoing business revolution in Guatemala

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This study on the role of the private sector in peacebuilding in Guatemala presents two cases. The first is that of FUNDAZUCAR, a foundation set up by the country's largest sugar mills to implement a corporate social responsibility (CSR) strategy in the region where sugar is produced. This region has traditionally been neglected by central government and was greatly entrenched in the country's three-decade civil war. The company's strategy focuses on social investment in the community. The other case study is of a garment assembly plant, Koramsa, which attempts to provide alternatives to joining gangs for at-risk youth from the nearby community. This is a pilot initiative in response to a problem frequently referred to as Central America's 'new war.'

The cases have much in common. Both FUNDAZUCAR and Koramsa were first identified by the Central American Institute for Business Administration, an entity affiliated with Harvard University, as leaders in CSR in Guatemala.² Both cover industries where organised labour is virtually non-existent due to historical factors and armed conflict in the case of sugar, and due to the fact that it is not allowed in the export-driven garment assembly industry. Throughout the studies, there is a clear tension between transformative efforts by the private sector to improve life in Guatemala and further deterioration of the labour sector in terms of its political bargaining power. The research may raise more questions about the nature of this tension, particularly in relation to the condition of sugar workers in southern Guatemala. The authors attempted to provide a balanced account of the initiatives, by including varied viewpoints on these issues and the cases themselves, but interviews in the interior were hampered by the severe rain and windstorms that killed more than 1,000 Guatemalans and displaced at least 475,000 more in October 2005.

It has been almost a decade since Guatemala entered into UN-brokered Peace Accords, in which the private sector did not play a positive role, as will be discussed.

The experiences described here suggest that the Guatemalan private sector may play a greater role in their long-term implementation. The report gives an overview of the country's conflict(s) and economy, before turning to an examination of the two specific cases.

War and peace

Background to Guatemala's armed conflict

Guatemala is the largest and most populated country in the Central American isthmus and was once home to the ancient Mayan civilisation. It borders Mexico, Belize, El Salvador, Honduras and both the Pacific Ocean and Caribbean Sea. Independent from Spain since 1838, Guatemala's history has been heavily influenced by military rule, particularly since 1954. Civilian government, albeit imperfect, was restored in 1986 but large inequalities persist between the majority indigenous Mayan population, a mixed-blood middle class, known as *ladinos* or *mestizos*, and a small aristocracy of European extraction. While Spanish is the national language, 23 Amerindian languages and dialects are also spoken.

In 1996 the government of Guatemala (GoG) and the Guatemalan National Revolutionary Unity (URNG) signed a 'Firm and Lasting Peace Accord' with UN support after 36 years of civil war. The accord was signed with the active participation of the *Asamblea de la Sociedad Civil*, or Civil Society Assembly, including actors from the private sector. Some commentators point out that the peace agreement was ambitious but has fallen short in implementation.³

According to some experts, the civil war began in 1960 after a failed nationalist insurrection by a group of military officers.⁴ It is estimated that approximately 180,000 Guatemalans died during the conflict, 40,000 were 'disappeared', 400 villages were destroyed and an additional 100,000 were displaced abroad, primarily to Mexico and the United States.

Others maintain that the seeds of war sprouted with the assassination of Colonel Francisco Javier Arana in 1949 by leftist factions in the government of then president, Juan José Arévalo (1945-51). Arévalo was the first democratically elected president, who succeeded a series of conservative and liberal dictatorships and who, together with Jacobo Arbenz and Jorge Toriello, was one of the leaders of the civil-military movement that ended the military junta of 1944. Arana, once a member of the Arévalo government, began a process of modernisation (1944-54) that was eclectic and open to occasional inputs from both the socialist and capitalist currents in society. This eclecticism, however, was seen to threaten the interests of multinational companies operating in Guatemala, primarily in the exploitation of

agricultural products and natural resources. Arana was the logical ally of the nationalist and centre-right sectors of society, and a point of resistance against the increasing influence of orthodox communist ideologies.

Those on the other side of the political spectrum argue that the most recent civil war in Guatemala began with the 1954 removal of Arana's successor, the leftist president Jacobo Arbenz, who had governed since 1951. His exile by the military, with the support of the US Central Intelligence Agency, came in response to the nationalisation of foreign-owned industries, such as the banana plantations owned by the United Fruit Company (UFC). The UFC was by far Guatemala's largest landowner, but utilised only 15 percent of its 550,000-acre holdings. From this point forward, the GoG operated a political model that repressed popular, social and communist expression through armed violence, playing heavily into the global ideological polarisation of the Cold War.

In the 1960s, the guerrilla movements were strengthened by the support of military dissidents, student activists and other left-wing sympathisers primarily drawn from Guatemalans of mixed heritage. By the 1980s, the various insurgent groups merged to form the UNRG and included substantial numbers of indigenous Mayan combatants. At its height in 1979, the insurgency is estimated to have had up to 8,000 fighters and nearly 500,000 supporters.

In the late 1970s and early 1980s, with covert and open support from the US, the Guatemalan armed forces under the governments of General Romeo Lucas and General Efraín Ríos Montt implemented a campaign to depopulate the Mayan areas where the insurgency was most intense, resulting in the majority of the war's dead and displaced. The displacement of Mayans from their mountain homes led to the development of 'model villages', administered directly by the military. Rural villages that had withstood the conflict became militarised and all males under the age of 16 were required to serve in Civil Defence Patrols that had around 900,000 'voluntary' members in the mid-1980s.⁵

While the insurgency intensified, independent groups of Mayan descent began to surface, such as the Committee for Peasant Unity, which shared the guerillas' objectives but employed non-violent means in their pursuit. They were repressed, but those that survived the most violent years formed part of the future constituency that lobbied for a negotiated peace. By 1983 Guatemala was an estranged nation in the international community. This isolation led to the hard-line interests being marginalised, the election of the civilian government of Vinicio Cerezo, and the establishment of a constitutional court and a human rights ombudsman. Cerezo's five years of government led to a significant improvement in human rights, but military influence continued as was evident from the ongoing assassination of political and human rights activists.

By the late 1980s all of Central America had been brought into some form of peace negotiation through the Esquipulas Accords, stewarded by the former president of Costa Rica, Oscar Arias, who won the Nobel Peace Prize for his efforts. The Accords paved the way to negotiated settlements in Nicaragua, El Salvador and Guatemala. Part of the process was the formation of National Reconciliation Commissions, made up of prominent citizens and civil society institutions in each of the three countries. In Guatemala, 80 civil society organisations participated, although the private sector, represented by the Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations (CACIF), did not.⁶ CACIF was formed in 1957 as a means of organising the actions of capital at a national level and it continues to be the most important private sector advocacy organisation in the country.

Steps taken by GoG, the armed forces and the URNG to work towards negotiations led to a series of advances and setbacks under the civilian governments of Jorge Serrano Elías and Ramiro de León Carpio until Alvaro Arzú of the National Advancement Party (PAN) came to power in 1996. By this time, despite strong opposition from within, CACIF was actively participating in the process, incentivised by the desire to join the global marketplace.⁷ This was the year the Peace Accords were signed. The UN Mission to Guatemala (MINUGUA), which had established a presence since 1994, took charge of monitoring the Accords. The Accords included a series of agreements covering a range of issues, including the timeline for a ceasefire; demobilisation, disarmament and reintegration (DDR) of the URNG; resettlement of displaced groups; establishment of a truth commission; indigenous identities and rights; socio-economic aspects and the agrarian situation; civilian power over the military; and constitutional reform.

MINUGUA played a major role in monitoring until it closed its by then scaled-down operations in 2004, with remnants of its role being absorbed by the UNDP and other UN agencies, alongside the continuing operations of the Organization of American States, and a host of institutions and NGOs supported by the 'Group of Friends', which consisted originally of the US, Norway, Spain, Colombia, Mexico and Venezuela. The Netherlands, Sweden and Japan later provided economic support to the programme. Despite many advances, implementation of the Accords has been limited, particularly during the recent presidency of Alfonso Portillo that ended in 2003. Major setbacks also occurred, including the assassination of Monsignor Juan Gerardi, coordinator of the Catholic Church's *Report on the Recovery of Historical Memory*, two days after its publication in 1998.

A greater institutional setback was the rejection in May 1999 of a national referendum to reform the constitution, in order to lay the legal basis for the creation of a multi-ethnic, multicultural and multilingual nation. The referendum packaged 50 proposed reforms into four broad questions. The confusion surrounding the process allowed

opponents of the Peace Accords to mobilise sufficient opinion among the non-indigenous population to win a referendum in which 44 percent voted in favour of the reforms and 56 percent against, though 80 percent of voters abstained.⁸ The result demoralised many actors who had worked in support of the implementation of the Peace Accords and placed their very legitimacy and constitutional status in limbo.

One year after the failed referendum a Fiscal Pact for a Peaceful Future and Development, involving 131 organisations from Guatemalan society, was proposed with the purpose of decentralising government finances, transforming the tax collection system and mobilising the resources necessary to implement the Peace Accords. Derived from the Fiscal Pact was a Political Agreement for the Financing of Peace, Development and Democracy that linked the private sector with civil society organisations in an effort to fulfil the Accords. The call for a 50 percent increase in tax revenue (as a percentage of GDP) met with resistance from the private sector associations, slowing down both implementation of the Peace Accords and tax reform.⁹

Resources from the donor community and international financial institutions continue to be vital for the implementation of the Peace Accords and development in general. However, some analysts believe that dependence on international resources allowed the GoG and the private sector to shirk their own responsibilities for allocating resources to the peace process.¹⁰

In December 2003, Oscar Berger of PAN won the presidency and renewed GoG's commitment to the Peace Accords. He entered a political climate very different to the previous PAN administration in 1996. Homicide rates, particularly those committed with firearms, had risen after the Peace Accords and represented a serious decline in public security, particularly in Guatemala City, the capital, which had been largely unaffected by the civil war.¹¹ Drug trafficking and organised crime had become thoroughly embedded in society and its institutions.

The rise of youth gangs

The Peace Accords were successful in that the URNG was transformed into a political party – albeit a weak one in a fragmented left – which has never advocated a return to armed conflict. However, in the years after the war, urban youth gangs called *maras*, which had always existed in one form or another, began to imitate the gangs that had emerged several years earlier in El Salvador, even taking the names of the two most important ones – *Mara Salvatrucha* and *Mara 18*. While some gang members were Guatemalans who had been deported from the US, most were Guatemalan born, entering gangs at increasingly young ages (between 12-15), and including girls.¹²

The gangs are both a symptom of Guatemala's underdevelopment and an impediment to future development, due to the high levels of crime associated with their activities. The line between victims and aggressors is quite blurred. Combating the youth gangs has become a priority in Guatemala, El Salvador and Honduras and more recently involved Mexico and the US, in recognition of the transnational links such groups maintain with one another. The prevailing policy is violent repression by police and sometimes the military, accompanied by lesser policies aimed at treatment and prevention. The *maras* are accused of a number of crimes from petty extortion, drug and arms trafficking to homicide, and many have links with organised crime. Death squads, allegedly composed of off-duty police officers, have carried out extra-judicial killings of members to achieve what the public security systems have so far failed to do, though this has occurred to a lesser extent in Guatemala than Honduras and El Salvador.¹³ In 2004, President Berger shifted the debate by raising the possibility of seeking a peace formula with the *maras*.

Guatemala overcame the conflict with the URNG, but many of the socio-economic causes that underpinned the civil war persist today and are mixed together in a new 'war' against poor and marginalised youth, some criminal but others not. While the gang phenomenon has roots in high levels of family disintegration and urban migration caused by the conflict, it is also influenced by the demographic growth of the youth population and the challenges of providing jobs for low-skilled workers in a global economy. In Guatemala, the youth gang problem is primarily an urban phenomenon.

Business and the economic dimensions of conflict

Guatemala is Central America's largest economy with a GDP of around \$18.6 billion and a per capita income of \$2,200 per head. It is the ninth largest economy in Latin America, but only 14th in terms of per capita income. Long dependent on exports of bananas, sugar, coffee and cardamom, the economy is vulnerable to changes in world agricultural prices. However, exports have diversified in recent years to include garment assembly (known as the *maquila* or *maquiladora*), flowers, shrimp, seasonal vegetables and organic crops. Corruption in the private and public sectors remains a problem. Transparency International gave the country a score of 2.2 (10 being the best) in a 2004 survey of corruption perception, the third worst among 20 Latin American countries.¹⁴

A relatively recent phenomenon is the sending of remittances from Guatemalans working abroad, mainly in the US. Guatemala recorded \$2.6 billion in remittances in 2004, of which more than 50 percent flowed into rural areas and socially disadvantaged sectors where resources are scarce.¹⁵ While some analysts claim that remittances overwhelmingly subsidise Guatemalan purchases of consumer goods, other research indicates that much of the money goes toward household

investments in education and housing.¹⁶ Because many Guatemalans abroad come from the indigenous, working class, it is clear that this increased inflow of resources is changing the economic dynamics, though there is a lack of research into the overall impact.

Guatemala's economy has been dominated since the colonial era by a small, land-owning elite that exploits the labour of the indigenous population to cultivate agricultural products for export. Colonial history thus perpetuated a skewed concentration of wealth that continues to this day. With the development of the global banana industry, Guatemala became one of many Latin American countries exploited by the UFC in the early 1900s. In 1924 the GoG granted the UFC 1,000 km² of land for banana production at an annual rent of \$14,000, as well as much of the nation's railway system for access to ports. US support for the overthrow of President Arbenz in 1954 was greatly influenced by the perceived threat of his rule to UFC interests.

The GoG, armed forces and private sector were vehemently anti-communist from the beginning of the conflict. The 1960s was also a decade of attempted promotion of national economic growth in the face of what was perceived to be an unfair international system – characterised by the strategy of industrialisation by import substitution promoted by the UN's Economic Commission for Latin America and the Caribbean, and by failed attempts at Central American regional economic integration. In the midst of decades of armed conflict and military rule, clusters of business interests began to coalesce. Most of them emerged from the landed, agricultural classes, but others sprang from government policies designed to promote national industry. In this environment the interests of business became intertwined with those of the state, resulting in generous concessions to a few at the cost of the majority.

The type of capitalism that resulted was one in which the government gave certain groups tariff and tax preferences, creating a systemic obstacle to equitable economic growth and income distribution. Ensuing generations of businessmen, known as *empresarios*, developed a hard-line, commercial style. With few exceptions, labour relations were highly polarised, with workers treated as just another input into production. The state played a minimal role in mediating disputes and labour unions had neither the resources nor political space to exert a moderating influence. Predictably, the empresarios sided with the state and workers with the guerrilla movements. Finding common ground became impossible, and even moderate sectors of labour were eventually 'radicalised'.

Military leaders and individual businessmen made brief alliances to deal with specific issues, combining repressive business practices with physical repression. Large numbers of union, student and peasant leaders were murdered or forced into

exile. The business sector suffered its own share of assassinations, kidnappings and material losses.

Private sector role in the peace process

By 1996, the private sector organisation *Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras* (CACIF) was participating in peace negotiations alongside the Civil Society Assembly, with a particular focus on the Accord on Socio-Economic Aspects and the Agrarian Situation.¹⁷ A year earlier, CACIF published a paper in which it offered its own vision on what needed to be done to achieve peace and development,¹⁸ holding 41 meetings with GoG's negotiating commission to ensure that any agreement would not jeopardise private property or advocate agrarian reform.

A contentious relationship: business involvement in Guatemala's peace process

The Peace Accords signed between the Guatemalan government and the *Unidad Revolucionaria Nacional de Guatemala* (URNG) in 1996 were heralded as a success because they included unprecedented social and economic commitments. Almost a decade later, much of what was promised has not been delivered. Fiscal adjustment and increased taxation to address the growing social needs in Guatemala are still 'pending'. In addition, the post-conflict crime rate in Guatemala has soared.

The Guatemalan peace process began as a democratisation process in the 1980s with an effort to limit the military's control over politics and the economy. CACIF played a central role in this transformation and was instrumental in persuading the military first to accept economic liberalisation reforms and then democratic transition, culminating in the election of a civilian president, Vinicio Cerezo, in November 1985.

Founded in 1957, the organisation was able to play this role due to a gradual shift in business leadership from members of the traditional sectors to members of a modernising group, with family ties to traditional agriculture but active in commerce, finance and agro-industry, and with increasing connections to international markets and networks. It was this business faction that, by the end of the 1990s and until the Peace Accords were signed in 1996, became involved in efforts to provide continuity to the political opening by seeking a negotiated end to the country's armed conflict.

This was no easy bargain since the modernisers faced intense opposition from hardliners in the private sector. When peace talks were launched, the government's Peace Commission scheduled numerous meetings between the guerrillas, political parties, religious groups, academics and other groups. Among them, the first meeting between CACIF and the URNG in Ottawa, Canada in 1990 was the only one not to produce a joint statement. Resistance to President Jorge Elías Serrano's attempt to suspend constitutional provisions and turn back the democratic clock in 1993 temporarily reinvigorated the pro-peace faction and provided an impulse for the creation in 1994 of the *Comisión Empresarial de Paz* (Business Peace Commission, or CEPAZ).

CEPAZ's official purpose was to lead CACIF in determining the private sector's positions on the peace negotiations. Its creation also suggested that the modernising faction had come to appreciate – and was willing to act more assertively on – the link between ending conflict and improving their economic prospects. Increased conditionality on development assistance and growing international condemnation of the private sector's perceived tolerance of Guatemala's dark human rights record had not escaped the group. As a result, CEPAZ created a group of influential businesspeople to pursue three goals: to monitor and exert influence over the peace particularly with regard to the socio-economic issues under discussion; and to embark on a mission of persuasion within the private sector.

However, profound divisions in the business community complicated CEPAZ's capacity to participate in and shape the peace process. Incomplete economic modernisation had left a chasm between the traditional and modern sectors. In addition, sectors had different readings of the costs of conflict. The Guatemalan conflict had lingered for decades in the countryside, was geographically confined and, except for a bloody interval from 1979-83, was generally of low intensity. The majority of businesses did not acknowledge that the conflict interfered with their activities, leading many to believe that a negotiated solution was unnecessary. As a result, the sectors most prone to benefit from and support negotiations gained neither economic nor political leadership, while economic hardliners remained effective in obstructing advances on the peace front.

Because of these tensions, CEPAZ did not become part of the *Asamblea de la Sociedad Civil* (Assembly of Civil Society), a group of diverse social organisations intended to serve as civil society interlocutors. Members of the pro-peace faction were included in the Peace Commission but failed to earn the backing of the entire private sector. Illustrating the difficulties encountered, CEPAZ was unable to prevent the *Coordinadora Nacional Agropecuaria* either from withdrawing from CACIF in protest over CEPAZ's support of negotiations, or from filing lawsuits for treason against the government's negotiators.¹⁹ In sum, private sector participation in peace talks was highly ineffective in terms of meeting its original

objectives, failing both to represent business interests at the negotiating table or to 'sell' the peace process to the business community.

One of the most important points of contention in the peace process was the Accord on Social and Economic Aspects and the Agrarian Situation (among the last and most controversial to be signed) which addressed issues of state modernisation and social development. Previous attempts at reaching agreement had failed due to business resistance to tax increases and to recognition of the social function of property, one of the main demands of the URNG and Guatemala's popular movements in general. The importance of these issues to the business community was clear from anecdotal evidence. "To complete the first draft of the socio-economic accord," the leading government negotiator recalled. "I met with CACIF 42 times, but only 21 times with the guerrilla leadership. Led by CEPAZ, business finally accepted a VAT increase but conditioned it to a (seemingly unrealistic) GDP growth rate of 6 percent."

That peace agreements were reached in Guatemala at all can be largely credited to the UN, which facilitated contacts between the parties, drafted agreements and committed funds to their implementation. The role of the international community also proved crucial in exerting pressure on Guatemalan business to accept a tax arrangement. Hints by the international donor community that Guatemala's failure to meet its fiscal commitments would jeopardise further funding signalled the limits of donor patience with domestic resistance to sharing the peace burden.²⁰ On the other hand, the dire economic prospects for Guatemala predicted by the Inter-American Development Bank instilled concerns that business stood to lose substantially in economic terms if key reforms – including fiscal reform – failed to be adopted.²¹

Ten years after the signature of the Peace Accords, the Guatemalan private sector has consistently resisted key reforms, such as tax increases. By the end of 2004, most peace commitments had been rescheduled several times or had simply not been met.²² Post-conflict Guatemala has not enjoyed high levels of economic growth, nor has it seen income from remittances as an engine for growth. When the UN mission closed its offices in Guatemala at the end of 2004, the Secretary General noted that 'serious problems' continued to 'plague Guatemalan society'. "Guatemala has fallen short of its obligations," he continued, "... to substantially increase tax revenues to pay for much needed social investments."²³ In this way, peace consolidation in Guatemala has been marked by instability, which is partly attributable to the contentious relationship that still exists between business and peace.

This case has been written for Local Business, Local Peace by Angelika Rettberg.

The private sector: addressing old and new conflict issues

Following its ‘business lobby’ approach to peace negotiations, a shift in perspective and approach is discernable in the private sector, particularly in the sugar and garment sectors analysed in the following case studies.²⁴ Sugar is one of Guatemala’s traditional exports and is representative of the plantation economy. Garment assembly in *maquiladora* plants has emerged as part of a globalised economy in which multinationals seek the lowest labour cost for the production of goods. The exploitation of rural labour in agriculture was one of the root causes behind the armed conflict. *Maquiladoras* disallow the unionisation of their urban workers.

With the passage of a Central American Free Trade Agreement (CAFTA) (between the Central American countries, the Dominican Republic and the United States) set to enter into force in January 2006, the sugar and *maquiladora* industries will enjoy enhanced access to the US market. It should be recalled that US industrial interests fought hard to keep these two sectors out of CAFTA in order to protect the US sugar industry and what remains of its garment-manufacturing base. The fact that the US Congress passed the agreement by just two votes is testimony to the strength of these interests. Under CAFTA, Guatemalan sugar producers will increase their exports by 25 percent to 48,000 tonnes per year while the textiles agreement allows Guatemalan manufacturers just enough edge for their operations to remain competitive with Asian rivals. The remainder of this report focuses on recent transformations within these industries.

The first case study concerns the Sugar Growers Foundation, or FUNDAZUCAR, the social wing of the Sugar Growers Association. FUNDAZUCAR has transformed its role between the industry, workers and the communities of southwest Guatemala, one of the regions most affected by the armed conflict, to become an agent of sustainable development. The second case examines Koramsa, a garment-assembly plant owned by local entrepreneurs that employs more than 10,000 workers. Koramsa has pursued an innovative policy of human resource development in recent years, including the integration into a production line of youth at risk of joining gangs.

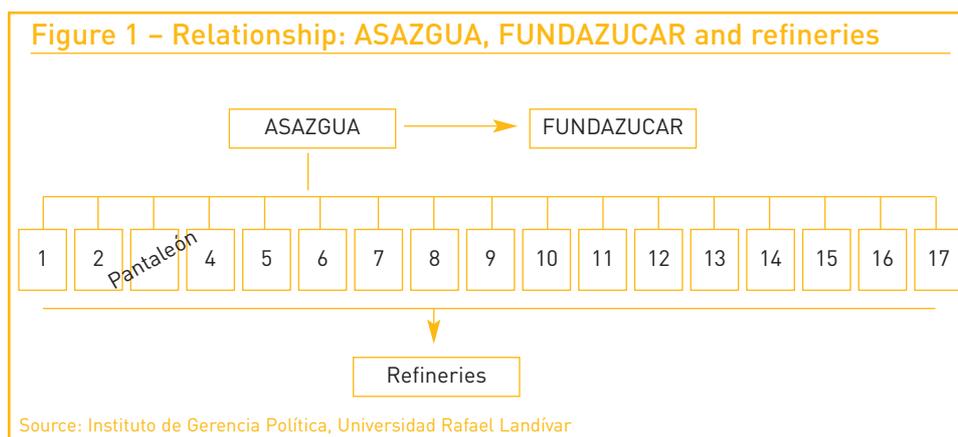
Most academic and NGO analyses of the Guatemalan private sector are highly critical of CACIF and the business community for not playing a more constructive role in peace negotiations and post-conflict development. The examples of FUNDAZUCAR and Koramsa, below, demonstrate how changes are beginning to occur – at least at the core business level – that may imply a more positive role in the future.

The sugar industry: from paternalism to CSR?

Guatemala’s sugar industry ranks third in Latin America after Brazil and Cuba, and is the second most important source of foreign exchange after coffee. It occupies 11

percent of the national territory, accounts for 13 percent of total exports and earns around \$317 million annually. Exports consume more than 60 percent of total production. Sugar farming provides around 300,000 direct and indirect jobs.

The first sugar refinery was established in Guatemala in 1591 and relied mainly on African slaves and the indentured labour of the indigenous population. The modernisation of technology and labour relations is a development of recent decades and followed similar transformations in the coffee industry. FUNDAZUCAR was founded in 1990 as the social-investment arm of the Sugar Producers' Association (ASAZGUA). The lead protagonist in ASAZGUA is Pantaleón Refinery, an individual member of the association that is described in further detail below. Figure 1 provides a visual clarification of the relationship between ASAZGUA, FUNDAZUCAR and individual refiners, such as Pantaleón.



From February to March 1980, in the most brutal days of the conflict, more than 70,000 sugar workers in southwest Guatemala launched a strike that lasted 17 days and embroiled 80 plantations. They protested against low salaries, long working hours and the enclosed work camps where sugar workers depended entirely on employers for their basic needs. They were inspired by the relative success of leftist factions in the Salvadorean civil war and the Sandinista revolution in Nicaragua.

Initially headed by the union in the Pantaleón sugar refinery, the strike eventually engulfed the entire industry after police opened fire on strikers, killing one worker and injuring many others. In later years, sugar union activists suffered assassination, disappearance and forced exile, entrenching the labour conflict with the armed conflict at large. Critics of the state were widely perceived as enemies. Only after the late 1980s were more nuanced approaches given any space.

The 1980 strikes achieved modest raises in the sugar workers' daily wage, but the violence continued. By 1990, the owners of the major plantations and refineries decided that something had to change. With this in mind, they set up FUNDAZUCAR to devise an entrepreneurial strategy that would have an impact on national policies.

FUNDAZUCAR: a human face for the sugar industry?

The Pantaleón sugar mill, founded in the early 1800s, is the largest and one of the most profitable sugar refineries in Central America, employing 10-12,000 workers.

In the late 1980s the owners of Pantaleón and other mills travelled to Australia, Brazil, Colombia and South Africa to find out how the industry operated elsewhere. During these missions they learned that not only were they behind the curve in the application of modern technologies, production techniques, branding, management and human resource practices, but that they lacked policies on CSR, conflict resolution and family welfare.

ASAZGUA was established in 1957 and brought together the country's then 17 sugar mills together in one industry chamber. After sharing their experiences abroad in the 1980s, ASAZGUA members decided to take three actions:

- Establish a new philosophy in labour relations; a new technological framework for sugar production; and a research centre
- Develop a world-quality system for domestic distribution and infrastructure for exports, administered by a private company
- Create an autonomous foundation to address the social concerns of the industry and its workers.

All three actions were seen as steps toward guaranteeing the industry's competitiveness for the future and the decision coincided with the private sector's more systematic engagement in the peace process.

ASAZGUA established FUNDAZUCAR in 1990 with each mill paying a quota for every tonne of sugar produced, yielding an annual budget of \$1 million. FUNDAZUCAR's mandate is to work with the communities where sugar is produced, as well as those housing large proportions of their workforces. Pantaleón mill's owners and managers played a leading role in setting up the foundation. The challenge from the outset was to transform the sugar barons' practices to market production, accompanied by well-thought-out and targeted social investments.

Pantaleón maintains its own separate foundation, which pilots many of the initiatives that are eventually implemented by FUNDAZUCAR. Many of the other

16 sugar mills also maintain individual foundations. In Pantaleón's case, it promotes local investment projects in health, education and the environment, coordinated with FUNDAZUCAR, and other activities in Guatemala City and the highlands. FUNDAZUCAR acknowledges on its website that the framework of the Peace Accords strengthens its ability to meet the goals established for improving education, health and municipal development in the 56 municipalities where it focuses its work, primarily in southern Guatemala.

Transforming relations with the labour force and communities

The proposed reinvention of the plantation and mill owners required extensive lobbying in the industry and with the GoG. The first tangible change was eliminating the traditional practice of collective hiring of families, or other preferential groups, and a shift towards a system in which individuals were hired on their merits. The second required a change to the law governing remuneration in the industry. The old law allowed sugar producers to pay employees up to 30 percent of their wage in food from the company commissaries. It was replaced by an updated minimum wage, complemented by bonus payments based on productivity. The third innovation, and the most difficult, was the replacement of the worker colonies where sugar producers formerly met housing, health and other basic needs. The banana industry in Guatemala and other Central American countries experienced similar challenges as it tried to maintain global competitiveness by reducing the overhead costs that today's economy expects to be taken care of by private savings and government investment. While there is obvious self-interest in reducing costs, the Guatemalan sugar industry, via FUNDAZUCAR, has sought to mitigate many of the negative effects of transforming the industry to maintain competitiveness.

FUNDAZUCAR often makes financial contributions to specific causes, such as the National Cancer Society or anti-tuberculosis campaigns, but its most significant efforts involve the furthering of Education, Health and Participative Municipal Development initiatives in the 56 municipalities where it has a presence. In cooperation with the National Association of Municipalities and the National Institute for Municipal Strengthening, FUNDAZUCAR has outlined a process involving mayors, departmental governors, churches, youth, university students and journalists in developing long-term municipal and regional development strategies.²⁵ This work is coordinated with the national Secretariat for Planning. However, the ability to coordinate effectively with the government is often influenced by the political party of the mayor of a municipality, or the attitudes of ministry officials towards the participation of the private sector in the public sphere. With the support of government agencies and the Soros Foundation's Guatemala programme, FUNDAZUCAR has provided local planning assistance to dozens of local governments in the southern regions.

Despite coordination challenges, FUNDAZUCAR has played a key role in several national legal reforms including the Law of Sub-Municipal Entities and the National Educational Law. The former deals with the distribution of resources to municipal and sub-municipal governments, allowing for a greater percentage to remain in the communities in which they are generated. It also seeks to further the concept of a professional civil service in government. The latter has helped reverse years of legal and institutional discrimination against girls in the elementary school system. Traditionally, only 45 percent of Guatemalan women have completed elementary school and in rural Guatemala only 20 percent of primary school graduates were girls.²⁶ FUNDAZUCAR obtained resources and support from the World Bank, UNDP and USAID to carry on its work through a project called *Eduque la Niña* (Educate the Girl). The first stage of the project was increased the rate of successful completion of elementary school by girls in the southern region by 6.1 percent, though it still remains relatively low.

In many sugar-producing company towns, the health and education systems have been shifted to a new model of service delivery. While some schools and clinics continue to be funded by FUNDAZUCAR, others have been folded into the National Programme for Self-administered Education (PRONADE), a controversial system because it devolves power from the Ministry of Education to localities where pupils' parents decide on the use of resources and the hiring of teachers, although the schools still form part of the national education system. PRONADE helps to identify communities without schools and works towards setting them up. In this setting the children of sugar workers have access to schools, but their costs are not reflected as company overheads, rather as a combination of resources channelled from FUNDAZUCAR, the national government and international agencies.

In the past the government required sugar plantations to provide employees with basic health, education and literacy training. The Ministry of Education has now accredited FUNDAZUCAR as an institution certified to train teachers. This is important since small towns depend on the ministry sending qualified teachers from larger, urban cities, but they generally spend only a short period in rural schools. There are now more possibilities for recruiting, training and retaining teachers locally.

FUNDAZUCAR also supports the creation of Self-Financing Health Units to take control of formerly company-run clinics or to establish clinics where none existed before. As in education, the programme is jointly financed with resources from FUNDAZUCAR, the Ministry of Health and international aid agencies. These efforts focus on preventive medicine and health care. While this transformation benefits the sugar producer by removing costs from its balance sheet, the new delivery system allows for greater local participation by beneficiaries and promises greater sustainability if the sugar industry encounters difficulties due to increased competition, or fluctuations in world prices.

Preliminary analysis of the FUNDAZUCAR approach

FUNDAZUCAR and its affiliates are acting from a combination of civic duty and self-interest to transform a traditionally rigid and paternalistic industry into one that is more competitive in the world marketplace. Over the years labour unions in the sugar industry have been marginalised to the point that today only one mill, Palo Gordo, has one. Though one study indicates that the conditions of sugar workers have improved in recent years, others disagree.²⁷

According to one national labour leader, there is a wide difference between the quality of life enjoyed by permanent workers in the sugar mills and the seasonal cane cutters. The latter are hired informally by intermediaries, rather than the sugar mills directly, and are often paid below the minimum wage for their labour. According to a 2005 survey of sugar workers, only 10 percent were organised into unions nationally, though 65 percent expressed interest in belonging to one and 70 percent believed management would not permit them to be formed on their plantations.²⁸ The authors of this study were unable to carry out sufficient research to develop an accurate understanding of the magnitude of change in labour conditions in the sugar industry in recent years. This is definitely a critical area for further research particularly in assessing the role of the private sector in contributing to Guatemala's long-term peace and stability. There are, however, no documented accounts of violence against workers on sugar plantations, and the industry has become a partner in local development, education and healthcare, via FUNDAZUCAR, so it seems fair to conclude that the situation is improving.

The transformation of Guatemala's sugar plantations and refineries can be characterised by three stages of evolution – conflict, adjustment and transformation: The conflict period was characterised by high levels of armed violence and physical repression in which sugar producers and workers viewed one another as adversaries, or in a paternalistic relationship. Entire families were employed together and most workers lived in plantation housing. Contracts were verbal and salaries were paid in a combination of cash and foodstuffs. This period was marked by excessive child labour, low productivity, high employee turnover and frequent labour disputes that easily became entangled in broader political and military conflicts.

Against the backdrop of the worst phases of violence in which the industry and workers became enmeshed, the adjustment period from 1979-90 witnessed changes whereby a series of entrenched practices were phased out. During this phase, many mills and plantations established departments for employee relations and some built accommodation for seasonal workers. The modernisation process also produced procedural manuals for workers and incorporated international best practices, such as those espoused by the International Standards Organisation. Individual producers started philanthropic foundations to support isolated initiatives in

education and health. But the natural environment was still not taken seriously, and labour unions disappeared in all but one company despite International Labour Organisation rules and best practice.

The period from 1990 to the present has been a period of transformation, primarily through the creation of FUNDAZUCAR. The sugar sector developed a strategy of international competitiveness that included technological innovation, export promotion and an agency specialised in maritime shipping. Business owners from the sugar industry diversified into electricity generation, ethanol production and financial institutions as part of a national private sector strategy. FUNDAZUCAR began to partner and collaborate with a variety of national and international institutions in the education and health sectors, proving itself a partner in long-term sustainable development and perhaps preventing fresh conflicts by treating some of their root causes.

The garment industry and youth gangs: addressing Guatemala's 'new war'

From 1978-84 a series of initiatives by entrepreneurs resulted in the US-Caribbean Basin Economic Recovery Act, which formalised the practice of establishing clothing-assembly plants in the countries of Central America and the Caribbean. Known as *maquilas* or *maquiladoras*, these companies exploited the lax regulations, low labour costs and tax exemptions granted by host governments to produce exclusively for export, chiefly into the US market. The economic justification for the new, deregulated plants was that they provided employment for low-skilled workers in countries with high unemployment, and that the money circulated from their wages and the sub-contracting of input industries and services would have secondary effects in national economies. The US government invested millions of dollars promoting the development of the *maquilas*, though in Guatemala the policy mainly benefited multinationals or South Korean companies, which own 60 percent of the country's garment plants.

There were 200 *maquilas* in Guatemala in 2005, employing more than 140,000 workers (75 percent of them women) and generating 15 percent of the country's annual foreign income. While Guatemala's textile sales to the primary market of the US do not compare with Honduras or El Salvador, it is the 17th largest exporter of textiles to the US, ahead of Nicaragua and Costa Rica. The passing of a free trade agreement with the US, Dominican Republic and four other Central American countries in 2005 will give the industry some advantage in competing with Asian producers. The Association of Non-Traditional Exporters (AGEXPRONT), a participating member in CACIF, is the representative organisation of the textile industry and promotes sectoral activity through technical assistance, training, public

relations, marketing and export promotion. Most of the industry is located in or around Guatemala City and 94 percent of production is destined for the US.

During the final years of the armed conflict, the *maquilas* were criticised for not allowing workers to organise in unions, which resulted in a complaint by the International Federation of Textile Workers before the World Trade Organization.²⁹ The situation began to change with the entry into force of various international agreements governing the textile industry and market. AGEXPRONT and its affiliates have adopted internationally accepted standards in relation to production, quality control and labour practices, including codes of employment conduct, but this has not so far resulted in the unionisation of the *maquilas* labour force. These developments are relevant to the present case study in that the emergent international norms have compelled companies to improve the conditions of their workers and the communities in which they are located. There are limits, however, to the changes possible for an industry that is transient and does not require major outlays in capital investment. During the writing of this report, two South Korean companies abandoned their Guatemalan operations in the middle of the night, indicating the ease with which employers in the textile industry can run away from their obligations.

Koramsa and the Puente Belice community

Koramsa is a Guatemalan-owned *maquiladora* established in 1998 that produces around 100,000 pairs of trousers a week for brands such as Gap, Old Navy and Liz Claiborne. The company stays competitive with Chinese and other Asian manufacturers because of its proximity to the US market and more recently due to the passage of the CAFTA. Koramsa provides a variety of services to its workers including on-site medical, eye and dental clinics, a pharmacy, family planning services, lunch vouchers, banking, discount shoes, and child care and Saturday school for employees' children.

Its factory is located in Guatemala City near a landmark known as the Puente Belice, or Belize Bridge. The *colonias* or neighbourhoods around Puente Belice are home to approximately 4,000 of the city's poor who live in precariously built dwellings exposed to air and ground pollution, and the daily risk of unstable hillsides.³⁰ The area was first settled after the 1976 earthquake and continued to grow with the rural exodus that began in the armed conflict and accelerated thereafter. The neighbourhoods of Puente Belice are controlled by the *Mara Salvatrucha* (MS) youth gang.

The MS maintains a constant presence in Puente Belice, having defeated all its rivals in recent years. The police treat youths from these communities harshly because of

their appearance, even if they are not active gang members. In 1996 the parish of the Catholic Church in Puente Belice, represented by Father Manolo Maqueira, launched a series of artistic and cultural programmes, sports and *ad hoc* vocational training in a bid to prevent young people from drifting into the gangs and participating in anti-social behaviour. This culminated in a Club for Youth Integration serving Puente Belice and eventually the idea of creating a project to prepare the area's young people for the life of work. Before proposing the project to Koramsa, the Church conducted a feasibility study with the help of professional consultants to find out what was needed and what could be done.

Although the behaviour of male gang members was most often identified as Puente Belice's main problem, the study determined that it was non-gang females between the ages of 15-24 who were at greatest risk of physical abuse, poverty and social exclusion. Only 19 percent of this group was in work while nearly 80 percent expressed a desire to hold a job. The two main sources of employment for women with low levels of education in Guatemala are the informal commercial sector and the *maquiladoras*. The study recommended initiating a project in cooperation with a local factory to produce school uniforms for the national market. The Church and community sought out various potential collaborators of which Koramsa was one.

Koramsa's response to local youth disenfranchisement

The owners of Koramsa had known Father Maqueira for some time when he first approached them with the Puente Belice project. Several executives had previously worked in the sugar industry where they had been exposed to emerging CSR practices. These relationships and experiences made key executives open to some form of collaboration.

Koramsa was willing to support the project from the outset, but believed that the provision of machinery and training alone was not enough to produce a profitable business venture. At the same time, the management did not judge the market for school uniforms robust enough to justify a production line. So instead of offering 'employment' to participants from Puente Belice, it agreed to provide 140 at-risk youths with a 'scholarship' of vocational/occupational training opportunities for which the participants would also be given a grant to pay their school fees. In addition to hands-on training in the production of jeans and trousers, they would also receive health services from the company clinic.

Identifying participants

The Puente Belice community identified the youths eligible to participate in the project, sending them to Koramsa for interviews and evaluation. Gang members were not permitted entry into the project, but their siblings were targeted for inclusion. The project does not tackle the youth-gang problem head-on; instead, it seeks to drain the pool of future recruits. There are three reasons why the

project decided not to incorporate active gang members. First, the project pursues a preventive philosophy. Secondly, Koramsa does not have expertise in the rehabilitation of youth offenders. And thirdly, the company was unwilling to increase existing security levels, which would have been necessary if gang members were to be sufficiently protected.

Participants in the scheme had to demonstrate responsibility, an interest in improving their living conditions and be registered at a local school or training institute. Upon acceptance, they are given technical training where they learn the basics of operating machinery and making trousers. Once training is complete, participants are assigned half-day shifts on an assembly line making trousers, depending on their study schedule. Due to their youth and inexperience, participants are given breaks and meals, as well as a series of other privileges appropriate to their age. At the end of each month, their grant money is deposited in a bank account to pay for school, personal and family expenses.³¹ Once the 12-month training cycle (the ‘scholarship’ period) is over, the participants have the option either of applying for a formal job at Koramsa or pursuing their university studies on a scholarship.

The first group trained by Koramsa consisted of 40 participants aged 15-20, of whom 64 percent were female. The production facility was inaugurated as the *Linea Padre* (‘Father Line’) in recognition of Father Maqueira’s efforts. At first, participants worked alongside regular employees, but due to differences in age, experience and skills, Koramsa decided to open a separate assembly line for the Puente Belice participants. By mid-2005 the project incorporated 150 participants.

Resources allocated to the project

At least 15 Koramsa staff members have been involved in the Puente Belice project, or are in regular contact with the participants. Among them are a full-time supervisor of the *Linea Padre*; human resource assistants who hire, orientate and train participants and evaluate their performance; and a production manager who assigns production quotas and evaluates quality. Beyond this immediate group, few of the company’s 10,000 employees were initially aware of the *Linea Padre* project. When word got out, some employees, whose children were also mixed up with gangs, asked Koramsa to help them. The company refers them to Father Maqueira to be received at the Club for Youth Integration.

Koramsa spends \$4,000 per month to cover the costs of the *Linea Padre*, its participants and their educational scholarships. Although the project produces trousers just like any other section of the plant, the production speed is much slower and the rejection rate on quality grounds much higher. A normal

assembly line produces 1,200 items per day; the *Linea Padre* produces only 150 with the same number of personnel.

Project impacts

The original project has since doubled to two production lines and 40 participants will attend university in 2008 thanks to the opportunities provided by the Puente Belice scheme. Interviews with participants appear to reveal, albeit anecdotally, increased levels of self-esteem, greater ability to articulate career and educational goals, and a new sense of ‘belonging to something beyond the neighbourhood.’³² Numerous participants now work full-time for Koramsa.

Challenges to Koramsa’s intervention

While the impact of the Puente Belice project on its participants has been largely positive, gang members reacted savagely to the empowerment of youths in the communities they have grown used to dominating. At least two participants have been targeted and murdered, though they previously had no gang affiliation. Unfortunately it was beyond the scope of this research to understand precisely the motivation and details behind each of these tragic cases, though such research would be necessary to get an accurate picture of the overall benefits of the project and its future strategy for dealing with such challenges.

Living in the violent area of Puente Belice, neighbours or family members of participants are sometimes killed or seriously injured in incidents of gang violence, which affects the morale of participants in the workplace. While Koramsa is not equipped to provide counselling after such events, Father Maqueira and his collaborators do try to address trauma in their work. Moreover, the levels of poverty of many participants are such that the overall health of some is seriously affected. In some instances they are malnourished, meaning that they cannot realise their full potential in the project. It is evident that if such projects are to be successful, they need to be embedded in public efforts at addressing wider issues, such as health provision.

Other challenges and limitations to the project were identified in interviews with participants and Koramsa staff:³³

- **Motivation.** Some participants are interested only in the income-earning element of the project and not in the broader educational opportunities it offers
- **Management attitudes.** Koramsa managers and executives have had differences of opinion concerning the appropriateness of the Puente Belice project. Their concerns mainly relate to workplace security, production

efficiency and the allocation of business resources. Koramsa's decision not to hire active gang members appears to respond to the first of these concerns, though it may have been difficult to overcome stereotypes of youth gang behaviour, and youth in general.

- **Productivity.** Because participants are on a learning curve, overall productivity from the *Linea Padre* is low compared to company norms. Koramsa also found that correcting production defects on the *Linea Padre* is difficult, costly and time-consuming. Some in management believe participants should have work experience prior to entering the project, not for technical reasons, but to ensure they have acquired appropriate work habits.
- **Coverage.** The project reaches approximately 150 young men and women per year among a target population of thousands. While it is not possible for Koramsa to attend to the needs of the entire population, the limits of the project's impact are underscored by the absence of other public or private interventions.

Table 1 opposite summarises and analyses the short-term impact of the Puente Belice project.

Conclusions

This report analysed three different private sector responses to historical, ongoing and emerging conflicts in Guatemala: a society that has only recently emerged from a three-decade civil war. It first explored lobbying activities at the political level where business sought to influence the Peace Accords. The second case study, FUNDAZUCAR and its affiliates, focused on a traditional, rural industry that embarked on a strategy of CSR out of self-interest as it seeks to survive in a global marketplace that has rendered its centuries-old practices redundant. The means of production employed by the sugar industry and other agricultural sectors in Guatemala had perpetuated the conditions that contributed to the civil war by concentrating wealth and land in the hands of the few. Collectively transforming the sector, including labour relations and community development strategies, can be seen as a gradual move towards preventing new wars in the countryside. At the same time, through FUNDAZUCAR, the industry continues to play a major role in the development of regions where sugar cane is grown through a variety of creative schemes for municipal development, education and the provision of health services. These schemes serve the companies' interests by removing these expenditures from their cost structures, allowing them to be more competitive in the international market. While these changes appear to have had a positive impact on the sugar-producing regions, it is not clear whether they have benefited all of the industry's workers to a substantial degree, particularly seasonal workers.

Table 1 – Analytical framework for Puente Belice project

Action	Positive outcomes	Negative outcomes
Expert advice in the development of a pre-project feasibility study	Realisation that project was not financially viable on its own Awareness raising among company executives regarding the violence and insecurity in surrounding communities	Product is sellable to Koramsa clients, but <i>Linea Padre</i> production is not profitable on its own and has a high rejection rate
Company took ownership of vocational training project	Company resources made possible the purchase of equipment Further sectors of company were brought into project (e.g. human resources, production, supplies, maintenance)	Difficulties in assimilating at-risk youth in an enterprise without previous experience in such a project
Opening of special assembly line for project participants	Created space with greater flexibility and less pressure on participants	Creation of internal company debates on risks of incorporating at-risk youth
Designation of supervisor/trainer for <i>Linea Padre</i>	Accompanies participants and provides them with targeted guidance	Perceived protection by supervisor of participants and their work
Orientation for participants jointly organised with high school	Provides links to academic study environment	Takes more time to integrate into assembly line
Transfer of participants to separate assembly line	Greater autonomy in the workplace	Isolation from the rest of company
Entrance into the labour market	Improved workplace and manual/technical skills	Skills somewhat limited to <i>maquila</i> industry

By contrast, Koramsa, the subject of the third case study, is representative of the urban *maquiladora* garment-assembly industry that has taken root throughout Central America and whose employees come from poor neighbourhoods, or have migrated from the rural areas in search of opportunities. Unions are non-existent, and both the industry and the government ensure they do not emerge. In addition to global competition, primarily from China, the greatest threat to workers in the *maquilas* is the violent delinquency of youth gangs and organised criminals who extort, threaten, assault, rob and sometimes kill workers en route to work and school.

The gang phenomenon emerged in Guatemala in the years after the UN-brokered Peace Accords and is increasingly regarded as a ‘new war’. In response to actors in the neighbourhood contiguous to its facilities – the Catholic Church, local schools and community members – Koramsa decided to support a pilot vocational project in the name of CSR even though the project did not provide it with clear, short-term, economic benefits. The impact has been significant for a small target group in the troubled community of Puente Belice, but its relatively small reach limits the magnitude and sustainability of that impact. While some of the young men and women who train on the *Linea Padre* may later join Koramsa or study at university, these types of initiatives are only sustainable if the industry as a whole joins forces, as was the case in the sugar industry.

While Koramsa is working to drain the pool of recruits to the youth gangs and FUNDAZUCAR is addressing some of the historical tensions between capital and labour in the countryside, neither views its activities explicitly in terms of peacebuilding or conflict resolution. Instead, they regard their projects as types of CSR.

It is worth noting that both cases promote business models that exclude labour unions on the grounds that there is no need to politicise the relationship between workers, owners and management. These strategies warrant further analysis as organised labour struggles to adapt to the global marketplace, and as business as an interest in society becomes increasingly organised at the political level. At present, Guatemala has one of the lowest levels of organised labour in Latin America. The country’s most important business interest group, CACIF, does not make any mention of unions in its policy statements. These focus instead on the need for maximum flexibility in the labour market, the freedom to hire and fire, and new types of contractual arrangements. In fact, the disappearance of labour unions in the sugar industry may have helped pacify relations in the countryside in recent decades, but such benefits are unlikely to be sustained in the long term. This is something agricultural industries throughout the world are trying to address in a global marketplace. Meanwhile, the *maquiladora* industry is union-free almost by definition.

One should also mention the marginal role played by the state in both the FUNAZUCAR and Koramsa cases. Generally it is only mentioned in regard to tax

exemptions, clientelism and as a lobbying target when one industry or another wants a change in policy. This leads on to several underlying questions for Guatemala. What role should the state play in social integration, conflict resolution and local development? And in mediating between labour and industry? Under the current circumstances and budget constraints, what role can the state feasibly play? How far is it appropriate for the state to permit the private sector to act as an agent of public policy making? What impact does such a role from business imply for the state? Even if CSR holds benefits, does it contribute more in the short run to the companies' bottom line than it does to medium and long-term economic development for its target beneficiaries? What vision do the main actors in the Guatemalan economy have of the state and society?

Despite their political shortcomings and overall reach, the cases do show some promise. FUNDAZUCAR and the sugar industry have contributed to reducing the rural development deficit at the heart of the country's armed conflict by empowering local leaders to develop their own development agenda, and provide better health and educational services to their populations. Koramsa has begun to identify strategies for dealing with the root causes of the new wars involving youth gangs and other poor, at-risk youth living in the same communities. Whether Koramsa, other industry actors and public institutions will be able to join forces sufficiently to reduce the growth of urban violence remains to be seen. What does seem clear is that the implementation of Guatemala's peace agreements and the prevention of new types of violent conflict will not be possible without the participation of the national private sector.

Post-script

Just as the case study of Koramsa was reaching completion, the company announced the layoff of thousands of Guatemalan employees due to changes in its relationships with key international clients. The news raises questions about the feasibility of introducing CSR strategies within the garment-assembly industry. Industries that choose their location based on cheap labour, minimal taxation and lax regulations are to a significant degree working at odds with the long-term goals of meaningful CSR programming, though currently Koramsa continues to support the *Linea Padre* and the Puente Belice project, but has had to move its location so as to not exacerbate tensions between regular employees and project participants, who may be resented by employees and ex-employees given the difficult circumstances.

Acronyms

AGEXPRONT	Association of Non-traditional Exporters
AZASGUA	Association of Sugar Producers of Guatemala
CACIF	Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations
CAFTA	Central America Free Trade Association
CEPAZ	Comisión Empresarial de Paz (Business Peace Commission)
CSR	Corporate social responsibility
DDR	Disarmament, Demobilisation and Reintegration
FUNDAZUCAR	Sugar Producers' Foundation
GoG	Government of Guatemala
MINUGUA	UN Mission to Guatemala
MS	Mara Salvatrucha gang
PAN	National Advancement Party
PRONADE	National Programme for Self-administered Education
UNDP	United Nations Development Programme
UFC	United Fruit Company
UNRG	Unidad Revolucionaria Nacional de Guatemala
USAID	US Agency for International Development

Endnotes

- 1 Fernando Valdez researched and wrote the FUNDAZUCAR case history and Iván Monzón researched and wrote the cases of Koramsa and the Puente Belice project. William Godnick provided support to the introductory and concluding sections, as well as the adaptation of material from Spanish to English. Fernando Valdez would like to thank María Silvia Pineda, the executive director of FUNDAZUCAR, and particularly Regina Wagner, for sharing material from her book, *Historia del Azúcar* (2005), before its publication. He would also like to thank Miguel Fernández, Presidential Commissioner for Competitiveness and Investment and Fausto Chicas from the Pantaléon Sugar Mill in Guatemala. Iván Monzón would like to thank the following employees of Koramsa for their help with this research: Karla Alonso, Miguel Fernández, José García, Wendy Maltez, Paola Matamoros and Alvaro Ruíz. In addition he would like to thank Father Manolo Maqueira from San Antonio Roman Catholic Parish and Rony Perla from Puente Belice High School.
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**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

**Case study
Israel and Palestine***

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Israel and Palestine

Israel and Palestine: doing business across the conflict divide

Amir Dajani, Yossi Dayan and Celine Touboul

Editors' note: since the completion of this report, the situation in Israel/Palestine has changed dramatically, increasing instability in the region and threatening future prospects for peace. The election of the Islamic group Hamas in early 2006 has stalled any possibilities of continuing down the US-backed 'roadmap for peace', reinforcing Sharon's conviction that Israel cannot engage with Palestinian counterparts, but must act unilaterally in its attempt to ensure security. Despite his recent critical illness, Sharon's newly formed Kadima party claimed victory in the March 2006 Israeli elections under the leadership of Ehud Olmert, who has continued his predecessor's legacy of acting unilaterally, with the drawing of a disengagement plan for the West Bank. This emerged in the context of increased violence between the two sides, through both targeted killings against alleged Palestinian militants and rocket attacks from Palestinian territories into Israel. The failure to form a united Palestinian government after the elections has even increased tensions among the Palestinian leaderships with bursts of in-fighting between Hamas and Fatah militants. This escalation of the conflict has led to the tightening of security by Israel with increased roadblocks and the closing of borders such as the Karni crossing in the Gaza Strip, which is featured in this report. Events will inevitably have important impacts on both Israeli and Palestinian businesspeople, and any role they may have in seeking lasting sustainable peace in the region.

The Israeli-Palestinian conflict is a sub-set of the more comprehensive Israeli-Arab conflict, which arose as a result of the Israeli-Arab war in 1948. Israel refers to it as its 'independence war' and 15 May 1948 as Independence Day, while Arabs, and more particularly Palestinians, call it *Al-Nakba* ('The Disaster'), in reference to the loss of life and land that resulted from the creation of the Israeli state. Seven hundred thousand Palestinians fled the conflict areas and have never been allowed to return.¹

A second legacy of the conflict was Israel's continuing occupation of lands that comprise the future Palestinian state – East Jerusalem, the West Bank and the Gaza Strip – until August 2005 when, under the 'disengagement' plan, Israel withdrew its settlers and armed forces from Gaza and the northern West Bank. Israel captured the occupied Palestinian territories, the Golan Heights in the north and the Sinai Peninsula in the south during the Six Day War in 1967.² Tensions between Israelis and Palestinians escalated in the late 1970s when right-wing Israeli groups, strongly influenced by the trauma of the *Yom Kippur* war in 1974, began a programme of large-scale settlement on Palestinian territory in the West Bank and Gaza, which Palestinians refer to as a *de facto* colonisation. At first, the government of Israel (GoI) opposed the settlements, but the settlers later gained its political, military and financial backing.

After the first Palestinian *intifada* ('uprising') in the late 1980s and the first Iraq war, the GOI and Yasser Arafat's Palestinian Liberation Front signed the Declaration of Principles, or 'Oslo Accords', on 13 September 1993. The outcome was the establishment of a Palestine Authority (PA), which was designated to rule for an interim period while final status negotiations were discussed. Though Palestinian moderates accepted the agreement, more extreme groups, led by Hamas, launched a series of suicide attacks against Israeli civilian targets. Israeli extremists also regarded the agreement as a betrayal and, as a result, an Israeli student assassinated one of its brokers, Prime Minister Yitzhak Rabin, in November 1995.

The second *intifada*

The period following the Oslo Accords was frustrating for both sides in that an escalating cycle of violence was accompanied by stagnation on the political front. Palestinian frustration climaxed in September 2000 when the then Israeli opposition leader and later prime minister, Ariel Sharon, visited the Jerusalem holy site known to Muslims as *Haram el-Sherif* and to Israelis as Temple Mount. After the visit there was an unprecedented level of violence by groups opposed to the Oslo Accords, such as Hamas and Islamic Jihad, but also by Fatah, the ruling party in the PA. This surge of violence was answered by an unparalleled use of force by the Israeli Defence Forces in an effort to quell the uprising. After the death of PA Chairman Yasser Arafat in late 2004 and the election of Mahmoud Abbas in January 2005, Palestine and Israel declared a ceasefire. Despite sporadic outbursts of violence, both sides have largely observed the ceasefire up to the time of writing this report. More than 4,000 Palestinians and over 1,000 Israelis died during the four years of fighting.

The second *intifada* brought to Palestine what the World Bank has called one of the worst recessions in modern history, with average personal incomes declining by more than a third.³ Unemployment in the Gaza Strip rose from 17 percent on the eve of the *intifada* to 29 percent in 2004 while poverty levels (defined as living on less than \$2.10 per day in 1998 prices) increased from 32 percent in 1999 to 64 percent five years later.⁴

The Palestinian economy collapsed due to the restrictions placed by Israel on the free passage of goods and labour to, from and within the Palestinian territories – the so-called ‘access’ problem. Palestinians regard the restrictions, which come in the form of sudden closures or road-blocks, as a form of collective punishment. Israel claims ‘access prevention’ is necessary to prevent suicide bombers bringing mayhem to its cities.

However, the access problem also caused significant hardship in Israel. The Bank of Israel estimated that the *intifada* caused economic damages equivalent to 0.7-1.8 percent of GDP in 2003, compared to losses of 3.1-3.8 percent of GDP in 2002. Taking the years together, the *intifada* is estimated to have cost 8 percent of GDP, or around 40 billion New Israeli Shekel (NIS) (approximately \$8.5 billion).⁵ Restrictions on the entry of Palestinian workers hit Israel’s agriculture and construction sectors hardest. The damage incurred by these industries since the *intifada* began until the end of 2001 alone was estimated at NIS12.2 billion (approximately \$54.9 billion), accounting for 2 percent of GDP.

