Sustainable Economic Development in Conflict-Affected Environments

A Guidebook

gtz

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June 2009

CONTENT

FOREWORD AND INTRODUCTION

Between 2004 and 2008, almost two in three partner countries of German development cooperation experienced violent conflicts or the immediate aftermath of such conflicts. Crisis prevention and conflict transformation have become crucial for successful development cooperation. At a time when international markets are crumbling and millions of workers are losing their jobs due to the global economic crisis, the fear of an explosive social situation is also growing in many fragile nations and transition countries.

Conflicts harm people and very often substantially damage a country's societal coherence, economy and infrastructure. They destroy development achievements and potentials. On the other hand, development interventions themselves can cause, trigger or aggravate conflicts.

Following the shock of the Rwandan genocide in 1994, an intense international debate developed on how the aid and development community should deal with crises and conflicts, and how it could help prevent, mitigate or even resolve them. Since then, peacebuilding, crisis prevention and conflict management and transformation have taken on high-level political significance and have become major cross-cutting themes in technical cooperation. Development planners and practitioners are confronted with two key questions: what can and should be done by external actors to help a society overcome conflict and stabilise its situation; and how can and should this support be implemented without risking the reanimation of the conflict?

As many examples have shown, economic development and recovery constitute one of the most important contributions to peacebuilding and the creation of stability in fragile transition periods. Income and employment opportunities are key 'peace dividends' expected by people after armed conflicts. In the longer run, building a thriving social and ecologically sustainable market economy has the potential to reduce disparities and social tensions, which are often the root causes of violent conflicts.

When putting this peacebuilding potential of sustainable economic development (SED) into practice, it is crucial to find the right approach to planning and implementation. SED cannot be planned and implemented in conflict-affected environments in the same way as in peaceful countries. Instead, it requires conflict-sensitive strategies. To ensure they are conflict-sensitive, sectoral interventions such as SED can borrow from tools and methods developed in the fields of crisis prevention and conflict transformation.

The German Federal Ministry for Economic Cooperation and Development (BMZ) has thus commissioned the GTZ sector projects 'Innovative Approaches for Private Sector Development' and 'Crisis Prevention and Conflict Transformation' to explore the links between conflict, peace and economic development conceptually, and practically through conflict-sensitive SED interventions in various partner countries.

This comprehensive Guidebook on Sustainable Economic Development in Conflict affected Environments synthesises that work and contributes to the current international efforts, in particular of the Donor Committee for Enterprise Development (DCED), to improve economic development approaches in these difficult conditions. It explains the challenges of working in a conflictive environment and guides development practitioners towards successful project planning, implementation and monitoring.

Each conflict situation is unique and cannot be compared to those prevailing in any other country. Furthermore, conflict situations are highly volatile: what works today, may not work tomorrow. Therefore, this Guidebook does not offer a blueprint. Instead, it introduces essential design elements and technical tools to help planners and practitioners make SED interventions conflict-sensitive and, if possible, conducive to the reduction of conflict. Users should select the ideas and tools that suit their specific country situation, or adjust them to suit their specific needs.

The Guidebook can be read from A to Z, which will give the reader a complete overview of the topic. Alternatively, users in search of specific answers may just pick out the relevant chapters. However, to be able to understand all the other chapters, it is essential that readers have understood the peace and conflict assessment (PCA) described in chapter 2.

In this second and revised edition we have included two new sections in Chapter 4, covering financial systems development, and skills development and employment promotion. Moreover, the topic of post-conflict recovery has been completely revised and is now presented as a separate chapter.

Your feedback is highly appreciated and it will help us to keep on improving the knowledge and practices in this challenging field.

We hope that the Guidebook will help you to address the challenges of your daily work, and are sure that you will agree that sustainable economic development in conflict environments is more than a cross-cutting theme. It may well be the key to long term stability in many countries.

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SUMMARY

Ever more developing countries are experiencing violent conflicts or face the immediate aftermath of such conflicts. For this reason, the German Federal Ministry for Economic Cooperation and Development (BMZ) has made the conflict-sensitive design of development cooperation mandatory in countries with growing or acute conflict prevention needs. Most of these are located in a conflict or post-conflict context. In these countries, the design of any project must be adapted to the specific characteristics of the conflict environment. The visible expression of the conflict-sensitive project approach is the so-called conflict marker (C-marker). Projects and programmes supported by BMZ are classified according to the following criteria:

- Interventions not located in countries with growing or acute conflict prevention needs are classified C--.
- Interventions located in conflict environments but not explicitly addressing conflict issues are classified C-0 (conflict-sensitive projects).
- Interventions addressing peace or conflict issues in addition to their sector objectives are classified C-1 (conflict-relevant projects).
- Interventions exclusively addressing peace or conflict issues are classified C-2 (peacebuilding projects).

SED interventions in conflict-affected environments must be conflict-sensitive or conflict-relevant, and are therefore usually classified C-0 or C-1.

The peace and conflict assessment (PCA) is a fairly new instrument of German development cooperation. It is intended to ensure the conflict-sensitive (re-)planning of development interventions in conflict-affected environments. A PCA consists of four elements:

- The **peace and conflict analysis** looks at the context, examining why and how the conflict originally developed and the reasons which might since have encouraged peace. This prepares the ground for the peacebuilding needs assessment, which compares the results of the peace and conflict analysis (description of the actual situation) with a 'vision for peace' (description of an ideal situation), and defines the changes needed to help transform a conflict in a peaceful manner and to foster stability.
- The **peacebuilding relevance assessment** investigates whether a development intervention has the potential to contribute to the peacebuilding needs of a country.
- **Risk management** seeks to identify the potential or actual negative effects that a conflict may have on a project, and seeks ways of professionally managing these risks.
- **Peace and conflict-related impact monitoring** uses the peacebuilding needs to define indicators with which to monitor the positive and negative effects of a development intervention.

If a general PCA comes to the conclusion that economic factors play an important role in peacebuilding, an additional PCA focusing on the economic dimension of

a conflict can be used to find approaches or a combination of approaches that are most suitable in a particular conflict or post-conflict scenario. The following five basic approaches are possible:

Five Approaches to SED in Conflict-Affected Environments

Conflict-sensitive projects, marked C-0:

- work in a conflict environment but do not explicitly address the conflict issues (do-no-harm).

Conflict-relevant projects, marked C-1:

- work on a conflict by addressing its economic root causes or escalating factors.
- help to reduce the economic resources of a conflict.
- address the effects of conflict and peace on the economy.
- promote economic 'connectors'.

The selection of target groups is a particular concern for SED interventions in conflict-affected environments. A project should not be perceived to be partial. Nevertheless, the specific needs of certain target groups – above all women, youth, refugees, war victims and ex-combatants – have to be considered in the project design, while avoiding the creation of grievances among people who are not directly addressed by an intervention.

The selection of project implementation partners is another area of concern. In general, SED interventions should support the so-called 'connectors', i.e. people, institutions, customs, attitudes, etc. that work across conflict lines and build bridges over (former) conflict issues. At the same time, project interventions may help to prevent new conflicts if they can neutralise the negative impact of so-called 'dividers' – i.e. people, institutions, customs, attitudes, etc. that manifest or reanimate (former) conflict issues. Projects might even convert such groups into 'connectors'.

The management of SED interventions in conflict-affected areas requires much flexibility as well as close adherence to the do-no-harm (DNH) principles. Managers of SED interventions in conflict-affected areas must pay special attention to safety, to the selection of suitable partners, to personnel issues, and to communication, cooperation and coordination with other programmes. They must repeatedly adjust conventional SED approaches to a specific peace or conflict situation. The following conventional SED approaches have demonstrated their potential to contribute to crisis prevention, conflict transformation or peacebuilding:

- Development of a business enabling environment (BEE): BEE projects use policy advice and capacity development particularly for government institutions in order to improve conditions for private sector growth. Business environment reform is a complex process which involves a very wide range of stakeholders. Therefore, a thorough diagnostic analysis and a systemic approach are required. While government should lead and own the reforms, all stakeholders, including politicians, officials,

the formal and informal private sector, and civil society, must be reflected in the process. One of the main challenges facing BEE projects in post-conflict situations is the need to achieve quick and tangible results. Therefore, the focus is on win-win solutions. Sequencing and coordination of the reform process are key success factors. Reforms are never impartial and a careful analysis of expected results is important (do-no-harm check).

- Local and regional economic development (LRED): The aim of LRED is to enable the stakeholders in a specific location to undertake joint initiatives for economic development. The approach is therefore particularly useful for addressing regional disparities. In conflict-affected environments, LRED emphasises a participatory and dialogue-oriented process, engaging the different stakeholders in joint problem analysis, planning and implementation. Each step of an LRED project must be DNH-checked: the selection of locations must be fair and transparent; the location analysis should be guided by the PCA methodology; the various planning workshops and the resulting action plans must consider the needs of disadvantaged groups and the nature of the conflict situation.

- Sector or value chain promotion: While LRED is a location-specific development approach, value chain promotion is focused on upgrading strategic sub-sectors or value chains. If the sub-sector or value chain and the related support measures are carefully chosen, value chain promotion can have positive effects for peaceful development. The key to conflict-sensitive upgrading of a value chain is effective dialogue between the stakeholders. Value chains often suffer from mistrust, lack of communication and poor coordination. A participatory process has the potential to build trust and foster cooperation for a common goal.

- Business initiatives for peace: Private sector development (PSD) interventions are usually driven by a government, donor or aid agency. However, the international private sector itself has recently started some initiatives to promote peace, stability and social responsibility amongst companies. A variety of initiatives sprang up in the last decade to encourage business practices that are conflict-sensitive and build peace. The majority of these are self-obligation initiatives. Development cooperation has rarely used the potential of global economic players for crisis prevention and conflict mitigation. However, more such opportunities should be explored in light of the mobilising potential of international business initiatives.

- Skills development and employment promotion: The general aim of skills development and employment promotion is to facilitate access for the poor to decent employment and income. More specifically, in (post-)conflict environments it is used to support the recovery of livelihoods, to facilitate social and economic (re)integration of conflict-affected groups, and to contribute to reconstruction and long-term economic development. Skills training must be easy to access, low cost and of immediate benefit to the participants. Vocational education and training (VET) systems must be oriented towards the needs of the labour market, and adequate investment is needed in capacity development for training providers and VET coordinating structures.

- Financial system development (FSD): A stable financial system and access to financial services are considered important contributions to crisis prevention and peacebuilding. Therefore, to ensure stability and breadth of access, the appropriate conditions must be fostered, and financial infrastructure put in place. Malpractice

among financial institutions must be controlled using effective regulation and supervision. Microfinance initiatives should be promoted to improve access to financial services for the poor and socially excluded groups. This will help decrease inequalities and restore social cohesion.

Integrated SED interventions can create synergies and thus increase their peacebuilding potential. Microfinance services and vocational skills training courses are often linked to value chain promotion and local economic development interventions, especially in situations where qualified workers have migrated or where ex-combatants and returning refugees need to be integrated into the local economy.

SED interventions can make a substantial input to a country's recovery efforts immediately following the end of an armed conflict. There is a need both for short-term reconstruction and rehabilitation, and for medium and long-term economic development initiatives. Short-term activities focus on quick, stabilising impacts, boosting employment or income opportunities. They can also improve the local investment climate and the credibility of government. Medium and long-term SED interventions should be started as soon as possible – even at the same time as short-term interventions. They should gradually increase while reconstruction and rehabilitation efforts decrease. However, in volatile post-conflict environments it is important to ensure that such interventions are conflict-sensitive.

Results-oriented monitoring and evaluation (M&E) deserves particular attention in conflict affected environments: This involves monitoring the project activities as well as the results of these activities; it is necessary for the steering of a project, as well as its accountability. A project M&E system can be made conflict-sensitive by integrating four elements, which are also linked to the information provided by the peace and conflict assessment (PCA):

- Monitoring of the security situation.
- Monitoring of conflict trends (as part of the conventional project environment monitoring).
- Monitoring of unintended project results which affect the peace and conflict situation.
- Monitoring of intended project results which affect the peace and conflict situation (as part of conventional results monitoring).

Project progress reviews and external evaluations should make critical assessments about whether or not to start or continue an intervention, and should determine where the cut-off point should be in respect of the conflict situation.

KEY ISSUES FOR PLANNERS AND PRACTITIONERS

1. **Start the (re-)planning process with a peace and conflict assessment (PCA). Focus in particular on the following questions:**

- Is the economy linked to the conflict (with connectors, dividers, war economy, inequalities, discrimination, use of natural resources)?
- What are the socioeconomic peacebuilding needs?
- Is the (planned) SED intervention relevant in relation to the peacebuilding needs?
- What are the potential risks that the conflict situation has a negative impact on the intervention and how can these risks be managed?
- Define indicators to monitor the project results in relation to the peacebuilding needs?

2. **Define conflict-related objectives and strategies for the SED intervention:**

- Intervention has no – or just low – relevance in relation to the peacebuilding needs: consider stopping the project or operating as a C-0 project; define conventional SED objectives, and do-no-harm check.
- Intervention has medium or high relevance in relation to the peacebuilding needs: operate as C-1 or C-2 intervention; define conflict-relevant objectives, strategies and indicators; possible approaches: address economic conflict causes and factors; reduce economic resources of the conflict; address effects of conflict and peace on the economy; support economic 'connectors'.

3. **Select the appropriate SED approaches and management practices:**

- Define target groups and potential implementing partners, taking into consideration the peacebuilding needs and do-no-harm principles.
- Adapt conventional SED approaches to suit the peace and conflict situation, or develop a tailor-made approach in which preconditions for economic development are extremely bad.
- Define major project activities (what?) and mode of operation (how? when? where?) in consideration of safety concerns, peacebuilding needs, do-no-harm principles, necessary flexibility and cost-efficiency.
- Define do-no-harm personnel regulations (staff recruitment, training and coaching, expected behaviour, consequences for non-compliance).
- Define safety regulations (precautions and responses to risks).
- Define strategy for communication, coordination and cooperation with all relevant stakeholders.

4. **Make the M&E system conflict-sensitive:**

- Monitoring of the security situation and of conflict trends.
- Monitoring of intended and unintended project results.
- Design M&E reporting and decision-making processes.

1 ECONOMY, CONFLICT AND DEVELOPMENT COOPERATION

This chapter looks at the interrelations between economic development and conflict, concluding that there are three basic contact points which can also serve as starting points for the 're-thinking' of SED interventions: (1) the economic dimension of conflict root causes and escalating factors; (2) the economic resources feeding a conflict; and (3) the adverse effects of conflicts on the economy. The second section of this chapter discusses the peacebuilding potential of economic actors. The chapter closes with an introduction to the German approach to conflict sensitivity in development cooperation.

1.1 Interrelations between Economic Development and Conflict

Conflict is a phenomenon associated with coexistence in all societies. To some extent conflicts are an inevitable, indeed a necessary corollary of social change, as they expose tensions and incompatibilities between different, mutually interdependent parties with regard to their respective needs, interests and values. Especially during phases of profound socioeconomic change and political transition, disagreements can escalate into violent conflicts or crises affecting whole societies. The problem is not societal conflict per se, but the way in which it is managed and resolved.

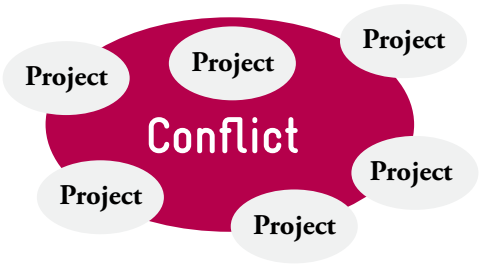
The goal of development cooperation must therefore be twofold: first, to help prevent or transform violence as a means of pursuing conflicts and to promote mechanisms and capacities for peaceful, non-violent conflict management and resolution; second, to contribute to the reduction of the structural causes and escalating factors of violent conflicts.

The most famous principle in this respect is 'do-no-harm' (DNH). It acknowledges that development interventions always have an impact on conflict, either a (intended) positive or (unintended) negative one. The distribution of project resources and the ethical messages communicated through the project's 'behaviour' are of particular concern. DNH raises awareness for the potentially hazardous effects of development measures and offers tools that help managers to avoid any negative impacts through their well-intended interventions.

Against this background it is clear that Sustainable Economic Development (SED) interventions in conflict or post-conflict situations cannot be planned and implemented in the same manner as in peaceful countries. In the past, it has often been assumed that development interventions can continue with 'business as usual', an attitude of working around a conflict, avoiding or even ignoring it as far as possible. However, reality proved this not to be a feasible option, but rather a strategy with a high risk of being harmful.

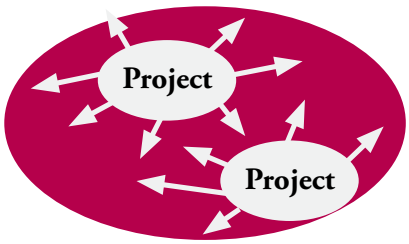
Working in conflict has become a reality in many partner countries. It cannot be avoided and must therefore be done consciously. The interrelations between SED interventions, the economy at large and the conflict situation must be considered at all stages of the project cycle. **Working on conflict** means that the strategy and the

Implementing PSD in Conflict Settings: Working in and on Conflict



Working in conflict (conflict-sensitive)

The possible mutual impacts of development co-operation and conflicts are recognised. Strategies minimise negative impacts of PSD interventions and apply Do-No-Harm as minimum standard.



Working on conflict (conflict-relevant)

The conscious attempt to design programmes in a way that they make a direct contribution to peace building. Crisis prevention and conflict transformation are the specific priority areas.

Figure 1
Conflict Sensitivity and Conflict Relevance in Economic Development

objective of an intervention are (at least partly) a direct attempt to address conflict issues and therefore to contribute (directly or indirectly) to peacebuilding.

Conflict can stem from many different factors in a society. Indeed, in most cases violent conflict results from multiple structural causes. Political factors such as the absence of a legitimate government, the exclusion of people from political decision-making or limited institutional capacities may breed discontent within a society; a fragile state may further fuel or aggravate conflicts. Likewise, social factors such as social disintegration, marginalisation and discrimination are likely to enrage disadvantaged groups. Furthermore, a lack of security connected to the presence of small arms or uncontrolled army and police units may lead to a situation of uncontrollable violence. In many cases, however, conflict stems from economic factors and is grounded in deep socioeconomic inequalities, the competition over access to economic resources (natural resources as well as income opportunities), or insufficient satisfaction of basic human needs.

In situations where economic grievances are among the major causes of conflict, economic development interventions have a great potential, as well as a responsibility to contribute to peacebuilding.

Various researchers[1] have explored the relationship between economic factors and conflict. Statistical analysis has shown the following results:

- Countries that rely heavily on primary commodities are more vulnerable to conflict.
- There is a correlation between the presence of easily looted natural resources (e.g. timber, alluvial diamonds or coltan), which can provide a source of financing, and

1
Collier and Hoeffler (2001); Collier et al (2003); Humphreys (2002).

the prolongation of conflicts. At the same time, the presence of resources which cannot be looted (e.g. oil and gas reserves) heighten the risk of separatist wars.

- A large diaspora statistically increases the risk of conflict renewal, as the members of the diaspora may become a source of funding for conflicting parties.
- There is a clear relationship between the poverty of a nation and the risk of a civil war. This relationship is even stronger for very poor countries. Moreover, wars last longer in poorer countries. A vicious cycle of conflict and poverty emerges, known as the 'conflict trap': poverty fuels conflict and, in turn, conflict sustains and aggravates poverty.
- Domestic and foreign investment both collapse during a conflict and do not recover until long after it is over.
- There is no clear evidence of a relationship between inequality in general and the risk of conflict. However, case studies suggest that countries with severe horizontal inequality (i.e. income differences between regional or ethnic groups) are more vulnerable to conflict.
- The risk of conflict is significantly and substantially reduced in countries with higher rates of male secondary school enrolment.
- Countries engaged in trade with each other are less likely to fight each other.

Therefore, we can conclude that an intimate relationship between conflict and economic factors exists:

- Root causes and escalating factors of conflicts often have an economic dimension.
- Economic resources play an important role for the duration and intensity of a conflict.
- Violent conflicts have adverse effects on the economy, which can cause development interventions to fail.

Given these interrelations, SED interventions can have a significant positive impact on conflict prevention and/or peacebuilding if they:

- Address the causes of conflict or promote factors that decrease the risk or duration of violent conflict, by supporting economic growth and poverty alleviation, while at the same time reducing horizontal inequality, by decreasing the dependence on primary commodities and diversifying the economic base, by introducing transparent and effective (economic) mechanisms to regulate peaceful competition for natural resources, and by reducing the financial resources for conflict.
- Enhance factors that contribute to conflict prevention, peacebuilding and reconciliation, e.g. by supporting the ability of different social or ethnic groups to participate in and benefit from trade, by enhancing the role of economic actors in crisis prevention, conflict transformation or peacebuilding, and by promoting reconciliation and the building of trust between (economic) actors.

Likewise, SED interventions can aggravate or even create conflicts if they do not take into account the prevailing realities in a (post-) conflict situation, for example:

- Project assistance such as business services for those who are or were actively involved in the conflict (war profiteers and warmongers) can promote an economy of

violence; they send the message that violence is rewarded, and may thus trigger more violence.

- Project support exclusively targeted to one of the conflict groups or one specific target region can increase (horizontal) inequalities and cause grievances amongst those left out; tensions between groups worsen particularly when economic development interventions seem to 'pick the winner', supporting those economic actors or regions which are better off than others and usually also do better during (and sometimes after) conflicts.
- Lack of coordination between different support programmes and the over-generous use of subsidies can create greed and grievances, either amongst those who have not received support, or even amongst those who have become accustomed to subsidies.
- Project resources stolen or channelled to war parties may be used to support war efforts.

In sum, SED interventions have a great potential for conflict transformation and stabilization, if they are properly executed. A great deal of the potential is related to the receptiveness of the target groups and partners of SED projects. The negative impact of conflict on the economy sparks the interest of economic actors in peacebuilding initiatives which can be supported by SED interventions. But to realise this potential in a professional way, cooperation on SED needs to be adjusted to account for complex (post-) conflict contexts. The following section explains in more detail why and how the private sector can be involved in peacebuilding.

1.2 The Private Sector as Peace Driver

Since the overwhelming majority of enterprises are negatively affected by any violent conflict, most businesses have an inherent interest in peace and stability. This holds true especially for local and domestic businesses that depend on a stable market for production and commerce. Four factors tend to drive entrepreneurial involvement in peacebuilding:

- the implicit costs of the conflict,
- the moral or religious desire to promote peace for the greater good of society,
- a sense of corporate social responsibility, and
- external encouragement.

Local business people can play an important role in peacebuilding. The concept of peace entrepreneurship covers a range of interventions by domestic businesses seeking to promote peace in a variety of conflict settings. They can be clustered according to the four major issues for peacebuilding that are typically found in post-conflict settings: political, economic, security and reconciliation (see Figure 2).

In various countries domestic entrepreneurs and bankers have supported peacebuilding on a political level. For instance, business people have been members of peace negotiation teams, have advised such teams or have given them administrative and logistical support; they have helped to build trust between former conflict parties and mobilised popular support for peace.

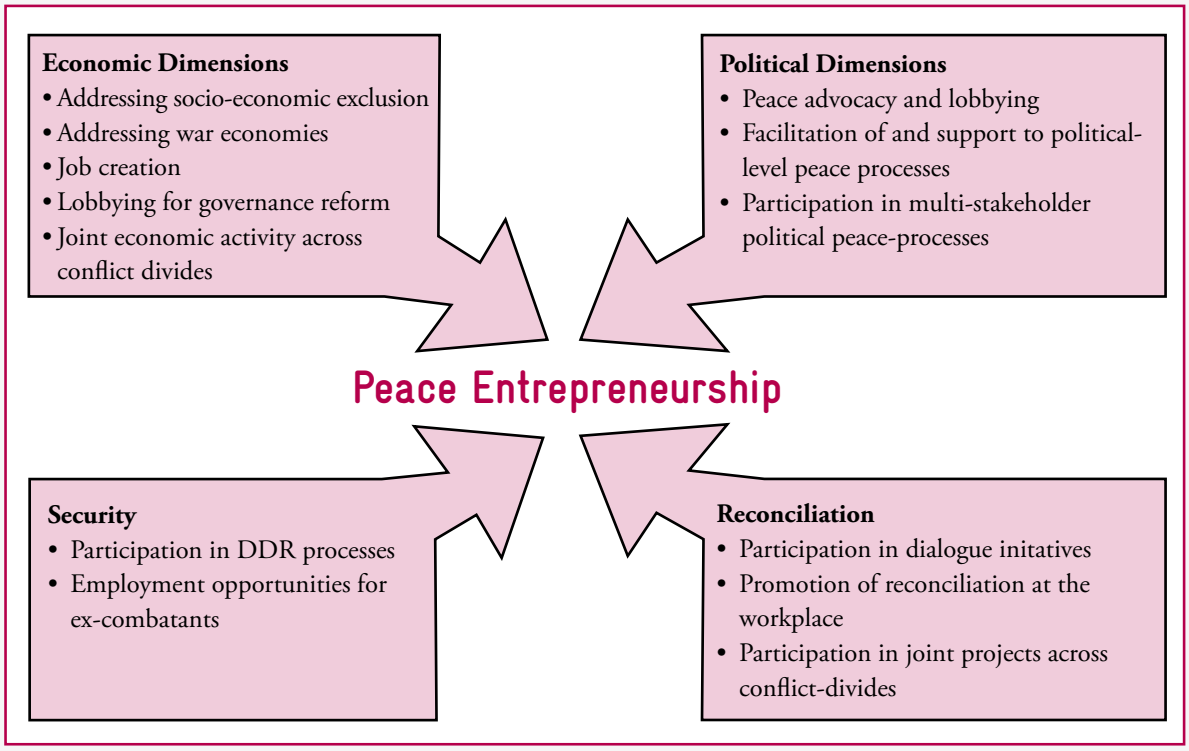


Figure 2
Peace Entrepreneurship

The private sector can promote social and economic inclusion. Business people and bankers can become peace drivers by promoting inclusive economic growth as well as the social and economic inclusion of disadvantaged and conflict-divided groups in society. They can mitigate the socioeconomic exclusion of those who have little or no access to resources, jobs and other opportunities. Useful activities may take place at the workplace (for example, transparent and non-discriminatory recruitment regulations), at the community level (for example, joint community development), or at the macro level (for example, lobbying for reforms and joint economic initiatives across conflict divides).

The business sector – including the financial sector and the labour market – therefore has an important role as 'connector' across social divisions. Relationships between communities divided by violent conflict are usually damaged and extremely precarious, with high levels of mistrust and grievance. Business or labour relations may be one of the few remaining points of contact between conflict parties – and one of the first to resume after a conflict. In many instances, these contact points are both profitable and inspiring as they demonstrate that peaceful interaction for mutual benefit is both possible and desirable.

The private sector can even address the sensitive and complex challenges associated with the security dimensions of peacebuilding. Local businesses can, for example, provide jobs to former combatants in the context of a national Disarmament, Demobilisation and Reintegration (DDR) programme.

The size and scope of a business determines – to some extent – its potential role in a peacebuilding process, as illustrated in the Figure above. The domestic private sector straddles all levels of society and thus has a large field of influence. Business people

and bankers are in a good position to contribute to peace through their existing networks and associations on local, regional and national levels (see Figure 3).

However, the peacebuilding potential of entrepreneurs does not automatically lead to peacebuilding activities. Entrepreneurs and bankers are often preoccupied with the management of their daily business operations or mere survival during the conflict; and like anyone else they suffer from the legacy of conflict, in particular general mis-trust. Therefore, SED interventions may have to do the first steps. In the context of German development cooperation such interventions must be conflict-sensitive as outlined in the following section.

Box 1

Colombia: Local Entrepreneurs for Peace

For many years, the Norte de Santander region in Columbia has been plagued by violent conflicts between guerrillas, paramilitaries and organised drug groups, each fighting for power. Since the region is close to the Venezuelan border there is a thriving economy based on smuggling. According to a study conducted by the GTZ-supported programme CERCAPAZ, micro and small enterprises (more than 60% of all businesses in the region) are badly affected by the conflict. However, a few benefit from the illegal business practices. The study found that local entrepreneurs could be key peace drivers. Therefore, CERCAPAZ started to encourage local entrepreneurs to be socially responsible and pro-peace. More than 100 entrepreneurs, as well as representatives of the local business chamber, the local government and the University Paula Santander, joined the first regional meeting for the initiative, in September 2007. Entrepreneurs realised that they could and should play a key role in peacebuilding, for example by offering jobs to demobilised guerrilla combatants, or by running education and health projects to support communities. CERCAPAZ is supporting the process in order to re-build trust between the government and civil society.

In 2008 CERCAPAZ and Germany's Konrad Adenauer Foundation organised Colombia's first ever business and peace prize ceremony as part of the ExpoAlemania trade fair in Bogota. Thirty-one businesses responded to the open contest. Four emerged as winners: Granary Yat wala, with its programme 'Radio station: Voices of our land in Jambaló Cauca' (a radio production that shows the processes of peace and indigenous resistance in the Jambaló, Cauca reservation); Ubiquando, with its initiative 'Software technology: A development alternative for young people of vulnerable populations in Bogota' (education alternatives for young people who live in an environment of crime and drugs); Cartón de Colombia with its initiative 'ASPROLESO – promotion of the Sotará Milk Producer's Association' (a community business that generates income for displaced people); General Motors Colmotores, with its initiative 'Puntada por la paz' (a tailoring company which generates employment for 90 people demobilised from illegal armed groups).

Source: adapted from CERCAPAZ reports and GTZ intern 11-12/2007, page 2.

Types of Actors	Business Counterparts
Level 1: Top leadership • Military/political/religious leaders with high visibility	• Individual business leaders • National chambers of commerce • Sectoral apex organisations • Leading company CEOs
Level 2: Mid-range leadership • Leaders respected in sectors • Ethnic/religious leaders • Academics/intellectuals • Humanitarian leaders (NGOs)	• Small to medium-size enterprises • Regional chambers of commerce • Regional business leaders
Level 3: Grassroots leadership • Local leaders • Leaders of indigenous NGOs • Community developers • Local health officials • Refugee camp leaders	• Shop owners • Traders, including informal sector • Market stall owners • Small scale associations

Figure 3 [2]
Peace Entrepreneurs at all Levels

1.3 The German Approach to Conflict Sensitivity

As shown above, there are evident links between the economy, economic development and conflict. Because conflict settings differ in their complexity and volatility from 'normal' development environments, it is essential that SED interventions are designed and carried out in a conflict-sensitive manner. Otherwise they may either fail or even become harmful. The concept of conflict sensitivity has been elaborated by many international organisations and there is general agreement on its basic principles.

Germany responded to the challenge of conflict sensitivity with the development of a whole-of-government approach, manifested in the 'Comprehensive Concept of the Federal Government on Civil Crisis Prevention, Conflict Resolution and Post-Conflict Peacebuilding' (German Federal Government, 2000) and the action plan 'Civilian Crisis Prevention, Conflict Resolution and Post-Conflict Peacebuilding' (German Federal Government, 2004).

Below the level of the whole-of-government approach, the German Federal Ministry of Economic Cooperation and Development (BMZ) developed its own specific policy and instruments for the political steering of development cooperation in conflict-affected countries. A crisis early warning system was established in the late 1990s. It was revised during the development and adoption of the relevant policy, the 'Sector strategy for crisis prevention, conflict transformation and peacebuilding in German development cooperation' (BMZ, 2005). The sector strategy aims at mainstreaming crisis prevention and conflict transformation as a cross-sectoral issue with the intent to anchor conflict sensitivity in German development cooperation.

2
Adapted from International Alert, 2006; p.3.

It contains binding directives and standards for the planning, implementation and steering of all German Official Development Assistance (ODA) in conflict-affected countries. The German approach to conflict-sensitive planning and programming of development cooperation in conflict-affected countries consists of the following two building blocks: the crisis early warning system, and the conflict marker.

1.3.1 The Crisis Early Warning System of BMZ

The crisis early warning system assesses the danger of a partner country to fall into, or remain in a situation of crisis or conflict. It is the starting point for strategy development and the conflict-sensitive design of German development cooperation in the respective country.

The early warning system consists of two main elements: first, a qualitative questionnaire is answered for each partner country, which analyses the actual changes in the crisis potential of the respective country. The questionnaire results in a rating of the country according to a crisis liability classification. Second, based on these results, a country matrix is generated, providing an overview of all countries according to their classification.

The country matrix is composed as a synopsis with countries classified along two axes indicating their 'prevention needs' and 'conflict situation'. They are marked with traffic light colours to signal a sense of graduated alertness. Countries with 'low' prevention needs are marked green ('green countries', here displayed a grey), those with 'growing' prevention needs are marked yellow ('yellow countries', here displayed as light rose), and those with 'acute' prevention needs are marked red ('red countries'). Along the conflict situation axis, the categories are: 'peace/pre-violent conflict', 'violent conflicts in sub-regions', 'violent conflicts at national level' or 'post-violent conflict'. The categorisation into green, yellow and red countries identifies for which partner countries conflict-sensitive design and implementation of development cooperation must be ensured.

The table (Figure 4) is a simplified version of the country matrix, in which grey represents 'green' and light rose represents 'yellow countries'. The actual matrix is compiled once a year (usually in March) and is only used as an internal document for BMZ policy development and for technical and financial cooperation implementation strategies. Implementing organisations can request detailed information and the country matrix from the respective BMZ country desks.

