

Conflict Prevention and Peace Building Elements of PSD/SED Programmes

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Abstract

The following discussion paper examines the potential that SED/PSD interventions have in contributing to conflict prevention and peace building. The paper is based on desk research, discussions with practitioners and three case studies.

The first part examines the interrelations between economic development and conflict. Chapter 3 offers a description of theoretical conceptual interrelations of and practical experience in the four intervention areas (i) Private Sector Development, (ii) Technical Vocational Education and Training, (iii) Financial Systems Development, and (iv) Economic Policy. These areas are analysed regarding their potential to support conflict prevention and peace building.

The next chapter summarises the lessons learnt and critical issues for the planning and implementation of SED/PSD interventions in post-conflict countries so that their positive impact on conflict prevention and peace building can be ensured and maximised. Planning process, project design, objectives and strategic issues are covered. The section also analyses the sequencing and levels of interventions and highlights the role of several important target groups. Lessons learnt with regard to operational issues and human resources as well as issues on monitoring and evaluation follow.

Practical experiences extracted from case studies and other reports illustrate the findings.

The Annex provides details on the case studies of Bosnia and Herzegovina (BiH), Kosovo and Afghanistan. In BiH and Kosovo, GTZ already has considerable experience in dealing with and working on conflict prevention and peace building within PSD/SED interventions. In Afghanistan such attempts are in their earlier stages. Based on the experience in the Balkans, the report summarises the experiences there and identifies potential areas where PSD/SED interventions could further contribute to conflict prevention and peace building.

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1. Introduction

Violent conflicts are a great challenge for any country's development: they do not only result in lost lives, physical and psychological injuries and substantial damages of infrastructure; they also compromise development efforts and worsen poverty.

In order to contribute to crisis prevention, conflict transformation and peace building, German Development Cooperation (GDC) is in the process of refining its instruments and approaches to the conditions of those countries that suffer from violent or latent conflict. Development cooperation should contribute to reducing the structural causes for conflicts and promote mechanisms and capacities for peaceful conflict resolution. This also applies to SED/PSD interventions.

To date, specific strategies aiming at economic development in a conflict sensitive and peace building way are yet to be developed for SED/PSD interventions. This study was commissioned to collect and assess available field experience of GTZ SED/PSD interventions in post-conflict countries and summarise available case studies and surveys. The paper identifies approaches and instruments (what?) and methods (how?) utilised by PSD/SED programmes in conflict regions responding to conflict, and discusses areas with potential for more systematic conflict-sensitive interventions.

The paper is based on desk research of existing surveys, discussion papers and reports. Three case studies of Bosnia and Herzegovina, Kosovo and Afghanistan have been conducted through telephone interviews (Balkans) and a field trip (Afghanistan) to provide practical field experience. Discussions with experts from GTZ headquarters complemented the research.

The paper aims at giving a comprehensive overview of the potential that SED/PSD interventions can have in contributing to conflict prevention and peace building. Both the strategic level as well as the level of practical implementation of interventions are taken into consideration.

Since most reviewed interventions are 'classical' SED/PSD interventions without explicit conflict-relevant objectives, the lessons learnt from the case studies are focused on practical issues, mostly on the level of activities and methodology. The more strategic issues are derived from desk research and theoretical analysis.

The paper has been commissioned by the sector project 'Innovative Tools for PSD' and the sector programme SED:

The **sector project 'Innovative Tools for PSD'** focuses on 'PSD in conflict regions' as one of three major areas of tool development. The project aims at refining PSD tools that allow programmes to operate in a conflict-sensitive way.

The **sector programme SED** comprises four fields of action: (i) Economic Policy, (ii) Private Sector Development, (iii) Financial Systems Development, (iv) Technical and Vocational

Education & Training. One main objective of this sector programme is the development of intervention packages for Economic Development and Employment Promotion, according to the needs of different developing country clusters. One of the five clusters consists of those countries that suffer from weak state structures and latent conflicts.

2. Interrelations between Economic Development and Conflict

Since the end of World War II there has been a steady rise in the number of violent conflicts. Most major violent conflicts are internal civil wars or rebellions. In 2004 only 2 out of 19 major armed conflicts were between states¹, the others were internal, usually asymmetric conflicts such as civil wars, rebellions and terrorism. For this reason the report at hand focuses on such asymmetric conflicts.

In order to contribute to conflict prevention and peace building it is necessary to consider the causes of conflict. The following table provides an overview of **structural conflict causes**:²

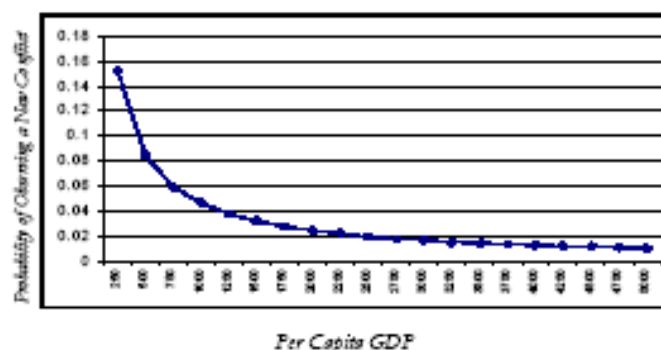
Dimensions	Conflict causes
Political factors	Problems coping with transformation processes and rapid social change Absence of a legitimate government and good governance Limited social and political participation Inadequate formal and informal channels for conflict management Limited institutional capacities
Economic factors	Socio-economic inequality Competition for natural resources Insufficient satisfaction of basic human needs
Social factors	Social disintegration and marginalisation Political manipulation of ethnic, cultural and other differences, discrimination Culture of violence, traumatisation from earlier violence
Security	Uncontrolled army units and arbitrary police action Presence of arms, especially small arms Inadequate security for the population (infringements of human rights, criminality)
External factors	Negative consequences of international involvement Negative consequences of the national and international setting

¹ According to Stockholm International Peace Research Institute SIPRI (2004). SIPRI's definition of major armed conflict: A 'major armed conflict' is defined as the use of armed force between the military forces of two or more governments, or of one government and at least one organised armed group, resulting in the battle-related deaths of at least 1.000 people in any single calendar year and in which the incompatibility concerns control of government and/or territory. For a more detailed definition of conflict and the view of GTZ see Ropers (2002).

² Table from Leonhardt (2001).

When assessing the potential of SED/PSD interventions in contributing to conflict prevention and peace building, it is of particular importance to explore the relationship between economic development and conflict. Research on the **relations between economics and conflict** is still in its early stages and many areas remain to be explored.³ However, there are some fundamental statistically evident relationships that should be briefly discussed:⁴

- Countries that rely heavily on primary commodities are more vulnerable to conflict.
- Countries engaged in trade with each other are less likely to fight each other.
- A large diaspora statistically increases the risk of conflict renewal; this is explained by the diaspora being a funding source of conflict parties.
- Civil wars last longer if rebels finance themselves using illegal commodities.
- There is a significant and substantial reduction of conflict risk in countries with higher male secondary enrolment.
- Domestic investment collapses during conflicts; it does not recover until long after they end.
- There is a clear relationship between the poverty of a nation and its risk of a civil war.⁵ This relationship is even stronger for very poor countries.



Plausible explanations are (i) that wealthier societies are better able to protect their resources, thus making violence less attractive for rebels, or (ii) that poverty causes violence, e.g. when scarcity leads to migration, which results in conflict over resources. Wars also last longer in poorer countries. It stands to reason that economic growth reduces the risk of war. There is a vicious circle of conflict and poverty, called the

³ For a comprehensive overview of research on the relationship between economics and conflict see Humphreys (2002).

⁴ The following statistically evident correlations are deduced from Humphreys (2002) and Collier / Hoeffler (2001).

⁵ Source: Humphreys (2002). The model is based on World Bank research of Collier / Hoeffler (2001) analysing 78 wars during 1960-99.

'conflict trap'⁶: Poverty fuels conflict and, in turn, conflict sustains and aggravates poverty.

- There is no clear evidence of a relationship between **inequality** in general and the **risk for conflict**⁷. However, there is case study evidence suggesting that countries with **severe horizontal inequality** [considering the differences in income between regional or ethnic groups] are more vulnerable to conflict.⁸

Looking at the interrelations mentioned above, **SED/PSD interventions can have a significant positive⁹ impact on conflict prevention and/or peace building if they ...**

... address causes of conflict or factors that increase the risk or duration for violent conflict, e.g. by

- supporting economic growth and poverty alleviation;
- reducing [horizontal] inequality such as between regions or ethnic groups;
- decreasing the dependence on primary commodities and broadening the economic base by diversification and industrial development;
- introducing effective [economic] mechanisms to regulate peaceful competition for natural resources;
- reducing the financial resources for conflict.

... enhance factors contributing to conflict prevention, peace building and reconciliation, e.g. by

- supporting the ability to participate in and benefit from trade;
- enabling and strengthening of economic actors in crisis prevention, conflict transformation or peace building;
- promoting reconciliation and trust building.

⁶ Collier et al. (2003)

⁷ A World Bank research project failed to find a significant relationship between overall inequality and conflict; Collier / Hoeffler (2001).

⁸ Humphreys (2002)

⁹ Analogically, SED/PSD interventions can also have a negative impact and aggravate conflicts if they run counter the effects mentioned below. More details on conflict sensitive design of interventions is discussed in chapter 4.

3. Potential to Support Conflict Prevention and Peace Building

Looking at the correlations illustrated above there are – depending on the causes of conflict – many cases where the objectives of SED/PSD interventions overlap with the conflict prevention and peace building agenda. The following chapter examines the potential of the four SED intervention areas¹⁰ for conflict prevention and peace building. Experiences from case studies serve as illustrations. They are marked in the text in italics.

3.1 Private Sector Development (PSD)

There are numerous relations between private sector development and conflict, both positive and negative; *inter alia* due to the following interrelations:

- I. Various causes and escalating factors of conflict are of economic nature and relate to private sector actors;
- II. Peace / conflict have a substantial impact on private sector actors; they either benefit from conflict (such as war profiteers) or from peace ('peace dividend')
- III. Civil wars are often financed by (legal or illegal) private sector activities.

Accordingly PSD interventions can contribute to CP/PB in the following 3 areas:

I. Address causes or escalating factors of conflict

In general, PSD interventions are aimed at contributing to economic growth and poverty reduction. Statistically, there is a significant correlation between the poverty of a country and the risk for conflict. Generally speaking, PSD interventions that successfully contribute to economic growth and poverty reduction reduce the risk of violent conflict.

- **Horizontal inequality** e.g. between regions or ethnic groups can be a cause for conflict. PSD interventions that reduce such inequalities can considerably reduce the risk for conflict. An example would be conflicts where **rural poverty is a cause or escalating factor of conflict**. PSD projects that focus on the economic development of rural areas can contribute directly to conflict transformation and peace building. And vice versa: by concentrating project activities in the capital and neglecting disadvantaged regions SED/PSD interventions risk to increase inequalities and rise the chance for conflict. Relevant PSD approaches are e.g. Local Economic Development (LED), value chains

¹⁰ The intervention area PSD is taking more space than the other intervention areas due to the fact that a number of previous studies and research was available, as a result of the work of '*Eigenmaßnahme Privatwirtschaftsförderung in Konflikt- und Postkonfliktsituationen*' and the sector project 'Innovative tools for PSD'.

with rural linkages, SME development focusing on rural areas (possibly supported by microfinance approaches). Such an approach with the intent to address rural poverty as a cause for conflict is currently tested in Nepal.¹¹

- **Labour exploitation** can be a cause for conflict (or at least a justification for rebellion); this is the case in Nepal where Maoist rebels use allegations against business people for exploiting labourers as a justification for their insurgency. Here Corporate Social Responsibility (CSR) initiatives to improve working conditions for labourers can contribute to address causes for conflict. In Nepal the Private Sector Promotion project started to work on CSR in the carpet sector.¹²
- **Certain population groups** can be critical for the start or renewal of violent conflict, e.g. ex-combatants and child soldiers, unemployed poor young people/men in urban areas. Without a social and economic perspective such as employment and income opportunities (or at least a credible vision) it is often impossible to convince such groups of the benefits of peace and political stability. PSD interventions that support those groups (possibly in cooperation with other interventions, e.g. microfinance and DDR), such as start-up programmes or CEFE interventions reduce the risk for (the renewal of) violent conflict.
- Countries that rely heavily on **exports of primary commodities** have a substantially higher risk for violent conflict. Some explanations are: (i) greedy citizens taking up arms to capture the benefits of those goods; (ii) unjust distribution of the revenues, in particular if the resources are concentrated in one area or the extraction and marketing is centralised, (iii) the 'Dutch disease' [when the discovery of a natural resource raises the value of that nation's currency, making manufactured goods less competitive with other nations, increasing imports and decreasing exports] leading to the collapse of other industrial sectors, etc.¹³

Depending on the particular economics of primary commodities in each conflict country, interventions that **reduce the dependence on those primary commodities** and broaden the economic base by **diversification and industrial development** could reduce the risk for conflict.

Also measures that ensure **fair and conflict-sensitive revenue sharing** of such commodities as well as raising the transparency of revenue sharing reduce the risk for conflict. Instruments are the sensitisation and support of relevant companies in developing strategies to avoid (the escalation of) conflicts e.g. through **Revenue Sharing Regimes**¹⁴ and **Corporate Social Responsibility (CSR)**¹⁵ measures.¹⁶

¹¹ SV PWF and SED Nepal 'case study Nepal, by Grossmann / Doce (2005), p. 26.

¹² SV PWF and SED Nepal 'case study Nepal, by Grossmann / Doce (2005), p. 27.

¹³ A fourth explanation, the financing of conflicts / rebels through the exploitation of those commodities is discussed below.

¹⁴ Revenue Sharing Regimes: 'The function of revenue-sharing is to define a system for the allocation of social investments by companies and for the payments of taxes and royalties from the

- Successful **investment promotion**, including foreign direct investment, contributes to employment and income generation. This can be crucial to prevent conflicts or their renewal; in particular since investment normally collapses during conflicts and does not recover until long after they end,¹⁷ often presenting a major obstacle for development. *A successful example is the GTZ-supported establishment of the Afghan Investment Support Agency (AISA), which facilitates domestic and foreign direct investments.*

II. Support the peace building / reconciliation process and strengthen private sector actors in conflict prevention and peace building

The general idea of that section is to identify and support factors within the private sector that can effectively promote peace building or oppose conflict (so called ‘connectors’), no matter if driven by idealistic or economic motives. Such approaches are often based on the fact that business people and entrepreneurs are generally more interested in profits than politics. Most entrepreneurs (apart from war-profiteers and certain sectors) benefit from peace (‘peace dividend’); their influence can be used to mediate conflicts, utilising their potential as ‘connectors’. In more general terms, economic interaction between opposing groups that is beneficial for both sides can contribute to conflict transformation and securing peace, when people realise and appreciate the peace dividend. Increased economic interaction contributes to the building of trust between opposing groups and are often a first step for enhanced social interaction and reconciliation.

- One approach is the identification, illustration and enhancement of economic dependencies on / benefits from **economic interaction between opposing groups**: PSD interventions can encourage and assist business representative organisations or private sector promotion institutions to identify and support economic win-win-situation for entrepreneurs from opposing sides and facilitate their support of joint efforts. A promising field are value chains where entrepreneurs from opposing groups could benefit economically from working together. Often pre-conflict value chains that have been cut along ethnic or regional borders through conflict, present a good starting-point. Practical examples are ‘modern hotel furniture’ in Bosnia and Herzegovina or tourism develop-

company to the host government. It includes equitable distribution of resources, compensation for resettlement or loss of land and strategic economic and social investment. Revenue-Sharing may help to ameliorate conflict situations.’ (Global Compact, www.unglobalcompact.org)

¹⁵ The discussion on Business in Conflict and CSR has been very much focused on extractive industries and multi-national companies: companies are encouraged to promote conflict transformation and peace building in their own firms, in the surrounding communities and on national and international level. However, there is not much experience yet on how to win local and non-public companies for conflict-sensitive business practices (Grossmann (2005b); first attempts to analyze the role of local business in conflict and CSR in local business see Killick et al. (2005).

¹⁶ For a detailed analysis of business in conflict and the potential role of GTZ, see Boschmann et al. (2004) and Huber (2003a, b); <http://www.gtz.de/de/themen/wirtschaft-beschaeftigung/privatwirtschaft/3468.htm>

¹⁷ Humphreys (2002).

ment in Kosovo. Conflict-sensitive planning of a value chain approach is currently tested in the carpet industry in Nepal.¹⁸

- **A similar approach is the integration of experts, trainers, consultants and other Business Development Service (BDS) providers from one faction in activities that take place in enterprises or in the area of the opposing faction.** Experiences are that business people prefer a well-qualified expert from the opposing group / ethnicity over a less qualified expert from the own ethnicity or region. This approach supports reconciliation by enhancing trust between the opposing groups. This is practically implemented in the GTZ project in Bosnia and Herzegovina.
- **Local Economic Development (LED)** instruments could be adapted for conflict regions: The participatory approach of LED could be utilised to **moderate between conflicting parties** (e.g. different ethnic groups in one region) and to **develop joint visions and strategies**. The particular advantage of LED in such an environment is that the economic incentives could be a decisive motivation for opposing groups to engage in joint activities. To further adapt LED instruments to such an environment they could be combined with peace building tools.¹⁹ The approach could also be combined with Disarmament, Demobilisation and Reintegration (DDR) programmes, in particular if they focus on community-based integration²⁰ in order to integrate DDR programmes into local development strategies.
- There is statistical evidence that **countries engaged in trade with each other are less likely to fight each other**. Therefore (regional) trade promotion in conflict-prone regions can reduce the risk for conflict. Intensified trade increases beneficial interaction between opposing groups, thereby reducing tensions. In order to ensure that trade promotion is not enlarging the potential for conflict it has to be ensured (and communicated) that both sides benefit from trade. GTZ currently assesses the possibilities for trade promotion between Tajik and Afghan Badachshan²¹. In Bosnia and Herzegovina the GTZ Economic and employment promotion programme supports regional trade promotion.
- So far, no research could be found that analyses this correlation for **domestic regional trade**; however, it could be assumed that the correlation also holds for domestic regions or ethnicities, as long as both sides benefit.
- The identification of joint interests of business people from opposing groups and the establishment of **joint representative organisations** (e.g. business associations)

¹⁸ SV PWF and SED Nepal 'case study Nepal', by Grossmann (2005).