Disengagement plan

Prime Minister Ariel Sharon announced a ‘disengagement plan’ in 2004 that provided for the removal of the Israeli presence from the Gaza Strip and the northern West Bank within a year. After implementation of the plan in mid-August 2005, both sides had returned to the ‘road map for peace’, President George Bush’s strategy for the establishment of a Palestinian state within three years – though subsequent events have decisively derailed this framework.

Wall and fence barrier

As part of the disengagement, Israel is completing a 400-mile (640 km) wall and fence barrier in the West Bank, annexing 15 percent of Palestinian territory to Israel in the process. The construction triggered widespread international condemnation in late 2003 and an advisory opinion by the International Court of Justice in July 2004, obtained by the PA and UN General Assembly, termed the barrier ‘illegal’ under international law. Meanwhile, an Israeli court ruling ordered the wall to be re-routed in some areas because of the hardships it would cause Palestinians. Israel claims the barrier is being erected solely for security reasons, and it has been effective in preventing the entry of suicide bombers.

Economies

On the Palestinian side, employment in the Gaza Strip is dominated by services (66 percent), followed by industry (21 percent) and agriculture (13 percent), and the division is broadly similar in the West Bank. Palestine’s GDP as a whole is around \$800 per head of population, but unemployment was 50 percent in 2002. The situation in the Gaza Strip is very different from the West Bank. An

estimated 2.2 million Palestinians live in the West Bank on 5,860 km². By contrast, there are over 1.2 million people in the Gaza strip, which is just 360 km² in size. Recent figures put the population density in Jebalya, Gaza's largest refugee camp, at 74,320 persons per km², compared to 25,850 people per km² in Manhattan. This phenomenon is driven by Gaza's high population growth rate of 3.5 percent annually, meaning the population will double in 20-23 years.⁶

Israeli GDP per capita is \$19,000 and the unemployment rate is 10.1 percent. The economy is dominated by services (67 percent), followed by industry (30 percent) and agriculture (3 percent). Israel has an advanced, technology-driven, market economy, but it is hampered by significant government participation, and the conflict.

Economic inter-dependency

Since the Six Day War and Israel's subsequent occupation of the West Bank and Gaza, the PA economy has been overly dependent on Israeli consumer demand and international aid.

Until the Oslo Accords, one third of Palestinian jobs were located in Israel, mainly in the construction industry and agriculture. As a result of security concerns, Israel reduced the number of work permits given to Palestinians with devastating impact on the PA economy. The Israeli economy reduced its dependency on Palestinian labour through a massive influx of 300,000 foreign workers from Thailand, Nepal, Romania, Ghana, Nigeria, Turkey and China.

Table 1 – Number of Palestinians permitted to work in Israel, Israeli-controlled industrial zones and Israeli settlements

						January	Mid-	End-	January	March
1987	1991	1992	1993	1996	1998	2000	2002	2002	2004	2004
180,000	100,000	116,000	65,000	35,000	56,000	125,000	7,532	31,018	17,000	33,386

Source: International Labour Organisation (ILO) (2004) *The Situation of Workers of the Occupied Arab Territories* 92nd Session of the International Labour Conference (Geneva, Switzerland: ILO).

The PA has no independent airports or seaports, forcing traders to export and import goods through Israel. This greatly limits Palestinians' ability to develop international trade and transactions by dramatically increasing costs in any of its dealings with worldwide markets. It also reinforces the PA's dependence on Israeli raw materials and the willingness of the Israeli market to buy Palestinian produce.

The signing of the Agreement on Movement and Access on 15 November 2005 by the GoI and PA opens new opportunities in that respect. First, the PA will have control of its international border with Egypt at Rafah (though its international

border with Jordan remains under Israeli control). Second, the construction of Gaza seaport has been agreed and will begin shortly.

It is unlikely that these reforms will provide the Palestinians with a cost-effective solution on the export of manufactured goods and import of raw materials. The construction of the seaport will not be concluded within the coming year. Even when completed, it will not be able to compete with the services and capacity offered by Ashdod port in Israel. The cost of importing and exporting goods from Rafah is relatively high and remain under Israeli control. These reforms, therefore, are currently more important for Palestinian state-building, but in the short term neither the seaport nor Rafah can bring about solutions to the movement of goods problems. Reforms of border management at Israeli-Palestinian border crossings are likely to be the key to improving the issue of access and trade.

Due to its lower wages and skilled labour force, Palestine benefited from considerable Israeli investments, chiefly in textiles manufacture and furniture making. As a consequence of the increased violence, however, the GoI prohibited the entry of Israeli traders, while the closure in April 2005 of the Erez Industrial Estate on the Israeli side of the Gaza border ended their access to the Palestinian territories and their factories.

Promoting economic linkages: case studies

Four case studies on business cooperation across the Israeli-Palestinian conflict divide are presented below. They illustrate the existing and potential opportunities for businesses to address some of the economic and conflict challenges outlined above, and thereby make a contribution to peace.⁷

The security constraints at border crossings because of the four-year *intifada* are the main obstacle to economic development in the PA and in PA-based businesses. Two of the cases – the Israeli export company, Agrexco; and the phenomenon of ‘logistic zones’, were selected because they are both attempts to address the problem of access. Both also offer models of partnership – between growers and manufacturers on the one hand, and exporters and logistic providers on the other – in which both sides exploit their own resources and strengths. From Agrexco’s point of view, Gaza farmers are a reliable source of high-quality products in profitable volumes in a sector where there are insufficient Israeli farmers to meet demand. In exchange, Agrexco offers Palestinian growers world-class marketing and distribution, as well as a source of income. The logistic zones are aimed at providing solutions to Israeli investors seeking to pursue business opportunities in the PA and Palestinian investors seeking to export their production into, or via, Israel.

The two Palestinian cases showcase the golden opportunities that briefly emerged after the peace process advanced in the mid-1990s. Tourism is a motor that could stimulate growth, generate income, create jobs and justify investment in the rehabilitation of the PA's battered infrastructure. Closer cooperation between Israeli and Palestinian tourism businesses in the brief interlude before the second *intifada* demonstrated their ability to work together to promote customer satisfaction and repeat business in a competitive, regional tourism environment. The second case outlines early bilateral cooperation in the IT sector, and a later trilateral joint venture, that illustrated demonstrable synergies between foreign investors and the Palestinian computer industry.

The cases suggest that private sector cooperation has the potential to contribute to peaceful coexistence in the following ways: by addressing some of the immediate challenges posed by the current conflict status quo; by strengthening the Palestinian economy and livelihoods; by normalising relations and fostering day-to-day interactions; and by integrating Israel and Palestine economically in ways that are mutually advantageous, equitable and peaceful.

Agrexco: partnership between Israeli export company and Palestinian growers

Although security in the Gaza Strip steadily deteriorated throughout the *intifada*, the volume of exported fruit and vegetables from the region increased to \$15 million by the end of 2004. A long-standing partnership between the Israeli produce exporter, Agrexco, and five Gaza growers' associations enabled the PA's horticultural sector and the foreign currency it earns to withstand the turmoil and even to flourish. This case examines the relationship between Palestinian growers and Agrexco, the economic and historical reasons behind it, and any potential peacebuilding elements. The focus is on two aspects of the relationship: access and value-added.

The access aspect is derived from the *de facto* quarantine of the Gaza Strip. Israel is free to shut the region off from the world in the event of any security breach, leaving any exporting venture at high risk. As a consequence, the level of unpredictability for Palestinian exporters and importers is high, and it is difficult for them to offer timely services and delivery. The value-added aspect of the relationship is defined as the supplementary efficiency one side of the relationship derives from the other through interaction.

At the core of the partnership are Gaza's agricultural exporters who typically grow strawberries (66 percent of land used), as well as cherry tomatoes, peppers, spices

and carnations. There are currently 10,000 Palestinian growers working in Palestinian-owned fields in Gaza. Before the transfer of the settlers' greenhouses to the Palestinians during the disengagement, an estimated 3,000 Palestinians worked in Israeli settler farms, alongside 750 foreign workers (typically from Thailand and Nepal) and 700 Israelis. After the transfer, 1,700 Palestinians were hired full-time, 800 part-time and sub-contractors took on a further 400. After the greenhouses are rehabilitated, 3,000 additional jobs will be created for Palestinians. Most production from the greenhouses will be sold to the European market.

While Palestinian growers export around \$15 million in agricultural produce annually, exports from Gaza's Israeli settlers amounted to \$100 million, suggesting there is considerable room for growth. The total amount of agricultural land in Gaza is 120,000 *dunam* (29,640 acres),⁸ or 32 percent of the total area.⁹ Most produce is sold at local markets for low prices. A typical grower sells his produce through a fruit, vegetable or flower association that aggregates the harvest of thousands of farmers. These associations exist to help farmers with their professional needs and offer services like refrigerated storage, warehousing, marketing and distribution mainly through their partnership with Agrexco. The associations allow farmers to reduce the cost of these services by grouping them under a single umbrella.

Agrexco, Israel's largest exporter of fresh agricultural produce, is a partnership between the GoI (50 percent), Israeli growers (25 percent) and the Tnuva cooperative (25 percent). It is by far the largest distributor of Gaza-grown produce, although six other Israeli firms operate in the Strip. Disengagement has not changed this situation since PED/Paltrade, the Palestinian company that took over management of the greenhouses, has decided to maintain the link with Agrexco.

Once a government monopoly, Agrexco has an annual turnover of \$700 million, of which \$30 million is earned from the Israeli market. Agrexco markets over 300,000 tonnes of fresh produce per year, of which 20 percent are fruits, 30 percent vegetables and 30 percent flowers. Agrexco's global network includes branches in London, Frankfurt, Madrid, Milan, Paris, Rotterdam, Vienna, Zurich and New York, as well as agents in Eastern Europe, Latin America, Africa and the Far East. Western Europe accounts for 80 percent of its export market.

The most important players in this relationship are foreign, mostly European, retailers. Until 2003, Palestinian and Israeli products were marketed under the 'Carmel' brand and labelled 'Product of Israel'. Palestinian products are currently marketed under the 'Coral' brand because Gaza farmers asked for their own distinctive mark, and are labelled 'Product of Palestine'. The Coral brand has been well received and was strongly supported by Agrexco's marketing division.

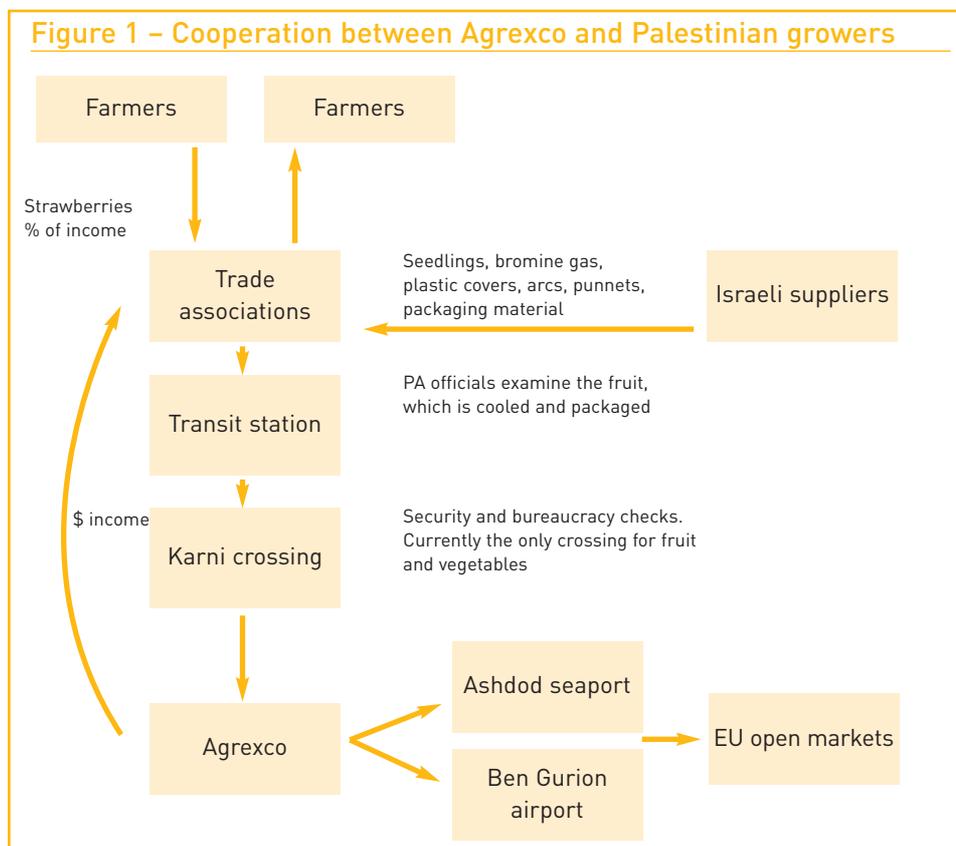
Following access problems caused by a bombing incident at the Karni border crossing on 14 January 2005, the only transit point for agriculture produce from Gaza, reliability issues have clouded the brand's reputation, although Agrexco executives are confident the damage is reversible.¹⁰ Roughly half of the strawberries Agrexco exports to the EU are of Palestinian origin, with demand far exceeding supply.

The partnership

The vegetables and fruit (mainly strawberries) are grown on around 3,000 *dunam* (741 acres) in Gaza and are exported by Agrexco to EU markets. A typical Israeli farmer grows on 30-40 *dunam*, while a Palestinian grower uses only three to four. As a result, Palestinian growers work through crop-based associations to establish economies of scale in their relationships with suppliers and clients. Agrexco has working relationships with the five largest associations of Palestinian growers, who are charged a fixed percentage from the payments they receive from Agrexco.

Besides the growing component of the value chain, carried out by the individual farmers, the associations are Agrexco's true partners. Months before planting, they purchase the components needed to grow the crops. Seedlings are bought in from two authorised growing corporations in Israel. Bromine gas, plastic covers, arcs, punnets and packaging materials are also procured. The associations are responsible for training growers on best-practice techniques, such as irrigation systems, packaging and use of pesticides. This role has become more important since the introduction of the European Partnership for Safe and Sustainable Agriculture (EurepGap) protocol in the late 1990s, which set a series of standards required by retailers such as Marks & Spencer, Sainsbury and Ahold.

When crops are harvested, the associations transfer them to Agrexco. The strawberries are moved to a transit checkpoint operated by the PA Agriculture Office, which conducts minimal phyto-sanitary tests and deals with bureaucratic procedures. The fruit is cooled and repackaged by association workers. From the transit station the fruit is transferred to Karni crossing. At that point, the fruit is transferred to Agrexco, which conducts further phyto-sanitary tests, repackages the fruit and deals with Israeli administrators. The fruit is then moved either to Ben Gurion International Airport near Tel Aviv or Ashdod seaport. Agrexco uses cargo jets for daily transportation of produce to EU and US destinations, while refrigerated vessels ship to other markets.



Rationale for engagement

The partnership began around 25 years ago when Palestinians started growing strawberries on Israeli farms. Once they had obtained the necessary skills, they started growing them in their own fields with the active encouragement of Israeli officials, who were looking to migrate Palestinian growers to more water-efficient and profitable crops. Access was not an issue at the time, and the flow of goods to and from Gaza was reliable. The partnership was established on the value-added aspects that Agrexco and Palestinian growers offered one another. From Agrexco's point of view, Gaza was a reliable source of high-quality products for which there was a strong demand that Israeli farmers could not satisfy. From the growers' point of view, Agrexco offered world-class marketing and distribution services that they could not establish themselves.

More importantly, Agrexco offered its partners transportation and logistics support founded on economies of scale. Handling and transporting the produce is very

capital-intensive and requires high levels of expertise. For example, Agrexco purchased two new refrigerated vessels in 2004 at about \$42.3 million each. Over the years, Agrexco has assisted growers with working capital financing, phytosanitary (plant health) education and training for EurepGap standards. The latter is important because the Coral brand has not yet managed to attain these standards and so is rarely sold at branded retail stores. To bring Palestinian growers up to required levels, Agrexco invested in computer systems, software and intranet applications, and direct training. Both partners are optimistic that the EurepGap standard will soon be reached.

Agrexco has a direct incentive in seeing the Coral brand succeed and expand. Since Coral has access to EU retailers as a result of the excellent reputation of Agrexco/Carmel, Agrexco has a vested interest in enabling Coral to meet the same level of standards as Carmel produce. The closer Coral comes to meeting EurepGap requirements, the more profits it will produce for Agrexco.

It could be argued that the economic asymmetry between Palestinians and Israelis is such that it leaves Palestinians with no alternative to entering this kind of cooperative arrangement if they want to sell their produce abroad, begging the question whether they actually have a choice. In the assessment of this report, this arrangement continues because of mutual value-added, not purely because of the lack of alternatives on the Palestinian side: Agrexco is the largest of five Israeli exporters to provide these services and has developed a reputation for professionalism among European retailers. Theoretically, Palestinian growers could export through the seaport of El-Harish in Egypt, going via Rafah, and avoid dealing with Israeli companies altogether, but this would be costly and would deny them access to Agrexco's network and expertise. Considering that Palestinian farm produce accounts for only 2 percent of Agrexco's total volume, it will be difficult for Palestinians to develop a competitive alternative to the existing arrangements. Asymmetry in this case is a result of Agrexco's scale, expertise and network reach, with which Palestinians cannot compete at this stage.

The role of the international community

Since the PA provides little support to growers in the Gaza Strip, one might assume that international organisations would be active in Palestinian agriculture, given its potential for rapid growth. In fact, the only support that local growers enjoyed until recently was from small Israeli NGOs, such as the Israel/Palestine Center for Research and Information and The Peres Centre. However, an exciting development occurred in June 2005 when USAID announced the establishment of the Palestinian Agribusiness Partnership Activity (PAPA), a programme that aims to develop the agricultural sector. In addition to providing technical assistance,

PAPA has established support plans, such as providing 50 percent of farmers' investment capital needs. Part of PAPA's activities will be to rehabilitate the Israeli greenhouses transferred to PA ownership during the disengagement.

Peacebuilding aspects

The most prominent peacebuilding aspects of the relationship are its economic and political impacts, and the creation of people-to-people relationships. The economy of Gaza is one of the most confined in the world, and agriculture one of very few ways in which Palestinians can export and earn hard currency. The sector has the potential for greatly increasing employment.¹¹ Taken together, these ingredients tend to foster popular support for stability, given that any return to violence entails the closure of border crossings, and the loss of opportunities and incomes. In principle, therefore, the advantages that agriculture confers may be said to translate into political support for peaceful relations at least on the part of those involved.

As explained earlier, any disruption to the flow of goods through the Karni border-crossing impacts on Agrexco's reputation as a reliable supplier. Interviews with Palestinian growers and Agrexco executives revealed many cases where Agrexco has successfully intervened with military and political officials to maintain open access amid growing levels of violence. This was particularly true in April 2004, when Karni crossing was closed for long periods after a terrorist attack in Asdod port; and again in February 2005 after a terrorist attack the previous month. Agrexco executives cite not only business reasons for their intervention, but also the loyalty they feel towards the Palestinian growers who have been the company's partners for 25 years.

The relationship is more ambivalent for Palestinian growers. Agrexco enables them to export their products, avoid interaction with the Israeli administration and acquire the necessary training to match the standards of a competitive EU market. On the other hand, some growers feel that they could make more profit by exporting directly to European retailers, though it is far from certain that they could feasibly compete with the services currently provided by Agrexco.

Facilitating access for economic interaction: logistic zones

Security constraints on the border crossings to and from Israel have been the main obstacle to economic development in the PA during the last four years of *intifada*. They are also the main obstacle to greater economic interaction between the Israeli and Palestinian private sectors. Businesses on both sides have an interest in encouraging initiatives that will overcome the problem of access. This is particularly true after the disengagement, since the GoI prohibited Israeli companies and

individuals from investing in the territories from which the settlers have now withdrawn.

In addition to the security constraints, trucks from either side are forbidden from entering the other's territory. This led to the creation of the 'back-to-back' system, whereby Israeli transporters unload goods to Palestinian trucks, and vice-versa, when leaving the West Bank and again on entering Gaza. The system further slows the flow of goods, creating long queues at cargo terminals, the need for added storage facilities, as well as new partnerships between Palestinian traders and Israeli providers of transport and forwarding services. The areas where these transactions take place are known as 'logistic zones'.

The GoI decision in late 2004 to demilitarise the crossings between Israel and the West Bank will create a more appropriate environment for the development of logistic zones. The GoI appointed a team in the Ministry of Defence to examine how to improve conditions at border crossings so as to facilitate the movement of goods and persons. By modernising border crossings, the GoI is implicitly adopting a more supportive position to the logistic zones and is inclined to assist them further by integrating these private sector initiatives within the redesigned crossings.¹²

Within that context, regional, business and non-government actors in Israel are seeking to enhance the logistic zones with the objective of providing solutions for Israeli investors interested in business activities within the PA and Palestinian businesses interested in exporting their products to, or via, Israel. Because Israel is the main importer of Palestinian manufactured goods, Palestinian businesses are responding positively to these initiatives.

The following analysis focuses on the impact of logistic zones on the issue of access and the influence they have on the creation of Israeli-Palestinian joint ventures and business associations.

The actors

Because Palestinian traders are not allowed to move their goods into Israel on Palestinian trucks, they outsource logistics to Israeli companies, which transport cargos from point of arrival to the Karni and Qalandia border crossings and handle Israeli customs formalities. While most Palestinian companies use individual logistic services (mainly transportation and customs), larger importers and exporters have partnerships with Israeli companies that offer integrated logistic services, handling cargos from the point of production to the final market, including transportation, delivery, customs and security checking. Smaller companies cannot generally afford the integrated service.

One of the main Israeli logistic providers is Maman, which has a monopoly on non-agriculture cargo handling in the airport. Maman was privatised in 1991 and only 10 percent of its stock is still owned by the state of Israel. A Maman subsidiary, Logisticare, is a leader in logistics outsourcing with 180,000m² of storage and distribution, a large fleet of vehicles and some 600,000 item-types managed on behalf of customers. Maman is planning to develop a logistics zone on the Israeli side of Karni border crossing.

The regional councils in border areas are another driving force behind logistic zones development. There are three main initiatives: Gilboa Regional Council's project adjacent to the Jalame cargo terminal; Lev Hasharon Regional Council's 'Park Hashalom' project at Shaar Efraim cargo terminal; and 'Erez Intermodal', an initiative by Erez Logistic and Marketing Zone at the Erez terminal, which is being promoted by YDT Initiatives and Management on behalf of Kibbutz Erez. Maman is a private investor in both the Gilboa and Lev Hasharon logistic zones.

The projects give Israeli communities opportunities to develop their regions, reap the benefits of cross-border activities, provide jobs and earn revenue from the lease of land to the logistic zones. As a result, the regional councils have a vested interest in pushing the initiatives forward, including undertaking feasibility studies, planning, and acquiring authorisations from the Israeli Land Authority and the Ministry of the Interior.

To facilitate the development of these projects, regional councils are looking for Palestinian counterparts but there is little political will in the PA for initiatives that promote cooperation with Israel. Such partnerships are crucial if regional councils are to raise funds from international organisations to move their projects forward. It is also an important element if the councils are to promote the development of parallel structures in the PA to facilitate coordination with the various Palestinian actors. The councils have not yet succeeded in developing any real partnerships with local, municipal or governorate entities in the PA.

The logistic zones aim to provide the private sector with services and facilities that assist the cross-border flow of merchandise and alleviate the impact of security constraints. Palestinian traders will be their target clients, as well as their counterparts among the Israeli logistic providers developing the zones. In addition to handling cargo, the logistic zones will provide facilities that enable Palestinian traders to outsource elements of their production and marketing.

Both Maman and YDT established contact with potential counterparts in the Gazan business community to ensure their interest in the logistic zones. Palestinian industrialists, who used to work with Israeli investors in Erez Industrial Estates until it was closed, are interested in the YDT initiative at Erez terminal if it would help

them re-establish business relations with Israeli investors, but their main concerns relate to the border crossing and the GoI policy on the improved movement of goods. Though the logistic zones will alleviate the lack of predictability by allowing Palestinian producers to stockpile merchandise on Israeli territory, they will not overcome the problems caused by closures or the long waiting-time at border crossings.

Israeli and international traders seeking to import raw materials from the PA or buy Palestinian goods require concrete assurances before investing that the goods can be accessed in a timely fashion. In times of crisis or closure, logistic zones will serve as a buffer zone where goods can be stockpiled and made available to potential buyers at all times. They will also relieve international traders of the burden of dealing with border-crossing complexities by outsourcing logistical tasks, from cargo handling and packaging to the assembly of manufactured goods.

The initiatives

Each of the various Israeli stakeholders in the logistic zones proposes more or less the same facilities, with slight variations.

The Maman project in Karni and the YDT project in Erez have the advantage of being located on private land where there is no need for Ministry of Interior authorisations or public tender. There is clear competition between both, which are located close to one another. Maman proposes a wide variety of outsourcing services, including assembly, finishing and repair. YDT intends to develop a marketing zone, called Pal-Expo, in which sales agents will market Palestinian products to Israeli clients, and help in publicity and packaging. YDT will also facilitate the creation of long-range business relationships between Palestinian exporters and Israeli buyers. This showroom component exists in most logistic zones.

In the Gilboa Regional Council project, the transfer of Jalame passage and its security to civilian control and a private security contractor have been integrated as elements that will facilitate the coordination of activities at the border crossing. The council has submitted an application to operate security in the terminals, which could promote greater coordination between management of the terminal and the logistic facilities adjacent to it.

The project by the Lev HaSharon Regional Council is particularly ambitious because it is part of a broader, joint Israeli-Palestinian industrial area that will be secured from all sides so as to create a 'no man's land' in which Israelis and Palestinians will be able to work together. The parameters of the area are to be determined together with the Palestinian counterpart, meaning the neighbouring

Palestinian municipality, and approved by relevant Palestinian authorities. Because it depends on both sides developing a close collaboration, combined with strong political support, this project has had difficulty in advancing. As a consequence, the council has not made the development of its logistic zone conditional on a Palestinian partnership.

Of the four projects, the YDT and Maman projects have the greater chance of success in the short term. First, because they are located on private land they will not depend on bureaucratic decisions. Second, Gazan traders will need logistical solutions to increase their access to Israel and world markets after disengagement. In interviews, Gazan traders expressed interest in the two zones and said they were discussing partnerships with potential Israeli investors. Since the closure of the Erez Industrial Estate,¹³ this type of relationship is one of the few ways of continuing business transactions between Israeli investors and Palestinian manufacturers.

In summary, with some differences, each of the projects includes:

- Refrigerated storage and warehouse
- Marketing services
- Transportation services
- Import/export facilities
- Commercial meeting spaces
- Packing facilities
- VIP rooms, meetings rooms, show rooms
- Banking services
- Branch offices for related government authorities, including customs, Ministry of the Interior, etc.
- Quality control facilities.

Role of the international community

The problem of access is one of the international community's main priorities in promoting development of the PA. International pressure contributed to the GoI's decision to modernise and demilitarise the cargo terminals. The World Bank and USAID, the international organisations that mostly deal with this issue, consider the partnership between Palestinian traders and Israeli logistic providers as positive, although at the same time a temporary solution that should not prevent Israel from abolishing the back-to-back system.¹⁴

Since donor assistance is dedicated to Palestinian development, the current focus is to encourage the PA to design its side of the border crossings where there is a lack of organisation and management. The development of a well-managed, Palestinian border

crossing would benefit Israeli traders and the GoI, mainly on political and security grounds (shared responsibilities, reduction of tensions and neutralisation of threats).

Peacebuilding aspects

The logistic zones have two principal peacebuilding elements: generating Israeli-Palestinian business activities and providing a partial solution to the access problem. Palestinian goods remain very attractive to Israeli investors due to their lower price and the well-qualified workforce. These elements, added to proximity, make the PA territories a particularly attractive investment market. By giving access to Palestinian goods and traders (showrooms, marketing services and meeting rooms), logistic zones will enable and encourage business transactions between Israelis and Palestinians.

At the same time, the logistic zones facilitate Palestinian partnerships with Israeli logistic services, providing access to a range of destinations in Europe, the US and Asia via Israel's airport and seaport.

Limitations

However, as asserted by international donors, the solutions provided by logistic zones are temporary remedies. They address the symptoms of the conflict, but do not deal with the factors that cause the problem of access in the first place. In this regard, the initiators of the logistic zones are seeking to benefit economically from the conflict's status quo. This raises concerns that, in reducing the symptoms of the problem, the building of logistic zones may also reduce the motivation of the GoI to make the corrections to its access policy that will improve the movement of Palestinian goods and persons more significantly and for the longer term.

However, considering that a logistic zone does not only provide storage and transportation services, but also aims to develop a trade zone at border crossings and meeting spaces, it is very likely that the initiators of the zones will adapt themselves to any reform of the access regime and provide services that would respond to the needs created by a new status quo.

Once the political and security situation improves to the point where the GoI will no longer be able to justify the strict character of its security measures, the international community and the PA are likely to exert more intensive pressure on the government to shift its policy. The existence of the logistic zones will not affect this process to any significant degree, but their initiators will no doubt adapt to the changed reality.

Goldstone Infotech: software outsourcing in Palestine

Raising the Palestinian flag next to an Israeli flag in the heart of Tel Aviv was previously unthinkable to Israelis and Palestinians alike, but a remarkable success for the peace-makers who work on building bridges between the two peoples. It happened in September 2000 when the Palestinian Information Technology Association participated in an IT conference and exhibition, called Comdex. Ten companies from the Palestinian IT sector exhibited in the international show. The flag-raising was a sign that Palestinians and Israelis could live side by side as two separate nations, and that Palestinians had the right to showcase their talents, just like any other people.

The IT sector has been identified as a promising area for Palestinian-Israeli cooperation and many Israeli investors believe that doing business with Palestinian companies in this field is economically feasible. In discussions of what might be suitable and possible in the PA, the focus is usually on:

- Establishment and operation of call centres
- Software outsourcing, software development, software localisation houses
- Manufacture and assembly of hardware and communications equipment
- Development of embedded software
- Establishment of medical transcription centres
- Establishment of software and hardware testing centres for quality control and audit.

The IT sector in Palestine

Palestinian IT companies struggled to stay afloat during the *intifada*. With local business in decline and the near-bankruptcy of the PA, the main client for most of them, IT companies looked for new markets in the Gulf region and diverted their activities to Dubai, Saudi Arabia and Qatar.

The Palestinian Information Technology Association (PITA) was founded in 1999 in Ramallah as a membership-based organisation for locally registered companies in the sector.¹⁵ The association represents some 75 companies from a variety of sub-sectors, including hardware distributors, software development firms, office automation vendors, internet service providers, telecoms, consulting, training and other related businesses. PITA's mission is to promote and defend the IT private sector by:

- Advocating business-enabling policies, mechanisms and environment through public-private partnerships

- Promoting the IT sector locally and internationally by facilitating access to markets for the benefit of its members
- Engaging technical and non-technical IT human resources and related institutions in order to expand the qualified pool and uphold professional standards.

Currently, the sector employs around 4,500 Palestinians and 300-500 new graduates enter every year. The average firm employs 8-12 people in various capacities.

PITA represents its members at IT exhibitions and forums around the region and membership grew by 25 percent between 2003-04 alone. As its official representative, PITA addresses issues of concern to the sector, including:

- Capacity building for IT companies
- Participation in international and local IT exhibitions
- Legal framework for communications and IT in Palestine and the establishment of a new telecommunications law
- Market liberalisation and ending the telecommunications monopoly
- Establishment of an independent Telecom Regulatory Authority
- Lobbying on issues such as anti-trust law, public tendering law, e-government and e-education, etc.

Not all PITA's initiatives have been successful, although it managed to open the eyes of the public to issues that could attract foreign direct investment and help transform the Palestinian economy into an 'e-Palestine'.

Israel's withdrawal from Gaza Strip has created a window of opportunity for Palestinians, Israelis and international companies alike. Pre-*intifada* plans for cooperation have resurfaced. When scouting for opportunities in Palestine, Israeli software companies can hope to find the following:

- Quality software
- Cheaper labour costs
- Penetrating new potential markets via Palestinian territories
- Better communication with engineers and programmers
- Higher earnings.

Joint venture efforts

One of the exhibitors at the 2000 fair was Goldstone Infotech, a joint venture between Palestine's Via Maris group and Goldstone Softech, based in Hyderabad, India.¹⁶ Founded in 2000, Goldstone Infotech was both the first

Indian-Palestinian joint venture and the first IT company to establish a presence in the Gaza Industrial Estate (GIE). The Indian partner hoped the venture would generate business opportunities and bring software outsourcing to India, while Via Maris believed it would acquire outsourcing skills from Goldstone Softech, and build the capacity of Palestinian programmers to work on large-scale projects. Goldstone Softech also believed it was contributing to building peace bridges between Palestinians and Israelis through the promotion of dialogue and business exchanges.

For the venture to succeed, an Israeli partner was required to complete a triangle of cooperation. Goldstone Infotech approached the general manager of Alfanus, who was quick to join the project. A leading company in the field of Arabic internet applications, Alfanus is committed to the belief that the hi-tech field will help bridge the gap between Israel, with its Jewish and Arab inhabitants, the Arab world in general and Palestine in particular. Comdex 2000 was an opportunity to showcase the new partnership.

Impact of the *intifada*

The GIE was built on the Palestinian side of the green line separating Gaza Strip from Israel, but it had an entry gate that allowed Israelis to enter and meet with Palestinians at the production facilities. Though intended as a neutral zone, the GIE was among the first to be affected by the *intifada* since employees and Israeli businessmen were prevented from reaching the premises. Israelis were barred from entering the Gaza Strip and Israeli tanks cut off the PA roads leading to the GIE in a massive military incursion.

The partners in Goldstone Infotech feared that their efforts had been wasted. In the hope that things would return to normal, communications continued but, as time passed, the firms interested in outsourcing lost interest in doing business. The Indian partner finally pulled out, leaving behind a company loaded with debt.

Future potential

There is a strong possibility that projects initiated before the *intifada*, like Goldstone Infotech, could be reactivated following the disengagement with benefits flowing to both sides. Palestinian programmers are not as low-cost as Indian or Romanian ones, but the IT sector in the PA still offers Israeli and international companies distinct advantages, such as:

- High professional skills
- Better communication skills

- Produce high-quality software products
- Convenient location for Israel-based firms
- PA labour laws are not as strict as Israeli or other labour laws.

Tourism without borders: a Palestinian perspective

Israeli interests have dominated tourism in the Holy Land for the past three decades. After the Taba Accord (Oslo II) in September 1995, however, Palestinians began to have an increasing influence on the sector. The peace process generated a dramatic growth in tourism investment, particularly in Bethlehem, Ramallah, Gaza and Jericho, and the projected peace accord in 2000 offered scope for further development. Unfortunately, the troubles that ensued after 28 September 2000 had a catastrophic impact on tourism in both PA and Israeli areas.

From 1994 to mid-2000, renewed optimism in the political situation created strong interest in the tourist facilities and services offered by the PA. The number of hotels increased by 59 percent from 54 units with 2,464 rooms, to 91 units with 4,275 rooms. In 2000 alone, a further 30 hotels were under construction, boosting accommodation stock by a further 2,346 rooms (55 percent). Over the same period, the number of registered tour guides rose from 18 to 223.¹⁷

Estimated direct employment in tourism amounted to 5,715 jobs in 2000. Receipts totalled \$226.3 million, but souvenir shops and handicrafts generated \$105.5 million (47 percent) of the total and only \$33.2 million accrued from tourist accommodation. This reflected the reality that most visitors to the PA were day-trippers, whose transport, accommodation and subsistence were mostly provided by Israeli operators. The number of visitors to PA areas in 2000 was 1.055 million, but only 330,000 visitors stayed overnight, generating just 980,000 bed-nights.¹⁸

Impact of the *intifada*

A total of 3 million tourists were expected to visit the Holy Land in the millennium year, of whom 2.7 million had materialised by September 2000. Thereafter, the number plummeted, with disastrous results for service providers, many of whom were forced to change profession or convert their businesses to survive. At the same time, the construction of new hotels ground to a halt. Tourism enterprises throughout the PA still face severe hardship.

The inevitable result of the *intifada* was a significant decline in employment, with many establishments closing and others operating with skeleton staffs. In 2001, the

number of hotel guests fell by 81 percent, and the decline continued into 2002. Revenues from souvenirs and handicrafts suffered more, falling by 97 percent in 2001. Total losses from tourism from September 2000 to December 2003 have been estimated at \$910 million.¹⁹ With few alternatives, the revival of tourism presents a key opportunity for rapid economic development.

Constraints to development

Tourism emerged as an important economic sector after the 1995 Paris Protocol, which established a new set of values aimed at liberalising the PA economy through market reforms, expanded exports, a more relaxed regulatory environment, modernisation of trade and tax policies, and increased labour and capital mobility in order to attract development funds from international donors to the tourism sector.

Article 10 of Annex 5 of the Protocol defined the relationship between the Palestinian and Israeli tourism stakeholders.²⁰ The main provisions highlighted the need to develop a reciprocal business relationship between stakeholders and to encourage cross-border cooperation in order to create a 'border-free' industry.

The principle of reciprocity was never implemented, however. Palestinian guides in Bethlehem were not permitted to lead groups into Israel, while Israeli guides had open access to tourism sites in Bethlehem and Jericho. Palestinian tourism vehicles were not allowed into Israel, but Israeli companies freely visited PA sites until the outbreak of the second *intifada*. Because Palestinian operators did not have access to international entry points, they could not provide ground services for tourists on arrival or departure.

The key to developing tourism's potential is access. At present, travel by Palestinians out of their place of residence is severely restricted and this has had a further negative impact on the development of domestic tourism. In addition, travellers have to pass through frequent checkpoints where access may be denied. The security wall presents additional restrictions on mobility.

Since international access to PA areas necessitates an Israeli visa, potential visitors from most Arab states are prohibited from visiting the Al-Aqsa Mosque, the third holiest shrine in Islam. The problem is exacerbated by Israel denying visas to certain tourist groups who want to visit the PA, only for the same group to be given a visa to enter Israel and undertake the same tour, but serviced by an Israeli tour operator.

Certain constraints are specifically associated with tourism in East Jerusalem, which operates under Israeli jurisdiction. Under Israeli regulatory control, Palestinian hotels and businesses bear particular burdens that are not experienced in Gaza and the West

Bank. The construction of the wall and the isolation of East Jerusalem will affect future growth of the industry since it fragments the core of the Palestinian tourism product from its components in Bethlehem, Jericho and Nablus. These factors combine to create a competitive disadvantage for the Palestinian tourism industry.

The value-added of Palestinian-Israeli cooperation

The relationship between the Israeli and Palestinian private sectors was at its peak prior to the second *intifada*. Israeli tour operators booked business in hotels in Bethlehem on a back-to-back basis. Israeli operators received value for money, and Palestinian hotel owners and managers were satisfied with the improved turnover and income. Souvenir shops also benefited from the relationship, which stimulated suppliers in the governorate of Bethlehem.

Since the outbreak of the *intifada*, it has been increasingly difficult for stakeholders to do business because the checkpoints have separated suppliers from service providers. Many countries have issued travel advisories that discourage their nationals from travelling to the region. The main sites in the PA were isolated as the Israeli military took control of access. Tour groups were turned away from Bethlehem and Jericho, and access was restricted to local residents. This uncertainty destroyed whatever confidence existed between Israeli and Palestinian partners, and the relationship deteriorated further during the first three years of the *intifada*.

When international tour groups began to trickle back in modest numbers in mid-2004, Israeli operators were obliged to re-establish links with their Palestinian counterparts because groups wanted to visit Bethlehem and Jericho. This resulted in small steps toward re-establishing cooperation. For example, Israeli tour buses began to drop their passengers at the checkpoint at the entry to Bethlehem where Palestinian buses take them to the city's most celebrated site, the Church of the Nativity. Gradually, the shopping and lunch business has developed, though in modest numbers.

The three main stakeholder groups – Israeli, Palestinian and international – have common interests despite the political factors that inhibit their business relationships. The rich inventory of religious, historical and archaeological sites is a common denominator for them all. They have adjusted and redefined their relationships to accommodate the realities imposed by the prevailing crisis. The Palestinian private sector has experienced the business benefits of peace, including profitable investment opportunities, reduced operational costs and improved budget allocation, especially for the rehabilitation of tourism infrastructure. The Bethlehem 2000 Authority, for example, raised \$200 million in international funding in preparation for the millennium celebrations.²¹

Conclusions

The Palestinian-Israeli conflict will continue to affect the lives of both communities for the foreseeable future, undermining social progress and economic development. This has implications for the private sector in both countries. Businesses pay heavy costs to conduct their operations under conditions where their employees, assets and routes to markets are at risk. The private sector has as much to lose as other sectors of society when economic and social development are jeopardised.

From this analysis of four different interactions, it can be seen that all involved partners were seeking synergies and value-added components with their counterparts. Many of the ventures hinged on the issue of access facilitation. Though assistance on access is necessary in the short run, it is problematic over the long term since in some senses finding coping mechanisms adapting to border issues in some senses reinforces the conflict status quo.

None of the participants in the four cases directly benefit from the conflict. Research indicates that the private sector's profit from the conflict is marginal – mostly confined to the criminal smuggling of weapons – while its losses are inestimable. However, while Israeli businesses may not directly benefit from the conflict and exert no active pressure to maintain the existing situation, the problem of access is nevertheless a source of profit for them. The Agrexco initiative and the logistic zones both provide service needs that are born out of the conflict and they also benefit from the economic asymmetry that exists between Israel and the PA. Their Israeli backers do not see the current political situation as a prerequisite for the prosperity of their activities and they claim that a shift on the ground will not necessarily mean their operations will cease to be relevant. Similar partnerships exist in non-conflict zones where, for example, traders are motivated to reduce the cost of their logistical requirements by outsourcing them to specialist providers.²²

According to interviewees, the longer a business relationship endures, the stronger the people-to-people relationships that accompany it. Moreover, the more prestigious the cooperating parties, the greater their influence will be on the multiple layers of the peace process. In the Agrexco case, there is evidence of the private sector's ability and willingness to influence politicians or the military to reduce tension, though such interventions tend to be localised and incident-related. Motivation is clearly mixed – with people-to-people loyalties and a desire to protect the incomes of Palestinian growers and the PA, entwined with fear of lost profits or reputational damage.

Prior to the violence of the second *intifada*, the Israeli and Palestinian private sectors demonstrated a willingness and capacity to work profitably together in ways that might have had a positive influence on the conflict by replicating models of cross-

border cooperation. The fact that in the context of the disengagement, Israelis and Palestinians investors and entrepreneurs are looking for practical solutions to maintain an active economic and business cooperation proves their determination and shared interests. Resolving the access process will only foster this cooperation and encourage Israelis to return to investing in the Gaza Strip by using various logistic outsourcings and Palestinian intermediaries that will enable them to manage their business from outside. By speeding up the movement of goods, making transactions predictable and therefore reducing costs, progress on access will help reduce the economic asymmetry between Israelis and Palestinians, making Israeli-Palestinian business relations more balanced. Meanwhile, reviving joint ventures in the tourism and IT sectors that were stifled by the second *intifada* is a promising starting point for re-establishing severed relations.

The cases illustrate that business on both sides can have a positive influence on the conflict, an influence that should be encouraged. A more active effort from business towards addressing the conflict would not only enhance economic development on both sides, but also contribute to greater levels of trust among Israelis and Palestinians.

Table 2: Summary of case studies

Case title	Constructive aspects	Non-constructive aspects
Agrexco	<ul style="list-style-type: none"> ■ Supports what is potentially the largest source of hard currency to Gaza Strip ■ Supports broad-based employment in Gaza ■ Provides economic development in a sustainable sector, while reducing poverty and extremism ■ Scaleable relationship with high potential for growth ■ Promotes people-to-people relationships and commitment on a business and personal level 	<ul style="list-style-type: none"> ■ Sub-segment of the Agrexco value proposition is access facilitation – in effect profiting from the conflict ■ Might delay emergence of a independent Palestinian distribution channel ■ Agrexco might have conflict of interest in promoting the 'Carmel' over the 'Coral' brand once the latter attains EurepGap standards
Logistic zones	<ul style="list-style-type: none"> ■ Facilitates the movement of goods by providing logistic facilities at border crossings ■ Encourages business transactions between Israeli and Palestinian traders by enabling Israeli traders to access Palestinian manufacturers 	<ul style="list-style-type: none"> ■ Logistic zones provide solutions that contribute to maintaining the current system and prevent a real improvement in border crossing management and Israel's policy on access
Software development outsourcing	<ul style="list-style-type: none"> ■ Improve access to the external and Israeli outsourcing markets ■ Build the professional capacity of IT labour force ■ Foster the development of IT sector ■ Enhance exchange of the professional and technical capabilities ■ Resource sharing where possible ■ Cost-effective and competitive presentation of IT products ■ Creates opportunities for business joint ventures and establishment of new start-ups ■ Promote the Palestinian-Israeli peace process and the normalisation of relations through cooperation at the 'people-to-people' level 	<ul style="list-style-type: none"> ■ Israeli domination of telecoms infrastructure poses impediment to advancement in this field ■ As Palestinian capabilities in the field advance, there is potential for head-to-head competition on projects

Case Title	Constructive aspects	Non-constructive aspects
Joint ventures in tourism	<ul style="list-style-type: none"> ■ Generate employment opportunities ■ Increase the multiplier effect especially with supporting industries and services providers ■ Improve overall government earnings of foreign currency from incoming tourists ■ Revive the business relationship between the Israeli and Palestinian tourism professionals ■ Continue to exchange technical and professional know-how ■ Build momentum to restore domestic tourism in both directions ■ Improve the donor community's image and perception of the destination and product ■ Increase cooperation between both sectors to achieve increased overnight stay and longer visits ■ Develop the tourism industry's main sectors 	<ul style="list-style-type: none"> ■ Israeli domination of telecoms infrastructure poses impediment to advancement ■ Unbridled competition as a result of Israel's control of international borders and crossing points ■ Vulnerability of the tourism sector and its relationship to the prevailing politics and overall stability ■ Security and access restrictions ■ Non-compliance in the execution of international agreements

Acronyms

ATG	Alternative Tourism Group
GDP	Gross Domestic Product
GIE	Gaza Industrial Estate
Gol	Government of Israel
NIS	New Israeli Shekel
PA	Palestine Authority
PAPA	Palestinian Agri-business Partnership Activity
PITA	Palestinian Information Technology Association
USAID	US Agency for International Development

Endnotes

- 1 The exact figure is 711,000. See UN Conciliation Commission (1950) *General Progress Report and Supplementary Report of the UN Conciliation Commission for Palestine, Covering the Period from 11 December 1949 to 23 October 1950* (UN General Assembly Official Records, 5th Session, Supplement No. 18, Document A/1367/Rev. 1).
- 2 Control over the Peninsula was returned to Egypt following the 1978 Camp David Peace Accords between Egypt and Israel.
- 3 World Bank (2004) 'Stagnation or Revival? Israeli Disengagement and Palestinian Economic Prospects' *Sector Report* (Washington DC, US: World Bank).
- 4 See www.worldbank.org/we
- 5 Bank of Israel (BOI) (2002) *Policy Recommendations, 2003-08* (Jerusalem, Israel: BOI).
- 6 Palestinian Ministry of National Economy.
- 7 Qualitative interviews were carried out for each of the case studies with individuals involved, both from the private sector, public sector officials, international organisations and NGOs. Additional interviews were carried out with experts and resource persons.
- 8 1 *dunam* = 0.247 acre.
- 9 Palestinian Central Bureau of Statistics, *Agricultural Statistics, 2001/2002*; *Land Use Statistics, 2002*.
- 10 Note from the editors: since writing this case study, Karni border crossing has been almost consistently closed since January 2006 due to Israeli security concerns. Analysts describe the situation this has created in Gaza as an economic and humanitarian collapse. The closure has severely damaged private sectors on both sides according to reports, with losses of tens of millions of shekels on the Israeli side and serious harm to small and medium enterprises; and millions of dollars lost on the Palestinian side and the closure of dozens of factories and greenhouses there. See for instance Peres Center for Peace (2006) 'Palestinian and Israeli Private Sectors Severely Hurt by Prolonged Closure of Karni Border Crossing' *Position Paper* 8 May 2006 (Tel Aviv, Israel: Peres Center for Peace).
- 11 Palestinians currently use up 3,000 *dunam* of land while the potential for agricultural use in Gaza is 25,000 *dunam*, in addition to the 10,000 *dunam* vacated by Israeli settlers following the disengagement. A simple linear relationship implies that roughly 100,000 jobs might be added in the Gaza Strip through agriculture.
- 12 The Israeli Defence Forces will hand over security management of the Israeli side of the border passages to civil security companies appointed by government.
- 13 Erez Industrial Estate was closed as part of the Disengagement Plan. After a surge in Palestinian attacks in 2004, then-Minister of Trade, Industry and Labour Ehud Olmert decided to close Erez on the grounds that the Gol was unwilling to assume responsibility for injuries caused to Israeli investors during Palestinian attacks.

- 14 The Services Group (TSG)/Louis Berger (2002) *Gaza Integrated Transport Planning Study* (Washington DC, US: USAID).
- 15 See www.pita.ps
- 16 See www.viamaris.ps and www.goldstone.com
- 17 Palestinian Central Bureau of Statistics; Palestinian Ministry of Tourism.
- 18 Ibid.
- 19 Ibid.
- 20 Available at www.un.org/unsco/UNSCO/Paris%20Protocol.htm
- 21 Palestinian Ministry of Tourism.
- 22 This point is also emphasised in TSG/Louis Berger op. cit.

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Encouraging business cooperation in Israel and Palestine: the Peres Center for Peace and the Center for Jewish-Arab Economic Development

Various non-profit organisations have sprung up during the past decades in the Middle East that are based on the idea that enhancing economic links and co-operation between businesspeople across national and international divides is an important, if not essential, element in promoting cross-cultural understanding and overall peace within the region. These groups believe that this is particularly true in environments such as the Middle East where political peace processes have a history of stalling.

Two such examples are the Peres Center for Peace (PCP) and the Center for Jewish-Arab Economic Development (CJAED). The PCP is an independent, non-profit NGO, founded in 1996 by Nobel Peace Laureate and former prime minister Shimon Peres with the aim of furthering his vision in which people of the Middle East region work together to build peace through socio-economic cooperation and people-to-people interaction. The peacebuilding activities of the Center focus on common Arab and Israeli economic and social interests, with particular emphasis on Palestinian-Israeli relations. Peacebuilding projects are developed to address these interests through partnerships with regional and international partners.

The PCP advances cooperative initiatives based on the belief that economic stability and prosperity are key factors in developing sustainable peace in the Middle East. Enhancing economic cooperation within the region has become a focal point of the institute's activities, and it works with businesspeople from Jordan, Palestine and Israel to develop integrated, mutually beneficial initiatives. The Center seeks to create strong partnerships and ties between the main economic players in each society who are in a position to make genuine business changes and improve the region's overall macro-economic situation.

The Center for Jewish-Arab Economic Development (CJAED) was founded by a group of Israeli Jewish and Arab businesspeople in 1988 to promote Jewish-Arab economic cooperation and strengthen the Arab business sector. Like the PCP, the CJAED believes that encouraging economic links and partnerships between Jewish and Arab populations is a vital element for the consolidation of economic stability, prosperity and ultimately peace in the Middle East. While the CJAED's main focus is national, engaging in promoting the integration of the Israeli Arab population into the economy and closing the socio-economic gap, it also promotes business cooperation and links with Palestinian society through various projects. In addition to the activities described below, CJAED engages in research projects, advocacy and

policy formulation with the aim of providing equal opportunities and resources to Arab communities in Israel and to narrowing the socio-economic gap between the Arab and Jewish communities.

Both organisations have developed a range of activities in order to promote economic cooperation:

Training

The PCP engages in capacity-building programmes and vocational training seminars designed to provide additional skills and know-how to specific business sectors, in particular to the Palestinian private sector. The aim is to decrease the negative economic effects of the recent violence, which has significantly distanced the two private sectors, and to bridge the gap between the economies of the region. Examples include:

- **Chain of Supply Seminars.** Presently, there are no Palestinian ports, with the vast majority of Palestinian imports and exports shipped through Israeli ports. The PCP has run several two-day ‘Chain of Supply’ seminars to inform Palestinian businesspeople from various industries about international trade procedures and the logistical processes of Israeli ports, allowing them to conduct more efficient trade. The seminars included lectures on customs clearance procedures, standards checks, freight forwarders, insurance and more, as well as a full-day tour of an Israeli port. Participants were given the opportunity to view the ports’ facilities and processes, and to meet with the ports’ and customs’ management and personnel.
- **Business Training Courses for SMEs.** As a result of the conflict, Palestinian businesspeople have limited opportunities to develop business skills. The PCP runs seminars to enhance the business capacities of Palestinian SMEs, which make up one of the largest components of the Palestinian economy. A four-day training programme was held in Tel Aviv for businesspeople from the Bethlehem area that included lectures and workshop sessions on topics such as writing a business plan, micro-financing, and human resource development. The course served the further purpose of bringing together Palestinian and Israeli businesspeople to forge professional and personal relations.

The CJAED aims to strengthen the entrepreneurial and management skills of young Arab and Jewish professionals in order to promote equal access to management positions. Under the Management Training and Integration focus area, CJAED carries out the following programmes:

- **Building Business Bridges MBA Programme.** Among the various activities in this field, the Building Business Bridges MBA Programme stands out as one of the

most interesting. First launched in 1998, the initiative was originally conceived as a training programme for Israeli and Palestinian business executives in cross-cultural management, but since 2003 it has evolved into a fully accredited Masters degree in business administration (MBA). Taught by the Graduate School of Business at the University of Haifa, the course brings Jewish, Israeli Arab and Palestinian professionals together with the aim of educating a young business leadership in the Middle East committed to furthering the objectives of cross-border partnerships and cooperation. One of the main goals of the MBA programme is to create and foster a network of Israeli and Palestinian business leaders with personal bonds and an understanding of one another's cultures and business environments. The programme also aims to provide laureates with the inclination, knowledge and tools to engage in joint partnerships and ventures. In parallel to the academic programme, students are involved in extra-curricular activities that raise awareness on sensitive issues related to the Israeli-Palestinian conflict. To date, approximately 90 students have graduated from the various BBB programmes.

- **Women's Empowerment Programmes.** The CJAED further provides Israeli Arab women with support and skills training with the goal of strengthening women entrepreneurs and allowing them not only to generate income for themselves, their families and communities, but also to employ others. CJAED offers a basket of activities for potential women entrepreneurs. The process begins with training both for individual and group enterprises, after which graduates present their business plans. The next step is a mentoring service provided by CJAED to start-up businesses that emerged as a result of the various courses. Another aspect of CJAED's ongoing support has been the creation of seven businesswomen networks. Each is comprised of both senior and starter businesswomen who conduct regular meetings, workshops and exposure visits to an array of businesses. Following on from these networks' success, CJAED is now working to establish a National Businesswomen's Network that will unify the various regional networks and create a strong body to represent businesswomen at the national level. Another important aspect of the Center's assistance to women entrepreneurs is the Women's Loan Fund, which has so far resulted in the addition of over 90 women to the workforce.

Business networking and cooperation

CJAED also aims at promoting investment by facilitating networking opportunities and joint ventures between the Arab and Jewish communities in Israel, as well as between Israel and its Arab neighbours.

- **Palestinian-Israeli Business Alliance.** As the restrictions on the movement of goods and people since the beginning of the second *intifada* have drastically decreased trade between small and medium-sized Palestinian and Israeli

companies, CJAED is seeking to develop by 2006-2007 the Palestinian-Israeli Business Alliance (PIBA), an initiative that aims at opening channels of communication between Israeli and Palestinian businesspeople. In conjunction with the Palestinian Media and Development Institute, a Palestinian NGO dedicated to the development and advancement of the Palestinian small and medium-size business sector, two PIBA offices will be established in Tel Aviv and Ramallah. The aim is to create an independent and viable organisation that will facilitate communication and business ties between Palestinian and Israeli businesspeople. In addition, the PIBA strategy envisages engagement in lobbying, advocacy and media campaigns to raise awareness on the costs of conflict and the benefits of peace for economic prosperity with key policy makers (government ministers and advisors, members of parliament, leaders of think tanks, leading academics etc.), business associations (e.g., the Israeli Manufacturers' Association, the Palestinian Industrialists' Union, etc.) and the broader public (e.g., through press conferences, presentations at conferences and seminars).

The Peres Center organises initiatives, forums and events to encourage Palestinian and Israeli businesspeople and companies to meet despite the movement restrictions and communication difficulties. These gatherings are aimed at establishing commercial ties and strengthening business partnerships amongst Arab and Israeli businesses. In 2005 alone some 450 Palestinian and Israeli businesspeople and economists participated in joint meetings and activities, and over 800 people participated in the two public conferences held during the year.

- **Business to Business Events (B2B).** In order to re-establish economic links between Palestinian and Israeli businesses after five years of limited ties and communication, the Center runs B2B events for specific sectors. The events bring together Palestinian and Israeli businesspeople to meet and listen to key players in selected industries, showcase their products, and participate in face-to-face meetings in order to identify avenues for future cooperation. The PCP has held B2B events for the textiles and fashion industry, and the handicrafts sector and has plans to include additional sectors in the near future.
- **Business Fora.** The PCP brings together Palestinian, Jordanian, Egyptian and Israeli professionals from related fields with a view to identifying and promoting solutions to specific problems and advancing cooperative initiatives. One example is a 'Tourism Forum' to enable communication between Palestinian and Israeli professionals in this field. Forum members have identified impediments to joint advancement and are working towards removing such obstacles via advocacy initiatives. In addition, the participants have instigated joint activities that bring the Palestinian and Israeli tourism sectors closer together.

Other activities

Among the other activities that the PCP organises to encourage business links and cooperation are:

- **Events and conferences.** The Center organises public conferences with the aim of shedding light on topics of current and future economic interest. Such conferences include presentations by leading political and economic figures with the objective of providing the public and other parties involved with reliable information regarding the potential for economic growth in the various business sectors, and information on the means to achieve it. For example, a series of conferences has been held to examine the economic relations between Israel and its Arab neighbours. The first explored Jordanian-Israeli economic relations, the second focused on Palestinian-Israeli business ties and the third examined Egyptian-Israeli economic links. Other conferences have focused on specific sectors, including a conference on tourism in the Middle East that featured distinguished Palestinian, Israeli, Jordanian and Egyptian speakers.
- **Institutionalisation and establishment of Arab-Israeli working relations.** The PCP seeks to institutionalise working relations between Israeli and Arab business associations, export institutions and other organisations in order to further encourage and assist local business communities to trade with one other. For example, it helped to establish the Palestinian Shippers' Council which will represent and protect the interests of Palestinian importers and exporters that utilise maritime shipping, air freight or land transport.
- **Palestinian-Israeli Economic Research.** The PCP facilitates the Aix Group, an economic research group comprising Palestinian, Israeli and International economists, officials, academics and other experts, which presents multi-perspective position papers. The papers serve to inform regional and international decision makers about significant economic issues and optimal models for economic relations in the hope that decision makers will use these findings to set policy for the region.