In all partner countries categorised as yellow or red, two steps must be taken. At the country level, the BMZ country desk, together with the country units of the imple-menting organisations, must consider the cooperation with these countries under the macro-perspective of strategy development of the country programme and should consider targeted support for crisis prevention, conflict transformation and peace-building. Depending on the existing priority areas of German development cooperation and the partner country, crisis prevention and conflict transformation can become a main focus or a cross-cutting issue for the cooperation. On the project level, development cooperation must be made conflict-sensitive in all yellow and red countries – what this means in concrete terms, and how this functions, will be explained in Chapter 3. According to the form and extent of the implementation

of conflict sensitivity in the project design, the project will be given the respective 'C-marker', which is simply the visible expression of the conflict orientation and not an instrument in itself.

1.3.2 ..... The BMZ Conflict Marker

The BMZ Conflict Marker (C) identifies the relevance of a development intervention for crisis prevention, conflict transformation or peacebuilding, and stipulates its conflict-sensitive design.

If there is a clear, intended and visible contribution of a project to crisis prevention, conflict transformation or peacebuilding, the project is marked C-2 or C-1. If conflict sensitivity is implemented as a cross-cutting issue, however, the project is marked C-0. All planned or existing projects of technical and financial cooperation in countries with growing or acute prevention needs (the 'yellow' and 'red' countries) need to be assessed for their conflict sensitivity – for instance, by applying the peace and conflict assessment (PCA), which will be explained in the next chapter. SED interventions in 'yellow' and 'red' countries are usually marked either C-0 (if they are conflict-sensitive) or C-1 (if they also contribute to crisis prevention, conflict transformation or peacebuilding).

To determine the appropriate conflict classification (C-marker), planning or appraisal missions can start from the reality on the ground when designing or reviewing a project or from the intended results of the project to be designed (political decision between BMZ and the partner country's government). The following table explains the meaning of the C-marker as well as the criteria applied for the classification of projects, and gives examples for each case:

		Prevention Need		
		Low	**Growing**	**Acute**
Conflict Situation	**Peace/ pre-conflict**	E.g. Dominican Republic, Sambia	E.g. Uzbekistan, Guatemala	E.g. Georgia, Kenya
	Violent Conflict in sub-regions	E.g. Algeria, Thailand	E.g. Philippines, Uganda	E.g. Myanmar, Chad
	Violent Conflict on national level			E.g. Sri Lanka, Palestinian Territories
	Post-Conflict			E.g. Haiti, DR Congo
	Possible Conflict Marker for Projects	**C-** Since there is no need for conflict relevance at the country level, the projects just inidcate 'C-' (no conflict relevance)	**C-0, C-1, C-2** Minimum standard is C-0. Depending on their conflict-relevance, projects can also be designated C-1 or C-2	**C-0, C-1, C-2** Minimum standard is C-0, Depending on their conflict-relevance, projects can also be designated C-1 or C-2

Figure 4:
Excerpt from the 2008 Crisis Early Warning Country Matrix and Possible Conflict Markers

C-0 Conflict-Sensitive Sector Programmes	C-1 Sector Programmes with Peace Component	C-2 Special Case: Peace Programmes
Working in Conflict	**Working on conflict**	
Crisis prevention, conflict transformation or peacebuilding are not goals of the project. Since the project is taking place in a conflict environment with heightened risks, it is conflict-sensitive in its planning and implementation, following the minimal condition of 'DNH'.	Crisis prevention, conflict transformation or peacebuilding are a secondary goal, complementing other sector objectives such as PSD. Their impact is measured with a specific indicator.	Crisis prevention, conflict transformation or peacebuilding are the primary objective.
Criteria for Classification		
A limited PCA has been conducted, either separately or as part of the project preparations and/ or appraisal, and the pertinent recommendations have been adopted, ensuring conflict-sensitive design. Specific elements of the projects, like selection of target group/ intervention region are examined and adapted in a conflict-sensitive way.	A PCA has been conducted, either separately or as part of the project preparations and/or appraisal, and the pertinent recommendations have been adopted, ensuring conflict-sensitive design. The objective of crisis prevention and/ or conflict transformation is expressly mentioned in the project proposal (e.g. part of the objective, or as an indicator, in the risk section, methodological approach etc.).	A peace and conflict assessment (PCA) has been conducted, either separately or as part of the project preparations and/or appraisal, leading to the design of a 'peace programme'. Peace programmes are directed expressly at crisis prevention and/ or conflict transformation.
Examples		
• Value chain development, avoiding a 'picking the winner' approach. • Promotion of vocational education for young people of both sides in an ethnic conflict.	• Support for conflict-sensitive corporate social responsibility activities. • Reconstruction of economic infrastructure in conflict areas with the involvement of the former parties to the conflict. • Local economic development ensuring benefits in particular for disadvantaged groups.	• Capacity building for non-violent conflict management in civil society. • Support for truth commissions • Reintegration of ex-combatants. • Supporting for institutions of business actors engaging in peacebuilding.

Figure 5:
The Conflict Marker

2 TOOLS AND METHODS FOR CONFLICT-SENSITIVE DEVELOPMENT

This chapter provides an overview of the basic tools and methods for integrating conflict sensitivity into German development cooperation. It introduces principles of conflict-sensitive design of development cooperation, which are based on the methodological frameworks of do-no-harm (DNH) and the peace and conflict assessment (PCA). Section 2.2 discusses PCA in detail as the basis for the ensuing chapters that deal with planning, management and monitoring of SED interventions in conflict-affected environments.

2.1 Conflict-Sensitive Design of Development Cooperation

Practical experience has shown that an intervention's impact on a conflict depends not only on what is being done, but also on how it is being done. To avoid unintended negative impacts, all German official development assistance in conflict-affected environments has to be designed and implemented in a conflict-sensitive manner.

As a minimum, conflict sensitivity means taking into account the mutual influence that exists between the conflict-affected environment and dynamics, and a project's actions. This is intended to avoid any negative, conflict-aggravating impacts, and to strengthen all positive, de-escalating and peace-promoting impacts. Assessment and management tools such as the DNH approach (Anderson, 1999) and the Peace and Conflict Assessment[3] (Paffenholz and Reychler, 2005) are widely accepted.

Do-no-harm is now considered the international minimum standard for all sectoral interventions by international organisations operating in regions of (potential) conflict. The core question to be answered in this context is: Have we made the right choice concerning beneficiaries and partners of our interventions? Can our interventions cause greed or grievances amongst those who do not get our support or even amongst those who do get our support?

Aid interventions must avoid creating or aggravating violent conflicts among and between social groups (especially conflicting parties). Aid planners need a good understanding of the relevant social groups, their relationships and the underlying conflict potentials. If conflict due to changes caused by an aid intervention cannot be avoided, conflict management measures (in order to avoid violence) must be applied. It should always be remembered that development assistance produces impacts not only through resource transfers (i.e. what aid agencies bring in and how they distribute it) but also through the implicit ethical messages (i.e. what is communicated by how agencies work). Therefore, the details of assistance matter very much, and there are always options for adapting programmes.

Doing no harm and avoiding or minimising unintended negative impacts depends first and foremost on a thorough situation analysis. Ideally, this will lead to a better understanding of 'connectors', 'dividers' and the role of the private sector. DNH postulates that all societies are characterised by elements, people and organisations

3 In earlier studies, 'PCA' was used as abbreviation for the 'Peace and Conflict Analysis', i.e. one of the four PCA elements. In this and all other GTZ publications, PCA refers to the sum of all four elements of the Peace and Conflict Assessment.

that divide people into subgroups ('dividers'); likewise there are elements, people and organisations that can connect people across subgroups ('connectors'). The social fabric can deteriorate to the point of violence and warfare, if 'dividers' are dominant or 'connectors' undermined. When, on the other hand, 'connectors' are reinforced and 'dividers' are overcome, people find ways to live side by side and work together to address common problems. An important first step is thus to understand who and what are the 'dividers', who or what are the 'connectors', and who are the victims and perpetrators. If such information is not available in an existing conflict analysis or assessment the project may have to do its own research.

Some basic questions guiding the DNH approach are:

Why? Why this programme? Is the reason for starting it still significant? Has the rationale and strategic approach changed since the beginning?
Do we still have a well defined relation to the peacebuilding needs? What do we hope to stop or change through our intervention? Why us? What is the added value that our organisation brings to addressing this need in this place?

Where? Why did we choose this project area? What criteria did we use? Are the criteria still valid? Which region and which groups did we leave out and why? Why did we rent these buildings? From whom? Why do we drive this route? Why do we buy these resources here?

When? Is the time chosen for the implementation of a specific activity the right one? What aspects of the current situation make 'now' the right time for our intervention? Why us, now? How long is our project going to last? How will we know when our project is finished? What criteria do we apply for this? What will have changed and how will we know? Do we have an exit strategy?

What? What are the specific resources that are transferred with the implementation of our activities? Is the content of the programme in line not only with economic needs but also with peacebuilding needs?

With Whom? Who are the beneficiaries? Who is left out and why? Who else benefits from our presence?

By Whom? Who are our staff? How were they selected? What were the criteria for hiring these people? Are certain (ethnic, social, political) groups left out because of existing disadvantages in their qualification?

How? What is the delivery mechanism of our assistance? How exactly do we do our work? How exactly do we act?

The peace and conflict assessment (PCA) is based on the DNH approach, but more systematic and comprehensive. The BMZ has adapted the original PCA methodology, which was developed by Paffenholz and Reychler, to create a management tool to ensure the conflict-sensitive design, planning, implementation, and evaluation of interventions, programmes and portfolios of German development cooperation.

PCA can be carried out at country level and/or project level. At country level, the re-sult of a PCA is the review (and possibly adjustment) of the respective country portfo-lio. If the political will 'for more peace and stability' is articulated, the existing priority areas, and/or the strategies of existing priority areas are crosschecked with regard to their peace and conflict relevance. Depending on the country situation this could lead to an adjustment or change in the sector priority areas. In this

context, the application of PCA concerns mainly BMZ, the GTZ Country Office and the partner government. At project level, PCA can serve to facilitate project management in difficult contexts. It is used by the implementing organisations of German development cooperation for the conflict-sensitive design and implementation of individual projects or pro-grammes. This guidebook describes how PCA is implemented at the level of SED projects.

2.2 Peace and Conflict Assessment (PCA)

PCA is a methodological framework that gives strategic orientation for the handling of the issues 'peace' and 'conflict'. This framework consists of four individual PCA elements, which include many tools and instruments. For this reason, PCA is often described – somewhat misleadingly – as a 'toolbox'.[4]

The application of PCA at the project level facilitates crucial choices, such as the selection of target groups, the geographical project area, or the strategic direction and methodology to be applied by a project. The use of PCA prior to and during planning and implementation helps to increase the conflict sensitivity and the impact of the measures used. It can also contribute to the evaluation of ongoing and completed interventions. The application of the PCA will vary according to the type of intervention, the purpose (i.e. planning, assessment or evaluation) and the context in which the intervention is taking place (Paffenholz and Reychler, 2007). The BMZ defines four elements for a PCA:

Analysis-centred PCA Elements		Management-centred PCA Elements	
Element 1a: Peace and Conflict Analysis **Element 1b:** Peacebuilding Needs Assessment	**Element 2:** Peacebuilding Relevance Assessment	**Element 3:** Risk Management	**Element 4:** Peace and Conflict-Related Impact Monitoring

Figure 6: Four Elements of the Peace and Conflict Assessment (PCA)[5]

It should be noted that while PCA is a logical sequence of closely linked elements, it is not a linear or path-dependent process through which the results of the initial peace and conflict analysis absolutely determine the development cooperation measures identified at the end. PCA users should keep in mind any alternative analytic outcomes and options for action, and incorporate learning loops. They can and should regularly review their conclusions in the light of their growing body of experiential knowledge.

2.2.1 Peace and Conflict Analysis and Peacebuilding Needs Assessment

The two-fold objective of this element is to gain a more in-depth understanding of the conflict situation (Element 1a) and to identify points of entry for development cooperation to support peacebuilding (Element 1b).

4
For a detailed description of PCA see GTZ, 2007a.

5
Please consult Annex 6.1 for a more detailed table on PCA.

Box 2

Understanding the Conflict and the Peacebuilding Needs

- Projects need current and accurate information about the conflict: who is involved in the conflict, what are the conflict issues, what do the conflicting parties want, what are the root causes and escalating factors, what are the regional differences within the country?
- The role of economic actors and the private sector should be well understood: Who are the 'dividers' (people, companies, institutions, customs, etc. that cause or aggravate the conflict), who are the 'connectors' (people, companies, institutions, customs, etc. that bridge conflict lines), and who are the victims and perpetrators?
- It is important to understand local power systems and networks: which roles do local leaders and government officials play in the conflict? Are they committed to peacebuilding? If the government is a party to the conflict, check whether it makes sense to cooperate with the government at all, or if the project can operate independent of government structures.
- What is needed to build peace? Don't just make assumptions! Ask different groups in society, especially 'connectors' and victims.

Since 2006 the German Institute for Global and Area Studies (GIGA) develops so called 'Political-Economic Short Analyses' (Politökonomische Kurzanalysen – PÖK) for the BMZ. The PÖKs for countries at danger or in the course of violent conflicts ('yellow' or 'red' countries) already include a peace and conflict analysis and identify peacebuilding needs. Whether a PÖK for a certain country is available or in progress can be inquired at the respective BMZ country manager.

Element 1a) Peace and Conflict Analysis

The peace and conflict analysis forms the basis for all further steps in the PCA. Conflict Analysis is an instrument in which a conflict situation – often comprising many conflicts – is analysed in order to identify and better understand the situation in all its complexity. It analyses the conflict, inter alia, by describing the causes, actors, trends and scenarios, and relates these to development cooperation. As such, it is similar to the situation analyses that precede all planning in development, but it differs in the way it focuses on the social and political tensions and conflicts that impact negatively on a country's development and which are carried out with violence or may (potentially) become violent.

While there are several tools for a Peace and Conflict Analysis, they all include:

- a conflict profile, which combines the basic data on the conflict, and describes it in terms of time, space and the issues that allow for a first situation assessment.
- an actor analysis, which identifies the stakeholders and their interests in the conflict, e.g. conflicting parties, peace actors, victims, etc.
- an identification of 'connectors' and 'dividers'.
- scenarios which explain current dynamics and possible developments.

It is also possible to carry out a peace and conflict analysis which focuses on the economy. Such a sectoral analysis looks at the relationship between the conflict and the economy and its actors. It can supplement and deepen the general analysis at the national level. The reason for analysing this relationship is to find out:

- the economic root causes of the conflict, and its escalating and de-escalating factors.
- the economic dynamics of the conflict.
- what economic resources and actors play a role in the conflict.

- how the private sector is involved in the conflict, and what 'connectors' or 'dividers' are related to the private sector.
- the potential impact of economic development on the conflict (a value chain mapping exercise can help in this respect; see chapter 4.2.4).

The methodology for the Conflict Analysis depends on the specific situation. Ideally, it combines desk-research (based on existing conflict studies, literature, websites, telephone interviews), field research (interviews with stakeholders and experts, observing the impact of the conflict on the ground, etc.) and participatory analysis (workshops or individual talks to get feedback on certain questions and findings).

During field research and participatory analysis it is important to be sensitive to the cultural context (e.g. language and terminology used to talk about the conflict). Participatory planning and workshops with local actors contain the risk of missing the 'right' and involving the 'wrong' partners. Particularly in immediate post-conflict situations, organisations and persons with direct links to conflicting parties are often the most visible, though not necessarily the most eligible partners. Participatory planning should therefore only start when the conflict analysis has identified the causes of the conflict, the persistent lines of conflict, and the actors involved.

Element 1b) Peacebuilding Needs Assessment

Analysing the context and the challenges ahead is only a first step. In order to engage in a process of positive change it is necessary not only to identify the starting point (the result of the peace and conflict analysis), but also to develop a vision for a peaceful future, free of violence – the so-called 'ideal situation'. In the PCA element 1b one identifies what is needed to reach this ideal situation.

The peacebuilding needs are formulated in general at the country level. They can be identified by comparing and contrasting the 'vision for peace and stability' with the results from the peace and conflict analysis (= the present reality). The peacebuilding needs are those areas that require action to move from the deficient to the ideal situation. They answer the question: what needs to happen in order to make the vision for the country or society a reality in the coming years?

Box 3

Bangladesh: Social Standards in the Garment Sector

In Bangladesh, social inequality has seriously hampered the competitiveness of the ready-made garment industry, which is a major source of employment and export revenues for the country. Collapsing or burning garment factories with hundreds of victims are just the tip of the iceberg of extremely poor labour conditions which have resulted in frequently violent strikes by workers. Unbalanced economic development and socioeconomic disparities are among the structural causes of conflict in Bangladesh. A peacebuilding needs assessment identified the promotion of inclusive economic development and the reduction of socioeconomic disparities as two priorities for peace.

In reaction to this, a private sector development programme implemented by GTZ in Bangladesh has been reoriented to focus on social standards in the ready-made garment sector. The programme follows a multi-level and multi-stakeholder approach, cooperating with local suppliers, international buyers, government, non-governmental organisations, and business associations. The programme aims at improving the international competitiveness of the Bangladeshi garment sector by applying social and environmental standards.

Between 2002 and 2004, the Joint Utstein Study on Peacebuilding – commissioned by the evaluation departments of the foreign and development cooperation ministries of Germany, the Netherlands, Norway and the United Kingdom – surveyed the four donors' peacebuilding experiences in 14 partner countries (Royal Norwegian Ministry of Foreign Affairs, 2004; Kievelitz et al, 2003). The study concluded that peacebuilding needs in (post-) conflict societies can be grouped into the following sector clusters:

1. (Good) Governance/Political Framework	2. Socioeconomic Development
• Democratisation (parties, media, NGO, democratic culture) • Good governance (accountability, rule of law, justice system) • Institution building • Human rights (monitoring law, justice system)	• Economic infrastructure • Physical reconstruction • Infrastructure for health and education • Repatriation and return of refugees and IDPs • Food security
3. Security	**4. Justice and Reconciliation**
• Humanitarian mine action • Disarmament, demobilisation and reintegration of combatants • Disarmament, demobilisation and re-integration of child combatants • Security sector reform • Small arms and light weapons	• Dialogue between leaders of antagonistic groups • Grass roots dialogue • Other bridge building activities • Truth and reconciliation commissions • Trauma therapy and healing

Figure 7:
Categories of Peacebuilding Needs

The cluster on socioeconomic development in the above Figure is a useful entry point for planning SED interventions in conflict-affected environments. The results of the peace and conflict analysis in the economic sector can be compared with the economic peacebuilding needs. This establishes how big the gap is between the reality and the vision, and it helps to develop approaches to bridge this gap using SED interventions. When designed appropriately, conflict-sensitive SED interventions will address the economic peacebuilding needs in a direct (C-1) or indirect (C-0) way. Often, the economic peacebuilding needs are of central importance for the stabilisation of conflict-affected environments and play a key role among the peacebuilding clusters.

Formulating peacebuilding needs has several advantages. It 'forces' planners to be explicit about the changes that are considered necessary in specific sectors. This promotes a higher degree of transparency on the part of development cooperation with respect to its own objectives, and at the same time allows an improved strategic orientation of development cooperation, both at the political level and at the level of individual projects. Finally, a Peacebuilding Needs Assessment is also crucial to make the existing results-based monitoring system of a project (more) conflict-sensitive. It enables planners to draw up checklists for harmonising the targeted results of the project outputs and the factors for peacebuilding within the society concerned.

2.2.2 Peacebuilding Relevance Assessment

The objective of this element is to assess the peacebuilding relevance of a planned or existing development intervention and – if necessary – to identify entry points for its

adjustment. Relevance assessments originated in the realm of evaluation and apply tools for checking strategies and interventions that are not primarily directed at peacebuilding. They ensure the link between the analysis stage and the implementa-tion of an intervention. They also assess the viability of the intervention's goals and methods, i.e. whether or not the intervention has the potential to change the situation in the desired manner, such as contributing to achieving the peacebuilding needs.

The Peacebuilding Relevance Assessment is both innovative and essential; other planning approaches tend to skip this step and seek to assess the effectiveness of an intervention rather than first asking whether it is relevant at all. In the planning stage, the Peacebuilding Relevance Assessment helps to improve the targeting of the intervention; in the review or evaluation phases, it judges the relevance of ongoing interventions and suggests ways to improve their relevance for peacebuilding.

A Peacebuilding Relevance Assessment consists of two elements:

- Comparing the goals, objectives and main activities of the planned or existing intervention with the identified sectoral peacebuilding needs.
- Examining how and to what extent they are consistent with these needs (a relevance scale can help to prioritise interventions).

This means that the economic peacebuilding needs provide the frame of reference for assessing the conflict sensitivity of SED strategies and interventions.

The following five categories help to structure the relevance assessment against the background of the intended change accruing from an intervention:

1) **Strategic relevance**: Is the overall strategy/programme approach appropriate?
2) **Thematic relevance**: Are the pertinent issues addressed?
3) **Geographic relevance**: Are measures implemented in the appropriate regions?
4) **Actor-specific relevance**: Are the relevant actors involved?
5) **Timing**: Are timeframes and timed priorities (including sequencing) appropriate?

Since the relevance assessment reveals the degree to which an intervention contributes to crisis prevention, conflict transformation or peacebuilding, it also determines the appropriate conflict-marker (C-marker):

Relevance (of interventions for crisis prevention, conflict transformation, peacebuilding in conflict-affected environments)	C-Marker	Sector
High relevance	C-2	Peace programmes
A clearly defined, visible and perceivable relevance which may sometimes be of limited character; the peacebuilding needs are addressed directly by the project design/strategy,	C-1	e.g. SED interventions
No (intended, obvious) relevance, the peace- building needs are addressed indirectly by the conflict-sensitive project design/strategy.	C-0	e.g. SED interventions

Figure 8:
Link between Relevance Assessment and C-marker

2.2.3 Risk Management

The risk management element of PCA seeks to identify the potential or evident (negative) effects that a conflict may have on an intervention's personnel, investments and activities, and proposes ways of managing them professionally with a security strategy.

Due to the often volatile environment in conflict-affected environments, project personnel and assets face threats that cannot be accounted for with the risk assessment of the general project planning and steering processes. It is important to remember that all development measures can trigger negative responses from conflict parties. In fact, development cooperation is often regarded as a conflict actor.

Comprehensive risk management comprises:

- **Security and conflict analysis** that identifies the anticipated immediate risks posed to individuals and infrastructure in the implementation of the (planned) development cooperation measures. The security concept is developed on the basis of the analysis of the potential threat, the possible vulnerability and the capacities of the organisation.
- **Continuous monitoring of the environment.** Relevant areas for monitoring are identified from the results of the security and conflict analyses in order to observe continuously the dynamic trajectories of conflicts and the security situation. Current trends and developments are then traced systematically, which provides a basis for the risk assessment.
- **Assessment of risks.** The trends that have been identified in the monitored areas are assessed in terms of their potential risks. This assessment covers: (a) the feasibility of the development cooperation strategies, (b) the feasibility of the concrete development cooperation measures, and (c) personnel safety.
- **Steering and adjustment of measures.** In order to be able to respond appropriately and responsibly to the changed frame conditions and risks, strategies, modes of implementation, personnel aspects and additional (security) measures are reviewed and brought into line with the new situation.

To date, comprehensive country level risk management in development cooperation has been developed only in a few cases. Where such systems are in place – as, for example, the Risk Management Office in Nepal (see annex) – they are highly effective, but also rather expensive. They can be operated most cost-effectively in association with other actors, especially like-minded donors.

At the project level, risk management depends on whether a new intervention is planned or an existing one is being adjusted.

When a new project is being prepared, a security analysis is conducted to determine whether the planned project is feasible in the prevailing conditions. The results are documented in the form of a description of the risks, and recommendations are made for managing them. The planned timing of the measure in the region of intervention is examined closely once again, this time from a security angle. The special risks faced by the respective project institutions, implementing organisations and target groups are also documented, and any concerns about the content of individual project components are raised.

In the case of ongoing projects, new or additional options for action developed in the PCA element 'Relevance Assessment' are evaluated with respect to their feasibility and risks. Special risk factors should be incorporated into the subsequent results-based project monitoring system.

Depending on the threat level, a detailed security analysis focusing on the project and its immediate radius of intervention may generate additional security strategies that complement the frameworks in place at the national level.

Risk management fulfils the requirement of the BMZ that the security of all stakeholders must take priority over the implementation of individual interventions (BMZ, 2005). Risk assessments can be carried out with the help of checklists that focus on the security situation, the political and administrative climate, the relationship to partners and stakeholders, and the relationship to the parties in conflict and other intervening actors.

2.2.4 Peace and Conflict-Related Impact Monitoring

Whereas the risk management analyses and manages possible impacts of the conflict on the intervention, peace and conflict-related impact monitoring follows the opposite logic: it analyses and manages possible impacts of the intervention on the conflict or peace situation. Peace and conflict-related impact monitoring is used to ensure that the impacts and results of development cooperation do not exacerbate a conflict, but rather strengthen its peacebuilding effects.

The peace and conflict perspective complements the 'normal' monitoring system that each project or programme has established on the basis of its sector objective. It goes beyond conventional impact-based monitoring approaches by not only exploring the impacts of the project outputs, but also considering the impacts of the project as an actor on peace and conflict. The scope varies according to the C-marker assigned to the project in question.

Regardless of the C-marker, all projects in conflict-affected environments – i.e. in 'yellow' and 'red' countries – must monitor possible unintended negative impacts; this works best with an **inductive approach** characterised by an open procedure in which the monitoring team identifies changes in the project environment that affect the peace and conflict situation. This is often an iterative process of survey and assessment. For this purpose checklists can be used that are either based on international experiences with the conflict-sensitive monitoring of development cooperation (e.g. the DNH methodology), or that are prepared by the monitoring team on the basis of the Peace and Conflict Analysis. Other inductive methods include participatory monitoring and conflict monitoring. The strength of this approach lies in the profound understanding that can be gained from the project results. In particular, this approach makes it possible to identify unintended positive and negative impacts of a project. Its weaknesses lie in the relatively large amount of time required and the possible subjectivity of the monitoring team.

When the **deductive approach** is applied, a results hypothesis is formulated and then tested in relation to reality. This hypothesis is based on theoretical knowledge, practical experiences or plausibility. The advantage of this approach is that it reduces the field of monitoring from the outset, thus simplifying the selection of indicators and the interpretation of data. The limits of the deductive approach lie in precisely this reduction of the field of vision: there is a risk that key changes and problems go

unnoticed. Moreover, the deductive approach is not very flexible and makes it more difficult to conceptualise complex links. In the context of peace and conflict-related impact monitoring the deductive approach is therefore suitable mainly for monitoring the intended positive results of a project (see chapter 5 for more details on monitoring).

	Intended Outcomes	Unintended Impacts
Positive	deductive (results chains) inductive (participatory methods)	inductive (DNH, participatory methods)
Negative		inductive (DNH, participatory methods)

Figure 9:
Monitoring Intended Outcomes and Assessing Unintended Impacts on Peace and Conflict

As a general rule, a mix of deductive and inductive methods should be applied.[6] Monitoring for results is standard procedure in development interventions, so the following description of peace and conflict-related impact monitoring focuses rather on the inductive approach of avoiding unintended negative consequences. As part of a PCA it is appropriate to modify and adopt the inductive approaches such as the DNH methodology, to be able to integrate the data and ideas gathered in the previous steps (PCA elements 1-3). On this basis, a project-specific list of questions can be drawn up to identify unintended impacts. The original list of questions drawn up when the project was launched should be adapted to the (ongoing) changing conflict situation and new project activities at regular intervals during project implementation.

Based on the DNH principle, the following steps for the conflict-sensitive assessment of unintended impacts are recommended:

1. Define the social sphere and geographical area in which project impacts on the conflict may be anticipated.
2. Identify the factors as well as the actors for peace and for conflict that may possibly be affected by the project (using the peace and conflict analysis as a basis).
3. Add to these factors and actors any other spheres or areas where the project might potentially impact on the conflict (based on the DNH-checklists in Annex 6.7).
4. Review the project being planned or implemented in the light of the key questions for the DNH-approach.
5. Formulate hypotheses on possible unintended project impacts on the conflict; based on these, draw up a list of questions for the Peace and Conflict-Related Impact Assessment.
6. Referring to the list of questions, collect data on the unintended (and intended) impacts of the project using various survey methods (e.g. one-to-one interviews with beneficiaries, group discussions, expert interviews with various actors, desk study, qualitative data), and triangulate the data. It is important to pursue a participatory approach and remain on the lookout for hitherto unexpected impacts.

6
The empirically sound monitoring of conflict-sensitive changes calls for comparison of the situation before and after the intervention, as well as comparison of an area with intervention and an area without. This requires the preparation of a high-quality baseline study at the outset of the project.

7. Document the intended and unintended project impacts, and draw up recommendations for further project steering.

8. Revise the list of questions on the basis of the fresh insights gained in preparation for the next episode of impact assessment.

   Depending on the duration, the resources and the political sensitivity of a project, this kind of detailed impact assessment should be repeated every six to twelve months.

3 PLANNING

This chapter describes what the crucial planning stage of SED interventions in conflict-affected countries must entail in order to:

• maximise the chances of achieving the desired outcomes of the intervention • reduce negative impacts of interventions • minimise conflict risks for personnel and investment	C-0
• in addition to aspects under C-0, (wherever and whenever possible) contribute to crisis prevention, conflict transformation or peacebuilding.	C-1

Chapter 3 begins with a discussion of the principles for the planning of SED interventions in conflict-affected environments, and then explains how conflict sensitivity can be integrated into standard project planning processes. The third section highlights why target group and partner selection merit special attention. Sections 3.4 and 3.5 discuss in greater detail the planning implications for C-0 and C-1 interventions and give examples of possible SED interventions following the five basic approaches to SED in conflict-affected environments. Section 3.6 elaborates on the potentials of peacebuilding SED interventions.

3.1 Principles for Conflict-Sensitive Planning

Over the last decade, German development cooperation has become stringently results-oriented. So called results chains are used to plan projects (see Figure below).

The following simplified example illustrates the results chain for a private sector development project: the project receives inputs in the form of funding. Funds are

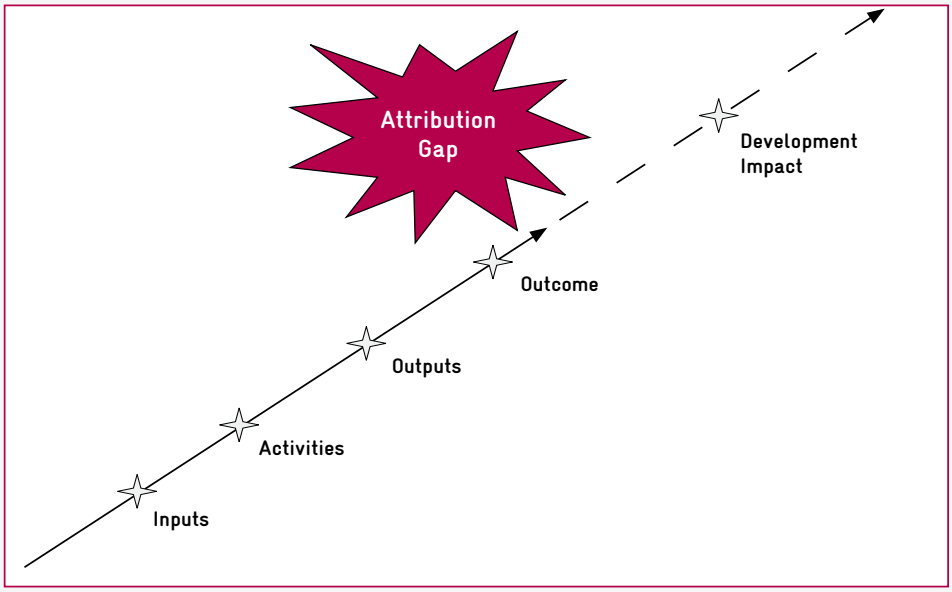


Figure 10: Results Chain

used to hire staff and implement certain activities, for example to conduct business management training for small entrepreneurs. The activity generates certain outputs, for example 500 entrepreneurs are trained in business management. The output generates an outcome, for example that the trained entrepreneurs apply their business management skills to improve their business operations. Up to this point, one can attribute the project outcome to project's activities and outputs. However, beyond the outcome level external influences become so numerous and strong that there is an attribution gap between outcome and impact: for example, improved business operations of small entrepreneurs may lead to more jobs for poor people; however, this impact depends not only on the business management skills of small entrepreneurs but also on the national and international competition, on the skills of poor people, on the government's economic policies, etc.

The results chain is useful for the planning of intended (positive) results. However, it does not capture unintended negative results, i.e. it does not look at the risk of 'doing harm'. Therefore, the results chain is not sufficient for planning SED interventions in conflict-affected environments.

As explained in chapter 1, projects in (post-) conflict environments cannot work around a conflict, but have to work in the conflict (i.e. they have to be aware that they interact with the conflict) or even on the conflict (i.e. they seek to address conflict and peace issues). The minimum requirement for interventions in countries with growing or acute prevention needs ('yellow' and 'red' countries in the BMZ categorisation; see chapter 1.3) is to consider how conflict dynamics affect implementation, and vice versa. In addition, interventions may contribute to crisis prevention, conflict transformation and peacebuilding by what they do and by how they do it.