¹⁹ *First experiences of LED approaches in (post-)conflict countries have been made in Nepal, Sri Lanka and Aceh (commissioned by ILO) using the PACA approach (Participatory Appraisal of Competitive Advantage, further information on this tool can be obtained from mesopartner: <http://www.mesopartner.com/>).* So far the tool has not yet been adapted to address conflict.

²⁰ See glossary in the Annex for an explanation of community-based integration.

²¹ There is no actual conflict in Badachshan or between Afghanistan and Tajikistan; still, regional integration can be supposed to contribute to political stabilisation in the Hindu Kush.

enable entrepreneurs from opposing groups to cooperate in areas where it is mutually beneficial. Those organisations also present potential **dialogue platforms** where mutual interests can be voiced (e.g. against 'dividing' elements of politics/society). Good (local) governance is a prerequisite for peace building and for the successful eradication of the drug economy; functioning civil society organisations, including business membership organisations are important factors to facilitate good governance. *Practical examples are the establishment and support of business associations in Kosovo and BiH that comprise members of opposing groups. In Sri Lanka the cooperation of the chambers of commerce of the conflicting factions in a network has been supported.*

- **Supporting the business community in resolving national conflict:** members of the business community, either entrepreneurs or their representative organisations, can advocate and build up pressure towards the conflicting parties to find peaceful solutions.²² *Learning from the South African experience the Private Sector Promotion Programme in Nepal supported a conference on 'The Role of the Private Sector in Peace Building, Reconciliation and Development' organised by Nepalese business organisations with resource persons from South Africa. It supported the business community in forming the 'National Business Initiative for Conflict Transformation'. Due to conflict escalation the activities have slowed down and the impact is yet to be evaluated.²³ In Sri Lanka the Ceylon Chamber of Commerce participate in the 'Business for Peace Alliances'.²⁴*

If successful, general PSD interventions can bring GTZ project managers into a good position to advise national decision makers and initiate / support the dialogue between conflict parties. Such projects have the potential to contribute to the solution of critical problems for politicians and leaders, such as economic growth, employment, tax generation. This enables project managers to build up high-level networks in the respective countries / regions that can be used to contribute to the peace building and reconciliation process on the political level.

III. Decrease economic resources of conflict

Violent conflicts require substantial finance. Main sources of funding conflicts are – according to OECD – neighbouring countries, diaspora and natural resource exploitation. Often conflict parties fund their activities through (legal or illegal) private sector business activities. Examples are drug production and trafficking, extortion, smuggling, arms trading, prostitution and trafficking or other black market activities, but also legal business activities.

²² For more details on the role of business representative organisations and business in conflict see Huber (2003).

²³ SV PWF and SED Nepal 'case study Nepal, by Grossmann / Doce (2005), p. 25.

²⁴ Boschmann (2004).

PSD can contribute to the reduction of the economic resources of conflict in different ways:

- The **drug industry** is often a funding source of civil war factions or related to anti-state and terrorist activities. SME Development and LED interventions have substantial potential to contribute to the development of **alternative livelihoods** and complement efforts of programmes addressing the problem of drug production. The alternative-livelihoods approach depends on the generation of alternative income and employment opportunities for people involved in the drug business. Drug production usually promises high revenues while profits of other agricultural produce are often limited by a lack of post-harvest and agro-processing know-how, facilities and access to markets.
- LED can support the development of visions and strategies for alternative local economic development. SME development can contribute in two ways: (i) it can support the creation of alternative industries providing employment opportunities; and (ii) it can raise the local value added, thereby increasing the income of farmers: through alternative agricultural products, through the support of food processing industries and industries that enhance farming such as agricultural machinery or agro-processing.

However, such approaches often present a severe security threat for project staff, since they have often to be implemented in politically volatile environments. Close coordination with existing projects on alternative livelihoods is required. Also, a marked and visible distance to potentially harmful counter-narcotics initiatives, including law enforcement, quick impact and rushed alternative livelihood strategies bypassing locally-driven political decision making is advisable. Such an approach could be considered in Afghanistan where a new SME project is currently being prepared and an EU-funded Project on Alternative Livelihood (PAL) is implemented by GTZ-IS.

- Another explanation for the statistical correlation mentioned earlier, that countries relying heavily on the export of **primary commodities** have a substantially higher risk for violent conflict, could also be that those commodities are used to fund the conflict. A prominent example are the infamous 'blood diamonds' in Angola or Sierra Leone. Research²⁵ suggests that many rebel groups / conflict parties also rely heavily on agricultural products such as cashew nuts (e.g. in the Casamance/Senegal), tangerine, hazelnuts (both Abkhazia/ Georgia), bananas (e.g. Somalia), but also timber or rubber to finance their conflict activities. Reducing the funding of conflict from such resources through PSD interventions is challenging, but some success stories do exist: diamonds, like gold, are an 'ideal' financing source for conflict parties and rebel groups: they are easy to transport and smuggle, have a stable and high market value, their origin is very difficult to detect, and they can be mined with little technical resources. Nevertheless, public pressure through NGO campaigns led to the Kimberley Process, a multi-stakeholder process that resulted in a **certification** scheme for diamonds that enables a tracking of diamonds

²⁵ See Humphreys (2002), p. 12 for more details; where the cases of Casamance/Senegal, Abkhazia/ Georgia and Somalia are quoted. TAZ from 20.01.2006 quotes a new and unpublished report by the UN that cacao is a major financing source for the conflict in Cote d'Ivoire.

along its full value chain, from mining to the consumer.²⁶ Such certification schemes could also be a model for other critical extractive industries that are related to conflict funding, e.g. timber, gold, rubber or oil. In Afghanistan, approaches to the **licensing of opium** for the production of medicines are discussed.²⁷

- **Corporate Social Responsibility (CSR)** approaches and their respective code of conducts could be reviewed with regard to their conflict sensibility and be further developed to include issues on the funding of conflicts.²⁸
- A new idea to counter funding of conflict parties was developed by a GTZ practitioner: The so-called '**illegal cluster deconstruction**' is a reversion of the cluster approach. It involves the discouragement of illegal economic activities by eliminating or considerably increasing the costs for crucial resources of illegal businesses, e.g. by raising tariffs (and in parallel improve border controls to hamper smuggling) or taxes (e.g. for chemical ingredients or laboratory equipment to combat drug production), market interventions through acquisitions (e.g. of specialised experts) or raising the barriers for licensing (e.g. for hotels and night-clubs to combat prostitution). So far, no relevant experience in development cooperation has been identified. Such activities tend to be potentially dangerous for project staff as they usually mean to be involved in measures against organised crime, which could use force against respective projects and their staff. If GTZ aspires to pursue such approaches, it needs to develop new methodologies. It is advisable to cooperate with professional organisations such as reputed international private business risk consultancies (e.g. Control Risks Group²⁹) or Transparency International³⁰ (for combating corruption). Even though such an approach is based on PSD methodology, it is debatable if it qualifies as PSD, since it does counter (illegal) private sector development.

However, there is a **word of warning** regarding efforts that aim to cut rebel group financing: First of all, it has to be acknowledged that many of those activities are potentially dangerous for project staff. Secondly, there is statistical evidence³¹ that cutting rebel group financing does not necessarily lead to shorter wars, if rebel groups have an upper hand or benefit from popular support.

²⁶ For more details on the so called Kimberley Process see <http://www.kimberleyprocess.com> and Boschmann et al. (2004).

²⁷ The Senlis Council (2005).

²⁸ Boschmann et al. (2004), see also Huber (2003) for a stock taking of the discussion on 'business in conflict'.

²⁹ Homepage: <http://www.crg.com>

³⁰ Homepage: <http://www.transparency.org>

³¹ Humphreys (2002).

3.2 Economic Policy Advisory Services

Economic policy can play a key role for conflict prevention and peace building. The most obvious area is successful economic policy fostering economic growth and poverty reduction, thereby reducing the risk for violent conflict.

After a war, many countries need to reinvent their political and economic system, which can present an opportunity to set the course for future prosperity. The decision on the type of economic regime can have a decisive impact on long-term stability and peace. The concept of the **social market economy** offers various benefits for post-conflict countries; it harnesses the power of competition and ensures people the freedom they need to live up to their potentials. Yet at the same time, a social market economy preserves social security, and it channels the efforts of individuals to benefit the society as a whole. GTZ can help establish such an enabling environment. *In Afghanistan the discussion on the economic regime and the division of private and state institutions is still ongoing; here GTZ provides high-level advisory services that discuss the features of different regimes, including the social market economy for economic development, peace and stability. Other conflict-relevant places where economic policy advisory services are currently underway are Palestinian Territories and Syria.*

Supporting economic reform programmes and policies through advisory services to create a **conducive framework for the development** of the private sector contributes to political and social stabilisation, conflict prevention and peace building in various ways: (i) a prospering private sector generates employment and income opportunities for the population, including peace-critical groups like returnees and ex-combatants; it thereby reduces social and political tensions as well as the attraction of extremist groups; (ii) the generation of a basis for tax revenues enables the government to build and sustain public infrastructure and provide public services, thereby stabilising it; and (iii) enhancing opportunities for legal entrepreneurial activities decreases incentives to participate in black markets and illegal activities such as smuggling and the drug industry, thereby reducing the financial resources for conflicting parties. In some instances, post-conflict situations present a **window of opportunity** for overdue and comprehensive economic reforms which should be supported through advisory services.³²

Again, the **reduction of horizontal inequalities** is in many countries a critical issue to prevent conflicts. Economic policy can address horizontal inequalities *inter alia* through economic promotion programmes for disadvantaged groups or regions³³. The reduction of restrictions and obstacles for economic development enables those groups to increase income and reduce poverty thereby reducing tensions and enhancing social stability as well as government credibility. The formulation of such policies for regional economic develop-

³² For a discussion of the relevance of privatisation of state-owned enterprises for the peace process see the chapter on target groups.

³³ See the section on target groups in chapter 4 for an assessment of the potentials and risks of positive discrimination.

ment in dialogue with (business) representatives from those regions can additionally contribute to political stabilisation; however, those interventions have to be handled with utmost care and sensitivity since disaccord can aggravate political tensions and trigger conflict.

In Indonesia, GTZ advisors convinced the government not to pass a law, aiming at the discrimination of Chinese businesses in Indonesia, which not only would have resulted in a dramatically worsened business and investment climate but would have had the potential to stir civil unrest and conflict along ethnic lines and potentially contention with China.

Disadvantaged groups are often excluded from **social security services**. Reforms of social security systems that provide services for disadvantaged groups also contribute to the reduction of horizontal inequality. This however requires finance which is often not on hand in post-conflict situations.

In post-conflict situations there can be a need for the **redistribution** of resources between the winners and losers of the conflict in order to reduce future tensions caused by unfair distribution.³⁴ This is an area which needs further research on appropriate mechanisms and their impact on conflict prevention.

As illustrated above, increased trade reduces the risk of war, therefore **trade facilitation** and trade promotion can contribute to conflict prevention.³⁵ Enhancing regional trade through **trade policy** interventions, e.g. by supporting bilateral trade agreements with neighbouring countries contributes to regional economic integration, thereby reducing the risk of violent conflicts between the countries. *An example is the support of bilateral trade agreements with neighbouring Balkan countries through a GTZ programme in Bosnia and Herzegovina.* The conflict-preventive impact depends on mutual benefits through trade and can be reduced / reversed if inequalities or disadvantages are increased by trade. This is analogous for policies promoting in-country trade between conflicting regions.

Programmes to reintegrate returnees and ex-combatants need to be designed, implemented and coordinated with national economic policy.³⁶

Since countries that depend heavily on **primary commodity exports** face a higher risk of violent conflict, the diversification of domestic industries and industrial development can reduce the risk for conflict [see the section on PSD above] and should be supported by economic policy.

Economic policy advisory services should also complement activities within other intervention areas by supporting their activities on the macro level, e.g. the **reduction of financial**

³⁴ One example where redistribution was part of the peace accord is Mali, where clauses to provide jobs for ex-combatants and increased investment in the North were included.

³⁵ See also the paragraph on trade in the section on PSD above.

³⁶ For a detailed report on private sector development in reconstruction and reintegration programmes see MacDonald (2005).

resources of conflict by supporting the formulation of an economic policy and legal system that reduces the opportunities for corruption and unjustified enrichment.

Advisory boards for the government comprising representatives from all conflicting parties can increase transparency and contribute to reconciliation and national unity.

The introduction of **effective economic mechanisms to regulate access and peaceful competition for natural resources**, e.g. land or water, and respective supervisory systems (if necessary) do not only reduce tensions but also improve the efficiency of resource utilisation. Examples are pricing systems for water/irrigation or for the environmental degradation of public natural resources. Typically, land issues are more difficult to solve. Here the close cooperation of SED interventions with Good Governance interventions working on land registration or cadastral systems can have a positive impact on conflict prevention.

3.3 Technical and Vocational Education and Training (TVET)

There is statistical evidence for significant and substantial reduction of the risk for conflict in countries that have a higher **male secondary enrolment**.³⁷ There are several explanations for that correlation; education has an impact on a number of factors that play an important role for the risk of violent conflicts:

- Education is an important factor for higher growth rates, poverty reduction and future prosperity;
- it improves income and social perspectives, thereby reducing grievance and protest against low income and reducing the attractiveness of rebel forces or extremist groups;
- higher enrolment rates also contribute to the reduction of [horizontal] inequality within countries by raising the income perspectives of disadvantaged groups;
- finally, education provides social skills and abilities to deal with arising conflicts in peaceful ways.

Even though no research could be identified, a similar conflict-preventive correlation is assumed for higher enrolment in Technical and Vocational Education and Training systems and better vocational training opportunities, since the same explanations apply. Improvement of the TVET system and higher enrolment rates are expected to reduce the risk of violent conflict, as they are fundamental factors for economic growth and poverty reduction. The following, more specific TVET approaches can enhance the positive impact on **conflict prevention**:

- **Reduction of [horizontal] inequality:** TVET interventions that reduce horizontal inequality, e.g. by reforming TVET systems in such ways that disadvantaged groups gain

³⁷ Collier / Hoeffler (2001).

better access to demand-oriented formation and thereby acquire enhanced employability and income perspectives. Also targeted approaches that provide training opportunities for particularly disadvantaged groups can directly address horizontal inequalities.

- **Creation of social and economic perspectives for critical actors:** Conflicts can be triggered or escalated by social groups that do not have (or see) social and income perspectives since they are more receptive to fall for extremism or illegal and violent activities. TVET interventions can be targeted to reduce those factors by strengthening the employability and self-respect of critical groups through better qualification. In many developing countries this applies in particular to unemployed young people, in particular men. In immediate post-conflict situations, TVET activities play an important role in the **peace building process** by supporting the reintegration of ex-combatants and returnees, within **DDR** and returnee programmes. A specific advantage of TVET interventions is their quick impact through non-formal short-term courses for a defined needy target group. However, such short-term activities are often not sustainable if isolated and not embedded in national vocational training structures.
- **Introduction and dissemination of democratic principles and non-violent conflict resolution, support of the reconciliation process:** A necessary ingredient for sustainable and successful peace building is an educated youth that is equipped with non-violent conflict resolution capabilities and democratic values. Schools, including vocational training institutions, are places where social competence and patterns of behaviours are formed. They are also often forums where catastrophic events and conflicts are examined and socially institutionalised. This holds both the potential for perpetuating tensions and hatred and the opportunity to deal with the past in peaceful ways and learn non-violent ways to solve conflicts. The introduction and strengthening of democratic principles and non-violent conflict resolutions at (TVET) schools contributes directly to peace building, conflict transformation and reconciliation.