For those disadvantaged in obtaining credit, the CJAED provides a source of loans through two schemes:

- **CJAED-KIEDF loan fund.** Launched in 2004 in cooperation with the Koret Israel Economic Development Fund (KIEDF) and the Mercantile Discount Bank, this loan fund provides a much needed source of funds for Israeli Arabs, who are often penalised in their capacity to access credit. The CJAED-KIEDF loan fund provides Mercantile Discount Bank with a 35 percent guarantee (the rest of the risk is undertaken by the bank) and in so doing allows business owners to receive

loans with better interest rates for long-term periods. Thus far the loan fund has assisted over 30 businesses with none of the loans defaulting. Loan sizes vary from \$10-30,000, with the average loan amounting to \$15,000.

- **The loan fund for Arab women entrepreneurs.** This loan fund is directed at empowering Arab women within the Israeli economy. CJAED provides up to \$10,000 in loans for entrepreneurial activities of Arab Israeli women who can otherwise find it extremely hard to raise the necessary money to establish their businesses. Over 30 businesses owned by women have benefited from the CJAED Women's Loan Fund, which has aided in either establishing new businesses or expanding existing ones.

For more information, see www.peres-center.org/ and www.cjaed.org.il/

Alternative Tourism Group: justice tourism in Palestine

Since the signature of the Oslo Accords in 1993, tourism has been considered one of the most promising sectors for developing the Palestinian economy, enhancing its stability and promoting peace in the region. However, it has been difficult for Palestinians to reap the benefits of tourism, partly because it has been monopolised by Israeli operators and partly because of the predominant form of ‘mass tourism’. While tourism has the potential to create jobs, develop infrastructure and help conserve the local cultural heritage, contact with the local environment is often minimal in mass tourism and the economic benefit is frequently negligible for local communities. Foreign tour operators receive revenues from tourists in the originating country, pay hotels in host countries minimal and all-inclusive group prices (including food and transport), and tourists spend less in the host country.

The Alternative Tourism Group (ATG), with offices in Bethlehem in the West Bank, was founded in 1995 with the aim of addressing these issues while giving visitors a deeper insight into the human consequences of the Israeli-Palestinian conflict. ATG’s executive director has built the organisation around the concept of ‘justice tourism’, as opposed to mass tourism. ATG focuses on offering an alternative to ordinary tours where visitors return from the Holy Land without having learned very much about the region’s people. By establishing direct links between foreign visitors and their Palestinian hosts, ATG efforts are aimed at contributing directly to the local economy.

By using Palestinian tour guides, buses and hotels, ATG is able to circumvent the hold that Israel enjoys on tourism activities in Palestine and simultaneously provide a means for ordinary Palestinians to benefit from foreign visitors. The agency offers clients home stays and accommodation with Palestinian families, who turn their homes into ‘bed and breakfasts’ so that they can earn an income. More than 100 families benefit from the initiative in this way.

By using ATG as their travel agency, tourists are given the chance to travel to areas that are generally not covered by Israeli tour operators. These include Hebron, Ramallah, the Christian village of Taiba, Nablus, Jericho, Gaza, Bethlehem, the Israeli settlements and Palestinian refugee camps, in addition to the more conventional destinations of Tel Aviv, Tiberias, Galilee and Jerusalem. This kind of itinerary gives tourists an opportunity to learn more about the Israeli-Palestinian conflict through interactions with local communities or voluntary work with one of many Palestinian NGOs. ATG also organises courses and study programmes, in

conjunction with the Alternative Information Centre, where visitors can meet with Palestinian and Israeli representatives to learn in depth about the political situation.

All of ATG's initiatives are intended to offer foreign visitors insights into the complex historical, cultural, social, political and religious aspects of the Holy Land. Its goal is to raise awareness on the hardships of living in the Palestinian territories, and simultaneously to contribute directly to the economic and social development of the Palestinian people without first having to pass through foreign or Israeli tourist agencies. "As individuals become increasingly engaged with the issues they see on the ground," argues one member of staff, "they are very likely to actively advocate for peace and justice in the region once they have returned to their home countries."

The organisation's overall vision is to use tourism as a way of promoting justice, peace and economic development by sustaining the Palestinian economy and raising awareness of the conflict among foreign visitors. As tourists engage with the grassroots reality by volunteering with local NGOs, sleeping in Palestinian homes or visiting Israeli settlements and Palestinian refugee camps, it is hoped that they will come closer to understanding the political issues and daily difficulties faced by the people living in this part of the world.

For more information, see www.patg.org/

**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

**Case study
Kosovo***

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Kosovo

Mercy Corps in Kosovo: encouraging business cooperation and defusing stereotypes

Kosovo has been ethnically mixed for centuries. Though relations between different groups have fluctuated throughout history, the conflict that entangled it in the late 1990s led to the complete disintegration of social and economic relations between Kosovar Serbs and Albanians. The near segregation of ethnic communities, which followed the large-scale displacement of local populations, caused a sharp drop in business interactions across ethnic divides as suspicion, mistrust and fear became widespread.

Kosovo

Mercy Corps, an international NGO working to alleviate poverty through fair socio-economic development, has been working in Kosovo since 1993 to restore these links. It believes that peace in the region will only be achieved if different communities learn to co-exist by interacting in mutually beneficial ways as they used to do before the conflict. That is why Mercy Corps has focused on creating business linkages and promoting economic growth, rather than purely reconciliation-based activities, believing that economic incentives can be a powerful tool in bringing people together.

Facilitating peacebuilding-focused development

Mercy Corps' programmes in Kosovo have the specific objective of enhancing stability and creating normality within the region. Its programmes not only seek to meet the humanitarian need of local populations and Kosovar Serb returnees, but to address some of the factors that prevent minority return and re-integration. Since Kosovo's economy is mainly agrarian, some of Mercy Corps' work focuses on promoting linkages between Kosovar-Serb and Kosovar Albanian businesses within the agricultural sector, seeing this as an opportunity to address the underlying conditions of resentment, fear and mistrust. At the same time, the organisation aims

to tackle the local economy's deficiencies, which it believes could derail any attempt at building peaceful co-existence among its people, if left unaddressed.

While many regard development in and of itself as peacebuilding – based on the view that as long as you provide enough resources for all stakeholders, they will not need or want to resume fighting – Mercy Corps argues that peace can only be sustainable if development programmes are used explicitly to restore relationships between conflicting communities by bringing them together to discuss issues of common concern. All the work put into revitalising the economy would amount to little if efforts at promoting inter-ethnic understanding and cooperation were not undertaken. However, dialogue is no substitute for action. Dialogue as a peacebuilding activity in Kosovo is intended to facilitate communication in order to build trust between the Kosovar Serb and Kosovar Albanian communities, and to improve interpersonal relationships leading to inter-ethnic business cooperation and overall economic development – or what has been called ‘dialogue-rich social and economic development’.

Projects

In Mercy Corps' view, ‘the relationship between buyer and seller or producer and processor all involve human interactions that are at the centre of the peacebuilding process’. The following are a few of the projects supported by the NGO from 2000-02 that aimed at integrating peacebuilding, specifically inter-ethnic tolerance and cooperation, with development through assistance to the private sector. In carrying out this work, Mercy Corps worked with the assistance of conflict transformation experts who trained Mercy Corps staff, and helped in facilitating some of the dialogue elements involved in the projects, as described below.

Feed-mills and poultry projects

Mercy Corps provided assistance to three mills producing feed or concentrate for animal consumption (chickens, cows, pigs, and sheep). Two of the mills are privately owned Kosovar Serb businesses, while a Kosovar Serb-run cooperative operates the third. There is extremely high demand for animal feed in Kosovo, and the mills are finding reliable, mostly Kosovar Albanian, outlets for their produce. The sourcing of raw materials primarily takes place through Kosovar Albanian traders and they have started to rely on Kosovar Serbs to source components in Serbia. The mills use another Mercy Corps-supported business to source specialised paper bags. Many of the 97 poultry farms supported by Mercy Corps source their feed from the mills on an ongoing basis. Initially, Mercy Corps facilitated most of these inter-ethnic linkages. An increasing number are now happening spontaneously.

Textile workers

Mercy Corps supported Sonce, a Roma-run humanitarian association that works in a neighbourhood devastated by conflict. Sonce was provided with materials and technical assistance that enabled it to create employment opportunities for IDP women from the Albanian, Macedonian and Roma ethnic groups who lost their jobs in the textile industry as a result of the war. Mercy Corps has invested in training the director in business development and peacebuilding skills, and Sonce is one of the few small organisations in Tetevo with a multi-ethnic workforce. With Mercy Corps' assistance, a system was set up whereby Sonce and the women who work there jointly own the small textile factory. Sonce's portion of the profits is used to fund the organisation's other humanitarian activities.

Business cooperation across ethnic lines

Immediately after the 1999 conflict, the majority of dairy cattle were located in Kosovar Serb villages while most of the dairy-processing facilities were in Kosovar Albanian villages. This offered an ideal opportunity for cross-ethnic cooperation based on economic need. However, the type of cooperation that ensued fuelled resentment at best and contempt at worst. Kosovar Serb family farmers waited at the edge of their villages, sometimes for hours or days, to sell raw milk at below-market prices while Kosovar Albanian processors complained that the milk had been watered. The latter also felt their lives were in danger by entering Kosovar Serb villages. To alleviate the tension, Mercy Corps installed milk-collection centres in a number of Kosovar Serb villages where Kosovar Albanian processors were already purchasing raw milk. These provided a hygienic and secure place to store milk, eliminating the need for farmers to wait at the edge of their villages. They were also able to store the milk at correct temperatures, enabling processors to collect the milk at their own convenience. With special equipment, the centre manager was able to measure the fat content of the milk collected to confirm that the raw milk was not watered down. This enabled both processor and farmer to confirm the quality of the milk and negotiate a fair price.

Agri-business and dialogue conference

During 2001-02, Mercy Corps organised three, three-day agri-business and peacebuilding conferences for the participants, partners and beneficiaries of its Kosovo programmes. Farmers, producers, processors, association and cooperative representatives, and local government representatives with whom Mercy Corps had been working attended. Kosovar Albanians, Kosovar Serbs

and members of other minorities were all represented.

Before participants engaged in official dialogue many of them were brought together in Mercy Corps' offices to informally discuss their projects and possible cooperation. For example, if an Albanian dairyman was able to supply a Serb cheese manufacturer with milk a meeting was arranged in the relatively safe environment of Mercy Corps' office and the opportunity to negotiate a business transaction was explored. This worked well toward the goal of creating inter-ethnic business linkages and a number of transactions were concluded before the conferences.

A location considered safe and neutral by all was found for the conferences to ensure a context in which the groups felt free to speak openly. Care was taken to invite people from different ethnic groups who engaged in similar activities, as well as in upstream and downstream supply and demand chains. This meant that beekeepers, greenhouse owners, cooperative managers, animal-feed producers, dairy producers, manufacturers and other service providers from the various ethnic groups were all present. The purpose of each conference was to provide participants with the opportunity to:

- Establish and strengthen relationships in their sector
- Reflect on and design strategies for building and strengthening effective cross-ethnic linkages and stability, which the participants themselves could implement
- Identify threats to, and opportunities for, sustaining businesses with a cross-ethnic motive
- Develop a strategy for sustainable cross-ethnic, post-donor cooperation in Kosovo.

The organisers took care that the conferences were not just opportunities to explore doing business; instead the process included many dialogue elements, such as active listening, building trust and confidence among participants, and opportunities to exchange personal experiences of the conflict. In the evenings social events were arranged in different cultural settings, for example, dinner at an Albanian restaurant or a boat trip to an Orthodox monastery.

The mix of participants generally meant that business contacts were made. By dealing with the threats and opportunities they had identified in the conference, both across ethnic lines and within their own group, participants had developed new strategies for conducting business with each other by the time they returned home. For example, transactions were concluded by Kosovar Albanian dairymen to supply milk to Serb cheese manufacturers, or Kosovar Serb and Kosovar Albanian beekeepers came to an agreement under which honey would be marketed under a single, multi-lingual label. ▶

Although most of these links worked well, there were a number of instances of intimidation from members of their own ethnic group against beneficiaries doing business with the other group, and a small percentage of transactions could not be completed.

Impact

Although it is difficult to quantify the long-term effects of peacebuilding and development activities, Mercy Corps' projects have nevertheless played a substantial role in improving lives and inter-ethnic cooperation on the ground. For many Kosovar Serbs, Mercy Corps' assistance has made the difference between staying and leaving, and Kosovar Albanians testify that they have been able to rebuild their lives much quicker as a result of its activities. By bringing Kosovar Serb and Albanian businesspeople together, Mercy Corps aimed at breaking down the negative stereotypes and prejudices that each group had of each other. According to one participant in Mercy Corps' inter-ethnic projects: "We have all been through similar sorrows, but at different times. We understood each other."

On one hand, this has resulted in increased levels of inter-ethnic cooperation across ethnic divides in the Kosovar agribusiness sector which in some instances – for example, the dairy sector – exceeds levels of cooperation before the war. On the other, tensions in parts of Kosovo have been defused between the two groups. By cooperating, Kosovar Serbs and Albanians are not merely doing business, but are also creating a more peaceful environment that allows them more freedom to travel through each other's areas. The experience of Zoran, a Kosovar Serb engineer and manager of a refrigeration plant, is indicative. Talking about the three 'Agribusiness and Dialogue' conferences, he told Mercy Corps staff: "The (first) conference was the first time we met in large numbers to see how agriculture and the economy could realistically work together in Kosovo. It was the first real step toward cooperation." Asked if it had proven of any value, he then added: "A year ago, Mercy Corps had to fetch me and transport me back home (from the Kosovar Albanian area). Today I came here by car on my own. Chatting with a Kosovar Albanian friend recently, we were trying to convince each other that the future would be better."

This case is adapted from Preuss, G. (2003) Harvesting Learnings – Integrating Peace and Development Through Dialogue in the Balkans (Portland, US: Mercy Corps).

**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

**Case study
Nepal***

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Nepal

The Nepalese private sector: waking up to conflict

Ameet Dhakal, with Jhalak Subedi

Editors' note: the 2006 'April Revolution' in Nepal saw hundreds of thousands of Nepalese citizens converge on the streets in protest against the autocratic rule of King Gyanendra since his 'royal take-over' in February 2005. After 19 days of largely peaceful protest, the King ended his direct rule and reinstated the parliament dissolved in 2002. A government, including representatives from the Seven Party Alliance (SPA) has been formed, and the parliament has unanimously passed a stricture to hold elections to a Constituent Assembly to draft a new constitution. This will leave the people to decide on the fate of the monarchy in Nepalese politics and society. The Maoists have been invited to join an interim government as part of mainstream politics and have welcomed their participation in peace talks. Meanwhile, a ceasefire has been declared by both sides. The Maoists have already formed a three-member negotiation committee, while the government is yet to do so.

As this book went to print, both the government and the Maoists had formed three-member negotiation teams, and jointly announced a 25-point ceasefire 'code of conduct' as an outcome of the first round of negotiations.

Much has therefore changed on the Nepalese political landscape since research for this report was completed, and the situation remains fluid and unstable. Nevertheless, the analysis and conclusions of this report remain wholly relevant. Though the country is seen to be potentially moving towards a post-conflict scenario, many of the conditions for a sustainable peace are not yet in place. Understanding the role of business in the conflict context over the past five years will be crucial for framing its future role in the peacebuilding process in Nepal.

Landlocked between the Asian giants of China and India, Nepal is a mountainous country with a population of 24 million. It was ruled by the Rana oligarchy for 104 years until 1951 and by an absolute monarchy since 1960, with a brief multiparty experiment from 1990-2002.

Nepal is one of the 48 least developed countries in the world and the poorest in South Asia. With a total GDP of \$5.9 billion, it had a per capita income of \$230 in 2004. Underdevelopment is not limited to the economic arena. Nepal ranks 143 in the UN *Human Development Index* of 175 countries and more than 30 percent of Nepalese live on less than \$1 a day. Only one in two Nepalis can read and write.

The Nepal Communist Party-Maoist (CPN-M) began a violent insurgency in 1996 after the then government turned down a 40-point demand. In 1998, Dr Baburam Bhattarai, the CPN-M's second-in-command, published a booklet called *The Politico-Economic Rationale of People's War in Nepal*, which declared that the party's goal was to usher in self-reliant, independent, balanced and planned economic development through a radical, land-reform programme and national industrialisation.¹ Since then 12,000 Nepalese have lost their lives. The insurgency has seriously impacted on the country's economy and business sector. One estimate suggests that Nepalese economy lost about \$800 million in GDP by 2002.²

There have been a number of studies on how the conflict has affected Nepalese society, but there is a dearth of research exploring its impact on the wider economy and businesses, and what role they might play in resolving it. Given the Maoists' increased targeting of the business sector, both for purposes of sabotage and to finance the insurgency, this needs closer attention and the present study aims to help fill this gap. It demonstrates that the insurgency has strong business links: its chief source of funding comes through extortion; and its economic aim is to improve the lives of workers in the industrial sector and farm workers. These links provide a window of opportunity in addressing some of the conflict's root causes.

The report explores these dynamics in greater depth, focusing in on businesses' coping strategies and the roles that business can play in mitigating conflict. It also demonstrates how good business practice can insure against the impacts of conflict. The research was carried out at three different levels: among Kathmandu-based, big businesses, mainly with an industrial background and often geographically removed from the conflict zones; among small and medium sized enterprises (SMEs) in Pokhara, a city central to the Nepalese tourism industry; and among micro and small businesses located in Jumla, one of the worst-affected districts. Businesses in Jumla mainly revolve around the retail trade. In all three cases, in-depth interviews were held with members of the business community.

In terms of coping strategies, the report shows that all levels of business are seriously impacted by conflict and respond to it in different ways. The most systematic effort at addressing the conflict was to be found in Kathmandu's big business community; SMEs and micro-enterprises are less sure of their role, but their coping mechanisms may provide good entry-points for more concerted efforts at addressing the conflict in future.

Conflict analysis

Nepal – at least until recent events – has been caught in a vicious, triangular conflict that involves the king, political parties and the Maoists.

Since King Prithivi Narayan Shah unified Nepal 237 years ago, Nepal has been ruled by the Shah dynasty and the monarchy is one of the country's most powerful institutions. Its power stems chiefly from its absolute control over the army. Two kings – the present monarch, Gyanendra, and his father, the late Mahendra – orchestrated two military coup d'états in 1960 and 2005 against democratically elected governments.

Though multiparty democracy is a relatively young institution, political parties first came into existence in the late 1940s to fight the Rana oligarchy, which was overthrown in 1952 through a combination of popular uprising and armed rebellion, led by the leading party in Nepal, the Nepali Congress.

Since the king dismissed the elected government in October 2002, the political parties have been at loggerheads with the monarchy. Animosity between them reached new heights after King Gyanendra seized total power on 1 February 2005, dismissing the cabinet and constituting a new one under his own leadership. He announced a state of emergency and jailed political leaders, cadres and human rights activists. The king constituted a Royal Commission for Corruption Control (RCCC) and gave it sweeping powers to investigate and judge corruption cases, and impose punishments. Political parties and rights activists denounced the RCCC as the tool of a political vendetta and it was later abolished by the supreme court.

With an estimated 10,000 guerrillas, 40,000 militiamen and 100,000 sympathisers, Maoists are also a formidable force.³ The rebels declared the 'People's War' in 1996. Their avowed goal is to establish a communist republic, but their chief demand is election of the constituent assembly, a proposal the king vehemently opposes.

When a few hundred CPN-M fighters launched their offensive in 1997, their influence was limited to four districts – Rolpa, Rukum, Pyuthan and Salyan – in Rapti, mid-west Nepal. They now have a presence throughout Nepal, although rebel influence in the Kathmandu valley has waned since successful combat operations by the Royal Nepalese Army (RNA) since 2004.⁴ However, their strength is undiluted beyond the

valley. In August 2005, Maoists made a daring raid on a military camp in Pili, Kalikot killing more than 50 soldiers and capturing a further 60.

The insurgency is primarily class-based, and there is common agreement that uneven development, and social and political exclusion are among its root causes.⁵ While it is not a secessionist insurgency, the Maoists have co-opted disenfranchised ethnic groups by promising them regional or local autonomy. In that sense, the insurgency ethnic as well as class dimensions. Support for the insurgents' agenda among these groups has increased as the conflict progressed, reflecting their economic and social exclusion.⁶

Though the conflict has not shown any secessionist tendencies, a move in this direction cannot be ruled out if the Maoists fail to achieve a negotiated settlement and advance into the political mainstream. To lure marginalised ethnic groups, the Maoists have created autonomous regions that give control to the local ethnic majority. The Khumbuwan and Kirant Liberation Fronts in the east, the Madhesi Liberation Front in eastern Terai, the Tamang Liberation Front in the centre, the Magarat Liberation Front in the western hills and the Tharuwan Liberation Front in the western plains are some of the ethnic organisations working under the Maoist umbrella. There is a danger that some of them will develop secessionist aspirations in future.

As these three sides have vied for power, Nepal has stood at a crossroads. In November 2005, the Maoists and the Seven Party Alliance (SPA) formed a political coalition in order to work together against the king's rule. While King Gyanendra wants the Maoists to give up their arms, he also sought a stronger role for himself in the constitution. He stated this categorically in an interview with *Time* magazine where he declared that the days of royalty 'being seen and not heard' were over.⁷ The Maoists' chief goal is socialism and communism,⁸ but they have said they would accept election to a Constituent Assembly as a way of resolving the conflict. The mainstream parties want both sides to give up arms and revert to a democratic space that gives dialogue a chance.

The rebels announced a three-month, unilateral ceasefire that lasted from September 2005 to January 2006, adding a new twist to the conflict. "The political base for the Maoists' possible alliance with the parties has become stronger after the CPN-M recently decided to go for the Constituent Assembly and the Nepali Congress decided to delete constitutional monarchy from its party statute," announced party chairman, Prachanda.⁹ Since the ceasefire, clandestine meetings have been held between the SPA and the Maoists. The rebels and the alliance reached an agreement in New Delhi, India in mid-November and subsequently made public their 12-point, joint agenda.

The rebels set out to shun violence and join mainstream politics, while the alliance leaders conceded to the rebels' long-standing demand for a Constituent Assembly. The two also agreed to put both the army and the Maoist forces under UN supervision during the Constituent Assembly elections.

Besides these actors, the Nepalese insurgency has other key domestic, regional and international stakeholders. Internally, media and civil society (including professional bodies of lawyers, doctors, engineers and university teachers, among others), all products of the post-1990, multiparty system, staunchly support democracy and oppose attempts by the king and the Maoists to impose authoritarianism and totalitarianism. They are the main bulwarks of democracy. During the king's seizure of absolute power however, he has made systematic efforts to stifle civil society and muzzle the press, including through banning news broadcasts on FM radio, the main source of information for about 90 percent of Nepalese.

India, the United States and the EU make up the three major international players. They have worked in informal alliance, sharing information and views on how to deal with Nepal. They are also Nepal's major suppliers of weapons. India has given Nepal six helicopters and regularly supplies small arms and ammunition. The United States has supplied the RNA with 16,000 M-16 rifles and other equipment. UK military assistance is limited to non-lethal weapons, chiefly transport helicopters, vehicles and anti-land mine technology. All want the king to revert to democracy, but none wants the Maoists to win power. All three oppose communist rule in Nepal for ideological and security reasons.¹⁰ But they also oppose the king's autocratic tendencies and weapons deliveries have been suspended since King Gyanendra seized power.

The spillover of the Maoist insurgency more directly impacts India since it is in the throes of Maoist insurgencies in Bihar, bordering Nepal, and Andhra Pradesh. In June 2001, the communist parties of South Asia formed a Coordination Committee of Maoist Parties and Organisations in South Asia (CCOMPOSA), with the goal of strengthening the collaboration between parties of the far left to heighten People's War in the region.

Two negotiations aimed at bringing the Maoists back into mainstream politics (the first in December 2001 and the second in August 2004) failed. The Maoists participated in the first parliamentary elections in 1991, winning nine of 205 parliamentary seats. While the Maoists demanded election to the Constituent Assembly as a minimum pre-condition for negotiations, King Gyanendra sought to avoid the risky road of a popular consultation that could end by removing his crown. The mainstream political parties, sidelined by the monarch, entered into agreement with the rebels to jointly fight against the king's autocracy.

The fourth international stakeholder in the Nepalese conflict is the UN. Secretary General Kofi Annan has offered his help in resolving the insurgency and sent Special Advisor Lakhdar Brahimi for talks with King Gyanendra and senior political leaders in July 2005.¹¹ Other multilateral and bilateral donors have begun to move towards more coordinated approaches to their interventions in the light of recent developments in the conflict.¹²

Nepalese economy and private sector

About 85 percent of the population is dependent on agriculture, but 44 percent of family farms measure less than half a hectare, which means the income is inadequate to feed a family of five all year round. The other two major contributors to GDP are industry (21.6 percent) and services (37.8 percent). Manufacturing contributes 8.1 percent of GDP of the industrial sector and tourism contributes 3.2 percent in the services sector.¹³ Although its GDP share is relatively modest, tourism is the third largest foreign-currency earner after remittances and exports.

Nepal's other major source of income is remittances. Since globalisation boosted migration in the early 1990s, about 500,000 Nepalese youths have gone abroad to work, chiefly in the Persian Gulf, India and east Asia. Officially Nepal received \$800 million in remittances in 2004, but unofficial estimates put the figure at \$1.2-1.5 billion.¹⁴

The greed-based theory of insurgency does not adequately account for Nepal's conflict.¹⁵ The Maoists justify violence against the state by articulating grievances relating to poverty, landlessness, social and political exclusion, and the predatory behaviour and corruption of state officials.¹⁶

Nepal's business is controlled by a handful of large business houses. Ethnically, the major economic players are the Marwaris, people of Indian origin, and the Newars, indigenous Tibeto-Burmans mainly residing in the Kathmandu valley. Their presence is dominant in all the key sectors of industry, trade and services.

Nepal's trading history dates back several hundred years to when Kathmandu was used as a transit route between Tibet and India. That legacy gave Nepalese business a trading orientation. In modern times, especially after India's independence in 1947 and Nepal's freedom from the Rana oligarchy four years later, trading planted deep roots in Nepal. After independence, India took a path of socialist self-reliance, either banning or severely taxing imports from the West and the neighbouring economic giant, China. Nepal took advantage of this restricted trading regime.

By maintaining a more liberal import-export regime, Nepal encouraged the re-export trade to India, which became the chief source of state revenue over time. Exploiting the 1,700 km border between the two countries, businessmen re-exported their imports to India through loopholes and smuggling.

The majority of Nepal's big business houses emerged, grew and prospered through the Indian re-export trade. It was because of this orientation and the easy money from the trading sector that the industrialisation process suffered badly, or never got started.

With its dependence on smuggling, the re-export orientation also spawned a legacy of corruption and tax evasion. Nepal's tax revenue is one of the lowest in the world, hovering at around 12 percent of GDP.¹⁷ More recently, economic liberalisation has facilitated the development of new sectors, such as tourism, banks, insurance and agro-businesses.

The private sector and conflict

The insurgency's interface with the business community

Business as 'class enemy'

Since the insurgency is often seen as a class-based struggle, the business community is perceived as its class enemy. In that sense, businesses have a direct interface with the conflict. The Maoists oppose the free-market economy and champion the socialist model. They see the business community as deriving undue benefit from the state policy of deregulation that was launched after the reinstatement of democracy in the 1990s.

But there is also an ethnic angle. The Marwaris are one of two dominant business classes in Nepal. In the wider population, there is resentment against the Marwaris as outsiders. For Maoists who say they are fighting Indian expansionism, the domination of Marwaris in the business community is a more serious issue. Maoists have bombed many Indian subsidiaries operating in Nepal, including ones of non-Marwari origin, such as Surya Nepal, Nepal Liver Limited, Colgate Palmolive, Nepal Battery and Dabur Nepal, among others. But the management of these factories claim they were bombed for refusing to comply with Maoist extortion demands.

The Maoists also target businesses part or fully owned by King Gyanendra. For instance, the Soaltee Group, in which the king and his family have a majority stake, has shares in the Hotel Soaltee, Surya Nepal and Himal International Power Corporation.

Target of extortion

The business community is the Maoists' largest source of funding in the form of extortion, or 'donations'. The sector has a poor record of paying taxes or fair wages, and is also vulnerable to blackmail.

In the beginning, the business community resisted paying extortion or only paid insignificant amounts. However, after Maoists started to attack army barracks in 2001, it began to comply with demands. Multinationals similarly refused to pay until the Coca-Cola factory in Kathmandu was bombed on 29 November 2001.¹⁸

None of the businesspeople interviewed for this study revealed exactly how much they paid the Maoists, but anecdotes indicate that the level of extortion is high. The

Maoist insurgency is reputedly one of the wealthiest rebel movements in Asia with \$64-128 million at its disposal.¹⁹ The Maoists raised between \$40-70 million in 2001 and may have accumulated reserves of \$30-40 million by the end of the ceasefire.²⁰

Working conditions

If businesspeople are targets of extortion, their workers are the people in whose interests the Maoists purport to work. Maoists engage with businesses both to extort and to force owners to improve the conditions of employment.

Maoists have raised concern about the working conditions of labour and exploitative terms that characterise the industrial sector. Many employees are denied basic minimum wages, let alone benefits. Since most work without contracts, there are few channels for official complaint. Such poor working conditions have developed into a deep sense of resentment against management.

The Maoists have taken advantage of this discord. In August 2004, they announced the closure of 47 enterprises until a set of 11 demands had been met.²¹ Some were political in nature – for instance, the release of imprisoned Maoist trade union leaders – but related to the welfare of the labourers. The Maoists made the following demands:

- Appointment letters to all workers backdated to the day of their employment
- Permanent employment letter to workers after they had worked for 180 days continuously
- Compensation (twice the salary of their working period) to labourers in case of redundancy
- Increasing the minimum wage from \$20 to \$40 per month
- Rent allowance of \$15 per month and a cost-of-living allowance of \$15 per month
- An end to the contract labour system
- Preferential access to work permits and employment for Nepalis
- A ban on the Group 4 company, which provides security to businesses
- Mandatory gratuity of 10 percent for workers in hotels and restaurants.

After negotiations, the government freed the trade union leaders and agreed that the demands would be resolved through dialogue between workers and proprietors. Although the minimum wage was improved, no other progress was made. Industries complain that the main Maoist demand was the release of their comrades, while the work-related demands had to follow negotiations and agreement with the trade unions and tripartite committees, which was difficult in the prevailing political situation.

Conflict impacts

Conflict impacts businesses through disruption, disincentive, and divestment.

Disruption

The Maoist insurgency has disrupted business activity in Nepal considerably. General strikes, transport stoppages, threats to shut down factories and bombings have taken a major toll, raising production, delivery and inventory costs, and reducing output, revenue and profits. Businesspeople say production costs have increased by 20-25 percent as a result of the conflict.²² The number of working days has declined because of strikes, raising overheads. In businesses like the garments industry, inventories have to be kept high, raising production costs.²³ Similarly, disruption in supply lines has increased industries' shipping and delivery bills. Transportation costs have almost doubled in the past three years, and transport is frequently delayed and disrupted. Taken together, supply disruption and other conflict-related factors have caused a decline of up to 40 percent in production in some businesses.

Disincentive

The risk of doing business has created a sense of gloom in the Nepalese private sector. Almost all businessmen interviewed said they had scrapped or deferred expansion plans. "The dampened spirit of the business community," said the managing director of one business group, "is the major loss impacted by the conflict. There is no optimism but depression in the business sector. Unless, the business sector feels confident to take risks to invest more, the economy will not move forward."

Divestment

Nepal and India share an open border of 1,700 km and people cross it freely. They also share free convertibility of currencies. Marwari businesspeople can easily shift their enterprises from Nepal to India if they decide to. No figures are available on how many businesses have actually transferred to India, but anecdotal information suggests the number is growing. Two large garment manufacturers have opened units in India, according to interviewees, and the current president of the Garment Association-Nepal conceded that importers are putting pressure on manufacturers to shift production to India so they can ensure more timely deliveries. The former president of the Nepal Chamber of Commerce and Industry (NCCI) said small-scale entrepreneurs likewise choose to divest, and estimates that some 400 companies in the central plains bordering India had moved operations over the frontier.

This report now presents responses to the conflict by the business community both in coping with conflict and addressing conflict issues. The given examples offer a spread of businesses (large, medium and micro); sectors (industry, services and trade); and proximity to conflict zones. They suggest that the good business practices adopted by some of them successfully mitigate the negative conflict impacts in that Maoist activity tends to focus more on businesses that are perceived as targets on ideological grounds.

Kathmandu-based business

This case study looks at how large-scale businesses are coping with the insurgency and examines the National Business Initiative (NBI) a private sector endeavour that seeks to play a constructive role in addressing the conflict.

Coping strategies

Different businesses employ different coping strategies, or combinations of strategies. The most common include the payment of extortion, raising workers' wages, improving worker conditions, quicker settlement of labour disputes and attempts to meet some of the Maoists' demands. In other cases, businesspeople approached the state for increased security and protection.

Extortion

Industry and trade are the most extorted sectors, along with private boarding schools. All interviewees conceded there was heavy extortion in these sectors, but none was willing to reveal how much protection was actually paid.

A number of factors influence the level of extortion demanded from a business. The Maoists target certain ethnic groups more than others. Businesses with poor tax-payment records, those which engage in illicit trade, or those which have a high concentration of Indian labour and little local involvement are targeted more often. According to one businessman, Marwaris, Shahs and Ranas are the main targets of Maoist intimidation.²⁴ Newars, another dominant business group, feel less vulnerability and some argue it is their good business practices that keep the Maoists at bay.

Indeed, the Maoists do extensive background research before targeting a business group. The higher the tax evasion, the more the extortion demanded. Businesses that engage in illicit trade are the most heavily extorted.

The use of foreign labour and labour relations in general are sensitive issues, more so since the insurgency intensified. Maoists exploit this sensitivity. If the majority of the workforce comes from the local area, it deflects pressure. According to one businessman: "Our experience is that the factories that have higher involvement of the local workers are the ones least impacted by the Maoists. When the factories employ many local people, it also becomes an issue of their survival and Maoists cannot easily interfere with the livelihoods of local people."

Increasing wages, work conditions and employee-worker relations

In the face of the insurgency, businessmen are vulnerable vis-à-vis their relationship with their workforces. Many businesses have been forced to raise minimum wages, improve

conditions and provide appointment letters. The Garment Association-Nepal increased minimum wages from \$30 to \$40 a month.²⁵ The Federation of Nepalese Chambers of Commerce and Industries (FNCCI), the umbrella organisation of the Nepalese business sector, wrote to all its branches urging employers to provide appointment letters to their workers with the result that many businesses now take this demand more seriously. Whenever there is a dispute between workers and employees, the inclination is now to settle internally. According to the president of the Garment Association, industrialists fear that the internal issue will get out of hand if it attracts Maoist attention.

Outsourcing/localisation

One of the most effective coping strategies is the outsourcing of work to local people. One business group, for instance, has appointed local dealers and sub-contracted some production to local people. “Local people are much better than us when it comes to dealing with the Maoists,” said the managing director. “Being on the ground, they understand the local dynamics and are more adaptive to the local circumstances.” Local people also provide better security. Because a plant may be connected to their survival, they will often take personal risks to defend it. This is crucially important in the current context where local administration and security forces often fail to provide adequate security.

Lay-offs and reserve pool

Lay-offs are difficult under Nepal’s exit laws, which is why many businesses avoid giving workers formal letters of employment. However, faced with lower production, factories are increasingly saddled with surplus workers that they have to make redundant. To cope with dwindling demand, Nepal’s largest garment factory cut its workforce from 3,000 to 1,800. Another business group had to lay off over 100 workers under a golden-handshake scheme. However, industrialists cannot lay off workers at whim. The two sides have to reach a common understanding for voluntary retirement. Businesses that fail to convince workers to resign see their reserve pool bloating. “One of my factories in Kathmandu has remained closed for last four months and yet I am paying my 350 unemployed workers half of their salary every month,” said the FNCCI president.

Direct engagement and negotiation

Businesspeople refrained from directly engaging with the Maoists for a long time. “Since the Maoists perceived us as the class enemy, the business community thought that there was no room whatsoever for engagement,” said the managing director of one company. At the same time, direct negotiations meant challenging state authority. If the state, particularly the army, suspected that businesspeople were cooperating with the Maoists, they could land in trouble or prison.

In early 2000 and 2001, the Maoists detonated explosive devices in the units of Indian subsidiaries and multinational corporations, including Surya Nepal, a

subsidiary of International Tobacco Company; Nepal Bottler's Limited, manufacturers of Coca-Cola; Nepal Lever Ltd, a subsidiary of Unilever; Nepal Battery; and Dabur Nepal Ltd, a subsidiary of Dabur India. This was consistent with the policy of opposing foreign investment in Nepal, the sixth demand in the Maoists' 40-point demand to the government in 1996.

However, when the Maoists announced on 17 August 2004 the closure of 12 enterprises, the business community reached its limit. These firms included locally owned and joint ventures. A week later, the Maoists announced the closure of a further 35 companies, threatening the collapse of the entire industrial sector. The Maoists switched their focus to local industries, rather than foreign subsidiaries, in order to force a sense of urgency on the business community. A list of demands on working conditions was issued, but it also included political demands, leaving businesses in the uncomfortable position of having to mediate between the government and the Maoists.

To address these threats, the FNCCI set up a task force to begin collective discussions with the affected industries, the government and legal trade unions, without initially making direct contact with the Maoists. After some consultation with civil society, the FNCCI contacted three well-known human rights activists. They agreed to mediate between the business community, government and the Maoists, thanks to the endorsement of the government and personal access to decision makers in the CPN-M.

After receiving government approval, the mediators brought together businesspeople and leaders of the Maoist trade union. After a lengthy process of negotiations, agreement was finally reached on 30 September 2004. The government agreed to release two Maoist trade union leaders and make public the whereabouts of other ones who had been detained. The FNCCI agreed that its members would negotiate with trade unions on workers' welfare issues. As a result, the Maoists withdrew their threat to force the closure of the 47 factories.

Getting involved in peacebuilding

In February 2003, at the invitation of the Swiss Development Corporation, two prominent business leaders took part in a seminar in Switzerland on Conflict Resolution and Peacebuilding in Multicultural Societies attended by representatives of Nepal's mainstream political parties, the CPN-M and civil society organisations. Businesspeople perceived the group's interactions as largely positive and one of them was invited to draft a common statement on its behalf. Encouraged by the experience, they returned intent on mobilising other businesspeople. Soon afterwards, together with the GTZ Private Sector Project and with advice from International Alert, the FNCCI, the NCCI and the Hotel Association of Nepal

(HAN) organised a national conference on the 'Role of the Private Sector in Peacebuilding, Reconciliation and Development' in which over 100 business leaders took part. The conference provided an opportunity to share experiences from other conflict contexts, including a speech by one of the South African businesspeople who had been central in the business community's role in negotiations between the African National Congress and the apartheid regime. One resolution to emerge was: "There can be no successful business in an unsuccessful society and there can be no successful society without successful business."

GTZ continued to provide support to business leaders who expressed interest in exploring further possibilities to develop strategies and programmes aimed at defining specific roles and next steps. This included the formation of a National Business Initiative for Peace (NBI). As part of the process, business leaders engaged more actively with NGOs throughout 2004, particularly Civil Solidarity for Peace, a coalition of hundreds of civil society organisations aimed at pressuring the government and the CPN-M to return to the negotiating table, in an effort to learn more about greater coordination on the peace issue.

National Business Initiative for Peace

The NBI comprises 14 national business organisations, including the FNCCI, the NCCI and the HAN. Its goal is to contribute to 'sustainable peace in Nepal through just socio-economic growth', while remaining politically non-partisan.²⁶ It aims to invest resources in three key areas: social capital; infrastructure; and the creation of safe spaces for peace talks and genuine peacebuilding efforts.

These areas of activity are based on a pertinent analysis of the conflict. "The conflict is aggravated by unjust socio-economic development and political failings. Poverty, disparities, poor governance, corruption and the failure to adequately deliver essential social services and infrastructure to rural communities and marginalised groups are the other underlying causes of the conflict. Therefore, for a lasting solution, the nexus of poverty, poor governance and marginalisation needs to be urgently broken."²⁷

The NBI acknowledges that the business community cannot act on its own, but needs to work transparently, and in coordinated partnership with others, including the conflict parties and civil society. Similarly, it recognises the need to reach out to different actors within the business community (individuals, businesses, chambers of commerce and so on) at different geographical levels.

Shortly after its inception, the NBI publicised its commitment to a set of basic principles for its work:²⁸

- ‘We, the business community are committed to improve the quality of life of all Nepalese through development of entrepreneurship, creation of opportunities and generation of wealth
- We believe that there can be no successful business in an unsuccessful society and there can be no successful society without successful business. Prosperity requires peace.
- We are part of the Nepalese society, therefore we are committed to investments for socio-economic betterment of all of us together
- We are committed to the overall well-being of our society
- We believe that businesses have to be transparent; and sensitive to the needs of all, including the poor and the marginalised regardless of their politics, ethnicity, caste, religion and gender
- We oppose forced and intimidated contributions in cash or kind to any parties
- We employ people on the basis of suitability and qualification only
- We are non-political, and we are open to cooperate in all genuine endeavours for peace
- We do not accept being subjected to violence, abduction, destruction, intimidation, extortion or threats to the rights of free peaceful of citizens in any manner.’

In line with these principles, the NBI aims to achieve the following goals by the end of 2007:²⁹

- The general public will become aware of the NBI and its activities
- There will be substantial press coverage of the NBI and its activities
- Entrepreneurs will become conscious of their role in conflict transformation and peacebuilding, and local chambers will initiate related activities
- Entrepreneurs will introduce socially responsible business practices in order to contribute to just socio-economic development
- Businesses will reach out to communities with socio-economic development activities
- The private sector will secure the cooperation, collaboration and/or contribution of larger civil society for activities/initiatives led by the private sector
- The NBI will increase its membership base
- Enterprises will be awarded a ‘peace certificate’ that will improve their public image
- Threats of harassment and intimidation against the private sector by any of the conflicting parties will decrease
- The private sector will engage in dialogue with government at various levels
- Entrepreneurs and their federations will identify topics for a future peace agenda and will table them.

To achieve these goals the NBI envisages a number of short-term, medium-term and long-term activities. “So far the business community has shown keen interest in the initiative and has participated actively in the strategy-designing process,” said GTZ’s Conflict Transformation Advisor. “They have also willingly shared the cost of the initiative and remain committed to making it a success.” GTZ believes the business community’s active participation in the NBI is both an attempt to burnish its image in society, and to do something tangible for peace.

GTZ views the business community as a strategic partner in peacebuilding for several reasons: it is not a direct party to the conflict; private sector actors enjoy access to conflicting parties; business can mobilise resources in support of peacebuilding initiatives; pertinent economic issues can only be addressed jointly with private enterprise; it has strong outreach and networking capacity as well as presence throughout the country; and it is one of the few sectors of Nepalese society that is regularly represented by a democratically elected representative body in the form of the FNCCI, giving it a high degree of legitimacy.³⁰

The fact that the NBI is based on cost sharing between the business community and GTZ proves that the latter is keenly involved in the initiative. “We are more and more convinced that the business community can borrow from international experience and make a meaningful contribution in conflict mitigation through good works,” said one business participant. He thinks that the business community can play a vital role in the post-conflict period by providing jobs to the victims of conflict and taking businesses to disadvantaged areas where feasible.

It is too early to assess what impact the NBI’s work will have on the wider peace process. However, its approach, inclusiveness and outreach to other actors evidence a willingness on the part of businesses to become involved in a strategic and sustainable way.

The tourism sector in Pokhara

The next case study focuses at the regional level on the conflict impact on Pokhara, Nepal’s largest city and the second major tourist destination after Kathmandu. Situated about 200 km west of the capital, Pokhara valley is blessed with a range of snow-capped mountains to the north and the beautiful lakes of Phewa, Begnas and Rupa. It is the starting point of half a dozen trekking routes into the surrounding mountains. About 25 percent of foreign tourists to Nepal visit Pokhara, making tourism the lifeline of the local economy.

Pokhara always had excess capacity. There are around 500 small and medium-scale hotels and restaurants and 50 or more travel and tour operators. This excess in capacity means cut-throat competition on price, which makes businesses vulnerable in the face of any slump.

Conflict impact

Though the Maoist insurgency began in 1996, there is a near consensus among tourism operators in Pokhara that it only began to affect them in 2000-01. Initially, Maoist influence was minimal and when the first cadres arrived around 1998 and 1999, hoteliers laughed away their demands, according to the managing director of one hotel. The president of the Regional Hotel Association of Pokhara adds that by the end of 2000, tourist inflows showed their first decline and the Maoists began asking for 'donations'.

Tourism is now one of the sectors worst hit by the insurgency. Since that first decline in 2000, it reached an all-time low in the March-April 2005 season when arrivals plunged by around 50 percent compared to previous peaks. According to interviewees' estimates, hotel revenues fell more sharply as owners frantically slashed prices so they could at least meet overhead costs. Hotel revenues are estimated to have fallen by 70 percent as a result. With such low earnings, most hotels have found it difficult to cover their staff salaries and have reduced employment levels. Kantipur Hotel has only 22 staff, down from 75 in 2000. Hotel Hungry Eye employs 20, compared to 55 five years ago. Half the small hotels and restaurants have been forced to close, along with 20 percent of travel agencies and 25 percent of trekking agencies, said the president of the local branch of the Nepal Association of Travel and Tour Operators (NATTO).

Because Pokhara is a popular trekking destination with foreign tourists, the slump in arrivals has hit guides particularly hard. According to NATTO, the Maoists routinely charge each tourist a \$15 'levy' with the result that adventure tourists prefer safer destinations, like Lukla. A representative from the Union of Trekking, Travel and Rafting Workers of Nepal estimates that there were about 300 guides in Pokhara in 1999, a number that has since fallen to around 60.

The insurgency has not only reduced business profits, it has seriously lowered the living standards of medium and small-scale entrepreneurs, forcing many to find alternative employment. In the worsened climate, businesspeople have lost access to commercial loans from banks.

Coping strategies

Extortion

Although extortion is a major form of Maoist engagement with the business community, there is strangely little of it in Pokhara, and almost none in the tourism sector. The Maoists started asking for ‘donations’ in 2001, concentrating their attention on the larger hotels – the sector worst hit by the insurgency. In the opinion of one interviewee, they based their demands on the size of the hotels and their fixed assets without taking into account that many were struggling to service debts and pay salaries.

As hotel-owners and other entrepreneurs started to blame the rebels for the sorry state of their finances, the latter found themselves on the defensive. Tourism operators say the Maoists have hardly asked for any financial support since 2003. Schools, especially private ones, are now among the most extorted institutions in Pokhara, indicating that the Maoists have moved on. This may be an admission of their negative impact on the sector and the worsened economic environment, according to interviewees.

Negotiations to exempt tourism from strikes

Pokhara tourism operators successfully engaged the mainstream political parties and Maoists in an effort to exempt the sector from general strikes and vandalism, these being the main deterrent to tourism. In June 2003, they organised a seminar with the leaders of all political parties to discuss how to insulate tourism from political disturbances. The leaders agreed that even when they called general strikes, the tourism business should remain open. The business community then held informal talks with the Maoists, who agreed to exempt tourism from their activities. The agreement also included allowing ‘green-plate’ vehicles, the official vehicles of Nepal’s tourist industry, to pass unmolested. Now, during strikes called by the political parties or the Maoists, the green-plate vehicles can still travel freely. Neither side has breached the agreement in the two years since it was reached; nor has any tourism-related business or transportation been targeted.³¹

Role of businesses in conflict settlement

Though tourism entrepreneurs engaged the Maoists directly and persuaded them to exempt their businesses, and some also paid extortion as a coping strategy, they remain neutral between the government and the rebels and have not assumed any direct role in addressing the conflict more pro-actively. In most cases, entrepreneurs do not think conflict resolution is their duty. “Making peace is not our role; it’s a government duty,” said the president of the regional hotel association. “We have seen what happens if we oppose the Maoists and overtly support the government.”

However, all the businesspeople interviewed agreed they could do more to address the issues in society that the Maoists have exploited to bolster their cause. “It is true that most of us haven’t fulfilled our social responsibility and there is a lot we can do,” admitted one. There is a growing realisation that entrepreneurs should adopt more inclusive hiring practices to address the issue of social exclusion. “If the state has failed to be inclusive in providing jobs and opportunities to marginalised groups of society,” commented the president of the regional hotel association, “we can play a contributing role towards this end ... Not all can play a role in big issues like inclusion, but we can do small things like helping our community keep clean, and helping them solve small problems at the community level that will not only boost our credibility in the local setting but also enhance our role in society.” When asked what was keeping the business community from taking a more constructive role at present, the owner of an adventure sport company in Pokhara replied: “Probably we haven’t suffered enough.”

Meanwhile there is evidence that some businesses do address issues concerning their communities. Good business practice can help to address socio-economic issues pertinent to the conflict, and may even provide some degree of ‘conflict insurance’, as the example of the Three Sisters’ Trekking Agency suggests.

Good business practice as ‘conflict insurance’: Three Sisters’ Trekking Agency

In a country where women across the ethnic and class divides suffer discrimination, it is those of lower caste or indigenous backgrounds who face the greatest disadvantage. This is evident in the sphere of employment: while making up 42 percent of the workforce, women in different sectors earn between one third and one quarter less than men. At the same time, women suffer disproportionately from conflict impacts, but have also been filling the ranks of the rebellion. Female fighters are said to be attracted to the Maoist cause because of its more egalitarian attitude to gender relations, and a hope that it will ‘liberate Nepali women’.³²

One example of good business practice that addresses these underlying conflict impacts is the Three Sisters’ Trekking Agency (TSTA).³³ Established as a restaurant in 1991 by three sisters from Darjeeling, India – Lucky, Nikki and Dikki Chhetri – their business quickly evolved into a ‘trekking company of women for women’ with an underlying commitment to empower Nepalese women. The launch of the TSTA coincided with growing dissatisfaction among women trekkers with their male guides. Accounts of harassment, swindling and rape were reported in local papers. The Chhetri sisters not only own the trekking company, they are also guides and accompany their guests on challenging routes. ►

Today, the agency is both an inspiration for many women and an example of how good practice can insulate business from the adverse impacts of the conflict. The Chhetris have made an organisational commitment to be guided by egalitarian principles. “We want to support disadvantaged women and promote social justice,” said one of them. The agency employs 30 girls and women from underprivileged families, including Dalits (the so-called ‘untouchables’), and trains them to guide clients on their vacations. Twice a year, in partnership with the NGO Empowering the Women of Nepal, candidates from remote villages can participate in an intensive training course on sustainable tourism and trekking. At the end of four weeks, women have the opportunity to participate in an apprenticeship with the TSTA during which they earn full wages. Since 1999, between 10-25 women have participated in the training programme every year. The training serves a dual function. On the one hand, it generates economic opportunities for women from deprived rural areas. On the other, it brings together women from different backgrounds, regardless of caste and status, giving them a sense of equality and empowerment.

While the sisters’ work began prior to the insurgency, and so is not a direct response to it, it does address an issue pertinent to the conflict context. They remain politically neutral but feel strongly about women’s empowerment and social justice. As a result, the Maoists have refrained from asking for donations, and have made no other demands. The issues the sisters are trying to address – women’s empowerment and the abolition of caste-based discriminations – form part of the Maoists’ political manifesto. Article 19 in the 40-point demand put to the government in 1996, before they took up arms, reads: “Patriarchal exploitation and discrimination against women should be stopped. Daughters should be allowed access to paternal property.”³⁴ While there are different views on how this objective would be played out in practice and the insurgency’s impact on gender dynamics, the problems identified are real and urgent. The Three Sisters’ Trekking Agency is one example of how the private sector can address such problems in its core operations by providing economic opportunities to the most vulnerable segments of society.

Micro-businesses in Jumla

Jumla Bazar (also called Khalanga) is the headquarters of Jumla district and Karnali zone, the most underdeveloped of Nepal’s 14 zones. Karnali has not yet been linked to a road. Jumla Bazar lies about 500 km northwest of Kathmandu. Jumla may be isolated by ranges of high mountains, but it houses all the government offices, schools, colleges, health posts and NGOs that work in the district. Jumla produces high-quality apples and medicinal herbs, but has no market in which to sell them. All small economic activities depend totally on air transport to and from Nepalganj.

The main clientele of businesses in Jumla Bazar is dispersed in the neighbouring village development committee (VDC) of Chandan Nath, and its adjoining VDCs of Mahat and Kartik Swami. In addition, they depend on the expenditure of government employees, teachers, students and NGOs, although many are moving away to safer places. The Maoists have also ordered Jumla's three private boarding schools to close down from the next academic year in April 2006.

Conflict impacts

Jumla first began to feel the heat of the insurgency during the first ceasefire in 2001. The Maoists had almost no influence or organisation in the district when the insurgency began in 1996. "They used to conduct isolated activities in the beginning," said the vice-president of Jumla Chamber of Commerce. "Initially, they demanded donations by sending letters through the post office but, as businesspeople refused to bow down, the insurgents started restricting physical movement, saying they would physically attack businesspeople if they tried to move out of district headquarters." The Maoists organised a mass meeting during the 2001 ceasefire, which turned out to be the start of their direct intervention in Jumla. One local shopkeeper recalls that some businessmen attended the meeting out of curiosity and fear of intimidation.

According to a local human rights organisation, the Maoists attacked Jumla Bazar twice, the first time in November 2002, and then again in August 2004. The first attack saw the destruction of 10 government offices, and the death of 55 Maoists, 37 security personnel, two civilians and the chief district officer. In the second attack, they destroyed seven government offices and four civilian-owned shops, and killed five policemen and a soldier. The insurgents also abducted six policemen, six prisoners and four government workers. In both attacks, houses owned by the general public, with the exception of those housing government offices, were spared. Jumla Bazar is still re-emerging from the debris. One representative from the local chamber of commerce said that, although businesses were not directly targeted, the attacks heightened their owners' sense of insecurity since Maoists also entered the homes of individual businesspeople to make sure they were not sheltering security personnel.

A daily curfew is in force in Jumla from 7 pm to 5 am. Since local people are subjected to regular extortion, local businesses are losing their clientele. Villagers fear buying anything of value lest they have to surrender it to the Maoists, who seize on luxury items as evidence of excessive wealth that ought to be 'donated' to the revolution. This fear keeps business from flourishing.

Several factors have contributed to a slowdown in business activity in Jumla Bazar since 2001:

- Villagers are unable to travel and shop due to restrictions imposed by the Maoists
- Small businesses displaced from the rural areas are now concentrated in the district headquarters, decreasing the share of business per establishment
- Maoists have established cooperatives in the rural areas, run by Maoist sympathisers, which directly affect sales in Jumla Bazar. Interviewees said cooperatives mainly sell daily necessities like kerosene, cooking oil, sugar, salt, soaps, rice and spices.

Local businesspeople say they have lost at least 20 percent of their sales since 2001. Some have left because of the conflict. One example is a local hotelier who was compelled to migrate elsewhere because he was doubly victimised by the insurgents and the security forces. The Maoists intimidated him for allowing security personnel to eat and sleep in his hotel, while security personnel intimidated him for providing the same services to rebels.

Interviewees estimate that despite these impacts, the bigger businesses make from \$400-600 per month, but they are under greater pressure for donations from the insurgents.

But the insurgents are not the only ones to pressure local businesses; the security forces are equally intimidating. Since 2001, they have made it mandatory for suppliers to seek permission to buy enamel, green shoes, red cloth, any material resembling combat uniform, electrical goods, wire, pipes, iron rods, among other items in a bid to cut the flow of goods that the Maoists need to support the insurgency. Similarly storekeepers are forced to open their stores in defiance of Maoist orders to keep them closed. Some businesses complain that security personnel demand donations under pretexts of re-stocking health camps or restoring destroyed temples. They are punished for doing business with Maoists. A local human rights body reports that one shopkeeper was sentenced to 105 days in prison for allegedly selling a carton of instant noodles to an insurgent.

The biggest challenge faced by the local businesspeople is extortion, which they have been forced to pay for the past four years. Private schools in Jumla Bazar closed because they could not afford, or were unwilling, to pay \$200-300 per month. Maoists routinely extort money from private schools all over Nepal because they oppose private education. However, none of the interviewees admitted to having paid donations either to the insurgents or security forces, from fear of retaliation in the event their identities were disclosed.

In an effort to increase control over local economic activity, the Maoist 'District People's Government' (DPG) has made it mandatory for all businesses to re-register with it. None of the local businesses has done so as yet, but it can be assumed that many

are in contact with the insurgents to seek assurances of safety. Traders in medicinal herbs, however, have been paying taxes to the Maoist administration. The Maoists also confiscated supplies brought in from Surkhet after the 1 February general strike in 2005, but they released it after local business people appealed to the DPG.

Efforts to engage with the Maoists

The district administration in Jumla Bazar has prevented the local chapter of the chamber of commerce from initiating efforts towards dialogue with local Maoists. Businesspeople are among those least convinced that such efforts would bear any fruit. However, many have been in touch with the district Maoist leadership to ensure their personal safety and the safety of their individual businesses, says one interviewee. While there is no evidence that micro-businesses have been able to address conflict issues in their communities more pro-actively, it is clear that they are greatly impacted by it and as a result are forced to manage relations with both Maoists and security forces very carefully.

Conclusions

The Maoist insurgency has taken its toll on the economy and impacted business heavily. It has generated destruction, disruption, disincentive and divestment. The cost of production has gone up due to disruption in the supply chain, and overheads have climbed due to disruption in production activity. Rising costs and declining turnover have severely hit profitability, creating strong disincentives to work and invest. Since the Maoists see the business sector as a class enemy, businesspeople are vulnerable to rebel activity. They often give in to extortion, but are generally averse to direct engagement and negotiation with the Maoists, for whom the business sector is a main source of funding.