The scenarios 'working in conflict' or 'working on conflict' will determine the planning and implementation processes of SED interventions for all phases of a conflict (before, during and after). As the challenges vary according to the type of conflict and its dynamics, strategies and interventions always need to be adjusted to a specific situation. Although there are no blueprints for conflict-sensitive sustainable economic development, the PCA methodology with a focus on the economic dimension of a conflict can reveal which approach or approaches are most suitable in a particular situation.

Based on the results of a PCA, planners have five basic strategy options for SED interventions in conflict-affected environments:

Approach 1: The intervention can contribute indirectly to peacebuilding through conflict-sensitive design and implementation (= Do No Harm).

Approach 2: The intervention can address root causes or escalating factors of a conflict.

Approach 3: The intervention can try to decrease the economic resources which feed a conflict.

Approach 4: The intervention can work on the symptoms or impacts of conflict on the economy.

Approach 5: The intervention can support economic 'connectors' – those people, institutions and attitudes which work for peacebuilding and reconciliation.

SED interventions using Approach 1 are considered to be conflict-sensitive and are usually marked C-0 (see chapter 1 for details on the C-marker). They are focused on SED objectives and adhere to the do-no-harm principles.

Interventions using one or a combination of the Approaches 2 to 5 are considered to be conflict-relevant and are usually classified C-1. They combine sustainable economic development objectives with peacebuilding objectives.

Although conflict-sensitive planning of SED interventions is context-dependent, extra care must be taken to balance two possibly conflicting objectives, i.e. economic growth and socially inclusive economic development. Economic and investment opportunities should be accessible to all sections of society, especially to marginalised groups. Economic development can only make a significant contribution to the prevention of violent conflict and the consolidation of societies' capacity to manage tensions peacefully if all the formerly conflicting parties (the winners as well as the losers) have a chance to participate.

3.2 Applying PCA in Project Management

Planners can ensure the conflict sensitivity of interventions by applying PCA at all stages of the project cycle. PCA helps planners during the appraisal mission on the ground, in the planning phases at headquarters, while preparing the intervention proposal and, not least, during implementation, monitoring, adjustment and evaluation. This versatility makes PCA a powerful management tool. The scope of application of the PCA depends on the C-marker. In C-0 interventions, the focus is on the application of PCA elements 1 and 4, while C-1 interventions require all four PCA elements. In all cases, PCA should be integrated into 'normal' project planning and management tools.

Conflict sensitivity is therefore not an additional independent management task. Rather, it requires that project staff adapt their perspective to account for peacebuilding issues within their regular project management responsibilities. The remaining challenge is to ensure that the results and conclusions of the analysis are implemented in the respective programming steps (problem analysis, objectives, logical framework, activities, monitoring and evaluation, and budget). In other words, staff should include it in their work routine. The following table illustrates how PCA can be used to ensure conflict sensitivity in project or programme management.

Standard Project Cycle Management (PCM) and Logical Framework	Integrating the PEACE/CONFLICT lens into PCM and Logical Framework
Context and stakeholder analysis	Integrate conflict and peace context and actor analysis as well as peacebuilding needs analysis (PCA element 1).
Problem analysis	Ensure that results of analysis of conflict and the peacebuilding needs are included into the problem analysis.
Analysis of objectives	Discuss whether peace/conflict influences the objective or not (this applies for programmes with a development or humanitarian goal; e.g. should 'peace' be integrated as a sub-objective or will it be a cross-cutting issue).
Planning with the logical framework: • Formulating the objectives • Formulating the purpose, results and activities • Developing monitoring indicators and source of verification • Analysing assumptions and risks	**Integrate 'PCA' into logical framework:** • Deciding whether to integrate peace as an additional objective or sub-objective. • Checking purpose, results and activities for their conflict/peace sensitivity and assess wether they have a direct reference to the conflict environment (PCA elements 1 and 2). • Integrating the peace/conflict lens into the programme monitoring system as well as to the range of indicators (PCA element 4). • Identifying conflict-related risks for staff, investments and the likeliness to reach the objective of the programme. Development of coping strategies for the handling of the risks (PCA element 3).

Figure 11:
Conflict-Sensitive Project Cycle Management and Logical Framework [7]

3.3 Target Group and Partner Selection

To ensure that interventions do not have a negative impact on a peace/conflict situation, it is important to have a good understanding of relevant social groups, their relationships and the underlying conflict potential. Unfortunately, conflict-affected environments often result in opaque environments where conflict lines are blurred, overlapping or volatile. It is not always clear which groups will benefit from interventions and who will be left out or put at a disadvantage. Therefore, extensive knowledge of the situation in the country is required. One way of putting this into practice is the application of PCA during the planning phase of a project: a well-grounded peace and conflict analysis gives the first valuable overview of the most important stakeholders. As a second step, open orientation phases at the beginning of a project often yield positive results in difficult and unclear situations. They make it possible to start a project by deploying a project manager before the details of intervention have been defined. This enables the manager to collect sufficient information to prepare the intervention thoroughly and to select appropriate partners.

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Source: adapted from Paffenholz and Reychler, 2007; p. 106.

Box 4

Angola: Reintegration Programme

From 1997 to 2003 the German government supported Angola's reintegration programme. War had ravaged the country for over three decades, and after the war, the traumatised population had great difficulties earning their livelihoods.

The objective of the programme was to enable people in eight selected settlement areas to produce food and to earn incomes from crafts and small business activities. The main programme activities were the building of irrigation facilities, promotion of small enterprises, training and further education, and providing grants to support small self-help activities.

Key to the programme's success was the broad target group which included demobilised soldiers, displaced families as well as women, widows and orphans. By settling former soldiers and displaced persons in the same areas, and making both groups participate equally in the planning process, the reintegration programme helped to reconcile the conflicting parties.

Target Group Selection

Target group analysis and identification must be done thoroughly to avoid aggravating inequalities, which could worsen the conflict at a later stage. The minimum requirement is that the project should not be perceived to be partial towards one of the conflicting groups. Non-discrimination should be a clearly formulated and communicated basic operating principle of interventions.

There is, however, an ongoing debate as to whether or not SED interventions should positively discriminate target groups. By definition, the principle of non-discrimination is breached in projects that focus on specific target groups. Looking at reintegration programmes sheds some light on this contradiction. There are two approaches to the reintegration of returnees – i.e. internally displaced persons, ex-combatants, refugees or migrants: targeted integration versus community-based integration. The concept of targeted integration focuses project services on identified members of the chosen target group. For example, a project may only support former combatants with vocational skills training. Community-based integration, on the other hand, means that project services are not provided directly to members of a particular target group, but rather to communities as a whole, where many families and members of the target group live or have returned to live.

Experiences with targeted interventions have shown that the positive discrimination of ex-combatants is difficult to accept for communities who might have suffered from combatants' violence. This can even incite more conflict. Moreover, depending on the length and intensity of the conflict, ex-combatants are often physically and psychologically ill-equipped to make use of project services, such as entrepreneurship training. International experience indicates that support should rather go to the families (especially women and youth) and communities which are expected to integrate the ex-combatants.

Intervention approaches should be differentiated to accommodate the needs and potentials of different gender groups, as women and men experience violent conflict in different ways. Violence often has specific sexual or gender-based aspects, so women and men will have different needs in post-conflict peacebuilding. One lesson learnt from Disarmament, Demobilisation and Reintegration (DDR) programmes is that female combatants are often excluded from such measures if they did not carry arms, as this is often a prerequisite to qualify for the reintegration benefits. The stigma of rape and having children with former combatants also poses special challenges to the reintegration of women. Since gender inequality tends to slow economic growth, and since women play an important role in post-conflict reconstruction and peacebuilding, promoting gender equality and empowering women

in order to reduce the risk of conflict is very important. This is particularly significant in post-conflict situations because wars and violent conflicts tend to increase disadvantages for women. Women and men should be involved equally in efforts to resolve conflicts and in peace negotiations. The changes in gender roles and the collective rights of women that often emerge in violent conflicts should be used to strengthen gender equality in the long term. The role of men in violent conflicts needs to be taken into account to address sexualised violence and the radicalisation of young males and their willingness to resort to violence.

Another important target group are youth. Various studies highlight their importance for peacebuilding 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 in the future competitiveness of their country's economy, which is a decisive factor for economic growth and prosperity. These issues are, in turn, essential for reducing the risk of war. In order to facilitate peaceful development, young people need to be equipped with democratic values and have skills for peaceful conflict resolution; more importantly they must be offered educational opportunities and chances for income generation. The youth in post-conflict countries, particularly those who are marginalised and who lack social and economic perspectives, often have a high propensity for violence. They play an important role in (violent) demonstrations and civil unrest, which are often a precursor of violent conflict ('angry young men'). This corresponds to Collier's finding that conflict tends to be lower where male secondary school enrolment is high (Collier and Hoeffler, 2001).

Box 5

Kosovo: Emergency Aid and Sustainable Structures for Vocational Training Centres

From 2001 to 2004 the German government supported the Ministry of Education, Science and Technology of Kosovo to promote vocational training courses able to satisfy the demand of the labour market.

During the Balkan conflict, vocational education in Kosovo only took place informally; Kosovans were systematically excluded from training institutions. The post-war vocational training courses had not yet been adapted to the new needs of the economy.

The project combined emergency aid, such as the quick reconstruction and modernisation of vocational training facilities, with schemes for developing sustainable structures: developing curricula tailored to the needs of the labour market and improving the qualifications of the training staff in vocational training centres.

Although post-conflict returnees are generally poor and vulnerable, some returnees and members of diaspora communities may have skills, business contacts and savings, which may be useful for reconstruction and economic development. These people should be encouraged to start enterprises and business membership organisations in their home countries. SED projects could offer support, for example as Public-Private Partnerships. However, other local entrepreneurs must also qualify for support, otherwise there will be grievances.

There is a controversial discussion about whether former warlords or militia leaders should be included in SED interventions. While their inclusion is in most cases morally questionable, there are also good reasons to include them. Impeding their involvement in legal economic activities often forces them into illegal activities or the continuation of their old business of

Box 6

Nepal: Broadening Support for Value Chain Actor

In Nepal the conflict between the government and Maoist rebels has continued for more than a decade. In 2004, when the conflict was still in full swing, and two years before the historic peace accord, a German government -supported private sector development project with a focus on export – oriented value chains decided to re-think its strategy.

Value chain mapping in various sub-sectors, such as carpets and tea, showed that small scale producers were very much affected by the conflict, either directly because violence was mostly committed in rural areas or indirectly due to the reduced demand from exporters who suffered from transport problems caused by road blocks and strikes.

A do-no-harm check revealed the need to focus activities upgrading the value chain support to the producers and labourers in the value chains and to balance the interests of exporters and producers. In the tea industry, for example, applying the lessons from the DNH approach resulted in a shift of focus from tea exporters to tea producers. This shift had dual, interrelated, positive impacts – competitiveness increased through the support and decreased likeliness of the value chain to be affected by conflict.

being warlords. In countries with short conflicts, warlords and militia leaders often recruit themselves from leading civilian positions in their society; in countries where conflicts continued over long periods they are often the most able managers and highly regarded leaders of their respective groups. Their exclusion could result in serious tensions and the rejection of interventions by the respective group or region. In many cases, they are also important domestic investors, providing substantial capital for normal and legitimate businesses. Any obstacles to their commercial activities usually force them to invest in illegal activities or abroad, although there is a dire need for domestic investment to support reconstruction and economic development. Taking all these points into account there is no clear-cut answer to this debate. The decision whether to include or exclude warlords must carefully consider the local circumstances and the project approach.

A similar discussion applies to war-profiteers: exclude them and they might intensify their 'dividing' role and push for conflict, or they might invest their often considerable capital either in illegal businesses or abroad. If they are included, there is the risk of promoting divisive forces; it may even contribute to funding the next war. It should be kept in mind – and be included in the economic Conflict Analysis – that a whole range of industries profits from wars. Obvious examples are the arms industry or the owners or beneficiaries of extractive industries. But there are also related industries such as metallurgic enterprises that can produce weapons covertly in normal workshops. Other industries or agricultural producers may also be involved in rebel finance or organised crime (e.g. hotel business for prostitution, transport and construction for money laundering, etc.).

Partner Selection

The problems related to the selection of target groups also apply when selecting project partners. In general, SED interventions should support and work with the 'connectors' of a society, people and institutions which benefit from peace more than

from conflict. To avoid negative impacts on the peacebuilding process, care should be taken that interventions do not support persons or organisations that benefit from conflict or oppression ('dividers'), or who are closely related to organised crime, money laundering or the financing of violence.

The selection of partners and intermediaries must therefore be undertaken with care. Their role in the conflict, their capacity to deal with conflict issues and their trustworthiness (especially amongst the target groups and the conflicting parties) should be assessed thoroughly. In a conflict environment nobody is really neutral. Hence, an assessment of the possible partners' open and hidden agendas is important, and of their positioning in the local power structures. It may be necessary to identify several partner organisations in order to bring about mutual accountability, inclusiveness and balance.

The selection of project partners and their role in the project depends on the project approach and the local situation. Typical SED partners such as microfinance institutions, vocational training centres or business membership organisations are often not available or operational in conflict-affected environments. Sometimes they have become discredited through their role in the conflict. At the same time, interventions that have conflict-specific target groups – such as returnees or ex-combatants – will need intermediaries with access to those groups. This may require cooperation with organisations which are not the typical partners of 'normal' SED projects – for example with human rights groups.

Since official development cooperation is generally linked to the national government of the partner country, two problems can emerge for SED projects in a (post-) conflict situation. If the government is one of the conflicting parties, project interventions may be regarded as taking sides, potentially obstructing collaboration with other parties to the conflict, and putting the project itself at risk. Second, in many (post-) conflict countries the national government is weak and unable to deliver the necessary services for a functioning economy. In such situations national or international NGOs or other aid organisations often take over governmental tasks. While this may be useful for the operation of a SED project, it should be treated with caution as such an arrangement can easily hinder the necessary development of a capable local institutional framework. If such a set-up is used, the partner structure should be reviewed frequently and options for local institution building should be considered as early as possible. In cases where no adequate institution exists for certain tasks (for example, business development services) the initiation of new institutions may have to be considered ('greenfielding').

3.4 Planning Conflict-Sensitive SED Interventions (C-0)

In line with the BMZ Sector Strategy (BMZ, 2005), German development projects marked C-0 must be designed in a conflict-sensitive manner, with the overarching goal of systematically avoiding unintended negative impacts on a peace or conflict situation.

For the conflict-sensitive planning of a C-0 marked SED project it is sufficient to conduct a reduced and adapted PCA with three elements. Elements 1 and 4 (peace and conflict analysis and Peace and Conflict-Related Impact Monitoring) form the methodological minimum standards, while the core of PCA element 3 (risk

management) is a mandatory aspect of the managerial responsibility of the respective programme managers. Element 2 of the PCA (Relevance Assessment) is less significant in this context. – For C-0 interventions the PCA can be applied in the following reduced form:

1. Peace and conflict analysis: The first step is to establish whether key data about a conflict are already available, or whether a conflict analysis has already been carried out. Here it is possible to refer to internationally available conflict analyses – authorised by the BMZ – or to the conflict-related section of the newly-introduced brief politico-economic analyses. If no conflict analysis or brief politico-economic analysis is available, the conflict-related themes relevant to the project must be analysed and incorporated into the project design within the scope of the project appraisal. This can take place in an abridged form on the basis of a DNH check. In this context, it is important to analyse the causes of the conflict as well as the connecting, dividing, escalating and de-escalating conflict factors that affect the project environment. Based on this analysis, the potential of the project for strengthening or weakening the 'connectors' and 'dividers' should then be identified.

2. Peace and conflict-related relevance assessment: It can be assumed that C-0 SED projects are of limited relevance for any direct contribution toward the peacebuilding needs of the respective country. The relevance assessment can therefore be omitted, unless there is an explicit requirement or the political will to explore the potential, for instance, of turning a C-0 project into a C-1 project.

3. Risk management: In the case of C-0 SED interventions, risk management is confined to a security analysis. All projects in crisis-prone or (post-) conflict countries must address the risk that staff, project partners or project assets may be sub-jected to attack. A security analysis should therefore be conducted to examine and realistically assess potential threats as well as the existing capacities of the project and its staff to deal with them appropriately. The security strategy for a project will be embedded into the country-specific security provisions for German development cooperation, which are based on the respective national security strategy of the German Embassy and possibly also of other multilateral organisa-tions, such as the UN. The second component of risk management – the monitor-ing of the environment from a development-policy point of view – can be omitted in C-0 SED projects. The political risks present in the respective country context are dealt with through the standard project planning procedures.

4. Peace and conflict-related impact monitoring should take into account both the intended (positive) and the unintended (positive and negative) impacts of a project, yet the focus must always be on monitoring (and containing) the unintended negative results. Both types of result (intended and unintended) should undergo: (a) a 'security check', as there is always a risk that certain envisaged results of development policy are not desirable or acceptable for some groups who may resort to violence; (b) a DNH-check at regular intervals to identify unintended negative impacts, thus creating a basis for adaptation of the project. Alternatively, conflict-relevant issues can also be monitored within the scope of the normal results-based monitoring system.

Approach 1: Do-no-harm[8]. If a SED project applies these PCA elements, it will aim to contribute to peacebuilding indirectly by doing no harm. The overarching goal of this approach is to systematically avoid unintended negative impacts. The core questions to be answered by the project management are: Is economic development really

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see chapter 3.1. for an outline of all five approaches

what people need right now? Who should benefit, and who should be the project partners? PCA gives answers to these questions. The initial Conflict Analysis and the subsequent Peacebuilding Needs Assessment clarify the setting, define intervention areas and identify 'connectors' and 'dividers' as well as potential target groups and partners. The peace and conflict-related impact monitoring helps to ensure that implementation is conflict-sensitive and indicates when adjustments may become necessary. It should be noted that, when finally implemented, the SED measures may not be different to 'normal' SED projects, but they will be conflict-sensitive; negative impacts on the implementation environment will be reduced and they will stand a greater chance of achieving their objectives.

3.5 Planning Conflict-Relevant SED Interventions (C-1)

SED interventions classified C-1 have a clearly defined relationship to the conflict context in the respective country or region. They make a direct (or indirect) contribution to crisis prevention, conflict transformation or peacebuilding. This contribution is described at the level of the secondary project objectives, the level of results, or within the scope of a project component, thus making it an integral part of the project concept. At the level of the primary objectives, however, the project will aim to achieve development results in the economic sector (e.g. improved competitiveness, access to financial services, or employability).

All four elements of the PCA are applied in the case of C-1 projects:

1. Peace and conflict analysis and Peacebuilding Needs Assessment. The starting point is always a peace and conflict analysis at the country level. This will either already have been conducted and authorised by the BMZ Country Division, or it will be prepared within the scope of the brief politico-economic analyses. Moreover, it is possible that the responsible BMZ Country Division commissions the preparation of a new peace and conflict analysis in cooperation with an implementing organisation. The economic sector-specific peacebuilding needs for C-1 projects are defined on the basis of the national peacebuilding needs identified at the country level. They can also be derived from a supplementary sector-specific conflict analysis (see annex 6.5 for a checklist on an economy-related conflict analysis), or by analysing links between various existing sector studies along the conflict lines. These should describe at the very least the causes, lines, structures, actors, dynamics and scenarios of the conflict for the respective sector and/or region. The sector-specific peacebuilding needs constitute a key framework of reference for assessing the peacebuilding relevance of a project or its measures, whether a new project is being planned or an existing project is being reviewed.

2. Peace and Conflict-Related Relevance Assessment. This assessment establishes whether the planned concept (or one already being implemented) makes a relevant contribution toward addressing the previously determined sector-specific peacebuilding needs, or how the relevance of a project can be raised so that it can be classified as C-1. If the project has not yet been classified, the Peace and Conflict-Related Relevance Assessment determines the appropriate C-marker. Whereas C-2 and C-0 projects are defined unequivocally in terms of their peacebuilding relevance (C-2: HIGH relevance – C-0: NO relevance), this is more difficult for C-1 projects, and the boundary between C-1 and C-0 sometimes becomes hazy. The peacebuilding relevance of a C-1 project may fall anywhere between the following two poles:

(a) most of the activities/components and anticipated results are clearly related to the sector-specific peacebuilding needs, i.e. the project has a recognisable peacebuilding relevance; or (b) there are only some activities consistent with the peacebuilding needs, i.e. the project is of limited peacebuilding relevance.

Box 7

Sierra Leone: Waste Management

Youth employment is one of the most pressing peacebuilding needs in Sierra Leone after the end of the civil war. Germany supports the project 'Klin Salone' which aims at the rehabilitation and private organisation of the Freetown Waste Management System while at the same time contributing to youth employment. The waste management system consists of three operational sections: the door-to-door collection of trash, waste transport from transit sites to dump sites, and waste management and recycling at the dump sites. At first, GTZ supported the creation of a primary waste collection system involving youth groups of the 'Klin Salone Association for Waste Management'.

42 youth groups, employing a total of 260 youths, operate the labour-intensive, door-to-door waste collection and cover their operational costs through subscription fees. While the establishment of the collection system has been successful, technical as well as financial assistance is needed for the rehabilitation and privatisation of the waste transport and recycling systems.

The results achieved:

- Creation of a functioning waste management system
- 450 sustainable jobs have been created in the context of the FWMS alone, while the whole of Klin Salone employs 710 young people. 112 youth groups are organised in the waste system.
- The costs to the public sector of the waste management have been reduced to around 45,000 USD per month.

The project 'Klin Salone' gives jobs and hope to young people who have grown up amongst war and violence.

3. Risk management: Context Monitoring and Security Analysis. Conflict-Related risk management avails itself of the established (development) policy instruments and mechanisms (e.g. the crisis plan and security provisions of the Federal German Foreign Office, and the information systems of other donors such as UNHCR or NGO networks). These provide valuable information on current developments in the conflict environment and on aspects of staff security that can influence an appropriate security strategy for the project. Where new projects are being planned or existing projects adjusted, a feasibility check is conducted to ensure that appropriate framework requirements for the planned project exist, and that the project implementation can therefore be guaranteed. Here, checklists can be used which focus on the security situation, the political and administrative climate, the relationship between partners and stakeholders, and the relationship with the conflicting parties and other intervening actors (Paffenholz and Reychler, 2007). The results are documented in the form of recommendations on the timing and target area for the measure, the project executing agency, implementing organisations, target groups, and the specific design of individual components. Particular risk factors should be incorporated into the subsequent project monitoring system. During the implementation of C-1 projects, the need to develop a system for context monitoring depends on the sensitivity of the project's

immediate political environment. Where possible, the results of these project-related monitoring activities should be integrated into overarching (national) monitoring systems. The project-level activities should, in any case, be linked to the 'normal' project monitoring system (see element 4). The completion of a security analysis is a binding requirement in all countries with a heightened or acute need for prevention; it can be undertaken at any time. All projects in crisis-prone or (post-) conflict countries must address the risk that staff, project partners or project assets may be subjected to politically motivated attacks; because of their direct links to places of conflict they are working in a highly politicised context. A security analysis should therefore examine and realistically assess potential threats as well as the existing capacities of the project and its staff to deal with them appropriately. The security strategy for a project will be embedded in the country-specific security provisions for German development cooperation, which are based on the relevant national security strategy of the German Embassy and possibly of other multilateral organisations such as the UN.

4. Peace and Conflict-Related Impact Monitoring. Positive impact on peace: An intended, positive impact on peace is defined at the level of components and secondary objectives; as such it is an integral component of project impact monitoring. If the project has an explicit peacebuilding component, there will always be corresponding indicators for that component in the overall project monitoring system. Negative impact on peace: All measures (especially those with no explicit link to peace that are designed to help achieve the sector objective) should be analysed for their possible unintended, negative impact on peace, primarily using the do-no-harm instruments. Project personnel should be sensitised to potential negative impacts. Agreement must be reached within the project as to how these potential unintended impacts can be monitored. It is not always recommendable to define corresponding indicators. Alternatives, such as participatory and other qualitative methods that involve project staff, partners, beneficiaries and other stakeholders can be revealing and support the project in a process of institutional learning. If the project includes a specific peacebuilding component (with an intended positive impact), the peace and conflict impact chain (for that component) is developed together with the corresponding indicators for impact monitoring. The potential negative results (risks) should also be defined in this process. For the other components or activities, a DNH check is a minimum mandatory requirement to assess the results for peace. If a C-1 project has no explicit peacebuilding component (but perhaps just various conflict-related sub-activities within the individual components), then there will be no corresponding impact indicators. Instead, the potential negative results and risks for conflict transformation and peacebuilding should be reviewed when developing the usual sector-specific impact chains and indicators for each component of the project or programme.

Because conflict contexts are unique there are no blueprints for conflict-relevant SED interventions. In general, however, conflict-relevant SED interventions are likely to fall under one or several of the following 4 approaches (Approach 2-5)[9]:

Approach 2 The SED intervention contributes to peacebuilding and conflict prevention on different intervention levels by addressing root causes or escalating factors of conflicts. It is not always easy, however, to distinguish between root causes and escalating factors. Some examples of economic causes and factors of conflict might be: the unfair distribution of employment, opportunities, wealth and resources; the failure of reforms; unstable currency or sudden devaluation of a currency; corruption in

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government spending; regional imbalances; dependency on an export resource; illegal exploitation of natural resources; bad practices of large companies (pollution, bad working conditions, child labour, discrimination, abuses of human rights, etc.); and many more. Moreover, economic activities are crucial for the process and duration of conflicts: wars are financed by the (illegal) exploitation of natural resources, by remittances from migrants and by foreign nations. A PCA helps to clarify the specific challenges in the given context; it can identify how to address the needs that result from the challenges, determine whether the project activities can make a relevant contribution and it can guide the process of implementation and monitoring.

Box 8

Nepal: Business for Peace

In Nepal, a GTZ-supported private sector development project encouraged business chambers to establish a National Business Initiative for Peace (NBI). NBI promotes corporate social responsibility amongst its members and talks to both conflicting parties in the country about urgent peacebuilding needs.

Another initiative of the project are the Business Talks for Change, six of which have taken place in the capital Kathmandu since 2005. The original objective of the Business Talks was to create a safe space for decision makers to discuss burning issues or sensitive topics related to the business community and the national economy. Moreover, when no communication channels remained open between the Maoist rebels and the government during the conflict, the Business Talks also bridged the gap between the conflicting parties.

The topic of each Business Talk is an economic subject (e.g. foreign direct investment) chosen by the project. The talks are by invitation only, which allows a small number of hand-picked participants—open-minded and high-ranking representatives from the public sector, the private sector and civil society, as well as foreigners working in Nepal—to engage in dialogue about real issues. Meetings are off the record and the media are excluded, which creates a relaxed atmosphere and encourages open discourse.

The results of the Business Talks have been very encouraging. Participants start to engage with opposing points of view and begin networking. Maoist leaders, for instance, started to change their ideas about a market economy and got into personal contact exchanged telephone numbers with business people.

Approach 3: The SED intervention is used to reduce the economic resources of a conflict. Economic resources nourish conflicts if conflicting parties can exploit them (illegally). This kind of war economy is common in weak or failing states, and economic development programmes may find it difficult to cope with such challenges. However, there may be opportunities to divert economic resources, which are being used for the conflict, towards peaceful purposes. At the macro level, for example, this could involve the support of the central bank to combat money laundering by supervising banks; or neighbouring states may be prepared to cooperate in the control of cross-border smuggling. At an intermediate level, business associations and other private sector organisations can be supported to promote alternatives to illegal income generation. At the micro level, communities and entrepreneurs may also need help in switching from illegal to legal income generating activities (e.g. production and

trade of medicinal herbs instead of illegal drugs). Efforts to counteract war economies will be more successful if carried out in collaboration with interventions that promote good governance. Again, the PCA is well suited to prepare SED projects that follow this approach. Risk management is crucial in this regard, as it can mitigate potentially dangerous reactions from those who thrive in the war economy and who therefore have no interest in peace and cooperation.

Approach 4: The SED intervention addresses the impact of conflict and peace on the economy. Apart from first and foremost injuries and human lives, conflicts cause various direct and indirect costs to the private and public sectors: loss of assets, decreasing availability of labour, loss of business opportunities, reduced productive investment, capital leaving the country, increased country credit risk rating, and the devaluation of the local currency. Hence, the profitability and international competitiveness of the private sector will diminish, and so will the state's tax base. SED projects can help in this situation on three levels. On a macro level, they can assist the partner government to establish laws and policies which temporarily lighten the burden on the private sector, for example by reducing export levies and taxes. On the meso and micro levels they can assist private sector associations and entrepreneurs to better prepare for conflict-related risks, for instance through the launch of insurance schemes or through coordinated communication with the conflicting parties. SED projects can also support the positive impact of peace on business (i.e. the peace dividend). At the macro level, measures such as currency reform, open market legislation and supervision can help to create a stable and safe environment for business. At an intermediate level, SED projects can help stabilise the economy by assisting the institutional landscape to establish business development and financial services for the private sector. At the micro level, training and technical advice can be provided to support individual enterprises and employees. To devise strategies that respond appropriately to the complex challenges, it is not enough simply to know that a conflict has had a major effect on the economy. A PCA provides SED projects with the conflict-related information they need to navigate the complexities of these approaches.

Approach 5: The SED intervention supports selected 'connectors' in the private sector. From the PCA with an economic focus, planners will know who are the so-called 'connectors', or peace-promoting actors, in the economy and in the private sector (as opposed to the 'dividers'). SED projects should promote the interests of these actors, enhancing their capacity and their role in crisis prevention, conflict transformation and peacebuilding. At the macro level this can involve, for example, financial and advisory support for international exchange visits, the organisation of peace dialogues, the formation of national business-for-peace initiatives, and similar activities. On the meso level, private sector associations may need help to get involved in national peace initiatives, social community work or the promotion of Corporate Social Responsibility (CSR). At the micro level, CSR measures will play an important role, especially for larger enterprises and financial institutions. Smaller enterprises can be reached more easily through their intermediate member organisations.

3.6 ..... Outlook: Planning Peacebuilding SED Interventions (C-2)

Peace programmes with the primary objective of crisis prevention, conflict transformation or peacebuilding are marked C-2. They have a strong and explicit relevance

in addressing the peacebuilding needs of a country. For their design, implementation and monitoring a full-fledged PCA has to be applied. Examples for such programmes include capacity building for non-violent conflict management in civil society, support for truth commissions or the reintegration of ex-combatants.

So far, no SED programmes with the primary objective of peacebuilding have been designed in the context of German development cooperation. However, given the private sector's strong interest in stable frame conditions and a peaceful business environment, there is potential for future programming. Business leaders and private sector associations have initiated activities to contribute to peacebuilding in South Africa and Nepal. Development cooperation can learn from these experiences and further develop appropriate support services. The words of the President of the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) in Box 9 illustrate the motivation of the private sector to contribute to peacebuilding and conflict mitigation in Nepal: *"I … call on all actors in nation building, especially those involved in running the government or who are likely to run the government, to stop thinking about minor differences between themselves and help to mitigate the conflict."* Considering that the FNCCI membership comprises 91 district or municipal level chambers from 74 of the 75 districts of Nepal, 66 commodity and sectoral associations, 376 leading public and private sector enterprises, and 10 bi-national chambers, the weight and reach of this message is significant. SED peacebuilding programmes should be attractive for the business sector if socioeconomic peacebuilding needs are given high priority in a country. CSR activities that set examples for the private sector could be initiated at the micro level. On the meso level, business initiatives for peace can be supported, such as a joint approach of associations and chambers lobbying for peace and advising members on how to contribute to peacebuilding on the business level. These initiatives could be part of a political dialogue, or might even mediate between conflicting parties at national or regional level.

Box 9

Nepal: Entrepreneurs for Peace

Excerpts from a speech by the President of the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) on the 39th annual meeting, 2005:

"The business community is generally the victim of conflict from both ends. Businessmen are likely to have some wealth even if it may be from loans. Their wealth seems to make them the target of attention, be it for the resources or be it for blocking the flow of resources to the adversary."

"We have lost not only wealth, but even life due to the conflict. But we are even today ready to do our utmost to bring the present conflict situation to an end."

"Peace is the foremost requirement for the long-term solution of the problems faced by Nepal."

"The Nepalese business community strongly feels that the constitutional monarchy and multi-party democracy are the two pillars for the prosperous future of Nepal."

"I would like to call on all actors of nation building, especially those involved in running the government or are likely to run the government, to stop thinking about minor differences between themselves and help to mitigate the conflict."

4 MANAGEMENT

Managers of SED interventions in conflict-affected environments face special challenges when implementing a project on the ground. This chapter starts by listing six major principles for conflict-sensitive project management as a foundation for the sections which follow. Section 4.2 outlines a process for selecting suitable SED approaches for specific peace and conflict situations. The third section looks at conflict-relevant applications of three conventional private sector development approaches: Business Enabling Environment (BEE), Local and Regional Economic Development (LRED), and (Sectoral) Value Chain Promotion. The fourth section focuses on the management of Vocational Qualification projects in conflict-affected environments, while the fifth section covers conflict-relevant Financial System Development interventions. The last section of this chapter puts special emphasis on the role of SED in immediate post-conflict recovery efforts.