Examples of typical interventions:

The following examples of TVET activities have been identified in the case studies to contribute directly to conflict prevention and peace building (points I- IV are practical experience from the Balkans and point V from Afghanistan)

- I. Training for teachers and other staff of TVET institutions in inter-ethnic and participatory tuition, democratic education, crisis identification and conflict management;*
- II. Promotion of cooperative and participatory approaches to education that take the needs of teachers, students and parents (possibly from opposing groups / ethnicities) into account – thus contributing to reduce tensions and conflicts;*
- III. Regional projects that promote compatible TVET systems in neighbouring states facilitating the (future) exchange of the workforce;*
- IV. Establishment of inter-ethnic / mixed TVET schools attended by students of all opposing groups, thereby supporting the exchange between young people of both groups*

who learn to live and work together there. This requires an open-minded and specially trained staff. To attract students from all sides, including high potentials from all opposing parties, such schools could offer particularly high quality training;

- V. *In immediate post-conflict phases, quick and visible impact that is necessary for political and social stabilisation can be reached through short-term training measures (practical training) for critical groups such as ex-combatants (as part of DDR programmes) or returnees. Due to a lack of adequate training institutions in immediate post-conflict countries it can be necessary to implement such measures through (international) NGOs. Since this approach is not sustainable, after the immediate stabilisation of the country it should be phased out or transformed into interventions that focus on institution building regarding TVET. Such measures are often combined with micro-credit or equity assistance programmes for start-ups. Typical examples are the training and start-up interventions conducted by **AGEF** in Afghanistan or Iraq, soon after the termination of combat operations.*

3.4 Financial Systems Development (FSD)

Financial Systems Development (FSD) interventions have the overall aim to reduce poverty and to contribute to economic growth; thereby they are reducing the overall risk for violent conflict in the long run. This is particularly true if they address key constraints for economic development. *A successful example is the intervention supporting the establishment of a national depositors' guarantee fund in Bosnia and Herzegovina, which helped to overcome the distrust in the banking system, a major obstacle for the financial systems and economic development. Another example to restore trust in the financial systems is the establishment of an independent and transparent supervision of the banking/financial system.*

Besides, there are FSD interventions that have a direct impact on conflict prevention and/or peace building:

Violent conflicts as well as terrorism require financial resources which are often transferred through the banking system. **Money laundering** is frequently part of conflict finance and is also needed to attain profits from conflicts. Appropriate measures are to support the central bank in combating money laundering and counter-terrorism financing regimes, e.g. through capacity building in banks and banking supervision and improved regulations.³⁸

Drug production and trafficking are frequent means for the funding of violent conflicts. In drug producing countries, farmers are often tied to the cultivation of narcotic crops, e.g. poppy, through a sophisticated set of instruments, including informal credit schemes and futures on upcoming harvests. To overcome those dependencies and complement interven-

³⁸ As implemented by the World Bank and IMF in several countries; for more details see <http://www.amlcft.org> of the World Bank Group or Financial Action Task Force on Money Laundering (FATF), an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. <http://www.oecd.org/fatf/>

tions supporting alternative livelihoods, an adapted set of financial services (normal micro-credit schemes are often not sufficient) is necessary.³⁹ Efforts of USAID in Central America to address narcotics production through microfinance reportedly had mixed results.

FSD interventions can also **reduce horizontal inequality**. Depending on the local situation, FSD interventions can support the development of a banking system in disadvantaged areas, or the access to finance for disadvantaged groups. The most obvious and most proven instrument in this respect is microfinance,⁴⁰ best in close coordination with compatible PSD efforts.

Other financial sources of conflict are **remittances of diaspora communities** which are estimated to be between 100 and 200 billion USD in total.⁴¹ There is econometric evidence⁴² that large diaspora communities substantially increase the risk of conflict renewal and slow down the 'healing process' after conflicts. The exact role of diaspora communities, which are also recognised to play a vital role in post-conflict reconstruction, in this respect and the exact mechanisms have yet to be examined.⁴³ FSD interventions could be explored that are able to reduce the funding of rebel or terrorist groups from those sources; a first entry point could be the G7 Action Plan developed by the Financial Action Task Force on Money Laundering (FATF)⁴⁴ to detect and prevent the misuse of the world financial system by terrorists.

Another source of conflict funding, subsidies from third countries, are difficult to be addressed by technical cooperation. Close cooperation with international organisations and other departments such as Ministries of Foreign Affairs and Finance would be required to address that issue.

GTZ has so far only few projects in the area of FSD that are dealing directly with issues on conflict prevention, peace building or alternative livelihood projects. Existing experience is currently assessed and documentation is in preparation.⁴⁵

³⁹ See also *Case Study Afghanistan*. For an extensive description of strategies and instruments of the drug economy, including the *salaam* system in Afghanistan, see Koehler (2005).

⁴⁰ For an overview of literature on microfinance in post-conflict countries see Grossmann (2005b).

⁴¹ Sander (2003).

⁴² Collier / Hoeffler (2001).

⁴³ So far no research could be identified on this topic. The Danish Institute for International Studies (DIIS) is currently conducting a seminar on 'Diaspora, Development and Conflict - Exploring Recent Insights of Migration-Development Link' which also addresses those subjects. <http://www.diis.dk/sw17890.asp>.

⁴⁴ <http://www.oecd.org/fatf/>

⁴⁵ Mr. Armin Hofmann armin.hofmann@gtz.de is currently preparing an assessment on FSD and conflict prevention/post-conflict. Documents on international experience and research on microfinance in post-conflict countries are available on <http://www.microfinancegateway.org>.

4. Planning and Implementation PSD Interventions

The following chapter summarises the lessons learnt from the case studies, discussions and desk research, critical issues and open questions regarding conflict prevention and peace building elements in the design and implementation of SED/PSD interventions from the levels of strategy development down to the practical implementation of project activities and project management.

The potential of SED/PSD interventions to contribute to conflict prevention generally depends on two factors:

- I. The economic nature (causes and escalating factors) of the conflict: the more important economic factors are for conflict the more impact SED/PSD has.
- II. The economic potential and substance of a country: the better the potential for economic growth, the higher the potential of SED/PSD to achieve significant impact on conflict causes such as horizontal inequality or poverty.

Even in conflicts whose causes and escalating factors are not economic, SED/PSD interventions can contribute to conflict prevention and peace building: They can enhance factors that support the peace building and reconciliation process through their activities (see the chapter on time frame and sequencing).

4.1 Framework Conditions

The environment for SED interventions in post-conflict countries varies from the potential EU accession candidates of former Yugoslavia to countries where most private and public institutions have been destroyed in decades of war and civil war, such as Afghanistan or Sierra Leone. In some countries the whole population is affected, in other countries conflicts are restricted to certain ethnicities or regions e.g. Indonesia, Mali or Sri Lanka.

The potential for post-conflict reconstruction depends inter alia, on

- Security situation;
- Stability of the government and the political system, good governance;
- Satisfaction of basic human needs and infrastructure (sufficient food and access to water, health care, housing etc.);
- Pre-conflict economic regime and economic potential.

Depending on the situation in the country, intervention in other areas such as good governance, security cooperation (e.g. military and police forces) etc. is necessary to create basic preconditions for economic growth.

4.2 The Planning Process, Project Design, Objectives and Strategic Issues

The above illustrated potential of SED/PSD interventions to address causes or escalating factors of conflict leads to the conclusion that they can substantially contribute to the conflict prevention and peace building agenda.

In order to realise the full potential of SED/PSD, the interventions have to be designed systematically in a conflict-sensitive way. When planning SED/PSD interventions in post-conflict or conflict-prone countries, the conflict causes / escalating factors should be reviewed.⁴⁶ If certain causes or escalating factors are of economic nature, it is worth considering to address them by the planned SED/PSD interventions.

I) The planning process

The design of the planning process very much depends on the specific situation in the country. The following conflict-specific factors typically complicate the planning process:

- Violent conflicts have just recently ended or are still on-going in parts of the country;
- GTZ does not have field experience in the country/experts on the ground yet;
- The situation and institutional setting is opaque and/or organised crime plays an important role in the country's politics and economy.
- Formal institutions at macro and meso level hardly existent.

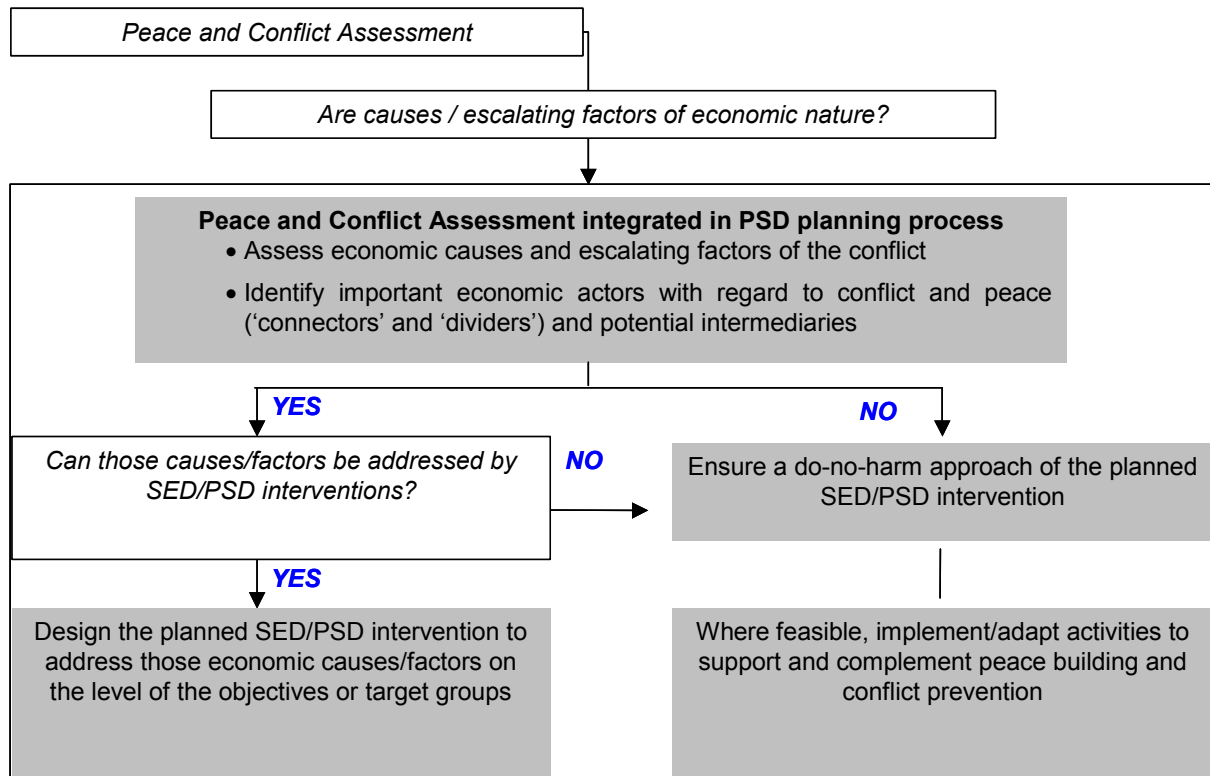
The more of the above factors apply, the more a **cautious approach** to planning is required.

It has been reported that **participatory planning** and workshops with local partners in such cases contains the risk of involving wrong partners. Particularly in direct post-conflict situations, organisations and institutions with direct links to conflict parties are often the most visible but not necessarily the most eligible partners.

In difficult and unclear settings, positive experiences have been made with **open orientation phases**, i.e. commencing projects by fielding a project manager without defining the exact intervention areas, methodology and partners. This enables the manager to collect sufficient information to prepare the intervention thoroughly and to select appropriate partners.⁴⁷

⁴⁶ See SV PWF 'check list for planning PSD programmes in conflict regions', 2005.

⁴⁷ *This has been positively tested in the Kosovo.*



Apart from the usual information required for the planning of interventions, important conflict-specific economic issues such as economic causes and escalating factors of the conflict should be assessed. Other important topics are for instance:

- The role of important economic actors and their roles as ‘connectors/dividers’, if possible naming key players/local elites;
- Property relationships (land, means of production), in particular before re-settling refugees and displaced persons;
- The surviving economic facilities in the region (infrastructure, enterprises, institutions);
- The existence of elements typical of a war economy (such as the monopolisation of resources).

The preparation of a **comprehensive Peace and Conflict Assessment** (PCA) including those issues is a particularly useful tool.⁴⁸ When a new PCA is compiled in a country where SED is a (possible) priority area it should be considered to include an expert for conflict and economics in the PCA team.

⁴⁸ *In the reviewed case studies the available PCA were not sufficiently detailed on economic issues to be a sufficient resource for conflict-sensitive project planning.*

The BMZ conflict-rating system

According to BMZ, all programmes in countries affected by violent conflicts must follow the BMZ conflict-rating system with its three categories of interventions:

- K2 interventions aim primarily at crisis prevention, conflict transformation or peace building;
- K1 interventions aim not primarily but also at crisis prevention, conflict transformation or peace building; while
- K0 interventions do not aim explicitly at crisis prevention, conflict transformation or peace building but apply do-no-harm principles, since they are carried out in a context with increased potential for conflict.

Do-no-harm principle

All interventions have to adhere to the ‘do no harm’-principle, made popular by Mary B. Anderson. This principle requires that unintended consequences of interventions should be considered critically, and unintentional aggravations of conflict should be recognised, avoided and mitigated. To achieve this, the content and operational aspects of development activities have to be assessed in order to identify their relevance to conflict issues, their risk of inadvertently exacerbating or prolonging conflicts, and their actual impacts. Where applicable, relevant risks and methodologies are discussed in the according sections, in particular in the selection on target groups.

II) Methodical levels of interventions

SED/PSD interventions can contribute to conflict prevention or peace building on different methodical levels:

I. Ensure ‘do no harm’	K0
II. Adapt conventional activities so that they contribute to conflict prevention / peace building	
III. Conduct specific activities to contribute to conflict prevention / peace building	
IV. Adapt/design intervention’s strategy and/or target group to contribute to conflict prevention / peace building	K1
V. Adapt/design intervention’s strategy and/or target group and objectives to contribute to conflict prevention / peace building	
	K2

In other words: SED/PSD interventions can be *designed* to address conflict prevention and peace building or ‘classic’ SED/PSD interventions can be *implemented* in a conflict-sensitive way, i.e. within their given framework of SED-specific objectives and strategy project, *activities* are implemented in a conflict-sensitive way.

Many interventions in conflict countries do not (yet) incorporate conflict prevention/peace building in the general project design, but do address them on the activity level, often on an ad-hoc basis when opportunities for conflict prevention / peace building are identified. Some projects reflect the conflict in the project design (*e.g. in Sierra Leone by focusing on critical target groups for peace*), in their objectives, target group and approach or adapt them in the course of the project life (*e.g. in Nepal by adapting the target group in order to address causes of conflict*).

III) Formulation of objectives and indicators

The following types of objectives exist in post-conflict SED/PSD programmes:

- 'classic' SED/PSD objectives;
- reconstruction of SED-relevant institutions (public and private sector);
- reintegration of ex-combatants, refugees and displaced persons (see SV PSD study on 'PDS in reintegration and reconstruction programmes');
- reduction of economic causes of conflict (e.g. horizontal inequality).

Should objectives and indicators of SED/PSD explicitly refer to peace and conflict in their wording? Many practitioners recommend being cautious in discussions with partners in referring to the topics 'peace' and 'conflict prevention' as objectives of the planned project. Firstly, many people are cautious or reluctant to talk about those topics. Secondly, it can lead to resistance towards the planned intervention by groups or their leaders who have no direct interest in reconciliation (or do not dare to state it). Thirdly, it can distract from the key issues and objectives of SED interventions. A good alternative would be to focus on **visions of sustainable economic development and its preconditions**, thereby identifying if and where compatible needs and demands towards peace building exist as requirements for economic development. It can be concluded that objectives and indicators focusing on peace building and conflict transformation should only be included in project documents if suggested so by partners; in most cases, there is no need to formulate explicit conflict/peace-related wording in the objectives and indicators. Mostly it is sufficient to address economic issues that are causes for conflict or escalating factors through the projects and formulate the objectives and indicators accordingly.

Is there a trade-off between the objective of economic development and employment vs. conflict prevention and peace building?

Reflecting conflict prevention and peace building objectives in the project strategy and design will in most cases influence the project's objectives, target group, project region or instruments. This leads to the question whether there is a trade-off between economic development and employment on the one hand and conflict prevention and peace building on the other. The answer depends on the specific setting of the country, the causes and escalating factors of conflict as well as the problems that need to be addressed for economic development and employment:

- nature and can be effectively addressed by the project without any alternation of its set-up. There is no trade-off if an intervention addresses causes/escalating factors of conflict that are at the same time also obstacles for economic development and employment generation.

general correlation between the wealth of a nation / economic growth and the risk for war is applied as gauge. However, then all (successful) development projects contribute to conflict prevention / peace building.

reduce the efficiency and effectiveness of SED/PSD activities with regard to competitiveness, growth and employment. That is because the sector, interventions or target group with highest potential for conflict prevention is not necessarily the sector or target group with the highest potential for growth. The project spends project resources (i.e. time and money), which then cannot be spent for SED/PSD-specific objectives.

The decision in how far SED/PSD interventions should respond to conflict prevention and peace building needs depends a) on the specific conflict causes and b) on the overarching strategy of German development cooperation in the country and the priority area. Thus the role of SED with regard to conflict prevention and peace building needs to be specified in sector strategy papers and country strategy papers.

Conclusion: In countries where conflict causes or significant escalating factors are of economic nature and could efficiently be addressed by SED/PSD interventions, such causes and escalating factors should be addressed by SED/PSD interventions, in particular since peace is a precondition for sustainable economic development.

IV) Strategic issues

Working on conflict should be embedded in a holistic approach of multi- and bilateral cooperation, i.e. there should be a joint strategy of relevant institutions. This requires a coordinated strategic approach of international organisations and donors, as well as on the national level of the different German departments and implementing organisations.

Within SED a **Priority Area Strategy Paper** should define the approach and role of the different players with regard to conflict prevention and peace building. In most cases a **combination of instruments** and approaches is necessary, adapted to the specific situation of the country's economic, social and political situation. Examples are

- a mix of Local Economic Development (LED), SME promotion and labour-intensive reconstruction on the community level to stabilise the local political situation and revitalise local economies;
- LED adapted with conflict prevention and conflict management tools could support the local reconciliation process;
- a combination of vocational education, start-up advisory services and micro grants/microfinance to create employment and support reintegration;
- the combat of narcotic production can be supported by alternative livelihood approaches comprising elements of LED, MSME development and microfinance;
- economic policy advisory services plus sector-specific SME development / value chain or cluster approaches can support diversification and industrialisation; or
- a mix of LED, MSME development and microfinance targeted at specific regions or target groups can help to reduce horizontal inequality.