The insurgents not only extort businesses, they also intimidate them in the name of the welfare of workers. Maoists exploit the loopholes and weaknesses of the business sectors before they attempt to extort them. Businesses with poor tax-paying records are treated more harshly than companies with 'clean' businesses. Similarly, industries with poor labour relations or exploitative rates of pay are targeted more than businesses with good working conditions. Maoists target foreign subsidiaries and multinational corporations more than local businesses, which is consistent with their policy of banning foreign investment in Nepal. However, it would be wrong to say that the Maoists target only businesses with ethical problems or foreign connections; they extort almost all businesses, but the extent of extortion and harassment depends upon the character of the business in question. Good business practice works as a deterrent against the rebels. The use of local labour, for example,

can deflect a lot of political pressure. Similarly, businesses doing good works in society, such as the TSTA, are barely impacted at all by the Maoists.

The good news is that businesspeople are gradually coming to terms with the fact that they have to take the initiative to engage with the Maoists. The businesspeople interviewed for this research realise that they have a role in resolving the conflict and addressing some of the structural injustices prevailing in Nepalese society. The NBI underscores this change.

However, this awareness is still in its infancy in Nepal. It is most pronounced among the Kathmandu-based, big businesses and large business associations, which have begun to explore a role in tackling the conflict at various levels, whether by addressing structural causes (workers' conditions) or advocacy for peace (organising peace rallies). It is too early to assess what impact the NBI will have in the long run, but even its foundation sends a strong signal from big business: it has recognised conflict as its problem, and is seeking to partner with other actors (state, non-governmental and inter-governmental) in order to address it.

Evidence from Pokhara and Jumla suggests that businesses outside Kathmandu have thought far less about actively addressing issues of conflict and peace, and there is concern that getting involved will be perceived as 'meddling' in political issues. The priority in both regions is survival, though when prompted businesspeople agree that there may be more they can do to contribute to peaceful coexistence. As with big businesses in Kathmandu, regional and local businesses have maintained channels of communication with the Maoists in a bid to contain the insurgency's impact on their activities.

A burgeoning civil society, which is becoming more vocal and active for peace, should also create a more conducive environment for business in the peace agenda. The business community should take on the onus of engaging the Maoists in more dialogue and negotiations to build a better understanding of one another, and long-term trust.

The many existing channels of communication between them is a useful starting point in this regard, and could be used for more pro-active engagement (where this does not make business more vulnerable to state retaliation), rather than fire-fighting in response to threats or attacks. While the NBI is a first concerted effort, it should not omit to factor in the needs of smaller businesses in more remote districts. They also have a lot to bring to the table since they are closer to the conflict and know its issues well.

Once trust is established, the business community should launch extensive dialogues with different stakeholders on the various economic and business

issues of the conflict in order to clear up misconceptions and analyse common problems from a more informed and shared perspective. However, the business community cannot engage the Maoists meaningfully without the consent of the state. The government should be flexible enough to encourage peace efforts coming from all quarters of society.

Similarly, there are many policies that the CPN-M should reconsider: its ban on foreign investment, nationalisation of large businesses and the closure of Indian subsidiaries are not in the economic interests of either Nepal or its people. Its understanding of the globalised economy and the role of the private sector within it also needs nuancing. There are a number of issues that the business community should urgently work to address. Exploitative terms of pay for the workforce not only reduce their productivity, they provide a recipe for conflict and violence. The business community has learned the hard way that businesses can only prosper in the presence of peace and stability. The improvement of workers' terms and conditions, the provision of services and the maintenance of good industrial relations are essential elements of civil peace and prosperity.

Nepal has notoriously low tax revenues, which translates into low spending for education, health and other services. If a state overlooks its people's most basic needs, as is seen in Nepal, it invites disaster in the long run. The business community should reflect on the low rate of tax compliance and come to a workable solution. No country can live in peace for long with an abundance of wealth for the few and poverty for many. The business sector must take some responsibility in addressing the widening inequalities in society.

Even small changes of practice can make a big difference. The business community should start inclusive hiring practices; build safety nets for its workers; address the issue of child labourers; and make improvements to community services. Such works earn respect from the people and go some way towards mitigating the structural inequalities in society.

Acronyms

COMPOSA	Coordination Committee of Maoist Parties in South Asia
CPN-M	Nepal Communist Party – Maoist
DPG	District People's Government
FNCCI	Federation of Nepalese Chambers of Commerce and Industries
GDP	Gross Domestic Product
GTZ	Gesellschaft für Technische Zusammenarbeit
HAN	Hotel Association of Nepal
NATTO	Nepal Association of Travel and Tour Operators
NBI	National Business Initiative for Peace
NCCI	Nepal Chamber of Commerce and Industry
NGO	Non-Government Organisation
RCCC	Royal Commission for Corruption Control
RNA	Royal Nepalese Army
SME	Small and Medium Enterprise
SPA	Seven Party Alliance
TSTA	Three Sisters Trekking Agency
VDC	Village Development Committee

Endnotes

- 1 Bhattarai, B. (1998) *The Political Economic Rationale of the People's War in Nepal* (Kathmandu, Nepal: Utprekash Prakashan).
- 2 Dhakal, A. (2004) in Sapkota, B. (ed.) *The Costs of War in Nepal: A Research Study* (Kathmandu, Nepal: National Peace Campaign).
- 3 Interview with representative of the Royal Nepalese Army.
- 4 Following recent events the army is no longer under the control of the king and has been renamed the Nepalese Army (NA).
- 5 See for instance Geiser, A. (2005) 'Social Exclusion and Conflict Transformation in Nepal: Women, Dalit and Ethnic Groups' *FAST Country Risk Profile* (Bern, Switzerland: Swisspeace).
- 6 Karki, A and Sedon, D. (2003) *People's War in Nepal: Left Perspective* (India, Delhi: Adriot).
- 7 *Time*, 26 January 2004.
- 8 "Our people are fighting against feudalism and imperialism; therefore, the immediate goal is to fulfil the tasks of complete democratic revolution. We want to organise and develop the country with the full initiative of the masses through the abolition of the feudal and autocratic monarchy." Maoist Chairman Prachanda in an interview with the *Far Eastern Economic Review*, 24 October 2002.
- 9 *Kathmandu Post*, 3 September 2005.
- 10 "With a violent, ideological, Maoist insurgency desiring to take over the state and then to export its revolution to peaceful neighbours, there is much more to worry about. But our [US] other concern is something my president has in fact pinned his second term on: freedom," said James F. Moriarty, US Ambassador to Nepal, in the eastern town of Biratnagar on 26 July 2005. Available at kathmandu.usembassy.gov/
- 11 United Nations, press release, 8 July 2005.

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- 20 Bray J., Lunde, L. and Murshed, M. (2003) 'Economic Drivers in Nepal's Maoist Insurgency' in Ballentine, K. and Sherman, J. (eds.) *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (Boulder, US: Lynne Rienner).
- 21 Human Rights Organisation of Nepal (HURON) (2004) *Human Rights Monthly* Vol. 7 (Kathmandu, Nepal: HURON).
- 22 "Costs have definitely gone up and the rate varies in different sectors but in the manufacturing sector, on average, the costs have gone up by about 20%," said one interviewee. Another interviewee put the rise in costs at 25%.
- 23 "Total turnover in my factory ... has gone down by 40%, which is also true for many other businesses," said the president of the Federation of Nepalese Chambers of Commerce and Industries who is also managing director of an apparel company.
- 24 CPN-M politburo member, Dev Gurung, once described the Marwaris, Shahs and Ranas as the party's chief enemies. Marwaris are businesspeople of Indian origin; Shah is the clan of King Gyanendra Shah; and the Ranas previously ruled Nepal for 104 years and have extensive marital and social connections with the Shah dynasty.
- 25 In July 2004, the minimum wage was raised after extended negotiations with the Maoist trade union, Federation of Nepalese Trade Unions (Revolutionary). The Maoists also demanded permanent contracts for labourers who had worked for more than 180 days continuously.
- 26 National Business Initiative (NBI) (2005), information booklet (Kathmandu, Nepal: NBI).
- 27 Ibid.
- 28 Ibid.
- 29 NBI (2005) *NBI Strategy Paper* (Kathmandu, Nepal: NBI).
- 30 Rai, H. (2005) *Business-led Peacebuilding as a Corporate Strategy in Contexts of Conflict: Nepali Private Sector Gets Involved* (Kathmandu, Nepal: Gemeinschaft für Technische Zusammenarbeit).
- 31 The Maoists did, however, hurl a bomb at one local hotel. Since the owner is an aunt of King Gyanendra, it may be assumed that this was an attack on the royal family, rather than the tourism business as a whole.
- 32 See, for instance, Geiser op. cit.
- 33 For more information see www.3sistersadventure.com/
- 34 Bhattarai, B. (1996) '40-Point Demand' reprinted in Thapa, D. (ed.) (2003) *Understanding the Maoist Movement in Nepal* (Kathmandu, Nepal: Martin Chautari).

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**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

**Case study
Nigeria***

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Nigeria

The Nigerian market: fuelling conflict, or contributing to peace?

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There is a complex set of structural causes underlying Nigeria's conflicts, including economic issues such as access to resources, that have sometimes led to violent clashes between ethno-religious groups. In particular, the role of larger oil-related corporations in exacerbating these conflicts has received considerable attention. However, many of the economic pressures and difficulties leading to conflict relate not only to major international companies' exploitation of natural resources, but to small and micro-enterprises as well, such as those operated by traders in the agricultural produce market.

Antagonism between the public and private sectors is a common factor contributing to conflicts around economic issues such as trade. The disorganised, informal nature of the small-scale trade sector and the perception that it promotes criminal activity evoke antipathy in the public sector. The private sector in turn strongly resents local government revenue extraction from market-based trade, given its own failure to invest in physical infrastructure, trader harassment, financial mismanagement and massive corruption. Weak and corrupt national institutions, such as the police and the justice system, cause further resentment and promote reliance on personal links to local-level patrons and the 'privatisation' of security, both of which may fuel inter-ethnic conflict since they can easily become ethnically defined.

Crowded markets often become flashpoints both because they bring large numbers of people from different ethnic groups together in a congested area, and because they offer a fertile context for 'conflict entrepreneurs' to exploit conflict for business or political ends. Unemployed youth can be hired at little cost in order to escalate any small conflict that occurs. The potential for looting once a conflict is in full swing provides additional incentives.

Trade as a flashpoint

Perceiving that a lot of money was being made on the retail side of the kolanut business, ethnic Yoruba growers of kolanut (who had always sold to ethnic Hausa wholesalers) attempted to enter the retail side of the business. Hausa wholesalers in various Yoruba towns banded together and resisted the incursion. They continued to control the trade, and the ethnic monopoly they enjoyed also enabled them to dictate prices to the Yoruba sellers. This ethnic monopoly of the kolanut trade was identified as a contributing factor to the ethnic conflict between the Hausa/Fulani and Yoruba in 1999 in Sagamu, a town 30 miles north of Lagos in the south-west of Nigeria, during which scores of lives were lost on both sides.

Trade and markets in conflict mediation

Despite the potential for trade to become a locus of conflict, market interactions and trading relationships often facilitate reconciliation because disputing groups which need to work together to secure their individual livelihoods. Food-marketing chains are complex networks extending across the country, and often involve diverse ethnic, religious and social entities. For the most part these linkages work effectively, drawing on substantial inter-gender, inter-ethnic and inter-religious cooperation, often built up over generations. Cooperative relationships are cemented by participation in ceremonies (marriages, funerals, etc.), home visits and by inter-marriage. Ethnic and sub-ethnic political leaders support such relationships by playing brokerage and bridge-building roles across the ethnic divide. Accommodation, compromise and cooperation thus help to build crucial coalitions, the essential components of a long-standing, resilient livelihood strategy.

Markets are also potential mediation spaces precisely because they bring conflict-related groups together, especially in boundary regions. Particular individuals may act as ‘connectors’ in this respect, linking diverse ethnic and other interest groups. Women traders are especially important in southern Nigerian markets where their predominance in numbers and collective efforts arguably aid conflict prevention.

The neutrality of market spaces is implied in the Hausa saying, *Kasuwa akai miki dole*, literally ‘you must take things (goods and money) to the market’. That is, going to the market is compulsory for both the buyers and sellers. This recognition of ‘common ownership’ and shared dependence on the market can discourage conflict over trade. In Hausa, the market is described as *tumbin giwa*, the ‘stomach of the elephant’, suggesting its capacity to absorb all sorts of diversity in humans, ideas and goods, and its indispensability to society. Traders echo this view of the market as a neutral ground:

“On the market we are all Nigerian. It is when I am in my community that I consider my tribe and religion first. [The] market belongs to everybody.”

Research into the outbreak of violence in Jos in 2001 indicated that, while markets and trade may cause or fuel conflict, the need to obtain a livelihood through trade or market interactions also reunited protagonists surprisingly rapidly after a violent dispute. This is particularly the case for agricultural produce since the spatially diffuse nature of the business activity requires peace.

Traders avoiding conflict in Jos

Despite the relative peaceful history among the complex networks of ethno-religious groups in the city of Jos, violence erupted in September 2001 killing hundreds of people and leaving thousands displaced. The violence is embedded in long-term structural political and economic grievances, such as control of economic markets and competition for political posts, particularly between ‘indigenes’ and ‘non-indigenes.’ The appointment of a minority Hausa Muslim as poverty eradication coordinator was seen as a provocation, particularly by Christian groups, exacerbating tensions until an argument outside of a mosque finally led to the outbreak of violent conflict.

Yet the market network in perishable vegetables has been rapidly restored, being crucial to both rural and urban livelihoods. There was evidence that traders were again providing advance capital to farmers and that farmers were again sending their produce to distant markets through traders, based purely on trust – just as they had prior to the crisis. Trader-farmer interactions take place across religious and ethnic groups (e.g. Berom Christian producers sell to Hausa Muslim traders who in turn sell to Igbo Christian traders). Berom tomato retailers in Jos urban markets are still able to borrow substantial sums from Hausa/Fulani wholesalers without collateral and refer to their ‘longstanding trading relationships’ as the basis for the strong informal trading practices among them.

Customer relationships and landlord systems play a key role in allowing trade to continue during conflict, and can even result in the physical protection of traders by other ethnic groups. For example, a representative of the grain sellers’ association in Sokoto, northern Nigeria, reported that during religious riots: “We had to hide our visitors from other parts of the country to protect them.” In Sabon Gari market in the northern city of Kano, traders stated that they telephoned customers of other ethnic/religious group to warn them not to come to the market during a particularly violent episode. The ties that enable this to take place strongly contrast with the

conflict outside the market. As one Igbo trader stated: “The Igbos and Hausas in this market are one – they are all eating from the same pot. We are one family.”

Traders’ associations

Long-established traders’ associations and other indigenous business networks provide ample evidence of their experience in conflict prevention and management through a variety of mechanisms. In periods of violent conflict, traders of diverse ethnic origin often protect one another, especially within the market environs. Work with traders’ organisations to support and further such initiatives may offer an important potential route to addressing conflict.

In an interview in Kantin Kware market in Kano a trader observed that, when a conflict occurred, the market organisation went outside the market to traders’ homes, ‘away from the market tension’, to try to resolve the conflict.

Sokoto grain sellers’ association

There has been a history of ethnic conflict in the state of Sokoto, specifically between the Hausas and other ethnic groups. These conflicts are either started outside markets, subsequently affecting traders, or caused by specific disputes inside the markets. In the latter cases traders’ associations can play an important role in addressing them. A representative of the Sokoto grain sellers’ association observed: “We do not pass judgment, we dialogue. If one is at fault, whether a resident or a visitor from another part of the country, we try to dialogue. We do not pass judgement immediately. If our efforts fail, we hand over the case to the authority to handle before he creates a big problem for us in the market. From there the case can go to court and we would be witness to the case.” He described how, when religious troubles occurred elsewhere in northern Nigeria or there were rumours of planned attacks on Christian Igbos, the market was closed and the visitors hidden. “Luckily there were enough signals and the market associations and the market authority quickly intervened to stop the blood spilling. Nobody was beaten or maltreated.”

In many cases resolution within the traders’ association depend on the determination, power and charisma of the association leaders. This is evident in New Market, Abuja where the president-general of the Market Women’s Association successfully resolved a dispute between vegetable wholesalers and retailers.

It can also be the leadership of the commodity association that steps in to mediate, conciliate or arbitrate. Where the association is unable to resolve the conflict, it is transferred to the executives of the general market association. At this level, if the conflict involves people from more than one ethnic group, representatives of the relevant ethnic groups' associations are invited to resolve the conflict together with the leadership of the market association. If all attempts at resolution fail and criminality is involved, the police are called in.

Vigilantism and the 'privatisation' of security

Failure of Nigeria's security institutions has prompted Nigerians to resort to specific forms of self-help. These forms of vigilantism are characterised by rapid judgement and punishment, use of local knowledge, and avoidance of complex legal regulations and procedures that can be seen to shelter miscreants from justice. Traders' associations are perceived as a major locus of economic support for vigilante/ethnic militia groups in both southeast and southwest Nigeria, with some well-known groups originating from initiatives and payments by traders.

On the other hand, Sokoto market demonstrated a positive example of close cooperation between a former assistant commissioner of the police and the trader associations at a time of crisis elsewhere in the country.

Trader relationships with the police in Sokoto

"We are told we are to be representatives of our people to the authority," said the representative of the Sokoto grain sellers' association. "If anything arises that may generate conflict, we quickly take action before it breaks by informing the authority. If we are not listened to by the smaller ranks, we should come direct to him. He is from Katsina state. He said we should always come to him, whether in his office or at home. He told us where his house is located. We still use the channels of communication he opened to deal with conflict before it erupts. If there is any conflict in the market, immediately I contact the police. Even if I send my representative, the police would come to help us resolve the problem, or to take it outside the jurisdiction of the market."

The police gave a similar response with regard to conflicts at Sokoto livestock market. If the police have a problem with anyone in the market, they first contact the livestock traders' association and try to solve the problem through them. However, there are questions of equity in the provision of security, and evidence that wealthier traders receive preferential treatment. This holds some potential for ethnic discrimination.

Conclusions

Traders' associations have considerable experience in dispute settlement but they can fuel resentment, for instance when acting as cartels by excluding particular groups. Nonetheless, it may be possible to build positively on the experience of traders' associations in conflict resolution.

Traders and other businesses can act as 'connectors', building social capital and networks between ethnic groups. Women play a key role, particularly in the food trade.

Experience across Africa shows that business development support is rarely part of post-conflict reconstruction and, where it is, there is no targeting of women. Micro-credit is a popular post-conflict reconstruction tool but it can increase the risks to livelihoods and tension if it not accompanied by information and skills related to business development or informed by a sound analysis of conflict dynamics.

Support can be targeted at programmes that encourage networking and trade between ethnic groups in order to build cross-cultural social capital. Many Nigerian businesses operate across ethnic boundaries and have built cross-cultural social capital, in some cases over generations. The means for encouraging more individuals to take up these boundary-spanning activities need to be explored. Similarly, the use of market places as mediation spaces would benefit from closer examination.

This case study is based on findings from a small scoping study comprising a literature review (including analysis of recent market-based or market-related conflicts); a limited number of interviews in northern and southern Nigeria with market associations, NGOs and other stakeholders; interviews with UK-based NGOs specialising in conflict management; and a one-day stakeholder workshop in Abuja. The original scoping study and review were funded by the UK Department for International Development (DFID). DFID accepts no responsibility for the information provided or the views expressed.

**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

**Case study
Northern Ireland***

* This document is an extract from *Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector*, published in 2006 by the UK-based peacebuilding NGO International Alert. Full citation should be provided in any referencing.

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Northern Ireland

The Confederation of British Industry and the Group of Seven: a marathon walk to peace in Northern Ireland

In the early 1990s, Northern Ireland's business community began publicly to acknowledge the explicit link between protracted sectarian conflict and slow economic growth. Companies in the Northern Ireland Confederation of British Industry (CBI) decided that, if they wanted to improve the economic situation, they would be obliged to engage in the Northern Ireland peace process. As the collective voice of regional business and an independent, non-party group, the CBI was well placed to lead a private sector peace initiative. Indeed, its stated objective – to 'help create and sustain the conditions in which business in the UK can compete and prosper' – was a compelling argument for it to enter the peace process.

Since 1991, the CBI had been engaged in partnership with the Irish Business and Employers Confederation to promote trade and business cooperation between Northern Ireland and the Republic of Ireland. Trade and business contacts have increased significantly in the past decade partly due to this initiative.

Business as a policy think-tank

In 1994, the Northern Ireland CBI produced a landmark publication, *Peace – A Challenging New Era*. Better known as the 'peace dividend paper', the document spelled out in detail the economic rationale for peace and soon became a reference point for the peace process. The media adopted the term and used it extensively, giving new momentum to the peace process. Articles began to focus on the economic importance of peace in Northern Ireland.¹

The CBI paper examined the negative impact of violence in Northern Ireland, identifying the following inhibitors to economic development:

- Increased security costs for the private sector, especially in sectors such as retail
- A commercial image problem that made foreign investors reluctant to invest and tourists reluctant to visit
- Emigration of some of Northern Ireland's brightest young people, including many would-be entrepreneurs.

The peace dividend paper argued that if violence ceased, the money currently spent on law, order and protective services (some \$1.42 billion in 1994) could be reinvested in other sectors. Increased funds for education and infrastructure, for instance, could have boosted economic growth further.

In the wake of the August 1994 ceasefire, media attention was fuelled by empirical evidence that supported the peace dividend theory. During this period of non-violence, tourism rose 20 percent in a year and unemployment dropped to 11.5 percent, its lowest level in 14 years.² Over the following six months, \$48 million in new investment ventures were announced.

Politicians in Northern Ireland began to recognise the political merit of calling for a peace dividend. Gerry Adams, leader of Sinn Fein, spoke of 'the importance of consolidating the peace process by ensuring that an economic peace dividend, in terms of jobs and investment, impacts on the day-to-day lives of citizens'.³

Thanks to the CBI, the idea of a peace dividend became integral to the vocabulary of peace in Northern Ireland. The new focus on economics turned into a reality the CBI's conviction that 'politicians should [look] for areas of agreement ... and build on these'.⁴ By approaching peace from a business angle, the CBI changed the terms of the debate and helped infuse new momentum into the peace process.

Business as a lobbying group

In 1996, two years after the peace dividend paper was published, the CBI joined with six other trade and business organisations to create the Group of Seven (GoS). The GoS included the CBI, the Hotel Federation, the Institute of Directors, the Northern Ireland Chamber of Commerce and Industry, the Northern Ireland Growth Challenge, the Northern Ireland Economic Council and the Northern Ireland Committee of the Irish Congress of Trade Unions. The Federation of Small Businesses also joined. As a collective voice of Northern Irish economic interests, the GoS was endowed with considerable authority which it used to advance one principal message: Northern Ireland must make a 'stark choice' between a future of peace and prosperity and a destiny as 'one of the world's most irredeemable trouble spots'.⁵

In October 1996, the GoS invited representatives of all nine political parties

involved in the peace talks to a meeting in Belfast. Collective meetings, rather than individual ones, mirrored the GoS strategy of political cooperation and impartiality. At the meeting, the GoS had two main objectives:

- To present the economic rationale for peace, discussing its importance for economic growth and prosperity
- To urge political parties to fortify their efforts for peace.

In a subsequent press release, the GoS said it had emphasised ‘how catastrophic it would be for the economy and for every aspect of life in Northern Ireland if the current talks were to collapse’. It also asked the parties to seek new solutions to problems that had hitherto proved intractable.⁶

Although the Belfast meeting provoked politically motivated complaints, it compelled political leaders to address the challenges of peace and economic growth in a holistic manner for the first time. Over the next 21 months, the GoS held five further meetings with the various political parties, contributing its input to the political debate. In April 1998, David Trimble, lead of the Ulster Unionist Party, and John Hume, head of the Social Democratic and Labour Party, announced the Good Friday Agreement, supported by eight political parties and the Irish and UK governments. The agreement set out the framework for Northern Ireland’s social, economic and political future.

During the July 1998 Drumcree standoff, the GoS became even more closely involved in the process of political mediation.⁷ The Group by then possessed both the political contacts and name recognition to engage in one-on-one negotiations. In behind-the-scenes meetings with both the Orange Order and the Garvaghy Road residents, the Group urged both sides to repudiate violence and uphold the Parades Commission’s rulings. The meetings led to a clear statement of conviction:

Group of Seven statement

“Mutual assertions of incompatible rights must be replaced by pragmatic, negotiated arrangements, sensitive to local circumstances and aimed at developing over time mutual trust and respect, which enlarge the options for both communities.

The present madness cannot continue. Northern Ireland cannot credibly, on the one hand, hold itself out as a prime location for investment and tourism and, on the other, indulge in behaviour that gives the investor and the tourist every reason to shun us. There is no future for a society that does not respect the rule of law.

We thought it would be irresponsible if we were not to try to make a constructive

contribution to what must now be a very intensive process of problem solving by all concerned. We are prepared to help – as are many others in Northern Ireland – in any way we can. If our suggestions do nothing more than prompt better ideas which attract support from both sides, we shall be well content.”

Source: 'Northern Ireland is on Self-Destruct: Action is Imperative', statement by the Group of Seven and the Federation of Small Businesses, 9 July 1998.

In August 1998, an IRA splinter group calling itself the Real IRA detonated the largest bomb in Northern Ireland's recent history in the market town of Omagh, killing 28 people and injuring a further 330. The Northern Ireland CBI, the Northern Ireland Chamber of Commerce and Industry, and the Irish Congress of Trade Unions condemned the attack and called on its members and their workforces to observe a minute's silence called by Church leaders for 22 August.

It became clear that, while the Good Friday Agreement provided the best opportunity for social, economic and political progress in Northern Ireland, it did not necessarily guarantee the end of violence. The CBI released a press statement through which it publicly called 'on all those who have influence over such arsenals to do everything within their influence to secure early decommissioning of them'.⁸

Other GoS tactics included:

- Discussions with political parties urging them to use their influence in securing peace
- Strongly worded media statements
- Individual appeals. The GoS at one point disseminated a letter to business colleagues, asking them to distribute it to their employees. The letter called on each recipient to recognise that: “Northern Ireland society faces choices ... [between] ... peace, progress, prosperity ... [and] ... hostility, animosity and sectarianism.” Through its business contacts, the GoS was able to build up corporate and grassroots support for peace in Northern Ireland, eliciting repeated praise for its actions from observers such as the then US president Bill Clinton.

After that summer of devastating violence, some splinter and breakaway paramilitary groups that had opposed the Good Friday Agreement made the decision to call for ceasefires. This enabled peace efforts to continue. In December 1998, Trimble and Hume were jointly awarded the Nobel Peace Prize for their roles in the peace process.

In February 1999, the GoS made a statement on the impasse in the peace process, calling for the institutions envisaged under the Agreement to be 'up and running'

and for a start to be made to the decommissioning of paramilitary organisations, both Republican and Loyalist. “In the interest of its trade, its investment and its tourism, Northern Ireland always has to hold its own in a highly competitive, global environment To succeed we need the vigorous dynamic and the self-confidence generated by a society, which is able to achieve reconciliation and build a common purpose.”¹⁰

The establishment of a new executive government in Northern Ireland in December 1999 marked a significant development in the peace process. In the space of a single week, power was passed from London to Northern Ireland, a power-sharing executive was established, ministers chose their departments and the Republic of Ireland changed its constitution to revoke Articles 2 and 3, which laid territorial claim to Northern Ireland. The Good Friday Agreement had finally moved to the implementation stage.

Although peace has been very fragile in the past years, with tensions generally rising during the summer’s ‘marching season’, a sense of relief became palpable when the 2003 and 2004 marches passed without major incident. On 28 July 2005, the IRA made a statement ordering the end of the armed campaign and instructed its members to dump arms, and assist in the development of purely political and democratic programmes by peaceful means.

Lessons

In Northern Ireland, private sector industry associations joined with trade unions to form a strong and effective partnership for political change. Rather than play the traditional role of financial supporters, the business community chose to serve as a think-tank and lobbying organisation, acting at critical junctions of the process. The GoS wielded its influence intelligently but sparingly, acting only when it felt its contribution was necessary to advance the political debate. Of course, business alone cannot build peace. Nevertheless, as GoS Chairman Sir George Quigley has noted, the efforts of the GoS ‘made it less easy for the parties to simply walk away’.¹¹

The Northern Ireland case shows that peacebuilding and economic development have to be addressed together. It demonstrates too that, even given deep-rooted animosity, politicians can be persuaded to come to the negotiating table by focusing on their shared, economic interests. More specifically, the study highlights the important role that expectations of economic growth can play in creating the momentum for, and promoting, the peace agenda. Indeed, the unemployment rates of the past decades give a sense of the positive effects of the ‘peace dividend’. In 1986, during the ‘Troubles’, a record 17.2 percent of the population was out of

work. By 2001, as peace was taking hold, this figure was down to 6.2 percent, reaching a record low of 4.6 percent in 2005.¹²

This case is based on an earlier analysis of Northern Ireland by International Alert and the International Business Leaders' Forum; and 'A Profitable Peace: the Confederation of British Industry in Northern Ireland' in van Tongeren et al.(eds.) (2005) People Building Peace II: Successful Stories of Civil Society (London, UK: Lynne Rienner Publishers). Further information also available at www.cbi.org.uk/northernireland

Endnotes

- 1 *Financial Times*, 28 July 1998.
- 2 *Christian Science Monitor*, 7 September 1995; *Christian Science Monitor*, 27 November 1995.
- 3 *Irish Times*, 8 June 1998.
- 4 Confederation of British Industry (1999) *Prospering in the Global Economy: Business Priorities for the New Northern Ireland Assembly* (Belfast, Northern Ireland: CBI).
- 5 *Ulster Business*, August 1997.
- 6 CBI statement, 7 October 1996.
- 7 In 1998, the Parades Commission ruled that the Orange Order, a Unionist group, would not be allowed to parade down the Garvaghy Road, a heavily Catholic neighbourhood. The Commission was afraid that the parade could become a flashpoint for violence. On 5 July 1998, 5,000 'Orangemen' and their followers gathered outside the church of Drumcree, demanding their historic rights to march. The resulting standoff was filled with tension and violence, including the tragic firebombing of a house that killed three Catholic children. Eventually, the protest lost momentum and the Orange Order backed down.
- 8 CBI statement, 17 August 1998.
- 9 Group of Seven statement 'Our Future', 30 May 1997.
- 10 Group of Seven statement, February 1999.
- 11 Sir George Quigley, chairman, Group of Seven, letter, July 1998.
- 12 'A Profitable Peace: the Confederation of British Industry in Northern Ireland' in van Tongeren et al.(eds.) (2005) *People Building Peace II: Successful Stories of Civil Society* (Boulder, US: Lynne Rienner Publishers).

Local Business, Local Peace:
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Case study
Philippines*

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Philippines

Business and public advocacy: cross-border trading in Tawi-Tawi, Philippines

Mary Ann B. Geronimo and Sherrilyn S. Samaco

The following two cases highlight activities led by Philippines Business for Social Progress (PBSP), the largest corporate-led non-profit organisation in the Philippines promoting corporate social responsibility (CSR). PBSP believes that the private sector, particularly companies operating in conflict areas, should ensure that appropriate investments are poured into peace and development efforts, and that more significant contributions should be made through core business practices and policy advocacy interventions – including promoting peace and cultural diversity in the workplace. This principle defines the goals of the Business and Peace Programme, implemented by PBSP in partnership with the Prince of Wales International Business Leaders' Forum (IBLF) with funding from the British Embassy, Manila and the British Chamber of Commerce in the Philippines. Its components include research and policy advocacy, capacity building and information dissemination.

A long history of armed conflict and neglect has made it difficult to sow the seeds of peace in the southern Philippines. Poverty, political exclusion and strife have divided Mindanao into a land of plenty and a land of scarcity. While cities like Davao, General Santos and the Cagayan-Iligan Corridor have become hubs of economic bustle, areas in the Autonomous Region of Muslim Mindanao (ARMM) continue to endure a lack of access to jobs and basic services.¹ The intermittent outbreaks of armed conflict that have plagued the ARMM for over 30 years accentuate the high correlation between lawlessness and poverty.

However, the stability of Tawi-Tawi, a province of 307 islands and islets scattered south of the Zamboanga Peninsula, provides a striking contrast with rest of the ARMM. This can be attributed to the province's seclusion from the conflict-stricken areas of the region. There are 10 island municipalities in the province whose

population is 95 percent Muslim, and 5 percent Christian or other faiths. Most of Tawi-Tawi's resources come from the sea. It is one of the richest fishing grounds in the Philippines with shorelines suited for marine culture, particularly seaweed.

Tawi-Tawi's geographical isolation has had negative and positive impacts on its people's way of life. On one hand, locals cite the government's neglect of basic but critical services to improve education, health and employment. Poverty incidence in 2000 was 75.3 percent and the average annual per capita income stood at \$202. On the other, it is a 'front door' to ASEAN countries due to its proximity to Malaysia and Indonesia. Cross-border barter trading between Tawi-Tawi and Malaysia has taken place for centuries. At present, the government's trade policy prevents traders from maximising the benefits that could be derived from this unique exchange. Both traders and government officials have to deal with two conflicting yet valid interests: earning a decent living, and ensuring that the legal measures on trading are observed.

Trading across the border

Tawi-Tawi traders frequent four Malaysian ports: Kudat, Labuan, Sandakan and Tawao. Sandakan is only 12 hours away by wooden boat from Bongao, Tawi-Tawi's provincial capital, and Zamboanga City, the nearest trading centre, is 19 hours away. Travel to other ports ranges from 13 to 40 hours. However, this is hardly an issue among traders who know the rewards of cross-border trading.

Rice, sugar, flour, biscuits and palm oil, imported from Malaysia, are up to 40 percent cheaper than the prices asked in Zamboanga City for the same products. Malaysian rice is \$6.43 per 25 kg sack, compared to \$12.50 in Zamboanga, and sugar is only \$16.60 per 50 kg sack, compared to \$23.20 in Zamboanga. Even if Tawi-Tawi wholesalers add a 3 percent mark-up on these commodities, they can still be sold at a rate more affordable to the local population.

While most traders are engaged in imports, some have ventured into exports of Filipino goods, such as beauty aids. Whitening products are in demand in East Kalimantan, Indonesia. Traders embark on up to 100 hours of sea travel to deliver such items to Sulawesi. If the order is not urgent, they bring it instead to Tawao where it can be shipped to Sulawesi via commercial boat, shortening the number of days they spend at sea. Some traders transact business with Malaysians in the Tawi-Tawi municipality of the Turtle Islands to avoid custom duties. Traders ship up to 3,000 boxes (\$119 per box) of products on a quarterly basis.

Seaweed traders from Sitangkai, Tawi-Tawi's easternmost island and the country's largest producer of seaweed, command a higher price for their products in Tawao

and prices are at least 5 percent more than what Zamboanga buyers will offer. There is also a large processing plant in Tawao.

On average, local traders' net profit is only 10 percent after shipping costs and duties. Still, more and more people engage in cross-border trading due to the lack of alternative sources of livelihood. At present, there are about 300 local traders in the province, mostly operating from Bongao.

Surmounting conflicting interests

In Tawi-Tawi cross-border trading dates back to the early 17th century. Indeed, some traders argue there was a much smoother flow of people and goods before the creation of the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA). This is ironic because the body's objective is to 'facilitate the free movement of people, goods and services in the region'.

Efforts are underway to simplify, if not harmonise, the Customs Immigration Quarantine Security (CIQS) rules, regulations and procedures at the EAGA level. Until CIQS policies are synchronised and institutionalised locally, traders have to put up with policies that, they say, fail to take into consideration the socio-economic context of the province as an island economy.

The import of rice from Malaysia, for example, requires a permit from the National Food Authority (NFA) in Manila. One requirement set by NFA is the presence of an Association of Rice Producers in Tawi-Tawi. Traders find it impossible to comply with this condition given the province's remoteness. With no other option, many resort to illegal importation or smuggling. The same scenario occurs with sugar, a regulated item that requires a permit from the Sugar Regulatory Board in Manila.

Boat operators who service local traders must meet numerous requirements before they will be issued with an outgoing permit. Traders are directly affected by these restrictions because they have to pay more to ship their goods. It is common for boat owners to declare a local itinerary instead of an international route so as to escape paying clearance fees.

Engaging business in public dialogue

In Tawi-Tawi, the active engagement of traders in policy regarding cross-border trading illustrates how the dictates of legitimate business interests can be addressed alongside the promotion of public interest. In support of local business, PBSP

conducted a Roundtable Discussion on Cross-Border Trading in June 2005 together with the Pagtabangan BaSulTa network.² Co-sponsored by the Mindanao Economic Development Council (MEDCo) and the Tawi-Tawi Chamber of Commerce and Industry, the initiative served as a venue for government and local traders to tackle problems and issues related to cross-border trading. For the first time, both parties sat together and formulated collaborative responses and courses of action to address the concerns that spark conflict. This was the initial step in a long process of reviewing and revising government policies to address the concerns of cross-border trading stakeholders.

Among the action points put forward were the following:

- In the short term: (a) lobbying to exempt local traders from securing rice/sugar importation permits given restrictions on quantity and market coverage; (b) lowering custom duties and travel taxes; and (c) continuous information-education-communication on existing trading policies.
- In the long-term: declaring the Port of Bongao an open port to encourage free trade between the Philippines, Malaysia and Indonesia. This will mean more income for cross-border trading players, as well as added revenue for the government through port charges, parking/road users' fees and duties from products bought outside Tawi-Tawi. The move will also help the government curb smuggling in this part of the country.

This emerging agenda calls for a concerted effort by both government and local traders. On one hand, the government through MEDCo will conduct a high-level CIQS meeting to deliberate on the special case of conventional trading in Tawi-Tawi. The PBSP will monitor developments, and engage local businessmen and other stakeholders in establishing collaborative interventions. Instrumental to this will be the newly established, multi-sectoral Committee on Cross-border Trading that forms part of the Tawi-Tawi Provincial Government's Technical Working Group.

Creating positive societal value

History suggests that the ARMM has been trapped in the vicious cycle of economic deprivation and conflict. This accentuates the vital role the private sector can play in contributing – directly and indirectly – to the prevention and resolution of violent conflict as it creates wealth and fosters public good. In Tawi-Tawi, local businessmen are heeding this call.

The Business and Peace Programme's advocacy on cross-border trading shows how the business sector can engage in public policy dialogue and establish partnership

with government and civil society in pushing economic reforms that benefit all concerned stakeholders.

For more information on PBSP's work on peace, see www.pbsp.org.ph/

Endnotes

- 1 The Autonomous Region in Muslim Mindanao (ARMM) is composed of the provinces of Basilan, Lanao del Sur, Maguindanao, Sulu and Tawi-Tawi, and the Islamic city of Marawi.
- 2 The *Pagtabangan* BaSulTa Engagement Process refers to the joint effort of 11 organisations to engage and support local leaders and multi-sectoral constituents in the provinces of Basilan, Sulu and Tawi-Tawi (BaSulTa). The process aimed to arrive at sustainable interventions to the problem of poverty, conflict and marginalisation in the region. *Pagtabangan* means 'helping each other'.

Making peace her business: a YuPPeace intern's story, Philippines

Mercedita Bermudez

Mindanao has been called the 'land of promise' – and for good reason. It has a rich cultural heritage that adds charm to its attractive eco-tourism destinations. Its fertile lands and climate are a boon to agriculture, and it is an abundant source of cheap hydroelectric power. It is also the poorest of the Philippines' three major islands with close to half of the population earning just 4,000 pesos (\$72) per month.

Among its provinces, those in the Autonomous Region of Muslim Mindanao (ARMM) register the highest poverty incidence at 62.9 percent. Only one out of 10 first-grade pupils go to high school and even less eventually go to university or train in vocational-technical schools. The region produces just 1.2 percent of the country's college graduates. Consequently, the rate of labour-force participation is only 57.3 percent, compared to a national average of 67.3 percent.

The picture of the region painted in local and international media – especially after the kidnappings and bombings attributed to the *Al Harakat Al Islamiyya* or *Abu Sayyaf*, separatist, Islamist groups – further discourages potential investors.

It is within this context that the Mindanao Peace and Development Programme (MPDP) was launched in 2000 by Philippine Business for Social Progress (PBSP), the Philippines' largest, non-profit, social development foundation, comprising more than 200 multinational and small to medium-sized companies.

Dubbed the 'Catch-Up Plan for Mindanao', the MPDP is designed to bring the living standards in the ARMM and the Special Zones of Peace and Development to the same level as the more progressive areas of Mindanao. It aims to provide assistance to more than 140,000 households and to influence key stakeholders to redirect their programmes towards creating an impact on the Human Development Index in Mindanao through increased and sustained investment in human capital and development. MPDP's interventions include access to education, quality of education, affirmative action, health, governance and constituency building. At the core of these efforts is leadership of the business sector.

PBSP's Business and Peace Programme (BPP) directly aims to complement this roadmap. One key area of activity focuses on strengthening the competitiveness of management practice in Muslim small and medium enterprises through mentoring and internship initiatives. Over the last four years, a Programme Advisory

Committee, composed of Muslim business leaders and academics, has provided policy direction and technical assistance.

Now in its second phase (2005-08), the BPP has scaled its activities up to broaden the private sector's contribution to achieving long-term peace and development in the ARMM. The flagship initiative in phase two is the Young Muslim Professionals for Business and Peace (YuPPeace), an internship that provides young Muslims employed in local enterprises with the opportunity to gain three to six months of work experience in Manila-based companies.

On their return to Mindanao, interns are expected to contribute to the improvement of management practices in the companies where they work; encourage involvement in peace and development; and initiate inter-organisation communication, networking and knowledge exchange.

The power of one

Samirah Mala is one of the six members of the first group of YuPPeace interns selected from 40 applicants across Mindanao. Schooled at Mindanao State University, she worked as assistant operations manager for Hamsand Hardware and Construction Supply in Cotabato City.

She was assigned to Unilever Philippines, a leading manufacturer of consumer goods in the food, home and personal-care product categories. From June to December 2003, Mala worked with the Human Resource Department, spending time with the separate divisions in charge of Learning, Recruitment, Remuneration and Performance Development Plan, and the Coaching Project.

“Getting involved in the YuPPeace internship engagement is part of our diversity programme,” explained Cezar Bagadion, Unilever Philippines' Country Learning Manager. “We've always tried to cast a wider net to ensure that we get the best people, qualified people from all backgrounds.”

In dealing with interns, the supervisor bears in mind each one's development level, assigning tasks according to individual capability. “In the case of Samirah,” he said, “it was clear she had the competence to take on bigger projects so we asked her to help develop and customise a software that helps compute scores for an organisation assessment survey. She was instrumental in the completion of that important regional project.”

Mala spent half her six-month internship working with a deadline-driven team and came out of the experience with an appreciation of the value of teamwork.

Transcending cultures

A chemical engineer, Mala knows discrimination at first hand. After she earned her bachelor's degree, she was denied a job opportunity after the operations manager did a double-take on her religion. Her case is not rare. The *Philippine Human Development Report 2005* recounted the experiences of Muslims who were shut out of jobs and study opportunities, or were greeted with patronising comments that they were 'good in spite of being Muslims'. The results of a stratified random sample survey in the report showed that 33-39 percent of Filipinos are biased against Muslims, notwithstanding the fact that only about 14 percent have had direct dealings with them.¹

It was with some apprehension, therefore, that Mala filled out the application form to become a YuPPeace intern, despite the encouragement of Bai Sandra Basar, her employer at Hamsand.

PBSP provides companies that participate in YuPPeace with orientation. The terms of reference for the internship clearly state that the host company must allow time and space for Muslim interns to observe their prayers and that they should be excused from work on Fridays, their holy day. "There were some adjustments to make," Mala conceded, "such as the fact that, even if our supervisors had been briefed about Fridays being our day of worship, they would sometimes forget to give us time off for our prayers, or that during Ramadan, people would forget we are fasting and they'd offer us food."

"The people I worked with in Unilever did not prevent me from observing my obligations as a Muslim," she added, "but I was aware that I was working in a deadline-driven industry so I had to honour my commitment to finish whatever task has been assigned to me."

Before the next batch of YuPPeace interns arrived, Unilever has already assigned a prayer room for Muslims. "I heard the canteen concessionaire now also serves *halal* food," said Mala.

Beyond understanding cultural differences, the bigger benefit for both parties was the realisation that, given equal opportunities, Muslim professionals could perform as well as their Christian and other non-Muslim counterparts.

Return on investment

After her internship, Mala returned to Hamsand and, with Basar's help, introduced changes to the company, conducting training programmes inspired

by what she had learned at Unilever. There was initial resistance but co-workers eventually saw the benefits of drawing up a similar system even in a small company like Hamsand.

Three months later, Mala became executive director of the Muslim Chamber of Commerce and Industry of Kutawato, Inc. (MCCIKI) in Cotabato, a move that pleased her former employer. “I think Bai Sandra Basar knew I would be able to do more at the MCCIKI because the transfer of technology would be on a larger scale,” recalled Samirah. “Instead of helping just Hamsand, I’d be able to help 64 other companies in Cotabato.”

“When I recommended Samirah for YuPPeace,” admitted Basar, “I knew I’d probably lose her afterwards, but I knew my loss would ultimately be the gain of the Muslim business community.”

Now working in a Manila-based company, Mala is still very much involved in the project she has started and dreams of going back to Mindanao to continue the work she began at MCCIKI. “What made me curious about the YuPPeace programme is what sustains my interest in doing something for my fellow Muslims, especially the young,” she said. “The idea that I can contribute to the creation of peace dividends through well-thought-out business practices and policies. It’s definitely just one of the steps toward achieving peace, but I’m fortunate to take part in it.”

Further information on PBSP’s activities is available at www.pbsp.org

Endnotes

- 1 UNDP (2005) *Philippine Human Development Report* (Manila, Philippines: UNDP).

Paglas Corporation in Mindanao: targeted investment in a conflict zone

Datu Paglas in the province of Maguindanao in the Autonomous Region of Muslim Mindanao (ARMM) has been described as a ‘miracle town’, with its economic development framework hailed by many as a model for other areas shattered by the Moro conflict.¹ This study reviews the positive role played by the private sector in Datu Paglas and outlines some of the challenges involved.

Context

Datu Paglas is located in an area of Mindanao where some of the most intense conflicts have taken place. The town has witnessed fierce confrontations between the Philippine Armed Forces and the Moro National Liberation Front (MNLF) and Moro Islamic Liberation Front (MILF) for more than a decade. One of the root causes of the conflict is land: the Muslim population has struggled for access to land since colonisation by Christian settlers and later investment by multinational corporations.² Despite the 1976 Tripoli Agreement, the conflict has ebbed and flowed, with periodic resurgences of clan feuding and terrorism up to the early 1980s. The 1980 split in the MNLF, which led to the formation of the MILF, also affected the political configuration within Datu Paglas, which lies within the MILF area of Camp Rajamuda.

The Paglas family is a powerful clan related to other politically influential clans in the area through kinship and inter-marriage, and has blood relations with the late MILF chairman, Salamat Hashim. As with other Muslim communities in Mindanao, it has been involved in longstanding feuds that periodically erupt in violence.

Datu Paglas is endowed with extensive fertile lands, but poverty is endemic due to low investment and lack of services. This has strengthened support for the rebel movement and became a major obstacle to development since business was reluctant to risk investing.

Paglas Corporation

Ibrahim ‘Toto’ Paglas III, son of the late mayor, returned to Datu Paglas in 1985 with the goal of improving stability through socio-economic development. He showed his drive by initiating an irrigation project in the town before being elected mayor in 1988. He used his influence to pacify relations between other clans and

sought to end the cycles of violence and retaliation, despite the death of several members of his own family.

Understanding the conflict context

Paglas recognised that the conflict has its roots in history, including colonisation and socio-economic grievances, such as a lack of access to education, loss of land titles to settler communities, horizontal inequalities and poverty. However, he also acknowledged the failure of local leaders to fulfill their responsibility to improve the lives of their people. Significantly, he challenged the assumption that investment first requires peace, proposing instead that economic development was necessary to produce peace, with the private sector directly tackling grievances and conflict issues through responsible practice.³ “There is a way to respond to legitimate grievances in a preventive, pro-active manner,” he has said. “My experience has shown that sustainable economic development can be the key to peace.”⁴

With the signature of the Final Peace Agreement between the government and the MNLF in 1996 and an agreement to cease hostilities with the MILF the following year, the government was anxious to demonstrate the peace dividend by promoting investment. Paglas identified this as a perfect opportunity to bring about his vision of peaceful transformation.

Consolidating investment

He contacted ORIBANEX Holdings Corporation, a consortium of Italian, Saudi and US investors involved in the production of bananas, who were looking to expand their holdings from nearby Catholic Davao. Investors were reluctant to risk their money in the ARMM, let alone a place as notorious as Datu Paglas. But intrigued by reports of its dynamic young mayor and the quantity of land available, they visited to make a feasibility assessment. With plentiful supplies of water, an ideal climate, excellent soil and a large labour force, its potential was obvious.

Although the project gained general approval within the population, others were more cautious. A process of consultation and dialogue was therefore initiated to give people the opportunity to voice their concerns. This was an entirely new experience for Datu Paglas and a break with customary tradition in which Datu⁵ decisions have always had the force of law.⁶

After three terms as mayor, Toto Paglas stepped down to concentrate on consolidating the Paglas Corporation (PagCorp), while his backers established La

Frutera Inc. (LFI) to manage the plantation and put up the bulk of a \$26 million initial investment. The Ultrex investment group in Manila took responsibility for day-to-day management of LFI, which sub-contracted the recruitment of labour, security and transport operations to PagCorp. Toto Paglas provided substantial amounts of family land and convinced neighbouring leaders and landowners to do the same.

He also used his influence to convince MILF commanders to withdraw their forces from the district. When La Frutera was first established, Hashim Salamat, MILF's late chairman and Toto's uncle, gave his personal guarantee that the town would be a MILF 'no-go zone' and that no LFI or PagCorp personnel, equipment or vehicles would be targeted. There has not been a single incident of criminal activity against the companies ever since. This is exceptional given the enormous sums invested in security by businesses operating elsewhere in the ARMM. The investors are emphatic that they pay no protection money nor make any 'donations' to MILF, nor has MILF attempted to solicit contributions.⁷

Success factors

Christian plantation workers were initially hired as trainers and supervisors, and Israeli experts were brought in to supply the technology. This created tensions with the community, but Toto gave assurances that they would be under his personal protection and located their accommodation close to his.

While Muslims were principally trained by Christians, the plantation now employs Muslim supervisors and a former MILF combatant is the most senior supervisor.⁸

As a result Christians and Muslims are more integrated in the workplace and the wider community. In the words of one Christian trainer: "Today, Muslims and Christians work peacefully together. Christians are no longer viewed as superiors or more specialised than Muslim employees. The company organises regular workshops to increase understanding between the two cultures. Religious leaders from both sides give seminars on Islam and Christianity. Christian workers avoid eating pork in front of their Muslim colleagues."⁹ The LFI Community Relations Unit conducts seminars and workshops on cultural and religious sensitivity.¹⁰

PagCorp aims to tackle local grievances and spread the benefits of the investment equally by employing at least one member from each family, including those of former rebels. Three guiding principles were adopted in the company's business plan:¹¹

- To protect the environment at any cost because this is all we have for the next generation
- Not to abuse workers, to protect their rights and look after their welfare and safety
- To provide education for the children.

In 2000, La Frutera set up the La Frutera Community Development Foundation to design and implement community development projects, principally by providing training and education to improve livelihoods.¹²

The impacts of LFI investment

The plantation is now one of the most profitable in the Philippines. In its first six years, production climbed to 10 million tonnes of bananas a year, much of it exported, generating annual revenues of around \$15 million. By 2002, La Frutera employed directly and indirectly 2,000 local workers, 85 percent of them Muslims, on 1,300 hectares. According to Toto Paglas, the company injects at least \$400,000 dollars into the local economy every month through salaries.¹³ Since its inception, the town has seen large increases in employment and income levels. The experiment generated confidence that business could be conducted successfully in the ARMM and the original investors have committed up to \$50 million to expand operations by 2,300 hectares.¹⁴

The municipality is no longer a haven for crime. According to the Philippine National Police, crime rates have fallen dramatically in the past three years.¹⁵ When hostilities between government forces and the MILF resumed in early 2000, former combatants employed by the company did not join in – with the consent of the MILF leadership.

With increased revenue from taxes, the town has built more schools and invested in health services, with school attendance by both Muslim and Christian children increasing considerably. The LFI has also been awarded certification by the Rainforest Alliance, a global body that monitors the social and environmental impacts of the banana industry.

Investment has extended beyond the immediate environment of the plantation. In 1998, the Paglas Rural Bank (PRB) was established with a loan portfolio of around \$150,000, provided by the Central Bank and Land Bank. The PRB seeks to promote small businesses and has helped to start over 50 small enterprises. It has more than 3,000 customers, and sees a 90 percent repayment rate on commercial and private loans. The majority of its customers have never held bank accounts, as their plantation salaries were the first regular income they have had.¹⁶

Challenges

While the Paglas case is an important example of the dividends that peace can bring and an incentive that business is possible before a formal peace is signed, it has its own share of challenges.

Some community members have said that more needs to be done to ensure the benefits are spread as broadly as possible. There have been allegations that local officials spend more on expensive vehicles, than local development. Concerns have been raised about salary issues, delayed payments and Muslim applicants' access to jobs in the administration;¹⁷ the absence of unions has also been criticized in the past.¹⁸ Local landowners in turn have expressed concerns about their lease contracts with LFI.¹⁹

The case also highlights the proximity of political, economic and military elites with, in the case of Datu Paglas, the leadership of both vested in a single family. While in Datu Paglas one individual used the potential offered by his position to effect positive change, elsewhere such quasi-feudal social structures can also be a factor that contributes to tensions, rather than defusing them. Toto Paglas' reforming instincts were only made possible by his uniquely advantaged position. The same concentration of power and wealth could intensify conflict in parallel situations.

In spite of these reservations, the transformation of Datu Paglas from a locus of conflict to one of relative stability and prosperity highlights the strategic role that the private sector can play in peace and development efforts.

This case is based on the studies cited below. For more information see www.datupaglas.com and www.pbsp.org.ph

Endnotes

- 1 Honculada, R. G. (2005), 'Planting Peace: Philippine Business for Social Progress' in Van Tongeren, P. et al. (eds.) *People Building Peace II: Successful Stories of Civil Society* (Boulder, US: Lynne Rienner).
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- 3 Speech by Toto Paglas at the CFR conference 'Preventive Action: Responding to the Grievances of Muslims in the Philippines' at www.asiasource.org/asip/preventive.cfm
- 4 Ibid.
- 5 Datu is the title given to traditional chieftains in the region.
- 6 Fletcher, H., Grace A. and Ganchoero, E. *The Paglas Corporation Experience* at www.datupaglas.com/Articles/ThePaglasExperience.html
- 7 Honculada op. cit.
- 8 Fletcher, Grace and Ganchoero op. cit.
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- 10 Honculada op. cit.
- 11 Speech by Toto Paglas op. cit.
- 12 Nuguid-Anden, C. (2003) 'Enhancing Business-Community Relations: La Frutera and Paglas Case Study' (Bristol, UK: New Academy of Business and United Nations Volunteers). Available at www.new-academy.ac.uk/research/businesscommunity/unvpages/index.htm
- 13 Speech by Toto Paglas op. cit.
- 14 Ibid.
- 15 Fletcher, Grace and Ganchoero op. cit.
- 16 Ibid.
- 17 Conception et al. op.cit.
- 18 Nuguid-Anden op.cit.
- 19 Ibid.

Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector

Case study
Sierra Leone*

* This document is an extract from *Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector*, published in 2006 by the UK-based peacebuilding NGO International Alert. Full citation should be provided in any referencing.

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The logo for Sierra Leone, consisting of a yellow square with the text "Sierra Leone" in yellow font at the bottom right.

Sierra Leone

Telecoms and peacebuilding: the search for shared communication

Rebecca Besant

In 2003 the peacebuilding NGO, Search for Common Ground, and the Sierra Leonean branch of Celtel cooperated to launch the first mobile phone network in the northern towns of Makeni, Mile 91 and the diamond-mining community of Kono. The project was an innovative example of a business-NGO partnership to promote peace. It built bridges between the former rebel Revolutionary United Front (RUF) strongholds in the north, the diamond district and the rest of Sierra Leone, and widened the country's information network. It built on each organisation's core strengths and held clear advantages for both.

Background

Search for Common Ground (SFCG) has been working since 1982 to help societies affected by violent conflict address their conflict issues through peaceful means. Its primary focus is to work with communication media, such as radio, TV, film, print and internet, to facilitate transforming conflict into cooperative action. The aim is to show that contentious problems can be examined in ways that inform and entertain – while promoting the search for solutions.

Since 2000, SFCG has worked in Sierra Leone to strengthen the capacity of communities to participate in building a tolerant, inclusive society for sustainable peace. Its flagship project, Talking Drum Radio, airs programmes of various formats for different audiences promoting reconciliation. A recent survey in Sierra Leone found that 89% of the population know the radio studio and have listened to its broadcasts.

Established in 1998 in the Netherlands by Sudanese diaspora investor, Dr. Mohammad Ibrahim, the mobile telecommunications company Celtel specialises in

phone networks for the African continent, the fastest growing market in the world. From an initial investment in Uganda, it has expanded and currently operates in 13 countries. Celtel has worked in Sierra Leone since 2000, investing \$30 million in its networks.

Celtel has an organisational commitment to corporate social responsibility (CSR), setting high standards of ethics for its employees. As a result, it was awarded the International Finance Corporation's 'Client Leadership Award' in 2004: "Its social contributions include refurbishing schools and health centres, providing scholarships and sponsoring the Africa Education Journalism Award."¹ In Sierra Leone, Celtel has engaged in various social activities, including the digging of wells for safe water. Its donations include 15 phones to Sierra Leone's Acting Chief of Defence Staff to establish a hotline for civilians making complaints about corruption in the army.

Context

Makeni and Mile 91 are northern towns populated predominantly by a minority ethnic group, the Temne, who are sensitive to what they perceive as the favouritism enjoyed by the majority Mende people. The government is Mende-dominated and services, including mobile phones, have been slower to reach the Temne north.