4.1 Principles of Conflict-Sensitive Project Management

SED interventions in conflict-affected environments cannot be implemented like in 'normal' situations, since the economic conditions differ greatly. At the macro (or policy)-level, the various symptoms of a war economy may have drastically reduced the state's capacity to maintain even basic social and economic infrastructure. Democratic institutions and state authority are likely to have been severely impaired. In many cases, inflation will have eroded confidence in national currencies. Furthermore, after peace agreements have been reached there are often serious questions about how ex-combatants can be reintegrated into local communities and civilian life. As a result, the periods immediately following conflicts usually experience precarious and chaotic transitions rather than the orderly adherence to agendas with specific objectives and timetables. Significant levels of international assistance may therefore be needed to facilitate the design of new political institutions, finance the reconstruction of social and economic infrastructure, and support the transition to peaceful and sustainable livelihoods.

At the meso (or institutional) level, sources of foreign investment and regional trade patterns may have been disrupted through the closure of borders and the severance of a variety of other economic relationships. The interests of formal and informal networks and organisations that profited and grew during the period of violent conflict often need to be either challenged or accommodated. This could range from a need to deal with groups that have profited from illegal activities, such as smuggling or extortion, to the more formal requirements of military demobilisation and reintegration.

At the micro (enterprise) level, local populations usually suffer greatly in conflict situations. Skilled labour and capital may therefore have fled the conflict zone in search of greater security. The resettlement and social reintegration of ex-combatants and impoverished returnees may take place against a backdrop of land disputes, high unemployment and weak markets.

In such scenarios it is important to consider general principles of conflict-sensitive project management. These principles apply to all interventions and should also be

considered when choosing suitable SED approaches and instruments for a specific (post-) conflict situation. The principles of conflict-sensitive project management most relevant for SED interventions are:

- Do-no-harm.
- Safety first.
- Be flexible.
- Choose the right partners.
- Pay special attention to personnel issues.
- Cooperate, coordinate and communicate with all relevant stakeholders.

Do-no-harm (DNH) is imperative when working in or on a conflict. The question 'How to implement?' is as important as the traditional focus on 'What to implement?'

The basic message of DNH should be remembered at all times: the use and distribution of project resources, as well as the implicit messages sent through the behaviour of the project personnel and their partners have an impact on the peace and conflict situation. Project managers must be acutely aware of any unintended harmful impacts caused by doing the right things in the wrong way; they should adjust their intervention to minimise the risks and maximise the potential positive impact

Safety first. The safety of individuals is always more important than the implementation of project activities. This does not mean that development cooperation has no scope for action in challenging environments, but rather that a proactive approach to security management is needed. In fact, German development cooperation tries to stay engaged as long as possible and the complete discontinuation of project activities and withdrawal of all staff members are measures of last resort only.

Element 3 of the PCA (risk management) provides a systematic approach to analyse and assess potential security hazards and it gives recommendations on how to manage these risks. Risk and security management should be done in collaboration with other donors, not only to reduce costs but also to share information for joint implementation and to find common answers to changes in the conflict situation.

Applying DNH principles in the context of security management helps to minimise the risk of sending the wrong signals. For instance, using armed guards to protect project assets and civilian personnel is only appropriate in exceptional circumstances because it implicitly communicates the message that project assets and personnel merit special protection which the public security forces cannot provide, and that, for those who can afford them, arms are an appropriate means of containing the threat. This results in a loss of trust among the local people and lends arms and armed violence an undesired legitimacy.

Be flexible. Result-orientation in German development cooperation has led to more flexible project management arrangements. Implementing organisations (such as GTZ, KfW or DED) are accountable towards the German government for achieving planned impacts, but they are free to choose suitable strategies, approaches and instruments. Implementation has thus become part of a continuous cycle of planning, implementing, monitoring, evaluating and re-planning (adapting – in particular after regular project reviews). This flexible implementation approach is

even more relevant for volatile conflict-affected environments, where the conflict context can change quickly and frequently, where shorter and quicker result chains may be necessary, and where a trade-off between economic development objectives and conflict sensitivity may have to be accepted.

Conflict situations are not suited to 'development by the book', and accepted development standards might need to be temporarily suspended – for example, when projects temporarily deliver services such as vocational skills training which usually would be delivered by the state or the private sector. Project managers will need the full backing of their own organisation and ideally the donor country's government to feel safe and act flexibly. Broad-based project steering committees or project advisory boards can be useful to enable project managers to take quick and 'unorthodox' decisions. Flexibility has also implications for project budgeting; it is likely that additional expenditure will be needed on human resources, security measures, monitoring and pilot testing. This needs to be communicated to all relevant parties.

Choose the right partners. While project partners and target groups are usually chosen during the planning stage, it is crucial that ongoing SED projects regularly reassess their partners and target groups. If the initial selection leads to tensions or new conflicts, changes should be considered, either to the modes of cooperation or to the selection of target group and partners. DNH and PCA-based monitoring mechanisms help to detect unintended negative results and to choose alternative courses of action. Projects which require substantial procurement (e.g. for building infrastructure) should contract local companies and act in concert with other projects, as far as possible. Contracted firms should be committed to conflict-sensitivity, for example through contractual clauses that demand fair and transparent contracting and wage payments to employees.

Pay special attention to personnel issues. In difficult conflict-affected environments the project management must take more care than usual when selecting and assessing project personnel. The implementing agency or an alliance of like-minded organisations should have one common recruitment policy, and local staff selection should follow DNH guidelines. Project staff should ideally be an even mix of men and women, young and old, members of the elite and of excluded groups. At the same time, however, recruitment should be non-discriminatory, based on technical eligibility and qualification, not on ethnicity, origin or other demographic criteria. Candidates who do not appreciate a mixed workplace should be rejected. Such an open approach is preferable to quota models or positive discrimination. If there are no qualified people amongst historically discriminated groups because, for example, they have been excluded from education and business environments for many generations, the project may choose to either use a positive discrimination policy, or give scholarships and internships to people from disadvantaged groups. Cases such as these require highly sensitive and active management to ensure that all groups feel fairly treated.

Human resource management also requires special attention in (post-) conflict environments; this applies to both, international and national staff, as well as to project partners and target groups. DNH and PCA can help to manage these challenges. For international staff, (post-) conflict environments can be extremely tough in professional, personal or psychological terms. Such situations call for special staff profiles, as well as training and coaching. Ideally, beside their technical qualification in a specific sector, international advisors should have previous experience of conflict and possess strong mediation and communication skills. Intercultural and

negotiation skills are also necessary. Non-economist conflict experts should be part of the team or at least should be called in as temporary advisors to the project to avoid dangers of sector tunnel vision. Conflict experts should also help the project continuously to collect information about the changing conditions and assess the risks to project assets and personnel.

Cooperate, coordinate and communicate with all stakeholders. Of course, this imperative applies for all development interventions, but even more so in the conflict-affected environments. Whenever possible, donors and implementing agencies should speak with one voice or work in joint initiatives. Furthermore, all SED projects in a country should come to an agreement on how to handle critical issues, such as the selection of beneficiaries and the use of subsidies in order to avoid greed and grievances. In addition, development interventions from different sectors may achieve better impact through coordination, especially on the four key peacebuilding needs (good governance/political framework, socioeconomic development, security, justice and reconciliation). The Programme for Rehabilitation, Reintegration and Reconciliation Activities in Sierra Leone, for instance, successfully combined the topics of reconciliation, reconstruction, agriculture development, vocational training, and environmental and gender issues (see Box 18). Integrated and multi-level programmes offer the chance to make cooperation and coordination part of day-to-day programme management and may be more effective than stand-alone projects.

Transparent external communication (for example on critical issues, such as who will get support and under what conditions) and the facilitation of dialogue between opposing sides are also crucial for projects working in conflict-affected environments. SED projects can bring members of opposing sides together in joint technical training, planning workshops, study tours, trade fairs and other dialogue forums, and thereby contribute to the building of trust. Such events vary in formality and often include social elements that can improve the atmosphere between stakeholders. The use of local languages in project work can be a delicate issue, in particular in countries where different groups use minor language differences as a way of distinguishing one group from another. In countries where different languages are prevalent, it may be necessary for projects to provide documents and publications in all relevant languages to avoid feelings of discrimination. In cases where language differences between opposing groups are minor, pragmatic solutions have to be found; here it seems more important that the project is perceived in general as neutral and non-discriminating and that it avoids biased wording.

While project objectives and strategic approaches have been defined during the planning stage, project managers face the challenge of applying the principles of conflict-sensitive management in their day-to-day work. In practice, they will have to repeatedly adjust conventional SED approaches to a specific peace or conflict situation. The following sections describe various respective practical experiences in the fields of private sector development, skills development and employment promotion, and financial system development.

4.2 Private Sector Development

4.2.1 Context

In the context of German development cooperation, private sector development (PSD) is one of four fields that make up the sustainable economic development focal area (the other three are economic policy, employment promotion and financial system development). The objective of PSD is to enable firms to be established and to expand, while contributing to environmentally sound and inclusive economic growth, and thus to poverty reduction. At the heart of the approach are capacity building measures and the strengthening of institutions; typically these are designed in a systemic manner. The following Figure summarises the determinants of systemic competitiveness which constitute the basis for the private sector development approach of German development cooperation.

PSD projects can be designed according to sectoral, regional, national or international approaches, or a combination of these, depending on the particular circumstances in the partner country. Project partners may include governments and their institutions, chambers of commerce, associations, research institutions, civil society and enterprises.

Private sector development based on a systemic competitiveness approach therefore requires the participation of multiple stakeholders: members of the private sector, both local and international, as well as representatives from the public sector and civil society. Also, the responsibilities and the hierarchy of different legal entities at the national, sub-national and local levels need to be considered. Integration into overall government programmes, and cooperation with other donor initiatives (in the context of the Paris Declaration and programme-based approaches) are integral to a systemic PSD approach. The supranational perspective is becoming more important in light of various significant international and regional agreements and conventions, which are increasingly shaping national policy frameworks (e.g. international trade agreements). The approach also builds on the linkages between enterprises of different sizes, which are integrated into local, national and global value chains. In this context, the role of large, international companies in developing the competitiveness of local producers is becoming more widely understood.

Accordingly, PSD interventions in (post) conflict situations can be designed on four levels:

- **Meta level:** Cultural norms and values constitute an important basis for private sector development. PSD activities can influence important actors in the private sector to change their attitudes towards peace and conflict in general, and in particular towards disadvantaged groups or the opponents of conflict. Examples from Bangladesh (see Box 3) and Nepal (see Boxes 8 and 9) illustrate how peace-oriented content, attitudes and messages can be integrated into normal PSD interventions. A change in perceptions often constitutes the foundation for reforms at the other levels to become effective.

- **Macro level:** PSD activities can help to improve the framework for economic development and peace. This might involve support for good governance in extractive industries, or the promotion of tax rebates for enterprises operating in zones that have been heavily affected by conflict, or which employ socially disadvantaged

people. Project activities might promote legislation on the just use of profits from the exploitation of natural resources, encourage trade between conflicting parties, launch anti-corruption measures, or support policies that foster the economic development of disadvantaged and discriminated regions and groups. Further, Private Sector actors can play a role in peace negotiations or support public initiatives for peace.

- **Meso level:** PSD activities can support private sector or civil society organisations that develop policy recommendations, initiate projects to improve the relationship between businesses and civil society, or foster an inclusive business culture. Such 'connectors' can be strengthened, for example, through the promotion of corporate social responsibility (CSR) amongst business associations, by bringing together members of conflicting parties in business support programmes, or by integrating members of different ethnicities.

- **Micro level:** PSD activities can contribute to crisis prevention and peacebuilding, for example by supporting people from disadvantaged groups to start or improve

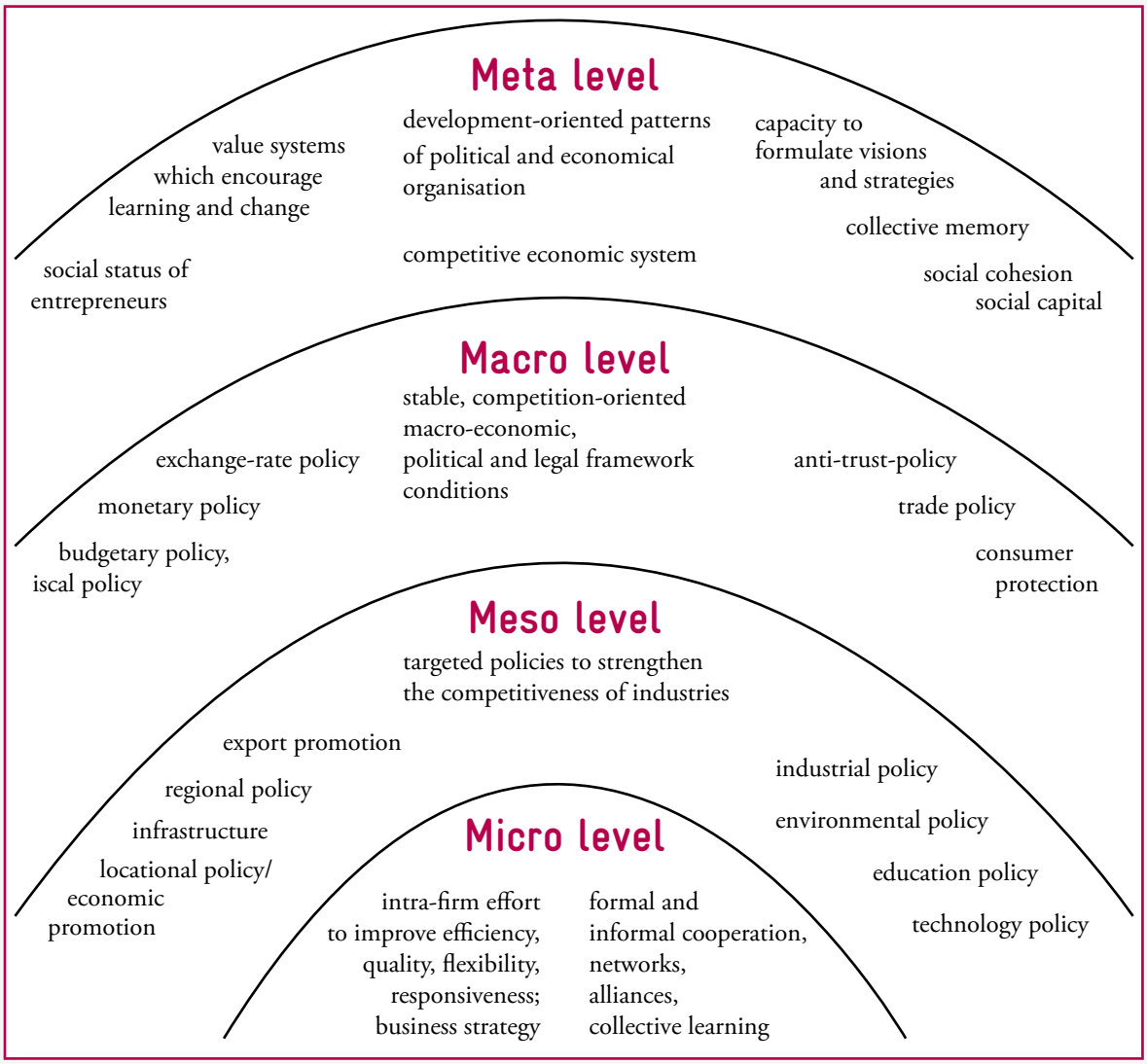

Figure 12:
Determinants of Systemic Competitivenes
Source: Jörg Meyer-Stamer, 2001, http://www.meyer-stamer.de/systemic.html.

their enterprises; or by giving advice to entrepreneurs on how to apply social standards in their business operations.

The section below analyses how the three key PSD approaches can unfold their potential to contribute to crisis prevention, conflict transformation and peacebuilding, while promoting systemic competitiveness. The first approach is the development of a business-enabling environment (BEE), which focuses on the macro level but also has impacts at all other levels. There is also high potential to link BEE interventions to existing national and international business initiatives for peace. The second approach is local and regional economic development (LRED), which is particularly relevant for addressing regional disparities and strengthening the micro and intermediate levels on local basis. The third approach is sectoral promotion, often termed

Box 10

Indonesia: Economic Recovery of the Cocoa Sector after Conflict and Tsunami

The economy of the Indonesian province Nanggroe Aceh Darussalam (NAD) has been heavily suffering from 30 years of civil war between the Indonesian military and the Free Aceh Movement (GAM), when the tsunami in December 2004 hit its coastal areas, destroying life and infrastructure. Before, the conflict had already caused a significant decline of economic activities with people fleeing from the embattled areas. Since most of the fighting occurred in the rural hills of central Aceh, agriculture was lying idle – especially the so-called cocoa belt in the Northeast of the province, known as a threshold for GAM fighters.

When the peace accord after the tsunami allowed international help entering former conflict areas, the GTZ-supported Economic Recovery and Micro Finance (ERMF) program started promoting organic cocoa production and marketing in fair-trade mechanism in two districts that had been heavily affected by the civil war. These new tools should help the cocoa farmers not only to rehabilitate their fallow plantations, but to increase the quality of their cocoa to export standard. The target was to improve the economic situation of the farmer families and their local communities as self-evident added value of peace.

On the micro level, ERMF is intensively supporting the farmer's organic cocoa cooperative in organisation development, management and internal conflict resolution to reach this target. Multiple technical trainings help to improve the production and to strengthen the cooperative's bargaining power towards local and international buyers. Well-trained farmers and members of the cooperative pass on their know-how to those farmers without certificates or memberships to avoid jealousy.

To prevent misunderstandings and inappropriate interventions – in particular by soldiers and business people – the cocoa cooperative and GTZ work on the meso level to make all their activities transparent to the local district administration, the agriculture district department, the district chamber of commerce and the representatives of the Indonesian Army.

On the macro level, GTZ and the cooperative work on the creation of a provincial 'Center Cocoa Organic Cooperative' which is supposed to foster organic cocoa production in the whole province. In addition, GTZ assisted the provincial administration in drafting an 'Economic Development Master Plan' focusing on organic agriculture and agro business as a future lead sector in Aceh.

In mid of 2009, after only three and a half years of support, the first container of organic cocoa from Aceh has been sold to Europe under the fair trade system. This success could only be achieved because of a continuous and sensitive dialogue between all stakeholders.

Source: Economic Recovery and Microfinance Programme

value chain (VC) promotion. This places the focus of activities on sub-sectors of the economy, for example, those of high significance for employment; this approach can span all four levels but usually stresses the micro and intermediate levels.

Complementing these PSD approaches with measures in the fields of skills development, employment promotion and financial system development can increase their potential to build peace. Microfinance services, such as those intended to assist micro-entrepreneurs and disadvantaged groups, can enhance the effectiveness of LRED and VC promotion. Short-term vocational skills training courses are also often linked to these interventions, especially in situations where qualified workers have migrated or where ex-combatants and returning refugees need to be integrated into the local economy.

4.2.2 Business Enabling Environment

In most conflict-affected countries, the private sector suffers not only due to the conflict itself but also from various structural problems, such as excessive state regulation, poor infrastructure, malfunctioning markets or pervasive corruption. The combination of conflicts and structural problems may generate a vicious cycle of poverty, inequality, frustration and violence. PSD interventions can help to break this cycle by creating a better business environment; this in turn contributes to the transformation to a social market economy. A healthy business environment is essential for growth and crisis prevention. Necessary interventions include public private dialogue, policy advice and capacity development for key ministries and government as well as private sector institutions in the partner countries. These are intended to create or improve the institutional and legislative framework for private sector growth, and improve the performance of the public sector. The following specific aspects may need to be addressed:

- Phasing out of inappropriate regulations and excessive taxation which stifle entrepreneurship and force many businesses to operate in the informal economy.
- Promoting a stable and reliable policy environment.
- Promoting the growth of SME and local investment.
- Ensuring fair competition.
- Promoting economic integration (foreign trade policy).
- Supporting the process of planning and implementing economic reform packages.

Business environment reform is a complex process which involves a wide range of stakeholders[10]. Therefore, a thorough diagnostic analysis and a systemic approach are required. Projects should have strategies to build coalitions of support and to engage with those who wish to protect the status quo. They must also take care that the government leads and owns the reforms, and that all stakeholders, including politicians, officials, the formal and informal private sector, and civil society, are reflected in the reform process. Reform interventions should be designed to enhance stakeholder capacity for ongoing and future reforms.

Sequencing and coordination of the reform process are key success factors. 'Win-wins', 'quick wins' and taking advantage of **ad hoc** opportunities such as changes of government, may build the reform momentum. At the same time, a long-term perspective is essential to ensure sustainability.

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For more details on results-oriented M&E see GTZ (2008c): Wirkungsorientiertes Monitoring – Leitfaden für die Technische Zusammenarbeit.

A major constraint is the gap typically found between the adoption of new regulations and their implementation or enforcement on the ground. Therefore, capacity development measures should go hand in hand with the policy formulation process. Moreover, strong communication is needed so that all stakeholders are engaged and made aware of the benefits of reform.

Ultimately, reforms of the business environment in developing and transition countries aim to increase levels of investment and innovation, and thus create more and better jobs. This is often a key aspect of peacebuilding.

As most of the functions mentioned above are governed by the state, the state's role in the conflict needs to be understood before business environment reforms are undertaken in conflict-affected environments. Effective implementation of reforms may be difficult, for example in fragile states or in countries where the state is seen as a culprit and 'divider'. In some cases, the image of a local government and administration may differ positively from that of the national government; this could therefore present more opportunities for PSD projects to engage.

Business environment reforms are beneficial in conflict situations because, unlike more selective promotional tools, they are intended to level the playing field for all businesses equally; they usually receive broad support from stakeholders. However, the impacts of reforms are never impartial and a careful analysis of results is important. Organising a public-private dialogue to ensure that new regulations do not create new or worsen existing conflicts is part of every reform process, and should receive extra attention. Disadvantaged groups should be enabled to share their views by using appropriate facilitation techniques or through the organisation of separate workshops. Ideally, new regulations should first be developed and tested at the local level and then replicated in other regions or at the national level. Any intervention at the national level requires an extremely thorough DNH check.

One of the main challenges of BEE in post-conflict situations is to achieve quick and tangible impacts ('peace dividends'). Policy reforms usually have long lead times, and even after policies have been put in place it may take some time to see an impact on the ground. As policy implementation is often poor in developing countries, particularly if they are affected by conflicts, it is advisable for PSD projects to start by supporting the kinds of policy reform that are most likely to be passed and implemented quickly. These are usually reforms in which decision makers have a strong personal or political interest, for example attracting foreign investment. They could include tax rewards for investors who procure a large portion of their required materials and services locally to benefit the local economy.

Addressing regulatory obstacles might also be included in other PSD approaches, such as local and regional economic development and value chain promotion, where business environment aspects are part of the analysis and intervention toolbox. In any case, PSD practitioners should look for tailor-made solutions to specific conflict-affected environments, as long as the benefits outweigh the costs, and as long as DNH standards are respected.

Box 11

Afghanistan: Donor Coordination and the Afghan Investment Support Agency

GTZ and the World Bank Group's Investment Climate Advisory Service (FIAS) provided separate but complementary support to the Afghan government for the establishment of the Afghan Investment Support Agency (AISA), which started operating in September 2003. AISA is mandated under the Afghan Investment Law, which was included the establishment of a High Commission on Investment. The High Commission oversees AISA, and is the highest administrative authority in the implementation of the investment law. Support for AISA is intended to improve the investment climate by encouraging its efficiency as an institution.

FIAS conducted a needs assessment for AISA and developed a three-year business plan; it published marketing materials and trained investment promotion specialists. FIAS also assisted AISA by co-sponsoring its 'US road-shows' in Washington, New York and San Francisco, providing guidance to AISA staff on how to approach potential investors.

Through GTZ programmes, AISA became a successful one-stop shop for the registration of new enterprises. Domestic and international investors could register their businesses with AISA, which then handled all the formal requirements for opening a business in Afghanistan. AISA reduced the time needed to register a business to one week, which is short even by OECD standards. It also gave support to investors to help them navigate the difficult business context. As a competent institution, it also acted as an advocate for the private sector in the reform process, and for transparent non-discriminatory governance in general.

During its first two years, AISA facilitated the establishment of more than 3,300 enterprises with a planned investment of more than USD 1.3 billion, which were expected to create 130,000 jobs.

Note: Programme support to AISA was by MIGA, part of the World Bank Group. In July 2007, MIGA's advisory service merged into FIAS.

4.2.3 Local and Regional Economic Development

Local and regional economic development (LRED) enables the stakeholders in a specific location (e.g. a municipality or district) to undertake (joint) initiatives for economic development. It is therefore particularly useful wherever regional disparities need to be addressed. LRED interventions try to mobilise development potentials in the local private sector by establishing linkages between key individuals, selected organisations in the private and public sectors, and important interest groups from civil society. These actors then pool their efforts to identify and enhance existing local and regional economic potentials in order to increase the **competitiveness of selected locations**. Public-private mechanisms that harmonise strategies for economic development at local and regional level ensure their effective and sustainable implementation and strengthen the capacity of local governance. This generates new employment and income opportunities for the population in these locations, which also leads to greater revenue collection by the respective local administrations.

In conflict-affected environments LRED emphasises a participatory and dialogue-oriented process, engaging the different stakeholders in joint problem analysis, planning and implementation. This **integrating approach** has proved very suitable, especially for addressing regional disparities. Tact and detailed local knowledge are necessary to ensure the dialogue takes place between the right people and in the right atmosphere. There is no blueprint solution for LRED as each locality is

unique. This is particularly true of conflict-affected environments, where some areas have suffered more from violence and destruction than others.

Each step of an LRED project must be DNH checked. The **selection of locations** must be fair and transparent in order to avoid causing grievances in areas that are not targeted.

Once target locations have been selected, the **local situation is analysed** by a team comprising of local, external and conflict experts. They must identify the main potentials, and the constraints on achieving these potentials, as well as the relevant stakeholders and their relationships. A PCA should be used to guide the analysis.

Depending on the local situation, there are two options for proceeding after the analytical work. If the overall atmosphere is peaceful and open for dialogue, it is advisable to conduct a large **kick-off workshop** for all relevant local stakeholders to inform them about the LRED initiative and to identify economic potentials of the region. If the atmosphere is still tense, it may be better to delay the public workshop.

In either case, it is important to ensure that:

- the team consists of impartial actors who are accepted by the local people.
- all social groups are represented in the team.
- conflicting parties are represented equally on the team, or not at all.
- a facilitator and a conflict expert with detailed knowledge of the conflict situation join the team.
- the expectations of the team members are reflected in a joint understanding of goals, obstacles and 'rules of the game'.
- the conflict is discussed as openly as possible, including possible positive and negative influences of the LRED project on the local peace and conflict situation, and vice versa.

The conflict analysis and the peacebuilding needs assessment (PCA elements 1a and 1b) can provide useful guidance for the preparation of the team meetings.

With regard to the **public workshop,** details are important. There must be the right mix of participants from different ethnic communities and from different social and economic levels, and there should be gender balance. Guests of honour must be invited without causing grievances. The same refers to the location and timing of the workshop. During the kick-off workshop, alongside the economic issues, the concept of conflict-sensitive development can be made a topic for discussion. The impact of peace and conflict on local business activities can also be discussed, but political discussions should be avoided. This calls for a **skilled moderator** who needs to create an atmosphere of dialogue and local ownership.

Once an overall action plan has been decided, fieldwork usually commences with **interviews and mini workshops** for specific sub-sectors, to understand local needs and potentials. Again, a balanced selection of persons from all backgrounds is essential, and all aspects must be DNH checked. During interviews and workshops the project objectives must always be kept transparent. The conflict should only be addressed from a business angle, since it is often easier to talk about how the conflict affects business than about the conflict **per se**.

Box 12

Nepal: Delivering Local Economic Development (LED) in Conflict Environments

At the height of the conflict in Nepal, in 2005, the GTZ-supported Nepal-German Private Sector Promotion Project (PSP) intended to contribute to conflict transformation and crisis prevention by addressing an economic root cause of the conflict and ensuring a conflict-sensitive implementation strategy for LED. A 'Joint LED Initiative' was founded, involving a GTZ urban development programme and the German Development Service (DED). The team discovered that the LED approach was suitable for conflict environments because it is transparent, action-oriented and it focused on quick impacts; it is also participatory, involving all relevant stakeholders in planning, implementation and monitoring. LED tools can easily be adjusted to meet the requirements of conflict-sensitive development including 'Do-No-Harm'.

The 'Joint LED Initiative' was piloted in the Lekhnath municipality. The local chamber of commerce facilitated the project and coordinated implementation. A team consisting of the municipality, the chamber and a 'Local Development Society' was created in the pilot location. Within six months, and without any major interference from the conflicting parties, it had identified competitive advantages and implemented 18 activities in seven sub-sectors. There is general agreement that the activities benefited all groups in the community, even the sympathisers of the Maoist movement (one of the conflicting parties). This suggests that the dialogue, which was part of the LRED activities, can contribute to conflict transformation.

The Joint LED Initiative considered a number of ways to make LED conflict-sensitive:

- Transparency: The entire LED process, including monitoring and feedback, must be transparent and open to the public right from the beginning. This includes the communication of conflict-sensitive principles, rationale and objectives.
- Impartiality: The local lead institution and the LED team should be acceptable to all conflicting parties and impartial towards the conflict. Ideally, they already play a positive role in dialogue and conflict transformation. They have to ensure that no politicisation takes place before, during or after the LED exercise.
- Inclusion: Participants of the workshops should include representatives or speakers of all disadvantaged groups (e.g. women, lower castes, ethnic groups). Their concerns must be heard, but expectations must be carefully managed during the exercise (frustration may arise since not every good idea can be financed or implemented). It is important to ensure that even the conflicting parties understand the LED approach and goals.
- Caution: Participation in workshops must be carefully considered and prepared. Otherwise there is a risk of the workshops being hijacked by political agitators. The workshops and the workshop participants must be acceptable to all conflicting parties.
- Agreements: Each activity must be based on facts and agreements with people concerned, especially disadvantaged groups and conflicting parties.
- Do-No-Harm: In the pre-exercise planning workshops, for interviews and later during monitoring, 'Do-No-Harm' checks must be done for each activity at regular intervals. They can contribute to the development of coping strategies and the redesign of activities for a positive effect also on conflict factors.
- Conflict management: LED facilitators should bear in mind that dialogue between various stakeholders can also create new conflicts or increase existing conflicts, especially when it comes to the investment of scarce public funds. Such conflicts must be managed carefully.

Following the fieldwork, an **internal workshop** is held with the core team to evaluate local potentials. This concludes with a discussion of proposals for implementation. Again, DNH principles should be used to select and prioritise suitable activities. In immediate post-conflict recovery situations, emphasis should be laid on activities that promise a quick and visible impact.

A **presentation workshop** is held to publicise the planning results. For this, it is crucial to invite all actors from the initial workshop, as well as the participants in the fieldwork, to ensure transparency and strengthen the stakeholders' ownership. If the opening workshop proved successful, it is advisable to use the same venue and follow a similar process. The presentation should illustrate the process of data collection, and show how the decisions on the proposed activities for implementation were derived. Ample time must be allowed for discussions, and people should be able to give answers anonymously, for example by collecting feedback written on facilitation cards to be presented by the moderator.

For each of the agreed LRED activities a **planning workshop** is conducted with the relevant stakeholders. The LRED team should ensure that planning is conflict-sensitive, especially in terms of who will benefit from the activity. The team should also regularly monitor the implementation of activities with the help of a DNH checklist.

4.2.4 Value Chain Promotion

While local and regional economic development is a location-specific development approach, value chain (VC) promotion focuses on upgrading strategic sub-sectors or value chains. If the sub-sector and the related support measures are carefully chosen, VC promotion can have positive effects for peaceful development. The small-scale agriculture sector, for instance, is not only important for general food security and poverty reduction but often also for post-conflict stabilisation, providing income and employment for returning refugees and demobilised soldiers. The support measures must be geared towards the immediate needs of the people, for example by helping them to market their produce at fair prices. However, negotiations between value chain actors can also cause or trigger conflicts, especially when powerful or hitherto privileged business people stand to lose their advantage through the optimising of a value chain. PSD projects may not be able to moderate or solve such conflicts, and therefore may need to start with less conflictive improvements. DNH checks help to identify such situations.

A product (or a service) is generally created in a process linking primary producers, input suppliers, buyers, processors, sellers and consumers in a value chain. The VC promotion approach attempts to optimise the value chain and sub sector conditions in such a way that the demands of the end-consumers are fully met by harmonising value chain actors, and by improving quality and productivity along the value chain. Such measures increase the competitiveness of the specific product against similar products, allow the targeting of niche markets and create growth and new employment. Strategies for upgrading value chains are typically designed to ensure income distribution in favour of the poor, for example, by improving the processing of primary products according to market demand.

The standard value chain approach follows the sequence below:

1. Identification of sub-sectors or value chains to be promoted.
2. Analysis and mapping of the sub-sectors or value chains.
3. Development of an upgrading strategy.
4. Implementation of the strategy.
5. Assessment of results.

With its multiple intervention points and the focus on the interaction and interdependence of many stakeholders, the value chain promotion approach lends itself to conflict-sensitive and conflict-relevant development. The first relevant issue to be considered is the **selection of sub-sectors or value chains** to receive project support. Possible selection criteria are:

- Importance of the value chain for the livelihoods of conflict-relevant target groups.
- Relevance of the value chain for the national or local economy and the possible stabilisation effect at the national level and/or in specific conflict-affected regions.
- Potential for employment creation within the value chain, especially for disadvantaged groups.
- A conducive policy environment for the value chain promotion – or at least the absence of objections at the policy level.
- Donor involvement and linkages with other development projects.