Within German DC the strategies and interventions of the different implementing organisations are coordinated by the **Country Concept** that should formulate objectives and strategic approaches with regard to conflict prevention and peace building and define the role of the different priority areas and implementing organisations.

The cooperation of SED interventions with relevant projects of **other priority areas** should be ensured. Depending on the causes of conflict or escalating factors and the local situation, cooperation potential exists e.g. with Good Governance, Youth/Education, Rural Development and Food Security (e.g. if rural poverty is a cause for conflict), Environment and Infrastructure (e.g. if natural resources or environmental issues play a significant role in the conflict), or Social Development (e.g. in cases where horizontal inequality and the access to social services are factors for conflict). Also the experience of Development-oriented Emergency Aid (DEA) projects should be utilised for the generation, planning and implementation of SED interventions. Often there are potential links where SED projects could build upon or complement DEA activities, e.g. infrastructure reconstruction could be combined with LED, practical vocational training and MSME development. DEA activities can be enhanced in

their sustainability through SED instruments, e.g. by ensuring proper repayments of micro-finance loans or the implementation of best practice for micro-finance.

In many post-conflict countries, different Federal Ministries are active, i.e. Ministry of Foreign Affairs, Ministry of Defence, Ministry of the Interior. To utilise the potential for synergies, **coordination and cooperation between federal ministries** should be enhanced. This is often hampered due to an unclear or disputed division of tasks. Nevertheless cooperation and coordination should be promoted in the field, on the technical level as well as on the central level.

Examples for areas with cooperation potential are *inter alia*:

- On security and reconstruction issues with the Federal Ministry of Defence (e.g. in the area of Civil Military Cooperation, CIMIC)⁴⁹ or the Ministry of the Interior (which for instance supports capacity building of the police force in Afghanistan).
- Combating international terrorism and rebel funding and money laundering requires the cooperation with international organisations and international Ministries of Foreign Affairs and Ministries of Finance.

Donor coordination in post-conflict countries is often challenging since donors need time to assess the situation and develop their strategies, and normally no national development strategy is available and the partner's coordinating capacity remains weak. At the same time enhanced coordination is even more important in post-conflict countries in order to succeed in rapid political and social stabilisation and to avoid renewal of violence. Donors should jointly ensure that the combined development cooperation does not aggravate conflict. In particular, when donors implement targeted approaches, including positive discrimination (e.g. supporting selected regions, ethnicities or other groups or targeted integration of ex-combatants), it has to be ensured that critical groups that could feel discriminated are supported by other interventions, possibly of other donors. A typical problem in that respect is that donors often start their support in the country's capital while leaving the periphery without assistance.

*The **Stability Pact for South Eastern Europe**⁵⁰ a comprehensive, long-term conflict prevention strategy of the international community for South Eastern Europe⁵¹, launched in 1999, is an example for highly successful donor coordination⁵². It is based on experiences and lessons from worldwide international crisis management. The Stability Pact is a political*

⁴⁹ This has been utilised in Kosovo, where CIMIC supported the participation of minorities that were frightened to participate in activities out of their enclaves by escorting participants from their homes to the site of the activity and back. Another example is the cooperation of CIMIC with a DED expert in Kunduz, Afghanistan in the local purchase of simple furniture.

⁵⁰ <http://www.stabilitypact.org>

⁵¹ Albania, Bosnia-Herzegovina, Bulgaria, Croatia, FYR of Macedonia, Moldova, Romania and Serbia & Montenegro.

⁵² Albania, Bosnia-Herzegovina, Bulgaria, Croatia, FYR of Macedonia, Moldova, Romania and Serbia & Montenegro.

*declaration of commitment and a framework agreement on international co-operation to develop a shared strategy among all partners for stability and growth in South Eastern Europe. The pact works on three parallel key sectors: the creation of a secure environment, the promotion of sustainable democratic systems, and the promotion of economic and social well-being. It is based on the assumption that progress in all three sectors is necessary for sustainable peace and democracy. Within the Stability Pact the international support is subject to **conditionalities**, i.e. reforms in exchange for support. Additionally, the prospect of **accession** to the European Union (EU) serves as a strong incentive and catalyst for reforms. Accession is closely linked and supported by the **Stabilisation and Association Process** which contains an element to enhance regional cooperation on the Balkans, including bilateral free trade agreements, the integration of regional infrastructure networks (energy, transport, and border management), the joint combat against organised crime, illegal immigration and other forms of trafficking. Regional cooperation and integration is an important element for the generation of trust and supports the stabilisation and peace building. Several interventions support this regional integration, e.g. regional conferences, training course, study tours and other regional interventions. Interventions by the various donors integrate into the three key sectors.*

Generally speaking, the development of **regional, cross-border (or cross-ethnic) approaches** in SED should be assessed in regions that suffer from regional crisis e.g. the Balkans, Eastern or Western Africa.

Potential for Public-Private Partnerships (PPP)

Public-Private Partnerships (PPP) are so far only rarely utilized to address conflict prevention and peace building and the potential of this instrument has not been fully utilised in the area of conflict prevention and peace building.⁵³ The potential of PPP for conflict prevention should be further examined⁵⁴ alongside with the issues and activities on 'business in conflict'⁵⁵. Possible areas for PPP are

- Corporate Social Responsibility (CSR) with regard to conflict finance;
- Revenue-sharing schemes of companies involved in primary commodities;
- Strategic alliances on certification of conflict relevant commodities;
- Cooperation with diaspora communities in their engagement as investors in reconstruction.

The most prominent example of a PPP that aims to prevent conflict is probably the Chad-Cameroon-Pipeline project, where a consortium of three international oil companies joined forces with the World Bank to fund and operate the pipeline from Chad to the port in

⁵³ See Boschmann et al. (2004).

⁵⁴ Boschmann et al. (2004).

⁵⁵ See chapter 3.1, Boschmann (2004) and Huber (2003a).

Cameroon. The World Bank not only provides funding for the pipeline but also supervises the compliance of agreed social and environmental standards in the construction and operation of the pipeline. The World Bank initiated the promulgation of a law in Chad that regulates the utilisation of the revenues of the oilfields and pipeline in order to avoid negative impacts on peace caused by the pipeline. Additionally, several projects compensate negative impacts on local population or ecological damages. The success of the project is yet to be assessed.

GTZ-IS collected some experience in cooperation with several oil companies, such as BP, ESSO and Shell in Africa and Georgia to reduce the risk for conflict and violence in the periphery of their pipelines and oil fields.⁵⁶

4.3 Time Frame, Sequencing and Intervention Levels

The '**contiguuum**'-approach (as compared to the continuum-approach) also applies for SED/PSD in post-conflict countries: it postulates that interventions targeting the different post-conflict phases (emergency aid, reconstruction and sustainable development) should be elements of a comprehensive strategy covering them simultaneously⁵⁷. Nevertheless, the potential impact of different types of SED/PSD interventions on conflict prevention and peace building varies depending on the different post-conflict phases and the relevant objectives. Two post-conflict phases/objectives can be distinguished:

- I. Immediate post-conflict stabilisation (short-term)
- II. Reconstruction, state and institution building (long-term)

I. Immediate post-conflict stabilisation⁵⁸

This phase typically starts immediately after peace agreements have been signed. Typically, non-SED interventions such as emergency and humanitarian aid, demobilisation programmes etc. are pre-dominant in this phase. Nevertheless, SED/PSD interventions and instruments can support this process. The main objectives are the **reduction of immediate threats** for the renewal of violence and achieving social, political and economical stabilisation. In post-war situations it is decisive to achieve quick and visible results in order to stabilise the political and social situation and support the stability of the government that subscribed to peace. The population and also formerly fighting factions need to see the dividend of peace and an economic perspective. This requires interventions that show quick and visible impact.

Typical SED/PSD interventions aim at the generation of income and employment opportunities for groups that are critical for peace building and the prevention of violence, e.g. ex-

⁵⁶ For a more detailed analysis of GTZ's PPP activities in conflict see Boschmann et al. (2004).

⁵⁷ Ropers (2002), p. 35.

⁵⁸ See also report by Mike MacDonald (2005).

combatants and militia or returnees, but also other critical groups that could spark renewal of conflict, e.g. groups that feel economically threatened or disadvantaged by the peace agreement. Examples are

- Vocational training activities (often short-term and informal), in particular for ex-combatants (in close cooperation with or complementing DDR programmes) and returnees, to open up economic perspectives apart from militias, army or illegal activities, and their reintegration in society.
- Supporting MSME and start-ups to create economic momentum in the country, cover basic needs of the population and create employment opportunities e.g. through advisory services, microfinance, support of associations and chambers.

Typical **entry points** for SED/PSD interventions at this stage are Demobilisation, Disarmament and Reintegration (DDR) or Development-oriented Emergency Aid (DEA) projects. SED/PSD interventions can support and complement those interventions with SED/PSD instruments and tools.

It is often difficult to achieve sustainable and structural impacts in immediate post-conflict situations. This is due to the problem that in post-conflict situations usually no strong partner organisations exist, which have sufficient absorptive ability to conduct the measures with support of technical cooperation. Since the emergency situation often requires fast assistance and **quick impact** (characterised by short chains of impact) it is often necessary to start with measures on the **micro level** through the implementing organisations or international NGO without local institutions involved. This leads to a **low outreach, efficiency, sustainability and little structural impact** of the interventions. Therefore such interventions on the micro level without capacity building should be **restricted to emergency support in the immediate post-conflict situation**. It should also be complemented with measures to ensure **participation** and ownership of the target group and institution building of potential partner organisations.

Following the contiguuum-approach means to follow the following principles already in this stage:

- Market based approaches as much as possible;
- institution building as much as possible;
- exit strategy from the start;
- participation and ownership.

In the transition to peace the **timely allocation** of emergency aid and development support can be critical for the peace building process. A lack of funding for announced programmes can lead to conflict renewal. For donors, of course, it is difficult to know when a peace settlement is sufficiently robust to merit (financial) support. Financing unsuccessful settlements can have adverse effects and contribute to funding of the conflict. But failing to provide

support can damage the peace process. Donors' doubts on the success of a peace agreement, signalled to combatants or investors might even turn out to be self-fulfilling prophecies.⁵⁹

II. Reconstruction, state and institution building (long-term)

Measures to support reconstruction and sustainable, broad-based economic growth should be started as soon as possible. This applies for all post-conflict countries. It is, however, even more important in countries where economic factors are causes for conflict. Here the main objective should be to reduce those economic factors, e.g. horizontal inequality or poverty.

In most cases it involves **long chains of impact** to achieve **structural changes**. Often 'classic' SED/PSD approaches need to be adapted to the conflict situation or targeted to conflict-specific regions/target groups.⁶⁰

Contrary to the stabilisation measures, the focus is on institution building and the generation of a conducive environment for sustainable and broad-based economic development. This typically requires measures on the **macro and meso level**, creating a favourable legal and institutional framework, enabling necessary local organisations (governmental institutions, civil society and private sector organisations) to take over their roles and responsibilities. Measures on the **micro level** can support those efforts (e.g. as pilots or to spark economic development in certain sectors /regions), however they should be reduced over time to ensure outreach and sustainability-.

Entry points for such long-term SED/PSD interventions can be short-term interventions aiming at immediate post-conflict stabilisation, as well as DEA measures that identify needs and demands for SED/PSD interventions. The support of the drafting processes for national strategies for reconstruction, development or poverty reduction also identifies the demand for assistance.

⁵⁹ Humphreys (2002)

⁶⁰ See chapter 2 for an analysis of the potential of the different SED intervention areas to contribute to conflict preventive reconstruction and see the section on target groups for a discussion of targeted interventions and the principle of non-discrimination.

The following table generalizes typical differences between both phases:

	Immediate post-conflict stabilisation	reconstruction, state and institution building
Duration/perspective	short-term	long-term
Chain of impact	short	long
Inception	as soon as possible	as soon as possible
Intervention levels	micro, meso, (macro)	micro , meso, macro
Main objectives with regard to conflict prevention and peace building	quick impact social, political and economic stabilisation to avoid renewal of violence	structural changes to reduce the (economic) causes or escalating factors of conflict
Important principles	do-no-harm terminate interventions as soon as possible ensure participation if possible	do-no-harm start interventions aiming at structural impacts as soon as possible 'classic' TC principles, i.e. sustainability, transparency, non-discrimination, demand-orientation, etc.
Typical SED interventions	short-term job creation, e.g. by short-term training and start-up advisory services, combined with micro finance or grants support DDR and DEA activities	'classic' SED interventions, institution building, enabling environment etc. adapted to post-conflict situations
Problems/difficulties	not sustainable no structural changes little ownership low outreach and efficiency	lack of capable local partners with sufficient absorption capacity donors and the government have no strategy developed yet economic development, private sector development and investment is often not top priority of government
Implemented by	implementing organisation (e.g. GTZ) international NGO	local institutions and intermediaries
Strategic approach	'Contiguum' Approach	

Supporting political reform in post-conflict countries: research applied to the case of Afghanistan

In the first years after a violent conflict, potential for donor engagement in political reforms is usually limited due to limited absorptive capacity of partner institutions. According to Collier/Hoeffler (2002), only after 3 years post-war countries reach their full absorptive capacity, which is highest between the years 4 to 7 after the end of the conflict. Therefore the study suggests a peak in aid to political reforms in that period and a gradual reduction after 10 years to normal levels.

A study on Afghanistan where the peak of donor support was reached already in the 2nd year, concluded that considering the absorptive capacity of the country, donor engagement in political reforms was arriving too early and might be fading out too soon.⁶¹ However, the general recommendation of the quantitative analysis of Collier/Hoeffler supports the strategy of GTZ in Afghanistan to invest in practical governance first by institution building and later in structural policies (including private-sector-related policy work). In a volatile environment the set-up of an institution (in this case the Afghan Investment Support Agency, AISA) is possible if the political will and donor support are in place. A dedicated national institution is better suited to introduce the regulatory set-up needed for its own operation than a donor-driven approach.

Other publications on the sequencing of political reforms in post-conflict countries recommend implementing small institutional reforms first before addressing bigger reforms. Arguments are that small reform steps raise the credibility of government reforms and public support for future reforms will rise. Also post-conflict governments usually do not have the capacity to implement complex reforms successfully. This finding has been confirmed in Afghanistan.

The lessons learnt from GTZ's intervention in the area of economic reform in Afghanistan are summarised in a nutshell: "people before paper – institutions before laws".

Window of opportunity for post-conflict political reform

In post-conflict situations there is often a limited **window of opportunity for fundamental reform** of the economic system and the creation of appropriate structures for economic development: in the transition from violent conflicts to reconstruction periods political and economic systems are often up for discussion and structures can be changed quickly. At the same time international focus and commitment of international donors is at its greatest in the immediate phase after violent conflicts. This period is also in many cases characterised by high motivation of the population and a momentum for change.

Those periods are often followed by **growing frustration** when reforms are slower to succeed, and the economic development for broad parts of the population is not as fast and positive as hoped for (or promised by politicians). Such frustrations can lead to destructive

⁶¹ SV PWF, by Palm (2005)

protests, new violence that can shake the new government. Often the international community, international peace troops and intermediary executive authorities are blamed for slow progress.

Examples of SED measures on different intervention levels that contribute to peace building and conflict prevention

Meta level

Interventions that target to change the attitudes between conflicting groups, e.g. business people, students, teachers, bureaucrats, politicians and other intermediaries or the public.

Macro level

■ reducing the attractiveness of black markets, informal sector, smuggling etc. (e.g. custom system and border controls, tax incentives for investments in disadvantaged areas or areas with illegal economic activities).

conflicting regions; thereby fostering their economic interactions and control smuggling.

discriminated regions / groups / ethnicities.

work in the other, currently opposing entity/country/area.

Meso level

intermediary institutions of opposing sides (i.e. training courses, work shops, conferences, study tours, steering committees etc.) in order to create a neutral basis for (technical) exchange and to foster trust.

gal industries that financially fuel conflict, e.g. by improving custom controls or implementing tariff and non-tariff barriers for the import of critical inputs for those industries (e.g. special chemicals and equipment for drug or arm production).

businesses such as drug business, smuggling etc.

Micro level

4.4 Target Groups and Intermediaries

The selection of target groups and intermediaries is a decisive factor for the positive or negative impact of interventions on peace building and conflict prevention. Some principles have been formulated by different practitioners and authors:

- In general, interventions support the peace building process and conflict prevention if they strengthen the **'connectors'** of a society. Typical connectors with regard to SED are economic actors that benefit more from peace than from conflict.
- In order to avoid negative impacts on the peace building process, interventions should be careful not to support industries/entrepreneurs that benefit from conflict or oppression (**'dividers'**) or are closely related to organised crime, money laundering or rebel/terrorist finance.
- At the same time interventions should not necessarily exclude all 'dividers' from projects. There are certain groups that are critical for the start or renewal of violent conflict and are potential 'dividers'. Interventions that manage to convert such groups into 'connectors' or to neutralise their negative impact on peace can be decisive in conflict prevention. Examples for such groups are ex-combatants, militia and child soldiers, or unemployed, poor young people in urban areas or other marginalised groups. This issue is still under debate and can only be determined in the individual cases and conditions.
- Economic actors that contribute to conflict funding should only be supported if the intervention has a realistic chance to reduce or stop conflict funding through those actors (e.g. extractive industries).
- Supporting disadvantaged groups can contribute to conflict prevention, if interventions succeed in reducing horizontal inequality.⁶²
- Do not discriminate critical groups of the population. In many cases the formulation and active communication of a basic principle of **non-discrimination** of interventions has been reported to be of key importance: 'Interventions are always open to participation from all parties'. Participants from all sides are welcome and expected to join those project activities – no matter where the location is. Selection of candidates is principally based on their technical eligibility / qualification, not on ethnicity or origin. Candidates that do not appreciate inter-ethnic / mixed activities are not welcome. This principle should be communicated as early and as strongly as possible in the project cycle. Such an approach based on open and mixed participation has been preferred by all interviewed managers of 'classic' SED interventions over quota models or positive discrimination. This however, implies sensible and active management to ensure that all groups

⁶² The Private Sector Promotion Programme in Nepal recently refocused its strategy and target groups export and potential-oriented businesses towards the poorer rural population, since one root cause of the conflict is rural poverty and the rural poor are a major source for recruits of the Maoist rebels Grossmann/Doce (2005).

feel they are treated on equal footing. In certain cases, measures had to be taken by projects to enable participants from certain groups to participate in activities in the area of the opposing group, e.g. through escorts from and to the venue.