The RUF captured Makeni during the 10-year civil war and made it a headquarters. The town is home to a large population of former fighters, who chose not to return to their own districts after the war. This created substantial tension between ex-combatants and the indigenous Temne communities. Tension also exists between the ex-combatants and the government as the two sides struggle to reconcile after years of fighting. Makeni is the power base of the opposition All People's Congress (APC), which governed Sierra Leone for 26 years.

The third project location, Kono, is the most diamondiferous district in Sierra Leone and was one of the worst hit during the war. Diamonds were a major source of funding for the conflict and Kono is still recovering. The town of Koidu is the district headquarters, and hosts the many businesspeople and youth who depend on diamonds for their living. Celtel's mobile network was launched in Kono two weeks after launches in Makeni and Mile 91. SFCG partnered with Celtel to celebrate the network's northern debut.

Launching mobile networks and promoting peace

SFCG approached Celtel with a proposal to use the launch of its network as a platform to highlight the importance of national reconciliation and the impact the new phone links could have on the northern region and Sierra Leone as a whole. To achieve

this, SFCG partnered with Radio Gbafth in Mile 91 and state-owned Sierra Leone Broadcasting Service stations in Makeni and Kono to broadcast live coverage of the event, and to generate dialogue about the importance of access to information.

SFCG's promotion of the launch took two forms. In a first stage, SFCG arranged with a number of key local figures to be available for telephone calls that were then broadcast through the two radio stations. In these calls local celebrities, including the vice president, the head of the opposition, leading parliamentarians from both of the main parties, ministers and other prominent people talked about the importance of connecting Makeni, Mile 91 and Kono to the rest of the country. SFCG used this mechanism to signify to the population that the government was indeed concerned with the region. It also asked residents of the two towns to call in, asking them to reflect on the impact the arrival of the mobile phones might have.

To facilitate the calls, radio station employees were equipped with phones and deployed along the main roads entering the towns. As they encountered people, they urged them to call in with their comments, expectations and fears. Callers were encouraged to speak in local languages. "Today our village has been recognised on the map," said one caller. "This is a miracle," said another. "I never thought I would speak on a phone from my village with only three houses." The opposition party leader said: "This gets us closer to our people and can cost us less even though the roads are bad." This phase of the day also provided listeners with information about the usefulness of mobile phones for security and other basic needs.

The second phase of the project was specific to Makeni and Mile 91, and revolved around the airing of SFCG's first, local-language cultural programme. In response to an evaluation of the programme conducted in January 2002, SFCG had concentrated on creating programming that local people could understand. A Mende cultural programme, entitled *Mu Gundi Hindaesia* ('Our Traditional Practices'), began airing in the south in August 2002. On the same day, SFCG introduced similar programmes in the Temne and Limba languages that will be regularly broadcast in northern areas, including Mile 91, Makeni and Kono. After the broadcast, phone lines at the radio stations were opened and the audience encouraged to call in. The response was overwhelmingly positive, with listeners genuinely excited about programming in their own languages.

Thus the partnership generated several outputs:

- 24 hours of airtime dedicated to the launch of radio programmes in Kono, Mile 91 and Makeni
- Three sets of phone-in equipment installed in radio stations by SFCG
- Three mobile phones donated to stations by Celtel
- \$750 worth of top-up cards donated by Celtel for the event

Mutual benefits

This was the first time that SFCG had partnered with a private company and the activities during the one-off event were fully funded by Celtel. The use of mobile phone connectivity is a new way of working for the organisation, reaching new audiences in different ways. While this was a one-off project, it had a high impact, according to SFCG's own evaluation, and engaged local people in a wide dialogue about the need for linking the north with the rest of Sierra Leone.

While Celtel already had plans to extend to the north, the partnership with SFCG provided it with ample publicity, from high-level politicians to local residents. There was, therefore, a powerful business case for partnering with a well-known peacebuilding NGO with an established audience. While it meant providing additional funds and donations for the event, Celtel's contributions to the partnership lay well within the sphere of its core business activity: the provision of mobile telephony.

Further information is available at www.sfcg.org/

Endnotes

- 1 www.sameer-group.com

Sierra Leone: the role of market women in economic transformation

Christiana Solomon

Because of a lack of scholarship, the work of African women in peacebuilding, Sierra Leonean women in this instance, suffers at many levels. There is insufficient documentation on African women peacebuilders as role models, and women are under-represented as negotiators in conflicts. In addition, women have generally been portrayed as hapless victims. The reality is that some women profited – and profiteered – from conflict. Although this side of their role is known anecdotally, research is limited. One reason for this invisibility is, among other things, that grassroots groups seldom document their experiences, and when they do, the circulation of their work does not reach mainstream circles. This case study illustrates the multiple roles that women traders played in the Sierra Leone conflict and their contributions towards both conflict sustenance and peacebuilding.

Market women in Sierra Leone

Women in Sierra Leone have the double burden of being both female and poor. Lack of accessibility to land and other assets are major constraints, along with an absence of credit availability. Among the majority of rural and low-income urban dwelling women, market women describe themselves as the ‘poorest of the poor’. They deal mostly in perishable foodstuffs at small local daily markets.¹ This has been accentuated further by the conflict, which destroyed the socio-economic fabric of Sierra Leone.

Most market women have little education and are unable to speak or write English. They are often bound in polygamous marriages and are subordinate in all domestic matters. Additionally, the tax system practised in Sierra Leone is disempowering. While fixed rates are levied on male stallholders at an average rate of around 1 percent of their income, market women pay dues every day that they sell, amounting to about 5 percent of their earnings. Refusing to pay a dues collector could lead to their space in the market being confiscated. Nevertheless, women reign supreme in the bustling marketplace.² These women have evolved their own power structure to settle disputes over price and quality, and to select their leadership. Though female traders dominate the markets’ institutions, their access to capital comes from relatives, parents or husbands, because banks will not offer them loans. Women in Sierra Leone require their husbands to stand as guarantors for loans from banking institutions.

Disputes between members of the same market are normally handled internally, but if the dispute involves women from two different markets, the relevant chairwomen will intervene. If they prove unsuccessful, the case can then be brought before the national president of the Market Women Association. Each market chooses its chairwoman by consensus. Through sustained interaction in the market place, a leader emerges by proving to be trustworthy and experienced. An election is held for the national executive.

Civil war and profiteering

The war had a direct impact on the livelihoods of market women, exacerbated by the UN sanctions imposed on 8 October 1997 that prevented the sale or supply of petroleum, petroleum products, arms and related material.³ For Sierra Leoneans who had not fled to Guinea, the sanctions trebled the price of rice, the staple food, overnight, and the same happened with other goods. Prices for petrol went up fivefold; commercial vehicles charged passengers exorbitant fares; while those who could not afford to pay were forced to trek long distances.

Some market women took advantage of the vacuum to engage in cross-border smuggling from Guinea of rice, onions, tomatoes and petroleum.⁴ They travelled by road or sea to Guinea where they bought whatever goods were needed.⁵ These were shipped by boat to Big Wharf, Freetown, a jetty well hidden beneath tarpaulins. The women collaborated with the border police and customs officials in both countries to pursue their business. According to the interviews conducted, security officers at the customs checkpoint at Big Wharf were bribed, and the goods offloaded and transferred to designated stores.

Foodstuffs intended for Freetown markets were retailed among other market women. Rice, for instance, was distributed in small quantities (five sacks each) and the rest kept hidden. The retailers sold the rice by the cup (one cup was sold for Le500), yielding more profit. A 20 kg sack of rice at that time cost Le50,000 or Le60,000 (around \$22.50-27). Smuggling was a low-cost enterprise because the infrastructure to apprehend smugglers was weak, unreliable or non-existent, but the risks were steep.

Market women also engaged in a thriving trade with the rebels. Foodstuffs and petrol were smuggled on trailers or trucks from 'safe' stores in Freetown to rebel-held areas in the provinces and sold to rebel commanders. They paid either in cash (leones or US dollars) or kind, including jewellery, gold or diamonds. Back in Freetown, market women either sold their diamonds to Lebanese dealers or smuggled them across the border to Guinea where they fetched higher prices, enabling them to buy more foodstuffs.

Trading with rebels was a risky enterprise. Some women died in road accidents on their way to the provinces, while others were ambushed on the way back by the same rebels with whom they had just traded. Often a rebel commander would send soldiers after the market women to retrieve the money or valuables provided as payment.

Sierra Leone Market Women's Association

The Sierra Leone Market Women's Association (SLMWA) was established in 1996. Its members originally belonged to the Petty Traders Association, the largest organisation representing traders and market sellers in Sierra Leone, but, frustrated by the discriminatory way they were treated, a group of women left to form their own organisation. They complained that though they were all fee-paying members and contributed equally to the import of goods from Guinea, they did not benefit equally from the distribution of goods.

Launched on a voluntary basis with no full-time staff or external resources, the SLMWA has grown into a registered, nationwide NGO of around 6,500 women with five staff and a national executive that is fully supported through membership fees.

Transformation with micro-credit

After the war, the livelihoods of most market women were in ruins. With the support of Campaign for Good Governance, a national NGO that had previously provided them with financial and technical assistance, a recovery plan was devised that entailed a micro-credit, revolving loan scheme to enable market women to restart their trading and productive activities.

Micro-credit schemes have become fashionable with the World Bank, governments and development practitioners who see them as effective, poverty-alleviation mechanisms for poor women. Such claims have been advanced because micro-credit not only generates financially sustainable lending institutions, it also facilitates the institutional relations needed for furthering women's empowerment. Though this has not always been the case in other contexts, micro-credit played a significant role in rebuilding the lives of market women in Sierra Leone.

Taking advantage of a \$50,000 grant from the UK Department for International Development, the SLMWA introduced micro-credit schemes in 2000 to increase the livelihoods of its membership. The project was launched by the UK's then development minister, Clare Short, in one of Freetown's central markets.

The SLMWA enjoyed a unique advantage from the micro-credit scheme because it was a grassroots organisation closely connected to women and their households. The scheme ran successfully from 2002-03 as evidenced by the wide access of market women to credit support. Some 90 percent of the credit fund was used to help the women, 70 percent of micro-credit recipients benefited from the support and nearly 80 percent of the loans were recovered.

The SLMWA's policy was to offer loans of about Le100,000 (around \$45) to each woman trader organised in groups of 20-30 borrowers across all Freetown's 26 markets. The local chairwoman oversaw compliance with the rules. The maximum loan of Le300,000 was only paid out to 'big' traders, such as dealers in rice, palm oil and fish. The loans were repayable on a daily basis at a rate of Le100 (about \$0.02). The SLMWA's initial interest rate was 5 percent, which is considered realistic in commercial terms. This was later increased to 10 percent to cover office and administration costs, and was deducted in advance.

A professional accountant was employed to manage the financial aspects of the programme, supported by a cashier and three collectors.⁶ CGG's Gender Department provided further administrative support. Group pressure and hard work ensured repayment of the initial loans, which were then followed by others. The system proved highly successful with some women repaying loans before they fell due. Moreover, a savings scheme was introduced for borrowers who were encouraged to put aside an additional Le100 a day. This money, and the interest accruing, was used to buy yearly Treasury Bearer Bonds.

Based on the Freetown experience, micro-credit was later extended to market women in Bonthe, Bo, Kono, Makeni Kabala and Kambia districts.

Peacebuilding properties

The SLMWA's objectives include providing opportunities for members through the provision of loans, which increased the employment of borrowers in activities such as second-hand clothing and gara tie dying. This in turn provided employment to members of the borrowers' immediate families. Thus, the credit programme had a multiplier effect that contributed to the national development goals of creating economic self-sufficiency and improving standards of living.

The micro-credit scheme also transformed the perceptions of the women about themselves and contributed to improved understanding of self-development. The scheme generated training opportunities for the SLMWA to increase its members' knowledge and skills, and to strengthen their perceptions of the dynamics of market competition. Apart from these gains, micro-credit benefited women by increasing

their participation in local political organisations, awakening a sense of involvement in the economic reconstruction of their communities.

Though the experience with market women demonstrated that micro-credit could help them become more economically independent, there has been little change in other areas of their lives. Two of these are the division of labour between women and men for the provision of household income, and the distribution of household tasks. Market women continue to do all the domestic work although they are successful entrepreneurs in their own right.

The above account demonstrates that self-reliant women's organisations can be built with popular support and can empower women if planned properly. It also shows that government support is not essential to this process. Indeed, the major problem today is the government's large-scale entry into micro-lending programmes. Micro-credit schemes in Sierra Leone were an innovation by the voluntary and NGO sector but the political elites have since hijacked them to serve their own interests. Through the Micro-Finance Programme and Social Action for Poverty Alleviation, the government paid out billions of leones in micro-credit loans to paramount chiefs and other traditional leaders. This would not normally have been questioned, but for the fact that it coincided with the electoral period, raising doubts about the government's motives.⁷ The interest rate on the loans was 15 percent and, though not formally disclosed, government officials claim an 89 percent recovery rate.⁸

When government agencies offer credit, whatever the articulation in policy papers, the concern at the grassroots is how to prevent micro-credit from evolving into a platform to ensure regime survival.

Conclusions

The nature and extent of corruption in pre-conflict Sierra Leone was a crucial determinant of the economic activities, such as smuggling, that unfolded during the war, and these were by no means gender-neutral. Market women's engagement in this grey area was both a cause and a consequence of the extenuating circumstances at that time. The desire to re-engage in legitimate economic activities after the conflict was greatly helped by the micro-credit scheme.

Women are important economic actors during and immediately after conflicts. They not only make a major contribution to the economic recovery of their families, they also play a role in revitalising the economic sphere, a key peacebuilding dimension.

In this context, the Sierra Leone scheme led to women's economic empowerment,

social reintegration and participation in local political processes, all of which are crucial if peacebuilding is to take root in post-conflict Sierra Leone.

Endnotes

- 1 There are two types of markets in Sierra Leone: small, local, daily markets and large regional markets that meet on specified days of the week. The first deal mostly in perishable foodstuffs while the latter offer a wider range of goods, including imported textiles, leatherwork, metal implements, etc. Many families have such low incomes that they do not have the means to stock more than they actually need from day to day. But shopping in small quantities is even common among better-off families.
- 2 The market is essentially a female space. Men have distinctive roles such as butchers, and the meat trade has traditionally been in the hands of Foulah men from the north.
- 3 UN Security Council Resolution 1132 (1997) also imposed travel restrictions on members of the Armed Forces Revolutionary Council (AFRC) junta and adult members of their families. Military equipment earmarked for the exclusive use of the Military Observer Group (ECOMOG) of the Economic Community of West African States (ECOWAS) and humanitarian assistance items were exempted.
- 4 Market women interviewed during the research trip in 2005 were concerned that dissemination of this case study would tarnish their reputations as upstanding citizens. They requested that the author point out that not all market women were involved in cross-border smuggling and that only a minimal number were involved in illicit trading with the rebels. It is difficult to know exactly how many market women were involved in the war economy since research has not been conducted in the area.
- 5 Sea was the preferred mode of transportation as boats could carry more goods.
- 6 It was the responsibility of the three collectors, working in the east, west and central areas of Freetown respectively, to 'collect' the daily payments from borrowers.
- 7 The government was criticised for wasting much-needed resources on election campaigning, which afforded the ruling party an unfair advantage over other parties.
- 8 Some recipients refused to repay the loan, arguing that it was 'government money'. This had a knock-on effect on the SLMWA scheme as some borrowers argued that, if government was not actively seeking repayment, the SLMWA should extend the same largesse to them.

**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

**Case study
Somalia***

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Somalia

Somali enterprises: making peace their business

Aweys Warsame Yusuf

Businesses have played varying roles in Somalia's conflict, with both positive impacts on post-conflict reconciliation and negative impacts that contributed to an escalation in violence at different times. This study focuses on the dynamics of an evolving private sector and its interactions with violent conflict at different stages, in an environment bereft of regulation. It specifically focuses on south-central Somalia. It is based on desk-based research into secondary sources; surveys undertaken by the Somali NGO Centre for Research and Dialogue (CRD); as well as personal interviews with businesspeople, elders, civil society representatives and grassroots actors. Access to these individuals was achieved through CRD's network of contacts.

Geo-political profile of Somalia

Somalia is located in the Horn of Africa together with Ethiopia, Eritrea and Djibouti. During the colonial period, south-central and northeast Somalia was known as the Italian Trust Territory of Somalia, while northwest Somalia was the British Protectorate of Somaliland.

Two all-season rivers, the Juba and the Shabelle, rise in Ethiopia and flow south across Somalia. The inter-riverine area is fertile and was formerly known as the 'breadbasket of the Horn'. Around a quarter of the population are settled farmers living in this fertile zone. Elsewhere, the semi-arid terrain and climate support pastoral and agro-pastoral livelihoods; about 60% of Somalis are nomadic or semi-nomadic pastoralists raising camels, cattle, sheep and goats. The remainder of the population (15-20%) is urban.

Conflict dynamics

The Somali state collapsed in 1991 as a consequence of the gradual disintegration of its governance structures. One precipitating factor was the end of the Cold War, and the vast amounts of military and economic aid that the Somali government had attracted first from the Soviet Union, and latterly the United States. The impact of clan-based, armed groups, notably the Somali National Movement (SNM), the Somali Salvation Democratic Front (SSDF) and the United Somali Congress (USC) in different eras contributed to the collapse of the state. These factions had one clear goal – to depose the government – without formulating any unified, post-government plan.

The military government came to power on 21 October 1969, six days after the assassination of elected president, Dr. Abdirashid A. Sharmarke. Somalia saw a brief period of parliamentary democracy after it became independent in 1960. Fluid clan alliances had dominated the political arena, however, with election votes cast based on clan loyalty rather than political issues. This created widespread grievances, particularly in the north (British Somaliland), where many felt that southern Somalis (Italian Somaliland) sidelined unity issues and manipulated politics in their favour. The alienation of the north and accusations of election rigging in many parts of the country created the grievances that eventually triggered Sharmarke's assassination.

Exploiting the moment, the army seized power ostensibly to restore law and order. General Siad Barre, who led the coup, gained popularity initially by banning the manipulation of clan in all walks of life and by introducing Somalia's first written script. However, his rule soon evolved into dictatorship. Opposition figures were jailed or accused of treason, and freedom of speech was curtailed. The oppressive Barre regime fuelled the subsequent conflict and collapse of the state. Clan identities were manipulated in divide-and-rule politics and Barre capitalised on Cold War competition in the Horn to attract huge military and economic aid.

After Siad Barre was ousted in 1991, the rebels who deposed him struggled for power in the capital, Mogadishu, which is now dominated by one major clan, the Hawiye. Major differences emerged between General Mohammad Farrah Aideed, chairman of the USC, and Ali Mahdi Muhammad, president of the first transitional government. A four-month conflict from November 1991 destroyed most of Mogadishu's downtown landmarks and killed thousands of residents, while displacing tens of thousands more. A multitude of factions carved Mogadishu up into clan fiefdoms. Eventually, the conflict expanded from its epicentre to embrace all of south-central Somalia.

The rest of the country remained relatively stable. The entities of 'Somaliland' in the northwest and 'Puntland' in the northeast enjoy relative peace, and their

administrations restored an environment conducive to trade and development. Somaliland offers an exemplary case of democratic process in the Horn with its citizens going to the polls for the third time on 29 September 2005.¹

After 14 years, Somalia's capital is still unruly and remains the greatest obstacle to countrywide reconciliation, with Mogadishu-based clans disregarding the outcomes of several peace conferences. The Transitional Federal Government (TFG), formed in late 2004 as a result of the Somali National Reconciliation Conference led by the Inter-Governmental Authority on Development (IGAD), is still unable to agree on whether to establish its offices in the capital. Although the intensity of the conflict has subsided, flare-ups are common throughout south-central Somalia.

The paradox in the Somali context is that many of the factors that drive the conflict have also been central in ending it.² On the one hand, clan relations are used to fuel power and resource-based struggles, and to mobilise militia; on the other, clan elders are a primary source of conflict mediation and clan-based, traditional law is the basis for negotiated settlements. Secondly, the last manifestation of a centralised state under Barre, far from providing a model of stability, rule of law and the fair allocation of resources, was a conflict factor, and a source of violence and predation. Thirdly, economic interests have led to the emergence of war economies in some areas while, paradoxically, business interests have fostered peace and stability in others.

Socio-economic conditions

In the absence of central government, many assumed that Somalia would quickly degenerate into a state of continuous anarchy. However, compared to the benchmarks of wealthier countries within the region, Somalia fares better in key areas. For instance, Somalia has less extreme poverty and more income equality than richer countries in the region.³ Forty-three percent of the population lives on \$1 or less a day, compared to 50 percent in West Africa and 52 percent in neighbouring countries. Two explanatory factors are the Somalis' historical propensity for trade, facilitated by the country's geopolitical position and remittances (estimated to be five times the annual aid budget and accounting for around 30 percent of Somalia's GDP) from the extensive diaspora.⁴ These factors, coupled with easy access to markets, have enabled many Somalis to engage in trade. Economic activities with a short time-horizon, such as trade, are more likely to prevail in the insecure context of conflict, which makes longer-term investments less attractive. The long, porous and unattended borders with Ethiopia and Kenya, and the presence of ethnic Somalis on both sides of the border, make it possible for Somalis to provide neighbouring markets with comparatively cheaper products (tax on goods are almost non-existent in Somalia, compared to Mombasa port).

Historically, the Somali economy can be viewed in four different stages: colonial era, the 1960-69 periods, 1970-90 period and the post-government era.⁵

Colonial economy

The colonial economy focused on the establishment of cash crop plantations in the fertile land between the two rivers, along with the creation of a salaried, official class. In the south, the Italians laid the basis for profitable export-oriented agriculture, primarily in bananas, through the creation of irrigation systems. The plantations also produced cotton and sugar.

Banana exports reached \$6.4 million in 1957 and cotton \$200,000. In that year, plantation produce constituted 59 percent of total exports. Today, due to the re-occupation of fertile land and changes in international trade agreements, exports of agricultural products are no longer a significant element in the economy. Meanwhile, the appropriation of agricultural land by the colonial power left unresolved land disputes that are still outstanding.⁶

First post-colonial government

The Somali economy was at near-subsistence level on independence, and the new state lacked any capacity to collect taxes from herders and farmers. It could extract customs taxes on international trade but they failed to meet the needs of a government with ambitious development goals. Somalia therefore relied on Italian and British subsidies, which funded about 31 percent of the nation's current budget in the first three years of independence.

In the pastoral sector, the Livestock Development Agency, formed in 1965-66, emphasised veterinary services, the provision of water and holding grounds while cattle were undergoing inoculation and transportation. Pastoralists responded with enthusiasm by entering the international livestock market. In the early 1960s, the value and number of exported animals nearly doubled, and livestock surpassed bananas as Somalia's leading export.

Military regime (1969-90)

President Barre quickly brought a large proportion of the modern economy under state control. The government nationalised banks, insurance companies, petroleum-distribution firms and the sugar-refining plant, creating national agencies for building materials and foodstuffs. In 1973, the government issued a decree that laid the foundation for cooperative development. In this period, the government reorganised the sole milk-processing plant; established tomato-canning, wheat flour, pasta, cigarette and match factories; opened a plant that manufactured cardboard boxes and polyethylene bags; and established several grain mills and a petroleum refinery. The state expanded sugar operations in Giohar (Jowhar) and built a new sugar-processing facility in Mareerey. In three

of the four leading light industries – canned meats, milk and textiles – output increased from 1969-75.

There were two watershed events for Somalia's economy. The 1974 drought, dubbed *dabadheer* ('the long-lasting one') devastated the pastoral economy and weakened the cooperative-based economy. The other was the Ogaden war, which transformed Somalia's political landscape.⁷ The war also turned Somalia's socialist allies into foes and after the Ethiopian revolution in the same year, the Soviet bloc switched its support to Ethiopia. As a result, Somalia allied itself with the US and the West.

Following the loss of Soviet support, Somalia abandoned the socialist exercise and the IMF came in to restructure the economy. By the 1980s, the military government had lost its grip on the country's affairs. Corruption and nepotism became rampant, and the underground economy flourished. Senior officials exercised their power to partner with businessmen and the public lost confidence in government institutions. Trust-based networks of money handling, albeit illegal, replaced the existing financial institutions (see below).

The end of the Cold War was a critical factor in the collapse of the state. Somalia's geo-strategic importance ensured it received extensive foreign assistance, first from the Soviet Union and later the United States. This enabled Siad Barre to support a bloated bureaucracy and military, one of the largest in Africa, which could not be sustained without external support.⁸

Limited demographic and socio-economic data exist due to the lack of a Somalia national authority since 1991, and Somalia has not been ranked in the UNDP *Human Development Index* (HDI) since 1997. The World Bank/UNDP *Somali Socio-Economic Survey 2002*, published in January 2004, provides key macro-economic and socio-economic data, supplemented by the UNICEF 'End-Decade Multiple Indicator Cluster Survey' and the 2001 UNDP *Human Development Report*. Based on this data, Somalia ranks among the poorest countries in the world, with a per capita income of \$226 (\$291 in urban areas, \$195 in rural Somalia).

Table 1 – Somali economic data, 2001-05

Indicator	2001	2002	2003	2004	2005
1. Proportion of population below \$1/day		43%			
2. Under-five mortality rate	224	224	224	224	224
3. Gross enrolment ratio in primary education	12%	15.7%	17.3%	18.1%	22.5%
4. Ratio of girls to boys in primary education	35.2%	36%	36%	20%	22%
5. Maternal mortality ratio, per 100,000 live births	1,600	1,600	1,600	1,600	
6. Proportion of one-year-old children immunised against measles	15.6%		29%	27%	
7. HIV/AIDS (adults 15-49 years)	<1%	<1%	<1%	<1%	
8. Proportion of population reporting they have access to safe water		20.5%			

Sources: World Bank/UNDP (2004) *Somali Socio-Economic Survey 2002*; UNICEF *End-Decade Multiple Indicator Cluster Survey*; and UNDP (2001) *Human Development Report 2001*.

Civil strife and countrywide consumption of *qaat* (a plant chewed for its addictive, stimulant ingredient) are serious obstacles to recovery. *Qaat* is a particular social hindrance to development and represents an outflow of around \$100 million annually.

According to the ‘Somali Socio-Economic Survey 2002’, the total population is estimated at 6.8 million (one million in Mogadishu), of whom two thirds are under 10 years of age. Primary household income sources are: 50 percent from self-employment; 14 percent wage labour; 22 percent from remittances; and 13 percent from rental income and aid. Prior to the war, the most prosperous parts of Somalia were the southern, commercial agricultural zones and Mogadishu. With the exception of Mogadishu, the situation is now reversed: formerly prosperous areas have declined and areas experiencing relative peace (predominantly in the north) have higher levels of growth. In the more prosperous north, urban centres have grown rapidly since the war.

Remittance companies transfer \$700-800 million annually, of which half takes the form of direct payments to families. Remittances account for around 30 percent of Somalia’s total GDP and are the economy’s largest component. The large diaspora populations also support house construction, small businesses and telecoms services. Remittance companies therefore represent a valuable asset for Somalia’s future. The larger companies offer basic banking services and are crucial in supporting the vibrant trading industry.

Other primary economic activities are livestock production and agriculture (predominantly in the south). Livestock rearing is the most important economic activity in south-central Somalia, but it is equally important as farming in the Lower Shabelle, Middle Shabelle and Lower Jubba districts. From 1991-93, the volume of exported livestock increased in response to a seemingly endless demand for meat from Gulf markets. This trend ended in 1994 when prices fell sharply due to the deregulation of the livestock trade in Somalia, repeated outbreaks of Rift Valley Fever and increased competition from Australia and New Zealand.⁹

After a Saudi ban on live animal imports in September 2000, Somali businessmen shifted to the processing and export of frozen meat to the Gulf. Currently, two enterprises in south-central Somalia, Mubarak 1 in Mogadishu and Mubarak 2 in Galkayo, export 210 tonnes per month, in addition to monthly exports of 500 tonnes of raw meat. This translated into earnings of \$12 million in 2003, according to the chairman of the two companies.

Besides frozen meat and live animals, hides, skins and other livestock by-products, such as milk and ghee, are also traded and consumed locally. Three major firms in Mogadishu export 150,000 unrefined hides and skins per month, realising about \$2.7 million per year.¹⁰

The amount of land under cultivation shrunk drastically after the state collapsed in 1991, affecting both cash crop plantations and subsistence farming. The agriculture sector was hard-hit by the civil war. Factional competition for control of cash crops led to intense clan disputes. In some areas of the Juba and Shabelle valleys, clans aggressively displaced indigenous populations, sometimes coercing them into labour.¹¹ A number of other factors born of the conflict further weakened the sector, such as shrinking market share, the deterioration of infrastructure, land erosion or degradation, a shortage of skilled manpower and the donation by aid agencies of staple foods, typically maize and sorghum, at harvest time.¹²

Banana exports resumed in the mid-1990s and fierce competition between two multinational corporations, Brazil's De Nadai and Dole from the United States, accompanied by investment into the industry, reinvigorated production. This renaissance lasted only a short period, however, due to the excessive overheads for transportation and security (in the form of protection money). The struggle between different factions for control in Lower Shabelle – dubbed the 'banana war' – was not primarily about land ownership but distribution issues, namely taxation and marketing, between factions and traders. According to one report, 'multinational corporations involved in the Somali banana economy have financed political factions, thus contributing to the continuation of conflict in southern Somalia in the early 1990s'.¹³ When the business costs became too high in 1996, the two companies withdrew. Subsequently, exports of bananas and other fruits reverted back to small-scale traders.

The farmers' subsequent disappointment was a blessing for local consumers. The markets in south-central Somalia are filled with fruits that are rare and expensive overseas: mangoes, papaya, bananas, grapefruits, grapes and guavas.

As well as fruit, south-central Somalia is rich in cereals, with 400,000 hectares of maize and sorghum planted in the first sowing season and 230,000 hectares in the second. Recently in Lower Shabelle the *deyr* (short October-November rains) produced a good maize harvest, although farmers in Hiiraan, Bakool and Gedo realised only limited quantities of sorghum and maize.¹⁴

Economic dimensions of US-led UN intervention

The US-led UN Operation in Somalia (UNOSOM) was initially formed in April 1992 to secure the safe delivery of relief aid after the civil war, although Somalis recall the intervention as an era of excess and the 'dollarisation' of their economy. Large sums poured into south-central Somalia and lucrative contracts were drawn up for the delivery of food and the essential infrastructures required for a major relief operation. "I had the contract to deliver vegetables and fruits to some of the troops," recalled one businessman. "I was making \$10,000 per week."

The markets were flooded with cheaper food and a much-needed respite from the fighting gave Somalis the time and money to undertake business. Both international and national providers won contracts. A former procurement officer with UNOSOM recalled: "International food donations flooded the market. Access to food and markets was improved by the presence of international troops who deterred gunmen who usually looted and denied the needy the food. The abundance and accessibility of international donations to the public made other products in the market cheaper. Moreover, UNOSOM offered contracts to local merchants who in turn bought goods from local markets, stimulating intensive trade. Somalia's local markets were the suppliers while UNOSOM created demand. Also for rental buildings and construction, contracts were frequently given to local engineers. Before long, UNOSOM became virtually the sole job provider for most people. Local markets came back to life after international intervention provided security, food and money."

'Briefcase NGOs' (NGOs in name only that were characterised by one or two entrepreneurs carrying briefcases) proliferated to capitalise on the aid boom. Other economic by-products of UNOSOM included rents, security contracts, employment and currency transactions. Large extended families survived on a single worker's salary. When UNOSOM pulled out in 1995, there was a risk of economic collapse in Mogadishu where the UN had become the main employer, both directly and indirectly.¹⁵ The economy went into 'withdrawal' from the artificial, externally driven stimulation and dependency on foreign aid. The

value of the Somali shilling deteriorated, driving up the price of imported food in major markets.

There has been no engagement by external actors near the scale of the UNOSOM mission since 1995. In the absence of a recognised government, donors do not contract directly with regional administrations, NGOs or businesses, but instead fund international agencies for relief and rehabilitation (primarily the UN in south-central Somalia and foreign NGOs in the north), with medium-term development mainly in Somaliland. Due to safety constraints in south-central Somalia, most aid funds are spent in less acute, but more secure areas. Food aid delivery became slower and more expensive in 2005 due to a sharp increase in piracy off the Somali coast (including the hijacking of vessels carrying relief). Piracy is also reported to be driving up the prices of all imported commodities, including fuel.

Private sector activity in the conflict setting

A wide variety of business is active in Somalia, including remittance companies; three competing airlines; three phone companies in Mogadishu alone (offering the cheapest rates in Africa); several pasta factories; over 45 private hospitals; at least 55 providers of electricity; 1,500 wholesalers for imported goods; water purification plants; emerging light industry and manufacturing; and the recent establishment of a Coca-Cola plant with a capital investment of over \$8.5 million.¹⁶

In many ways, the business sector has been one of the few sources of stability since the collapse of the state, meeting many of the latter's responsibilities, such as the provision of services like water, electricity and telecommunications. Through these services, business interests have been a driving force for peace, stability and the rule of law.¹⁷ In other instances, war economies and competing interests have emerged that perpetuate violence and lawlessness. In all cases, businesses pay a high price for the absence of government, most obviously in the high overheads they pay for security. Thus, despite paying no formal taxes and operating in an unregulated environment, many actors in the business sector support the return of a functioning government and limited regulatory frameworks (although they would strongly resist a return to the high level of state control experienced under the Barre regime).

The role of the private sector in conflict settings has been a subject of major focus in post-Cold War era. The new uni-polar direction of global politics evoked rapid globalisation, economic privatisation and the retreat of state-led development that rendered private sector actors more relevant to peace, security and prosperity.¹⁸ In Somalia, the absence of restrictive government policies, state provision, regulation and control has tended to encourage entrepreneurship and competition (including, on occasion, violent competition). Ironically, with the disappearance of the corrupt,

centralised state, Somalis have developed better private sector services in many neglected areas of the country than existed in the pre-civil war era, although they may not be accessible to those who cannot pay.¹⁹

The unregulated economy benefited from entrepreneurial Somalis who created simple institutions to provide quick and cheaper transactions. These new structures eschew bureaucracy and streamline complex transactions in the transfer of money and goods. A simple phone call and a guarantor, preferably a known businessman or an older relative, can complete the transaction or transfer.

In more complex sectors, such as telecommunications, where international service providers are involved, private sector enterprises have been creative in borrowing foreign jurisdictions.²⁰ These sectors emerged as Somalis who had fled the country brought back new ideas from their host countries. New light industries, machineries and electronic equipment were brought in. The export-import trade flourished, turning Bakaara market in Mogadishu into one of the busiest and largest in East Africa. Consumerism has grown with the new, aggressive sales mentality.²¹ The overflow of goods demanded innovative ways of selling. Mortgaging products to customers, dubbed *Ha I wareerin* (part payments), have begun to flourish.²² Young children roam residential areas selling products at cheaper prices. Privately owned radios and TV advertise products to generate money. A throwaway mentality has developed with the increased availability of one-time use and cheaply made goods.

Social service provision has also become the domain of the private sector. Privately owned schools, universities and hospitals have mushroomed in south-central Somalia. Some hospitals are subsidised by community handouts and receive assistance from international organisations, such as the International Committee of the Red Cross (ICRC), SOS, Médecins Sans Frontières (MSF) and others, but all charge fees and Somalis have become used to paying for essential services. Private power companies have carved Mogadishu into several zones and provide electricity at affordable rates. Similarly pumping stations scattered across central Somalia distribute water in different zones. The power and water services are actually more reliable in small towns than the bigger cities, since a single provider usually meets demand, while in Mogadishu there is a multitude of providers.

Nevertheless, in the context of the prolonged collapse of the state, there has been a heavy toll on the business sector due to the absence of central regulation, corruption, violence and its repercussions, such as lack of investment and shortened time-horizons. Businesses have adapted to a remarkable degree, and developed coping mechanisms, such as filling the regulatory void themselves, maintaining close ties with warlords or in some cases by assuming warlord-like roles themselves, effectively blurring the boundary between the two.

The costs of conflict to business

As well as loss of life and the destruction of property and livelihoods, the civil conflict and prolonged state collapse resulted in significant out-migration. While the diaspora remains closely connected to events in Somalia and makes a significant financial contribution to extended families and the economy, the resulting brain-drain, combined with lack of educational opportunities for the ‘lost generation’, left a substantial gap in human capacity, particularly outside the urban centres. The absence of a recognised government militated against international investment and Somalia’s full representation in aid and trade agreements (such as the Cotonou Agreement between Afro-Caribbean-Pacific countries and the EU), as well as impacting on Somalis’ ability to travel on Somali passports.

The primary costs of prolonged conflict for the business sector include: high overheads for security; poor, damaged or destroyed infrastructure (including ports and roads, with associated high transport costs); and problems associated with lack of regulation. The latter severely limits external trade in key commodities, such as livestock, as well as investment in the absence of both a banking system and a recognised legal framework. Since 9/11, lack of regulation coupled with increasing monitoring of financial transactions also threatens to curtail the operations of the remittance companies, which play a central role in the post-conflict economy.

Security costs

This section focuses on businesses based in Mogadishu, where the effects are among the most severe in the country, but similar dynamics pertain elsewhere to varying degrees.

There are huge security costs involved in running a business in a conflict setting. The cost of paid guards and compensation payments is monumental. According to one interviewee, 20-25 percent of a company’s annual budget may be spent on security. Being part of a *diyo*-paying group (see below) can make compensation resulting from an accident in a company car more costly because the company’s capital is taken into account when calculating damages.

In addition to escalating security costs, ‘free services’ may have to be offered to warlords, militia leaders and other individuals, ostensibly to establish friendly relationships. Sabotage, such as cutting wires to catch the attention of a company’s security establishment, is frequent and the perpetrators may later demand free services or protection payments. In some cases, companies respond by hiring local men as guards in areas where sabotage is carried out (both to increase security and to offer employment to potential troublemakers).

To protect one’s business from conflict, it is not enough to belong to a *diyo*-paying group or have an *abbaan* (see below); it may also be necessary to engage with different armed

actors to avoid sabotage. As narrated by one businessman interviewed for this research, on one occasion the conflicts emanating from such incidents halted all business activity. In 2004, a businessman in northern Mogadishu, affiliated with an owner of the Nationlink telephone company, confronted a local warlord concerning the fees imposed on a construction site. When the businessman refused to pay, the warlord ordered a halt to construction. The businessman ignored the order and the warlord's army attacked the site. The businessman's gunmen (mainly from his clan or his *diyo*-paying group) defended the location. Some of Nationlink's guards subsequently became involved. The conflict developed into an open confrontation between the warlord and Nationlink.

Another issue is the vulnerability of Bakaara market, which has caught fire twice in recent years, causing huge losses to businesses. Many traders went bankrupt. While traders pay large amounts for security, it is impossible to safeguard against this kind of accident.

Cross-border trade is also costly and requires complicated logistical and security preparations. Huge costs can be incurred when freelance gunmen ambush caravans and loot their goods. The trans-border livestock trade from Lower Jubba to Kenya is particularly afflicted by cattle rustling. "I remember the looting of 4,000 head of cattle," said a Jubba Valley Alliance officer. "It was Ogaden gunmen looting from Galjecel and Shiikhal. We went after them and brought back most of the cattle."

Physical damage to infrastructure

The key to social and political stability is infrastructure. Its main components are physical (transportation, clean water and sanitation, reliable power); social (a working government that provides financial, judicial, and security services, education, healthcare, communications, trade and housing); and cultural (arts, community, culture and sports).

The civil war decimated physical, especially public, infrastructure. Roads, ports, airports and all government infrastructures either fell into the hands of warlords of businessmen, or became defunct after prolonged neglect. A similar fate lay in store for government offices, buildings and housing. During the early years of conflict, the machinery in government-owned industries was shipped out as scrap to neighbouring countries. Profits from the sale of entire plants helped finance the civil war. The export of scrap from public infrastructure continues at a less intense level, due to the scarcity of available materials. "We ship the goods to United Arab Emirates (UAE)," said one scrap-metal dealer. "The major markets are in India."

Four major airports in south-central Somalia (Mogadishu, Kismayo, Baydhaba and Ballidogle), and two ports (Mogadishu and Kismayo) survived the war intact and are again functioning after minor repairs. Most formed part of the military infrastructure of the Barre regime. Kismayo port is currently functioning, although

Kismayo city has been in turmoil with control changing hands several times until two years ago.

Mogadishu airport is also in good condition, but remains closed because the competing warlords cannot agree to re-open it. Mogadishu port is closed for the same reason. International forces briefly opened it during the UNOSOM intervention, but it was shut down as soon as foreign troops left. The natural port of Elmaan is the only port currently operating near Mogadishu, and it was built and run by private businessmen. This destruction inevitably imposed major disruptions on business, and related costs.

Factors facilitating business activity

Despite the heavy costs, several other dynamics contribute to the vigour of private sector activity in south-central Somalia. These shaped the private sector and are the driving forces underlying the evolution of the sector.

Globalisation

Throughout the 1990s trade expanded at rates substantially faster than the growth rate of the global economy, spurred by the conclusion of the Uruguay Round of trade negotiations and the setting up of the World Trade Organisation in 1995.²³

Although the 1990s were characterised by civil war and destruction, they were also a watershed period for Somalia's economy, which steered new directions in entrepreneurship, trade and enterprise. Much of this can be attributed to globalised trade. The influx of multinational companies into new territories in the developing world made services and products more easily available and more affordable. Somali traders no longer have to travel to Europe or the United States to launch their business ventures. Closer markets in the UAE and South East Asia provide better alternatives in terms of cost and access.

Furthermore, the fierce competition between global companies for markets encouraged them to venture into conflict-ridden zones. Telenor of Norway, MCI and Coca-Cola are all examples of multinationals that have partnered with Somali businessmen. Somalis provided the investment required for the Coca-Cola venture. Like any other local company, Somali businessmen make the investment and provide the security.

Local networks and the simplification of transactions

In the absence of centralised regulation, local networks play a major role in interactions between Somalis. While a working government is still elusive, the governance structures inherent in Somali culture have reasserted themselves. To a degree, this informal, non-uniform governance seems to perform better. In the

absence of a working government, the private sector played a major role in restoring basic service provision and the related infrastructure. Trust, based on reputation and clan relations, is a major aspect of such transactions. That trust has been strengthened by crosscutting business ventures that transcend clan confines, further dampening polarisation along factional lines. A recent example of how this operates concerned the looting of a convoy of food aid in Burhakaba. The businessman contracted to deliver the aid contacted a fellow businessman in the area who mobilised his own forces and later returned the looted goods.²⁴ This *quid pro quo* for facilitating business across clan lines evolved throughout the period of state collapse as a survival strategy in the absence of any alternative regulatory system.

The role of local networks manifests itself in other ways, most apparently in the legal system. The traditional legal system in place employs customary law to settle disputes and resolve conflicts. The two major components of the customary law are *diyo* and *Xeer*.²⁵ Traditional conflict resolution mechanisms (TCRMs) are also used to settle land and property disputes. Although formal property rights are non-existent in Somalia, TCRMs mediate such disputes by reference to clan relations and networks.

Hawala, a financial institution based on trust, has replaced the formal banking system. It derives its vigour from an indigenous tradition whereby caravans travelled under the guard of *abbaan* (the *hawala* system is discussed in detail below).

Unlike colonial and post-colonial security institutions, the *abbaan* system has enjoyed the confidence of nomadic Somalis since pre-colonial times and never became obsolete.²⁶ The *abbaan* is the bedrock of a security network implemented between clans residing along the route of a trade caravan. Members of hostile clans provide protection for goods passing through their own territory. The majority of clans respect the role of the *abbaan*, knowing they may need safe passage of their own goods in the future. Although the function of the *abbaan* is the same, the role it plays in modern businesses, such as the telecommunications sector, has changed. It is no longer a caravan or goods that require protection, but infrastructure. The modern *abbaan* could be a shareholder inclined to protect the infrastructure or recruit customers from his clan and friends. However, nothing has changed in the selection criteria: reputation, status and strength of lineage. While the old *abbaan* was rewarded for the safe delivery of the goods, the modern *abbaan* relies on the profitability or success of the business.

Illicit business activity and its impacts

Some traders have profited greatly from the conflict dynamics and lack of regulation. Somalia is a primary route for weapons smuggled into the Horn and East Africa from Yemen, which has been described as a weapons supermarket. Expired or low-quality drugs and foodstuffs are among the commodities purchased in UAE for sale in Somali

markets and beyond. The illicit export trade includes charcoal to the Gulf, causing irreversible devastation to the environment, female livestock and rare or protected species. The smuggling of duty-free, electronic goods from the UAE and Asia through Somalia into Kenya and neighbouring countries has undermined legal traders in those markets. Unregulated fishing for lobster and shark fins for export threatens the future of marine resources. The daily import from Kenya and Ethiopia of *qaat*, a mildly intoxicating narcotic leaf, costs Somalia an estimated \$100 million per year.²⁷

Scrap metal, charcoal, expired drugs

The lawlessness prevailing in the civil war era affected Somalia's export profile, with charcoal and scrap metal emerging as new export commodities.

In a country like Somalia, where industrialisation is in its infancy, scrap is a valuable raw material. Local mechanics and blacksmiths use it to manufacture domestic utensils. Scrap also provides spare parts. When a machine component wears out, defunct machinery is cannibalised for similar components that can be used as spares. "The export of scrap metal depleted the spare parts resource in this country," said one mechanic interviewed. "This country brought all kinds of machinery from all corners of the world. From Bulgarian-made machines to American and Italian tools. Some are obsolete. Their spares are not available. Even those that are available, we cannot afford. The farmers do not have money. Things have changed. So this scrap sometimes provides a spare for old, dysfunctional machines."

Meanwhile, the export of charcoal is indicative of the immense environmental degradation Somalia is undergoing. The depletion of trees has turned pasture into abandoned, arid landscapes with extensive erosion of the surface, alluvial layers that once made it fertile. An estimated 200,000 bags (50 kg) of charcoal are exported to the Gulf states every month through the natural ports Ceel Macaan and Ceel Cadde. The harvest area now covers the Bay, Lower Shabelle, Middle Shabelle and Lower Jubba districts. Since the backbone of Somalia's economy is the export of livestock, the erosion of pasture signals the future decimation of its herds, farmland and traditional livelihoods.

The import of expired, fake or low-quality, pharmaceutical drugs is another feature of the unregulated economy. Traders buy prescription medication near or beyond expiry in the UAE and elsewhere for import into Somalia where they are commonly sold on the streets. The absence of effective or affordable healthcare has led to increased reliance on unregulated, small pharmacies that offer prescription drugs for sale on request. Those running the pharmacies are generally unqualified and the public is poorly informed of the proper use of the medications, with the associated health risks.

Although no concrete data are available, drug trafficking is known to exist. A local warlord in Lower Shabelle confiscated marijuana on several occasions and farms growing it were burned.

Currency printing

The stateless economy invites fraud. From 1999-2000 Somali businessmen printed 38 billion Somali shillings (\$2.53 million) in 1,000-shilling notes.²⁸ An additional 195 billion shillings (\$13 million) were printed in 2001. This huge sum, channelled not through a bank but in private hands, created millionaires overnight. Sudden influxes of this currency typically caused inflation and price increases, impacting on the most vulnerable groups. Powerful factional and political figures were implicated as well as the businessmen. A panel of experts reporting to the UN Security Council described the printing of money as tantamount to violation of the UN arms embargo – given its potential for generating wealth to import weapons and foster conflict.²⁹

Business and warlords: an evolving relationship

In a conflict setting, businesspeople change their relations with conflict actors to protect themselves and their businesses. This can include arming themselves to secure their interests and trade routes. In the early phase of the conflict, businesspeople needed the warlords' authority and protection to run their business. They therefore became financiers of conflict and partners of warlords: the provision of finance to warlords' causes fell on every clan member as part of the *diyo*-paying group, but the clan's businesspeople assumed the lion's share in putting their wealth at the warlords' disposal.

At that stage, the complex economic interactions between businesspeople and warlords blurred the distinction to the extent that they became indistinguishable from each other. In various ways, they combined in undesirable symbioses, using reciprocal strategies to maintain their own activities – with businesspeople doing business to sustain conflict, and warlords engaging in conflict to protect, pursue or promote their economic interests.

Early stages: business sustaining war

In the early days of the civil war, confusion, looting and anarchy were the norm. Conflicts emanating from the plunder of government stores, banks and everything of conceivable value triggered the wanton killing of civilians. Many so-called 'clan conflicts' at the time masked simple if vicious rivalry over resources. Freelance gangs exploited the anarchy and thrived through looting and extortion. Food aid became part of the war economy, leading to the notorious looting of international relief that prompted the US and UN intervention. An estimated 250,000 people died in the war and famine in 1991-92. But the looting of food donations had business dimensions as well. The faction leaders who led the overthrow of the Barre regime, and others who became powerful after the state collapsed, needed food for their fighters, while freelance gangs sold it to the public who, even when they had money, could not find food to buy.

In the absence of an overall ‘winner’ in the struggle for Mogadishu in the early 1990s, and after UNOSOM’s withdrawal in 1995, the warlords required continuous and more systematic access to resources to fund and sustain their fighting. Somalia has no valuable natural resources, such as gold or diamonds, with which to fund conflict as other African countries do. These resources draw external actors with large sums of money into the equation. Nevertheless, warlords and entrepreneurs attempted to make do with what was available to them, through the export of goods looted during the UNOSOM period and later by exploiting charcoal, marine resources and rangelands associated with the livestock trade.³⁰

Many businesspeople contributed funds as members of *diyo*-paying groups. Rich groups in the clan pay in advance in the hope that less fortunate members will face more exacting levies later. As the richer clan members exhausted their resources, other means were employed, such as using armed militia to confiscate and export the government infrastructure. Entire factories were sold to neighbouring countries, creating a generation of wealthy entrepreneurs, and industrial and heavy-duty equipment, such as tractors, vehicles and various machines, were also exported.

The protagonists’ need to generate resources created entrepreneurs who became warlord associates, and could use the warlords’ ‘muscle’ to confiscate the government’s arms depots and productive equipment. These businesses, albeit illicit, provided some employment, though mostly for gunmen and accountants.³¹ At the same time, these entrepreneurs needed weapons and guards to protect their business and property. A negative cycle ensued in which businessmen partnered with warlords both to protect their own wealth and fund the latter’s power struggles, resulting in unbridled illicit business ventures. The new entrepreneurs (or warlord associates) filled the vacuum left by the Somalis who fled abroad, taking high risks, and reaping high profits.

Warlord associates with funding capability began to emerge. Powerful businesses, who could provide security and protection, won lucrative contracts from international donors for the delivery of food and essential medicines to remote areas. The money earned was re-invested in private business, especially import-export and construction.

Transition: business as a deterrent against warlords

The watershed period for the divorce of the warlords from the warlord associates coincided with the arrival of UNOSOM troops in 1992. UNOSOM served to weaken the warlords’ role while empowering business through lucrative contracts (over \$2 billion was injected into the market). At the same time, the protracted nature of the

civil conflict wore down the warlords while entrepreneurs began to establish businesses that transcended clan confines through use of the *abbaan* networks.

Taking advantage of their relationships as members of *diyo*-paying groups, some businesses began to recruit gunmen from the militias. This developed a class of armed businessmen whose relationship with the warlords sometimes turned sour. The greatest challenge, however, was the arrival of the Transitional National Government (TNG), formed at the Arte peace conference in 2000 and supported by business. Mogadishu-based warlords boycotted the government and vowed to prevent its establishment in the capital. Businesspeople in turn sponsored the government's arrival in Mogadishu, providing their armies to deter warlord attacks. Despite this, clashes between the warlord and business armies were inevitable. A confrontation at Mogadishu port in 2001 between forces respectively loyal to a businessman and a warlord resulted in heavy casualties including the killing of three senior army officers, and over 40 civilians and combatants.³² Again, in 2004, the armed guards of the company, Banadir, clashed with a warlord's gunmen over tariffs at Elmaan port, leaving the warlord defeated. Later negotiations quelled the dispute.³³

Businesses and warlord accommodation

Such intensive confrontations have recently given way to smaller incidents and flare-ups. By this stage, businesses have built sophisticated and expensive infrastructure. "In this phase of conflict," said one businessman, "there is a common understanding between warlords and businessmen. Both understand their roles. The warlords protect their political standing; the businesses guard their ventures."

Businesspeople and warlords have become accommodating to one another in an environment where the distinction between them has blurred. The fundamental difference between a warlord army and a business army is that a warlord's militia is usually dominated by his clansmen, while businessmen hire gunmen from different clans. The rationale is simple: businesspeople want to undertake ventures in various clan network domains, and hiring 'staff' from other clans provides them with access.

Profiting despite conflict

Despite the immense difficulties described above, it is apparent that some entrepreneurs have been hugely successful in setting up businesses in niche markets, reaping considerable profits while offering services that are in demand with the public. Having already described these dynamics above, this report will now focus in greater detail on telecommunications, *hawala*, and market trade.

Telecommunications

Prior to the civil war, telecommunications had always been in the public domain. In the current unregulated economy, the sector has mushroomed, facilitated by the simplicity of the infrastructure required and quick returns on investment. Together with the *hawala* system, telecommunications has become the leading private sector industry.³⁴ As indicated above, prices are among the cheapest in Africa.

For the large Somali diaspora, telephones are vital for staying in touch with home. Effective telecommunications infrastructure can stimulate economic growth, raise living standards, and restore and strengthen ties in a community. A modern communications network plays a vital role in narrowing the physical distances that separate the villages and towns, and dramatically improves access to information and markets.

Good telecommunications underpin a variety of other businesses. Along with financial institutions, it acts as an interface between business networks and the foundation for their structures. Whether ordering a product or buying spare parts; transferring money or finalising a transaction, telecommunications are indispensable. Among the many sectors that depend on telecommunications infrastructure, the media sector is most obvious. Local radio stations in Mogadishu have correspondents who use mobile telephones to broadcast the news from all over Somalia.

Given the dynamic nature of the sector, with its rapid rate of mergers, closures and start-ups, it is difficult to quantify its size or the number of people employed. However, the following description of the three large telecommunications companies in south-central Somalia gives some indication of the sector's capacity.

The big three in south-central Somalia

Three companies, Hormuud, Nationlink and Olympic Telecom, cover almost the entire telecommunications market in south-central Somalia, and Nationlink increasingly provides services abroad, notably in the Democratic Republic of Congo, Rwanda and the Central African Republic. Without a regulatory body, new entrants to the market cannot compete with established ones who keep a tight grip on their monopolies. The assigning of frequencies is undertaken under the auspices of the big three and the decision reflects their consensus. The regulating body in Somalia is, therefore, a market commodity, meaning that market share determines regulation, albeit on a consensual basis.

Similarly, the big three made a tripartite agreement to interconnect among themselves, allowing customers to make calls between networks. "The original idea was suggested by UNDP, which proposed hiring a consultant to study the issue," said one telephony engineer. "However, when we saw the cost involved, we asked ourselves: 'Can't we do this ourselves?'" Then the managers of the three companies

created a multi-company technical committee to study the possibility of implementing inter-operability. We succeeded and went ahead with the implementation. Now, the initiator of the call takes \$0.08 a minute, while the receiver gets \$0.07 cents a minute.”

Hawala

Hawala is a traditional way of transferring money that is based on trust. The transactions are simple and cheap. “Modern banks will always ask you a lot of questions and ask you to fill in a lot of forms,” explained a financial officer from the *hawala* dealer, Global Money Transfer. “This is not convenient for our people, who are an oral society. It is time-consuming. When they come to us, they just answer the how much, to whom, whereabouts and beneficiary-related questions. They don’t have to write up forms.”

The money-transfer business made its debut in the early 1970s. At the time, remittances were wired to the national bank as it was illegal to funnel money to private financial institutions. Nevertheless, as people lost trust in the banking system, an informal remittance business developed. That was the only way to avoid the unreliable bureaucracy in the failed government’s banking system. On several occasions, money remitted from abroad was lost due to mismanagement. Corruption, caused by the bank employees’ low salaries, eroded public trust: in 1975, private unrequited transfers dropped from \$4.1 million to \$3.3 million at a time when the number of Somalis working abroad had rapidly increased.³⁵

As people discovered the simplicity of *hawala*, more and more adopted underground money transfers. The transfer goes as follows: the remitter hands the money to an overseas businessman who invests it in goods that are transferred to the local market in Somalia. The money is given to the beneficiary after the goods are sold. The downside is that the beneficiary only receives the net amount sent; the businessman does not charge, but has the prerogative to use the money for his or her business.

With the exodus of Somalis to all corners of the globe after 1991, remittance offices equipped with VHF radios sprung up like mushrooms. The underground market became the only market. Security was also an issue. Carrying money in the streets was an invitation to be robbed or killed. Local transfer businesses, employing clan networks, took on the task of transferring money around the country. In the early stages of the civil war, these networks mainly served the internal trade between the regions and cross-border areas that the VHF signals could reach.

By 1992 *hawala* offices, pioneered by the Al-Barakat remittance company, were established in major cities in Europe and North America. Al-Barakat grew into Somalia’s largest private company in terms of employees and financial resources,

which were estimated at \$300 million per annum.³⁶ In addition to remittances, it also allowed customers to deposit cash for safekeeping and to set up checking accounts. Many UN and international agencies used it to finance their operations. It subsequently grew into a multinational company serving a number of Arabic and African diasporas, including Ethiopians, southern Sudanese, Egyptians and Kenyans. By the late 1990s one could find international queues lining up in front of Al-Barakat offices in London, Toronto and New York. It was also Somalia's largest provider of telecommunications services.

After 9/11, the United States accused Al-Barakat of having links with Al Qa'ida and the UN subsequently imposed sanctions against it and other remittance companies. Al-Barakat's considerable assets, including the savings of tens of thousands of Somalis, were frozen, seriously damaging livelihoods and the business boom in Somalia. The country's biggest company was accused of money laundering; around 6,000 Somalis lost their jobs; and many families lost their entire savings. The rate of growth of money transfer businesses slowed. In the absence of a transparent legal process, many Somalis regard the case against Al-Barakat and the impact of its closure very negatively.³⁷

In late 2002 the Financial Action Task Force (FATF) tightened regulations for EU states and imposed significant changes on the money transfer industry. As the regulations began to be enacted in 2003, Somali companies, which operate on an informal basis, experienced increasing operational difficulties. However, in 2004 the larger companies, supported by UNDP, made efforts to become more compliant with FATF legislation. The key companies absorbed the regulations and 11 of them (Dahabshil, Amal, Dalson, Mustaqbal, Kaah, Olympic, Global, Ammana, Sahan, and Hodan Global) formed the Somali Financial Services Association, based in Dubai.³⁸ Not all remittance companies agree on the benefits of the association; they differ widely in their capacities and operational systems; and have varying levels of adjustment to external banking systems. Attempts to impose regulation, whether by a future Somali government or through external interventions, risk driving some of them underground. An alternative approach is to support the capacities of the companies, particularly in the context of the broader interdependence of service sectors (including airlines, trade and telecommunications), and build trust and confidence through this process.