Once a sub-sector or value chain has been selected, a series of **workshops** with all relevant value chain stakeholders is usually held to analyse the potentials for value chain upgrading. In a (post-)conflict setting, this is a good opportunity to bring former conflicting parties together and initiate a dialogue around a common economic interest. During these workshops the value chain actors can also be introduced to the subject of conflict-sensitivity. In the context of a **value chain mapping** exercise, which is usually conducted during stakeholder workshops, questions regarding the conflict can be included, for example:

- Which value chain actors are affected by the conflict, and how are they affected?
- What causes of conflict exist within the sub-sector or externally?
- What risks do actors face, and how do they – or could they – influence the conflict?

The Figure 13 shows how the value chain map can illustrate the impact of a conflict, in this case on the tea value chain supported by a PSD intervention in Nepal.

Finally, conclusions need to be drawn from the value chain analysis. The value chain **upgrading strategy** and its implementation can be made conflict-sensitive by combining the information from the value chain analysis with information from the peace and conflict analysis and the peacebuilding needs assessment (PCA element 1). A project may then choose, for example, to mitigate the negative effects of the conflict on certain actors in the value chain.

The key to conflict-sensitive upgrading of a value chain is effective **dialogue** with the potential partners and target groups, to convince them of the potential win-win improvements that come with the interventions. Optimising a value chain often

leads to better product quality, while decreasing transaction costs and increasing profits. This is a key argument to convince business people to invest in better working conditions for their labourers and to support skills upgrading.

Value chains often suffer from mistrust, and a lack of communication and coordination between the actors, especially in (post-)conflict settings where value chain actors may include members of the conflicting parties. A participatory process has the potential to **build trust** and foster cooperation for a common goal. Communication and mediation are therefore key elements of any implementation strategy, which needs to be reflected in the planning and budgeting processes.

The value chain approach can **widen the perspective** of those involved in or affected by a conflict. New perspectives on a conflict may result from discussions with buyers in foreign countries or other producers and traders in different regions. In Nepal, for example, after talking to buyers in Germany, tea traders realised that they had to support peace to improve the country's image overseas.

Value chains that address **international social or ecological concerns** can be used as examples for the design of conflict-sensitive practices (e.g. combating child

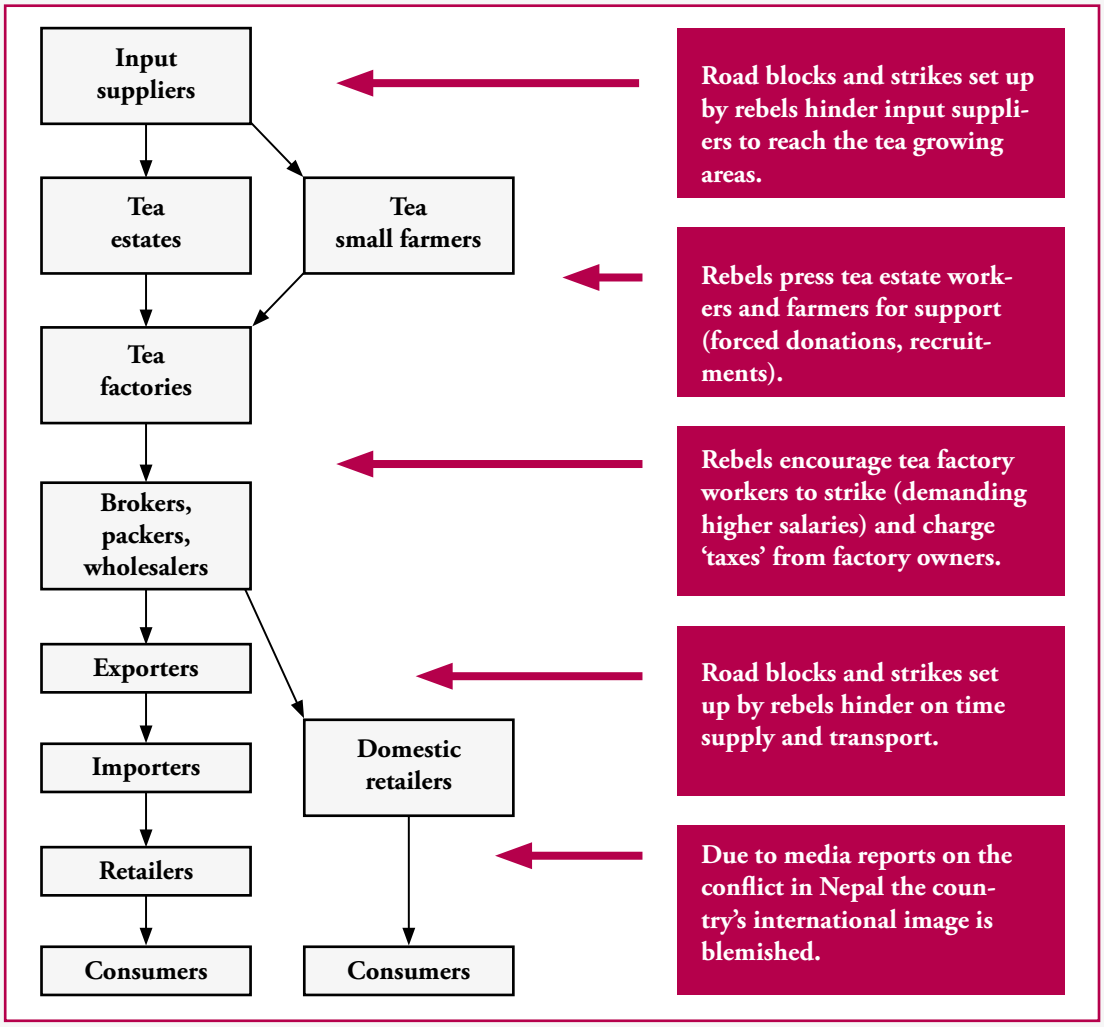


Figure 13:
Value Chain Map with Conflict Impact on Actors (example Nepalese tea industry)

labour in the Nepali carpet industry). This can open up avenues for market-driven improvements to the selected industry. The involvement of larger firms and international companies could be an incentive for local companies to start CSR activities. Moreover, the involvement of prominent business leaders could be beneficial, if they can be encouraged to act as 'peace agents'.

4.2.5 Business Initiatives for Peace

PSD interventions are usually driven by a government, donor or aid agency. However, the international private sector itself has recently started some initiatives to promote peace, stability and social responsibility amongst companies. The role played by businesses in crisis regions, especially by multinational corporations (MNC), most notably those involved in the extraction of natural resources, has been discussed since the late 1990s under the heading of **Business in Conflict** (BIC).

A variety of initiatives evolved during the last decade to help ensure business practices are conflict-sensitive and contributed to peace. The majority of these are self-imposed initiatives (such as codes of conduct and voluntary international business standards), or they involve incentives, laws or business monitoring by civil society groups. Development cooperation has rarely used the potential of global economic players for crisis prevention and conflict mitigation. However, further opportunities should be explored in light of the mobilising potential of international business initiatives.

The following section discusses some of the more prominent initiatives that can be harnessed to support greater stability and sustainable economic development. The primary entry point for PSD interventions in this context is their support for the local implementation of international initiatives. It is not only the MNCs or very large domestic companies that need assistance with the details of implementation; local and national governments, private sector associations and civil society institutions also need support.

The **UN Global Compact (GC)** contains ten principles on human rights, labour standards, the environment and the elimination of corruption. While adhering to the principles of the Global Compact is in itself a conflict-sensitive act for businesses, the GC has developed a special business guide entitled **Conflict Impact Assessment and Risk Management**, which aims to help companies develop strategies to minimise the negative effects and maximise the positive effects of investing in areas of conflict or potential conflict. The ultimate goal of the guide, which addresses such topics as human rights, international humanitarian law, labour issues, the environment and transparency, is to help companies to contribute to conflict prevention.

The **Voluntary Principles on Security and Human Rights** is an initiative of the governments of the United States of America, the United Kingdom, Norway and the Netherlands, together with companies operating in the extractive and energy sectors and a number of NGOs. Similarly, the **OECD/DAC Network on Conflict, Peace and Development Cooperation (CPDC)** promotes conflict-sensitive business standards and has published guidelines to advise companies on appropriate behaviour in conflict-affected countries.

The disclosure of revenues from extractive industry operations is considered essential for crisis prevention. The **Extractive Industries Transparency Initiative (EITI)** is a

coalition of governments, companies, civil society groups, investors and international organisations, which, by calling for the publication and verification of company payments and government revenues from oil, gas and mining operations, is encouraging improved governance in resource-rich countries. Another initiative, the **Publish What You Pay Campaign,** seeks to help citizens of resource-rich developing countries to hold their governments accountable for the management of revenues from oil, gas and mining industries. This global coalition of over 300 NGOs calls for the mandatory disclosure of the payments made by oil, gas and mining companies to all governments for the extraction of natural resources, while governments are encouraged to publish full details of their revenues. The **Kimberley Process** is a joint initiative of governments, the international diamond industry and civil society to stem the flow of 'blood diamonds' produced illegally in conflict regions. It is currently composed of 45 member countries which account for approximately 99.8% of the global production of rough diamonds.

Multi-stakeholder alliances bring together partners with diverse interests – typically governments, international organisations, NGOs and representatives of the business community – in order to achieve common goals. These include the prevention or reduction of violent conflicts, the management of the effects of conflict, or the rebuilding of countries after conflict. An example of such an alliance is the partnership between UNDP and the Business Humanitarian Forum (BHF), which encourages business investment in Afghanistan with the aim of supporting reconstruction efforts and economic development.

Corporate social responsibility (CSR) refers to the commitment by the private sector to comply with the tenets of socially and environmentally responsible management. Companies volunteer to respect fundamental social and environmental principles and make commitments to human rights, which exceed the legally prescribed standards. Businesses increasingly see CSR as the basis for sustainable business management. The numerous advantages for the companies involved include risk minimisation, consumer satisfaction, quality improvements, cost-cutting and enhanced staff motivation. CSR is not charity, but strategy. It operates at three basic levels of intervention: the company, the community and the macro, policy-dialogue level.

Despite the various initiatives and the increasing international pressure on large multinational corporations, it is the local **small and medium-sized enterprises** (SME) in conflict-affected countries that are often considered more committed partners for peacebuilding. There are two main reasons for this. First, in comparison to smaller local enterprises, multinational companies suffer relatively little as a result of conflicts, and they find it easier to stop or relocate their operations. Therefore they may feel less compelled to get involved in peacebuilding. Second, many multinational companies do not seem to be interested in the impact they have on local conflicts, and may even thrive on these conflicts. Local SME, on the other hand, are more likely to become victims of the conflict or feel an obligation to do something for peace in their country.

4.3 Skills Development and Employment Promotion

4.3.1 Context

The general aim of skills development and employment promotion is to facilitate poor people's access to decent employment and income. This is achieved by enhancing individuals' employability, improving the match between labour market demand and supply, and job creation initiatives. Job creation measures may be directly linked to skills development interventions or integrated in private sector development (PSD). Job creation thus represents a conceptual link between PSD and skills development.

Young people are the main target group for skills development and employment promotion. They are the most important assets for any society, from a social and economic point of view. Their skills and employability are key factors in the competitiveness of economies. Violent conflicts not only undermine or prevent education and formal vocational education and training (VET) for children and youth, they also curtail the social and economic mechanisms through which young people develop technical, social and entrepreneurial competencies within the family, the community and at the workplace. In prolonged conflicts, such as those experienced in southern Sudan, Afghanistan or Liberia, the result is a younger generation that lacks the essential skills to find employment and earn a livelihood. Conflict-affected environments can often be described as an 'education and skills crisis' (ILO, 1997, page 40). In addition to the lack of employable skills, the psychological and physical effects of conflict, such as trauma, physical disabilities, poor health and drug addiction, pose further challenges to the social and economic (re)integration of war-affected youth.

During and immediately after conflict, when food, shelter and medical care are priority needs, skills development may not be seen as an important intervention. However, as a result of displacement and the collapse of the economy, internally displaced people (IDP) and refugees are often forced to seek alternative livelihoods. Skills development and employment promotion, usually in combination with micro-credit schemes, have the potential to bring quick, visible improvements to people's incomes, and present an alternative to emergency relief.

Therefore, the primary aims of skills development and employment promotion in (post-)conflict areas can be summarised as follows:

- Supporting immediate livelihood recovery and achievement of basic needs during conflicts and in the immediate post-conflict recovery phase.
- Facilitating social and economic (re)integration of conflict-affected groups, thus contributing to peace and stability.
- Contributing to reconstruction and long-term economic development.

In general, the main challenges people face in terms of skills development are the relevance, the impact and the efficiency of training, as well as the limited access of certain groups. Conflict-affected environments are even more challenging than normal situations. Employment markets, including the informal economy, will offer only limited potential to absorb large numbers of unemployed and returnees. The supply of skills training will be severely constrained by the inadequate capacities

of the vocational training system and the general weaknesses of training providers. Training infrastructure is often destroyed or looted, and existing institutions have to function with limited human and financial resources. Consequently, graduates may not be well enough skilled to find employment in the local and regional labour markets. Demand for formal skills training is often very weak, not least because it lasts a long time and has cost implications. Moreover, after prolonged periods of violent conflict, many youth lack an adequate basic education and therefore find just limited or no access to the formal VET system. On the other hand, (post-)conflict markets may also offer some opportunities. Regional trade may have been blocked by the conflict, which facilitates local production and trade, and donor funding for post-conflict reconstruction can provide many employment opportunities in key sectors such as construction industries.

In practice, skills development and employment promotion projects have directly contributed to immediate post-conflict recovery by facilitating the social and economic reintegration of risk groups ('dividers') such as ex-combatants, and by addressing crucial skill gaps for reconstruction. In general, skills development and employment promotion can help conflict-affected communities to acquire new livelihood skills. In the long term, skills development interventions can address the structural causes of conflicts by reducing discrimination in the VET system and employment services, by integrating elements of peace education and life skills in VET curricula, and by building up a skilled labour force with the aim of mitigating socioeconomic inequalities.

4.3.2 Employment-oriented Qualification

Permanent employment in the formal sector is the dream of most poor people. Yet, few have the necessary education and skills to achieve it, and thus remain locked into the informal sector (either self-employed or as labourers). Even in the informal sector, the lack of skills and knowledge generally cause low productivity. An employment-oriented qualification system, which takes into consideration the realities of the poor, is urgently needed in most developing and transformation countries. This is still more important in conflict-affected countries. Skills training must be easy to access and low cost, and it should have an immediate benefit for the participants.

Formal skills development functions within a structured, officially approved education and training system, in which entry is regulated, and which leads to government recognised certification. Training is mainly geared towards formal sector employment and takes place in accredited training centres or similar institutions. Experiences show that opportunities for formal sector employment in (post-)conflict countries can be very limited. For instance in Sierra Leone wage employment in the formal sector (including the public sector) declined from 1989 to 1999 by 70 percent. Per capita training costs in formal skills development are comparatively high due to the long duration of training courses, which further limits outreach.

Non-formal skills development is organised outside the formal system. It is structured or semi-structured in as much as the programmes, times and venues are fixed. Compared to formal skills development, access barriers such as education level, duration and costs are significantly lower. Training programmes and curricula can be designed in a flexible manner so as to accommodate the specific training needs of conflict-affected groups. Examples are flexible training schedules or the integration of elements of basic education (e.g. functional literacy) in curricula. Non-formal

skills development is better suited for 'rapid response' actions in (post-)conflict settings, as the courses are usually short (not longer than six months), which allows wider outreach, and investment and training costs per capita are lower than in formal skills development. Informal skills development takes place in many forms. It is practised daily in families, at the workplace, through apprenticeship in the SME sector, or on-the-field in the agriculture sector. The training process is not structured and usually takes place on-the-job. Traditional apprenticeship is the most common form of skill acquisition in developing countries. Conflicts interrupt or at least limit informal skills acquisition as economic activity may come to a halt and social and economic structures are usually affected. Traditional apprenticeships or enterprise-based training can be used as a cost effective means of skills development, possibly in connection with the rehabilitation of small and medium-sized enterprises.

Centre-based or institution-based training takes place in established, mostly permanent skills training facilities. The training courses offered may be formal or non-formal. Centre-based training is the best way of facilitating the use of systematic teaching and instruction methods. For youth living in conflict-affected environments, a vocational training centre may provide shelter and a sense of safety. This is especially the case for female trainees. However, if trainees are not sufficiently exposed to some form of market experience during or after the training phase their integration in the labour market may be more difficult. In the case of time-limited reintegration programmes, in which large numbers of returnees or ex-combatants are to be trained over a short period of time, centre-based training is not always the most cost-effective. The short-term demand for training does not justify the costs of setting up permanent training facilities – for instance in rural areas – which are difficult to maintain once the demand for skills training falls at the end of the reintegration phase.

Enterprise-based training (EBT) is on-the-job training either in formal sector firms or in the informal economy. The latter is perhaps better described as traditional apprenticeship, and it is the most common form of skill acquisition in the informal economy. In general, private sector engagement in (post-)conflict skills development is cost effective and provides potential synergies between skills training and the revitalisation of local businesses: trainees are attached to enterprises, often for a fee, and schemes may include further financial or in-kind assistance for the rehabilitation of the enterprise. The intended benefits are twofold: the trainee acquires marketable skills and access to the market, while the enterprise receives additional inputs to revitalise its business. Using traditional apprenticeships as a placement service takes the system a step further, as they not only facilitate access to on-the-job skill acquisition, but also link the apprentice with both entrepreneurs and peers, thus facilitating labour market and social integration. Disarmament, demobilisation and reintegration programmes have successfully used EBT and apprenticeships. Weaknesses in implementation are often attributed to a lack of monitoring mechanisms. Donor funding may encourage SMEs to shift the approach from 'on-the-job' training, for which the enterprises are well suited, to 'low-cost' centre-based training, for which they are not the best option.

Cooperative training includes elements of the German dual system. Basic skills training (often complemented by life skills and entrepreneurship training) take place in a training centre, while some or all of the practical training takes place in private sector enterprises. Cooperative training aims to combine the strengths of both centre-based training, with its systematic approach, and the on-the-job training

approach of EBT. Preconditions include the close collaboration between the training provider and the private sector, and close monitoring of the enterprise-based training phase. During a conflict, and in the immediate post-conflict phase, training providers may lack the necessary knowledge and capacities to initiate and manage the cooperation with local SMEs successfully. Different variations of the cooperative model are possible. One is to link trainees to enterprises for ETB and to provide them with additional skills development services such as entrepreneurship training, life skills training, and perhaps also elements of basic education.

Mobile training – a mode of training organisation rather than a training model – is applied in (post-)conflict environments where no suitable facilities exist for centre-based or enterprise-based training, or where trainees have no access to the training facilities because of mobility problems. A mobile training unit is used as a venue (e.g. a truck or a tent set up for training purposes, which is moved to the next location after a course or training session has ended). Alternatively, mobile trainers conduct training in multi-purpose facilities provided by the communities. This mode of training is particularly useful for rural areas with insufficient training infrastructure and sparse market opportunities.

Skills development may be integrated in community development programmes and community-based reintegration and rehabilitation. Communities identify their training needs under the guidance of facilitators, and training largely takes place within the community, with community resources being utilised as far as possible. Community-based training often takes place in connection with the rehabilitation of rural livelihoods, where skills training is one element of livelihood recovery. Besides skills training (which may not be the most important intervention), the recovery of livelihoods may require a range of measures such as microfinance, marketing assistance and other business development services, or housing and infrastructure reconstruction. The boundaries between skills development, livelihood recovery and micro-enterprise development become fluid. The model has potential to address the wider issues of community building and conflict resolution as it provides wide scope to apply participatory community development methods and conflict management techniques like mediation and reconciliation. The model may not be applicable in the early post-conflict phase, when people still lack basic goods, and community structures are too fragile. The community-based approach is better suited in the transition phase between rehabilitation and development, as some form of community mobilisation, the existence of community structures and self-help attitudes of people are important success criteria. Community-based training can be part of integrated community rehabilitation programmes, which include community building measures and interventions to strengthen local governance.

Job placement or employment services aim at linking job seekers with employment opportunities. They may be provided through training providers as a post training measure or by specialised agencies like labour offices. They involve labour market information services as well as direct interventions through which ex-trainees are systematically linked with potential employers. The linking may include counselling and mediation services for both ex-trainees and employers. Job placement services can only be effective if sufficient wage employment opportunities exist in the region or in other markets. Underlying principles for conflict-sensitive job placement include transparency and non-discrimination. Access criteria should be transparent for clients; actual practices should not discriminate persons on the basis of gender,

religion or ethnicity. So far, only a few experiences with (post-)conflict employment services have been systematically analysed.

For people who are unable find wage employment in (post-)conflict labour markets, self-employment activities often remain the only way to achieve economic participation. It is good practice to integrate entrepreneurship in skills development so as to prepare trainees for different options. Elements of the CEFE approach (competency-based economies through formation of enterprise), which support entrepreneurship as well as training in small and micro business management, can be successfully integrated into skills training, provided they are well adapted to the background and needs of the target groups. Most skills development schemes in post-conflict situations provide toolkits and start up capital at the end of the training course. Some studies suggest small grants may be a more effective instrument for promoting self-employment among ex-trainees. Equally important are business development services provided as post-training measures, such as market information services, business plan development, business counselling and technical advisory services.

In rural conflict-affected environments, people are mainly interested in small-scale agricultural activities to achieve food security and secure some income. Community-based training models provide a conceptual framework for linking skills development with livelihood recovery approaches at micro level. Interventions include provision of seeds, livestock and tools for rehabilitation of agricultural activities, microfinance services, resumption of agriculture extension services, skills development in new farming methods and marketing techniques. It is good practice to build on existing livelihood coping strategies, which communities have adopted during the conflict. Livelihood recovery is often linked with wider measures for rebuilding community structures, such as local governance mechanisms and community conflict resolution. Youth participation in community rehabilitation and development is a topic that often receives too little attention. Moreover, conflict issues such as access to agricultural land, water and markets must be addressed.

4.3.3 Vocational Education and Training Systems oriented towards the Labour Market

It is commonly accepted practice to orientate vocational education and training (VET) systems towards the needs of the labour market. In many developing countries, formal, registered enterprises are far outnumbered by the informal sector and traditional industries. This reality must be respected in the VET system. The various needs of enterprises, the self-employed and the employed must be considered. A labour market-oriented VET system aims to increase the productivity of all enterprises by qualifying their owners and employees. Higher productivity means higher competitiveness, more employment opportunities and an overall increase in income levels. This will lead to economic and social stability if economic development is broadly based and fair. However, interventions at VET system level require a minimum of stability and commitment from government. In absence of good governance and during violent conflicts, interventions at the VET system level may not be feasible or they face a high risk of failing.

Typical partners for macro-level VET system interventions include line ministries and departments governing the VET system. Critical questions at the macro level include governance, level of corruption or representation of different societal groups

in decision making structures. At intermediate level, partners may be decentralised, regional or district VET coordinating bodies, and intermediary institutions engaged in capacity development (e.g. teacher training, curriculum development). Strengthening decentralised structures in conflict-affected regions may contribute in the long-term to reduction of structural causes of conflict. At micro level, partners include service providers such as vocational training centres, labour offices, NGOs or local associations of entrepreneurs. Important issues for selection and monitoring include the practices and values applied by partners in direct interaction with target groups (actual criteria for selection of trainees, inclusive vs. discriminative actions in the teaching process, etc.).

In the immediate post-conflict phase most international actors tend to operate at the micro level and do not pay sufficient attention to the higher levels. Without adequate investment in capacity development at the level of training providers and VET coordinating structures, the effectiveness of skills development interventions will be severely impeded at an early stage. If interventions in a conflict environment are not possible, human resource development (e.g. training of trainers) may take place in safe neighbouring countries or regions.

During low-level conflicts and the early stages of post-conflict recovery, rapid short-term capacity development initiatives may include the following:

- Addressing training providers' immediate human resource gaps. Capacity building may include qualification of management staff, trainers (teaching methods in relation to target group needs, and basic conflict resolution techniques) and training of psychosocial counsellors.
- Providing financial and technical assistance for physical reconstruction of strategic training providers.
- Involving government structures whenever possible in programme design, coordination and monitoring and evaluation.

In the medium term, foundations can be laid for the longer-term rehabilitation and development of the VET system. Priority measures may include capacity development for government and intermediary coordinating structures and organisations, for example institutes providing training of trainers. Planning of measures for peacebuilding and conflict prevention at VET system level should be based on a PCA. The following conflict and peace aspects should be investigated:

- Mechanisms preventing or facilitating equal access for all societal groups to the VET system.
- Vertical mobility within the system, allowing disadvantaged groups to obtain accredited qualification that leads to improved access to the labour market.
- Integration of marginalised groups, e.g. discriminative elements in curricula and in teaching practice.
- Perceived distribution of public resources for VET. Consideration of neglected or conflict-relevant geographic regions.

A challenge for planning interventions at VET system level in (post-)conflict situations is the lack of reliable data. Detailed sector studies are usually not available. Rapid baseline surveys assessing the functionality of training providers may provide

Box 13

Sri Lanka: Non-discriminatory Vocational Training

The Vocational Training for Women and Youth (VTW) project was implemented by GTZ between 1995 and 2004 in Sri Lanka. The mandate of the project was to act as a 'laboratory' to test and fine tune innovative vocational training packages, that could contribute towards the improvement and enhancement of the quality and employment relevance of vocational training. The target group were low income women and men in three provinces of the country.

The VTW team laid much emphasis on the aspects of conflict and gender sensitivity in all its interventions. The challenge was also to bring the partner organizations to accept the principle of including women and men irrespective of their ethnic, caste or class backgrounds. For instance, the government vocational training system did not show much interest on training young men and women of the Indian-Tamil minority who are living in the tea plantation areas of the Central Province.

In a study the following main areas of conflicts that could emerge in the Central Province were identified:

- Urban-rural disparity – men and women have different opportunities in the urban as opposed to the less advantaged rural populations
- Mismatch of youth expectations and available opportunities: although the young people in the plantations have dreams of a different and better life for themselves, the opportunities for training and also jobs are limited; yet there is a demand for jobs such as carpenters, plumbers, construction workers etc.

Eventually the VTW partners decided to strengthen their activities in the plantation areas. An old tea factory was leased to the Vocational Training Authority of Sri Lanka to carry out training for women and youth in the plantation areas. With the support of the project the factory was converted into a training centre and curricula were adapted and translated to fit the requirements of the young people's aspirations of the area. By the time the project came to an end, in December 2004, training was being carried out in several sectors in Tamil and Sinhala language and were linked to jobs in the area.

In another activity, a model bakery training centre was established in collaboration with the Don Bosco Technical Training Institute. VTW was successful in influencing the Institute to change their trainee selection policy, allowing groups that had been discriminated against until this point to enter the bakery course. This included women (Don Bosco had until then not allowed women to enter the training institute), older men (only youth of a certain age had been allowed to be trainees), and non-Christians.

Teachers were trained to teach also conflict sensitivity and social skills to the trainees. The courses are very popular because the duration of the courses are short compared to formal vocational training courses in other sectors and because they are cheap since the center is earning income by selling bread. The training can be done on a modular basis where trainees can pick and chose what they want to learn and for how long. The integration of entrepreneurship development into the training course ensures that the trainees are also prepared for self-employment. Trainees can undergo the national trade test which ensures that the trainees can find employment anywhere in the country and even outside.

Source: Kumudhini Rosa (former GTZ-VTW Team Leader) and Amina Yoosuf (former GTZ-VTW Coordinator)

first insights into the system level. Once cooperation is progressing from the immediate post-conflict stage to longer-term rehabilitation, it is advisable to conduct more comprehensive sector surveys, if possible with the participation of relevant line ministries. (Post-)conflict conditions provide opportunities to experiment with new skills development approaches. Pilot activities at the micro level can reveal useful information about the strengths and weaknesses of the system, which complement the findings of baseline surveys and sector studies.

4.4 Financial System Development

4.4.1 Context

Financial system development (FSD) is built on a systemic approach addressing issues at all levels. At the micro level, the prime objective is to improve the capacities of financial intermediaries, above all microfinance institutions (MFIs). At the intermediate level, FSD focuses on capacity development for financial sector service providers, such as credit bureaus or MFI associations. At the macro level, the emphasis is on legislation and policies regulating the financial system, and the supervision of financial intermediaries. At the meta level, FSD interventions may try to build public trust in the financial system.

The ultimate objective of the systemic FSD approach is to improve poor people's access to financial services while maintaining the stability of a country's financial system. The relevance of this objective must be understood against the background of history: In the 1990s the majority of financial sector reform programmes aimed at de-regulating interest rates, reducing minimum reserves to be held by banks, lowering entry barriers for establishing new financial institutions and unpegging exchange rates. However, the intended net increase in foreign direct investments was confined to just a few countries. Instead, speculative and volatile portfolio investments rose rapidly. This development contributed to several financial crises and social upheavals, in Mexico (1994), South-East Asia (1997), Russia (1998) and Argentina (2001). Hence, today the existence of a stable financial system is seen as an essential condition for pro-poor growth.

Applying the financial system approach in conflict-affected environments calls for a profound understanding of the links between a specific conflict and the financial system actors. Theoretically they can be linked in three different ways to a conflict: as victim, as 'divider' or as 'connector'.

At the meta and macro levels, conflict reduces the social returns to financial sector reforms (Addison, 2002) and may even cause the complete break-down of the formal financial sector. Where the state is a party in the conflict, financial institutions owned or sponsored by the government can become a direct target of violence. For example, in 1996 the Tamil Tigers bombed the Central Bank of Sri Lanka; during the ongoing conflict in Nepal, rebels repeatedly looted rural public banks. This situation may impinge on the safety of people's bank deposits, thus eroding their trust in the local currency and in the banking system. The demand for domestic currency as a medium of exchange and a store of value will erode and a downward spiral commence, which weakens the entire country. Irresponsible public spending, corruption and political interference in the banking system often exacerbate the

Box 14

Bosnia and Herzegovina: Secure Deposits

After the Balkan war the new state Bosnia and Herzegovina went through a painful transformation process towards becoming a market economy. By 2002, the country's banking sector had its own particular problem: mistrust among the people. The state banks were unable to cover their liabilities using old foreign exchange savings and the newly founded private banks had been discredited because of fraudulent bankruptcies. This mistrust discouraged investment and thus hampered the reconstruction process.

The German government then launched a project to re-establish trust in the banking system by promoting investment securitisation agencies (ISA), which would reassure investors that their deposits with the member banks were safe. Strict quality requirements for the participating banks were introduced and an investment securitisation fund was established with financing from KfW development bank and USAID.

Within one year, deposits with the member banks had grown by approximately KM 1.1 billion to KM 2.9 billion. This was considered a sign that the investment securitisation agencies had fulfilled their purpose of re-establishing the investors' trust.

situation. Therefore, after prolonged conflict, most countries face a 'ground-zero' situation with regard to the financial sector.

At the intermediate and micro levels, financial intermediaries and their service providers may be directly or indirectly affected by violence, for example due to declining business activities and eroding loan repayment discipline. Usually they will withdraw their services from conflict-affected regions. As a result, people's access to financial services becomes even more restricted.

Financial sector players are not only victims of conflict, in some cases they are amongst the dividers, causing a conflict or feeding it (Bennett, 2001). Every investment decision allocates resources and potentially creates winners and losers. Access to financial services and capital can be a decisive factor in determining the winner and the duration of a conflict. Most documented cases in which the financial sector has been a divider have involved larger banks that facilitated money-laundering transactions by warring parties, or which were involved in other illegal activities. However, the case of Nepal shows that even small cooperative banks can do harm on a local level: low caste people were inadvertently excluded from the cooperatives because land-ownership was a prerequisite for membership; years later, this was a source of serious grievances during the civil war.

International banks, including multilateral development banks, can become entangled in conflict situations due to their long-standing investments or operations in formerly peaceful countries, or through investment in projects whose impacts may generate local grievances. Because banks are so closely connected to the corporations they finance, several international NGOs campaign for more transparency and social responsibility in international lending and investment. The Rainforest Action Network (RAN), for example, launched a 'Campaign for a Sane Economy', targeting Citicorp as a major financer of new logging, mining and oil projects, some of which allegedly triggered local conflicts. Other development projects, which have come under criticism, include the Chad-Cameroon oil pipeline, with which the World Bank has been involved. Banks are also held responsible for the so called 'Dutch disease', when they finance large extractive industries in poor countries: the rapid foreign capital inflows can lead to the appreciation of the local currency which in turn erodes the competitiveness of local export industries and increases current account deficits; inflation accelerates, the financial discipline of the state decreases and efforts to mobilise domestic resources through taxation are jeopardised.

Based on our understanding of the links between conflicts and financial systems, FSD interventions in conflict-affected environments can be implemented at all four levels mentioned above.

At the meta and macro level, FSD can influence important actors in the financial sector, such as large banks and the state, to take their social responsibilities seriously and to change their attitudes towards peace and conflict in general, and towards disadvantaged groups or the conflicting parties in particular. Money laundering and other illegal activities must be controlled. Effective regulation and supervision are key elements in this endeavour.