The above principles seem to be **contradictory**. There is an inherent debate if SED/PSD interventions should be (positively) discriminating target groups or not. This **principle of non-discrimination** is by definition breached in projects that focus on certain target groups such as reintegration programmes for ex-combatants or returnees. This can cause tension and enforce grievances within the non-supported groups (e.g. civilians that often suffered through the conflict in which the ex-combatants were fighting) that perceive the integration programmes as a reward for perpetrators.

Having a look at reintegration programmes sheds some light on this contradiction: There are two approaches to **reintegration** (of returnees, internally displaced persons, ex-combatants or refugees/migrants):

- I. The concept of **targeted integration** only allows identified members of the chosen target group to access project services. E.g. reintegration aid is provided only for soldiers or former combatants if they were previously selected as the target group of a project.
- II. The approach of **community-based integration** means that project services will not be provided directly to members of a particular target group but rather to communities where many members of the target group live (returned to) live, enabling the deliberate promotion of these villages. Quite often this approach is used in targeted integration.

A successful example of a combined targeted and community-based integration can be found in the ReAct project in Sierra Leone that provided emergency relief and supported the reintegration of ex-combatants, refugees and internally displaced persons and supported the self-help potential of local communities. By implementing measures that benefit not only ex-combatants but also the population of areas that suffered particularly from war, an increase of grievance is avoided and appeasement is enhanced. Joint reconstruction of local infrastructure by ex-combatants and villagers supported the reconciliation process.⁶³ A new project in Sierra Leone builds upon those experiences and continues the efforts to integrate marginalised youths, including ex-child-soldiers.

As a general rule, it can be concluded that 'classic' SED/PSD interventions in post-conflict countries that do not address conflict-specific objectives should obey the **principle of non-discrimination and neutrality** as a means to ensure the **do-no-harm** principle. Projects aiming at reducing the causes or escalating factors for conflict often have to include **positive discrimination** in their strategy, in particular if they address factors like horizontal inequality, or certain target groups such as the reintegration of returnees or ex-combatants. In order to reduce the negative impact of positive discrimination, close coordination with other donors

⁶³ See Becker/Führmann (2003) for more details and an analysis.

should ensure that no region or group feels discriminated. Where possible those interventions should be designed analogous to the principle of community-based integration.

In order to ensure that interventions do not negatively impact the conflict situation, it is important to have a good understanding of relevant social groups, their relationships and underlying conflict potential. Unfortunately, post-conflict situations often result in opaque environments where conflict lines are inhomogeneous, overlapping, blurred or volatile. So, it is not always clear what kind of groups will benefit from interventions and who will be left out or put at disadvantage. Therefore extensive knowledge of the situation in the country is required, either through available country expertise, open orientation phases and/or a thorough PCA containing detailed economic information on economic actors, markets, industries and value chains.

In the following the relevance of and the experience with some **particular groups** are discussed:

The importance of economic growth and poverty reduction to reduce the risk for violent conflict has been highlighted. **Gender equality** is an essential prerequisite for sustainable development and peace-building. Research from around the world has shown that gender inequality tends to slow economic growth and make the rise from poverty more difficult. The important role of women in post-conflict reconstruction and peace building has also repeatedly been emphasised.⁶⁴ This suggests that promoting gender equality and empowering women in order to reduce the risk for conflict is of key importance, in particular in post-conflict situations since wars and violent conflicts tend to increase disadvantages for women.

At the same time, a statistically evident correlation, which has been illustrated earlier, is the significantly reduced risk for war in societies which feature a higher *male* secondary enrolment. Such a correlation is also assumed for vocational education. This leads to the conclusion that education and TVET projects should primarily target the male population in order to reduce the risk for violent conflict⁶⁵. Another gender-related target group are ex-combatants, which also tend to be male in majority, even though an estimated 10 - 33% of all combatants are women.⁶⁶ *One lesson learnt from the DDR programmes in Sierra Leone was that female combatants have been excluded from the reintegration programmes since they didn't have their own arms (or were disarmed by men earlier on) and did therefore not qualify as ex-combatants. As a reaction to that short-coming the ReAct project introduced a technical advisor for gender and child protection.*⁶⁷

⁶⁴ World Bank, Gender and Development Group (2005).

⁶⁵ This, however, can conflict with the Millennium Development Goal to eliminate gender disparity in education.

⁶⁶ World Bank, Gender and Development Group (2005).

⁶⁷ Bundesregierung der Bundesrepublik Deutschland (2004).

Interventions should differentiate their approaches with regard to the needs and potentials of different gender groups,⁶⁸ since women and men, depending on their ethnic origin, class, and cultural identity, may have different needs and roles in crisis prevention/conflict management and post-conflict peace-building. Examples for gender-sensitive approaches are micro-credit schemes that are adapted to the needs of women and female ex-soldiers.

Another important target group is **the youth**. Several correlations highlight their importance for peace building and conflict prevention:

- Young people are the most important asset for the future development of countries and societies. Their skills and employability are important factors for the competitiveness of the country's economy in the future, which is a decisive factor for economic growth and prosperity. Those issues, in turn, are essential to reduce the risk of war.
- In order to facilitate peaceful development, young people need to be equipped with capabilities for peaceful conflict resolution and democratic values.
- Often rebel armies recruit their combatants in the age group of adolescents or even children, either voluntarily or by force.
- The youth in post-conflict countries, in particular if marginalised and without social and economic perspectives, has often a high propensity to violence and plays an important role in demonstrations and civil unrest, often a precursor for violent conflict.⁶⁹

In conflicts where **child soldiers** were involved in the conflict, reintegration measures should be adapted and closely coordinated with respective other programmes, such as youth education programmes and anti-trauma treatment.

Even though in all conflicts the majority of **returnees** are poor and vulnerable, returnees and the **diaspora communities** can be a valuable asset for economic reconstruction. Certain groups of returnees are a source of expertise and finance and can provide valuable networks for international trade. This asset for reconstruction and private sector development should be addressed, e.g. through SME development or PPP approaches cooperating with returnees or diaspora investors.

There is a controversial discussion if **ex-war-lords or militia leaders** should be included or excluded in SED interventions. Their inclusion could be morally questionable, at least if they are suspected to have been involved in war crimes or crimes against the humanity. It could also result in added grievance and enhance the risk for conflict. However, there are serious reasons not to exclude them: impeding their engagement in legal economic activities often results in illegal activities or in the continuation of their 'old business' i.e. war-lordism. In

⁶⁸ For a detailed analysis and guidelines on gender mainstreaming in crisis prevention and conflict management, see Reimann (2001).

⁶⁹ *A new project, starting 2006 in Sierra Leone attends to that problem and focuses on employment promotion for young people by enhancing the employability of young people and supporting job creation.*

countries where conflicts were short, warlords and militia leaders often recruited themselves from leading civil positions in their society; in countries where conflicts continued over long periods, they are often the most able managers and reputable leaders of their respective groups. Their exclusion can result in serious tensions and rejections of interventions, GTZ or more seriously, of government in the respective group/region. In many cases they are also important domestic investors that invest substantial amounts in 'normal' and legitimate businesses. Investment obstacles for them usually force them to invest in illegal activities or abroad, while at the same time there is dire need for domestic investment to support reconstruction and economic development. Taking all those points into account there is no clear-cut answer to this discussion; the decision has to be balanced carefully considering local circumstances and project approach.

A similar discussion applies to **war-profiteers** in post-conflict situations: exclude them and they might intensify their 'dividing' role and push for conflict or invest their – often considerable – capital either in illegal businesses or abroad. If they are included there is the risk to promote dividing forces and even contribute to funding the next war.

Likewise debate concerns other potential dividers, such as certain industries. Obvious examples are the arms industry (but also related industries e.g. metallurgic enterprises that can produce weapons hidden in normal workshops) or the owners/beneficiaries of extractive industries. But also other industries or agricultural producers can be involved in rebel finance or **organised crime** (e.g. hotel business for prostitution, transport and construction for money laundering, etc.).⁷⁰

So far, GTZ seems to have little experience in the privatisation of **state-owned enterprises** (SOE) in post-conflict situations. Compared to other countries, the privatisation process in post-conflict situations is often even more challenging and complex, since the ownership of SOE is often contested, in particular between former opponents. Such disputes over ownership as well as potentially necessary lay-offs of workers can make privatisation an explosive business – it can trigger the renewal of conflict and can be quite hazardous for project staff involved in the privatisation process. At the same time, this illustrates the importance of successful and conflict-sensitive privatisation for peace building and conflict prevention.

Intermediaries

The selection of intermediaries and their role very much depends on the project approach and the local situation. Typical SED intermediaries such as governmental offices, training centres, civil society or private sector organisations etc. are often not available or operational in post-conflict situations. Sometimes they are discredited through their role in the conflict.

At the same time, interventions that have conflict-specific target groups need intermediaries with access to those groups, such as returnees or ex-combatants. This can require cooperation with unusual intermediary organisations.

⁷⁰ For a discussion of critical sectors see Welling (2005).

Being a part of German Development Cooperation, GTZ always has to cooperate with the national government. This can lead to the situation that it is bound to one conflict party. A similar problem arises in many post-conflict situations where the national government is not able to control important structures of the economy.

In post-conflict situations, where national institutions are not existing or operational, often (international) NGO take over their tasks. This can come in very handy for projects but should be utilised with care: such a set-up can lead to draw-backs in the necessary development of a capable local institutional framework. If such a set-up is chosen, the partner structure should be reviewed frequently and options to institution building should be considered as early as possible.

In cases where for certain tasks no adequate institution exists, the initiation of new institutions can be considered. *This has been successfully conducted in Afghanistan with the launch of the Afghan Investment Support Agency (AISA) to facilitate investments.* However, such initiatives should be exercised with care. In many countries new, donor-initiated institutions have been established in non-coordinated approaches, which leads to a proliferation of institutions that are not sustainable without donor support.

The conflict-specific roles of different intermediaries in particular approaches are discussed in the according sections of chapter 3.

4.5 Operational Issues

Projects in post-conflict and conflict-prone countries operate in a difficult environment which can be highly volatile. Apart from the issues explained above, the following methods have been observed to be conflict-sensitive and contribute to conflict prevention and/or peace building and help to ensure that interventions do not aggravate conflicts.

- SED/PSD interventions can lead to conflict aggravation if their impact is perceived to **intensify inequality**. Examples are e.g. the support of dividing factors instead of connecting factors or potential-oriented support of the competitiveness of selected companies/sectors/clusters ('picking the winners'), which does not lead to quick creation of jobs or is accompanied by lay-offs.
- Project services should be provided only at the request of the people concerned and on condition that they also contribute.
- For local approaches: assure communities that they can co-determine or even control measures.
- Encourage debate and consensus forming within the population and in the surviving parts of the private sector.
- A **joint steering committee** or **advisory board** with members of all parties can fulfil different roles with regard to crisis prevention and peace building:

- Presenting opportunities for leaders from the opposing sides, such as politicians, officials and business people, to meet on neutral ground, enabling exchange in a neutral and safe environment behind closed doors;
- Ensuring involvement of all parties in the project and raising transparency;
- Including up-right and reputed (non-political and non-war-profiteering) entrepreneurs of different conflict parties in such a committee/board can help to keep politics at bay, since entrepreneurs usually benefit from peace ('peace dividend') and are generally more interested in practical results for business than in political debate.
- Similarly, other **dialogue fora** for stakeholders from opposing sides can be created by development projects, e.g. in joint training, workshops, study tours etc., thereby contributing to build trust between the opposing groups. Such events should also be used to bring the opposing factions together after the working sessions. *This opportunity is often used in the Balkans where music and dancing are very popular, and on several occasions the opposing groups partied together which led to an improved atmosphere of trust and cooperation.*
- The use of **local languages** in projects (in workshops, publications or handouts) can be a delicate issue; this particularly applies in countries where different groups are using minor language differences as a way to distinguish one group from another. In countries where different languages are prevalent, it can be necessary for projects to provide documents and publications in all relevant languages to avoid the feeling of discrimination. In cases where language differences between opposing groups are minor, pragmatic solutions of projects have to be found; here it seems to be more important that the project/programme is in general perceived as neutral and non-discriminating and avoids biased wording.
- **Training in conflict management and conflict sensitivity** for national and international project staff, in some cases for counterpart staff is recommended.
- In many post-conflict countries **corruption** is widespread and can also concern projects. Anti-corruption schemes should be developed and anti-corruption tool kits⁷¹ should be utilised for project implementation.
- **Locally produced goods** should be preferred for reconstruction efforts.
- Financial and non-financial services should also be provided in rural areas and the provinces to avoid/reduce migration to the urban areas.

Many of the above-mentioned methods are not SED-specific and can also be used in other priority areas.

⁷¹ E.g. supplied by Transparency International.

4.6 Human Resource Requirements

Post-conflict reconstruction and reforming the investment and business environment is a long-term task. It takes long-term donor commitment to successfully support such a process. In particular economic reforms are highly political and require networking and trust among high-level officials at ministerial level. Partners need to build up trust to advisors and often need long-term support, in particular to deal with the often complex inputs for short-term advisors. Therefore the long-term commitment of donors needs to be demonstrated by **long-term advisors** (either GTZ or CIM) supported by short-term and intermittent experts.

Diaspora experts are valuable human resources in post-conflict countries, as they can reduce local capacity bottlenecks and facilitate smooth communication and exchange between local partners and international advisors, bridging the linguistic and cultural divide. *In Afghanistan, the combination of a long-term Afghan-German expert and an intermittent senior consultant proved to be very successful: the expert had the abilities to connect the ideas of German cooperation to the Afghan decision makers at the highest ranks. The consultant had access to decision makers in Germany, which made him a credible discussion partner with the highest levels of government.* However, returning diaspora members often suffer from a lack of credibility and are not always welcome or fully accepted by locals due to jealousy and grief. This holds potential for further conflict, in particular if (too) many returnees occupy high level positions.

In environments where foreigners are preferred targets of violent opposition or terrorist groups, the only way to implement programmes is through **local staff and qualified returnees**, e.g. as implemented by AGEF in South-East Afghanistan.

Due to the often highly political and sensitive atmosphere in post-conflict countries, international project staff, advisors and consultants should be selected not only on the basis of their technical qualification but also of their **soft skills and proven conflict sensitivity**. These qualifications should be further enhanced by special sensitisation and training in the preparation and throughout implementation.

If and where SED projects work directly and actively on conflict transformation in a volatile environment it has been suggested that team leaders should build up networks with security and intelligence resources. In such cases, Federal Security Clearance for team leaders would facilitate tapping into the existing German/international intelligence and security resources, such as BND, BKA, BfV, Bundeswehr, and EU, NATO, OSCE institutions.

In areas of regional conflicts, **regional exchange and networks** between SED and SED-related interventions should be fostered and extended, possibly accompanied by joint trainings on conflict issues.

4.7 Monitoring and Evaluation

Lessons learnt from the case studies in the monitoring of peace building and conflict aggravation or the impact of interventions on peace / conflict are few: since none of the projects

included conflict prevention and peace building in its objectives, those issues are also not included in their monitoring systems.

When interventions are expected to contribute to conflict prevention and peace building, it is necessary to measure their impact, therefore monitoring systems and indicators for SED/PSD measures should be developed.

Indicators for conflict-preventive or peace-building impacts of SED interventions of course depend on the chosen interventions. Examples for indicators that monitor the impact of SED interventions on peace building could be related to

- development of trade and economic interaction between opposing factions;
- number of business associations with joint membership and leadership and its activities in opposing regions;
- growth of GDP, enterprises, employment and income in conflict-prone regions or drug farming areas;
- reduced horizontal inequality (e.g. income, employment, training, education);
- improved access of disadvantaged / discriminated groups or minorities to vocational training and employment;
- reduced dependence on primary commodities;
- those indicators could be related to conflict-specific indicators to monitor their incidence with peace building.

The subject of conflict prevention and peace building should be included in the terms of reference (TOR) of project progress reviews and evaluation missions. It is worth considering to include a conflict expert in such missions.