Trade

Some research studies argue that higher volumes of trade make the costs imposed by conflict less tenable. Thus traders, in seeking to protect their investments, can become a force against armed conflict.³⁹ This observation needs to be more nuanced, since there are many examples that show that trade in various licit and illicit goods can feed into, and sustain, the continuation of conflict.

At the same time it is true that trade links are often the only forms of contact between warring parties and thus hold potential in terms of peacebuilding.⁴⁰ In the Somali context, trade certainly plays an ambivalent role. While feeding into conflict and containing some elements of coercion, trade also contributes to the mending of broken ties and the removal of barriers between conflicting parties. Business interactions can create a culture of interdependency and reciprocity that underpin networks of cooperation in all aspects of business.

Bakaara market

Somalia's largest market, Bakaara, was inaugurated by the late military government in October 1972. It is the lifeline of Somalis throughout the Horn of Africa, but particularly for areas bordering south-central Somalia. The market thrived during the US-led Unified Task Force (UNITAF) intervention, beginning in December 2002, as money poured into the city. A year earlier, business had been in recession due to war and a famine remembered locally as the *Caga-barar*.

There is little that is not available at Bakaara. It is Somalia's largest market for medicines, with most products imported from India and Pakistan. The fuel and petrol market is supplied from Dubai and Kenya, respectively. Large Somali companies, including GASCO, SOBIC, KAAH, Benaadir and Hillacc, control this trade. Initially, they operated as a cartel, fixing prices collectively. Similarly the trade in imported foodstuffs is controlled by a few companies, including Badar, Olad and Towfiq. Badar and Olad are wholesalers and importers, with big chains of stores throughout Mogadishu. Local maize, sorghum, beans, peanuts, sesame, wheat and rice are also sold on the market.

Each section of Bakaara market is protected by security staff paid by stores in the location. There is also a security network among different staff. "We know each other very well," said a security officer attached to Bakaara's gold market. "Some of us are limited to the protection of one or two stores, but you cannot be independent from each other. We help each other."

There are other hazards that are almost impossible to control in such a large, unregulated market: the fuel market is particularly risky, because huge tanks full of fuel are lined up on the streets, not underground as is standard in other countries. A recent UN Security Council report on Somalia revealed: "On the night of 10 April [2004], a serious fire in the main Bakaara market in Mogadishu resulted in at least eight people killed and more than 30 wounded. Armed looters shot indiscriminately into the crowd. The incident caused widespread insecurity in the areas surrounding the market."⁴¹

The market dynamics are simple, although they can also be slow. A network of brokers, accountants, stock-keepers, exchange rate checkers and a correspondent with international suppliers keep the market interactions moving smoothly. There are currently 11 smaller markets within it.

In addition, Bakaara hosts a large, arms trading centre. The weapons market, dubbed *irtoogte*,⁴² sells a wide variety of guns, mortars (120 mm and 80 mm), rocket-propelled grenades, anti-aircraft weapons, mortars and ammunition of all types, making it one of the most notorious in the outside world. The unregulated arms trade is in violation of the UN arms embargo on Somalia and contributes to increased availability of weapons in the entire region (including Kenya).⁴³

Business contributions to peacebuilding

Business activity is paradoxical in Somalia, having both stabilising and destabilising effects on the wider conflict as well as on the lives of ordinary people. Yet there are examples that, beyond businesses coping with conflict in order to keep daily life and keeping the economy going, present elements of peacebuilding.

These include provision of job opportunities, which have social and economic dimensions. One phenomenon is that many businessmen hire clan gunmen as guards and in other positions, using their influence and networks to convince them to give up their purely military activities. Thousands of young men have been diverted from the militias into the workforce as a result. Young men become productive and are spared the hopelessness that many militia members face. Other social activities include the donations businesses give to Banadir and Medina hospitals, previously owned by government, but now in community hands. Businesses, along with international NGOs, provide a lifeline for these hospitals. Many businesspeople regard what they give to the community as the *zakkah* required of them as Muslims.⁴⁴ Many use *zakkah* to give to the needy, while other contributions are directed to building a road or mosque.

Business groups in the past invested in mediation meetings between warring factions. Typically, businesses undertake the logistics for meetings of traditional elders to de-escalate various flare-ups. The engagement of the *Digil and Mirifle* elders in the '*Tidaale conflict*', and the engagement of traditional elders to mediate in conflicts in the central regions are other examples. The latest peace conference in Brava, where the Jubba Valley Alliance and Lower Shabelle administration convened, was sponsored by business figures.

While these examples illustrate the diversity of the peace-promoting activities the business sector undertakes, they are mainly *ad hoc* responses, and the Somali business community has no coordination or strategic vision for its engagement in the various dimensions of peacebuilding needed in the country. The case studies below may provide starting points for a more strategic approach.

Businesses and security dimensions of peacebuilding

Businesses often provide jobs and indirect rehabilitation for gunmen, who subsequently develop into small traders. Businesspeople try to sever links between marauding gunmen of their own clan and freelance militias, ostensibly to avoid the danger of becoming the targets of clan-wide, revenge killings. In Mogadishu many businesspeople ‘rehabilitated’ gunmen related to them by hiring them as drivers or store-keepers. These are important examples of the informal reintegration of ex-combatants into the workforce.

At the level of formal DDR processes, one indicator of success is the degree of integration of former militia fighters into the local communities. The placement of trainees is what makes DDR programmes work. Apart from the informal hiring of ex-gunmen, Somali entrepreneurs are actively involved in more institutional programmes; a good example is the partnership established between Elman Peace Centre, a local NGO, the telecoms company Nationlink and UNICEF to undertake a rehabilitation and reintegration programme for child soldiers in 2000-02.

Tripartite partnership for the rehabilitation of child soldiers in Mogadishu

One of the more worrying phenomena in today’s civil wars is the recruitment of child soldiers. In Mogadishu, children as young as 11 control many of the city’s checkpoints. They do not carry guns, but they undertake duties such as clearing the way after vehicles have paid fees, or flashing torches to alert vehicles approaching the checkpoint at night. Girls are often engaged in cooking food and making tea. Some are runaway teenagers. They frequently engage in prostitution or act as informers.

UNICEF, the Canadian International Development Agency (CIDA), the Elman Peace Centre, and the telecommunications company, Nationlink, established an agreement in August 2001 to undertake a programme on child soldiers’ rehabilitation and reintegration. Nationlink provided equipment, expertise and training in a dedicated centre, agreeing to offer placements to graduates of the programme. Vocational training courses included non-formal education in numeracy and literacy, telecommunications technology, computing, driving and office administration. Children received four days per week of vocational training. The programme also included two days a week of counselling and training in conflict resolution.

The recruitment process involved community elders, warlord associates, women’s groups and peace activists. As ‘intermediate actors’, members of the network worked to win the consent of the warlords controlling the militias from which children were to be rehabilitated. The network advocated the banning of

child soldiers' recruitment. Sixty child soldiers under the age of 18 (10 of whom were girls) were recruited from Mogadishu checkpoints. The project was implemented in two phases of six months each.

At the end of phase two, Nationlink hired 12 of the 30 telecommunications trainees. Several others were employed at local power stations. A number of trainees failed to win placements and, in the absence of alternatives means of livelihood, returned to the checkpoints, highlighting the importance of a placement component in any DDR programme.⁴⁵

The private sector has indicated its interest in more active participation in DDR and has made financial contributions towards the campaign for the stabilisation of Mogadishu, the removal of checkpoints and support for the militia who operate them, as indicated in the two case studies below.

Business participation in dialogue

On 22 April 2005, two armed leaders in Medina signed a peace accord to end conflict in this key Mogadishu district at the time when the TFG was beginning to relocate to Somalia and armed leaders had demonstrated their willingness to establish a security plan in partnership with civil society, particularly with women's groups.

More than 60 militiamen aged 18-27 participated with business representatives and UN observers. Two films were screened depicting Somaliland elders (*guurti*) sending peace messages to the south relating how the peace processes had succeeded with the active participation of armed militia; and past atrocities committed against unarmed civilians by militia members. Militiamen were provided with training in conflict resolution as an alternative to the culture of violence, which increased self-esteem.

A significant part of the workshop involved a businessman who had invested savings in an area destroyed by the conflict. As he described the impact of this destruction, the militia responsible stood up to apologise. The apology was accepted and the site had its name changed from 'the unlucky one' to 'the peace centre'.

Subsequently, business groups made a presentation on potential resources that could be invested to generate jobs if the peace accord were sustained. The proceedings of the workshop were broadcast on Mogadishu media and militia groups initiated a joint action plan for implementing the peace accord, including a public rally to disseminate information. This was broadcast live by local media.

The business sector also has an interest in reducing the high overheads it pays for security. However, as indicated in the study below, political dynamics are critical for effective progress.

Business participation in the Mogadishu Security and Stabilisation Initiative

After the formation of the TFG in late 2004 and as part of local efforts to stabilise Mogadishu, the CRD convened a day-long meeting of opinion-makers in Mogadishu on 6 June 2005. The 72 participants included the former presidents Ali Mahdi and Abdiqassim and representatives of the *sharia* courts, the business sector, civic and women's groups and the media, chaired by the TFG Speaker. The aim was to advance a plan of action for the Mogadishu Security and Stabilisation Initiative (MSSI) and generate consensus and endorsement for the initiative by the broad-based group. Live broadcasts on radio ensured a high degree of public awareness.

The meeting agreed to clear all roadblocks with immediate effect. The following day, with the participation of the civic movement, all checkpoints were dismantled or circumvented. Funds were mobilised from the local community, the business sector and diaspora (\$140,000 by late June) to support the encampment and training of 2,000 militia in two locations outside the city, together with the cantonment of 100 heavy weapons.

As of late 2005, the impasse at senior levels of the TFG has inhibited further progress with the MSSI. Some checkpoints have returned and there has been little international support for the initiative. But the Mogadishu civic movement continues to support the militia camps with basic essentials (mainly food, shelter and health care), as well as providing civic education.

In August 2005, CRD was asked to provide technical assistance at a follow-up meeting attended by 25 representatives of the business sector, the Islamic courts, civil society and the TFG. Discussions focused on continuing support for the militia in cantonment camps, the removal of the remaining checkpoints and the establishment of a regional administration through a broadly participative process.

The dilemma faced was summarised by a key figure from the Benadir business community who said: "Earlier it was easy to raise contributory funds for the MSSI. But it has become difficult to convince businessmen to make financial contributions without any clear roadmap to end the current political stalemate and establish a Banadir regional administration through which support can be channeled."⁴⁶

There was no resolution to the stalemate, but the meeting recognised that consultations were key exercises to pave the way for genuine, future dialogue.

Supporting the political peace process

Businesses have also participated in political-level processes that have paved the way for the establishment of the TNG, as evidenced below.

High-level dialogue with the business community

The constructive role of the business community was evident in 2000 after it backed the TNG following the Arta peace conference,⁴⁷ despite warlord opposition. The new government's arrival was a wake-up call for all Mogadishu residents.

Against this background, CRD, WSP International, IGAD and the Djibouti government held a high-level dialogue in Djibouti on 21-22 July 2004. The purpose was to obtain a commitment from the business community to contribute to peace and reconciliation, and play a role in reconstructing the country. Some 36 businessmen and women attended, representing all Somalia's economic sectors and geographical regions.

Sponsored by the Djibouti government and IGAD, the forum was the third meeting of its kind for the business community. Its goals were to:

- Elicit support from and engage the business community in the proceedings of the IGAD-led Somali National Reconciliation Conference (SNRC)
- Demonstrate to business leaders that their involvement and active contribution is essential to the rebuilding of Somalia.

Members of the Somali business community, and delegates from IGAD and Djibouti discussed ways to foster the SNRC in Kenya from which the TFG emerged. The high level of political and diplomatic participation underscored the importance attached to the Somali business community's support to the peace process. In attendance were the President of Djibouti; the Minister of Foreign Affairs and International Cooperation of Djibouti; the Minister of Foreign Affairs of Ethiopia; the Minister of the Environment and Natural Resources of Kenya; the Assistant Minister of Foreign Affairs of Kenya; and the Special Envoy of the Kenyan government for Somalia. Also present were diplomats from the United States, Sudan and Eritrea; representatives of UNPOS, UNDP, the European Commission Delegation for Kenya-Somalia and international organisations accredited to Djibouti. The conference was covered by key media

organisations, including the BBC Somali Service, Djibouti Television, STN Television and Benadir Radio and Radio Shabelle of Mogadishu.

The conference started by recognising that the role of the business community in the implementation of peace is critical not only because of the financial and political resources it can offer to the reconstituted government, but also because its input will be vital on such contentious issues as DDR. Central to discussions was the need to achieve a balance between the business community's national obligations and commitment, and the new government's respect for the private sector's role in the economy.

President Ismael Gelleh of Djibouti reiterated his country's resolve to back the outcome of the SNRC and IGAD's commitment to Somalia's reconciliation, rehabilitation and reconstruction. President Gelleh also highlighted the negative dimensions of the past role of the Somali business community and the consequences of its activities during the period of state collapse. "A Somali businessman is governed by self-interest to the core," he said, "without having much knowledge of what that means."

Conference participants expressed their willingness to take a lead role in the reconstruction of their country and to contribute to the implementation of peace in full cooperation with the new Somali government. Speaking for the business community, Sharif Ahmed Sharif reiterated 'the determination of the business community in backing the government with all we have'.

"We will make sure to contribute to the restoration of peace in Somalia by siding with the government," he said. "Prior to this meeting, we members of the business community held two meetings in April 2003 and November 2003 in which we asserted our determination to back the outcome of *Mbgathi* [the SNRC]."

After brainstorming on substantive questions presented in the conference proceedings, the business representatives highlighted some key points:

- The need to foster peace and participate in the creation of an environment conducive to peace
- The need for a contact group for the Somali business community to facilitate relations with transitional institutions, IGAD countries and the international community
- The meeting culminated in the formation of a contact group to liaise between transitional government institutions, the international community and the business community.

A follow-up conference was held in Nairobi attended by the contact group

formed in Djibouti. While in Nairobi the contact group attended the inauguration of the parliament on 29 August 2004. The group pledged financial contributions to the government and met with IGAD and IGAD Partner Forum members. The chairman, Sharif Ahmed Sharif, on behalf of the Somali business community, requested assistance from international community on:

- Re-establishment of the Somali Chamber of Commerce and Industries, with the provision of technical expertise
- Allocation of membership within various commissions for the reconstruction of Somalia, and the DDR of armed militia
- Support of any future Somali government in the development and widening of the private sector
- Appointment of an anti-corruption committee
- Further progress with these initiatives will be primarily linked to the emergence of the transitional federal institutions, including parliament.

Providing essential services

The prolonged collapse of the state and the absence of state provision of essential services clearly imposes costs and insecurity to businesses. Interestingly, however, the Somali private sector has also played a role in rebuilding infrastructure – providing much-needed services to Somalis and profiting in the process. In addition to physical infrastructure such as ports, many of the areas of social infrastructure that were damaged during the conflict are also now being serviced by the private sector.

Services are more effective in populated areas (where profits are higher) than in smaller towns or the rural areas. Services are provided on a cost-recovery basis and fees are often covered by remittances. Somalis are learning to pay for essential services. In stateless Somalia, health care is a private good, rather than an inalienable right. Within the context of Somali culture and Islamic principles, there are some limited provisions for those who cannot afford to pay. In other cases, services are provided free, for example in the provision of free power and water supplies to households in the immediate vicinity of power generators as compensation for the disturbance. Several hospitals in Mogadishu (SOS, Keysaney, Banadir and Medina) offer subsidised or quasi-free services for those who cannot afford to pay.

Private sector essential service provision in the absence of state provisions include:

- Health care services
- Schools and universities
- Ports and airports
- Water and power supply.

The opening of Banadir Mother and Child Hospital

Banadir Mother and Child Hospital was built in 1977 with the assistance of the Chinese government and provided the best mother and child-care services in the country. In the early 1990s it provided emergency services to casualties of the conflict until it was forced to close as the war approached its neighbourhood. After that, Banadir hospital fell into the hands of the militias. Although it stayed closed for a time, it was saved from the fate of Mogadishu's largest general hospital, Digffer, which was heavily looted. Banadir is largely intact with most equipment still functioning. A group of 60 women, who run a local NGO called Hinna, took the initiative to open the hospital for the care of poor mothers and children.

"It was a sad story we heard from IDP mothers that motivated us," said the chairwoman for Hinna. "We heard of an IDP mother who, after giving birth at a midwife's home, left her child behind because she could not pay the fees. On other occasions, mothers were allowed to go with the child, but a deadline was given to pay the fees. If the deadline were not met, the midwife would take the child. Mothers who can relate to what that IDP mother went through run Hinna. Then Banadir hospital came to mind. It had been closed for over 10 years. That is where all mothers went to in the government era to experience the best care they could get. We decided to revive the hospital, this time for IDP women and poor mothers."

The women's group approached the gunmen at the hospital and talked to them about their experiences as mothers. Fortunately among the 60 women, there was one who was closely related to the head of the militia holding the place. The women made a deal with the gunmen. They could continue to guard the hospital and, if the hospital functioned again, they would be hired as security.

Hinna next launched a media campaign to generate funds for the hospital. "We went to the owners of Global Money Transfer, Dahabshiil and Hormuud. They gave us around \$10,000, while Global Money Transfer pledged to cover the fuel needed for a year. The owner of Hormuud pledged a monthly contribution of \$1,000. People all over the city brought sheets and beds. We refurbished the hospital, painted the walls, and cleaned and fixed the damage to the walls and roof."

"Then we convened civil society organisations, this time targeting the medical associations," continued the chairwoman. "We received a pledge that doctors would come to the hospital on a voluntary basis for a scheduled time. We also have a new ambulance, donated by a local businessman. The only missing link was the lack of medical supplies. We didn't get anything from international NGOs. They gave to other hospitals, like Medina and Keysanay. But none for the mothers' hospital. It's sad. We will overcome. We have our own plans for

finding medicine for these poor mothers and children. We will get it for them.”

The hospital is open and staff trying to make ends meet. “Very few doctors met their commitment,” said a nurse at Banadir hospital. “There is only one who comes all the time. He is very generous young man. Allah will reward him for his altruism.” The hospital pharmacy is empty except for anti-diarrhoeal, oral suspensions brought by the WHO. “We thank them for this donation,” said the nurse.

Ports and airports

Control of critical commercial arteries, such as ports, airports, key roads, ensures a high income. Struggles to control them have led to recurring conflicts between different factional leaders and business groups since 1995.

Mogadishu’s main port has been closed since the early years of the civil war, although peace agreements have come and gone. Imports now arrive through Elmaan, a makeshift port run by Banadir, a company formed by a group of Mogadishu-based businessmen who also provide security. Estimated annual revenue from the port activities is \$17 million.⁴⁸ There are private airports in almost all towns in south-central Somalia, though only small aircraft can land. Mogadishu international airport has been closed since the civil war. Ballidogle airport, 60 km west of Mogadishu, is the only airport that can accommodate large airplanes. K50, another Mogadishu airport, is in private hands. At another of Mogadishu’s airports, *qaat* flights alone generate an estimated \$170,000 per month.⁴⁹

Water and power supply in south-central Somalia

Investments in water infrastructure in conflict-affected states are constrained by several factors – exacerbated in Somali by the fact that water is traditionally the most resilient source of contention among pastoral societies. In traditional interactions, the customary law, *Xeer*, makes water sharing one of the cornerstones of clan relations.⁵⁰

Most towns enjoyed water distribution systems under the last government, making traditional wells obsolete. The civil war destroyed much of this infrastructure. Pipes, generators and pumps were looted or exported. Since 1991, old wells have reopened, new ones have been dug and the sector has become commercial. With support from UNICEF and UNHCR, hand pumps have been introduced for some private wells and they are also common in IDP camps. UNICEF also installed solar-powered pumps in some areas, but weakness in implementation and the high value of solar panels resulted in them either falling into disrepair or being stolen.

Telecommunications companies have also invested in water and power. “Small towns like Guriceel and Doble are exclusively provided with water and power by us,” said the Nationlink logistics officer. “In bigger towns we supply major

businesses and town centres. It is part of what we give back to our community. But in Mogadishu, it is difficult. Power sellers confront us with complaints. We do not want to compete with them. They think it is their business. But we have the right to give the neighbours of the generator free power. This compensates for the disturbance and the noise of the power station.”

Rehabilitation of Lower Shabelle irrigation canals

The Lower Shabelle region is home to some of Somalia’s finest agricultural land, particularly its cash crop plantations. The Shabelle River originates in the Ethiopian highlands and flows into the low lands of Lower Shabelle. Unlike many regions the river passes through, the region enjoys gravitational irrigation that enables water to reach a wider area.

The region was one of the most contested areas in the civil war. Invading forces displaced the farming communities and confiscated their farms and plantations. Lack of use rendered most of its canals dysfunctional. Lack of security and damaged infrastructure forced farmers to revert to subsistence farming. In November 2003, one militia leader took control of the region, removing road-blocks and driving out the militias that had brought anarchy to the region. The new leadership restored peace and local people began to resume their previous livelihoods. “When we established security we made sure to engage local people in running their own affairs,” said the militia leader. “We established community-based administrations. Our armies protect these administrations from the freelance gangs marauding the country. Once security was established, people started thinking about development and making money again. This region is known for its agricultural production. It provided Somalia with all kinds of products. Most plantations that grow cash crops are located in this region.”

To overcome the hurdles stunting agricultural production, farmers initiated a self-help scheme to rehabilitate the irrigation network. The administration boosted the initiative by involving other businessmen, the remittance and telecommunication companies, international NGOs and local people. The work involved the rehabilitation of a 37 km canal. The farming communities and administration collected around \$160,000 locally and the digging is underway.

“The project is a win-win situation for all contributors,” said the manager of the Somali Institute for Management, Administration and Development “Let’s take the remittance and telecommunication companies. If the canals are rehabilitated, the farmers will grow cash crops for export. That brings hard currency. Remittance companies benefit by transferring money from outside markets to farmers and charging fees. Jobs are created and local purchasing power increases. More people will use mobile telephones by engaging the overseas markets for their sales.”

Power supply

Since the war much of the government infrastructure for power distribution has been looted and exported as scrap. Makeshift power stations appeared in different quarters of the city. Billing was hazy at first – causing several conflicts – with businesspeople uncertain whether to charge for kilowatt hours (KWH) or the number of light bulbs. Since they could not put meters on every house, they opted to charge by the number of bulbs it had. However, some households also use fans and refrigerators that have inductance and create poor quality in the distribution system. Until recently, there was no way to calculate the power-factor correction demanded of such customers. Prices are fairly standard and are now charged according to each electrical, end-use device. For example the rate of one light bulb is 2,000 Somali shillings (approximately \$1.2) per night, while an outlet costs 3,000 shillings per night. Supply runs from 0800-1500h, and 1800 to 2400h. Meters were recently installed and a unit of KWH is now priced at \$0.4.

The distribution system is not planned for a given customer volume, in other words, the load. Thus, as customers increase, the quality of power degrades. Also the transportation of power for minimum loss demands high-voltage distribution systems and step-down transformers without which there is considerable loss in distribution. There are 60 power stations in Mogadishu, with machines of varying sizes, makes and states of repair. Some providers recently started buying out the less competitive ones.

Conclusions

As this report shows, while many business actors and transactions have fed and sustained conflict in various ways, some have also played a key role in de-escalating conflicts.

There are high security costs involved in running a business in Somalia. These transactions require cooperation between business actors, rather than competition. The lack of security has compelled businesspeople to become a force of deterrence against the warlords who dominated the country in the early stages of the civil war. In those days, entrepreneurs could not engage in business unless they were in partnership with the warlords. As the conflict subsided, its dynamics changed. Business actors established crosscutting networks that were more suited to their ventures. Such clan-transcending networks shrank the warlords' areas of control. Resource-driven alliances proved more solid and enduring than political alliances. At the same time, they dampened polarisation between clans. These networks usually link business partners who act as abeam to ensure the security of business in their area.

Different business sectors perform differently in a conflict setting:

- The manufacturing sector performs poorly in Somalia's unregulated economy. It cannot compete with imported goods. Lack of spare parts and low, local purchasing power do not offset the cost of production.
- Agriculture suffered heavily from the conflict, which displaced many farming communities to the urban areas. Agricultural infrastructure, such as irrigation canals, tractors and processing facilities, was destroyed or looted in the early 1990s, or fell into disrepair through lack of maintenance. This has all but paralysed agricultural production.
- Businesses with short time-frames in terms of return on investment, and those with few infrastructure requirements, do well in the conflict setting (*hawala* and mobile telephony)
- The unregulated economy is a magnet to illicit businesses (drug and gun trafficking). Arms are sold openly in Bakaara market and, as with any other commodity, traders weigh the requirements of supply and demand.
- Where regulation is indispensable for business activity, as in the case of interconnectivity in telecommunications, agreements are based on those with the biggest market share achieving consensus. New entrants must abide by their decisions.

Somali entrepreneurs manage the 'business of doing business' in the most adverse circumstances. In some instances, of necessity, self-interest, but also out of concern for their communities, they have gone beyond pure business operations and become involved in activities that can be categorised as peacebuilding. These have been *ad hoc* so far. The following initiatives and activities may help to further a peacebuilding role for the Somali business community:

- Support for the formation of a business-coordinating body, such as a Chamber of Commerce. One of the most urgent reasons for the establishment of this institution is the regulation and coordination of various business sectors. At the High-Level Dialogue in Djibouti in July 2004, participants appointed a chairman of the Somali business community and a majority of business members believed that he should also head the new Chamber of Commerce.
- The creation of partnerships between civil society organisations, the private sector and international NGOs to develop and support an agenda for peacebuilding. Such partnerships are an integral part in the self-help schemes that have sprung up in the absence of state-provided services. Civil society and the private sector have already partnered to revive south-central Somalia through DDR programmes and the provision of basic social services.
- Capacity building for the private sector in how and what they can do to help establish peace. The social responsibility of the private sector in stateless Somalia has not yet reached its full potential. While several companies have shown a sense of social responsibility in contributing to various community activities, many confine themselves to their close-kin

networks. Apart from creating employment opportunities, they are expected to return part of the benefits back to society. Raising the awareness of entrepreneurs on how to make creative investments in education, health and public infrastructure will greatly contribute to Somalia's conflict resolution.

- Encourage the active involvement of the business sector in DDR programmes, including co-funding and the creation of apprenticeship and placement schemes for demobilised combatants. The private sector's role can be coordinated to channel resources to local DDR programmes. The current campaign of removing checkpoints, spearheaded by civil society, showed the strength of partnerships between the private sector and CSOs. The CRD played a monumental role in bringing the two together. The money donated by the private sector for the cantonment of around 2,000 militiamen in two camps outside Mogadishu currently totals over \$200,000.⁵¹

Acronyms

CSO	Civil Society Organisation
CIDA	Canadian International Development Agency
CRD	Centre for Research and Dialogue
DDR	Disarmament, Demobilisation and Reintegration
FATF	Financial Action Task Force
ICRC	International Committee of the Red Cross
IGAD	Inter-Governmental Authority on Development
KWH	Kilowatt Hours
MSF	Médecins Sans Frontières
MSSI	Mogadishu Security and Stabilisation Initiative
SNM	Somali National Movement
SNRC	Somali National Reconciliation Conference
SSDF	Somali Salvation Democratic Front
TCRM	Traditional Conflict Resolution Mechanism
TFG	Transitional Federal Government
TNG	Transitional National Government
UNITAF	Unified Task Force
UNOSOM	UN Operation in Somalia
UAE	United Arab Emirates
UNHCR	UN High Commissioner for Refugees
UNICEF	UN Children's Fund
USC	United Somali Congress

Endnotes

- 1 Somaliland parliamentary elections on 29 September 2005 followed local council elections in December 2002 and presidential elections in April 2003.
- 2 World Bank (2005) *Conflict in Somalia: Drivers and Dynamics* (Washington DC, US: World Bank).
- 3 UNDP (1997) *Human Development Report*. Available at hdr.undp.org/
- 4 European Commission (2004) *Mid-term Review of the European Commission Strategy for the Implementation of Special Aid for Somalia* (Nairobi, Kenya: Delegation of the European Commission).
- 5 This text comes from the Country Studies Program, formerly the Army Area Handbook Program, which presents a description and analysis of the historical setting and the social, economic, political, and national security systems, and institutions of countries throughout the world.
- 6 Interview in Buulo Mareer, Lower Shabeelle .
- 7 The Ogaden war between Ethiopia and Somalia in 1977 over control of the Somali-inhabited region of Ogaden in Ethiopia. Formerly part of British Somaliland, Ogaden became part of Ethiopia in 1956 with the consent of Britain. Similarly, Northern Frontier District, a Somali-inhabited region, was designated part of post-colonial Kenya.
- 8 Menkhaus, K. (1997) 'Phoenix from the Ashes?' *Middle East Policy* Vol. 5, No.1 (Oxford, UK: Blackwell).
- 9 Food Security Analysis Unit Somalia (FSAU), various monitoring reports (Nairobi, Kenya: FSAU).
- 10 Centre for Research and Dialogue (CRD) and WSP International (2004) *Somalia: Path to Recovery* (Mogadishu, Somalia: CRD).
- 11 World Bank op. cit.
- 12 CRD and WSP International op. cit.
- 13 Webersik, C. (2003) *Fighting for the Plenty: The Banana Trade in Southern Somalia* paper presented to the 'Conference on Multinational Corporations, Development and Conflict' Queen Elizabeth House, Oxford, 6 December 2003.
- 14 Famine Early Warning System (FEWS) (2005) *The Impact of Piracy on Livelihoods and Food Security in Somalia* (Mogadishu, Somalia: FEWS Net).
- 15 Menkhaus, K. and Prendergast, J. (1995) 'Political Economy of Post-intervention Somalia' *Somalia Task Force Issue Paper* No.3. Available at www.netnomad.com/menkhaus.html
- 16 World Bank op. cit.
- 17 World Bank op. cit.
- 18 International Peace Academy (IPA) (2001) *Private Sector Actors in Zones of Conflict: Research Challenges and Policy Responses* workshop report April 2001 (New York, US: IPA).
- 19 Nenova, T. and Harford, T. (2004) 'Anarchy and Invention: How does Somalia's Private Sector Cope without Government?' *Public Policy for the Private Sector Note* No.280 (Washington DC, US: World Bank).
- 20 Ibid.
- 21 Worldwatch Institute (2004) *State of the World 2004* (Washington DC, US: Worldwatch Institute).
- 22 *Ha I wareerin* is a phrase commonly used to describe transactions that allow customers to make monthly or weekly payments instead of a one-off payment. It can continue for months depending on the amount owed.
- 23 Elkins, P. (2003) *Trade and Environment* (US: International Society for Ecological Economics).
- 24 *Ayaamaha*, 18 December 2005.
- 25 *Diyo* refers to Islamic blood compensation paid by a person who has committed homicide or wounded another individual. *Xeer* is Somali customary law.
- 26 Since these security institutions were an urban phenomenon, they were not effective in intervening in the nomadic lifestyle. Coyne, C.J. (2005) 'Reconstructing Weak and Failed States: Foreign Intervention and Nirvana Fallacy' *Global Prosperity Initiative Working Paper* No. 3, Social Change Project, Mercatus Center (Washington DC, US: George Mason University).

- 27 European Commission op. cit. Somaliland imposes a small tax on *qaat* imports which yields revenue estimated at \$50,000 per day.
- 28 Gross-Kettler, S. (2004) *External Actors in Stateless Somalia: A War Economy and its Promoters* (Bonn, Germany: Bonn International Center for Conversion).
- 29 Report of the Panel of Experts in Somalia pursuant to Security Council Resolution 1474 (2003).
- 30 Menkhaus and Prendergast op. cit.
- 31 In the absence of a recognised legal framework following the collapse of the state, 'illicit' is used to refer to activities against the traditional cultural and/or social norms, such as profiting from the sale and export of what had been public or state property.
- 32 Reuters, 11 May 2001.
- 33 Reuters, 28 May 2001.
- 34 According to analyses of sectoral trends for investment in conflict-affected countries, mobile telephony tends to be one of the first to receive investment. In this context, the emergence of telecommunications businesses is perceived as a good indicator for the emergence of a 'post-conflict' phase. See Bannon, I., Hahn, S. and Schwartz, J. (2004) 'The Private Sector's Role in the Provision of Infrastructure in Post-conflict Countries: Patterns and Policy Options' *Conflict Prevention and Reconstruction* No. 16 (Washington DC, US: World Bank).
- 35 National Bank of Somalia statement, 1975.
- 36 International Crisis Group (2005) 'Somalia's Islamists' *Africa Report* No. 100 (Brussels, Belgium: ICG)
- 37 Marchal, R. (2004) 'Islamic Political Dynamics in the Somali Civil War' in de Waal, A. (ed.) *Islamism and its Enemies in the Horn of Africa* (Indiana, US: Indiana University Press).
- 38 According to one interviewee, two other companies are in the process of joining the association.
- 39 Polachek, S. W. (1980) 'Conflict and Trade' *Journal of Conflict Resolution* Vol. 24, No.1 (Thousand Oaks, Canada: Sage Publications).
- 40 See for instance International Alert and Economy and Conflict Research Group of the South Caucasus (2005) *From War Economies to Peace Economies in the South Caucasus* (London, UK: International Alert).
- 41 United Nations Security Council (2003) *Report of the Panel of Experts in Somalia pursuant to Security Council resolution 1474 (2003) S/2003/1035* (New York, US: United Nations)..
- 42 *Itoogte* means 'sky shooter' in Somali.
- 43 Report of the Panel of Experts op. cit.
- 44 *Zakkah*, one of the five pillars of Islam, is the portion of one's income that a Muslim is expected to pay yearly as a charitable contribution.
- 45 Elman Peace Center (EPC) (2003) *Assessment of the Child Soldiers Rehabilitation and Reintegration Program* (Mogadishu, Somalia: EPC).
- 46 Statement by a leading business figure at the Mogadishu forum on continuing support for the stabilisation of Mogadishu, 2 August 2005.
- 47 The Transitional National Government (TNG) was formed at the Djibouti-sponsored Arta peace conference in Djibouti in 2000 for a period of four years; the Transitional Federal Government was formed in late 2004 following the IGAD-led Somali National Reconciliation Conference held for over two years in Kenya with a transitional period of five years.
- 48 World Bank op. cit.
- 49 Report of the Panel of Experts in Somalia op. cit.
- 50 Bannon et al. op. cit.
- 51 CRD and WSP International op. cit.

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**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

**Case study
South Africa***

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South Africa

Exploring the contributions of the private sector to the social, economic and political transformation process in South Africa

André Fourie and Theuns Eloff

The business sector was frequently criticised in the late 1980s for supporting and benefiting from the apartheid system. This argument, which cannot entirely be dismissed out of hand, does not pay sufficient attention to the role played by some business leaders to promote peace and democracy. At the time, a small group of business leaders initiated a series of meetings with the apartheid government and a wide range of formal and informal political groupings, including black political leaders who enjoyed popular support.

Their primary purpose was to encourage a debate on South Africa's political and economic future. Progress was hampered by the repressive political climate and the fact that many political leaders were in hiding, detention, jail or exile. Despite these challenges, the relationship-building initiative continued and in late 1988, following a high-level meeting between business leaders and representatives of the Mass Democratic Movement in Broederstroom, the Consultative Business Movement (CBM) was formed.¹ The initial focus was on consultation and relationship building with key political players, such as the African National Congress (ANC) and Inkatha Freedom Party (IFP). This alone was significant since broad trust was non-existent at the time.

The 1980s was a very turbulent period in South Africa, with high levels of political violence. The need for a national peace conference was undeniable, but the political dynamics and a power struggle between the government and the ANC (and other parties) presented a complex issue as to who had the legitimacy to convene such a conference. The National Party government's efforts to convene an official peace conference were opposed by the liberation movements

on the grounds that the government was the primary instigator of violence. That impasse was broken when, through a combined effort, the CBM and South African Council of Churches facilitated a process that led to an inclusive peace process. The first meeting of the formal peace process was convened at the offices of Barlow Rand Ltd, a leading industrial company, and co-chaired by John Hall, a Barlows executive and chairman of the Chamber of Commerce, and Archbishop Desmond Tutu. This was the start of a long process in which business leaders played an active role in working with political parties, women's groups, religious groups, NGOs and labour unions to foster a climate of peace.²

Business initiatives

Democratic transformation and consolidation

The credibility and legitimacy of the CBM were established during the peace process and laid the basis for the organisation to be asked to provide the secretariat and administrative support for the Convention for a Democratic South Africa (CODESA) process. When the CODESA process deadlocked in 1992, the CBM convened local academics and foreign experts with the 'passive approval' of the major political parties in an effort to break the deadlock in negotiations about power of the regions versus central government. The resulting report played a critical role in the major parties' thinking and proved to be decisive in shaping the final constitutional agreement on this politically sensitive issue.³

With less than a month to go before the first democratic elections, the IFP refused to participate. After Nelson Mandela suggested international mediation, the CBM was asked to manage a process to secure international mediation. Dr Henry Kissinger and Lord Carrington were leading figures in the international delegation that arrived in South Africa 10 days before the scheduled election. When the mediators failed to reach a common agreement with all parties on clear terms of reference, the most prominent of them left South Africa. However, one of the lower-profile mediators launched a process of informal shuttle diplomacy with the CBM's support to secure buy-in from IFP leader, Mangosuthu Buthelezi, then president F.W. De Klerk and the ANC's Nelson Mandela.⁴ The subsequent agreement formed the basis for the first democratic elections in the history of South Africa.

During 1993 the CBM facilitated the formation of the Business Election Fund as a mechanism to mobilise business support for free and fair elections. The institution launched a national media campaign to promote democratic values and support an inclusive election process. The fact that the business sector was

publicly calling for a democratic election was seen by some as a political stance. However, the campaign took care to remain non-partisan while striving to project confidence in the future through its slogan 'Business stands for building a great nation'. Other activities included a major voter-education campaign in rural areas, and a range of practical and logistical efforts to support the Independent Electoral Commission.

The following are further examples of collective business action to pursue social goals since the democratisation of South Africa.

The National Business Initiative

In 1995, a year after the country's first democratic election, the CBM amalgamated with the Urban Foundation to form the National Business Initiative (NBI). The objective was to demonstrate a renewed private sector commitment to the new, democratic South Africa. The NBI was designed as a not-for-profit, public interest and business-based organisation dedicated to reconstruction and development. The NBI stated from the start that it aimed to tackle systemic problems and wanted to work in partnership with government by mobilising business and management skills to address public issues, facilitate the business community's collective contribution to reconstruction, and build constructive relationships and trust between government and business.⁵

Business Against Crime

In 1996, nearly 500 business leaders met at the World Trade Centre in Johannesburg to deliberate on how the private sector could contribute to the fight against crime in South Africa. Following intense dialogue with President Nelson Mandela, a new organisation, Business Against Crime (BAC), was established to partner with the government in dealing with threats to security in the new democracy. The NBI facilitated the process and served as the BAC's managing agency until the organisation was established as a separate legal entity.

This new, non-profit organisation provided support to many industry-specific responses to crime, including those by the banking, tourism, computer and motor sectors. BAC also provided analysis, conceptualisation and planning skills for the integration of the criminal justice system, including the required IT infrastructure, identification services and integrated case management.

Housing Delivery Task Team

In 1996 the Department of Housing approached the NBI to assist with the delivery of housing aimed at assisting the government to meet the challenge of 'housing for all'. The NBI established the Housing Development Support Team (comprising businesses) to improve the delivery system. Attention was paid to fixing information management and other management systems, as well as reducing bureaucratic delays and building the capacity of provincial officials. These efforts resulted in the number of capital subsidies awarded to first-time homeowners rising from 220,000 in 1996 to over one million in August 1999. At this stage the NBI began preparations for handing back the management of the systems to the relevant national and provincial housing authorities.⁶

Colleges Collaboration Fund

The NBI played a leading role in mobilising the South African private sector to appreciate the importance of further education and training (FET) colleges in meeting the country's skills and employment needs. Over R80 million (\$12.5 million) has been invested in restructuring the FET sector, and building leadership and management capacity in colleges. The NBI helped shape the FET policy and subsequently formed the Colleges Collaboration Fund to partner with government for the implementation of the system transformation. Key focus areas included: repositioning the previously neglected FET system as a desirable option for students, expanding the overall enrolments, securing growth and diversification in programmes, a more equitable staff-equity profile and exposing senior college staff to global best practice through an international exchange programme.⁷

Business Trust

In 1998 a grouping of business leaders and organisations cooperated in undertaking intense discussions with the government on the challenges of economic growth and job creation. A firm foundation for the initiative was the broader goal among leading business people concerned about unemployment. An important outcome was the formation of the R1 billion (\$156.7 million) Business Trust, a five-year project designed to focus on the creation of jobs and capacity building. An early focus was to develop a stronger business approach to the international tourism marketing as a basis for sustainable job creation. The private sector worked with the public sector in appointing senior business representatives to the board of a restructured SA Tourism, developing a sophisticated market segmentation strategy and implementing a value-for-money business plan. By 2002 South Africa was the world's fastest-growing tourist destination, with international arrivals increasing by 20.2 percent.⁸

Key lessons

It is clear that the role of the private sector during and after the South African transitional period has been exceptional. The rest of this case study explores the corporate citizenship lessons of this experience and the implications for other societies.

The importance of business leadership

Business leadership proved to be an essential ingredient in each of the major contributions described. It took courage and personal risk for business leaders to engage directly with the ANC and the banned political leaders within South Africa. They had to deal not only with the threats of a repressive regime, but received little support from fellow business leaders.⁹ Leadership was also a critical dimension in the CBM's somewhat unusual interventions, such as Business Against Crime and the Business Trust.

Two additional facts are striking. First, there is consistency in the leadership of the various initiatives and some individuals played a distinctive role in virtually all business contributions. Secondly, it is often a small group of executives who take both the initial lead and the early risk. If they succeed in convincing a broader group of business leaders of the merits, the programmes can be sold as enjoying the support of the entire business community.

This may be true in the end, but it is worth recognising that it often takes only a few courageous leaders to initiate fundamental change.

The imperative of reciprocal political leadership

However, none of the interventions described could have been achieved by the business sector working alone. It is simply not sufficiently well placed to re-engineer a country's criminal justice system or negotiate a political settlement and new constitution. It takes political courage to expose the business sector to the insides of a dysfunctional criminal justice system and to partner with relative strangers to rebuild a politically sensitive function that is core to a government's mandate. According to the NBI,¹⁰ government support and cooperation at all levels are vital in the implementation of any public-private partnership. In short, without government commitment such interventions are simply not possible.

The power of the collective

Collective business efforts do have comparative advantages over individual

company efforts in particular areas. An obvious efficiency benefit is the pooling of resources (people, leadership and financial) towards a common end. SustainAbility and the UN Global Compact stress the importance of reaching scale and critical mass by moving beyond the potential impact of any individual corporation.¹¹

The additional benefits of a collective approach include the need to deal with suspicions that a particular company may be aiming to gain individual advantage; demonstrating a common commitment to the broader national interest; and managing the risk of companies being singled out for criticism on sensitive issues.¹²

Building responsive institutions

The wide range of institutions developed by the private sector to deal with particular issues is striking. Some of the more prominent institutions mentioned in this article include: the Urban Foundation (dealing with African urbanisation within a system of apartheid influx control); Business Against Crime (helping to address crime and violence); the Business Election Fund (mobilising business resources for the first democratic election); the Business Trust (building trust and engaging the unemployment challenge); and the NBI (demonstrating business commitment to the new South Africa). These specialised agencies were set up on a dedicated basis to manage specific challenges and often closed when they were perceived to have fulfilled their purpose. On the other hand, there is a great deal of continuity in the methods both the business leadership and executives employed.

Beyond projects: systems change and policy impact

The case study demonstrates that a variety of methods and approaches were used to achieve the desired results. The most prominent approaches in the South African case were process facilitation, policy impact, programme management and institutional strengthening.

Although it must be accepted that responsibility for the formulation of public policy ultimately rests with the public sector, this is the key domain for achieving systems impact. The contestation of public policy in an emerging democracy is desirable, but somewhat untested in terms of the role of business in shaping social policy. It is generally accepted that business has a legitimate right – and responsibility – to influence such policy where there is direct impact on the company or industry, such as tax policy, industry regulation and competition policy. The role of business in influencing broader social policy is less understood.

Building trust and relations

A unique role by the private sector was the provision of process and secretariat services to the multi-party constitutional negotiations, the CODESA and the Multi-Party Negotiation Process. With hindsight, it is necessary to ask how the CBM, a business organisation, came to be trusted to provide administration services to the constitutional negotiation process. It is evident that the privilege was not easily granted, but was earned through years of relationship building and informed by the constructive role already played by business in the peace process.¹³ Although a key consideration was the CBM's ability to win recognition as a credible and professional, non-partisan organisation, it must also be admitted that it would have been possible to identify other parties to provide professional, administrative services. The ability of the business sector to remain non-partisan was thus essential for the political players to allow it to play such a support function.¹⁴

Limitations of business coalitions

This paper demonstrates that the private sector can play a meaningful role in effecting systems change for the public good and shaping the broader environment in which it has to operate. However, it is important to retain a sense of perspective regarding the scope and potential of business impact. Observers often overestimate the power of major corporations to influence politicians or public policy. Despite the lack of academic literature on this subject, there is a need to consider some of the key limits to the potential of similar business coalitions:

- Corporations are competitive by nature and disinclined to cooperate with other corporations, particularly direct competitors. There is, therefore, a limit to how much they are prepared to invest in cooperative ventures where the benefits accrue to broader society, rather than individual companies.
- Perceptions of undue influence are inevitable in a situation where many are critical of the power and influence of major companies. Regardless of companies' intent, there will be questions about motive and whether they are merely aiming to buy influence. Business is not universally trusted as a social partner and can expect major concerns from government about engaging with business on public policy issues, as well as opposition from NGOs.
- The governance and accountability of business coalitions have not been explored in any great depth. To what extent do corporations take responsibility for the views and actions of such coalitions? The broader public policy legitimacy of single-issue pressure groups will always be suspect. The business sector may be well intentioned and acting in the broader public interest in demonstrating the need for additional

public investment in education or housing, but it does not face the competing social and political trade-offs in a resource-scarce environment, as the government has to.

Conclusions

The South African case exhibits some remarkable and progressive examples of collective corporate citizenship efforts, and demonstrates the significant contribution that the private sector can make to a society in transition through dialogue, facilitation and institution building. By working collaboratively with government agencies and other stakeholders, business coalitions can play a vital role in facilitating a successful, political transition process. Collective business responses have benefits, such as the pooling of scarce financial and human resources, and reaching scale and critical mass beyond the potential impact of any one corporation. This paper provides evidence of the private sector's contribution to the transformation process in unprecedented ways by promoting democracy and peace, as well as sustainable development in South Africa. The case is made that, under certain conditions, corporations can achieve more through a collective approach to improving state institutions and changing public policy, rather than through individual projects.

A reflection on the lessons from the role of the business sector in the South African transition process confirms the imperative of business leadership, political leadership, relationship building and the need for responsive institutions. The findings validate the need for corporate citizenship thinking to extend beyond projects and even the value chain. There is an opportunity for the private sector to impact on public policy, and to achieve systems change in a way that benefits broader society and simultaneously improves the business environment. A better business environment, in the form of good social, economic and physical infrastructure, represents the potential, direct business benefits of the collective corporate citizenship approach. A better-educated workforce, less crime and violence, improved housing conditions and stronger social cohesion can reduce the cost and risk of doing business, and improve the competitiveness of corporations.

This study confirms that the private sector can indeed impact positively on the broader architecture of society and contribute to deeper systemic change. However, there is a need for clearer conceptual understanding of the limits and potential for collective private sector engagement of the development challenges traditionally considered to be beyond its reach. Indeed, new thinking about the role of the private sector in global governance and systems change is essential in developing strategic responses to the complex sustainability questions facing the world in the 21st century.

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**Local Business, Local Peace:
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**Case study
South Caucasus***

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The logo consists of a yellow rectangular border containing the text "South Caucasus" in a bold, yellow, sans-serif font, with "South" on the top line and "Caucasus" on the bottom line.

South Caucasus

Between pragmatism and idealism: businesses coping with conflict in the South Caucasus

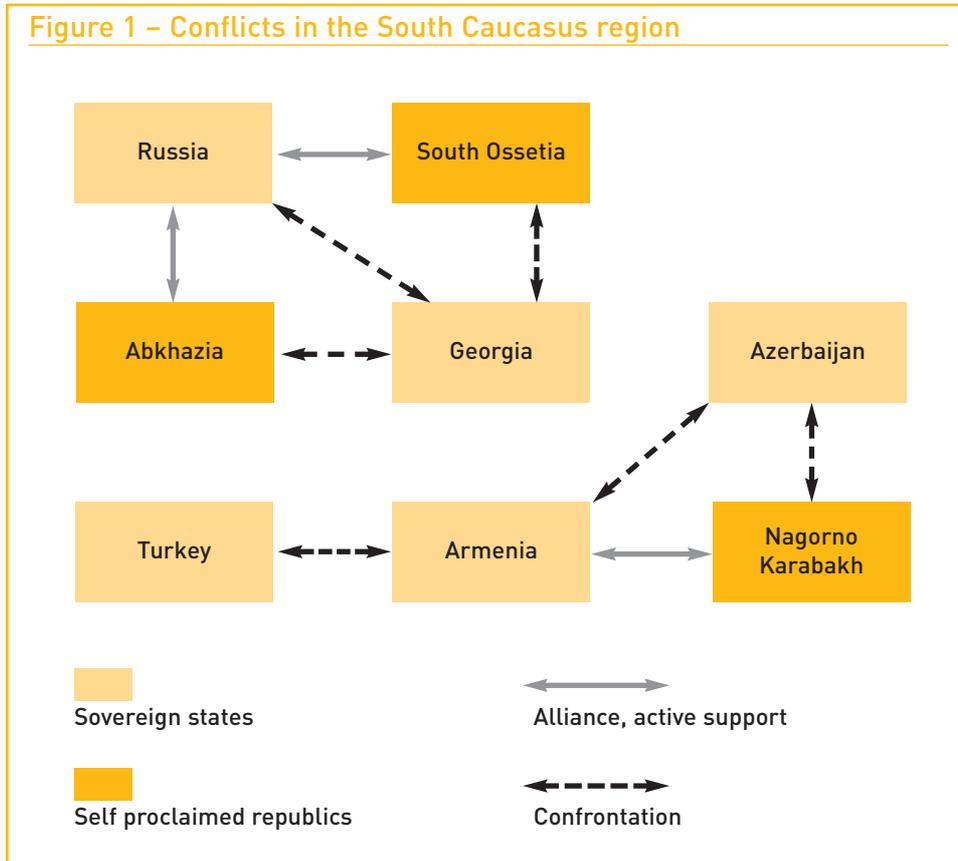
Natalia Mirimanova

This report explores the role that local private sector activity can play in addressing the conflicts of the South Caucasus. It is based on qualitative interviews conducted with a range of entrepreneurs, both formal and informal, carried out in 2005. It embraces three unresolved conflicts: the conflict between Armenians and Azeris over Nagorny-Karabakh; and the conflicts over Abkhazia and South Ossetia that challenged Georgia's territorial integrity.¹

All three resulted from the break-up of the Soviet Union. Despite its peaceful dissolution, the newly independent states in the South Caucasus all experienced some degree of violence. The turmoil in Georgia was linked to the escalation of internal conflicts with the autonomous regions of Abkhazia and South Ossetia, while the unilateral secession of Nagorny-Karabakh – a predominantly Armenian region in Azerbaijan – sparked a war between the latter and Armenia. An overview of the conflicts is provided below, together with an outline of the current political context and the private sectors. These are followed by examples of local business activities that have the potential to contribute to peace in the region. A schematic map of the region showing conflict dynamics is presented as Figure 1.

Economic impacts of post-Soviet conflict and transition

The armed conflicts born from the collapse of the Soviet Union were accompanied by looting, robbery and arms trade profits, but by and large they were not profit-motivated. However, the post-conflict 'prolonged ceasefire' situations, accompanied by economic blockades on the non-recognised entities by the recognised states, created



an environment conducive to the growth of semi-legal business activities. These in turn became a serious obstacle to conflict resolution, as this report explores in detail.²

After the collapse of the Soviet system, the successor states underwent hasty privatisation processes that were non-transparent and ultimately predatory. The spoils of the most profitable industrial and mineral extraction enterprises were divided among top-level bureaucrats and associated mafia groups. Large businesses were concentrated in the hands of the few and remained profitable throughout the armed phase of the conflicts and even afterwards.

With regard to smaller businesses, while the private sector had not officially existed in the Soviet Union, entrepreneurial spirit thrived underground, manifesting itself in the small-scale production of clothes, shoes, private medical services and trade. Its informal character had implications for the ways in which it was able to adapt to the post-Soviet environment.

Small businesses suffered throughout the ‘hot’ and ‘frozen’ stages of conflicts as military escalation, the closure of trade routes, inflation, corruption and an unfavourable investment climate affected their operations. The state failed to adopt an active role in safeguarding emerging small and medium private sector businesses in both the recognised and self-proclaimed republics. On the contrary, state institutions – customs, border guards, police and other layers of bureaucracy – all sought to extract bribes, deterring entrepreneurs by perpetuating an atmosphere of lawlessness and mafia rule. The lack of domestic and external investment into small and medium enterprises (SMEs) compounded the constraints imposed by this environment.

The costs of prosecuting the conflicts led to economic crises on all sides. Armenia’s GDP decreased by approximately 60 percent from 1991-93,³ and in Azerbaijan it fell by 63 percent between 1989-95.⁴ There are no reliable statistics on the economy of Abkhazia but GDP in 1994 was assessed at 14 percent of the pre-war level.⁵ Georgian economist experts estimated Abkhazia’s GDP in 2001 as 10 percent of the pre-war level.⁶ Georgia experienced immense economic hardship, galloping inflation and high unemployment rates along with dramatic declines in the quality and reach of social services. On the outbreak of war in 1992, Georgia’s GDP had already declined by 40 percent and in 1994 it was assessed at 23.4 percent of the pre-war level.⁷

Economies of the non-recognised entities

Following ceasefire agreements across the region, the non-recognised states fell significantly behind the sovereign states in economic development, largely as a result of their isolation. The World Bank, European Bank for Reconstruction and Development (EBRD) and International Monetary Fund (IMF), for example, being mandated to deal only with internationally recognised states, actively assisted Georgia, Armenia and Azerbaijan with funds and advice regarding economic transition, but left the unrecognised states to their own devices. Abkhazia and South Ossetia received support from Russia, which helped to rebuild their banking systems and currencies;⁸ Nagorny-Karabakh, which shares the same currency as Armenia, developed its own distinct economic laws and regulations, and receives support from the Armenian diaspora.

In the current context of unresolved conflict, interaction between businesses in non-recognised entities and those in recognised states has a strange ‘semi-legal’ status that is peculiar to the region. What is legal under the codes of the unrecognised states may be illegal in the states from which they have seceded. For example, trade across the disputed border of South Ossetia qualifies as smuggling in Georgia, while it is defined as legal international trade for the breakaway enclave. In Nagorny-Karabakh, cross-border trade with Azerbaijan is non-

existent because it is a high-risk enterprise, but Azeris and Armenians trade with one another in Georgia.

Despite their isolation from international institutions, the economies of the *de facto* states are developing along their own course. Nagorny-Karabakh presents a vibrant economy that thrives despite its unrecognised status. Private companies from the Armenian diaspora are actively investing in industry, services and agriculture. The volume of industrial production grew by 15 percent in 2002 and 38 percent in 2003, while increases in agricultural production exceeded 26 percent in the same year.

Meanwhile tourism in Abkhazia has been going through a modest renaissance. The quality of services is well below the level of Soviet times, but the inflow of low to middle-range tourists from Russia is growing fast. Russian and Turkish businesses have renovated hotels on the coast, and Turkish firms are engaged in the export of timber and scrap metal. International organisations are now beginning to explore the possibility of contributing in the realm of economic development. UNDP recently published an assessment of the prospects for introducing micro-finance as a means of fostering SMEs in an environment where – despite Russian and Turkish investment – the banking system is not well developed, interest rates are high, government support is minimal and personal savings are non-existent.⁹

South Ossetia remains the poorest of the breakaway republics with no sizeable investments at all. GDP per capita in South Ossetia is \$250.¹⁰ Customs duties on the import and export of goods to and from Russia make up 90 percent of the republic's budget,¹¹ and Russia pays pensions and provides other social subsidies to the population.

Economies of the recognised states

Economic development in the recognised states is more visible, though it relies on currency flows from the oil sector in the case of Azerbaijan; grants and credits from the US in the case of Georgia; and inputs from the diaspora in the case of Armenia. All three are members of the World Trade Organization and the World Bank is present through its Poverty Reduction Strategy.

Azerbaijan's oil sector provides 39.4 percent of the country's GDP. The key internal stakeholders are the state and the big Azeri businesses politically allied with it, which means that the sector is concentrated in the hands of the ruling elite. There are few incentives to make oil revenues transparent or to use them for sustainable economic growth and poverty reduction.¹²

Azerbaijan experienced 9.9 percent growth in 2001 and 11.2 percent in 2005. The non-oil sector has the potential to create jobs (the oil sector currently employs only

1-1.5 percent of the economically active population),¹³ with agriculture, trade, construction and transport primarily in the hands of the private sector.¹⁴ However, the non-oil sector lacks economic and political influence. The Asian Development Bank recently identified ‘weak protection and enforcement of property and contractual rights, cumbersome licensing procedures, corruption, and limited access to, and high cost of, bank credits’ as key obstacles to expansion.¹⁵

Armenia’s economy has similarly been characterised by high growth rates in the past few years: 13.9 percent in 2003 and 10.1 percent in 2004. Agriculture, industry and construction remain the lead sectors in the composition of Armenia’s economy.¹⁶ GDP per capita grew from \$740 in 2002 to \$1,104 in 2004, but the gap between earnings in the capital, Yerevan, and at the periphery has increased over the same period. A large number of Armenians seek employment in Russia, and their remittances account for a significant share in the country’s income structure. Remittances accounted for 6.7 percent of annual economic growth between 1994 and 2002, according to official data.