At the intermediate and micro levels, FSD can support financial sector institutions to cope better with a conflict situation, offer financial services to people who have an important role to play in peacebuilding, and stop participating in harmful practices.

4.4.2 Framework Conditions and Financial Infrastructure

Large national and multi-national financial institutions sometimes act as dividers in a conflict. Therefore, laws and regulations governing the financial sector of a country should first of all try to stop malpractices occurring. In addition, they should ensure overall financial sector stability and reflect the peacebuilding needs of a country, for example by promoting microfinance services for the poor. FSD projects may, for example, support the establishment of a deposit insurance system (see Box 15). They can also advocate for central banks to become independent of political influences and improve their capacities to implement sound monetary policies. The capacities of supervisory authorities to control mismanagement, insider lending, corruption and money laundering in the banking sector must also be strengthened.

Violence is often financed by illegal activities such as trafficking of drugs or people, and the banking system may be used to launder and transfer illegal money. FSD interventions can be used to support the local implementation of an international initiative known as 'Know Your Customer', or of the G7 Action Plan developed by the Financial Action Task Force on Money Laundering (FATF), which is intended to detect and prevent the misuse of the world's financial system by terrorists. Technical assistance can be provided for the operation of payment transaction systems to effectively control illegal money transfers. This may include the use of modern banking software, skills training and networking with foreign banks. Effective payment systems are central to these efforts, particularly in such unsafe environments, as they remove the need to carry out direct cash transactions.

4.4.3 Microfinance Services

Financial broadening (i.e. providing a greater variety of financial products and services) and financial deepening (i.e. reaching out to more clients) are two key concepts of FSD. Access to financial services for the poor and excluded social groups is regarded as an important contribution to decreasing inequality, and thus increasing social stability. Hence, microfinance institutions (MFIs) can address the socioeconomic causes of conflict as well as peacebuilding needs. Apart from financial services, a key contribution of MFIs to peace is the restoration of trust and social cohesion.

There is broad consensus amongst practitioners that the application of good microfinance practices is even more essential in conflict-affected environments than it is elsewhere. After years of exposure to violence and corruption, people tend to commit more crimes themselves. This attitude can seriously affect financial institutions, either at the client level (fraud and delinquency) or amongst the managers and staff members (fraud and mismanagement). FSD projects should therefore put extra emphasis on supporting MFIs to establish good internal governance and controls, transparency and sound lending practices. Assistance may also be needed to apply do-no-harm principles in MFIs, for example for the recruitment of staff on an equal opportunity basis. Social performance measuring should include a do-no-harm check (see annex for more details). It is also important to collaborate only with trusted institutions, which are not directly involved in any conflict activities. Otherwise, the success of the measures described above would be hard to achieve.

The design and range of financial services have to be adapted to the actual situation. Thus, financial products may be offered specifically to support the security situation of the clients. In such an environment, savings sometimes play a more important role than credits. Also, the design of credit products has to take into consideration the lack of security and stability. Therefore, instalments may be repaid weekly, collateral should mostly be intangible (taking into account the risk of its being destroyed) and the institution must be located closer to the client (as travelling is dangerous).

There is an ongoing debate on the issue of targeting. Should MFIs be encouraged to focus entirely on special groups, such as demobilised soldiers or refugees? Practical experience indicates that indirect targeting is more sustainable. Hence, MFIs should be supported to design different products that meet the various demands of all people living in a conflict zone. Exclusive targeting increases the risk of delinquency and of grievances amongst those who do not receive support. Nevertheless, the needs of disadvantaged and socially excluded groups must be given special attention when designing microfinance operations and products in (post-)conflict settings.

Local politicians and communities may consider the interest rates charged by donor-sponsored microcredit operations excessive. This can cause severe grievances and trigger violence as in the case of Nepal (see Box 15). FSD projects can support the MFIs to explain to the public why interest rates in microfinance need to be higher than those in normal banking, and to disclose their financial performance data in order to prove that they are not exploiting people.

State-owned development or microfinance banks are worth giving special consideration. In many conflict-ridden countries the state spends a large portion of its budget on security; it therefore lacks the funds to continue subsidising state-owned companies. Since privatisation is usually not a feasible option during a conflict, the state has two alternatives: close down or reform. For the sake of conflict prevention and peacebuilding, FSD projects should help to reform state-owned banks. The interests of employees and clients must be respected in order to avoid grievances. If privatisation is possible, a transparent and fair sales process is of utmost importance; otherwise corrupt deals will occur at the expense of the tax-payer, as happened in many post-communist countries. This will in turn cause new grievances.

Box 15

Nepal: Small Farmer Cooperatives (SFCL) amidst the Civil War

After the restoration of multi-party democracy in 1990 the poor in Nepal had big expectations with regard to economic and social development. However, their expectations were mostly not met. The Communist Party of Nepal (Maoist) has capitalised on the widespread dissatisfaction caused by bad governance, corruption, and socioeconomic and political inequalities. Since 1996 Nepal has faced a violent conflict between the Nepalese government and the militant Communist Party of Nepal. (…)

The conflict caused severe problems for the state-owned regional development banks because the Maoists targeted them directly as enemies. There were many cases of lootings and robbery, which forced the banks to withdraw from remote areas and operate only from safe district headquarters.

The Maoist rebels even attacked most private MFIs and one third of all SFCLs; moreover, they forced many MFIs to reduce their interest rates and encouraged their clients to stop paying back loans.

Only community-based savings and credit cooperatives, informal savings and credit groups (SCGs) and women-managed SFCLs were not attacked by the rebels. The reasons for not attacking the women-managed SFCLs are that women are considered more honest in fulfilling their responsibilities so no bad practices are seen in the cooperatives managed by them; women are much less active in politics than males; women are considered socially excluded groups by the Maoists; and there is cultural taboo against harming women publicly. Overall, based on their communist ideology, the Maoist insurgents seem to have a softer approach towards MFIs that they perceive as not-for-profit, people-owned, non-exploitative and not affiliated with the government.

All SFCLs are member-owned cooperatives. However, they originate from a former government development programme and even today they are being refinanced indirectly through the government-owned Agriculture Development Bank. Therefore, local Maoist commanders often perceive SFCLs to be government organisations and attack them merely for this reason.

In other cases financial cooperatives have been attacked after one of their members has lodged a complaint to the local Maoist commander. The complaints are generally about allegedly corrupt cooperative leadership. This has only happened in male-dominated SFCLs. In some cases the allegations may be true, while in others, the plaintiffs have acted opportunistically, hoping to avoid paying back their loans. In fact the Maoists encourage borrowers not to pay back their loans and most SFCLs which have been attacked or threatened by the Maoists experience an increase in loan defaults. Many SFCLs were also forced by the insurgents to lower their interest rates for loans.

Like most people in rural areas, members of SFCLs face many difficulties due to the conflict. The Maoists often impose strikes and curfews on the people, which means they cannot reach the local market places and thus lose income opportunities. Members and SFCL staff also find it dangerous to travel and to hold cash. Moreover, the Maoists extort taxes from the population and organisations. (…)

The GTZ-implemented project Rural Finance Nepal (RUFIN) started conflict transformation training for SFCLs in October 2004. (…) The training participants identified the weaknesses of their SFCLs and the issues related to the conflict. Then they prepared action plans to deal with these issues. Many SFCL leaders realised that their cooperatives have excluded low caste and landless villagers, which aggravated the conflict in their communities. Another issue identified was the low participation of women in the decision-making bodies of mixed-sex SFCLs, which caused male domination and often mismanagement of funds.

The conflict transformation workshops carried one main message: the cooperatives are not helpless victims of the conflict, but can protect themselves from the conflict and even help to solve it. To achieve this, they should ensure their cooperatives work properly and according to their mandate (helping the poor), they should clear up all internal conflicts, empower women to take part in decision making and they should try to be more inclusive of disadvantaged groups, such as ethnic minorities and low castes. After the training workshops, the SFCLs which had closed down due to the conflict resumed operations, and the loan repayment rates of the affected cooperatives soon improved. (…)

The inclusion of socially and politically excluded groups has not been very successful so far. However, there are some encouraging cases that prove it is possible if the cooperative leadership really wants it. The majority of the cooperative leaders are from the higher castes and they consider low castes unreliable members. Low caste people generally belong to the 'poorest of the poor', who have difficulties joining MFIs for many reasons: geographical isolation; inability to join already established groups where there is a requirement to contribute an equivalent amount of accumulated savings; inability to make compulsory regular savings; illiteracy; fear of going into debt and being further stigmatised; lack of collateral (such as land or citizenship certificates). (…)

Based on the lessons it has learned, in future GTZ-RUFIN will focus on two aspects of its work: building capacities of the SFCLs and their federations, and raising conflict sensitivity amongst their leaders and members, to enable them to provide efficient and effective services in a conflict-sensitive manner.

Source: Hofmann et al., 2005
Note by the authors: The conflict in Nepal was officially ended in 2006.

4.5 Post-Conflict Recovery

4.5.1 Context

"There are now about 35 countries that can be described as having entered a post-conflict phase (…). Many of these are low-income countries where conflict has made the already difficult challenges of promoting development much more complex. Economic recovery is essential for reversing and transforming these adverse conditions, and to reduce the risk of a reversion to violence. (…) Countries recovering from war remain susceptible to the recurrence of conflict. Historical evidence suggests that there will be a recurrence in one quarter to one half of these countries." (UNDP, 2008)

Post-conflict recovery refers to the period of time between the end of a violent conflict and the establishment of peace that is considered stable. Since post-conflict scenarios differ from each other in many respects, the recovery objectives and approaches will also vary according to their specific context. However, the overriding concern of post-conflict recovery in all cases is to maintain an often fragile peace and prevent a relapse into violence. Urgently needed interventions are to establish law and order, emergency aid, disarmament and demobilisation, reintegration of ex-combatants, returning refugees and internally displaced persons, livelihood support for conflict-affected communities, and laying the foundations for long-term reform and recovery. The Figure 14 shows the typical features of the economy and the major milestones on the road to post-conflict recovery (note: in reality, the sequence

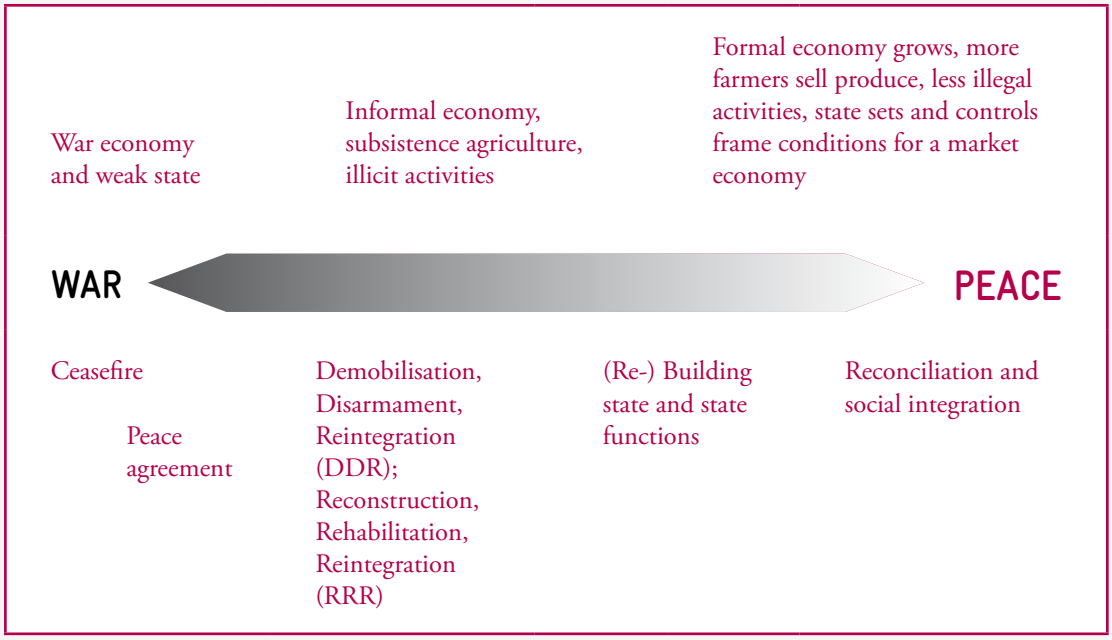


Figure 14:
Typical Features of the Economy and Major Milestones of Post-conflict Recovery

of features and milestones as depicted here may follow a different order or take place simultaneously in different places of the respective country).

Economic recovery after a conflict has to be seen in the broader context of a country's peacebuilding needs. It should not be misunderstood as merely aiming at the pre-war status quo. Economic growth should be accompanied by increasing employment and incomes, decreasing inequality and the more responsible use of natural resources. While the first initiative for these changes may be externally driven, the state and the local private sector must ultimately become the drivers of economic recovery.

The challenges of economic recovery can be daunting: a war economy and a weak or failing state, destroyed infrastructure, eroded social capital, hyperinflation, thriving black markets, corruption, money laundering, mafia-like business networks and poor law enforcement, etc. In such situations, SED projects may temporarily have to take over functions belonging to the state and the private sector, in order to meet the population's basic short-term needs. Finding skilled personnel, suitable local partners and honest entrepreneurs may be very difficult. Projects might need to develop their own staff capacities, as well as the capacities of partners, target groups and relevant state institutions. Recovery is therefore very much about capacity development.

Projects and donor agencies in post-conflict situations frequently 'compete' with each other. Grants and subsidies usually abound, and different projects may apply different rules to their aid, which can cause confusion, frustration and even new conflict amongst the local population. Subsidies can distort the demand for services and may lead to oversupply. Experiences from disarmament, demobilisation and reintegration (DDR) programmes have shown that subsidies for training and the promise of toolkits can play a significant role in achieving high rates of participation in skills training among ex-combatants. In Liberia, training providers noted

incidences where ex-combatants participated successively in several skills training programmes with the primary motivation of getting access to donor subsidies. There is a danger that people confuse emergency aid and development aid. SED projects must clearly communicate to the target group and the implementing partners that measures such as vocational training or micro-loans are not simply free hand-outs.

SED projects have to be innovative and flexible if they want to make a meaningful contribution to post-conflict recovery. Where the preconditions for economic development have been almost entirely destroyed – for example in countries like Afghanistan – conventional approaches are likely to fail and new approaches have to be designed to suit the residual capacities of target groups and partners. Practical design elements to be considered when planning SED interventions in post-conflict recovery refer to: (a) situation analysis, (b) targeting of activities, (c) the combination of different approaches and intelligent sequencing, and (d) to communication, cooperation and coordination.

Box 16

South Caucasus Post-conflict Reconstruction and Private Sector Development

Following the collapse of the former Soviet Union at the end of 1991, armed conflict ensued in and around three of the four previously autonomous regions of the South Caucasus.

Germany has assisted the social and economic reconstruction of selected border communities in Armenia, Azerbaijan and Georgia through the programme 'Food Security, Regional Cooperation and Stability in the South Caucasus' (FRCS), implemented by GTZ. The programme was designed to address key challenges of corruption, insecurity and the alienation caused by the top-down approaches associated with the former Soviet planning model. As such, it focuses on governance, the promotion of greater accountability, and on transparency.

The programme has four main components: community development, strengthening capacities for conflict management and regional cooperation, support for agriculture, and small and medium enterprise (SME) development. FRCS strengthened the capacity of local governments to promote economic reconstruction and development as well as small businesses to participate in the reconstruction measures. In the context of conflict management and regional cooperation initiatives the programme promoted training, dialogue and exchanges between local small business associations, farmers and government officials. Local governments were assisted to include peace and conflict analysis into their local monitoring. This contributed to the re-establishment of regional economic trading patterns. Similarly, rural credit and employment demands were supported through business development services and vocational training. Through these systematic links, the FRCS programme contributed to private sector development while reducing the likelihood of a return to conflict.

Source: GTZ 2006c

4.5.2 Situation Analysis

A situation analysis is a prerequisite to design appropriate SED interventions for economic recovery. However, time pressure often does not allow for lengthy and detailed studies. Therefore, standard planning tools need to be adapted. To start with, the peacebuilding needs must be identified. The target group analysis should focus on the identification of 'connectors' and actual or potential 'dividers'. This should result in the selection of specific target groups for project assistance and in the definition of selection criteria for such assistance. In addition, the specific needs

of individuals should be assessed, for example those related to wartime traumas and physical handicaps. Moreover, specific reintegration needs should be considered (social skills, mediation services, counselling needs), and aspects of discrimination must be analysed, for example, labour market analyses for skills development interventions should identify ethnic, religious and social factors that impede a target groups' access to employment and income opportunities; the analysis of the vocational education and training system should assess access barriers and discriminatory practices by the instructors, in the curricula and with regard to the geographic distribution of public resources.

An alternative to extensive planning for post-conflict skills development interventions is to implement a flexible and outcomes-based project management system. Key elements of the system are: a) rapid training needs assessments involving target groups and key informants, b) systematic output and outcome monitoring implemented throughout the training process and in the post training phase and c) frequent planning reviews. An example comes from a BMZ/GTZ project in the province of Aceh, Indonesia.

Box 17

Aceh Indonesia: 'Rapid Response' Skills Development for Conflict-affected Groups

With a peace agreement signed between the Free Aceh Movement (GAM) and the Indonesian Government there was high pressure on donors and international agencies engaged in post-Tsunami reconstruction to offer assistance for the reintegration of ex-combatants. A vocational training project implemented by GTZ stepped in and offered to fund and organise short-term skills training for 823 conflict-affected people, including GAM ex-combatants. In order to follow a do-no-harm approach, people who had not been affected by the conflict were also considered. GTZ's services involved the identification and contracting of suitable training providers, coordinating the entire activity, including quality management of training, and offering suitable follow up activities for market integration. Since pressures were high to produce visible results in a short period of time there was no scope for extensive market surveying. The project applied the following counter-measures:

- conducting rapid training needs assessments with the ex-combatants, which were coordinated by the GAM veteran organisation
- based on the initial needs assessments, designing a flexible skills training project that offered a wide range of short-term training in such diverse areas as caterpillar driving for road construction, fabrication of cast-metal items or value addition to agricultural produce. As a result of the needs assessments, most training courses were designed as skill-upgrading or refresher courses rather than basic training
- installing a results-based and conflict-sensitive monitoring system

The monitoring entailed 'start of training assessments', which established the expectations and the baseline information of the people being trained. Mid-term reviews and 'end of training evaluations' were conducted to monitor outputs and dynamics during the training process as well as obtaining feedback from trainees on the perceived market relevance of the training. Post training follow up was organised three to six months after completion of the course. This monitored employment and reintegration status. The monitoring results were shared in quarterly monitoring reflection meetings, which served both to discuss the results and to effect immediate adjustments to the implementation plans and project approaches.

4.5.3 Targeting of Activities

Experience has demonstrated that a combination of targeted and (non-discriminatory) community-based reintegration measures is an effective way to reach the target groups while also minimising conflicts. Supporting ex-combatants' families instead of ex-combatants themselves is an option worth considering, in particular when ex-combatants are handicapped or otherwise unable to make use of SED project support. Most importantly, the target group must be made aware that economic reintegration and development support is dependent on a (self-)selection process based on an assessment of potentials, and that project services must be complemented by beneficiary contributions. In other words: not everyone can be helped by an SED project. The potential impact of migrants and refugees on the immediate post-conflict situation must be considered carefully. They can be a useful source of funds and skills. SED projects may, for example, organise a reliable money transfer system (remittance services) or offer investment advice to returning migrants. Critical issues for reintegration programmes include the role of ex-war lords and militia leaders (who, for instance, may have a direct influence on the selection of project beneficiaries or who may use project support to strengthen their own military positions), as well as the unrealistic expectations of the local population. This may be especially dangerous amongst actual and potential 'dividers'.

4.5.4 Combined Approaches and Sequencing

Throughout the 1990s, an increasing number of multilateral and bilateral development agencies have intervened in post-conflict countries. The dominant approach to reconstruction, rehabilitation and reintegration (RRR) was that of a continuum of interventions, moving from emergency and relief activities gradually

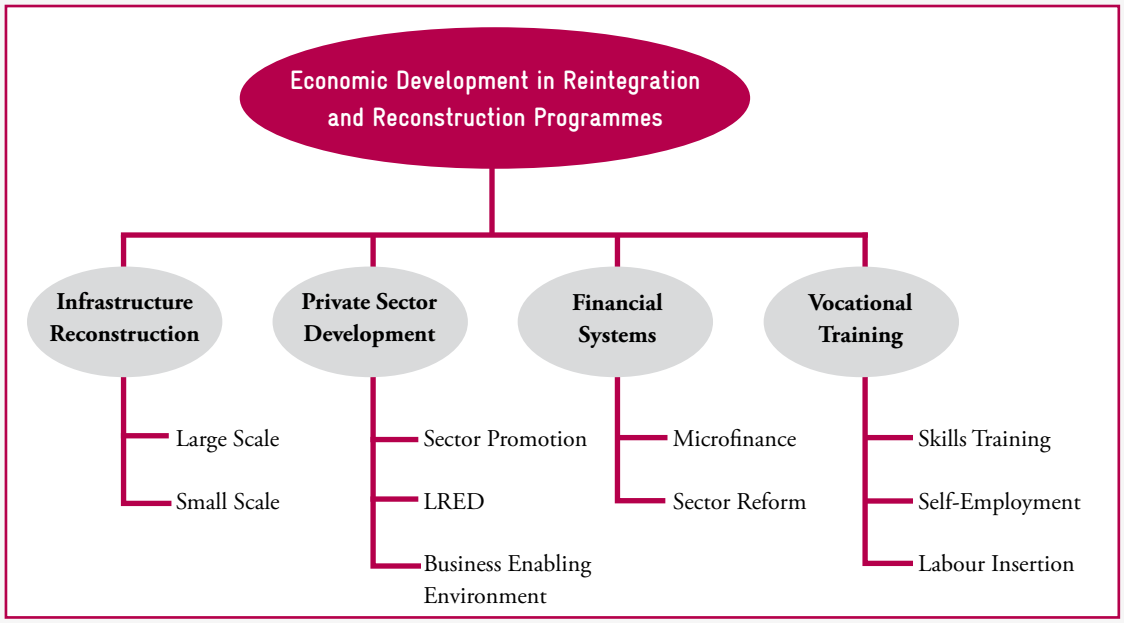


Figure 15:
Combination of Approaches for Economic Development in Post-conflict Recovery
Source: GTZ (2006f)

to reconstruction and rehabilitation of infrastructure, and ultimately to 'normal' development measures (GTZ 2003i).

Practical experiences, however, indicated that this sequencing of support did not deliver the expected results. Consequently, the continuum model was abandoned and a so-called 'contiguum' approach was developed. Instead of chronological stages and the separation of relief and development activities, the 'contiguum' approach offers a coordinated and integrated model that embeds relief activities into a development-oriented, holistic approach (see OECD/DAC 1998, p48). It is now widely accepted that a multi-sectoral approach is essential for post-conflict recovery.

Box 18

Sierra Leone: A Multi-sector Approach to Reconstruction and Reintegration

After ten years of civil war, Sierra Leone has been devastated and its population displaced. In large parts of the country housing, basic infrastructure and production facilities have been destroyed, in most regions economic activities are barely at subsistence level.

The Programme for Rehabilitation, Reintegration and Reconciliation Activities brings together many activities in the fields of reconciliation, reconstruction, agriculture, vocational training, environment, gender, etc. and also has a component for income generation. The programme provides emergency aid and supports the return and reintegration of refugees both from abroad and those displaced internally. Simultaneously, the programme encourages self-help to promote sustainable development in the village communities.

Getting ex-combatants and villagers to work together to rebuild basic infrastructure plays an important part in reconciliation and the social reintegration of the former fighters. Community-based reintegration supports the peace process in Sierra Leone by contributing to longlasting reconciliation and economic reconstruction in the communities involved.

The combination of different SED approaches and the intelligent sequencing of activities can produce rapid results for post-conflict recovery. Sometimes, even other development approaches can be linked to SED, for example the provision of psychosocial counselling and health services to participants in vocational skills training. In many situations, a systematic combination of economic development approaches and infrastructure reconstruction is generally advisable, as illustrated in Figure 15.

The central theme around which to organise SED interventions is the re-establishment of market dynamics, and using their potential for development. This worked well in the case of Mali North (see Box 19), with economic recovery and a combination of investment-intensive and labour-intensive measures. Investments focused on locally produced goods required in the process of recovery and on the disbursement of funds in the form of wages. Invested funds and increased local incomes could be directly linked to increased demand in the market place (for wheat, small livestock or commodities). The combination of short and medium-term measures helped to address the precarious situation of the target group and trigger a process of sustainable development at the same time. The target group was directly involved in the selection of project activities, which bolstered their sense of ownership and increased their motivation. Guided by DNH principles, the project avoided the creation or widening of inequalities. A participative and decentralised implementation approach involved leaders from both the formerly conflicting parties in programme development. The combination of all these elements, fostered by efforts to facilitate communication, significantly aided the peace process in Mali. A further recommended

Box 19

Mali: Conflict Sensitive Reintegration and Reconstruction

In 1990, the unfulfilled Tuareg demand for autonomy triggered a rebellion, which led to armed conflict in Mali. The fighting lasted until 1995, when it was finally brought to an end, also due to the arbitration of the GTZ-Programme Mali North. The war caused the complete depopulation of the region and the return of the refugees took until 1997. Since 1996, Mali North supported the renewed settlement of displaced persons and refugees. In addition to building infrastructure, GTZ promoted the development of local business with a view to enabling people to generate their own income. GTZ then worked on creating sustainable economic stability in the region and improved utilisation of the country's limited resources has been tackling the issues of the destroyed infrastructure, the lack of state administration and the local population's struggle for survival.

GTZ focuses primarily on the Timbuktu region, the region most severely affected by the effects of the rebellion. In all its activities, GTZ has been careful to ensure that local people are involved from the outset and are provided with work and wages, thus giving new impetus to the local economy. This increases individual responsibility and promotes acceptance of the projects. By involving various sectors of the population in the programme's advisory board and in the implementation of the project, work on the ground serves simultaneously to reduce ethnic conflict and disputes relating to land use and to prevent renewed violent unrest.

The money invested in labour-intensive projects went directly into the local economy and enhanced market demand (e.g. for cereals, everyday articles, small farm animals, etc.). The programme contributed to the survival of the local population by combining short and long-term measures and the organisations involved made sure that the programme benefits were distributed evenly to all population groups.

case study is that of the rehabilitation, reintegration and reconciliation programme implemented in Sierra Leone (Annex 6.15).

On a micro level, the combination of vocational skills training, business skills training, and access to microfinance has successfully fostered both self-employment and employment in existing SMEs. This combination is likely to be most effective in meeting the short-term employment objectives during immediate post-conflict periods. The CEFE approach (competency-based economies through formation of enterprise) may be particularly useful to help entrepreneurs start or improve their own enterprises. Furthermore, business incubators can increase survival rates for innovative start-up companies. SME promotion strategies can include value chain promotion, linkage programmes, as well as small-scale infrastructure and reconstruction initiatives. Microfinance services should include savings products, money transfer services, and credit for working capital, small investments and housing.

The United Nations (2008) recommends a three-track approach to sequencing economic recovery programmes: Track A aims to consolidate security and stability by providing emergency temporary jobs and livelihoods, and start up grants that provide a quick peace dividend to targeted ex-combatants, high risk youth, returnees, IDPs, and others. Track B aims at the reintegration and consolidation of the peace process by promoting employment opportunities at the local level, rebuilding communities, and investing in local socioeconomic infrastructure, restoration of the natural resource base and local government capacity building. Track C aims at long-term employment creation and decent work. This involves providing support for policies, institutional capacity building at the national level and creating a framework for dialogue to define 'the rules of the game'. While all three tracks are

observed in any phase of recovery, their intensity generally peaks at different times in the post-conflict period, as shown in Figure 16.

The US Agency for International Development also recommends the immediate and simultaneous start of recovery work in multiple areas, and an early attempt to build long-term capacity (USAID, 2007). However, there are no hard-and-fast rules about sequencing and various options have to be weighed against each other in each specific situation:

- Short-term objectives and measures versus long-term objectives and reforms.
- Urgent action versus local ownership and capacities.
- Using the narrow window of opportunity to introduce difficult economic reforms versus the government's capacity to implement reforms.

Initially, however, any measures to generate employment and stimulate the economy quickly should take priority over longer-term interventions. Having said that, USAID nevertheless argues that rapid growth requires sound economic policies to be established from the beginning and that institutional capacities must be in place to implement the policies.

The sequencing of skills development interventions for reintegration is an important detail to consider. The pre-training phase involves vocational orientation and counselling, individual needs assessments and aptitude testing, and the selection of trainees; the training phase covers technical competencies combined with social and general life skills; and the post-training phase offers additional services for social and economic integration. Some training providers integrate vocational orientation and aptitude testing in a feeder phase, through which trainees acquire basic skills,

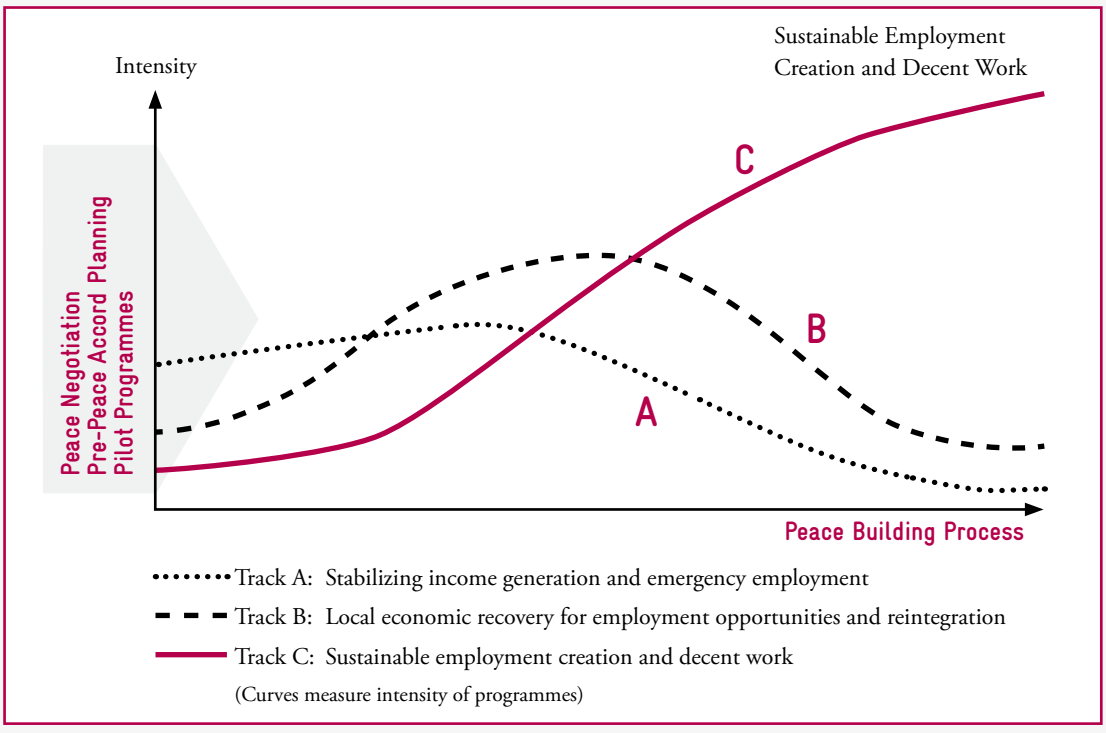


Figure 16:
Sequencing of Post-conflict Economic Recovery
Source: United Nations (2008)

including general education, before entering a more specialised skills training course. For conflict-affected groups, psychosocial counselling and trauma healing is an essential service offered throughout the intervention. Skills training has the potential to facilitate conflict resolution by bringing together former enemies and facilitating their interactions during training in a conflict-sensitive manner. The post-training phase is a critical step in the skills development process, as it facilitates the transfer from learned skills into economic value and decent livelihoods. Services include the facilitation of apprenticeships in the private sector for continued acquisition of employable skills, job placement services, self-employment services and community counselling and mediation for social reintegration. While skills development does not include resource transfers of any significant scale, except for the training allowances usually provided to ex-combatants, post-training services may advance a person's or group's economic position compared to other community members. Especially in contexts where communities have been severely affected by conflict and where grievances between ex-combatants and affected civilians exist, it is crucial that these services are provided with a fair balance among the community as a whole.

In complex reintegration situations, sectoral interventions often face constraints. Skills development and employment promotion are commonly integrated into community rehabilitation activities and can be offered alongside humanitarian aid during and immediately after a conflict (e.g. 'food for training' for refugees and IDP's). Integrated models of skills development consisting of elements of 'out of school' basic education, youth promotion and skills development may be better suited to address the multiple skills deficiencies and reintegration needs of conflict-affected youth.

Small-scale infrastructure or emergency job creation projects are commonly used by donors as a means of rapid job creation. Their main purpose is to achieve a quick impact on the livelihood situation of conflict-affected groups. Secondly, infrastructure projects such as the reconstruction of rural feeder roads or the rehabilitation of essential services like water and electricity supplies can contribute significantly to the revitalisation of local economies. Interventions are short-term, usually not longer than six months, and use labour intensive techniques. If well planned and managed, such projects also contribute to skills development and rehabilitation of local SME. Infrastructure projects can be an intensely political undertaking, often with significant consequences for distribution at the local level. Key aspects of conflict sensitivity include transparent decision making processes and financial accountability. Community participation is important but has the potential to deepen community divisions if it is not well facilitated.