Self-assessment of existing interventions is a good starting point to ensure 'do-no-harm'-approaches and assess options for peace building and conflict prevention through project activities. *First experiences with such self-assessments are currently made in Afghanistan and Kosovo.*

Abbreviations

AGEF	Arbeitsgruppe Entwicklung und Fachkräfte im Bereich der Migration und der Entwicklungszusammenarbeit
AISA	Afghan Investment Support Agency
BDS	Business Development Service
BfV	Bundesamt für den Verfassungsschutz
BiH	Bosnia and Herzegovina
BKA	Bundeskriminalamt
BND	Bundesnachrichtendienst
CEFE	Competency-based Economies by Formation of Enterprises
CIM	Centrum für internationale Migration und Entwicklung
CIMIC	Civil Military Cooperation
CSR	Corporate Social Responsibility
DDR	Disarmament, Demobilisation and Reintegration Programme
DEA	Development-oriented Emergency Aid
DEZA	Direktion für Entwicklung und Zusammenarbeit (Switzerland)
EON	Entwicklungsorientierte Nothilfe
EU	European Union
EUFOR	European Union Force in Bosnia-Herzegovina
FBH	Federation of Bosnia and Herzegovina
FSD	Financial Systems Development
GDC	German Development Cooperation
GDP	Gross Domestic Product
GoA	Government of Afghanistan
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH
IFOR	Implementation Force (NATO-led) in Bosnia and Herzegovina
ILO	International Labour Organisation
IMF	International Monetary Fund
KLA	Kosovo Liberation Army
MoC	Ministry of Commerce
MSME	Micro, Small and Medium enterprises
NATO	North Atlantic Treaty Organisation
NGO	Non-Governmental Organisation
OHR	Office of the High Representative
OSCE	Organisation for Security and Co-operation in Europe

PACA	Participatory Appraisal of Competitive Advantage
PAL	Project on Alternative Livelihoods
PCA	Peace and Conflict Assessment
PRT	Provincial Reconstruction Team
PSD	Private Sector Development
RS	Republica Srpska
SED	Sustainable Economic Development
SFOR	Stabilisation Force
SIPRI	Stockholm International Peace Research Institute
SME	Small and Medium Enterprises
TVET	Technical and Vocational Education and Training
UCK	Ushtria Clirimtare E Kosoves - Kosovo Liberation Army (KLA)
UNMIK	United Nations Mission in Kosovo

Annex

Introduction

This Annex contains three case studies. The first two cases are Bosnia and Herzegovina and Kosovo, both based on interviews with project managers and experts. After a short background overview of the economic and conflict situation the experiences and lessons learnt of the respective programmes and projects are presented. The case study on Afghanistan is based on interviews and a field trip. After short background information on the situation the findings and recommendations for Afghanistan are presented for the four interventions areas and general methodology.

Case Study Bosnia and Herzegovina⁷²

1. Background

Bosnia and Herzegovina (BiH) declared sovereignty in 1991, followed by a declaration of independence from the former Yugoslavia in 1992 after a referendum boycotted by ethnic Serbs. The Bosnian Serbs responded with armed resistance aimed at partitioning the republic along ethnic lines. They were supported by Serbia and Montenegro with the objective to form a 'Greater Serbia'. 1994 Bosniaks and Croats created the Bosniak/Croat Federation of Bosnia and Herzegovina. Finally, the Dayton Agreement brought interethnic strife to halt in 1995. The agreement created a joint multi-ethnic government retaining the international boundaries of BiH. The national government only has a mandate for foreign policy, foreign trade and coordination. Its restricted mandate and tax revenues limit its capacity and leave it politically fragile. The second tier of government comprises two entities along the ethnic territories – the Federation of Bosnia and Herzegovina (FBH) and the Republika Srpska (RS) – in charge of most government functions.

A NATO-led international peacekeeping force was established to oversee the implementation of the agreement (IFOR, later SFOR) and maintain peace and stability (since 2004 EUFOR).

The international community influences internal affairs through the powerful Office of the High Representative (OHR), who monitors the implementation of the Dayton Agreement and has far reaching authority. He coordinates the activities of international organisations and has the power to impose decisions in cases of disagreement within the government or between governmental levels, to dismiss 'obstructive' officials and to extradite suspected war criminals. Such involvement often leads to tensions and frustrations towards the international community.

Politically and economically the country is very much divided into the two entities; the population does not identify itself with the national state. The economic situation of BiH is still characterized by slow progress. The division of the country into ethnic territories complicates

⁷² The findings are based on desk research and interviews conducted with GTZ experts and managers in September and October 2005 (see List of Interview Partners).

the development of a harmonised economic and financial policy; the separation hinders economic development, since most economic activity is bound to the entities. The country is struggling to manage the transition from a previously centrally managed economy to a competition-based market economy. The private sector is hindered by non-conducive framework conditions and weak competitiveness of most enterprises. Due to the weak investment climate foreign direct investment is low.

Unemployment is high, the official rate being 44%. Some two-fifths of the population of the Muslim-Croat Federation and about half of the Serb Republic have no formal job. The informal economy seems to be holding the country together as much as anything else. Most of the old political parties are reported to be intricately tied up with organised crime.

Major conflict lines are:

- Conflicts of ethnic groups of Serbs, Croats and Muslim Bosniaks;
- Political conflict between RS and FBH;
- Lack of identification with the State of BiH;
- Weak legitimation of central governmental structures and parallel structures;
- Politics are often characterized by mono-ethnic parties that have nationalistic programs;
- War crimes have yet to be addressed and dealt with;
- Growing tension and opposition towards the international community, in particular the High Representative (OHR).

In the priority area SED GTZ is currently implementing the Economic and Employment Promotion Programme and a Project on the Promotion of Vocational Training.

Other relevant GTZ activities include interventions on 'advice on developing a uniform tax system', 'promotion of commercial law reform' implementation of a national deposit insurance fund and the development of a land register within the priority area democracy and civil society / governance as well as a project promoting the development of a new, partnership-based understanding among the multi-ethnic population in the former war zone.

2. Economic and Employment Promotion Programme

2.1 General Approach of the Programme

The programme supports the development of selected industries, i.e. light industries (in particular shoe and garments), wood and furniture industry, automotive and metal, fruit and vegetable processing and tourism. The programme comprises activities on the macro, meso and micro level that include consulting services for enterprises, trade fair support, BDS development, capacity building for chambers and associations and political advisory services for ministries. The programme supports the implementation of the Stability Pact for South-Eastern Europe and utilizes the momentum created by this pact.

A contribution of the Swiss DEZA focuses on the northern region of Bosnia and Herzegovina, where SME and start-ups are supported and the development of a BDS market is promoted. Furthermore activities to promote firms networking in clusters and associations as well as a series of policy dialogue events (Round Tables) have been started in 2005.

The objective of the programme is: Private enterprises of selected industries draw on their growth and development potential and contribute to a more favourable employment situation.

2.2 Approach to Conflict Prevention and/or Peace Building

2.2.1 Programme Document

The programme document does not include conflict and peace relevant objectives or indicators. In chapter 3.13 reference is made on expected impacts where the strengthening of national structures and the integration of BiH's economy in the region is mentioned to contribute to peace building. Participatory development and good governance with constructive cooperation of the private sector and the government are emphasized.

2.2.2 Planning

The sectors were chosen according to their market potential and projected relevance in the creation of employment. The selection of the focal areas was carried out primarily due to their economic potential. However, it was ensured that both entities receive approximately equal support; programme offices have been established in both entities.

The DEZA component selected Northern Bosnia as focal region, partly because many returnees from Switzerland are from that area, and partly because the region did not receive support from other donors (thereby preventing a potential factor for conflict). Furthermore DEZA wants to promote inter-ethnic cooperation in Northern Bosnia, an area that spans both entities and contains centres of economic activity from both entities Banja Luka (RS) as well as Tuzla (FBiH) thus the area is ethnically and religiously diverse.

A Peace and Conflict Assessment (PCA) was not available when the programme was planned. Since GTZ started operations in BiH already 1994, sufficient information on the

conflict situation and on partner structures was available from local networks and practitioners in the field.

2.2.3 Implementation

Approach, Methodology and Principles

Ensuring open access to programme activities and equal support for both entities / all ethnicities

An important principle of the programme is that interventions are conducted in both entities and all activities are open to all groups. Selection of participants is according to qualification and eligibility not origin or ethnicity. This principle is actively communicated. At the same time the programme management ensures that both entities and all groups receive equal support and do not feel discriminated against.

Promotion of economic and political interaction between the two entities and neighbouring countries

The programme actively promotes the cooperation of entrepreneurs of the different entities. Entrepreneurs from both entities participate in joint events. This implies that for activities in one entity participants from the other entity cross the border. Usually at the events participants from different origins mix and breaks are used for exchange.

The establishment of cross entity business associations is supported, e.g. an automotive producers association with members of all parts of the country and a board that contains members of all entities and ethnicities.

The programme initiated a joint label for furniture producers, called 'Bosnian beech'. However, beech trees are mainly from the area of FBH therefore entrepreneurs from RS didn't appreciate. A new attempt succeeded where the concept (called 'modern hotel') was focused on the type of products. Participating enterprises jointly develop products and marketing strategies. Goods are produced in cross (entity-)border value chains and enterprises from both entities jointly market the products e.g. on trade fairs.

Another example is CEFÉ: The majority of CEFÉ trainers are Serbs from RS. They are deployed in the whole country and in most cases they are accepted by Bosniaks or Croats depending on their qualification not their ethnicity. This also applies for other BDS professionals providing services in the whole country, e.g. a Serbian advisor that works on local economic development in all parts of the country.

Participants from private and public institutions accept and appreciate the approach of the project to focus on business and to ignore ethnic and political issues.

Stronger economic ties between the entities increase the public pressure to approximate laws, regulations and standards across entities and to find efficient solutions at the state level. They contribute thereby to the stabilization of the nation state and the cooperation between the entities thereby enhancing the peace building.

Promotion of exchange between entrepreneurs, intermediaries and officials of the two entities and establishment of joint initiatives and institutions

Round tables on SME-relevant subjects (e.g. SME-strategy, role of associations and chambers in a market economy, SME promotion on different state levels) are initiated to start a public discussion between representatives from all governmental levels (national and both entities), chambers and associations as well as entrepreneurs and to create an awareness of the interdependence of these actors. Representatives of all entities, the state level and all ethnicities are invited to participate in this platform discuss the problems and elaborate joint solutions.

The DEZA component in Northern Bosnia includes a joint steering committee with members from national institutions, both entities, politicians and entrepreneurs. The committee presents a forum where officials from both sides (up to the ministerial level) can meet and exchange without public pressure, thereby building trust. The participation of entrepreneurs is of particular importance since they focus on business instead of politics.

Study tours, training programmes, workshops, trade fair participation and other events are conducted jointly with participants from all entities and ethnicities, thereby establishing a forum for exchange where interaction is initiated and the formulation of joint visions and objectives are fostered.

Other Findings

Currently the project is concentrating on activities supporting national institutions thereby contributing to nation building and an improved environment on the national level. Programme activities that have been conducted on the entity level were a good entry point and have led to good working relationships and trust with institutions on the entity level.

The programme responds neither directly to root causes nor escalating factors of the conflict, nor does it reduce resources of conflict.

Training courses for entrepreneurs and managers on HR development contain sessions on conflict management. Thereby the programme supports private actors in crisis prevention.

The languages spoken in BiH are closely related with slight differences (mainly different expressions and words plus a Cyrillic alphabet used by the Serbs, the others using Latin) that are widely understood all over the country. However, due to the conflict the different groups all insist on their specific language being different. The programme office deals with that issue in its documents and translations in a pragmatic but sensitive way by using a language that avoids critical expressions and by ensuring that no language/dialect is discriminated against. Here the programme office was having some problems in the beginning when this issue caused some irritations amongst the participants.

Promoting the economic interaction and cooperation between entrepreneurs (whose economic sphere so far usually is restricted within their entity) and institutions of both entities and the different ethnicities the programme addresses a symptom of the conflict, i.e. the economical and political separation of the country into entities which is a result of the war.

2.2.4 Monitoring and Evaluation

Since the selection of participants and the locations for activities are based on professional qualification the programme management feels the need to monitor and ensure adequate participation of all groups in programme activities and equal selection of locations for activities in order to avoid feeling of discrimination.

Other than that the monitoring system does not contain information on peace building and conflict aggravation.

3. Promotion of Vocational Education and Further Training Project

3.1 General Approach of the Project

The project 'Promotion of Vocational Training' supports the reform of the vocational training system in BiH to adapt training and vocational education to the needs of the private sector as well as to ensure compatibility with the systems in the EU. In pilot vocational training centres the cooperation of the private sector with the government in design and implementation of the training is strengthened. The objective of the project is to enhance the employability of the graduates of selected official training centres.

3.2 Approach to Conflict Prevention and Peace Building

3.2.1 Project Document and Planning Process

The project document mentions in the description of the target group that equal numbers of pilot technical schools are supported in RS and the Federation. It also states the gender specific objective that the employability of graduates should be equal between man and women.

Chapter 3.13 'expected impacts' mentions that training is free of charge for participants; that way the project supports the access of disadvantaged groups (poor, women, ethnic minorities) to vocational qualification. By raising the employability of disadvantaged groups the project contributes to the reduction of unemployment and poverty, being a basis and precondition for peaceful and democratic development of the region. Additionally, vocational training centres influence not only vocational but also social and personal skills necessary for the reduction of tensions between different ethnic groups.

In the chapter on 'expected socio-cultural impacts' the project documents formulates that the supported pilot vocational centres are selected according to their potential to support the interaction between different ethnicities and that the regional cooperation between different ethnic groups is promoted. Thereby the project indirectly contributes to the prevention of crisis.

Political partners of the project are the ministries for education, both in RS and in the Federation.

The project was planned in a balanced way including all ethnic groups and to design the project with equal support for /in both entities, ensuring not to discriminate certain groups. An equal number of pilot centres was selected in both entities.

3.2.3 Implementation (Approach / Methodology)

- By enhancing the employability of young people the project enhances their economic perspective and self-esteem; thus contributing to peace building by reducing tensions and the risk to fall for extremism or to engage in illegal activities.
- Technical training in supported training centres is complemented by training of social and personal skills, thereby enhancing the capacity of graduates to solve conflicts in a peaceful manner.
- The project supports cooperation of experts and institutions from both entities on technical issues, thus supporting the coordination and integration process between both entities.
- The initiation of round tables, training courses, study tours and other events where members of all ethnic groups have the opportunity to meet on neutral grounds for exchange contribute to the building of trust between the different ethnic groups.
- The development of compatible curricula, occupation definitions and degrees as well as their mutual recognition between the entities is supported by the project. This facilitates exchange of labour between both entities, despite the fact that separate Ministries for Education and vocational training systems exist. Also the cooperation with neighbouring countries and compatibility with EU standards is supported.
- A Joint Steering Committee with representatives from all three ethnic groups provides a forum for professional exchange and ensures that no group feels discriminated by the project.
- Including entrepreneurs from all ethnic groups in work shops fosters economic interaction between the different groups and trust building.
- Dealing with the earlier mentioned language issue the project tries to formulate as neutral as possible avoiding sensitive wording. Additionally the project articulates to focus on technical issues and is neutral regarding ethnical differences.

3.2.4 Monitoring and Evaluation

No conflict specific monitoring yet.

4. Experiences and Lessons Learnt in BiH at a Glance

- Ensure no critical region or group is neglected or feels disregarded by donor support
- Ensure open access to programme activities and equal support for all relevant groups
- Promote economic and political interaction between the different groups and neighbouring countries and support establishment of joint institutions or activities, e.g. joint events, cross border associations, cross border value chains, joint steering committees
- Focus on business, do not address ethnic or political issues as core of the activities
- Include sessions on conflict management in curricula of training courses
- Economic sectors are chosen according to their potential for growth and poverty reduction

Case Study Kosovo⁷³

1. Background

Kosovo, as all the Balkans, has seen long lasting fighting between various groups for religious, ethnical and political reasons. It has, on the other hand, also demonstrated a degree of multicultural tolerance which can serve as an example.

Under Tito, Kosovo enjoyed a relative autonomous status within Yugoslavia, with its own parliament and police. In 1989 Milosevic stripped the province of its autonomy which caused a wave of violence and war in Kosovo. A full scale war broke out in 1998 in which more than 500,000 Albanians fled the country. The war was ended by a NATO intervention in 1999 and governmental interim administrative powers were transferred to the UN Mission in Kosovo (UNMIK). Many Serbs and other non-Albanians fled the province for fear of reprisals or were driven out by intimidation, revenge attacks and a wave of crime after the war as KFOR struggled to restore order in Kosovo.

Today, most Kosovo-Serbs live in enclaves and still rely on protection through KFOR troops as ethnic tensions persist and complicate reconciliation. Violence is still widely seen as a common means for conflict resolution and weapons are still widespread, in some areas blood feud ('*Blutrache*') is still practiced. Legally (by UN Security Council resolution 1244) Kosovo a province of Yugoslavia; de facto, it has been a United Nations protectorate since 1999. The UN Resolution initiated the establishment of provisional self-governing bodies with the involvement of the Serbian minorities.

Kosovo's economy has yet to recover from the war. Around 50% of the fast growing and young population is unemployed or underemployed. Those with a job often earn less than 50 Euros per month. Kosovars were systematically excluded from training institutions until 1999; primary, secondary and vocational training was mainly informal. The vocational training and further education system is still very weak and not fulfilling the needs of the economic actors and currently in the process of being transformed into a modern demand-oriented system. Reasons for the weak economic development are *inter alia* volatile framework conditions and structural problems of a transformation economy where privatisation of the socialist public enterprises is only slowly picking up speed and where large parts of the population depend on agriculture. The unclear status of Kosovo deters domestic and international investment and hampers the development of exports.

An estimated 50% of economic activity takes place in the shadow economy, a considerable part of which is illegal. Close links between business, politics, nationalism and organised crime are reported.

⁷³ The findings are based on desk research and interviews conducted with GTZ experts and managers in September and October 2005 (see List of Interview Partners).

Major conflict lines are:

- Oppression of ethnic minorities and utilization of ethnic differences for political purposes;
- Secession conflict: Kosovo's independence movement vs. Serbia's government's opposition to independence;
- Progressive vs. conservative forces;
- Parallel structures and weak legitimation of governmental structures;
- Organized crime and powerful illegal economic actors (smuggling, drug trafficking, corruption etc.) that are politically influential vs. the establishment of the rule of law and functioning governmental structures;
- Growing tension and opposition towards UNMIK and the international community;
- Widespread availability of weapons;
- Existence of paramilitary units;
- Existence of terrorist groups; often connected to organized crime.