GDP per capita in Georgia has increased from \$410 in 1995, to \$692 in 2000 and \$927 in 2003. Corruption and the shadow economy were major obstacles facing the economy under the post-war presidency of Edvard Shevardnadze. The new government of President Mikhail Saakashvili enjoys substantial financial support from the US and international donors. Georgia’s current spending priorities are the armed forces and the energy sector, while privatisation of large state-owned enterprises is high on the economic agenda.

Overview of private sector engagement in peacebuilding in the South Caucasus

The cases presented in the following sections are mainly of micro to small and medium businesses, as well as informal economic actors, such as market traders. Many of these are based in border regions, meaning they are closer to ‘the other side’. Their size and proximity to the ‘front line’ holds dangers as well as opportunities since they are most exposed to immediate conflict impacts. Due to their location and size, they have no access to policy makers in the capitals to communicate their concerns. It also holds opportunities, as due to their vulnerability to conflict, these entrepreneurs feel an urgent need to address conflict issues, such as socio-economic inequalities.

Their location has led them to maintain contacts with ‘the other side’ out of sheer socio-economic necessity. However, material motivation was not always the sole driving force. Many demonstrate tolerance towards those who used to be their neighbours and ended up on the ‘wrong side’ of the conflict. The convergence of business and human dimensions ensured surprising sustainability of their risky

enterprises. While national-level discourses in the political sphere and the media on ‘the enemy’ continue to fuel the conflict, their day-to-day contacts have provided for continuity in pre-war relations and interactions that yield a ‘win-win’ situation for all involved. The final section presents some recommendations as to how such contacts can be strengthened to further promote peace in the region.

Georgian entrepreneurs in Gal/i:¹⁷ seeking cooperation with the Abkhaz private sector

Georgian-Abkhaz conflict overview

The history of the Georgian-Abkhaz conflict is one of competing nationalisms. Economic grievances were not the driving force, but were woven into nationalist aspirations. The Abkhaz claimed to be economically disadvantaged, believing Georgians reserved the best jobs, while central government failed to invest in Abkhazia’s industrial development. Similarly, Georgians in Abkhazia were upset at what they saw to be the disproportionately high quotas of jobs given to Abkhaz in the ministries and other institutions.¹⁸

The rise to power in Georgia of the ultra-nationalist Zviad Gamsakhurdia in 1990 and the measures he adopted, such as a decree that Georgian would be the only official language, were deeply threatening to the minorities in both Abkhazia and South Ossetia. In August 1990, the Abkhaz Supreme Soviet declared Abkhazia’s sovereignty in the absence of ethnic Georgian parliamentarians. Street protests, some marked by violence, indicated an emerging conflict throughout 1991. In March 1991, the Abkhaz voted in favour of preserving the Soviet Union in a Soviet referendum that Georgia boycotted, opting instead for independence.

Abkhaz demands for equality within a federal state met with Georgian resistance despite some concessions. The Abkhaz leadership launched a campaign to remove ethnic Georgians from positions of authority against a backdrop of mounting hostility between the two camps backed by armed groups, one of which was Gamsakhurdia’s personal guard. Gamsakhurdia was ousted in January 1992 by warlords with whom he had reportedly failed to make a deal. Shevardnadze, an agreeable figure for both Moscow and the emerging Georgian National Guard, was granted the presidency without a popular vote.

Following three years of increased tensions between Georgians and Abkhaz in relation to the Georgian Independence Movement and the break-up of the Soviet Union, in August 1992 open hostilities broke out when the Georgian National Guard entered Abkhazia. The resulting war was devastating to all communities in

Abkhazia. In 1993, supported by volunteers from the North Caucasus and by Russian heavy weapons, the Abkhaz drove the Georgian forces and the remaining ethnic Georgian population across the Inguri River.

Several ceasefire agreements failed until November 1993 when the two sides signed a Memorandum of Understanding in Geneva. A Commonwealth of Independent States (CIS) peacekeeping contingent consisting of Russian blue berets was deployed to the conflict zone. In 1994, the governments of Georgia and the Abkhaz authorities signed an agreement on the Voluntary Return of Refugees and Displaced Persons under the auspices of the UN, Russia and the UNHCR.

Since then several armed skirmishes and hostage-takings have occurred in Gal/i district, an overwhelmingly Georgian-populated part of western Abkhazia. Georgian paramilitaries and Abkhaz gangs that neither government effectively controls continue to be the major threat to security in Gal/i.

Russia's economic influence is abundantly apparent in Abkhazia. Moscow has issued passports to the majority of Abkhazia's people and funds social welfare expenditures. Together with Turkey, it is the only importer of Abkhazia's timber, citrus and wines. Russian private and state-affiliated capital has a substantial presence in Abkhaz tourist resorts and wine production. Georgia regards this as unfriendly behaviour since the CIS approved an economic blockade of Abkhazia in 1996. Russia was the first member state to violate the blockade.

The Georgian-Abkhaz peace process has been diverse, involving various international NGO and inter-governmental organisations, an international peacekeeping contingent, the governments of the conflicting sides and third parties, local NGOs and community groups. Dialogue and problem-solving workshops have continued under the aegis of various US and European academic institutions, involving youth, academics, women, environmental activists, journalists and ex-combatants.

In 1997, the UN facilitated the establishment of a Coordinating Council as a forum for negotiation between the two sides. Chaired by the Special Representative of the UN Secretary General (SRSG) to Georgia, it consists of three working groups dealing with security, IDPs and refugees. Assistance with social and economic issues is also on the agenda and a few projects were implemented with international or bilateral funds. The SRSG mainly provides 'good offices' and communication channels for officials from Georgia and Abkhazia to meet and talk.

The official peace negotiations have not yielded any significant rapprochement. Abkhazia insists on full sovereignty and international recognition, while Georgia offers membership in a two-member federal state, but without a separate army.¹⁹

These two approaches are incompatible. Throughout negotiations the Abkhaz leadership attempted to impose a piecemeal approach by discussing economic issues, such as energy and transport, before going on to address the core issues of the status of Abkhazia and the return of Georgian IDPs/refugees. Re-opening the railroad from Russia, via Abkhazia and Georgia, to Armenia, is top of the Abkhaz agenda and economically vital to Georgia as well, but talks have idled because Georgia insists on the return of IDPs as the priority issue. The IDPs from Gal/i strongly opposed Georgia's engagement in the railway negotiations before the issue of their safe return had been resolved.²⁰ Abkhazia resists this approach because it fears that any return to the pre-war demography, when ethnic Georgians significantly outnumbered Abkhaz, would skew the popular vote in any referendum on Abkhazia's future status. A UN Needs Assessment Mission to Abkhazia in 1998 came to the conclusion that the CIS blockade of Abkhazia had a negative impact on the peace process by solidifying the political positions of both sides.

In 2004 a document was submitted to the National Security Council of Georgia that outlined a federal solution to the conflict in which Abkhaz residents would be granted joint Abkhaz and Georgian citizenship, but Abkhazia would not be recognised internationally.²¹ The plan foresees a quota for ethnic Abkhaz in the Georgian parliament that would assure equal representation. Abkhazia would set its own taxes and duties, but would pay certain revenues to the Georgian exchequer. Special bank notes of Georgian currency, bearing Abkhaz symbols, would circulate in both Abkhazia and Georgia. Georgian IDPs would be free to return and the international community was invited to assist in a resettlement programme. Abkhazia rejected the proposal and still insists on full independence.

At the end of 2004 a group of Georgian civil society leaders presented a proposal to transform the Georgian-Abkhaz conflict by creating a special economic zone stretching 30 km along both sides of the Inguri River, the *de facto* border between the conflicting sides.²² The zone would be managed by a joint Georgian-Abkhaz administration and monitored by representatives of the international community. If implemented, the measure would boost revenues for both sides by opening the trade routes from Turkey and Iran to Russia, which currently form part of the shadow economy. Although the proposal has not been rejected outright, Georgian and Abkhaz politicians have not considered it formally.

With the accession to power in Abkhazia of Sergey Bagapsh in January 2005, Georgia anticipated some change of direction. However, President Bagapsh recently reiterated Abkhazia's aspiration to become an 'associate member' of the Russian Federation and the population is likely to be awarded Russian citizenship in the near future.²³

Economic links despite the 'frozen' conflict

All economic cooperation between Georgia and Abkhazia takes place in the realm of the shadow economy. The only exception is the Inguri hydroelectric complex, which was split down the middle at the end of the armed conflict with the plant in Abkhazia and the dam in Georgia. Both are heavily dependent on Inguri for electricity and so, of necessity, they agreed a project for joint management of the facility. In October 1998, the EBRD allocated \$38.5 million to finance reconstruction of the Inguri complex. As a condition, it required Georgia and Abkhazia to sign a Memorandum of Understanding and to allocate management positions equally between both sides. Observers have noted the peacebuilding potential imbued in this kind of cooperation: "Engineers and managers working on the Inguri complex, and politicians believe that this joint management effort is leading the peace process, not following it, and could become a model for cooperation in rebuilding railway, communication and transport ties, but to date there has been little tangible influence on other areas of cooperation."²⁴

Despite the ongoing sensitivity to discussing the other critical opportunity for cross-territorial cooperation – the railway from Russia to Georgia through Abkhazia, which also connects Armenia – the Georgian government has finally put economic interaction with Abkhazia on its agenda. After years of opposition to the restoration of the Sukhum/i-Tbilisi rail link, Georgia has decided to enter the railway talks.²⁵

Conflict consequences in Gal/i district

Over 250,000 Georgians were displaced from Abkhazia during the armed phase of the conflict, with Georgians from Gal/i district constituting around one third. Georgians were an overwhelming majority in Gal/i prior to the war (93.8 percent in 1989). In 1998, long after the military phase ended, 30-40,000 Georgians still remained, soon to be joined by a spontaneous return of IDPs. These returnees were labelled 'traitors' by the Abkhaz 'government in exile', which consists of ethnic Georgians from Abkhazia and is influential in Georgian politics. At present the number of Georgians in Gal/i is estimated at around 50-60,000.²⁶

Georgians in Gal/i complain of Abkhazia's discriminatory educational policy and their limited participation in political affairs. Crime, the lack of basic security and minimal income-generating opportunities underpin daily life. The authorities cannot alleviate conditions because the scale of poverty is wide and resources scarce. There has been zero investment due to a volatile criminal situation in which the identity and affiliation of the gangs that terrorise Abkhaz and Georgian alike are rarely clear. As one interviewee recounted: "If it is known that a father has received a parcel from his son who's working in Russia, burglary is almost inevitable. It's usual that the entire harvest is taken from the peasants."

Nonetheless, the new president, Sergey Bagapsh, declined a proposal by the SRSG to open a UN human rights office in Gal/i, claiming that the Abkhaz enforcement agencies were already working to combat crime.²⁷ However, the government clearly lacks the resources to improve security significantly or, many believe, any motivation to re-integrate returnees into Abkhazia's politics, economy and culture. A law in October 2005 effectively denied citizenship to Gal/i Georgians by setting five years' unbroken residence as its main condition.²⁸ This excludes a significant number of returnees and all IDPs in Georgia. For those who do qualify, Abkhazia permits dual citizenship only with the Russian Federation so ethnic Georgians have to abandon their Georgian citizenship to qualify.²⁹ Currently, a quarter of the residents of Gal/i hold Abkhaz IDs, which are basically old Soviet passports with a special form attached. Most also hold Georgian passports, though this is rarely publicised. As a result, under Abkhaz electoral law, only a quarter of Gal/i Georgians can vote and the remainder is disenfranchised.

Gal/i entrepreneurs: a bridge between Georgia and Abkhazia?

In Soviet times, Gal/i was a flourishing district, with industry and a developed agricultural sector. There were canneries, a tea factory, poultry farms, a timber factory employing 2,000 people and the Inguri hydroelectric plant. Residents also grew fruit and vegetables and Gal/i was an important regional food supplier, accounting for more than 50 percent of Abkhazia's total agricultural output before the war.

Gal/i's private sector at present is a peculiar combination of large-scale smuggling of scrap-metal, petrol and cigarettes with Georgia, and small-scale trade across the Inguri River.³⁰ Under Georgian law, it is illegal for goods to cross the border so traders are required to bribe gatekeepers on the Georgian side. Abkhaz customs officials and border guards also take advantage of traders' vulnerability to line their pockets every time they cross the river.

Gal/i, along with Ochamchira and Tkvarchel/i districts, is the most underdeveloped part of Abkhazia despite its long tradition of superb agriculture. However, agricultural equipment has either been destroyed or stolen since the war, or simply worn out. Farmers have no transport to take their crops to market, even to the nearby city of Gal/i.

Residents of Gal/i admit that the private sector is at a primitive stage of development. The majority survives on whatever their gardens, woods and pastures provide – dairy produce, vegetables, fruit, nuts and honey. They receive little assistance aside from humanitarian aid from the Georgian government and directly from international organisations, and even this is far from stable or sufficient.³¹ Georgia receives substantial assistance for IDPs who live in western Georgia, but

returnees to Gal/i and Georgians who never left receive no help for their reconstruction needs or business activities.³² The small proportion of Gal/i residents who teach or work in the city administration receive ludicrously low wages from the Abkhaz government. The business community in Gal/i district does not qualify as small, but rather as micro-business, as the businesspeople themselves admit. The private sector does not generate much employment, with the number of hired personnel rarely exceeding a handful per business.

Gal/i holds a twice-weekly market, but most farmers cannot sell their produce due to lack of transport. Instead, they sell to wholesalers who profit from the higher margins. Re-selling agricultural crops is the most popular business in the district, but farmers are so preoccupied with survival – and so suspicious of one another – that cooperation does not yet appear an option. Other private sector activities in Gal/i are bakeries and mini-shops. Most goods and non-agricultural products are bought in Georgia for resale in Gal/i. Occasionally Gal/i farmers take nuts, honey or pork to sell in Georgia where they receive a higher price than in Abkhazia.

One group of Gal/i Georgians is keen to do joint business with Abkhaz from other regions. Gal/i Georgians, who have received support from the Abkhaz Union of Women Entrepreneurs, are among those eager to expand their business activities beyond Gal/i region. They had practical suggestions in interviews: “Let’s make our internal cooperation a reality and only then look outwards and create business links with Georgians who reside in Georgia”; and “We could reconstruct the cannery [that’s been abandoned] and start a mini-cannery together with [Abkhaz] entrepreneurs from Gudauta or Sukhum/i.”

The Abkhaz Union of Women Entrepreneurs

A group of Georgian small enterprise owners from Gal/i district were at the early stage of starting businesses at the time of the research, having received preliminary training and financial assistance from the Union of Women Entrepreneurs, a Sukhum/i-based NGO that runs a grant programme for small business projects in Gal/i.

The Union of Women Entrepreneurs was founded in April 2002 by a group of enthusiasts led by an Abkhaz businesswoman, and involves successful entrepreneurs, mostly women, but also men. Their businesses include hotels, farms, construction companies, trade and others. Since its inception, the organisation has developed into a resource centre and a business incubator for SMEs in Abkhazia.

The Union’s aim is to assist women entrepreneurs with training and low or no-interest credits and grants for business start-ups. To date, it has implemented

projects in partnership with the UK Department for International Development, International Alert, the Swiss Agency for Development and Cooperation, the Swedish NGO *Kvinna till Kvinna*, UN Volunteers and UNHCR. So far, several training courses and 15 small businesses have been the outcomes of these projects.

The organisation is one of a few prominent Abkhaz NGOs, and is staffed by ethnic Abkhaz. However, it is committed to SME development throughout Abkhazia and across ethnic divisions. The head of the Union of Women Entrepreneurs was the driving force behind an initiative to involve Georgian returnees in Gal/i, Ochamchira and Tkvarchal/i districts, where poverty levels and war devastation are the highest in Abkhazia. The widening gap between the rich and poor, and between the regions, creates a potential for violence. The divisions between haves and have-nots coincide with ethnic division, which is dangerous in a society that has been through violent conflict.

The project pioneered a series of trainings and a grant competition for start-up entrepreneurs in Gal/i. Their first trainees included owners of a small gift shop, a tailoring business, a bakery, a small poultry farm and a centre offering free and paid training courses. The pilot training and grant competition project were started with finance from members of the Union with no external assistance.

It is the first and only Abkhaz initiative to try to generate business activity in a district with a Georgian population, and where there is no other private sector input or development. Leaders of the Union say their motivation is the development of an independent private sector in Abkhazia, because they believe that private initiative, hard work and enhanced skills will provide affirmation and hope to entrepreneurs. It is their hope that these entrepreneurs will become the pioneers who break the cycle of hardship and helplessness, and ensure a breakthrough in the Abkhaz economy.

Ethnic Georgian entrepreneurs have a variety of motives for creating joint ventures with Abkhaz businesspeople. First, they do not see Georgia as a profitable or safe market. Since the closure of Ergneti market at the border with South Ossetia in September 2004, the largest source of smuggling, Georgia has tightened its border with Abkhazia.³³ Small traders and food producers barely cover their subsistence needs after paying bribes to customs officials on both sides of the Inguri River. "It is other people who are welcome in Georgia: they transport metal and gasoline to Georgia, they have their people helping them. Our profits are nothing compared to theirs," said one Gal/i entrepreneur. In the view of another: "They are the business people, who form part of the corrupt networks that embrace the authorities and criminal circles." Interviewees did not believe that ordinary Abkhaz or Gal/i

Georgians could do business with Georgian entrepreneurs. “The main reason is that our [Abkhaz] government prohibits this.” This belief persists regardless of the fact that no explicit law forbids trade with Georgia.

Local entrepreneurs were acutely aware of the need to maintain peace: “We need to restore relationships between the Abkhaz and Georgians in Abkhazia. Nothing can do it better than joint business.” According to another interviewee: “Many of us have lost our property, the houses were burnt down. But there is no war anymore, and this is what matters the most. We will rebuild our houses.” Another said: “Let the ‘frozen’ conflict persist rather than have another war. When there is peace and people are not dying, we’ll always find a way to survive.” They are confident that the greater the number of people engaged in the private sector, the less the chance that war will resume. “People who have got a business are neither angry nor aggressive. They want to expand their business, and another war would mean losing everything again.”

Thirdly, if a Georgian starts a business, it stirs suspicion among his Abkhaz neighbours and the authorities. A joint business initiative between a Gal/i Georgian and an Abkhaz from Sukhum/i, for example, would be better received. Gal/i Georgians are afraid to travel to Sukhum/i to sell their products, particularly young men who fear indiscriminate violence or military conscription. Partnerships with Abkhaz businesses would help Gal/i farmers access more profitable markets in Abkhazia without actually going there.

Gal/i entrepreneurs also feel their experience resonates better with Abkhaz business people than with Georgians. Because Abkhaz business has been left to its own devices, it has had to invent models that fit the particular environment of restricted trade, lack of currency and licences, and low investment rates. Purchasing power is much lower than in Georgia, and the scope of goods and services on offer is correspondingly narrow. Gal/i entrepreneurs, therefore, seek to cooperate with Abkhaz businesses first, and only then to turn their attention to Georgian businesses across the river.

Gal/i entrepreneurs feel marginalised by both Georgia and Abkhazia. The Georgians who never left Gal/i had been waiting for the situation to improve and now find they have been forgotten by Abkhaz business and the Abkhaz authorities. They expect greater responsiveness from the private sector in more developed regions of Abkhazia.

But Georgian returnees also see themselves as mediators between Abkhaz and Georgian. “When we go shopping or selling in Georgia, we tell them how we, the returnees, are being treated by the Abkhaz population. These stories also serve peacebuilding.” In the words of another interviewee: “If Georgian-Abkhaz business relations were established within Abkhazia, then the Abkhaz might be able to better understand Georgians from Georgia.” The first attempts are being made to offer spaces to Abkhaz and Georgian businesspeople to come together and ‘talk business’ (see below).

It is clear that integrating ethnic Georgian entrepreneurs from Gal/i into Abkhazia's private sector, and the kinds of joint ventures envisaged by people interviewed for this report, could have benefits for wider peacebuilding efforts in the region, including:

- Joint reconstruction of livelihoods
- Promotion of greater economic equality among ethnic groups, including those who ended up on the 'other side'
- Confidence building
- Prejudice reduction
- Reconciliation
- Institutionalisation of cross-conflict economic ties.

Abkhaz and Georgians: talking business and peace

In 2002, the UK-based peacebuilding NGO Conciliation Resources (CR) began a series of study visits to London for Georgian and Abkhaz politicians, officials and civic figures, to understand the experience Northern Ireland. The first visit focused on the economic sphere, and explored the ways that economics and business impact on a peace process and can contribute to the dynamics of conflict transformation.

After the visit, one participant, an ethnic Georgian factory director in pre-war Abkhazia who had been displaced to Georgia, made efforts to keep in touch with the Abkhaz participants. He asked CR to facilitate a further meeting in Gal/i. An informal meeting of businesspeople, officials and politicians was arranged under CR's auspices (the NGO's involvement lent the meeting an international context and provided participants with whatever political cover they might need, but CR was not present at the meeting). At that stage, the maintenance of relations and the discussion of possibilities were considered more important than putting any concrete business proposals on the table.

One of the practical outcomes of the meeting was a joint visit to a trade fair in Istanbul in May 2004, with the support from a group of Turkish businessmen. The initiative came from the Georgian and Abkhaz interlocutors, but CR issued the invitations, liaised with the Abkhaz and Georgian authorities, arranged travel through the UN assistance and co-funded the trip with the British Embassy in Georgia.

Regular communication and interactive analysis of the challenges and opportunities for building entrepreneurial bridges between the two private sectors was logistically difficult for the Georgians and the Abkhaz. In light of

this, all agreed that it would be useful to convene a meeting in Moscow in September 2005 as a means of analysing the underlying challenges and considering ways to move forward. CR also felt it was important to link this process to fellow peacebuilding NGO International Alert's more extensive work on business and conflict in the South Caucasus. The meeting was designed to explore the challenges and opportunities involved in economic cooperation in a context that circumscribes the room for legal economic endeavour.

In the Moscow meeting a mixed group of Georgian and Abkhaz business people, officials and politicians came to the joint conclusion that with the political process in deadlock, cooperation between businesspeople presented an opportunity to change the dynamic and, in the view of some participants, operating a parallel, economic approach can help unlock the political stalemate. Although the nature of trust is always disputed in a conflict environment, reliable patterns of behaviour promoted by shared economic goals can contribute to mutual trust. Despite the legacy of war, many factors provide encouragement for economic cooperation, such as the lower transport costs of working with those in close geographic proximity, as well as evidence of common attitudes.

The most obstructive impediments from the participants' perspective are groups who benefit from the current status quo through cooperation in the smuggling of illegal and legal goods. Other factors impact upon opportunities, notably the atmosphere of political deadlock, which leads to a lack of public optimism. Politicians compound this by engaging in war rhetoric, reinforcing each other's insecurity.

Although the meeting was not framed with a 'problem-solving' agenda, participants grappled with their real problems and made suggestions that could empower local businesspeople for future engagement. Among them:

- To establish a customs point on the 'shared' river, not to collect customs fees, but to monitor and register passing goods
- The Quadripartite Committee should be encouraged to elaborate a temporary legal framework for economic cooperation and sign a provisional agreement for transitional regulations of economic activities
- To create a free economic zone in Gal/i, financed by the Georgian and Abkhaz diasporas
- To create a joint, non-governmental economic forum to prepare concrete business proposals, as well as establish parallel mechanisms on both sides that would assess the political feasibility of potential business joint ventures and lobby for economic cooperation.

While some of these ideas might not be politically feasible at present, they reflect a willingness to think creatively. Six weeks after the Moscow meeting, CR and IA helped some participants and other businesspeople from both communities to travel to another trade fair in Turkey. Again a Turkish business association provided assistance. Those involved want to keep talking, but they also want to find the right framework in which to explore at what point they can begin to juggle the political and economic realities, and start doing business.

This case has been written for Local Business, Local Peace by Jonathan Cohen and Diana Klein.

Georgia and South Ossetia: business cooperation across the dividing line

Georgia-South Ossetia conflict overview

In the late 1980s South Ossetians became concerned that Georgian chauvinism threatened their identity and political rights. In January 1989, a popular front emerged whose goal was to secede and reunite with their kin in North Ossetia. Economic insecurity was one factor behind the South Ossetians' fears; its budget was the smallest in Georgia and scarcely met the population's basic needs. A series of provocations by Georgian activists strengthened support for the nationalist party. In November 1989 a moderate political force, the Soviet of National Deputies, called an emergency session and made an effort to upgrade South Ossetia's status to an autonomous republic, but the Georgian parliament responded by reducing the region to a 'cultural autonomy'. The leading Georgian nationalist party, *Mrgvali Magida* ('Round Table'), launched a march on Tskhinval'i, to demonstrate its intention of keeping the subordination of ethnic groups in place. In September 1990, South Ossetia declared independence from Georgia after it declared independence from the Soviet Union. Georgian paramilitaries associated with the nationalist parties besieged Tskhinval'i in early January 1991, forcing South Ossetia to mobilise.

President Gamsakhurdia introduced an economic and energy blockade of South Ossetia in early 1991 and maintained it throughout the winter. In March 1991 South Ossetia again voted to preserve the Soviet Union. Waves of Georgian attacks followed, but overall motivation was low due to the lack of lootable resources. Clashes occurred between Georgian and Ossetian regiments, along with vicious attacks on the civilian population. After Gamsakhurdia's regime was overthrown in early 1992, hopes blossomed for an end to the armed conflict, but the Georgian National Guard attacked again in June 1992 in order to achieve a strong position prior to the ceasefire negotiations.

On 24 June 1992, Georgia and South Ossetia signed a ceasefire agreement and a quadripartite Joint Control Commission, consisting of Russia, Georgia, South and North Ossetia, was set up to monitor it. A Russian peacekeeping force was deployed in the conflict zone.

One thousand South Ossetians died in the conflict, hundreds more were wounded and about 100 villages were burned and destroyed. Between 40-100,000 South Ossetians fled to North Ossetia (prior to the war about 100,000 Ossetians lived in Georgia) and 10,000 Georgians fled South Ossetia.³⁴ Both sides reported atrocities against civilians.³⁵

The conflict zone is currently divided in two parts, one controlled by South Ossetia, the other by Georgia. Because Georgian and Ossetian villages in the zone are clustered as a mosaic, clear demarcation of the different spheres of control is impossible. This has shielded Ossetian and Georgian communities from total alienation and preserved inter-communal bridges. On the other hand, in an environment with no clear-cut front lines, armed violence can re-ignite, as occurred in summer 2004.

The conflict entered a new stage after Georgia's Rose Revolution in November 2003. One of President Mikheil Saakashvili's first pledges was to restore Georgia's territorial integrity. His first step towards that goal was an anti-smuggling campaign that targeted Ergneti wholesale market on the border between Georgia and South Ossetia. Losses in customs revenues due to smuggling from the market have been estimated at \$10 million per month.³⁶ The campaign was accompanied by an increased number of Georgian checkpoints in the conflict zone, which stirred the suspicions of the South Ossetians, and the commander of the Russian peacekeeping contingent responded by threatening to remove the Georgian military by force. Meanwhile, tensions peaked with shelling and killings. Seventeen Georgians and five Ossetians were reportedly killed in clashes in summer 2004.³⁷ Despite the optimism generated by the closure of Ergneti Market – the government immediately used the increased revenue to double pensions from \$7 to \$14 a month – some politicians conceded it had been a mistake not to offer traders an alternative space, or to legalise the transit of goods from South Ossetia.³⁸

International assistance for economic rehabilitation

Though the international community is present in the conflict zone, inter-governmental assistance is channelled directly to Georgia, the internationally recognised state. Any direct involvement by the EU, OSCE or UN in South Ossetia is controversial because they are perceived as Georgia's allies due to their adherence to the principle of the territorial integrity of states. South Ossetians fear they will be forced to give up independence in exchange for economic development and external support, and are deeply opposed to this option.

The amount of money allocated for the rehabilitation of the conflict zone in South Ossetia is substantial: \$948,000 for building houses for potential repatriates and \$1.54 million for renewing infrastructure. The restoration of mixed Ossetian-Georgian livelihoods, however, has largely failed. Refugees from both ethnic groups either would not move back, or would return only to sell the new houses built by the EU.³⁹ A further \$474,000 was allocated to the rehabilitation of infrastructure in the IDPs' temporary settlements and channelled through the Georgian government. Indirectly some help was channelled to South Ossetian communities through a series of EU projects focusing on economic rehabilitation with the participation of Georgian and Ossetian communities.⁴⁰ Translating small successes in cooperative economic rehabilitation at a community level into the political and economic spheres, however, remains a challenge.

The EU is prepared to fund programmes for the revival of economic links between South Ossetia and Georgia, including a joint Georgian/Ossetian customs collection mechanism and the re-opening of the transport route from Russia southwards. However, the funding invitation was on hold at the time of writing because the two sides failed to reach agreement on where the customs post should be located.⁴¹

The new Georgian government has recently begun to consider a programme to support SMEs in the Georgian sector of the conflict zone with help from the EC and OSCE. It also proposed funding economic revival in South Ossetia, but this was conditional on South Ossetia resuming its status as an autonomous republic within Georgia, which was not acceptable to its leadership.

Meanwhile, Georgian and South Ossetian farmers, traders and entrepreneurs have developed their own strategies for cooperation within the limits of the current security and economic conditions. These ensure a degree of secure income for both communities. Those who engage in them, however, receive no funding from international or domestic sources to expand their activities or to involve a greater number of people.

Private sector in South Ossetia: resilience and a vision for change

Three modes of private sector response in South Ossetia to conflict were identified during the research for this report:

- **Escapism.** Entrepreneurs leave South Ossetia and do business elsewhere
- **Conformism.** Entrepreneurs participate in the corrupt networks that persist in the conflict situation and have no ambition to promote political and economic change
- **Resilience.** Entrepreneurs stay in South Ossetia by choice and try to bring about political and economic change.

This study focuses on cases in the third category, which demonstrate there is a group in the South Ossetian private sector with a vision and strategy to rebuild relations between Georgia and South Ossetia, and make cooperative initiatives sustainable.

The local private sector operates as a peacebuilding agent below or beyond the geopolitical level where the interests of Georgia and Russia collide. The logic of the strategy is simple: eventually, the private sector will outnumber and overpower militants on both sides.

The private sector in South Ossetia developed out of a need to fill the void in services, goods and food supply created by the Georgian blockade. There was a boom in small restaurants, cafes and shops in the post-*perestroika* years, but this collapsed after the war. Representatives of what remains of the private sector are proud of staying afloat despite 15 years of conflict. One interviewee recounts: “Day after day, when there was a break in the shelling of the city, people would come out of their shelters and carry on renovating a small shop in the basement, or selling food and other basic items.” Agriculture died out in the ‘frozen’ conflict because farmers could not afford new equipment and were regularly robbed of their herds or harvests by militia. However, entrepreneurs from both communities, including individuals from Georgia proper, managed to put aside their political differences and engage in trade, illustrating a range of models for private sector engagement in peacebuilding. The remainder of this section presents some examples.

Ergneti market: a peacebuilding mechanism

Ergneti market became the most reliable source of income for thousands of Ossetians and Georgians after 1999 when it became less profitable to smuggle alcohol from Georgia to Russia. Petrol, cigarettes, food and industrial products from Russia were traded in Ergneti and smuggled to Georgia while a counter-stream of agricultural products from Georgia flowed north into Russia via South Ossetia. Ergneti market served as a price-setting mechanism for the entire region.

The volume of trade at Ergneti market was estimated as between \$101-133 million per year in 2004.⁴² Theoretically, Georgia should have collected duties at the border with Russia, but this part of South Ossetia was not under its control. The establishment of customs posts at the *de facto* border with South Ossetia would have meant that Georgia had conceded the breakaway state’s claim to sovereignty. Though opening the Transcaucasus railway to Russia remains of utmost importance to both Georgia and South Ossetia, the politics of the region has relegated pragmatic interests into second place.

The closure of Ergneti market in 2004 had a devastating impact on small traders, yet failed to halt the flow of contraband, which instead concentrated into the hands of a small number of players. In interviews conducted for this report, Ergneti was considered an important development mechanism in South Ossetia, with significant peacebuilding implications. Previous presidents of Georgia and South Ossetia have boasted to the OSCE that the organisation of Ergneti market had been their main achievement. One trader remembers: “People seemed to have put aside the violence, and traded and interacted in a friendly way regardless of their ethnic origin.” Most small entrepreneurs at Ergneti market, Georgians and Ossetians alike, acted within an unwritten code of conduct – governing a space that could otherwise easily have become an arena of violent clashes. Conflicts between Ergneti actors only occurred when someone had violated the rules of business, rarely as a result of ethnic differences.

The closure of Ergneti market demonstrated that micro-businesses, no matter how numerous, have no influence on political decisions. In the words of one trader: “I traded at Ergneti market and about 30 people from the Georgian side were my partners. They helped with the transport. My customers were Georgians – I lost them. Our business and human communication was intense. I think if there were several Ergneti Markets, they could not have shut all of them as easily as they’ve done with this one.” Women traders talked of their Georgian counterparts with empathy; they shared a common fate as hardworking, self-reliant and vulnerable entrepreneurs.

While all interviewees emphasised the SMEs’ lack of influence on political decision-making, Georgian businesspeople did not voice their protests, though their circumstances have seriously worsened. Given that closure was ‘good for Georgia’ financially and a symbolic act to counter perceptions of corruption in Georgia, they may have felt inhibited at voicing any concern.

Assistance to private sector development and peacebuilding

Bottling and selling of mineral water is an important sector in South Ossetia, with a large number of bottling companies competing in a small market. Those in the business are forced to stay in South Ossetia because they cannot go anywhere else. As a result, they have developed a high level of commitment to bringing about political and economic change, according to one owner interviewed for this research. An ex-combatant, he employs Ossetian and Georgian ex-combatants and is concerned about their re-integration into civilian life. However, his ability to provide jobs is limited due to a lack of development opportunities. He is convinced that business should be ‘cosmopolitan’, and that ethnicity and national aspirations should not intervene.

No one will invest in marketing and branding South Ossetian spring water due to the lack of a barcode; most South Ossetian water is exported for sale under a Russian barcode. While most bottlers would not consider selling water to Georgia, this businessman has a partnership with a Georgian in the border village of Avnevi who sells it into the Georgian market from where it is exported to Azerbaijan. Businesspeople with similar links are perceived as trading with the ‘enemy’ and are treated as pariahs.

By helping the South Ossetian private sector ‘spread its wings’, the businessman believes he is contributing to the emergence of a class of liberated, ‘thinking’ persons with the capacity to influence politics. This category of people barely survives in the suffocating political environment. In his view, the major problem is that people who are driven by personal greed have become politicians by accident and do not care about South Ossetia’s long-term prospects. All those interviewed think healthy SME activities are impossible in a conflict context, and would naturally be a voice for peace were they to gain political influence: “Had businesspeople on both sides been consulted [in peace negotiations], the conflict could have been settled quickly,” said one interviewee. In their view, a group of ‘resilient’, liberated, thinking entrepreneurs needs to be nurtured.

The interviewees emphasised that armed conflict could have been avoided if the private sector had been rich, cohesive and influential in the first place. “The conflict was an outgrowth of the political ambitions of the leaders; the people did not need it,” said one. Another’s view was that ‘business cannot survive in the atmosphere of mistrust’. “If I provide 20 people with jobs and income, and so do another dozen entrepreneurs, who would contemplate warfare?” Social tension and conflict are due to disparities between those with the opportunities to earn a living and those who had a hard time making ends meet.

Some interviewees did not think that the promotion of joint business initiatives with Georgians was a good idea because the initiatives were likely to cause social resentment. The development of local business on both sides separately was considered a more promising model. Eventually the links will be established – but only after the conflict is resolved.

Co-operating for security across the divide: farmers in the conflict zone

The village of Khetagurovo, at the heart of the conflict zone in Znaur region, was divided in two as a result of the 1991-92 war. The villagers decided to exchange lands with their neighbours so that today not a single plot is abandoned. Georgians cultivate land that was formerly South Ossetian, and vice versa. They also agreed to monitor the movements of paramilitary forces and to prevent their own from attacking their former co-villagers. One farmer recounts: “We decided that, in the event of conflict escalation, we would

demonstrate to the armed guys that the Georgians are working Ossetian land, and the other way round, to prevent shooting.” The driving force behind the agreement was the desire to preserve one’s business and network.

Among the peacebuilding elements in the above cases, the following patterns can be identified:

- Informal business across the front line
- Attempts by independent entrepreneurs to transform the domestic, political environment
- ‘Gentlemen’s agreements’ on the mutual protection of businesses across ethnic lines.

Sadakhlo market: ignoring the war, building peace?

Sadakhlo, with a population of 13,000 Azeris, is situated in Georgia near the Armenian border. A market was established in the early 1990s that subsequently became the main source of income for tens of thousands of Georgians, Armenians and Azeris. Sadakhlo is adjacent to Kvemo Kartli region, which is populated by Azeris and Armenians. It is, therefore, a place where three countries meet. It is also on the true periphery of Georgia. While the poverty level in Georgia was 52.3 percent in 2004, the figure for Kvemo Kartli was 78 percent, of whom 30 percent live in extreme poverty.⁴³ Most Azeris in Sadakhlo do not speak Georgian and their chances of employment are light. In Soviet times the farmers’ dairy produce, fruit and vegetables were prized, but Georgia has since prohibited the purchase, privatisation or rental of land in the border regions, and Azeris and Armenians lost their access to soils and pasture.

Sadakhlo market has manifested the abyss that lies between the rich and poor in Armenia, Azerbaijan and Georgia. This inequality is so dramatic that ‘the conflict is not really between Armenia and Azerbaijan, but between a class of people who gain and a class of people who lose’, according to one trader. Even at the peak of the war between Armenia and Azerbaijan, ordinary Azeris and Armenians continued to trade at Sadakhlo.

A new phase in the history of Sadakhlo began with President Saakashvili’s recent anti-smuggling campaign. Though targeted at Ergneti market, other markets have felt a knock-on effect. In Sadakhlo, the campaign initially led to an increase in both fees and bribes, as well as streamlined customs procedures, including better storage facilities and refrigeration. Ordinary traders were not impressed. “We are told that the tax payment enforcement is for our own benefit,” observed the deputy governor

of Marneuli region. “But people in remote areas of the country do not feel it and would rather not be bothered by the state, but just take care of themselves.”

The market was until recently open daily. Armenian nationals reached it through a gate guarded by Armenian and Georgian customs officers and border guards. Traders from Azerbaijan entered Georgia via the Krasny Most (‘Red Bridge’) border checkpoint and took the bus to Sadakhlo. On a busy day there would be 5,000 people trading in Sadakhlo.⁴⁴ All 72 Azeri villages in Georgia were dependent on the trade.

Business at Sadakhlo market was regulated by informal agreements stronger than any written law, and Azeris and Armenians demonstrated surprising levels of trust. A Sadakhlo Azeri would act as a middleman between a Baku entrepreneur, who supplied Chinese-made clothes, and five wholesale customers from Armenia. He supplied the goods on credit because he knew they would pay it back: “We all know each other and reputation is our major asset.” Armenians used to rent apartments from Azeri families in Sadakhlo to avoid them having to travel back and forth in the trading season. Azeri teenagers found casual work carrying goods across the Armenian border. Azeri flour ended up in Armenia, while Armenian smoked river fish would be found on Azeri dinner tables. Sadakhlo traders participated in smuggling, but this was not perceived as reprehensible, just a normal exchange of agricultural products, wine, cattle, cheap industrial goods and clothes. According to local interviewees, large oil-product deals were rarely made in Sadakhlo, but relied on direct contact between business circles in Armenia and Azerbaijan.

One unspoken rule at Sadakhlo was always not to discuss politics. The issue of Nagorny-Karabakh was a no-go area between traders. “It wasn’t us ordinary people who started the conflict,” said one veteran Armenian trader, “so why should we stick our nose in it?” Most of those surveyed opted for a peaceful resolution of the conflict. However, one Azeri conceded a valuable insight: “If direct economic relations are restored between Armenia and Azerbaijan, we Sadakhlo traders will lose our jobs.” The statement was also indicative of the deep disillusionment with which traders see their rulers. They do not believe that resolution of the Nagorny-Karabakh conflict will bring about positive change in their societies, or that governments will ever focus on the needs of the poor.

Customs authorities in Georgia notified their Armenian counterparts of the final closure Sadakhlo market in mid-April 2006. All three governments had in fact been keen to close the market – considered by all three states as a hub for contraband and corruption at customs checkpoints, as well as a source of lost revenue.

Local Sadakhlo traders – ethnic Azeris – felt the heaviest blow as a result of the market’s closure. A few of them are now making ends meet by purchasing sugar from

Azeri wholesalers (Azerbaijan has recently launched sugar export to Georgia and Iran) and selling it on to Georgia. However, the majority are struggling to find a new source of income. It is likely that the loss of an opportunity to sell local produce will soon increase poverty in the region, and locals are doubtful that the Georgian state will help them.

The Sadakhlo phenomenon incorporated some peacebuilding elements. The operation of the market required humanisation of the relations between members of the warring parties. A younger generation in both countries has grown up with no direct contact with one another and is now involved in virtual war in internet chat-rooms characterised by xenophobia and hostility. Armenians and Azeris at Sadakhlo market, by contrast, never lost direct contact and this may have enhanced their conflict-free co-existence. But the actors involved are from the most disadvantaged categories of society, and have no influence in local politics, let alone nationally. Sadakhlo presents an example of spontaneous peacebuilding grounded in the apolitical pragmatism of trade.

Direct contacts between Armenian and Azeri traders have terminated with closure of the market. This had been the only place where representatives of the two nations at war with each other used to trade, ignoring the war. Restoration of trade and other economic relations between Armenia and Azerbaijan are now contingent on resolution of the Nagorny-Karabakh conflict.

Conclusions

Most of the cases of business cooperation across the various conflict divides in the South Caucasus presented in this report were born out of socio-economic necessity. Continued business contact with ‘the other side’ also has a clear human dimension however, with businesspeople involved in it believing that they are holding a ‘fort of normality’ that may eventually show the way for broader peaceful relations between the countries. This is further evidenced by some of the examples above where businesspeople have made deliberate efforts to directly address conflict issues in ways that go beyond ‘just doing business’. The Abkhaz Union of Women Entrepreneurs and the Abkhaz-Georgian dialogue are cases in point. It is important to point out that the entrepreneurs who are engaged in trade or other business across the divide have never questioned the legitimacy of their side’s goal in the conflict, but throughout the conflict have challenged the idea of curtailing human and neighbourly relations with ordinary people who happened to belong to the rival side because of their identity, residency or family ties.

In the absence of formal peace between conflict actors, the ongoing reality of closed borders, and the residual threat that violence will resume, such economic contacts

happen in a ‘semi-legal’, legally insecure environment, as described above and as demonstrated by the recent closure of two key markets. This forces many activities that would be regarded as perfectly legal elsewhere into the shadow economy. Businesspeople risk hostility from their own government and society if business is carried out in an open and transparent manner. Yet these contacts do exist, and efforts at involving the business community in the region more systematically in peacebuilding should aim at strengthening pre-existing links. This means mechanisms and space need to be created allowing for such business activity.

Any cross-conflict private sector initiatives with peacebuilding goals need to avoid or mitigate both the potential threats to businesspeople emanating from what’s perceived as ‘cooperating with the enemy,’ and being confined to the shadows. Such initiatives can take various forms:

- A private sector institution that provides business to business diplomacy under the aegis of international organisations
- A private sector institution that operates within the same state’s (or entity’s) legal framework and territorial boundaries, and integrates the local minority community of the rival ethnic group
- Private sector institutions on both sides of the conflict pairing up with a private sector body from a third party, forming a tri-lateral business network or organisation. Business interaction at the regional level seems to provide a window of opportunity for the individual, conflict-party private sectors to get involved in commerce and production in partnership with the ‘enemy’ side, which otherwise is either impossible or highly problematic.

Irrespective of venue, any private sector institution involved in peacebuilding must be influential and strong. This means that the entire private sector needs to be strengthened. SME entrepreneurs can only develop into a peace constituency if they can break free from political pressure, and gain financial independence. Large businesses are in no position to challenge the *status quo* in South Caucasus because they are either too closely associated with government, or are actively profiting from the no-war-no-peace situation. SMEs need advocacy, public relations and lobbying skills, as well as investment and business training.

An environment more conducive for private sector involvement in peacebuilding needs to be fostered in the South Caucasus. New economic interaction mechanisms, embodied in joint ventures, the creation and promotion of regional and sub-regional brands (e.g. ‘Made in the South Caucasus’), free trade zones, and cooperatively guarded and managed trade routes and markets, need to be promoted if the economic reality is to change. The recent establishment of the Caucasus Business and Development Network, is one promising example in that direction. The closure of informal markets such as Ergneti and Sadakhlo has negative, economic impacts

not only on those who engage in them: it runs the additional danger of destroying the few forums that exist for peaceful interaction and rapprochement at the community level.

The Caucasus Business and Development Network

The Caucasus Business and Development Network (CBDN) is a unique platform for dialogue and information exchange between business communities and other interested parties in the South Caucasus. Geographically, CBDN covers Armenia, Azerbaijan, Georgia and Turkey and includes Abkhazia, Nagorny-Karabakh and South Ossetia. It promotes economic cooperation in the region as a means of building confidence and lasting peace in the region, and encourages initiatives that have a positive impact on the conflict dynamics.

In early 2006 the network established a bilingual, Russian/English website. Among other services, it provides users with frequent electronic bulletin on the economies of the region, discussion forums and a business database. It can be accessed on www.caucasusbusiness.net

Reconciliation dialogue and trainings in the South Caucasus have reached saturation in terms of the number of people who have already internalised reconciliation values and actively engaged in peacebuilding. But the societies are no closer to one another than before. Indeed, a contrary tendency of escalating ethnic hatred and animosity seems to be prevailing, particularly in the younger generations who have no memory of pre-conflict, inter-ethnic marriages, friendships, mixed workplaces, jazz bands and soccer teams.

Private sector cooperation may be a turning point in the reconciliation process between the conflict parties, offering the potential for participants to rediscover each other's humanity at the same time as investing in joint activities. Cross-conflict private sector initiatives, and even unilateral social investment by local private enterprises, would fit well within a joint reconstruction approach aimed at the depolarisation of peoples, economies and their visions of the future.⁴⁵

Acronyms

CBDN	Caucasus Business and Development Network
CIS	Commonwealth of Independent States
CR	Conciliation Resources
EBRD	European Bank for Reconstruction and Development
EU	European Union
IDPs	Internally Displaced Persons
IMF	International Monetary Fund
GDP	Gross Domestic Product
OSCE	Organization for Security and Cooperation in Europe
SME	Small and medium enterprises
SRS	Special Representative of the UN Secretary General
UNDP	United Nations Development Program
UNHCR	United Nations High Commission for Refugees

Endnotes

- 1 Both sovereign states and self-proclaimed republics have their own authorities, parliaments and presidents and define these as government. The use of this terminology in this report does not suggest any opinion on the status of a governed territory by the author and editors.
- 2 Any trade between parties in legal goods is still illegal since the non-recognised entities treat their frontiers with the recognised states as international borders, requiring customs, while the recognised states treat the same borders as administrative boundaries. The legality of economic relations is therefore a conflict issue.
- 3 USAID *Armenia Private Sector Programme* (Washington DC, US: USAID). www.usaid.gov/am/private.html
- 4 IMF (2005) 'Republic of Azerbaijan: Ex Post Assessment of Longer-Term Program Engagemen' *Country Report* No. 05/59 (Washington DC, US: IMF). Available at www.imf.org/external/pubs/ft/scr/2005/cr05259.pdf
- 5 Bargandzia, D. (1999) *Settlement of the Georgian-Abkhaz Conflict: Economic Aspects* (The Hague, Netherlands: Unrepresented Nations and Peoples Organisation).
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- 7 IMF op. cit.; Chkhartishvili et al. op. cit.
- 8 The Russian rouble is official currency in both *de facto* states.
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- 12 Asian Development Bank (2004) *Asian Development Outlook 2004*. Available at www.adb.org/Documents/Books/ADO/2004/aze.asp

- 13 While the official unemployment rate is 10 percent, it soars to 47 percent among IDPs and refugees from Nagorny-Karabakh, Armenia and the other occupied territories, who account for 12 percent of Azerbaijan's population.
- 14 IMF (2004) 'Azerbaijan: Poverty Reduction Strategy Paper Progress Report' *Country Report* No. 04/322 (Washington DC, US: IMF).
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- 16 IMF (2004) op. cit.
- 17 Gal' is the Abkhaz spelling of the name of the district that Georgians call 'Gali'.
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- 20 *Rustavi* 2, 3 July 2005.
- 21 *Civil Georgia* op. cit.
- 22 *Caucas: Europe News*, 14 September 2005.
- 23 *Nezavisimaya Gazeta*, 18 August 2005.
- 24 Garb, P. (1999) 'The Inguri Power Complex' in Cohen, J. (ed.) *A Question of Sovereignty: The Georgia-Abkhazia Peace Process Accord Series* (London, UK: Conciliation Resources).
- 25 *Civil Georgia*, 15 June 2005. Available at www.civil.ge/eng/article.php?id=10155
- 26 *Civil Georgia*, 8 August 2005; Baev, P., Koehler, J. and Zürcher, C. (2002): 'Civil Wars in the Caucasus' *Case Studies on the Politics and Economics of Civil War* component of World Bank project 'Economics of Political and Criminal Violence'. Available at www.univie.ac.at/politikwissenschaft/Caucasus.pdf
- 27 *Rustavi* 2, 7 June 2005.
- 28 Ministry of Foreign Affairs, Georgia (various) 'Information on the so-called Abkhaz Citizenship' press release (Tbilisi, Georgia: MFA).
- 29 *Civil Georgia*, 8 August 2005.
- 30 Chkhartishvili et al. op. cit.
- 31 UN Office for the Coordination of Humanitarian Affairs (UNOCHA) (2004) 'Georgia: Abkhazia Briefing Note' (Geneva, Switzerland: UNOCHA).
- 32 IMF (2005) 'Georgia: Poverty Reduction Strategy Paper Progress Report' *Country Report* No. 05/113 (Washington DC, US: IMF).
- 33 *Rustavi* 2, 15 June 2005.
- 34 International Crisis Group op. cit; Baev et al. op. cit.
- 35 Kaufman op. cit.
- 36 International Crisis Group op. cit.
- 37 Ibid.
- 38 *Moscow News*, 13 August 2005.
- 39 International Crisis Group op. cit.
- 40 Ibid.
- 41 Ibid.
- 42 Dzhikaev and Parastaev op. cit.
- 43 IMF (2005) op. cit.
- 44 Juvarly, T. and Shabanov, I. (2004) 'The Potential Impact of Sadakhly Market on the Settlement of the Armenian-Azerbaijani Conflict' in Champain et al op. cit.
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Turkey and Armenia: encouraging business to enable peace

Natalia Mirimanova

The conflict between Turks and Armenians dates back to Ottoman times. Armenians claim that the Ottoman Turks committed genocide against its Armenian minority, chasing away the survivors and misappropriating their lands. Historic accounts of this episode remain vivid as they are passed from generation to generation and are now considered a building block of the Armenian national identity.¹ The Turks argue that the killing and exile of Armenians was nothing extraordinary in the era of World War 1 and that thousands of Turkish civilians were equally uprooted. Turkey tends to blame the Russian empire for the suffering of both ordinary Turks and Armenians, and rejects accusations that it committed genocide against the Armenians.

The conflict acquired a new dimension in the early 1990s after the newly independent state of Armenia refused to recognise the Treaty of Kars of 1921, which demarcated the Turkish-Soviet border. Diplomatic relations have been suspended ever since. In addition, Turkey allied itself with Azerbaijan over the Nagorny-Karabakh issue, introducing an economic blockade of Armenia, and closing its border for ground transport and trade. The Turkish-Azerbaijan alliance was not solely grounded in historic solidarity, but had an economic aspect in the Baku-Tbilisi-Ceyhan oil pipeline which runs from Azerbaijan to Turkey's Mediterranean coast.²

There is understanding between Turkish and Armenian business communities that both countries have sustained economic damage from the blockade of Armenia. The closure restricts Armenia's access to 44 percent of the regional market and Turkey is denied access to the most rational transportation routes to new markets in the South Caucasus and beyond. Re-opening the rail and road links across the Turkish-Armenian border is closely dependant on the issue of Nagorny-Karabakh; Turkey has long taken the position that it would make no move that would upset Azerbaijan. No official information has been released regarding the cost of the blockade.

The Turkish-Armenian Business Development Council

The Turkish-Armenian Business Development Council (TABDC) was co-founded by an Armenian, Arsen Ghazaryan, and a Turk, Kaan Soyak, in May 1997 after the summit of the Black Sea Economic Cooperation Pact in Istanbul. The first legal link between Turkish (mainly Anatolian) and Armenian business

circles, the TABDC was envisioned as a bridge between the two societies, as well as a forum for hosting inter-governmental interactions. It is currently registered as an NGO in Turkey, Armenia and the USA, and recently opened a European branch. The TABDC initially grew out of personal contacts between Turkish and Armenian businessmen. Several successful business ventures helped to establish sufficient levels of trust and confidence, that they shared views on how to promote dialogue to overcome the deadlock between the two countries. The TABDC was founded to promote reconciliation by demonstrating the benefits of direct cooperation between the two private sectors.

Though rarely publicised, trade between Turkey and Armenia persisted throughout the years, though it was not secure and there is no legal protection for entrepreneurs involved. There is a shuttle bus service between Yerevan and Istanbul, as well as regular flights. But the bus companies are exclusively Turkish, since Armenia-registered buses are not allowed to enter Turkey.

The TABDC initially set itself the goal of helping Armenian and Anatolian Turkish businesspeople to communicate and streamline their operations. The co-founders' first principle was the creation of trust between Turkish and Armenian operators. They assisted in the creation of joint ventures in third countries and facilitated trade without violating the laws of either state. They encouraged direct communication between Armenian and Turkish entrepreneurs to nurture the spirit of direct business interaction, sponsoring trips by individual businesspeople and associations in both countries. The TABDC has used trade fairs as a forum for Turkish and Armenian entrepreneurs to meet and arrange deals; it also functions as a hub for the exchange of business information.

The TABDC formulates its mission as follows: "We hope to assist in finding peaceful means to historical problems. Our aim, by contributing to the development of Anatolia and Armenia, is to raise awareness of the diversity of Anatolia, to acknowledge the existence of an Armenian past in Anatolia, and to send positive messages to Armenia, Turkey and the diaspora."³

It was clear from the outset that the environment requires transformation if business is to flourish. The TABDC diversified its palette of activities to include music and dance festivals, and cultural exchanges. It became involved in the restoration of the Armenian Akhtamar Church on Lake Van, persuading the Istanbul Chamber of Commerce to sponsor the project, with consultancy services provided by the Armenian Union of Architects. The TABDC sponsors concerts by Turkish musicians in Armenia and Armenian musicians in Turkey. Ankara State University and Yerevan State University recently signed a joint cooperation agreement after the TABDC facilitated the contact.

Two factors have been crucial to the TABDC's successes. The first is the personalities of the co-founders, their enthusiasm, energy, business acumen and public relations skills. Secondly, the resources required to finance TABDC projects make it unique among the region's NGOs, which cannot normally sustain operations without external funding. At the same time, TABDC is not a business institution in any conventional sense because profit is a secondary yardstick of its performance.

Armenia extended support to the TABDC because its mission fits the government's agenda of lifting sanctions and opening the border. Yerevan welcomes foreign investment and trade. Turkish legislation, by contrast, consists of bilateral agreements with individual countries so that foreign companies do business in Turkey under different legal environments. As a result Armenians are not permitted to purchase land in Turkey, while other nationals are entitled to do so.

The TABDC's reception in Turkey has been somewhat different. Mr. Soyak put considerable effort into fostering favourable public opinion and extinguishing the hostility of Turkish nationalist groups. He presented Armenia as a gateway to Russia and Central Asia, and claims that, despite nationalist sentiments, no one in Turkey speaks openly against new possibilities for economic growth.

TABDC balances the idealism of its long-term vision of a free flow of people, goods, transport and money between Turkey and Armenia, with the pragmatic awareness that it needs to start small by assisting individual entrepreneurs from both sides to work with one another. All deals between Turkish and Armenian businesses must be arranged through a third party because of the blockade. Simultaneously, the TABDC has elaborated legal mechanisms for Armenian-Turkish business transactions to grow in number and is currently involved in around 70 percent of existing Armenian-Turkish transactions. Some projects, notably in trade, are implemented without a political solution to the deadlock. Others, such as banking or the creation of a free trade zone, cannot be carried out without first restoring diplomatic relations. However, the TABDC is already preparing for representatives of the banking sectors to meet.

The TABDC not only brokers business contacts between the Turkish and Armenian private sectors, it aims at systemic change in bilateral relations between the two countries in general. To achieve this, TABDC employs advocacy tactics, namely:

- Lobbying home governments and international business circles for the inclusion of Armenia in the South Caucasus oil pipeline routes, re-opening railway and road traffic from Turkey through Armenia etc.
- Raising awareness of peace dividends within society through press conferences, media interviews and public events

- Direct action via reconstruction of Armenian historic sites in Turkey, earthquake aid etc.
- Networking to expand the ‘peace constituency’
- Consolidating European and US political institutions’ support to peacebuilding between Turkey and Armenia through the promotion of the positive experiences of cooperation between the two countries’ private sectors and civil society sectors.

Endnotes

- 1 Volkan, V. (1999) *Blood Lines: From Ethnic Pride to Ethnic Terrorism* (Boulder, US: Westview Press).
- 2 Gültekin, B. (2004) ‘Cross-border Cooperation between Turkey and the South Caucasus: Prospects for Sub-regional Integration’ in Champain, P., Klein, D. and Mirimanova, N. (eds.) (2004) *From War Economies to Peace Economies in the South Caucasus* (London, UK: International Alert).
- 3 See www.tabdc.org

Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector

Case study
Sri Lanka*

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The logo for Sri Lanka, consisting of the text "Sri Lanka" in a bold, orange, sans-serif font, enclosed within a thin orange rectangular border.