At an intermediate level groups of businesses, defined either according to their sector or geographical area, can receive assistance through strategies to promote value chains or LRED. Local business people can also be supported to form business membership organisations as providers of business services and as a legitimate voice for the local business community. Such organisations have also been successful in promoting reconciliation and social responsibility.

On a macro level, strategies to improve large-scale infrastructure, financial systems and investment conditions may be necessary to enable SMEs to participate fully in the reconstruction boom that typically follows peace agreements. This indicates the need to initiate reforms as soon as possible. Reforms must aim at creating stability, improving the business environment and reducing causes of conflict. Interventions

include assisting in the preparation of laws and regulations on property rights, labour issues, business taxation and investment promotion, or helping business membership organisations to enter into a constructive dialogue with the government and civil society organisations.

While these options may be far from complete, they do offer a reasonable starting point. However, institutional weaknesses in post-conflict situations might call for unusual approaches, for example 'green-fielding' and build-operate-transfer (BOT) schemes.

'Green-fielding' (i.e., establishing new institutions from scratch) may be necessary where institutions are not present or where pre-conflict institutions cannot be re-established. For example, GTZ established an investment promotion and business registration authority in Afghanistan because there was no existing institution which could have done this job effectively. Green-fielding is also a common approach in post-conflict microfinance (see Box 20). Experience shows that there are only a few preconditions for starting new microfinance operations or institutions in post-

Box 20

Indonesia: Setting up a Microfinance System to revive Aceh's Economy after Tsunami and Civil War

When the tsunami of December 2004 hit the coast of the Indonesian province, Nanggroe Aceh Darussalam, it also destroyed the infrastructure of the whole region. The disaster was the final blow to an already feeble system: the 30 year-long civil war between the Free Aceh Movement (GAM) and the Indonesian military had already severely weakened Aceh's economy.

For the recovery of the region it was essential to get the economic engine running again quickly, while at the same time guaranteeing greater political stability. To contribute to this stability, the GTZ-supported Economic Recovery and Microfinance programme (ERMF), together with the Indonesian Central Bank, provided assistance to the microfinance system by supporting eight rural banks (BPRs) and seven Islamic financing cooperatives – most of them located in former conflict areas – and an adequate financial infrastructure.

Before the tsunami, there were only one commercial bank and around twenty microfinance institutions in Aceh. However, these maintained a low profile to avoid becoming the target of attacks from the warring parties. A large part of the BPR's previous business, for example, was 'channelling' – dispensing loans from the Indonesian government to selected customers. Because the government did not insist on repayment, the banks did not think along commercial lines and rather regarded themselves as social institutions supporting poor people.

To revive financial services, ERMF provided specific training and established new methods for microfinance and loans. Since most clients had lost their property, either through conflict or the tsunami, cash-flow-based lending was introduced, assessing potential borrowers not according to their existing property, but rather to how reliably they will be able to make their repayments. This allowed especially the small entrepreneurs – rather than wartime profiteers – a chance to establish new businesses. Most of these entrepreneurs were women.

In a region where the concept of trust is scattered, it is crucial for MFI to find ways to reach out to the people. To regain the trust of the deeply Islamic population of Aceh, most of the BPR decided to operate according to the shari'ah that forbids usury. The employees, however, had only a vague understanding of Islamic microfinance. Thus, ERMF also needed to provide further education in shari'ah banking. It has even developed the world's first Islamic microfinance software. Not least because of this new computer programme, the microfinance system in Aceh has developed beyond expectations in a very short time.

Source: Economic Recovery and Microfinance Programme

conflict settings (i.e. some degree of political stability, safety, population stability, economic activity, and demand for financial services). It is important, however, to separate relief services and micro-credit operations, otherwise clients will not take their loan repayments seriously and there will be long-lasting damage to the local credit culture. Relief organisations that grant loans without taking repayments seriously can 'spoil' a target group for years to come. Rather than subsidising loans, donor grants should be used to help financial service providers with capacity development, including conflict-related capacities. Finding suitable staff for microfinance institutions is usually a problem; therefore supporters should give ample assistance for staff recruitment and qualification. Special consideration must be given to safety aspects, especially where cash is involved. Financiers should ensure flexible and long-term access to funding for microfinance institutions operating in conflict zones, and should not put up restrictive or rapid disbursement conditions. Achieving financial sustainability may take longer than in 'normal' operations.

SED projects may also get involved in BOT schemes to build up economic and/or institutional structures to deliver public and even private services. This can be a way of providing, for instance, drinking water, electricity, agricultural inputs or vocational skills training. Local partners should be trained for the gradual take over of these enterprises or institutions. Alternatively, a project may involve foreign companies or 'business angels' to help local entrepreneurs deliver such services.

4.5.5 Communication, Cooperation and Coordination

Essential for any post-conflict SED intervention are communication, cooperation and coordination – within one's own institution, between aid agencies, with the government, the private sector and civil society, and with the peacekeeping forces.

Minimum standards and good practices should be agreed upon, in particular for the use of grants and subsidies, the targeting of support, and the linking of different sector approaches. Projects may need extra staff as coordination can take lot of time. An important contribution SED projects might make to overall coordination and dialogue is to facilitate public-private dialogue and partnerships.

Increasing demand and experience has led a number of agencies to set up special facilities to respond more rapidly and flexibly to the specific needs of different post-conflict settings. Reintegration and reconstruction programmes are increasingly executed through large-scale cooperation among donor agencies, national and international non-government organisations and host governments. Cooperation may be organised through consolidated inter-agency appeals by the United Nations and/or through initiatives under the Post-Conflict Fund of the World Bank. Resources from a wide array of donors may be pooled and the specific technical expertise of organisations such as UNHCR, ILO and GTZ may be coordinated beneath the umbrella of national programmes. FSD experts can help to set up and manage pooled donor funding for post-conflict reconstruction around a prioritised national recovery plan (BALL, 2007).

4.5.6 Economic Recovery in the Context of DDR and RRR

The main components of disarmament, demobilisation and reintegration (DDR) and reconstruction, rehabilitation, reintegration (RRR) programmes often include economic development measures. How such measures are designed can have an

immediate impact on local employment levels, as well as long-lasting effects on companies' competitiveness and sustainable economic growth.

Project experiences have resulted in good practice recommendations for conflict-sensitive approaches to socioeconomic reintegration and reconstruction (World Bank 2005c). These include:

- building on existing self-help livelihood strategies of local communities.
- fostering participation, transparency and accountability in the design, implementation and evaluation of programmes.
- building the capacity of government to assume long-term responsibility of local development processes.
- designing interventions in response to the detailed socioeconomic needs assessments of ex-combatants and receiving communities (GTZ 2006f).

In DDR programmes, economic development instruments are used for the reintegration of ex-combatants in host communities. Typically, all registered ex-combatants are given access to reintegration assistance. However, economic support services such as vocational training and micro-credit are only offered to people with potential, which is assessed in a (self-)selection process. Sick or handicapped ex-combatants may be supported indirectly through the provision of economic development assistance to their family members. In order to make reintegration sustainable, long-term follow-up support services, such as information centres and employment agencies, have proven to be important components. In order to avoid grievances, the communities in which ex-combatants are reintegrated should also be supported. For example, the rehabilitation of local infrastructure by ex-combatants and community members as part of a vocational training programme helps the reconciliation and reintegration process. Ex-combatants should be treated as a special target group only for a certain period of time (up to three years, but at least two years to ensure the 'demilitarisation' of their behaviour).

The participation of the target group in the planning process of DDR programmes is crucial, and the hierarchical and social differences within the military structures must be considered. Ex-combatants might, for example, refuse vocational training for professions that are in high demand, and which would provide a good income, such as carpenters or bricklayers. Instead they might choose lower-paid but more prestigious jobs such as truck driving.

In RRR programmes, multi-sectoral development and labour-intensive infrastructure measures using local resources as far as possible can help to stabilise or mobilise the local economy. Before the resettlement of refugees and internally displaced persons can take place, land property rights and the ownership of the other means of production need to be clarified. Non-discriminatory support, which benefits the whole population of a district or region and thus reduces the risk of grievances, have proven to be effective. Project services should only be provided to communities or villages, not to individuals. Instead of using standard support packages, the approaches are increasingly being adapted to suit the residual capacities and coping mechanisms of the different target groups. Support activities should only be made available at the request of the beneficiaries, who in turn should be asked to make their own contributions (especially in the form of free labour). The involvement of young people is essential for reconciliation and to prevent future conflicts.

5 MONITORING AND EVALUATION

This chapter describes how a standard, results-oriented project monitoring and evaluation (M&E) system can be made conflict-sensitive. It starts by outlining important principles for an M&E system in conflict-affected environments (section 5.1). The following sections present the different elements of a conflict-sensitive M&E system: monitoring of the security situation (section 5.2), monitoring of the risks for the achievement of the project objectives due to conflict trends (section 5.3), monitoring of unintended project results which impact on the peace or conflict situation (section 5.4), and monitoring of intended project results (section 5.5). The last section of the chapter (section 5.6) presents aspects of making project progress reviews and external project evaluations conflict-sensitive.

5.1 Principles of Conflict-Sensitive M&E

In German development cooperation M&E systems are results-oriented[11]. Results are defined as changes caused by interventions – either intended or unintended, expected or unexpected, positive or negative. Projects aim at intended, positive development impacts as a result of project activities leading to outputs and outcomes. Results-oriented M&E observes the activities as well as the results of these activities. It serves the project's steering and accountability (reporting), and the information it provides underpins project progress reviews and external evaluations.

Key questions answered by a results-oriented M&E system are:

- Did the expected changes materialise, and what unwanted changes occurred?
- Which of these observed changes were caused by the intervention?
- What risks and other changes influenced the achievement of the intervention's objectives?

The peace or conflict situation is a key external factor that interacts with a project's results chains. It can support or block project results, and it can be influenced by the project results. The example from Nepal in Box 21 illustrates such interactions between a conflict situation and a project results chain.

Since the peace and conflict situation forms a major external factor for projects, some conflict-sensitive adaptations of the normal results-oriented M&E are called for. These adaptations can easily be built into an existing system and do not require the establishment of a separate peace and conflict M&E system.

Four questions are of special interest for a conflict-sensitive M&E system:

- How is the security situation in the country and project area, and what security risks do project staff members, partners and target groups face?
- How is the peace and conflict situation most likely to develop and how will this affect the project?
- What are the unintended results of the project which affect the peace and conflict situation?

11 For more details on results-oriented M&E see GTZ (2008c): Wirkungsorientiertes Monitoring – Leitfaden für die Technische Zusammenarbeit

- What are the intended results of the project which affect the peace and conflict situation?

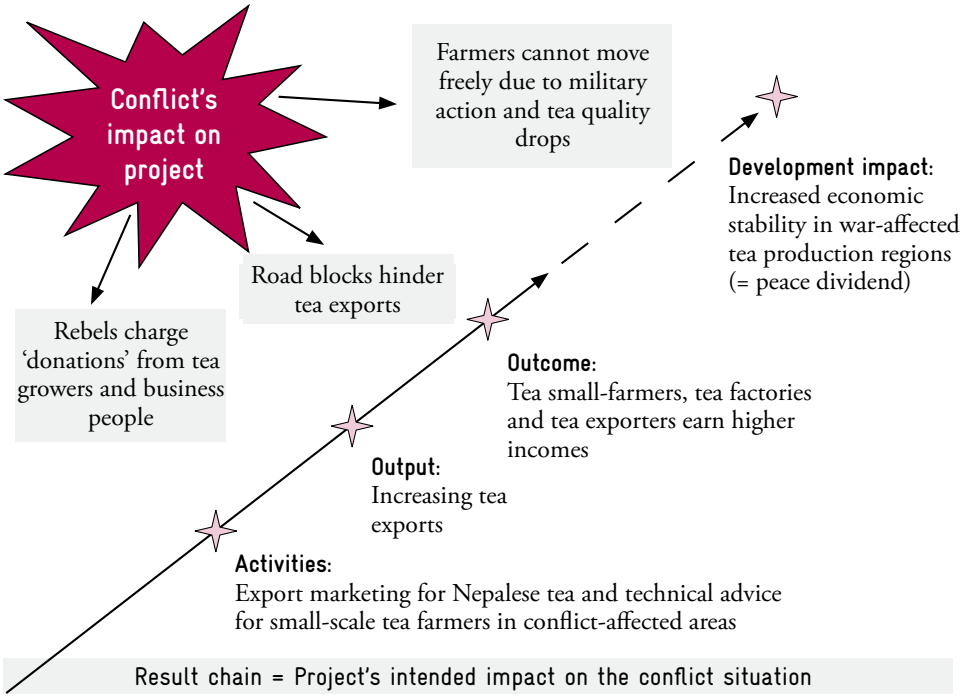
In line with the above questions, a conflict-sensitive M&E system adds four aspects to the conventional results-oriented M&E:

- Monitoring of the security situation.
- Monitoring of conflict trends (as part of the conventional project environment monitoring).
- Monitoring of unintended project results which affect the peace and conflict situation.
- Monitoring of intended project results which affect the peace and conflict situation (as part of conventional results monitoring).

Box 21

Nepal: Interaction between Conflict and a PSD Project

The GTZ-PSD project in Nepal has been supporting the country's tea industry for a number of years. Initially assistance was focused on export promotion, and direct exports of Nepalese tea to Europe increased substantially. Soon small-scale tea farmers were also included in the PSD project strategy, in an attempt to improve the livelihoods of poor people in rural areas which were badly affected by the ongoing conflict between the Nepalese government and the Maoist rebels. However, the Maoist rebels gained increasing control of the tea growing areas. They frequently called for strikes among the factory labourers, established road blocks and enforced 'donations' from business people and farmers. Military actions further hampered the mobility of the tea growers and traders. As a result, tea quality and exports dropped. When the conflict was finally ended, however, the PSD project was quickly able to re-establish its support to the tea growers and thus created a peace dividend for poor people in the war-affected East of Nepal. The figure below illustrates the interaction between the conflict and the project.



	PCA Element 1a: Peace and Conflict Analysis	PCA Element 1b: Peacebuilding Needs Assessment	PCA Element 2: Peacebuilding Relevance Assessment	PCA Element 3: Risk Management	PCA Element 4: Peace and Conflict-Related Impact Monitoring
Monitoring the security situation	Thorough analysis of the conflict situation provides information about the most important security risks that have to be monitored.	n/a	n/a	risk management puts together all relevant information concerning security threats as baseline for the project.	n/a
Monitoring the conflict trends	The peace and conflict analysis indicates what to look for when monitoring risks resulting from conflict trends.	The peacebuilding needs might be threatened or reinforced by changes to the conflict or peace situation.	The peacebuilding relevance of a project may become less or more due to changes in the peace or conflict situation.	Monitoring of conflict risks is based on and updates the risk management element of the PCA.	n/a
Monitoring unintended project results	Thorough analysis of the conflict situation is the basis to formulate adequate criteria for DNH-check and helps in finding the answers to the DNH-check.	Peacebuilding needs are useful when designing the DNH-check.	The peace-building relevance of a project may decrease due to negative unintended results.	risk management points to specific fields of observation.	Usually, this PCA-element is based to a large extent on DNH, so that these results can serve as starting point for further DNH-checks.
Monitoring intended project results	Conflict-Related indicators for the M&E are based on the Peace and Conflict Analysis.	Conflict-Related indicators are attributed to the (sectoral) peacebuilding needs.	n/a	n/a	Conflict-Related indicators originate from the peace and conflict-related impact monitoring.

Figure 17:
PCA Information for a Conflict-sensitive M&E system

Hence, a conflict-sensitive M&E system does not differ significantly from a conventional M&E system. It is, however, important that all relevant stakeholders participate in the entire M&E process – from system design to data collection and reporting. Impartiality and transparency are key principles to be considered in this context. With respect to the individual steps of the M&E process, following aspects should be considered:

Step 1: Define results chains and system boundaries: If the government or any major private sector player are considered to be 'dividers' in the conflict context, they may have to be excluded from the project; however, they should be consulted separately when defining results chains.

Step 2: Interests, expectations and contributions to the monitoring system: The development agency and the official national project partner should agree to make the M&E conflict-sensitive. This agreement should also define the critical issues such as who needs what kind of information at what time and for what purpose, and who will collect data. SED projects could try to integrate their M&E requirements in government or private sector organisations, but only if they can be sure that this will not be harmful (e.g., due to a possible misuse of information).

Step 3: Fields of observation: This is a crucial step in defining how to make the M&E conflict-sensitive. The project stakeholders need to agree in which fields unintended project impacts on the peace and conflict situation and risks posed through the conflict trends should be observed. It is advisable to observe project-conflict interactions not only on outcome and development impact level, but also on the activity and output level.

Step 4: Indicators, milestones and monitoring questions: The peacebuilding needs and the peace and conflict-related impact monitoring (PCA elements 1b and 4) help to formulate relevant indicators, milestones or monitoring questions. Peace and conflict aspects can also be integrated into conventional SED indicators (e.g., At least 500 additional permanent jobs in the food processing industry each year; at least 25% of the new jobs are taken up by conflict-affected people or ex-combatants).

Step 5: Structure and processes: All relevant stakeholders should agree on a monitoring structure and the necessary processes. For example, it should be clarified who is in charge for data collection, how often data is collected and where, how data is processed and interpreted, and who gets which kind of M&E reports. All of these aspects should be checked for conflict-sensitivity (e.g., separate data should be collected on disadvantaged groups, conflict parties, connectors and dividers). It is advisable that an impartial person coordinates all M&E activities. Regular stakeholder meetings should be conducted to communicate monitoring results and take strategic decisions based on these results.

Step 6: Data collection: The data collectors should be qualified, impartial, credible and conflict-sensitive people. Generally, data collection is done by project personnel, but it may also be delegated to a 'neutral' party, such as a university faculty, to minimise the risk of disputes. Attention must be paid to collect separate data on all conflict-relevant groups, for example ex-combatants, war victims, conflict parties or disadvantaged people. Perceptions and grievances matter as much as hard facts. Data collection for specific conflict indicators may need to be more frequent in the case of volatile conflict situations. The data collection methodologies must also be conflict-sensitive (e.g., use of local languages where language is part of the conflict).

Step 7: Use of monitoring data: Monitoring data has three general uses: project steering, external reporting (accountability), and knowledge management. In a (post-) conflict environment M&E information can be rather 'explosive' and must be treated with care. The responsible project manager should evaluate any information before sharing or publishing it. Project strategy adaptations due to M&E results should be discussed with all stakeholders in order to avoid later grievances. – Transparency is an important principle for the conflict-sensitive use of monitoring data. Web-based monitoring may be a suitable solution to increase transparency (see Box 22).

If a peace and conflict assessment (PCA) has been carried out, all elements and results of this PCA can be used for the M&E system and the M&E data also updates

Box 22

Columbia: Web-based Monitoring System of Pacipaz

The project Pacipaz in Columbia has a virtual monitoring information system on the internet. Different user groups (staff and partners) have access to different levels of information. Even the public can access aggregated information under http://www.gtzcolmonitoreo.org/inicio.aspx.

The monitoring results are evaluated according to the risks and potentials with regard to the conflict. Results with potential to reduce conflict are marked green; yellow stands for results which carry a small risk of doing harm; red stands for results which carry a high risk. Each result is commented and learning experiences are documented.

Source: GTZ, 2006: Konfliktsensibles Wirkungsmonitoring im Programm Bürgerbeteiligung für den Frieden – Pacipaz, Kolumbien

the PCA. In particular, PCA-element 4, the Peace and Conflict-Related Impact Monitoring, provides valuable information and findings (see chapter 2.2.4.). If a conflict-sensitive M&E is established, it helps in turn to update the original PCA information. Figure 17 illustrates how the various elements of a PCA and the conflict-sensitive M&E exchange information with each other.

5.2 Monitoring of the Security Situation

Any project working in a pre-conflict, conflict, or post-conflict environment should monitor the security situation in the country and project area because the lives of people and the project resources are at stake. The objective of security situation monitoring is to detect security risks to project staff or project resources so that the project management can take appropriate decisions. Although the design and operation of the security situation monitoring depends on the specific country conditions, the following aspects should be considered.

The required fields of observation for the security situation monitoring can be defined by the risk management of the PCA (element 3). From here, the project will get a clear indication which aspects are important to be monitored, for example troop movements in the project area.

The appropriate structure for the security monitoring system depends on the volatility of the situation, on the available resources and on potential partnerships with other projects or organisations interested in monitoring the security situation. Monitoring of the security situation can be integrated into the project's conventional environment monitoring system or it can stand alone, for example as part of a larger initiative with other development actors.

It is the responsibility of the project management to ensure that security advice and support reaches all staff members of the project and of partner organisations on time. Management should check regularly whether staff members understand the security advice and if they implement it appropriately (e.g. internal controls of logbooks for project vehicles and project staff movements).

Ideally, all development agencies in a country or project area should set up a shared security monitoring system, based on a written agreement between the network members, which regulates the design, operation and financing of the system. Basic

operating guidelines can be helpful for the communication of standards and break-off points to the conflict parties (see Annex 6.10). If the government is part of a conflict, it is advisable to exclude it from the network. For German development cooperation, security monitoring and advice is usually handled by the German Embassy, with sub-functions undertaken by the various German development agencies (e.g. the GTZ country office).

Internal crisis plans and crisis behaviour guides are helpful for project staff members to react appropriately in emergency situations. In addition, all staff members should be given security training to learn how to behave in response to a crisis.

In emerging and hot conflict phases, when the daily situation is very volatile, it might be necessary to undertake security monitoring on a daily basis. Therefore, a fully dedicated position (security advisor) or even a small risk management office with informants in different regions should be created (see also Box 23).

A risk management office can also take on the functions of more general conflict situation monitoring. The office gathers information on crucial questions such as: Where did violence happen during the last 24 hours? Who was affected? Who committed it? What are the intentions and demands of the perpetrators? What are the likely events in the near future? – On this basis, project managers can discuss and take necessary decisions for programme implementation, staff activities, additional precautions that have to be taken, etc.

Security monitoring data must be interpreted and communicated swiftly to the end users. This is by no means an easy job and should be done by experts (a security

Box 23

Nepal: The Risk Management Office

The Risk Management Office (RMO) was established in 2002 to support DFID (Great Britain) and GTZ (Germany) to work safely and effectively in the context of Nepal's conflict. The RMO is a small group comprising a risk management adviser, assistant risk management adviser, information coordinator and senior risk management coordinator.

RMO has the following vision for DFID and GTZ Nepal:

- Risk is consistently well managed in all programmes and projects
- Risk management is not just a priority but an organisational value
- Risk management is truly integrated into the operational programme cycle
- Risk analysis and planning benefit good programming and vice versa
- Risk management performance is assessed and tied to HR incentive systems

The core activities of RMO are:

- Analysis at nexus between politics, security and development
- Frequent field assessments and liaison with programmes
- Input into programme design
- Routine provision of advice to programmes
- Risk management training
- Monthly risk management meetings
- Crisis/incident management when required
- High level of contribution to the group of like minded donors and other parties involved in the peace process

advisor or office, for example). Regular communication can include daily electronic or phone messages to project staff, monthly regional risk reports, conflict trend analyses for decision makers in development agencies and embassies, or updates of crisis plans and crisis behaviour guides. Break-off points for projects or for certain project activities should be defined by relevant decision makers and monitored by the security advisor. Security monitoring results should only be shared outside the network if the use of this information is clear and controllable; the misuse of information by conflicting parties has to be avoided under all circumstances.

5.3 Monitoring of Conflict Trends

While day-to-day monitoring of the security situation is focused on the near future, the longer term conflict trends must be observed too, because changes in the peace or conflict situation may require changes in the project strategy.

Monitoring the conflict trends means observing and interpreting events such as the progress of peace negotiations or the emergence of new conflicts. Conflict situation monitoring is based on and updates the information provided by the PCA, in particular the conflict analysis (PCA element 1a), the Peacebuilding Needs Assessment (PCA element 1b) and the risk management (PCA element 3).

In practical terms, monitoring of conflict trends is part of the standard project environment monitoring. However, in acute conflict situations this kind of monitoring should be done more frequently and more thoroughly. Reading daily newspapers from different political backgrounds is a first step and may in some cases provide all the necessary information. But in countries without functioning media, and especially in situations of tension and fear when information is not exchanged in the public sphere, other ways of collecting information are needed, for example by talking to well-informed locals or foreigners. Information gathering may be informal, but it should always be systematic and should include first hand impressions from the field. The relevant PCA checklists can be used for the ongoing conflict trends monitoring (see checklists in Annex 6.9).

The project management is responsible for evaluating the information collected and for responding adequately to changes in the conflict situation or to the peacebuilding needs; project managers should be able to answer basic questions such as:

- Do the changes in the political project environment require a change in the project strategy, in the selection of partners or target areas?
- Should operations be increased, suspended, stopped or shifted?
- Is our project still relevant in relation to the peacebuilding needs?
- How can we avoid or mitigate certain risks posed by the conflict?

Although a security advisor may make valuable contributions to conflict situation monitoring, he or she will not be able to answer – or advise on – these project specific questions. The project management should therefore discuss the monitoring information with the project team, the implementation partners and even with members of the target group. If strategy adjustments seem necessary, a do-no-harm check should be used and envisaged changes should be communicated transparently to all stakeholders.

5.4 ..... Monitoring of Unintended Results

Every intervention in a peace or conflict situation creates unintended results which also affect the peace or conflict situation. The simplest and at the same time most effective tool to assess these unintended results is the application of the do-no-harm approach (see Chapter 2.1 for more details). The regular application of a DNH checklist (see Annex 6.7) is essential to reduce or prevent unintended negative results, and to learn from unintended positive results. Applying DNH implies broadening one's understanding of what is being done, why it is being done, and in which context and with which intended and unintended consequences it is being done. This concept has established itself as a minimum standard for all sectoral development interventions by international organisations operating in regions of (potential) conflict.

If a DNH check has been carried out as part of a peace and conflict assessment (PCA) in the project planning phase, the questions of this DNH checklist should be re-checked for relevance and can then be integrated into the project M&E system. If a DNH check has never been carried out before, it should be designed for the M&E system and field tested immediately. The DNH check should cover the full range of project operations, including the operation of the M&E system itself.

Depending on the volatility of a conflict and the dynamics of project activities, it will be necessary to monitor specific DNH criteria more or less frequently, maybe even daily during crisis periods. Formal research (interviews, studies, etc.) can be added to more informal information gathering (e.g. observations and discussions with partners and target groups during day-to-day project activities). Insiders' views should be cross-checked with outsiders' views in order to avoid blind spots which are common amongst project personnel.

Regardless of whether they are external personnel or project staff, those doing the initial DNH check and the monitoring of specific DNH criteria should be impartial, qualified and conflict-sensitive. Project team members and stakeholders must be made aware of the potential trade-off between conflict sensitivity and project progress. Especially 'hard-core' PSD experts may find this change of perspective difficult to accept and need to be made aware of the long-term benefits of such an approach. With regard to the diversity of sources, all relevant stakeholders and conflict parties should have the chance to contribute opinions and information regarding unintended project impacts. In particular, the less visible and less vocal groups such as women, youth and children, seniors and minorities must be included. To make this possible, an atmosphere of trust and confidentiality between the interviewers and the interviewees has to be established. It is important to ask open questions and give respondents sufficient time to answer.

DNH aims primarily at discovering and avoiding unintended negative impacts, but the DNH checklist should also include questions that assess unintended positive impacts of the project on the peace or conflict situation. Again, the relevant questions could be based on the whole range of information that is accessible or provided by PCA. For example a project supporting small entrepreneurs with technical training services could check whether training participants from former conflict parties have positive personal interaction during and after the training courses (the underlying peacebuilding need would be reconciliation between the former parties to the conflict).

Project management should discuss the results of the DNH check with all stakeholders concerned, and should find appropriate responses. If changes to the project operation or strategy are necessary, they must be communicated to the people who will be affected by the changes, and implemented in a sensitive manner (doing no harm). If results are shared with others, it is important to ensure that this does not create problems such as the abuse of information by one of the conflicting parties.

5.5 Monitoring of Intended Results

The monitoring of intended project results with the help of indicators is standard M&E practice. Interventions working in a (post-) conflict situation should at least ensure that all indicators used for M&E are DNH-checked, i.e. the implementation required to achieve the indicators and the results must not be harmful to the peace or conflict situation. While this requirement is sufficient for SED projects marked C-0, interventions marked C-1 also need indicators related to the peacebuilding needs identified during a PCA – either as stand alone indicators in addition to the conventional economic development indicators or integrated into the conventional economic development indicators. In C-2 projects all indicators have to be conflict-related. Conflict-Related indicators are derived from the PCA element 4 (Peace and conflict-related impact monitoring).

Indicators describe a desired change to a specific situation. Positive changes relevant to a conflict generally occur in the spheres of attitudes, behaviour and context. It is therefore necessary that indicators specify in which contexts actors are expected to change in terms of attitude and behaviour, and/or in which institutions structural changes are supposed to occur. The PCA element 1 can give some guidance in this regard, as it supplies information on (structural) causes and factors for peace and for conflict, and on the key actors.

Changes can occur in the short, medium or longer term. Therefore, it is advisable to use different types of indicators: process indicators (also called 'milestones') to describe short term changes resulting from project activities, outcome indicators to describe medium term changes until the end of the project phase and longer term changes to describe desired changes on development impact level.

Given the high degree of politicisation and polarisation of societies in conflict, it is important that planners develop conflict-related indicators in a participative manner and that they make the underlying assumptions transparent. The conflict parties may define opposing desired changes. Therefore, it may be difficult to collect objectively verifiable, quantitative data; instead, it might be preferable to obtain subjective feedback from many different perspectives (qualitative data).

When defining the economic indicators of C-0 or C-1 SED interventions one may need to accept the fact that good practices for sustainable economic development have to be adjusted to the requirements of conflict-sensitivity. For instance, it is common that SED projects focus more on economic growth and less on equity; and they rarely work directly with the target group but usually reach out to entrepreneurs in general through strong intermediaries (such as business associations). This approach often means that SED projects 'pick the winners' amongst their potential partners as well as amongst the target group. In (post-) conflict settings, however, the opposite may be necessary: the project must focus on equity, work

with weak intermediaries or even directly with the target group; activities may have to be targeted to specific groups with little entrepreneurial or economic potential (e.g. war victims, ex-combatants, unemployed youth) and emphasis must be put on strengthening the intermediaries that are open to work across conflict lines. Possible solutions would be either to define separate indicators for growth and for equity, or the focus has to switch on a concept similar to pro-poor growth (i.e. favour those policies, industries, regions, enterprises, etc., which have an immediate positive impact on disadvantaged and excluded groups). With regard to weak intermediaries, indicators should also measure their growing institutional strength and their conflict-sensitivity. Indicators for the targeting of measures should allow flexibility so that targeted and non-targeted activities can take place at the same time or even together (for example: rather than having one technical skill course for ex-combatants and one for small entrepreneurs it may be better to bring both groups together in one course so that the ex-combatants learn from the small entrepreneurs and at the same time are reintegrated into society).

Another area of compromise could be timing and beneficiary contributions. Where people have lost family members and assets due to war, SED projects may have to accept that cost sharing is not a viable option. However, project indicators could reflect a time horizon of decreasing subsidies and grants and increasing contributions by the target group, starting with a zero baseline. This time horizon must be properly communicated to the beneficiaries from the beginning in order to avoid later grievances. The same applies to short term as opposed to medium and long term project strategies. SED projects usually aim at systemic results (i.e., longer term changes); however, in conflict-affected environments quick impacts at the target group level are needed just as much as medium and longer term changes. Therefore, it is advisable to formulate separate indicators and milestones for the short term, medium term and long term objectives; these indicators should also reflect a gradual change of project emphasis from short to long term.

There are no blueprints for conflict-relevant indicators; they have to be developed for a specific peace and conflict context, i.e. indicators must be tailor-made for each project. The example given in Box 24 should therefore only give an idea how indicators and objectives can be formulated for a SED project working on conflict (C-1).

Box 24

Nepal: Promotion of socially balanced Economic Development

After many years of armed conflict and internal unrest, a peace process was initiated in Nepal early in 2006. The former underground Maoist movement was the strongest force to emerge from the April 2008 elections. The resultant political uncertainty along with persisting social and ethnic conflicts are now holding back economic development. Other hurdles include poor governance, unwillingness to reform, and a lack of strategies to promote job creation and combat unemployment along with a generally poor investment climate. On top of this, other negative influences include the exclusion of ethnic and social groups coupled with regional and economic imbalances. Nepal is one of the poorest countries in the world. Overall the framework conditions do little to promote economically and socially balanced growth (core problem). (…)

Overall objective: The framework conditions for balanced and socially fair economic growth are improved in selected regions.

Indicators:

1. Decline in underemployment and/or unemployment by at least 2% in the selected regions (raw data: baseline survey conducted by end 2008).
2. Increase of at least 15% in household income of disadvantaged families in the selected regions (raw data: baseline survey conducted by end 2008).
3. At least 65% of the target groups interviewed observe a positive trend in at least four of the following six determining factors (1) new business options, (2) new employment options, (3) availability of financial services for MSME, (4) availability of other relevant services for MSME, (5) less 'red tape' and fewer other administrative obstacles and (6) private-sector engagement in social matters (Source: annual representative survey).