In the priority area SED GTZ is currently implementing a project for the promotion of basic and advanced vocational training and a programme for economic and employment promotion, which contained a trade component funded by the Federal Foreign Office (Auswärtiges Amt).

2. Promotion of Basic and Advanced Vocational Training Project

2.1 General Approach of the Project

The project supports the development of a demand-oriented vocational education and training system in Kosovo, by establishing an appropriate institutional setting and by capacity building at the Ministry for Education, Science and Technology. Compatibility of the TVET system with EU standards plays an important role.

2.2 Approach to Conflict Prevention and/or Peace Building

2.2.1 Project Document

The **project document** does not explicitly include conflict and peace relevant objectives or indicators. However, chapter 3 mentions the following issues:

- 'to support the advancement of women and the integration of ethnic minorities' (3.2);
- 'to support the Balkan Strategy of the German Government to crisis management, prevention of new conflicts and stabilisation as well as the integration in the EU' (3.4),
- 'facilitated access for poor and disadvantaged groups (poor, women, ethnic minority) to professional qualification and education' (3.13);
- the reduction of poverty and unemployment as preconditions for peaceful and democratic development of the region (3.13);
- vocational schools as places where young people not only acquire professional expertise but also social skills that contribute to defusing the tensions, in particular between different ethnic groups (3.13).

2.2.2 Planning

- In the planning process conflict and peace building were seen as framework conditions for working in a region of crisis and a volatile environment rather than major issues to be addressed by the project.
- According to the project manager, crisis prevention and peace building issues could and should be included in the project's objectives and indicators. However, they should not be part of those project documents that are discussed with partners. These issues are often difficult to address in participatory planning processes and could have contra productive effects in the planning process with the partner.

2.2.3 Implementation

Approach, Methodology and Principles

In the practical implementation of the project conflict prevention and peace building play an important role. The following activities and approaches related to peace building have been implemented and tested. They can be sorted into two categories:

1. **Introduction and strengthening of democratic principles and non-violent conflict resolutions at schools.** A necessary ingredient for sustainable and successful peace building is an educated youth that is familiar with non-violent conflict resolution and a democratic culture. A large majority (estimated between 66% and 75%) of the population is younger than 25 years and violence at schools is a major problem in Kosovo.

The project conducts the following activities in that respect:

- Capacity building activities for teachers and other staff of the vocational education system contain modules on participatory tuition, democratic education, multi-ethnic tuition, crisis identification and conflict management;
 - The project promotes a cooperative and participatory approach to education that takes the needs of teachers, students and parents into account – thus contributing to reduce tensions and conflicts;
 - Generally, strengthening the students' self-respect through better qualification and job opportunities contributes indirectly to peace building.
2. **Support the reconciliation process and trust building between opposing groups**, in particular ethnic groups, through project activities that promote professional exchange and cooperation between members of the opposing groups. This also observes the do-no-harm principle by including all groups in the project activities.
 - The project is conducted in the whole Kosovo including Serbian enclaves and in cooperation with ethnic minorities.
 - Several training courses were conducted in Serbian and Turkish areas by Kosovo-Albanian instructors.
 - In the framework of the project (Albanian-Kosovar) Regional Education Officers, jointly with GTZ, visit schools and institutions in Serbian districts (normally an area off-limits for Kosovar officials);
 - The project enables exchange of professional staff of Kosovar and Serbian ministries to meet in third countries (e.g. Montenegro, being part of Serbia-Montenegro, without being in Serbia proper) for work shops, study tours and conferences;

- Cooperation with CIMIC: German officers of CIMIC hold lectures at schools to increase trust in the peace keeping force and to contribute to a better image of the armed forces as professional experts;
- In cooperation with the sector project 'Education and Conflict Transformation', studies were conducted to explore the 'potential engagement in peace promotion, conflict transformation, inclusion, and improvement of majority-minority interaction in the education sector' and 'attitudes towards democracy in Kosovo'.

2.2.3 Monitoring and Evaluation

- So far, conflict prevention or peace building issues are not yet part of the project monitoring system. A self-evaluation has been conducted which is considered helpful in the management of the project, in particular for the sensitisation of staff.

Encountered Problems

- Shortage of funds led to a reduction of planned activities aimed at conflict prevention. Since conflict prevention is not part of the formal objective and indicator framework of the project such activities were the first to be aborted.
- Not all stakeholders support the reconciliation process and some of them obstruct relevant activities.

3. Economic and Employment Promotion Programme

3.1 General Approach of the Programme

The programme supports private SME and start-ups in their development and international integration through consulting services, the development of competence service centres, qualification of intermediaries and support of the Ministry of Industry and Trade as well as other institutions involved in economic promotion. The programme objective is: 'Private enterprises utilize their growth and development potential and contribute to improved employment.'

3.2 Approach to Conflict Prevention and Peace Building

3.2.1 Programme Document

The programme document does not refer to peace building and crisis prevention in its direct objectives. However, it does contain a conflict relevant indicator: 'At least 5 examples of cross-border cooperation of Kosovar companies, associations or institutions in charge of economic development are established.'

The target group explicitly includes SME both from Kosovo-Albanian and Kosovo-Serbian regions. This is also reflected in the choice of the two focal regions, one in a Kosovo-Albanian municipality and one in a Kosovo-Serbian municipality.

In the chapter on expected impacts (3.13) the programme document refers to 'the approach ... [that] counteracts outdated structures (clans, ethnicity, and discrimination of women) and strengthens Kosovo's integration into Europe. Enterprises in Kosovo-Albanian as well as Kosovo-Serbian areas are included in the intervention, economically beneficial cooperation helps to reduce hostility. This also applies to the support of economic cooperation in the Balkan region, including Serbia. [...] Working relations between Kosovar and Serbian entrepreneurs and experts facilitate the integration of Kosovo-Serbians in a future government of Kosovo.'

3.2.2 Planning

- Due to a shortage of funds, the programme started with only the team leader for the first months. No participatory planning approach along with workshops with potential partners was conducted. In retrospect this was a positive concurrence, since that way the team leader had sufficient time to identify appropriate partners and areas with potential for economic development. In post-war situations often those organisations are the most visible that have close links with the former conflicting parties. Some may be involved in organised crime and illegal activities or relevant for conflict aggravation.
- A detailed Peace and Conflict Assessment, containing information on important players, power and conflict structures including economic issues and organized crime,

would have been a very helpful tool for the planning and inception of the programme. Colleagues with experience in Kosovo could compensate and provide necessary information and advice, however not in a systematic manner.

- Supporting the privatisation in Kosovo was considered too political since the ownership of State-owned enterprises is disputed and also potentially dangerous for project staff.
- Supported industrial sectors were selected according to their economic and employment potential, not the potential for peace building.
- The project is implemented in the whole Kosovo. Two focal areas have been identified, one in Kosovo-Albanian Peja and Prizren, one in the Kosovo-Serbian Bresovice, including Gorani, Ashkali and Boshniaku settlement. Criteria for the selection of regional focal areas were the presence of a Bundeswehr contingent, their economic potential and equal support to all ethnicities.
- Reconciliation and peace building was not an objective in the planning process, but it was an important and permanent framework condition for programme planning.

3.2.3 Implementation

Approach / Methodology

- In order to ensure the Do-no-harm principle the central dogma of the programme was introduced and widely communicated: Everyone (irrespective of ethnicity, religion, language, etc.) has equal access to all programme activities (given their professional eligibility). The objective for participation should be economic incentives not political issues - or to put it more bluntly: to make money, not politics. Participants who reject inter-ethnic activities should not participate. This principle is strictly implemented and sometimes bold measures have to be taken to enforce it: in cases where minorities were reluctant or frightened to participate in activities out of their enclaves, the programme, often with support of CIMIC, escorted the participants from their homes to the site of the activity and back.
 - Programme activities are multi-ethnic by principle; the programme initiates and supports the establishment of multi-ethnic business associations; training courses are usually with multi-ethnic participation. Thereby it supports the economic interaction between the ethnicities and contributes to overcome the inter-ethnic division that was fuelled through the conflict and is partially also a cause of the conflict. The programme takes advantage of the fact that for entrepreneurs economic incentives are usually more important than politics. Inter-ethnic cooperation can be a competitive edge for companies and therefore an important ingredient for a successful business strategy.
 - By initiating and supporting economic interaction between Kosovo-Albanian and Kosovo-Serbian / Serbian enterprises the programme contributes to increased trust and communication between the opposing groups, e.g. by supporting tourism development in a former recreational and tourism area in an Serbian enclave that depends on suppliers and transport from the surrounding Albanian region.
-

- The project also hosted the first CEFE Balkan Conference with participants from 6 countries, fostering technical dialogue between experts of different Balkan countries and contributing to trust building.
- Reconciliation between Serbs and Albanians is supported and the dialogue and economic interaction between Kosovo and Serbia as well as other countries in the region was enhanced through various activities, such as supporting the formulation of bilateral trade agreements (e.g. Kosovo and Macedonia) and the creation of opportunities for exchange for professional staff of Kosovar and Serbian institutions⁷⁴ on neutral ground, e.g. in Germany or Macedonia.
- The programme supports the dialogue of different institutions with their counterparts in neighbouring countries. However, this potentially peace building activity also has the potential to result in conflict aggravation. In order to ensure that the activity does not harm peace building efforts, the programme informed and updated the OSCE about the activities.
- All public programme documents are bilingual (for Albanians and Serbs), even if Serbs are not concerned. This illustrates the ethnic neutrality of the programme.
- Former officers of UCK were asked to assist the programme in initiating the dialogue between Albanians and Serbs in Kosovo: Typically, officers and soldiers are less impeded by fear than civilians to communicate with former opponents.
- The programme does not include activities to reduce the financial resources of the conflict. Neither does it support private actors in crisis prevention.

Perceived Problems / Deficits

- Ethnic minorities other than Serbs, i.e. Roma, Bosniaks, Turks etc. were not sufficiently integrated in the programme in the beginning. This is currently be changed.
- The lack of a thorough PCA containing economic issues hampered the selection of partner organisations in the planning and inception phase of the programme, in particular to ensure that organised crime does not utilize the programme for its purposes.

3.2.4 Monitoring and Evaluation

- One indicator of the programme is conflict relevant: 'At least 5 examples of cross-border cooperation of Kosovar companies, associations or institutions in charge of economic development are established.'
- For the ethnic neutrality of the programme the activities and the budget is monitored to ensure that all relevant parties receive equal support.

⁷⁴ Serbian officials have the directive not to engage in direct contact and dialogue with Kosovar officials. For Kosovar officials it is problematic to enter Serbia.

4. Experiences and Lessons Learnt in Kosovo at a Glance

- A detailed PCA, containing information on important players and underlying economic factors would have been helpful in the planning process
- In post-conflict or institutionally opaque situations a participatory planning process contains the risk of involving the wrong partners. An open orientation phase facilitated the identification of appropriate partners and sectors.
- Economic sectors are chosen according to their economic and employment potential
- Actively ensure equal access to programme activities and support for all relevant groups
- Interventions are ethnically strictly neutral and activities are multi-ethnic by principle
- Utilize the fact that for entrepreneurs profit is more important than politics
- Promote economic and political interaction between the different groups and neighbouring countries and support establishment of joint institutions or activities, e.g. joint events, cross border associations, cross border value chains, joint steering committees
- Support economic and institutional interaction between the opposing groups and foster (technical) dialogue between technical experts on the different sides
- Monitor and ensure that interventions do not result in conflict aggravation.

Case Study Afghanistan⁷⁵

1. Background

Afghanistan is one of the poorest countries in the world; the annual per-capita income is around US\$ 200. Despite the progress of the past few years, Afghanistan remains extremely poor, landlocked, and highly dependent on foreign aid. After 23 years of armed conflict and civil war Afghanistan's economy has largely ground to a halt and its formal economy was almost entirely destroyed. The incomes of 90 percent of the population are provided by the informal sector. The lack of income and employment perspectives, above all for poor population groups, is a danger for the country's political, economic and social stability. Apart from the destroyed infrastructure the economy suffers from a non-conducive legal and administrative environment, weak reputation of entrepreneurial spirit, low competitiveness of its industries, insufficient qualification of its entrepreneurs and workers.

So far over two million Afghan refugees have returned but several million more continue to reside in Iran and Pakistan in camps and elsewhere, many at their own choosing.

Parts of the country are still controlled by powerful warlords who frequently command their own private armies and generate their income predominantly from drug cultivation and trafficking. The country's well-established drug economy is a considerable obstacle to development. Afghanistan is by far the largest producer of opium. The following estimated figures⁷⁶ give a good illustration of the threat that the drug industry presents for state building in Afghanistan: The size of the poppy economy is about 50% of the country's GDP; its domestic profits of 2.8 billion USD is equivalent to five times (!) the annual budget of the Afghan state. About 1 billion USD of those profits is estimated to go to corrupt government officials and institutions. It is also assumed that a considerable share of the profits flows into activities that counter state building such as terrorism and warlordism.

The history of war and conflict in Afghanistan is long and multifaceted and many of the prevailing conflicts are based on older ones. Kievelitz and Schwitzke outline the following levels of conflict⁷⁷:

⁷⁵ Findings are based on desk study, several interviews with project managers and experts and a field trip in September 2005 to Kabul and Kunduz.

⁷⁶ According to Koehler (2005).

⁷⁷ For detailed analysis of conflict and security situation see Kievelitz and Schwitzke (2004), Kievelitz (2002) and Kievelitz (2003).

Political level and security situation

- conflicts within central government
- conflict between urban capital and rural periphery
- definition of the state and its mandate
- regional centres vs. regional periphery
- abuse of ethnicity for political purposes
- ensuring governmental monopoly of force, development of functioning army and police force
- containing national and international terrorism

Economical level

- drug economy
- local conflicts for resources (land and water)

Impact of international actors

- interventions of neighbouring countries
- international actors, in particular USA

Those lines of conflict are often intertwined and their relevance and characteristics change from region to region sometimes from district to district, resulting in a very opaque conflict environment.

For SED some of the conflict lines are of particular relevance:

- Aggravating separation of the development in Kabul and the provinces, enhancing the separation between the capital and the provinces as well as between rural and urban regions; this leads to growing frustration of the population with the Government of Afghanistan (GoA), thus strengthening extremist groups
- Central government vs. local governments / local leaders (e.g. local governments still keep the largest part of custom revenues)
- Abuse of political power leads to frustration of population regarding governmental structures
- Conflicts within central government, e.g. reformers against conservatives
- Reform pressure through the international community vs. conservative forces results in the risk that fundamental oppositions are strengthened. The inherent dilemma: If reforms are pushed too fast, too many people get frightened and feel pressured; if reforms are implemented too slowly, delays in economic development lead to

frustration with GoA and the international community. A reform issue of particular concern is the role of women, where many Afghans feel inadequately pressured from the international community

- Drug production as a major source of corruption and finance of terrorism and counter-state organisations
- Clans and ethnicity, e.g. the division between areas of the Northern Alliance and Pashtun regions or the discrimination of Hazara
- Conflicts regarding the transformation to market-oriented structures, differing views on the relation between state and private.

2. **GTZ's SED portfolio in Afghanistan and related interventions**

In the SED priority area GTZ is implementing the following interventions in Afghanistan:

- **SED programme on economic reconstruction and vocational qualification programme** with 2 components: (i) trade and investment promotion and (ii) vocational training (under revision)
- A new SED component funded by Auswärtiges Amt on the **reform of the Afghan chamber of commerce**
- **Project on the promotion of small and medium-sized enterprises** (in preparation): BDS approach in Kabul, Kunduz and Kandahar
- **Employment promotion through training for women (WEPP)**

Currently the structure of SED interventions is under way to be restructured.

Other relevant German projects and programs are

- GTZ-IS (EU funded): Project for Alternative Livelihoods in Eastern Afghanistan (PAL);
- GTZ-IS (multi-donor funded): National Solidarity Programme (NSP),
- Development-oriented emergency aid in the Kunduz region: GTZ ESP and EON ('Entwicklungsorientierte Nothilfe');
- DED experts in Kabul and Kunduz;
- CIMIC in Kunduz;
- Transitory priority area: Rule of Law;
- Priority area: Water Sector Reform;
- Priority area: Improvement in Energy Management.

3. Potential of SED Interventions to Address Conflict Prevention and Peace Building

A vital requirement for the peaceful development of Afghanistan is state building. The state has yet to penetrate society, in particular in the provinces and to convince the population of its legitimacy. This depends, *inter alia* on successful economic development which in return is a precondition for successful state building.

In general, economic development, enhanced employment and income opportunities are crucial elements to create and ensure political and social stability and are therefore critical for the peace and state building process in Afghanistan. Continued economic development is required to create a basis for taxation and the state budget that currently relies heavily on international donor support. Hence, measures fostering economic development and employment contribute to peace building process, given that they follow the do-no-harm principle.

This chapter discusses how SED measures in the different intervention areas are or could be designed to contribute directly to peace building in Afghanistan. Of course, the existing individual interventions primarily have to follow their SED-specific objectives. Nevertheless there might be potential to readjust some activities and interventions in order to increase the peace building potential.