Sri Lanka

Sri Lanka: business as an agent for peace

Markus Mayer and Maleeka Salih¹

There is increasing recognition that business needs to play a positive role in conflict prevention and peacebuilding in post-conflict scenarios. Despite the identification of the private sector as a factor in conflict, there has been little effort to engage international and local businesses in catalysing and supporting peace processes.² This is often due to the fact that international and local communities tend to highlight instances where economic activities benefit from, or contribute to, conflict creation and escalation. There has been insufficient research into examples where business actors play a more positive role in pushing peace processes forward.

This report examines the relevance of existing literature on business and conflict in the Sri Lankan context. It also presents the findings of research into the existing role of business in conflict prevention and peacebuilding activities in Sri Lanka in the light of broader corporate social responsibility (CSR), a concept that is relatively new to the country but attracting increasing attention. It presents two business-led peace initiatives that have gained significant momentum in the last few years: the Sri Lanka First campaign, a peace advocacy initiative by Colombo-based big businesses; and the Business for Peace Alliance, an island-wide network of regional Chambers of Commerce that facilitates contacts and confidence building between province-based businesspeople across the country.

In order to generate broader learning from these cases and the wider business community's attitude to peace and conflict, research was carried out to gauge business opinions on broader social issues requiring urgent attention; impacts the conflict has on the business community; who in Sri Lanka carries responsibility for peacebuilding; and what factors motivate businesspeople to engage in peace interventions.

The research was carried out through an initial desk-based review of relevant secondary sources. This was followed by a series of qualitative, structured

interviews with selected informants, including 20 representatives from large, Colombo-based businesses, and 10 business representatives from the provinces of Galle, Kandy and Trincomalee. Finally, a quantitative survey was carried out among the owners or managers of 150 small to medium-sized businesses in Colombo. Of the survey respondents, 63.3 percent were Sinhalese, 12.7 percent Tamils and 24 percent Muslims. The size of the workforce in each business ranged from one to 21, with an average of 4.3 employees per company. The type of business ranged from retail shops, communication and video centres, jewellery shops, small restaurants, textile shops, manufacturing shops, small pharmacies, hardware shops and different informal services. A large 68 percent of the small businesses employed only workers from their own ethnic community; 25 percent had workers from two different ethnic communities; and only 7 percent employed workers from all three ethnic communities. Finally, a number of key informants' interviews were conducted throughout the research phase to enrich the analysis. Key informants were selected for their active involvement in conflict studies or advocacy, and their academic background.

Sri Lanka is located off the southern tip of the Indian subcontinent. National statistics indicated a population of 19.4 million people in 2004.³ Sri Lanka contains an ethnic majority of Sinhalese, comprising 81.9 percent of the population; a Tamil minority of 9.4 percent; a Muslim minority of 8.1 percent; and smaller percentages of other minorities. In the years after independence from Britain, Sri Lanka built a reputation for high social indicators in terms of literacy, life expectancy, fertility decline and low infant mortality.⁴

Nowadays, Sri Lanka is beset by a number of political and social conflicts, characterised by a high degree of violence and sustained political instability. Armed insurgencies, orchestrated state terror and a separatist struggle have taken their toll on the country's social and economic fabric, undermining its developmental achievement. In addition, Sri Lanka is one of the countries most affected by the tsunami on 26 December 2004, with 31,000 lives lost, over 4,000 people reported missing and 550,000 people made homeless. The tsunami brought about immense human suffering and destroyed a massive volume of physical property, along more than two-thirds of Sri Lanka's coastline.

The conflict in Sri Lanka

Sri Lanka has been scarred by violent conflict over three decades. Insurgencies against the state occurred in the south in 1971 and again in 1988-89, led by rural Sinhalese youth from the militant Janatha Vimukthi Peramuna (JVP). The state reacted brutally, with the result that close to 60,000 people were 'disappeared' during the insurgency.⁵ The JVP was later brought into the political arena and now

plays an active role. In the northern and eastern parts of Sri Lanka, the Liberation Tigers for Tamil Eelam (LTTE) have staged a separatist struggle since the early 1980s. Both these conflicts are articulated as reactions against the state as a result of policies perceived or experienced as unjust and discriminatory.⁶

Nonetheless, the conflict between the LTTE and the government is also referred to as an ethnic war. The issues leading to armed violence by Tamil groups were the adoption of Sinhalese as the official language in 1957, making it a prerequisite for state employment; the issue of land and state-aided Sinhalese colonisation of Northern and Eastern provinces; the redrawing of borders of districts where Tamils were a majority; and state supported violations of the human rights of Tamils following the killing of 13 soldiers by the LTTE in 1983.⁷

For two decades, the state mainly sought a military solution to the conflicts with the result that the military balance of power became increasingly important. As of now, much of the interior of Northern and Eastern provinces is under LTTE control, with the exception of Jaffna, while the government controls the coastal areas, excluding Killinochchi and Mullaitivu districts. A third ethnic community, the Muslims, became politically significant following their forced displacement in the 1990s and has begun to play a more significant role in the political process.

Direct peace talks failed in 1995, but a ceasefire was signed in 2002 with the mediation of Norway. Peace stalled again in April 2003 over differences regarding the extent of self-governance to be extended to the north and east under LTTE leadership. There have been ceasefire violations by both parties, but especially the LTTE, which is reportedly rearming. Despite these challenges, both parties have upheld the ceasefire agreement, notwithstanding the change in political leadership in April 2004.

Shortly before this, a group led by an Eastern province commander seceded from the LTTE, citing regional discrimination within the movement. This led to increased tensions in the east and sporadic battles between the two groups took place in 2004. Although the rebel group disbanded, Eastern province continues to suffer targeted assassinations, random killings, grenade explosions and occasional armed skirmishes.

The new government, a coalition between the People's Alliance (PA) and the JVP, exploited widespread resentment regarding economic reform and the peace process during 2004, weakening a national commitment to the ceasefire and the resumption of peace talks. The recent tsunami and highly charged discussions over mechanisms for the distribution of aid contributed to a worsening of relations between the government and the LTTE. Up to the time of writing, the situation has continued to deteriorate since the November 2005 presidential elections.

The two conflicts have led to much suffering and destruction at local and national levels. While people continue to be emotionally and socially distressed by conflict-related incidents, the economic and material aspects of these experiences are a primary source of anxiety.⁸ Social and community relations have suffered from a pervading sense of insecurity, disruption and vulnerability as a result of the development of new categories of people, disruptions to former groups and the strengthening or weakening of links between groups.⁹ The conflict has eroded the political, social and legal rights of all Sri Lankans.¹⁰ It has also resulted in damage to physical and social infrastructure; lost economic opportunities; withdrawal of investor confidence; the diversion of national funds from development to military purposes; the loss of cultivable land and other resources; and the displacement of large populations many of which now rely on relief.¹¹

The tsunami impacted on the balance of power by stabilising a government on the verge of bankruptcy in December 2004 through an influx of aid money and materials.¹² The northeast was worst hit, accounting for over two-thirds of the total deaths and 60 percent of displaced persons, compounding the longstanding negative effects of the conflict. Though the overall, economic impact of the tsunami is expected to be marginal, poverty and deprivation in the affected and adjacent areas can be expected to rise.¹³

The tsunami, therefore, opened up new threats to the fragile ceasefire agreement, first by prioritising tsunami-affected communities – though they live side-by-side with unaffected but very poor, conflict-affected communities – and secondly, through the return to more centralised modes of governance in both the government and the LTTE's dealings with rehabilitation efforts. This runs counter to the policy of strengthening local and regional capacities, an important requirement for the proposed political solutions to ethnic conflicts.¹⁴

Economy of Sri Lanka

Sri Lanka was the first South Asian country to adopt economic liberalisation policies in 1977 as a result of widespread discontent with the state-controlled economy.¹⁵ The government liberalised foreign trade and exchange controls; and administered pricing systems and interest rate ceilings. Despite this early start, however, the reform process has been *ad hoc*, fitful and suffers from a lack of long-term perspective.

Although the export-led growth model gradually shifted to the promotion of private sector-led growth from 1977-94, the latter lacked any clear, consistent signal from subsequent governments. Little was done to address fundamental issues, such as loss-making public enterprises and a highly bureaucratic administration. The lack of a clear signal to the private sector about the extent and nature of policy reforms, as well as the inconsistency of these policies, resulted in an uncertain environment that

the Central Bank of Sri Lanka considers more harmful than not having any reforms at all, in terms of labour costs and productivity.¹⁶

Since 1995, there has been a continuing emphasis on privatisation and restructuring, partly through the conditions tied to international aid. However, attempts to privatise and restructure public enterprises have been challenged by the trade unions during the last five years.

The Central Bank recognises that the tsunami has changed the macro-economic outlook and poses new challenges in the shape of reconstruction and the provision of relief.¹⁷ Economic growth in 2005 suffered, albeit marginally, since the tsunami mainly affected fisheries and tourism. Their impaired contribution to GDP is partly compensated by increased rebuilding. The Central Bank estimates the total damage of the tsunami at around \$1 billion (4.9 percent of GDP), while the three-year reconstruction programme is expected to yield around \$1.8 billion (8.9 percent of GDP).¹⁸

Annual GDP and growth rate

Sri Lanka's economy registered growth of 5.4 percent in real GDP in 2004, compared to 6 percent in 2003 (see Table 1). Growth was supported by exports, consumption and investment, and the continuation of the ceasefire. The deceleration in growth from 2003 is attributed to the poor performance of agricultural sub-sectors and electricity generation, as a result of adverse weather and outdated infrastructure. The average inflation rate showed a 7.9 percent increase in 2004.¹⁹ The main sectors of the economy are services, industry and agriculture.

Table 1 – GDP growth rate 1990-2004

1990	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
4.6	4.3	6.9	5.6	5.5	3.8	6.3	4.7	4.3	6.0	-1.4	4.0	6.0	5.4

Source: Central Bank of Sri Lanka, 2004

Employment and the labour force

The labour force consists of 7.3 million employed and 0.7 million unemployed, yielding an unemployment rate of 8.5 percent.²⁰ Women dominate the workforce of the main exports of tea, garments and labour (maids), which contribute over 90 percent of Sri Lanka's total foreign exchange.

In 2004, unemployment among men stood at 6.3 percent and 13.2 percent for women.²¹ Unemployment in the 20-29 years age group was 19.7 percent and 30.6 percent for those aged 15-19 years. Unemployment rates for those with GCE A-level and above were 18.2 percent.

With around 71 percent of all unemployed in Sri Lanka aged 14-24²² and nearly half of youth between 15-29 unemployed or looking for a job,²³ the socio-political stability of Sri Lanka depends on the quick and effective implementation of youth employment policies.

Regional distribution of GDP

Western province contributed 49 percent of GDP in 2004, in line with similar figures for the past decade (see Table 2).²⁴ Economic activity is concentrated in the west as a result of its better social, economic and physical infrastructure. Regional disparities in GDP contributions relate to inequalities in the provision of roads, electricity, telecommunications and other facilities. In fact, a provincial disaggregation shows that only Western province exceeded the per capita threshold of \$1,000 and that per capita income in some provinces is still below the \$500 level.

Table 2 – Share of GDP by province 1990-2000

	1990	1992	1994	1996	1998	2000
Western	40.2	41.4	41.9	43.5	45.0	49.4
North-Western	11.1	9.9	9.8	11.3	12.0	10.4
Central	12.1	11.8	11.7	10.6	10.3	9.9
Southern	9.5	9.6	9.6	8.9	9.2	9.3
Sabaragamuwa	8.1	7.6	7.8	9.1	6.7	6.7
Eastern	4.2	4.7	4.5	4.8	5.5	4.5
Uva	8.1	7.6	7.8	5.0	4.9	4.0
North Central	4.8	6.0	6.3	4.5	3.6	3.8
Northern	4.4	3.6	3.2	2.4	2.8	2.1

Source: Sarvananthan, M. (ed.) (2005) *Economic Reforms in Sri Lanka: Post-1977 Period* (Colombo, Sri Lanka: International Centre for Ethnic Studies).

Such geographical inequalities have serious social implications. These disparities, and the consequent perceptions of structural discrimination, appear to have been significant contributory factors in the armed conflict and insurgencies in the northeast and south.²⁵

Conflict impact on the economy

The armed conflict in the northeast severely impacted on the ability of Northern and Eastern provinces to contribute productively to GDP.²⁶ Since 1990, both provinces also suffered from a devastating economic embargo. Given that the region is predominantly agricultural, with an emphasis on food crops, livestock and fisheries, the embargo severely curtailed activities related to essential food items, medicines and agricultural

inputs. Furthermore, fishing permission was restricted to specific times and distances from shore for security reasons. In addition, illegal taxation and extortion by the LTTE, as well as corruption in the state structures, contributed to declining productivity.

The armed conflict has led to enormous economic losses at a national level in quantitative and qualitative terms. Based on purely economic costs, a systematic analysis in 2000 estimated the accumulated cost of war up to 1996 at around \$12 billion at 1996 prices (168.5 percent of GDP in 1996).²⁷ In making their analysis, the authors included direct and indirect costs. The direct costs include military expenditure by the warring parties, the cost of lost infrastructure and government expenditure on humanitarian relief. The indirect costs include lost income due to foregone investment, reduced tourist arrivals, lost human capital (dead, injured and displaced), lost foreign investment and the output foregone in Northern province.

There is increasing recognition among different stakeholders that the economic and social costs of conflict have to be reversed, and that this is a collective responsibility. While the state has to ensure conditions for further economic growth, the private sector, as the main engine of growth, needs to support the growth process. However, political instability complicates the definition of consistent policy strategies; at present, there are new elections every two years or so (and changes in the lines of responsibility for policy). This does not bode well for policy stability or a predictable operating environment in which business can flourish.

Conflict impact on the private sector

Most Colombo-based big businesses interviewed for this report are of the opinion that the conflict affects the long-term development of businesses for several reasons. Firstly, it restricts their strategies, objectives and plans, and this has global and local consequences. Globally, foreign investments are hit by reduced business confidence. Equally, it negatively impacts the image of Sri Lanka's economy and foreign investors are likely to regard the country as high-risk.

According to capital-based businesses, provincial enterprises, especially those in the conflict-affected regions, are impacted differently by the conflict. Not only do they miss out on potential technology transfers and shared development, many have also adapted to the conflict and set their mode of operation to survival, rather than growth. Roadblocks, damaged roads, economic embargo and lack of demand for fast-moving consumer products have reduced the growth potential for businesses in conflict-affected areas.

Unsurprisingly, businesses in the south and east have different ideas about how conflict affects their activities. Southern businesses conceive the link in terms of the

risk stirred up by partisan politics, while eastern businesses identified a number of structural issues that compounded to make their activities more immediately vulnerable to the conflict and peace processes. Specifically, Tamil businesses are not seen as neutral, leading to differential treatment by police and military groups that hamper their operations. For example, there have been cases where Tamil businesses, though neutral in the conflict, are unable to claim insurance for damaged goods or property following ethnic attacks as a result of being denied police reports. Furthermore, the police had done nothing to prevent or contain the violence, with the result Tamil businesspersons continue to live in fear.

Both business communities recognised the cycle of poor investment in regional economic growth (including inadequate education), increasing unemployment and frustration among young people, and the heightened risk of violence, leading to even less investment. This was emphasised more by eastern business representatives, who pointed out that Trincomalee has considerable potential as a business centre, has the third largest harbour in the country and is a fairly cosmopolitan town; nonetheless, not a single commercial ship had visited in recent years. Lack of investment was perceived as a reflection of the discriminatory practices of the central government in Colombo. One businessperson from Trincomalee noted: “People who have enough money do not invest in Trincomalee because of the conflict risks, while people who live in Trincomalee and may be willing to invest in their town, do not have access to money for investing, such as loans.” He noted that with the increased tension, even NGOs were afraid to invest in Trincomalee.

Private sector role in conflict

Little is known about the economic opportunities opened up by the conflict context, from which some actors clearly benefit. One rare study analyses how the LTTE successfully established different strategies by which to generate funds for their activities; namely, engaging in direct and indirect forms of coercion to obtain financial contributions from Tamil families and businesses; utilising international links with migrant Tamil communities; and conducting quasi-legal and illegal activities.²⁸ Apart from the LTTE, some businesses have benefited from the conflict by procuring arms, importing other equipment or purchasing aircraft. Both informal and extra-legal business activities flourish in a conflict context when there is less monitoring to ensure that businesses operate within established rules of ethics and transparency.

While it was generally acknowledged that businesses could contribute to conflict creation or escalation, there has been little research analysing these linkages in Sri Lanka, making such allegations difficult to verify. The majority of company representatives from Colombo conceded that common business practices such as discrimination played a large role in how businesses can create conflict, through

reinforcing structural dynamics, even unknowingly. At the same time, discrimination was related to the broader marginalisation experienced by some people in society, and it was noted that if businesses did not provide equitable opportunities for all, this could escalate or legitimise conflict. They recognised that the way businesses approach or operate in a given conflict or peace situation could heighten or defuse social tensions.

Eastern business representatives strongly supported this view, but related it more to the monopolies of specific ethnic groups over certain sectors and industries. An often cited example of this is the transport monopoly held by Sinhalese in eastern Sri Lanka as a result of their political links in Colombo. When members of the Muslim community introduced alternative services, the Sinhalese damaged their vehicles. It was also noted that the president of the Trincomalee Three-Wheeler Association is Sinhalese, although 80 percent of three-wheeler drivers are Tamils, 15 percent Muslims and only 5 percent Sinhalese. The appointment was allegedly made because, as a Sinhalese, the president would find it easier to negotiate with the police and other authorities. It was a shared opinion that politicians favoured and protected one sector of the community in order to secure their voting block. The same accusation was levelled by some groups at the LTTE as a parallel authority controlling the business environment in parts of the country.

Business and society in Sri Lanka

Corporate social responsibility in Sri Lanka

Domestic businesses' potential to play a positive role vis-à-vis conflict depends on the way they relate and contribute to society more broadly. Clearly, where businesses display social awareness and are perceived as doing so, they are more likely to be accepted as peacebuilding actors by wider society. By contrast, if their reputation is tarnished they will face mistrust from the wider population and have limited space in which to act. Sri Lanka has a long history of corporate philanthropy, which has been led by individual conviction rather than formal public relations or social responsibility policies. Over the past few years, in keeping with global trends, such activities have been re-conceptualised as 'corporate social responsibility' (CSR). CSR remains a diversely understood term, however, and it is unclear how most companies implement their CSR activities.²⁹ Without statutory compliance, one cannot be certain that the CSR activities claimed by companies actually take place in a meaningful way, or to the extent reported. Likewise, the relative insignificance in Sri Lanka of socially responsible investment and ethical consumption in the mass market mean that there is not much pressure on companies to adopt CSR policies, activities and monitoring mechanisms.

Nevertheless, the language of CSR is being increasingly used. The *Lanka Monthly Digest* has published a comprehensive overview of the CSR practices of major

companies that identified a wide array of activities, including sports, environmental awareness campaigns, English language classes, educational institutions, helping handicapped and disabled people, uplifting the rural economy through support to village-based projects, helping victims of natural disasters and youth entrepreneurship programmes. Only one company was involved in an island-wide approach (to support the creation of child-friendly pre-schools) and only one mentioned a particular employment policy ('employing disabled people').³⁰ In an opinion survey carried out in 2004, business leaders identified several roles they can play in the betterment of society.³¹ Supporting developmental activities in poverty alleviation or social services (32 percent), providing employment or job training (22 percent) and funding religious activities (17.7 percent) were the leading roles identified.

One prominent corporate leader has pointed out that the increase in CSR activities is a direct response to the increasing problems Sri Lankan society faces. "In Sri Lanka the tremendous interest in CSR (in recent years) has been accelerated due to the alarming volume of social and environmental ills that plague the nation."³² If true, this may mean that companies' currently uncoordinated use of CSR may serve as a useful vehicle for addressing issues pertaining to conflict.

Business perceptions of peace and conflict

This study looked at the perceived links between business, conflict and peace. To do this, a number of questions were asked about the causation of, and solution for the ongoing conflict; concepts of peacebuilding and conflict prevention; mutual impacts of conflict and business; and the main groups responsible for leading peacebuilding efforts in the country. These were accompanied by questions about the business community's broader social concerns. As illustrated below, many of the social concerns identified overlap with conflict issues.

Colombo-based, southern and eastern businesses differ greatly in terms of the issues that are of most concern to them. Each reflects the specific context in which a business has to operate, as well as variations on the broader themes with which businesses have to grapple.

Political instability

The most commonly articulated issue of concern among Colombo-based, big business is increased political instability, which influences the predictability of long-term macro-economic policy and results in mixed signals about their economic role. For most Colombo respondents, this meant that the enabling environment was constantly in flux, discouraging them from investing fully and forging ahead with expansion plans. By contrast, for southern businesses the lack of political stability has translated into

increased tension between political parties at the village level, especially recently. Both southern and Colombo-based businesses accused political actors of neglecting the country's greater interests and failing to provide proper leadership.

A closely related issue was that of the importance politics has acquired in society. "The politicisation of everything," said one Colombo respondent, "has brought down standards in the society and is creating further conflict." One southern informant made a more serious allegation, noting that the government was playing two different roles and did not clearly define its political stand on important issues, thereby creating a situation where 'things could get out of hand, and become dangerously unstable'.

Deteriorating security and escalating violence

In the east, all business leaders related the problematic political dimensions to the deteriorating security situation and the rise of violent conflict in their region. A specific issue cited was the refusal of all political parties to accept any individual, group or entity as 'neutral'. Because of the presence of almost all conflict stakeholders in the Trincomalee region, all political parties tended to make demands on the business sector in the form of favours. These ranged from financial contributions, to political rallies, to the use of property or other company services. If the demands of any one party were met, even under duress, other parties were likely to look askance at that business, negatively label the individual or entity, or increase their own demands. This created great tension in business communities in conflict-affected areas. Colombo-based businesses, at least, retained the luxury of withdrawing from a region if such demands were made, or if their neutrality were compromised.

Another issue that raised concern in the eastern business community was the parties' increasing calls for *hartals*, or politically motivated strikes. These affected the movement of goods and services, as well as reducing economic productivity. An additional issue was the patronage afforded to some communities in the east, but not to others. Some ethnic communities in the fisheries sector were said to enjoy beneficial links to ministry-level personnel in the capital. These communities actively discourage other communities from developing such linkages. Also mentioned was the monopoly of certain transport sector businesses by particular ethnic and/or regional groups.

The 'ethnic problem'

Only two Colombo-based companies cited the 'ethnic problem' as an issue generating concern for the business community, and none of the southern companies did. However, in Colombo, the ethnic problem was linked to rising intolerance, demonstrated by the emergence of extreme nationalistic movements, and discrimination and tension along religious lines. One company mentioned the loss of skilled human resources following the emigration of many Tamil professionals after the 1983 riots.

Asked whether small businesses in Colombo had experienced any forms of discrimination that led to violent conflict between communities in their area, 36.7 percent of respondents answered in the affirmative. Delinquency, competition and unfair favouritism against businesses owned by ethnic communities were cited as examples. Nearly half of respondents (49.3 percent) knew of tensions in their area that could lead to violent conflict in future. This suggests that there may be potential for business perceptions at a local level to serve as indicators for increased threats of violent conflict.

Breakdown of law and order

The breakdown of law and order, and the rise of corruption were also mentioned as serious problems by Colombo-based and southern businesses. While most did not articulate how the breakdown of law and order directly affected their activities, it appeared that the limited efficiency of justice and failure to uphold the law had reduced the protection offered to businesses, while increasing their costs. Southern businesses noted that the lack of enforcement of rules and regulations meant that there was uncoordinated competition by unregistered businesses and lack of appropriate economic information on the region. They felt this led to increased frustration and tensions in southern society. One Colombo-based company noted that one of the indirect effects of the breakdown of law and order was the loss of faith in the system, resulting in passive yet restless Sri Lankans who were indifferent to development and economic growth. Some businesses openly accused the administration of corruption and its deleterious effects on their activities, without elaborating on instances or specifics.

The conflict: causes and solutions

The dominant perception of the main cause of conflict is the inadequacy of the political leadership over the last 20, even 60 years, according to Colombo-based and provincial informants. These inadequacies were categorised as: failing properly to understand the situation and social context when they first arose; failing to address the social issues in time; introducing discriminatory regulations such as the Sinhala Only policy, which forged a Sri Lankan identity as Sinhala Buddhist in spite of the multi-ethnic population; focusing on short-term political advantages; and lack of courage to 'do the right thing'. It was noted that the causes of conflict may have changed or evolved over the years, adding new grievances and shedding old ones. Similar perceptions were dominant among small business owners in Colombo: 56.5 percent perceived politics or politicians as the main cause for conflict in Sri Lanka; 30.5 percent linked the conflict to politically instigated ethnic discrimination; and 3.4 percent blamed economic problems. Among this sample there was hardly any awareness of the socio-economic roots of the conflict.

With regard to solutions, the most strongly articulated was to ensure equal rights,

opportunities and access for all citizens of the country. “It does not matter when we came here, or from where,” said one informant. “We are all here now, so what are we going to do to live together?” The second, most common solution was to build trust, interaction and communication between different groups. One informant suggested the following format for resolving the conflict: “First, the two major parties should bury their differences and work together. Then all (stakeholders) should sit together and come up with a joint proposal (rather than giving proposals to each other), which meets the aspirations of all (the Tamils, Muslims and Sinhalese). This should then be discussed with the country. Then all should have the will to carry out the articulated stand.” Interestingly, a few respondents from the south and Colombo suggested that an alternative solution was to have a strong, but benevolent, dictatorship.

Peacebuilding

While many Colombo-based businesses understood the conceptual aspects of peacebuilding, provincial businesses mentioned specific activities as promoting peace. For most Colombo-based informants, peacebuilding is related to the development and promotion of understanding, trust, confidence, respect and tolerance among different communities. This was seen as especially important between people of different ideologies because people in general fear difference. Southern businesses similarly saw peacebuilding as a matter of exchange programmes, learning others’ languages and increasing contact with the ‘others’ in such a way as to increase interaction and understanding.

It was important to recognise, one company representative said, that ‘this is not a rational state of thinking, but rather involves the heart and enduring personal growth’. Another representative further clarified that it was the development of a unified identity where religion and ethnicity do not feature that would build peace – in this case, a sense of accepting all ethnicities and religions as ‘Sri Lankan’ and representative of Sri Lanka. It was noted that Sri Lankans had much ‘unlearning’ to do; firstly, to reverse racist thinking, and secondly to reverse the cycle of violent behaviour.

Many bigger, Colombo-based businesses (unlike the small business sector) identified peacebuilding with economic and social development to help redistribute resources and wealth in such a way that discrimination and marginalisation would be eliminated. Conflict in this case was linked to the ‘three Ds’: discontent, discrimination and division. As one informant stated, it is important that each individual has an equal chance of achieving success, determined by his or her own capacities and limitations. Other representatives echoed this sentiment somewhat differently. Peace was seen as a product of many things, but most prominently, of justice and fair play for all citizens in society, which could only be ensured by a strong, independent civil system. If justice is absent or inadequate, it was noted, people are likely to take matters into their own hands.

At the same time, some informants severely criticised the current situation of ‘no-war-no-peace’. While unsure precisely how to restore peace, they argued that Sri Lanka needed to develop a widely shared vision and meaning of peace; it appears that different people in different regions currently share very different ideas of what peace means. With regard to the small entrepreneurs in Colombo, nearly one third of respondents (30.9 percent) described peacebuilding as a process that promotes ethnic harmony between communities. Other prominent answers looked at ending the war (23.7 percent) and ensuring equal rights (17.3 percent) for all.

Conflict prevention

Almost all business representatives, regardless of where they were from, related conflict prevention to a three-step process: an innate understanding of the root causes of conflict; mechanisms by which to anticipate potential conflict and violence; and acting to address or eliminate them before they reach a peak. However, many Colombo-based informants qualified this three-step process by stating that the mechanisms to anticipate conflict, as well as the actions to avert it, would have to be acceptable and accessible to all individuals and communities in society. In addition, they agreed that people needed to be aware that their actions could serve to escalate or defuse potential conflict. Many southern and eastern business representatives noted an additional component to conflict prevention – stopping the killing in conflict-affected areas. It was unclear whether the killings referred to were targeted at any particular community, or to both of them.

Eastern businesses had concrete suggestions regarding conflict prevention that had to do with discriminatory practices. These included dismantling indirect support for continued violence, such as the patronage of certain communities by the political elite; an end to the promotion of communalism as the primary political strategy in the wake of elections; and the promotion of democratic culture in the east. As a specific example of the first suggestion, one informant noted that the recent riots arising from the construction of a statue of the Buddha in the middle of Trincomalee town resulted from assurances by particular political parties to the organisers that the police would not intervene. With regard to the lack of democratic procedure in the east, one business representative noted that neither the government agent nor the urban council chairperson were local individuals.

One business representative was pessimistic about the possibility of conflict prevention in the current political, social and economic climate of the east. Despite this, it was heartening to note that almost all informants apparently preferred peaceful means of conflict resolution, through dialogue and discussions, to military solutions.

Responsibility for conflict prevention and peacebuilding

Almost all informants believed that the primary responsibility for peacebuilding lay with the government and political parties, including groups such as the LTTE.

However, one company representative observed that the government lacked the capacity to lead peacebuilding and conflict prevention. Another pointed out that trust in government had declined considerably, diminishing its ability to fulfil this responsibility. Respondents acknowledged that other groups in society carried significant, but not primary, responsibility for peacebuilding. Civil society actors, village and community leaders, business representatives – especially of businesses with a record of good corporate governance – NGOs, academic and professional actors, community groups and charities were all identified as having some responsibility for peacebuilding. However, southern respondents noted that civil society actors were often perceived as biased and would need to demonstrate their sincerity by working transparently in all parts of Sri Lanka, while all three business communities considered academics and intellectuals appropriate peacemakers. Religious entities were also considered responsible for ensuring a peaceful society.

The high expectation that the government and political leaders will spearhead the peacebuilding process confirms other research that shows that the sentiment runs across Sri Lankan society. However, it is noteworthy that small businesses see religious leaders as significantly important actors, as well as media personnel. This might be important for future strategic alliances with the business community. Big business, on the other hand, ranks at the lower end of perceived suitability. However, it is interesting that twice as many Tamil respondents as Sinhalese or Muslim mentioned that big business should be more responsible for peacebuilding.

Some company representatives felt that responsibility for conflict prevention was shared equally between all actors, including individuals, civil society groups, political parties and the government. As one representative explained, different actors had different strengths with which to ensure a peaceful society: the state, because it was elected; the private sector, because it has the means; and civil groups, because they are able to educate people ‘out of their racist ideologies’. Peacebuilding, according to this small group, is a joint endeavour. “We act as though it’s the job of the government, political parties and military forces to ensure peace,” said one. “But it’s not, it’s ours.”

Factors influencing business engagement in peacebuilding

Motivations for business peace interventions

Many Colombo-based and southern businesses said it was recognition of how social issues impacted on the bottom line that motivated business leaders to commit to such endeavours. Businesses would only consider peacebuilding as an option if it were in their self-interest. With more foreign investment, new markets would open up, as would new resources for business utilisation. A few mentioned that engaging in peacebuilding initiatives was a matter of building corporate image and generating goodwill.

The ability to develop inter-regional linkages and thereby expand business opportunities was a motivating factor for some southern businesses. One respondent noted that linkages for the expansion of business required trust and friendship between different groups. Conversely, another interviewee said that economic linkages between regions could promote trust and friendship after a long separation. According to most eastern respondents, businesses were not more evidently engaged in peacebuilding due to a lack of motivation, being reluctant to become involved in the complicated and potentially dangerous politics of peacebuilding, or conflict-related interventions.

Some businesses were described as having a greater interest in peacebuilding because of the opportunity costs that the current conflict situation imposes. For example, businesses involving consumer or retail activities, or those that depend on the regular movement of goods and services are more likely to have a greater stake in peacebuilding. In the south, tourism businesses were seen to have a significant interest in promoting peace. Similarly, government and quasi-government companies were seen to have a greater interest in peacebuilding and conflict prevention.

Some types of businesses were considered more eligible to engage in peacebuilding activities. For instance, businesses that had long-term relationships with customers, such as banking, insurance, and education, are in a better position to change their customers' mindset. Additionally, businesses that create employment opportunities may be in a better position to influence people and the government. One respondent recognised that businesses that profit from the conflict, either directly or indirectly, are likely to undermine the peace process. Nonetheless, all representatives from the south and east agreed that only big businesses had the ability to influence the government from their dual advantage of both being located in Colombo and significant players in the economy.

Risk factors for business peace interventions

Almost all companies agreed that there were risks for businesses that engaged in peacebuilding and conflict prevention. Because these are areas close to people's sense of identity, justice and morality, there was great potential for misunderstanding, misrepresentation and misinterpretation. Businesses might find they were accused of supporting a particular, political view at a time of instability in government. This was considered a heightened risk in conflict-affected areas because of the presence of all political parties, and an alleged lack of neutrality. Any accusation could lead a company or its representatives to being physically targeted by groups within or outside government. Government officials who misunderstood the intentions of a business could also make it hard for it to operate by imposing administrative, security and bureaucratic obstacles. There was also the danger of public stigma, thereby damaging the image or reputation of the company, or worse, eliciting the wrath of nationalist, extremist or militant groups.

Asked what problems they might face if they supported peace initiatives, members of Colombo's small business community mentioned political problems (42.9 percent), leading to trouble from politically controlled 'thugs'. Another 39.1 percent feared negative reactions from neighbours or other business members with more racist opinions. 'Problems with the business', mentioned by 11.1 percent of respondents, overlap with the first two statements. The fear that negative publicity could impinge on their businesses was of major concern for small firms with few reserves to cope with additional economic burdens.

Two respondents claimed that the risks only existed if one failed to plan sensibly to minimise them, and offered some ideas on how to do that. These included: doing market research to see if peacebuilding messages were going to be well received; planning the approach and strategy under informed conditions; and using the right mode of message delivery. They also recommended avoiding any appearance of using such initiatives for one's own benefit as this could be misrepresented. One means of minimising risk involved working collectively, being transparent and ethical, and combining peacebuilding messages with a stand for social development for all. In the east, many company representatives felt that peace was so important that some risk had to be taken by citizens to ensure peace.

Other factors

Among Colombo-based and provincial businesses, there were diverse opinions on what factors might encourage them to participate or engage in peacebuilding or conflict prevention activities. The state featured strongly in their responses, with a clear government commitment to the peace process one of the most widely shared requirements. As one respondent said: "If all the parties agreed on the need for peace, it would be much easier [for us to support the peace process and peace activities]. But they have diverse agendas and then it is very difficult." Many businesses wanted only a stable government and stable directives to guide their participation towards peacebuilding and conflict prevention.

They also wanted appropriate mechanisms for business involvement. One respondent said that companies needed assurance that their peacebuilding activities would not be 'used' either by the government or any political faction. While some informants believed that the opportunity to expand into conflict-affected regions provided sufficient motivation, others were convinced that businesses would only undertake the risk if the government assured some level of basic security, or provided tax exemptions on the amount spent on peacebuilding, to businesses willing to assume the risks associated with conflict resolution.

Some Colombo-based companies feel that businesses could become engaged without state stability or intervention, if business leaders were to realise the gravity of the current political and economic situation, and its implications for their

activities. “When businesses are in their comfort zone,” said one company delegate, “they are not going to be active but, if businesses get affected, then they are likely to do something about this.” Financial incentives, such as knowledge about the opportunity cost of war or realising the economic benefits of peace, would motivate businesses to get involved in peacebuilding and conflict prevention, he added.

Other factors included: access to top decision makers; media support for peacebuilding activities; public support for such activities; more ideas on how businesses could get involved; seeing peers get involved; and more accurate information on the ongoing situation. At an operational level, one company noted transportation difficulties, lack of clearance into certain areas and the difficulty of obtaining approvals as factors that hindered the implementation of its current peacebuilding activities. For smaller provincial businesses, business viability played a role. In the east, security assurances were deemed vital.

Preferred involvement and leadership

Many Colombo-based participants from the corporate sector felt they had two possible bases from which to engage in peacebuilding activities. Business leaders already conduct charitable activities in an individual capacity, as members of groups like the Rotarians. Others were more activist, preferring to take stands on issues such as racism, discrimination and intolerance. Many informants said they would prefer to engage in peace interventions in a personal capacity rather than as a business activity. The reasons given were the time-consuming procedure of obtaining permissions from the company board, as well as protecting the organisation from fall-out if things go wrong.

A significant proportion of Colombo-based business believed there was clear advantage in conducting peace interventions through a corporate identity, though not many were willing to do so. A business-led intervention was seen to carry more credibility or influence, and could be part of a collective effort, thereby having a wider impact. A few felt they could conduct peacebuilding activities in both capacities, as there were ways to link the two spheres of influence. For example, a business executive could form, lead or join a collective effort for peacebuilding, while discouraging segregationist or war-mongering policies at work.

They could simultaneously encourage greater interaction between groups, support learning in the arts and culture of different communities, and set up different teams for sports and other leisure activities. However, east-based company representatives noted that there was greater risk at personal and business levels if they engaged in peace activities. They felt that CSR activities were more prevalent in the south than in the north and east because the kind of businesses that conduct such programmes are not prevalent in their areas and also because of the attached risks.

Among southern-based businesses, there was a distinct suggestion that peace interventions should never have a political flavour, but always be social in nature. Many felt that the profit motive would make peace interventions less genuine and more conditional, and a personal approach was therefore more appropriate. Big businesses were identified as the group most suitable to conduct peace interventions because of their resources and outreach.

There were diverse views on who should lead the business community in peacebuilding and conflict prevention initiatives. Some Colombo-based respondents said they would need to be representatives elected by their peers, while others believed that chambers of commerce were a useful platform for leadership. Others noted that the main sectors, such as services and industries, should lead the effort since they contributed substantially to the economy and were therefore in a position to influence significant actors in the peace process. Multinational companies were mentioned as possible lead actors since they could draw on their international experience. Others suggested that individuals with a low profile would be more effective in promoting peacebuilding initiatives. A few informants said that any company with integrity, belief in peace and strong leadership was in a position to engage. Island-wide efforts can only be achieved if different industries, strong in specific regions, are united.

Company representatives from the south felt that the time and effort required for peace interventions meant that only organisations with sufficient human and capital resources could lead initiatives. They noted that only businesses with a wide network were in a position to counter misunderstanding. The eastern-based businesses identified a range of potential leaders, but the majority were large employers, national chambers and the media.

Business initiatives in peacebuilding

Having discussed the priorities, risks and opportunities identified by businesses themselves in addressing conflict issues, the report turns now to present two specific cases of business initiatives in peacebuilding. One is a peace-advocacy initiative by Colombo-based businesses, Sri Lanka First. The other is an island-wide networking and confidence-building initiative involving provincial chambers of commerce, the Business for Peace Alliance (BPA). The examples highlight the different approaches taken by big businesses seeking to influence the political level, and SMEs based in the provinces that focus on reaching out across the ethnic divide to strengthen a regional voice in Colombo-based policy processes.

Sri Lanka First

Sri Lanka has long been seen as a country with steady economic growth despite a conflict lasting more than three decades. As a result, big business had little motivation to support peacebuilding initiatives. This changed with the bombing of Colombo International Airport in 2001 which, together with a crippling power crisis in the same year, demonstrated the vulnerability of key business sectors to the violence. The combined impact of the two events pushed the economy into negative GDP growth, the first time this had occurred in all the years of war.

As the economic costs of conflict became more evident, the pressure intensified on business to do something. For the first time, members of the Colombo corporate community joined in alliances to lobby for peace. The most prominent of these ventures was Sri Lanka First (SLF).

SLF was formed by a group of trade associations in the garment, tea, tourism and freight sectors and it was the first organised, high-profile campaign to mobilise citizens into supporting a call for immediate negotiations and a peaceful resolution to the conflict. Big business in Sri Lanka is almost entirely concentrated in the Colombo Metropolitan Area and is predominantly export-oriented. The Colombo Chambers of Commerce (CCC) represents some 500 of the country's biggest companies, which produce around 40 percent of national GDP. The SLF emerged from among members of the CCC in the latter half of 2001. The CCC has some influence at the government level and is also in a good position to lobby donors for funding development activities.

The emphasis of the SLF campaign was on raising public and political awareness about the economic costs of the war, and the social and economic benefits of a 'peace dividend'. SLF initiated a number of public demonstrations for peace, backed by a media campaign that lobbied for business to adopt practices that foster peace, but it stopped short of taking any political position in terms of solutions to the conflict. Its foremost task was to convince all parties to come to the negotiating table. The timing of the campaign was significant since it fell during the election of December 2001, and SLF-sponsored posters and press advertisements tried to influence voters towards supporting peace-oriented parties and candidates. This business-led advocacy helped to bring a pro-peace government to power.

After the signature of the ceasefire agreement in February 2002, SLF's lobbying activities largely halted, leaving the peace process in the hands of politicians. With the 'no-war-no-peace' situation bringing a degree of economic stability in the past few years, the Colombo-based business community has felt less need for more consistent activity. To inspire a core group of business leaders to re-engage as a

pressure group at a political level, International Alert brought the CEO of the South Africa Business Trust to Sri Lanka to meet business leaders. The visit generated the idea of an exchange visit by SLF to meet the personalities who had been so instrumental in the South African peace process. To this end, Alert facilitated a series of joint analyses with SLF and a group of 10 other business leaders to see how they might support the peace process. The participants identified two main challenges: the need to understand better how they could support the peace process and the need to show unified support for peace.

The delegation that visited South Africa in May 2004 included political players and journalists who, it was thought, could play a strong support and advisory role. It met a range of leaders critical to the South African peace process, including Rolf Meyer and Cyril Ramaphosa, respectively negotiators for the government and the African National Congress; and Theuns Eloff and Colin Coleman, leaders of the Consultative Business Movement which facilitated the political/constitutional dialogues central to the peace process. The meetings allowed for further exploration of South Africa's conflict-resolution experience and the development of ideas for the Sri Lankan context.

The trip provided delegates with a first-hand account of how business leaders responded positively to the peace process in South Africa and encouraged them to show a sectoral display of support for policies and programmes that move the process forward. It also instilled the participants with the confidence to address issues previously thought too risky, and created trust between them. As one participant noted: "Huge lessons were learned (in South Africa) ... Suddenly all Colombo's big businessmen realised the importance of taking care of the regions. The importance of forgiving and going forward – you don't have to forget. This was a big message for Sri Lanka!" Since its return, the group has remained focused and cohesive, meeting almost weekly. Their main objective has been to promote inclusiveness in the peace process. In South Africa they learned of the need for broad political support for a strong peace process.

The group has met individually with representatives of the political parties to understand better their needs and positions, and now hopes to act as a facilitator so that the parties can work toward reconciling their differences over the formal peace process. The visit led to a number of consultations with various political stakeholders in Sri Lanka and included visits by Sri Lankan business leaders to LTTE-held Vanni area. The political stalemate, however, has not led to a concrete response from either side, which may demonstrate that political solutions can only succeed if there is either interest in, or pressure to look for, alternatives to the existing conflict. In Sri Lanka, the actors on both sides were too preoccupied with their internal problems to take up new initiatives to reactivate the peace process.

Business for Peace Alliance

The BPA was founded in November 2002 with support from International Alert and the UNDP. BPA is a working group of business members from the 17 regional chambers of commerce representing all Sri Lanka's provinces and ethnic business communities. Its objectives are to support reconciliation, business-to-business relationships across the ethnic divide and regional inclusion in the peace process.

It emerged from a lengthy process of consultation with individual chambers, identification of the appropriate individuals and trust building among the participants. "We had no business or personal connections with the south during the war," recalled one northern member at their first meeting. "The north sat on one side and the south on the other. We were a bit suspicious. There was a little friendship over tea, but we ate lunch separately. In those two days, we met many southerners. But soon after, we became friends. It was a real experience for us and the first time we started moving with southerners." Another member described how initial prejudices were slowly overcome and commonalities established. "It took time to understand each other's experiences. We had feelings that they were terrorists. Their appearance intimidated us. There was a feeling of anger that these people had caused such devastation ... but then we found that we could sit and talk with them. Within seconds, we realised there were common problems."

Individual members of the BPA are influential in the communities where they operate, and have access to politicians, officials, international organisations and other decision makers. They are, therefore, part of a network connected both to the grassroots and the top tier of society. They also have horizontal connections with the conflicting parties.

Regular bi-monthly meetings, facilitated by Alert and UNDP, combined with visits of each others' chambers across Sri Lanka, have created a strong spirit of fellowship that is already a significant achievement. Ongoing ideas for joint ventures and technology-transfer programmes between regional chambers are an indication that new relationship structures are being nurtured between northern and southern businesses, without interference from Colombo. In addition, friendship and high levels of trust have been built across the group at a personal level.

The BPA has convened 12 times at different locations throughout the country and launched a series of projects that combine private sector interests with peacebuilding:

- Business exchange visits between chambers in the rest of the country and the Jaffna Chamber of Commerce. The visits are intended to create cross-regional economic activity, as well as community and inter-personal understanding.
- Peace visits designed to replicate the reconciliation and cooperation that the BPA has provided to its own members. The BPA acts as a coordinator for

members of regional chambers who wish to make business and peace visits to other areas of the island. The visits always contain a business dimension, such as finding sectoral matching for investors, suppliers or distributors, but they also promote understanding and reconciliation.

- Training workshops focusing on topics such as communication and presentation skills, peacebuilding and CSR
- Coordination of the production of a directory of regional businesses that was distributed by the BPA in 2004, in conjunction with the CCC and the Federation of Chambers of Commerce and Industry Sri Lanka
- Acting as coordinators for local dialogue in the north and east that will identify economic and social development issues for the two regions
- Establishing a 'Peace Bridge' – an inter-regional trade and investment fair, promoting peace and including cultural and contextual sharing of food, music and cultural items
- In response to the tsunami, BPA member chambers have been supporting district coordinators in meeting local populations and communicating their needs to those responsible for rebuilding and planning.

Members of the business community also decided to become more vocal in their efforts to influence policy makers, particularly with to economic development and the challenges they face as provincial enterprises. The BPA has already had some success in this process. For example, the group lobbied the government to open a small and medium-enterprise (SME) bank with low interest loans, not reliant on collateral, to assist business and reconstruction. SME bank branches are now opening in Galle, Ampara and Jaffna. In another instance, the BPA successfully lobbied the government's Peace Secretariat to open an additional fishing channel on the Jaffna coast. It also lobbied for the A9 road to Jaffna to remain open 24 hours, rather than only in daylight. This road, which crosses LTTE-controlled territory, is an important supply route and the only land connection between the north and the rest of Sri Lanka. In the aftermath of the tsunami disaster the BPA lobbied (through its Colombo-based partner network, Sri Lanka First) that its representatives in the local chambers be invited onto and actively participate in the district-level taskforces set up by government to coordinate and direct relief and rehabilitation in affected regions.

The BPA needs to address a number of threats, including the risk that its focus may shift too strongly towards simply 'doing business'. While inter-regional business contacts can be positive in terms of peacebuilding, this may not be a sufficient justification to maintain a business-for-peace alliance in the eyes of its members, given time and financial constraints. The BPA also has to be careful to articulate its mandate in a manner that distinguishes it from other bodies, such as the chambers or local NGOs, so to avoid rivalry and 'mission creep.' Most important of all, it

needs to be sensitive about the widespread perception in the north that the economic opportunities opened up privilege companies in the south, rather than vice versa. The northern perception of itself as ‘a market for outsiders’ should be addressed with some urgency. Any joint ventures planned by or through the BPA must attempt to counter such perceptions among the local population. This may require the BPA to adopt a more active media strategy. Similar fears of domination may have to be addressed in business relations between Jaffna and Batticaloa, over which the former claims political and economic leadership.

The BPA is currently institutionalising what has so far been a fairly loose arrangement. This includes registering the BPA as a legal body and applying for project-related funding, which offers an opportunity to engage in concrete peacebuilding. Given that civil society structures outside Colombo are weak, it is an unusually sophisticated group with clear, local roots. Its strengths lie in its networking and relationship-building capacities, rather than the implementation of specific projects, and its members’ standing in local civil society provides an opportunity to further explore potential peace interventions.

Conclusions

There has been an increasingly established discourse between business actors about CSR and other peace interventions since the economic downturn that followed the 2001 attack on Colombo International Airport. The resulting debate led to some initial successes, such as more widespread commitment to CSR, peacebuilding, and the right and responsibility of businesses to share their concerns about the conflict with the wider public. In this respect, Sri Lanka First, the Business for Peace Alliance and various individual attempts to engage with the conflict must be commended. Nonetheless, business actors continue to face a number of challenges, as is evident from the interviews in this study. These challenges can be broadly categorised into businesses’ capacities to engage in peacebuilding, the political milieu and culture. The following pages discuss ways forward, drawing out recommendations both for businesses themselves, and others working to support their role.

Business capacities

Developing socially informed approaches to CSR and peacebuilding

Businesses in Sri Lanka do not appear to regard social inequities as a structural problem requiring their involvement. They tend to approach the situation philanthropically, by helping individuals more than communities, or communities more than structures. These activities complement a wide range of potential peace interventions elsewhere, but they do so in a piecemeal or fragmented fashion. In this

sense, businesses' peace interventions do not emerge out of a systematic understanding of conflict-related issues or a strategic effort to overcome conflict potentials. This is somewhat surprising, given that most businesses also appear to see structural causes, such as discrimination and inequity, as primary instigators of the conflict.

With this in mind, the following are recommended:

- Provide the corporate sector with information/education about the structural nature of discrimination, inequity and power dynamics in a heterogeneous society. Forge more links between academics, professionals and the business sector to advance such understanding.
- Encourage businesses to support social and political institutions in a strategic and sustainable manner that qualitatively changes them and the services they provide, rather than individuals and selected communities/villages. Achieve this by providing businesses with innovative, bigger-picture ideas about CSR; help them to identify the most suitable institutions for achieving desired social outcomes; and provide technical guidance in the implementation of these interventions.
- Strengthen the awareness of local businesses about their potential role as sources of information on conflict issues and emerging conflict potential at the local level, and support the creation of early warning mechanisms.

Strengthening collective corporate action

The study reveals that the culture and competence of collective strategic action/lobbying is inadequately implemented on social issues that generate concern in the business community. This may indicate that the diverse and relatively young business sector is inexperienced in lobbying for policy change, or lacks the means and mechanisms by which to engage in more effective lobbying. The competitive nature of business contributes to an inability to transcend divides, build solidarity and seek common ground. This inevitably results in weakened and isolated business groups.

The emergence of a single united business community in Sri Lanka with a shared viewpoint on such controversial political issues as: the proposed federal system; the LTTE offer to discuss an interim administration; or corruption may also never happen. It is, however, important to promote a shared understanding of the different viewpoints and their rationales, without necessarily aiming for total consensus. Building mechanisms for business communities to work together on conflict transformation, while accepting differences of opinion when confronting difficult issues could be important in moving business forward.

The following are recommendations to build greater capacities for collective action among the business communities:

- Encourage business forums and networks to identify common social concerns and develop strategic plans to address them, especially among big businesses in Colombo. Development and humanitarian project planning methodologies may be helpful.
- Encourage businesses to build better impact-assessment capacities so that they can monitor and assess the outcomes of their interventions
- Support businesses to reach beyond business networks and link up with other socially conscious groups in order to develop joint actions and shared visions. This involves building capacities to negotiate differences of opinion, of power, etc. and to reduce the danger of being singled-out or misrepresented.
- Encourage better linkages to professional groups who know their subjects and work for the same causes as business concerns, e.g. advocacy groups, universities, research institutions, educational institutions, the Human Rights Commission, etc. These may not be politically neutral groups, but the business sector can support them through acts of solidarity on common issues, and vice versa.
- Develop guidelines on corporate collective action, for instance by documenting successful efforts.

Recognising the peace potential within one's company

While a number of businesses practice CSR in relation to their staff on matters of professional development and crisis support, few seem to recognise the potential for promoting a peaceful culture in their own company, even where staff is socially diverse and geographically widespread. Businesses refrain from capitalising on the fact that as employers they have access to a significant proportion of the population. If the culture promoted within the office premises or at workstations reflects a commitment to a multicultural society, this will influence those who spend significant time at work.

To ensure peacebuilding within companies, the following activities are recommended:

- Promote socio-cultural interactions and exchanges as much as possible. For example, festival days, factory arrangements, hostel accommodation and canteen cuisine are opportunities to celebrate diversity, rather than to segregate ethnic, religious and social differences.
- Establish a code of conduct that informs office behaviour and attitudes. This may have a more powerful effect if a group of companies sets up shared minimum standards for peacebuilding office conduct. Codes of conduct often spell out what people should not do (e.g. make sexist jokes), but they can also guide people on socially constructive behaviour, such as sensitivity to power dynamics, and interest in other cultures and communities.
- Develop more socially informed recruitment policies. Though businesses may be reluctant to adopt an affirmative-action approach to ensure better ethnic representation, it may be possible to go beyond the orthodox merit criteria to

include personal performance assessments and other means by which to ensure the most suitable candidate gets selected, given that there is little equitable access to quality education in Sri Lanka.

- Better utilisation of public and customer relations. Helpful ways of building a public consciousness about multi-ethnic society are: presenting an image of a diverse Sri Lanka by advertising in three languages; refraining from endorsing stereotypical images of rural, ethnic or religious groups in media campaigns; and ensuring sensitivity to the lived realities and needs of ethnic minorities or geographically remote populations.

Going beyond peace rhetoric

A commitment to peacebuilding requires that businesses do more than advocate for peace, backing this up with more concrete actions. Many businesses are reluctant to be seen as politically and socially conscious, if not active, and some advocate that CSR programmes should not be structural in intent, but ‘only’ philanthropic. Given the inherently political nature of power dynamics in any society, let alone a highly politicised and violent one such as Sri Lanka, it is difficult to imagine how this could be done without involving some risk. Any contribution to, or intervention on behalf of a targeted group or individual means that others are left out, which can be misinterpreted, but that may be a necessary risk if larger change is to be achieved.

Within this context, the following recommendations are made:

- Inform the corporate sector that there are political dimensions to all CSR activities
- Seek opportunities to bring business back into the conflict-affected regions of the north and east. Given security risks, this could initially be achieved through gestures of collaboration and support to existing regional businesses, such as low-risk technology and infrastructure development for agriculture and fisheries sector, and better financing opportunities for these businesses.
- Recognise the existing dangers for businesses operating in conflict regions, where relatively better protected businesses can seek out ways to take political stands and actions that do not have to do with party politics, but with the need for social justice for all
- Develop regional specialist capacities, such as accountancy institutions, where people from the regions also benefit from opportunities for advancement.

Political milieu and culture

Targeting political instability

An overriding element of the conflict has been Sri Lanka’s political instability in recent years. While most businesses and the public deplore this state of affairs, few

seem to be interested in understanding how to address the factors that contribute to political instability. Even where it has a direct impact on the expansion of their business, the corporate sector does not seem to have the will to demand a long-term economic planning agenda or to call for a dialogue on how best to diffuse the negative public perceptions of the private sector.

The recommendations are to:

- Address public concerns about unscrupulous business practices. Businesses could educate the public on corporate governance issues, set mechanisms to have more transparent pricing systems and create more distance between the corporate sector and political party agendas.
- Enter into dialogue with all political parties on what expectations and role there is for the private sector within their policy making, and demand a coherent and consistent policy for business growth and national development
- Educate the public on the economic losses and limitations to growth that result from the conflict, and the implications of these for the social good
- Recognise that these activities may be more difficult in the regions where tensions are higher, and disruptions to law and order more intense.

The 'politicisation of everything'

Businesses acknowledge the increasing politicisation of issues and actions in Sri Lanka. This inevitably limits the scope for socially conscientious groups to advocate for justice and equity and against the rise of intolerant, extremist forces. Businesses appear unwilling to address this issue, even when it affects them directly. Rather than tackle such issues head-on, it may be possible to address the underlying causes and contributing factors.

The following may help to undermine the current trend of politicisation:

- Support the development of a proper training institute for journalists and identify/encourage ethical journalism
- Use business leverage to pressure media into non-sensationalist and balanced objective reporting standards
- Educate the public on good governance
- Develop public information materials to educate a more politically mature public that is able to avoid the short-term agendas of unscrupulous politicians.

The dimension of violence

Most businesses acknowledge that there is a threat to the security of staff and property in high-risk areas. This is heightened for businesses that operate in conflict-affected regions because more severe repercussions may result for those that are politically active or engage in development/peace activities.

It is important to establish some means whereby businesses engaged in such

activities can be protected, either through anonymity or collective effort. One idea is to have a joint business and peace foundation, administered by a group of professional and corporate sector individuals, which could be used strategically in the north and east. This requires low-profile activities for the short term, which some businesses may be willing to engage in, though others will not.

Acronyms

BPA	Business for Peace Alliance
CCC	Colombo Chambers of Commerce
CSR	Corporate social responsibility
GDP	Gross Domestic Product
GoSL	Government of Sri Lanka
ILO	International Labour Organisation
INGO	International Non-Governmental Organisations
JVP	Janatha Vimukthi Peramuna
LMD	Lanka Monthly Digest
LKR	Lankan Rupees
LTTE	Liberation Tigers for Tamil Eelam
PA	People's Alliance
QLFS	Quarterly Labour Force Survey
SLCPI	Sri Lanka Consumer Price Index
SLF	Sri Lanka First
SME	Small and Medium Enterprises
UNDP	United Nations Development Programme
UNP	United National Party

Endnotes

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Market trader, northern Nigeria

Local entrepreneur in Gal/i at the Georgia/Abkhazia border

Regional business representative in southern Sri Lanka recalls first meeting with business counterparts from the north and east of the country

National Business Initiative, Nepal, information booklet

Entrepreneurs the world over can be acutely aware that peace is their business. Yet the perspectives, skills and resources of businesspeople are rarely factored into efforts to address violent conflict.

This ground-breaking study highlights the potential of the domestic private sector to make important contributions to peace. *Local Business, Local Peace* makes the case that the private sector is often tightly bound up in conflict dynamics, and is at the same time able to play an important role in addressing these, at different levels. Drawn from the experiences of businesspeople in over 20 conflict-affected countries around the world, the book focuses on businesses' efforts to support formal peace processes; to address issues in the economic sphere; to build bridges between divided communities and groups; to alleviate security concerns; and lastly on the special role of women entrepreneurs.

Published by the peacebuilding NGO International Alert, *Local Business, Local Peace* provides lessons both to businesspeople who want to contribute to building lasting peace in their own societies; as well as those in development agencies, governments and civil society who work in the fields of peacebuilding and economic development in countries affected by conflict.

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