3.1 Economic Policy Advisory Services

Afghanistan is in the phase of state building and still struggling to define its approach to **economic policy**. Even though the government's central strategy papers all refer to the private sector as the engine of growth, there is still discussion within the central government which economic regime the country should implement, and the exact roles of the state and the private sector have yet to be defined. This is of particular relevance in Afghanistan since the perception of market economy of large parts of the population is highly critical and entrepreneurs are often perceived as exploitive. In such a situation the **model of a social market economy** can contribute to the acceptance of the population. Top level economic policy advisory services supporting decision makers on ministerial and presidential level highlighting the benefits of a social market economy for the economic development and social stability of Afghanistan can greatly contribute to peace building in the long run. This has been put into practice by the German Special Advisor on Investment and Trade to Afghanistan who has been advising and discussing those strategic policy issues with key ministers and the president.

Social and political stability in Afghanistan requires a functioning and reliable state that is also functioning in the provinces. So far the authority of the central government does not reach the provinces⁷⁸ and its authority and mandate is further undermined by a lack of visible

⁷⁸ This is particularly true for the South-West that was never under control of a central Afghan government.

and tangible impact in terms of reconstruction and development. Therefore GoA developed a bias for infrastructure construction bearing truly *tangible* results over governance, capacity building and PSD. Nevertheless, it is essential to strengthen the role of GoA in terms of **economic development in the provinces**. This is not only necessary to enhance the efficiency of interventions and donor coordination; it is also a way to strengthen the role of the central government in the provinces – a prerequisite for state building and long term stability.

Advisory services for GoA, in particular to the Ministry of Commerce, to develop a **strategy and instruments for economic development in the provinces** can strengthen the position of GoA in the provinces and thereby contribute to state building and peace building as it reduces tensions between the capital and the periphery. Such efforts should follow the principle of subsidiarity and should be accompanied by interventions with advisory services and capacity building on the provincial level in a systemic approach, in order to address problems on all appropriate levels and ensure feed-back between the provincial and central level. GTZ is supporting the Afghan Investment Support Agency (AISA) to expand its provincial network in order to attract and support investments beyond Kabul. Those efforts to spur economic development in the provinces should be complemented by local PSD interventions. Here it is essential to ensure that such a policy for economic development in the provinces follows the *do-no-harm* principle and does not initiate or aggravate tensions between regions or provinces, or between urban and rural areas, by neglecting critical groups. One issue seems to be the aggravating division between the North, where the political situation is improving, and the South(-East), where the political situation is getting worse; a historical fault line in the political game in Afghanistan.

GTZ is well positioned with its SED programme, including a component advising the Minister of Commerce and other high ranking government members to support GoA to develop and implement a strategy for economic development in the provinces. Being the focal point in the consultative group for trade, investment and PSD, Germany is also in the position to bring up such an effort in the international donor community.

A strong **civil society** is a necessary ingredient for a well-functioning democratic society including mechanisms for peaceful dispute settlement. Within a market economy the **representation of the private sector** (including entrepreneurs and workers) plays this role. Representation of the private sector in associations and chambers requires an appropriate legal basis as well as dialogue platforms between the private sector and the government, both on the local and central level. With its mentioned elevated position in advising MoC/GoA and the new programme component supporting the Afghan chamber of commerce, GTZ is in a good position to support the establishment of an appropriate representation of the private sector. Those efforts should be complemented by interventions in PSD.

Normal (i.e. non-war-profiteering and legitimate) entrepreneurs usually benefit from peace ('peace dividend'); compared to politicians they often are more pragmatic and less driven by political interests which are often a source of conflict. Therefore the inclusion of reputed and up-right business people into the political decision making process e.g. through advisory boards can contribute to more deliberate political decisions with regard to their conflict potential. Advising GoA to institutionalize such dialogue with the private sector, e.g. through

advisory groups with selected entrepreneurs, therefore contributes to peace building. Such an institutionalized dialogue would not only facilitate communication between the private sector and GoA, it could also reduce tensions between the private sector and the government and strengthen the credibility of GoA in the general public.

The promotion of **alternative livelihoods** to counter the opium industry in Afghanistan requires a conducive legal background for private sector development and rural development, including appropriate regulation regarding the distribution of natural resources such as land (land use rights and cadastre) and water (regulation of water usage). This is an area where interventions on the policy level benefit economic development and peace building at the same time. The SED programme could use its advisory function in the political system to address those issues accordingly; synergies could also evolve in the cooperation with interventions in the other priority area 'water sector reform'.

3.2 Private Sector Development (PSD)

Economic development and employment are crucial factors for social and political stability in Afghanistan. This applies in particular to the provincial level in order to reduce the tensions between Kabul and the periphery. Thus, PSD interventions play an important role to contribute to the stability of the country by supporting private sector development in the provinces.

To effectively support private sector development on the provincial level GTZ is underway to implement a **SME development project** in selected provinces. Apart from Kabul the project is planned to be implemented in two provincial focal areas: Kunduz and Kandahar. Thereby it actively and directly promotes economic development in the provinces, reducing the divide and tensions between Kabul and the periphery. Kunduz was selected because it is a focal area for German DC in Afghanistan and the centre of the German Provincial Reconstruction Team (PRT). In order not to discriminate the Pashtun provinces BMZ requested to also include a Pashtun area, Kandahar, in the project design. Even though the decision to support one province in the North and one Pashtun province has been taken in order to ensure a conflict sensitive project design, the impact on the peace building process are not fully clear since the selection is not based on a PCA.⁷⁹ As it seems at the moment that implementation in Kandahar will at least have to be postponed due to security threats with unclear consequences for the conflict sensitivity of the project.

The planned SME project also reflects conflict issues in its approach. By selecting agro-processing as one of its focal sectors the project contributes to reduce potential tensions between the rural and urban population by enhancing the income opportunities of the rural population. Agro-processing is also most suitable to contribute to alternative livelihood approaches in poppy growing regions as agro-processing is the basis to increase the value added and therefore the income potential of agricultural products other than opium. The

⁷⁹ The impact of positive discrimination is difficult to foresee with regard to the conflict situation, therefore the selection of conflict relevant target groups should be based on a careful peace and conflict analysis.

project document also anticipates cooperation with other projects, such as AGEN for the integration of ex-combatants.

In order to strengthen the role and credibility of central government in the provinces governmental institutions should be included in the interventions, for instance in cooperation with GTZ-supported efforts of AISA to expand its provincial networks.

The peace building potential of other PSD activities mentioned earlier in report, i.e. identification and support of cross-ethnic/cross-border value chains, and cross-border/cross-ethnic deployment of BDS providers, depends very much on local conflict lines. It could be assessed on the basis of a SED-related PCA.

Support of alternative livelihoods

Addressing the problem of the **drug economy** requires an integrated approach ('carrot and stick') including eradication (driving up the opportunity costs for poppy farming and drug production) and supporting alternative livelihoods (creating opportunities and raising the potential income from alternative sources).

GTZ-IS is currently implementing an EU Project on Alternative Livelihoods in Eastern Afghanistan (PAL). PAL supports not only poppy producers/farmers: its target group also includes the local population (do-no-harm). Its efforts to support the generation of alternative income earning enterprises through community/village development activities could be complemented through PSD interventions such as Local Economic Development (LED, which is similar to the PAL approach in its participatory methodology) and SME development. PAL's efforts on capacity building of provincial and district administrations to prepare and implement their own development plans through PAL could be complemented by PSD activities that strengthen the representation of the private sector in the policy making process on the provincial and district level.

In particular the planned SME project in preparation⁸⁰ that has a focus on BDS development and the support of intermediaries promoting SME and the planned SED component on supporting business representative organisations (funded by AA) could complement those efforts and thereby enhance its impact on peace building.

Currently there are controversial discussions ongoing regarding the potential of producing legal and licensed opium products for medical purposes in an effort to combat illegal opium production in Afghanistan.⁸¹

Regional trade promotion

Currently the possibilities for strengthening the economic cross border cooperation between **Afghan and Tajik Badachshan** are assessed. Both regions are extremely poor and

⁸⁰ This would require a change/expansion of the planned project area to Eastern Afghanistan, which in the project document is defined as Kabul, Kunduz and Kandahar.

⁸¹ See Senlis Council (2005).

marginalised within their own countries and are hardly connected to their respective national economies. Even though populations on both sides of the border have the same ethnic and historical roots, speaking the same language and belonging to the same religious groups trade between the regions is negligible.

Strengthened cross border cooperation in Badachshan can contribute to regional economic development and reduce the isolation of both regions, thereby reducing the potential for conflict through the exclusion of the region from economic development. In the Afghan province this is of particular importance since it is a major poppy farming region. However, enhancing cross border exchange and cooperation without reducing the marginalization of both regions within their respective country could actually lead to tensions between the Badachshan people and their respective nations – analogous to the conflicts of Kurds or Albanians.

Private sector representation

As mentioned above the **representation of the private sector** plays an important role not only for the development of a strong economy but also as a part of the civil society to settle disputes in a peaceful and institutionalized way. In addition to the interventions on the political level GTZ contributes to the genesis of a representation of the private sector e.g. by the new SED component on capacity building for business membership organisations and the cooperation with the traders association in Kunduz. The impact on conflict transformation of this component could be further enhanced if it contributes to the reduction of tensions between Kabul and the periphery through institutionalizing dialogue between the private sector in the periphery and GoA. In the capacity building for representative organisations the topics of conflict sensitisation and management should be included.

In order to further enhance the efficiency and identify potential for synergies the mentioned PSD interventions in Afghanistan should exchange their experiences and lessons learnt, inter alia in the area of conflict transformation and peace building.

3.3 Technical and Vocational Education and Training (TVET)

Currently the TVET component of the SED is under review. In its original design it focused on the establishment of a system for (non-formal, demand-oriented) vocational and technical training. This approach included capacity building of the Ministry of Labour and Social Affairs in its coordination and steering function for TVET, support of private technical training providers as well as of a national institute for technical trainers.

Enhancing the employability of the population generally contributes to the social and political stability of post-conflict countries. Furthermore there are three ways for TVET to contribute to peace building directly:

1. Conflict sensitive selection of the target groups and focal regions, including critical groups as ex-combatants in cooperation with Disarmament, Demobilisation and Reintegration (DDR) programs⁸²
2. Supporting the credibility of GoA in the introduction of a government-guided (but privately implemented) demand-oriented training system enhancing the employability of the participants
3. Introduction and strengthening of democratic principles and non-violent conflict resolutions at TVET schools, training of TVET trainers and staff in participatory tuition, democratic education, crisis identification and conflict management

Training components of DDR programs mostly benefit exclusively ex-combatants. This can aggravate existing grievances between civilians and ex-soldiers/militia, since often civilians suffered most from conflict. The fact that ex-combatants are 'rewarded' by development projects (and often not only receive training but also get paid in the meantime) can create resentments. Therefore it is important that not only ex-combatants receive support but also the rest of the population. A similar problem exists with returnee programs, where the parts of the population that did not leave the conflict area and had to suffer through conflict, feel resentment against the returnees that receive support in training and start-up finance. In order to avoid negative impacts of such programmes they should be coordinated with programmes that support the groups not included in such measures.

The potential for cooperation of the TVET component of the SED program with other interventions that are relevant for peace building in Afghanistan (GTZ, other donors) should be assessed. Examples are the EON/ESP programmes implemented by GTZ in North-East Afghanistan (Badakhshan, Kunduz, Takhar) implementing small scale projects on social infrastructure including education and technical and vocational training thereby contributing to social and political stabilisation in the North-East; also the programme currently develops a detailed PCA and conflict monitoring system. AGEF and DED support capacity building of the Northeast Traders' Association, an NGO involved in support (including training) and representation of private sector companies and their workers. They are also supporting the reintegration of ex-combatants in the North-East. Another potential partner for cooperation is the PAL implemented by GTZ-IS in Eastern Afghanistan (Kunar, Laghman, Nangarhar) supporting the generation of alternative income and employment opportunities to the opium economy. TVET interventions (possibly in combination with PSD) could complement PAL's efforts and increase its impact.

⁸² The general recommendation for positive discrimination applies, to do so only after a careful conflict analysis.

3.4 Financial Sector Development (FSD)

Combating the drug economy

Potential for FSD instruments to contribute to peace building was identified in the cooperation with projects supporting alternative livelihoods for drug producing farmers (such as PAL). Many farmers are caught in the so called '*salaam* trap', i.e. they are obliged to take seasonal credits in order to bring their families through the winter and to plant crops for the coming year as well as to lease land. The traditional credit – referred to as *salaam* – mostly the only credit system available in rural areas, is a payment based on the expected future harvest, i.e. a future on the upcoming harvest. Since creditors prefer farmers whom they expect to have the highest yields and profits i.e. poppy farmers the *salaam* system promotes the cultivation of opium poppy.⁸³

PAL's assessment shows that success in supporting alternative livelihoods for poppy farmers requires fair credit opportunities and the conversion of accumulated debts via a public-sponsored financial programme. Classic micro-credit schemes are not sufficient to break the *salaam* trap. The most sensible way out would be a scheme that (i) finances the return of base-credit plus a reasonable, not punitive, percentage return on investment to the credit giver; (ii) provides cheap seasonal household credit in the margin of 100-2.000 US Dollars (this was the span of seasonal credits taken by households in 2004 according to PAL's assessment). It is essential that such a programme is state-sanctioned and clearly associated with the central state in order to strengthen the credibility of the central government in the provinces.

Here, TA instruments of Financial Sector Development, possibly in combination with Financial Cooperation could support the efforts to counter the drug industry by developing appropriate and adapted microfinance instruments and build local capacity to implement those schemes.

Counter money laundering and terrorism financing

The World Bank in collaboration with the IMF supports efforts in Afghanistan to combat money laundering and financing of terrorism through capacity building at the central bank for improved regulation and banking supervision.⁸⁴

3.5 General Observations and Methodological Issues

In general SED interventions should observe the following principles to contribute to peace building in Afghanistan:

- Support the capacity and credibility of government

⁸³ For a detailed description of the *salaam* system and the following recommendations, see Koehler (2005).

⁸⁴ For more details see World Bank (2004).

- Enhance economic development and employment opportunities beyond Kabul and contribute to reduce tensions between Kabul and the periphery
- Strengthen democratic principles in all branches of society
- Avoid the discrimination of (critical) population groups / ensure sensitive selection of target groups and focal regions on the basis of comprehensive analysis assessing the impact on peace building

Selection of target groups and focal regions

The selection of certain target groups and/or focal regions can and often does have conflict related implications. Often this is intended, e.g. in the case of selecting Kandahar as one of the target regions in the SME project or DDR programmes.

From a conflict-related point of view such a positive discrimination should be based on a careful assessment of the implications for peace building. The debate if German interventions should be arranged reflecting equal treatment of ethnic groups (i.e. targeting interventions in the Southern Pashtun provinces in order to counter-balance the focus in the North around Kabul) is still ongoing. However, it should be avoided to establish ethnic dimensions within project, programme or strategy documents, because this contributes to a reinforcement of ethnic tensions and cause resentment between ethnic groups. This was also the subject of a long discussion at the SSP ('Schwerpunktstrategiepapier' priority area strategy paper) workshop, which resulted in the recommendation not to include statements regarding ethnic groups in the SSP.

Since the lines of conflict are opaque in Afghanistan the decision for positive discrimination of target groups and focal regions should be based on an extensive assessment of the conflict lines and the role of the different groups as well as the impact of such interventions. Only with such an assessment it can be ensured that interventions do not cause harm and the assessment would be a viable basis for SED interventions to contribute to conflict transformation.

Since interventions on the provincial level have to be restricted to a selection of provinces due to a restricted budget of German TA, not all provinces can be supported by SED measures. In order to ensure that such a selection of provinces – and therefore a discrimination of other provinces – does not have negative impacts on the social and political stability Germany should coordinate the assistance of provinces with other donors. It could also utilize its role as the focal point in the consultative group to advance donor coordination with regard to provincial support. This should also be supported by the preparation of a SED-related PCA, which could be conducted in a joint effort or unilaterally and then shared with the consultative group.

Since German DC has a focus in the Kunduz area, where the German PRT is located, this could be utilized in an integrated approach of SED instruments in combination with other interventions to promote peace islands as showcases for the peace dividend.

Other issues

- The potential for cooperation with ISAF / CIMIC in Kunduz should be further assessed, e.g. in the area of local procurement for certain products that can be provided by local SME.
- The EON programme / ESP in North-East Afghanistan (Kunduz, Badakhshan, Takhar) is currently conducting a PCA and developing a monitoring system regarding peace and conflict issues. Those insights and know-how could be used for future SED interventions in the Kunduz area. The potential for cooperation between SED and EON/ESP should be assessed, e.g. in the areas of vocational training and placement services, SME development, local economic development, business representation and local economic policy and governance, e.g. local AISA offices. SED interventions could benefit from the field experience, local knowledge and networks in North-East Afghanistan.
- The PFK mission for the SED programme in 2004 was intended to include a conflict expert in addition to the sectoral experts. Unfortunately, due to security problems the mission could not be fielded. It would be interesting to test the feasibility of such an approach for programming or PFK missions.
- In general, reforming the investment and business environment is a long term task, incorporating many players with different interests and strategic decision making. To successfully support such processes long term donor commitment is necessary. Also, reforms are highly political and require networking and trust among high level officials at ministerial level. Partners need to build up trust to their advisors and often need long term support, in particular to deal with the, often complex, inputs from short-term advisors. Therefore, in particular in the area of political advisory services the long term commitment of donors needs to be demonstrated by long-term advisors (either GTZ or CIM) supported by short term and intermitting experts.
- In Afghanistan, the combination of a long-term Afghan-German expert, with abilities to connect the ideas of German cooperation to the Afghan decision makers at the highest ranks, with a intermitting senior consultant having access to decision makers in Germany being a credible discussion partner with the highest levels of government, proved to be very successful.
- Those lessons learnt from the SED programme also apply for other interventions in Afghanistan.

Discussion and Interview Partners

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