Component 1: (…) Representatives of the political and administrative level, private sector and civil society work together constructively on conflict-relevant economic themes at the national and downstream levels. – Indicators:

1.1. There are at least 4 documented cases in which ideas and proposals put forward by the supported MSME associations are discussed in national policy dialogue.

1.2. At least 5 strategies and initiatives elaborated within the scope of Public-Private Dialogue (PPD) at national and/or local level, with a view to eliminating obstacles and/or promoting development opportunities (in particular those of women), are now under implementation (Source: national/local development plans, planning documents, documented agreements).

1.3. The policy dialogue initiated by the programme is working to the satisfaction of all those involved, as measured against at least 3 of the following 5 criteria: (i) regular meetings, (ii) significance of contents for economic development, (iii) coordinated interests (iv) transparency of decisions and (v) monitoring of implementation (Source: regular surveys of those taking part).

1.4. At least 5 other private companies are involved in Corporate Social Responsibility (CSR) and peace-stabilising measures.

Component 2: (…) Economic cycles in selected urban and rural areas are strengthened with the involvement of all societal forces. – Indicators:

2.1. The coordinated action plans derived from the regional/local development plans drawn up jointly by representatives from the economy, local administration and civil society are implemented in at least 6 locations.

2.2. At least 50% of people directly supported by LRED activities belong to disadvantaged groups (Source: Gender-differentiated programme statistics).

2.3. At least 30% of LRED activities are earmarked for direct support for women.

2.4. An increase of at least 10% in the number of registered compa-nies in the selected regions.

2.5. At least 50% of local MSMEs have made use of the services offered by 3 newly established One Stop Shops, whereby 65% of them are satisfied with the result (Source: representative survey).

Component 3: (…) Access to sustainable financial services is improved for poor and disadvantaged population groups, especially micro small and medium entrepreneurs in selected urban and rural areas. (…)

Source: Excerpt of the BMZ offer 'Promotion of socially balanced economic development' (PN 2008.2024.1)

5.6 Progress Reviews and External Evaluations

Regular project progress reviews and external evaluations complement a project's internal M&E system. In order to make these two elements conflict-sensitive the following aspects should be assessed in reviews and evaluations:

- The project's conflict-sensitivity in terms of personnel, partners, project planning, implementation, M&E and the project's responses to the results of the M&E.
- The frame conditions, especially the security situation and conflict trends.
- The conflict-related intended and unintended results of the project.
- The impact of the peace or conflict situation on the project, resulting opportunities and risks, and possible project responses.
- Changes to the peacebuilding needs and necessary adjustments to the project strategy.
- Project reporting: do the right people get the right information at the right time?

Based on the above assessments, the evaluators will give their recommendations whether or not a project should be continued, or if it needs to be adjusted. Cut-off points for project support may be re-defined.

External evaluations and progress reviews need to be well prepared. Evaluation teams should incorporate at least one person qualified in applying the PCA methodologies, and all evaluators should be conflict-sensitive. The project manager must provide the evaluators with up-to-date information on the peace or conflict situation, on the security guidelines and on practical do-no-harm rules (e.g., what kind of language should be used during interviews or which words and behaviour are taboo). Project partners and target groups, especially interview partners for the evaluators, must be informed beforehand about the purpose and content of the evaluation; it may also be necessary to inform the conflicting parties. An atmosphere of trust and confidentiality should be created before the evaluation starts (e.g. by sharing evaluators' CVs with the interview partners or by explaining how the information will be used).

The review and evaluation reports should be shared and discussed with all relevant stakeholders. However, it must be ensured that sensitive information does not get into the wrong hands. Problems can arise, for example, if one of the conflict parties (possibly also the government) misuses information provided in reports. Therefore, it might be better to report sensitive information separately and confidentially to the relevant recipients, e.g. to the embassy.

6. ANNEX

6 ANNEX

6.1 Overview of Peace and Conflict Assessement

PCA Element	1. Peace and Conflict Analysis and Peacebuilding Needs Assessment	2. Peacebuilding Relevance Assessment	3. Risk Management	4. Peace and Conflict-Related Impact Monitoring
Objective	Gain a more in-depth understanding of the conflict situation. Identify points of entry for development cooperation to support peacebuilding.	Assess the peacebuilding relevance of development cooperation measures. Identify points of entry for the adjustment of measures.	Review the feasibility of development cooperation measures in the conflict context. Develop a security strategy.	Avoid impacts that exacerbate the conflict. Strengthen impacts that build peace.
Key Questions	Which conflicts are constraining the development of the country or the project region? What are their causes? Which vision of peace does development cooperation seek to bring about? What needs to be changed in order to achieve this (PBN)?	What are the objectives, activities and principles of work of the development cooperation measure(s)? Do they make a positive contribution to peacebuilding? Which objectives and activities are not relevant? What would be the points of departure for strengthening the promotion of peacebuilding? How can the measures be adjusted?	Are conditions conducive to the implementation of the development cooperation measure? Is the safety of all actors guaranteed? How can the measure respond to conflict-based risks?	Which measures make an effective contribution toward peacebuilding? What are the factors for success? Which conclusions can be drawn from this for other measures? Which aspects of the project exacerbate the conflict? Why? How can these impacts be avoided?
Instruments	**Guideline 1a** Peace and conflict analysis. **Guideline 1b** Development- and peace-policy deficits, and vision-building for peace. Peacebuilding needs assessment.	**Guideline 2** Description of the development cooperation measures. Relevance assessment.	**Guideline 3** Analysis of the conflict environment Security analysis.	**Guideline 4** DNH Results chains. Participatory monitoring.
Application in Contract and Cooperation Management	Analysis of the context. Conflict-sensitive monitoring of the cooperation environment.	Conflict-sensitive planning and steering.	Security management. Conflict-sensitive monitoring of the cooperation environment.	Results-based monitoring. Monitoring of the Priority Area. Strategy Paper.

6.2 ..... Checklist: Political Conditions in the Conflict Environment.

Source: "Promoting Good Governance in Post – Conflict Societies" (Discussion paper, GTZ) and other GTZ internal working papers.

The following checklist provides practitioners with some guiding questions for identifying and understanding the environment, actors and processes in these political transition phases. It helps to identify the most important trends and barriers.

Relationship between state and society

- ☐ Does the state control the various sectors of politics? Does the state control the entire national territory?
- ☐ What is the public's attitude towards the state?
- ☐ Do the citizens feel protected by the state? Are state institutions service-oriented and responsive to public demands?
- ☐ Are state instruments available for balancing interests and managing conflicts and are these widely used?

Political system

- ☐ Does the country's political system have formal provisions for the separation of powers and control mechanisms ('checks and balances')?
- ☐ Are elections generally secret, fair and free? Are there people or groups excluded from voting and standing for election?
- ☐ Is the constitution a source of national identity?
- ☐ Are the values embodied in the constitution reflected in the state's actions?
- ☐ Are the state's actions aimed at eliminating discrimination in society?
- ☐ Does the population feel represented by parliament? Are ethnic differences in the population a topic for parliamentary debate?
- ☐ Are the major parties organised along lines of ethnicity, regional origin or religion instead of political programmes?
- ☐ Does one political party or an ethnic or religious group dominate the administration?
- ☐ Do factors like ethnicity, gender, age, origin, political allegiance or religion affect professional access to the administration and subsequent career opportunities?

Political culture and development paradigms

- ☐ Is there a public debate on the role of the state?
- ☐ Are there provisions for the participation of civil society in decision-making processes and are these used?
- ☐ Are positions of power in the state and the economy open to all?
- ☐ Can non-state power structures bypass formal decision-making processes?
- ☐ How do political actors secure their influence?
- ☐ Are there particular social groups that tend to dominate political debates and decision-making processes?
- ☐ Which issues dominate the prevalent development paradigms?

Politics and gender

- ☐ Are 'women's rights' part of the public debate? Do women have adequate knowledge of their rights?
- ☐ Do women experience gender specific restrictions from traditional or religious legal systems?
- ☐ Is employment compatible with women's social roles?
- ☐ Are women generally regarded as having less professional competence than men?
- ☐ Does the state promote women's employment?

6.3 ..... Checklist: Preconditions for Economic Development in Conflict Situations

Does the area offer a reasonable degree of security?

- ☐ Depending on the specific approach to economic development, the security and safety requirements may differ. Macro and meso-level interventions pose fewer dangers than micro-level activities.
- ☐ Consider the security and safety risks for project staff, the partners' staff and also for target groups (especially disadvantaged groups). For example: it may not be realistic to expect women to visit vocational training courses if they have to travel through territory which is controlled by soldiers.
- ☐ To assess security and safety risks consider aspects such as: weapons and methods used by the conflicting parties (e.g. landmines, kidnapping, etc.); law and order; transport facilities and infrastructure; communication facilities.

Is there sufficient macro-economic stability?

- ☐ There must be a minimum of macro-economic stability to start economic development measures. For example, there should be no hyperinflation; people should trust the local currency, otherwise there should be an established foreign currency; the black-market should not completely dominate the economy.
- ☐ If only a minimum of economic stability is assured, emergency aid may be more feasible than economic development.

Is there sufficient population stability?

- ☐ Population stability is important for business transactions. For example, banks will not lend money to people who are likely to move away.
- ☐ It is important for a project to understand the patterns and risks of migration before, during and after conflicts. Out-migration is a loss of labour, skills and purchasing power. Returnees on the other hand may be competing for scarce resources with those who stayed behind. Migration can also be a positive economic force, e.g. migrants sending remittances back to the conflict area or returnees investing money and new skills.

Are people able to carry out business activities?

- ☐ In most economic development programmes business activities are an important element. If the conflict situation does not allow business activities to take place, emergency aid may have to replace economic development until the situation has changed, for example when the conflicting parties stop interfering with business; trading and travelling are possible; business relationships are revived; emergency aid ceases to be a replacement for all business activities.
- ☐ Access to banks for withdrawing, depositing or transferring money is an important element of business activities. Lack of banking services can be a problem for economic development.

Is there a demand for business services?

- ☐ Most economic development programmes offer financial services, business development services or vocational skills services. If there is no demand for these services (= purchasing power + willingness to purchase) the project approach may have to be adjusted. Subsidies may have to be used – but make sure that transparent and conflict-sensitive rules are applied when giving subsidies; have a clear exit strategy from the outset.

Is there sufficient human and social capital?

- ☐ Human and social capital is often severely damaged by a conflict: people are killed or leave the area; they stop trusting each other; local organisations break apart. A project may have to bring in skilled people from outside, but this can pose new problems (especially jealousy among local people). Therefore, the role of the outsiders and the intended duration of their stay should be defined and made transparent to the local community. In addition, there may be a greater need to invest in education and training for the local people.

6.4 ..... Checklist: Economic Peacebuilding Needs

Macro-Level

- ☐ What is needed for macro-economic stability and growth (e.g. low inflation, stable currency, an independent central bank, regulations for microfinance or SMEs, security, property rights)?
- ☐ What is needed to ensure that economic growth will benefit the poor and disadvantaged groups (e.g. support for the informal economy, corporate social responsibility, laws, increasing social/economic development investments, employment programmes, vocatio-nal skills programmes, microfinance programmes, creation of an enabling environment for SME growth)?
- ☐ What is needed to change the attitudes of government officials in charge of economic development towards conflict and peace issues?
- ☐ What is needed to provide reliable frame conditions (e.g. credibility of government)?

Meso-Level

- ☐ What is needed to ensure business membership organisations and business service providers can work in a conflict sensitive manner (e.g. staff recruitment, services offered, client and member selection)?
- ☐ What kind of business services are lacking?
- ☐ What is needed to improve the dialogue and partnership between the private sector and the public sector or civil society?
- ☐ What is needed to change attitudes of business membership organisations and business service providers towards conflict and peace issues?

Micro-Level

- ☐ What is needed to ensure businesses can work in a conflict-sensitive manner (e.g. jobs for disadvantaged groups; trade and business relations with conflicting groups; sensitisation of business partners about vulnerable)?
- ☐ What is needed to ensure that disadvantaged people can make use of job offers (e.g. job skills)?
- ☐ What is needed to change attitudes of business people towards conflict and peace issues?

6.5 ..... Checklist: Economic Aspects of a Conflict

Macro-Economy

- ☐ Possible indicators to understand the macroeconomic impact of a conflict are related to: foreign, private and public investment; GDP (per capita, per sector); trade; foreign currency reserves; inflation; employment; migration; remittances.
- ☐ The economic cost of a conflict can be estimated by comparing GDP during the conflict with potential GDP (assuming that the pre-conflict GDP growth would have continued). Similarly, the economic benefit of peace can be estimated by comparing GDP during the conflict and actual GDP after the conflict or theoretical GDP after the conflict (assuming that the pre-conflict GDP growth would have continued). Some experts assume that conflicts have a severe impact on GDP (up to 10 % decrease).
- ☐ A conflict can accelerate or exacerbate underlying structural economic problems.
- ☐ Remittances play an important role in conflict. Many families in conflict zones can only survive due to remittances. Even the state benefits because overseas remittances bring in foreign currency. Often the conflicting parties try to cash in on remittances, for instance 'taxing' the families that receive them.
- ☐ Analyse the impact of conflict on different sectors: the primary sector may be more resilient during a conflict than the manufacturing sector; the same is true for the informal sector versus the formal sector.
- ☐ Analyse discrepancies in terms of public investment: certain regions or groups may be at a disadvantage.
- ☐ Banking sector: changes in deposits and lending; remittances; money laundering.

Meso-Level

- ☐ Meso-level institutions (chambers, business associations, business service providers, financial institutions) can be directly affected by a conflict, e.g. through looting, repayment defaults, disturbed operations, increased security spending.
- ☐ Meso-level institutions may change their strategies due to a conflict, e.g. focusing on low-risk clients in urban areas or withdrawing completely from conflict areas.

Micro-Level

- ☐ Analysis of the value chain and the local economy can be very useful for identifying the impact of the conflict on different actors in the value chain and their reactions to the conflict.
- ☐ Utilisation of natural resources and the environmental impact of extractive industries (oil, gold, etc.) can cause conflicts. The role of large companies (especially multinationals) in the conflict should be investigated.
- ☐ Transportation of people and goods is generally badly affected by a conflict and has an important impact on enterprises.
- ☐ Dangers of a war economy: illegal and criminal business operations. It is important to understand these operations and investigate alternatives for the poor who are often forced to operate in war economies.
- ☐ The economic role of women and disadvantaged groups may change due to the conflict situation, e.g. if there is a lack of men in the villages women will have to take over typical male jobs.
- ☐ Migrants create new local economies.

Conflict causes

- ☐ The ceconomic causes of a conflict may, for example, include regional income inequalities; injustice concerning access to land, water and other resources; economic exclusion of certain groups from society; exploitation of natural resources without considering the needs and rights of the local population. (N.B. The stated reasons for a conflict do not always reflect the real root causes).

- ☐ Analyse the role of the private sector in the causes of the conflict: e.g. larger companies may benefit from a government's injustice against minorities; corruption may prevail; business associations may exclude disadvantaged groups; enterprises may illegally exploit natural resources.
- ☐ Economic development programmes can cause or accelerate conflicts or peace, e.g. economic liberalisation and privatisation may lead to new employment or to unemployment.
- ☐ The resources brought in by aid programmes can also cause grievances and greed, thus creating conflicts.

Conflict parties as economic actors

- ☐ Check how the conflicting parties spend or invest their incomes and whether they are important economic actors. For example, security forces and rebel armies are important economic actors: they provide jobs and soldiers spend large parts of their salaries in conflict areas. For demobilisation it is important to understand the benefits of being a soldier and the employment alternatives they have.
- ☐ In long-term conflicts warlords often turn into (illegal) business-people who control natural resources or local trade and provide employment to the local population (e.g. drug farmers or gold miners).
- ☐ The local population suffers under the conflicting parties. Government may increase taxes and rebel armies may extort money, food, shelter, etc. from the local population.
- ☐ Often there are vested interests to keep a conflict simmering because warlords want to continue controlling land and natural resources, soldiers are keen to get their salaries without risking their lives, and the government may profit politically and financially.
- ☐ War economies operate similarly to legal economies, with their own currency and financial system, employment and income opportunities, business relationships, value chains, etc. Usually there are a few very powerful people at the heart of a war economy, who control the major assets (monopoly or oligopoly market situation).

Peacebuilding capacities in the private sector

- ☐ Who are the 'connectors' and the 'dividers' in the private sector? Some companies or industries play a negative role, e.g. by exploiting labourers and natural resources or through the exclusion of disadvantaged groups. Others may play a positive role, such as offering jobs to low income people and excluded groups.
- ☐ Look out for business people or business associations interested or engaged in peace initiatives. What capacities do they have and which ones do they lack?
- ☐ Assess whether Corporate Social Responsibility could be introduced as an entry point for peacebuilding activities by the private sector.

6.6 ..... Checklist: Conflict-Sensitive Due Diligence of Project Partners

Institutional Background

- ☐ Was the conflict relevant for the foundation of the organisation?
- ☐ What was the impact of the conflict on the organisation?
- ☐ Did the organisation adjust itself to the conflict situation?
- ☐ What is the shareholders' or stakeholders' role in relation to the conflict?
- ☐ What is the role managers and staff members play in relation to the conflict?
- ☐ What is the role the institution's partners play in relation to the conflict?
- ☐ What is the image the institution has in public?

Services

- ☐ Does the institution's strategy take the conflict into account or is it compatible with working in the conflict?
- ☐ Does the institution operate in a conflict environment?
- ☐ How has the institution performed in conflict environments?
- ☐ Are the features of the institution's services and products compatible with the conflict?
- ☐ What is the role of the institution's clients or members in the conflict ('connectors', 'dividers', victims)?
- ☐ Does the selection of clients or members take the causes of the conflict into consideration (including disadvantaged groups, equal opportunities, etc.)?
- ☐ How do clients or members rate the institution in relation to the conflict?

Operations

- ☐ Does the human resource policy and recruitment take the conflict into account (e.g. recruitment of women or members of disadvantaged groups)?
- ☐ Does the institution offer special conflict-related training or counselling for their staff members?
- ☐ Do the policies and procedures take the conflict into account or are they compatible with work in the conflict situation (e.g. safety rules for field work)?
- ☐ Does internal control and auditing create transparency?
- ☐ Does performance monitoring take aspects of the conflict into account (e.g. record of sales of services in conflict areas and to disadvantaged groups)?
- ☐ Does the institution get engaged in corporate social responsibility (within the company, within the surrounding community, on national level)?
- ☐ Have operational risks changed because of the conflict?
- ☐ Has the institution taken any concrete steps to manage conflict-related risks?

Conclusions

- ☐ Is the institution able and willing to work in a conflict environment?
- ☐ Is the institution impartial and acceptable to the conflicting parties as well as the target group?
- ☐ What are the main challenges and opportunities the institution faces in general and with regard to the conflict? What can and should the institution itself do to tackle these challenges?
- ☐ What kind of support is needed and who can provide this support? What are the conditions of support (e.g. exit strategy for subsidies)?

6.7 ..... DNH - Checklist

Identifying Negative Impacts of Interventions[24]

Negative Impact Areas	Examples	Guiding Questions
I. Acceptance of or support for conflict-aggravating structures ('structural violence')	Does the government use the project for its own ends (in the conflict context) e.g.: • To 'reward' political groups/areas close to it, or its allies in the conflict. • To enforce state presence and control in isolated regions. • To adopt a 'stick and carrot' strategy vis à vis insurgent areas.	What interests does the government hope to pursue through the project? How was the project region selected? What part does it play in the current conflict context? Is the timing of the project linked to developments in the course of the conflict (e.g. peace negotiations)?
	Does the project cooperate with illegitimate or corrupt structures or individuals? e.g.: • Partner organisation staff use project materials for their own ends, which widens the local gap between the privileged and the disadvantaged. • The selection of candidates for training measures by the partner is not based on transparent criteria.	How were the executing organisations selected? What is their internal structure and how do they work? Who are the partners and mediating organisations? Are we sufficiently familiar with their interests, their internal organisation and their relationship to the target groups? Are the criteria for selection and the financial inputs of the project transparent to all participants, especially the target groups?
	Are the topics and values represented by the project disputed by parties to the conflict? e.g.: • Family planning in extremely religious contexts. • Liberalisation of land ownership in a situation where conflict exists between small farmers and large-scale land owners. • Decentralisation when tensions exist between central government and traditional local authorities.	Where does the mandate of the project to work on a certain topic come from? With what motivation and objectives is the project being implemented? Does the project represent the values and interests of a certain party to the conflict?
	Does the project legitimate or strengthen power structures and social disparities considered problematic by local people in its daily work?	Does the project accept the parameters set by authorities without reservations (e.g. use of national symbols, languages used, restrictions placed on holding seminars, etc.)? Is the working language of the project spoken well by only one (ethnic or social) group? Do the criteria used to select staff (e.g. level of education, linguistic skills, mobility) indirectly favour a certain group? Do members of project staff have private contacts to only certain social, political, etc. groups?
	Does the project generate new dependence e.g. (local NGOs or with regard to food aid)?	What approach is followed by the project? What importance is given to the empowerment of the target groups? What sort of measures are supported?

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Source: GTZ, 2004f.

Negative Impact Areas	Examples	Guiding Questions
II. Worsening inter-group tensions	Do individual interest groups use the project for their own ends? e.g.: • Local powers channel development funds to personal networks and thus strengthen their own position. • Political or other groups present the work of the project in public as a confirmation of their own position. • Local NGOs appropriate more land with the support of the project.	Who benefits primarily from project outputs? • Flows of resources. • Advice/consultancy/extension. • Training. How do beneficiaries use project outputs? e.g.: • Private appropriation of rehabilitated common land. • Use of managerial competencies to organise radical political groups. • Use of marketing knowledge within the framework of the war economy. Do the procedures of the project (unintentionally) strengthen rivalry between groups for control over and access to development funds?
	Does the project widen existing gaps? • Between elite groups and the rest of the population? • Between social, religious or political groups? • Between religions?	What role is played by executing organisations, partners and mediators at present in the overall conflict? How were the target groups identified? What role do they play in the conflict context? Are the target groups really the main beneficiaries of the project?
	Does the project identify (unconsciously) with a certain party to the conflict (often the 'underdog')?	Is the project seen to be neutral? Does the project take a clear stance on human rights violations?
	Does the project have the necessary competence to support meetings and dialogue between parties to the conflict in a professional way?	Does the project have staff with training and experience in the field of conflict transformation or does it have access to expertise of this sort?
III. Weakening local (peace) initiatives	Does the project build parallel structures (social, economic, political) which weaken existing structures?	What approach does the project pursue in the field of Capacity Development?
	Does the project promote new (peace) initiatives rather than building on existing ones?	Has a detailed analysis been conducted of the local institutional landscape? Are applications for support examined in detail?
	Are the (peace) initiatives supported by the project really relevant from the point of view of the population or do they divert their energy from tackling the central problems?	Has a situation and conflict analysis been conducted jointly with partners and target groups, and promotion priorities identified on this basis?

Negative Impact Areas	Examples	Guiding Questions
IV. Promoting an Economy of violence	Do transfers of resources and advisory inputs directly or indirectly benefit the economy of violence? (The term 'economy of violence' is used to mean illegal or illegitimate economic activities based on the use of violence and often used to help finance (political) actors in violence, e.g. drugs, human trafficking)	Does the project promote economic activities, which also play a part in the economy of violence? Have parties to the conflict repeatedly appropriated project resources (e.g. vehicles, computers, communication equipment) with the use of violence? Is the project forced to pay unofficial duties, levies, road tolls etc. to armed groups (thus helping to finance these groups)? Does the project use security companies, whose relations to the parties to the conflict are unclear?
	Does the project subsidise lengthy 'reconciliation' meetings between the parties to the conflict (e.g. tribal leaders, elders)?	Do these meetings actually generate tangible progress? Or does the financial support (e.g. per diems, board and lodgings) encourage the parties to the conflict to extend the meetings?
	Does the project help peacebuilding become a new 'market' for local NGOs?	Is there an emergent financial interest on the part of local NGOs in working for peace? Are these initiatives sustainable? Does this mean that these NGOs have an interest in prolonging the conflict at a low-intensity level?
V. Threat to the individual	Does the project expose its staff and partners to security risks in their daily work?	Is there a detailed security concept? Is this systematically put into practice? Does the project communicate its decisions clearly to all parties to the conflict? Does the project support staff members and partners suffering from burn-out syndrome or trauma as a result of their conflict-related work?
	Can the project provide adequate protection for staff, partners and target groups, who become a target for retaliatory measures because of project-assisted activities?	Are activities adequately coordinated in advance with all those involved – including those who are critical of the project? Are there clear guidelines for dealing with such events as arrests or threats?

6.8 ..... Development Interventions in Conflict Contexts

Source: GTZ Training CD: Basic Principles of Crisis Prevention, Conflict Transformation and Peacebuilding. Course concept and training modules for decision-makers and experts in German development cooperation (based on Mary B. Anderson, 1999).

Interactions between development projects and the conflict context according to DNH

a) Resource transfers

- **Distribution impacts:** The resources and services of the project benefit predominantly one party to the conflict, and/or reinforce the differences between groups.
- **Market impacts:** The presence of international organisations drives up local market prices, salaries and margins of profit. Local service providers are unable to compete with the heavily subsidised services of the international organisations.
- **Substitution impacts:** The tasks taken on by international organisations substitute or displace local sources. The international resources for the social sector free up local resources that e.g. can then be used for warfare.
- **Misuse impacts:** Theft, corruption and mismanagement allow project resources to fall into the hands of one party to the conflict e.g. who is operating road blocks, and who is thus strengthened economically.
- **Legitimation impacts:** The advisory services delivered by an international organisation or cooperation normally boost the reputation of a local institution. This entails a risk of legitimating conflict actors.

b) Implicit ethical messages

- **Cultural factors:** The behaviour of foreign experts should express respect for the local culture, as it is also desirable for the relationship between the parties to the conflict.
- **Standard of living:** Due to their high standard of living foreign experts are often perceived as being linked to the local elite, and close to them and their interests.
- **Use of resources:** The use of project resources by foreign personnel should display the same transparency and accountability that is demanded from local organisations in conflict transformation.
- **Lack of respect and competition among external actors:** Such behaviours convey to the local population the impression that cooperation and mutual respect enjoy only minor importance also among the external actors.
- **Powerlessness:** When project staff are unwilling to accept responsibility for the consequences of their actions, this sends the message that individuals are virtually powerless in the face of wider structures.
- **Tension and mistrust** on the part of project staff members get transferred onto their counterparts. As a result, the conflict becomes omnipresent in everyday life.
- **Different lives have different values:** The failure to include local staff members in the organisation's security plans sends the message that the lives of local people are worth less.
- **Demonisation and victimisation through PR work:** In the age of the Internet the interested local population is usually well informed on the statements made by the organisation at the international level. Ascriptions of blame, the victimisation of certain groups or political accusations are interpreted as the organisation's taking sides in the conflict.
- **Weapons and power:** When organisations employ armed security personnel for their own protection, they often indirectly support one party to the conflict financially, thus sending the message that weapons are a legitimate means of dealing with the conflict.

6.9 ..... Checklist: Conflict-Sensitive Monitoring and Evaluation

Security Monitoring

- ☐ Is there a **network** of development agencies doing joint security monitoring?
- ☐ Is one of the **conflict parties** involved in the network? If yes, what are the implications for the network?
- ☐ Is there a **written agreement** between the network members?
- ☐ Have the network members agreed on **basic operating guidelines**?
- ☐ Does the project staff have access to updated **internal crisis plans** and **crisis behaviour guides**?
- ☐ Has the project staff received **security training**?
- ☐ Is there a qualified security **advisor/office**?
- ☐ Are the **services** of the security advisor/office useful for the project staff?
- ☐ Are there **internal controls** to ensure that security advice is being implemented?
- ☐ Are the results **shared with others**? If yes, are there any (potential) problems arising from this, such as one of the conflicting parties misusing information?

Conflict Situation Monitoring

- ☐ Does the project **monitor the conflict situation regularly**, including information from the field (from partners and target groups)?
- ☐ Are the people that monitor the conflict situation **neutral, qualified and aware** of conflict sensitive issues?
- ☐ Is a **conflict analysis and peacebuilding needs assessment** based on a PCA available?
- ☐ Is it **up to date**?
- ☐ What are the **conclusions**? Are the risks acceptable? Is the project still relevant in relation to the peacebuilding needs?
- ☐ Does project management **respond appropriately** to the results of the conflict situation monitoring? Are the necessary changes discussed with stakeholders and implemented in a DNH manner?
- ☐ Are the monitoring results **shared with others**? If yes, are there any problems arising from this, such as one of the conflicting parties misusing information?

DNH-check

- ☐ Does the project **regularly monitor unintended negative and positive impacts** on the peace/conflict situation?
- ☐ Is the DNH-check done in an appropriate manner to ensure **objective results**? Formal research (interviews, research, etc.) versus informal monitoring (observations and discussions during other project activities); insiders' versus outsiders' views; blind spots.
- ☐ Are the people carrying out the DNH-check **neutral, qualified and aware** of conflict sensitive issues?
- ☐ Are all relevant **stakeholders and conflict parties** being asked for opinions and information about unintended project impacts?
- ☐ Is there an **atmosphere of confidence** between the 'researchers' and the 'researched'?
- ☐ Is the **M&E system** itself subject to a DNH-check?
- ☐ Are major DNH aspects covered, especially the impact of **project resources** and the implicit messages sent through **project behaviour**?
- ☐ Are the project team and stakeholders aware of the **trade-off** between conflict sensitivity and project progress in terms of PSD? How do they handle this issue?
- ☐ Does project management **respond appropriately** to the results of the DNH-check? Are the necessary changes discussed with stakeholders and implemented in a DNH manner?

- ☐ Are the results **shared with others**? If yes, are there any problems arising from this, such as one of the conflicting parties misusing information?

Monitoring of Intended Impacts

- ☐ Are peacebuilding needs sufficiently and correctly reflected in the **result hypotheses, result chains and result indicators?**
- ☐ Does the project **regularly monitor intended impacts** on the peace/conflict situation?
- ☐ Is the monitoring done appropriately?
- ☐ Are the people carrying out the monitoring **neutral, qualified and aware** of conflict-sensitive issues?
- ☐ Are all relevant **stakeholders and conflict parties** being asked for opinion and information about the project impacts?
- ☐ Does project management **respond appropriately** to the results of the impact monitoring?
- ☐ Are the results **shared with others**? If yes, are there any problems arising from this, such as one of the conflict parties misusing information?

External evaluations and Reporting

- ☐ Did external evaluations take into consideration **peace and conflict issues** (see: TOR, reports)?
- ☐ Were the external evaluators **neutral, qualified and aware** of conflict sensitive issues?
- ☐ Were the results of security monitoring, DNH-check, conflict situation monitoring and intended impact monitoring **reported appropriately** (do the right people get the right information at the right time to take the right decisions)?
- ☐ Are the results **shared with others?** If yes, are there any problems arising from this, such as one of the conflicting parties misusing information?

6.10 ..... Nepal: Basic Operating Guidelines

What are the Basic Operating Guidelines (BOGs)[25]?

The BOGs are a set of aspirations describing how donors wish to deliver assistance in Nepal. The BOGs have been agreed upon by ten bilateral donors. However, there exist similar guidelines approved by the UN system and international and national NGOs. The bilateral BOGs consist of fourteen specific points that explain why the bilateral donors are in Nepal, what they are trying to do, and the way that they work. Conflict-Related concerns are staff security and the ability to implement projects peacefully.

Why do we need the BOGs?

As the conflict intensified after 2001, several security incidents occurred in 2002 and 2003 that targeted aid agencies and their field partners. Donors realised that they needed a common platform to protect development space. Based on international law, the basic operating guidelines (BOGs) were drafted in late 2003. Ten donors, with a long history of suppor-ting poverty reduction in Nepal, became signatories: CIDA, DANIDA, DFID, the European Commission, the Embassy of Finland, GTZ, JICA, NORAD, SDC and SNV.

For these donors, the BOGs have become the reference point to explain to all stakeholders the purpose of their development assistance in Nepal and to define their expectations of their field staff and partners, of the national and local authorities and, also, of non-state parties. When the BOGs are violated by any of the armed belligerents, the signatories and the UN system have used its principles to develop a common response which ranged from BOGs advocacy to temporary suspension of development activities.

In July 2005, His Majesty's Government of Nepal committed itself to respecting the BOGs in their budget statement. The Maoists have yet to do so. The donors involved are actively disseminating the BOGs for wider respect and understanding by all.

Why is there more than one set of BOGs?

In close collaboration with the bilateral donors who drafted the BOGs, the UN family developed its own set of basic operating guidelines in early 2004. The UN BOGs clearly make the links with international law and principles. Operationally speaking, the UN BOGs are undistinguishable from the BOGs of the bilateral donors. The BOGs group, which reviews and approves the actions required to defend the BOGs, includes the UN family, all BOGs signatories and observers that adhere to its principles.

In addition, the NGO Federation and the Association of International NGOs have deve-loped codes of conduct for their respective membership. The provisions of these codes are often based on similar principles of neutrality and impartiality.

25
Nepal is a signatory to the Geneva Conventions and all key international human rights treaties. Moreover, the relevant UN security council resolutions on protection of civilian and on aid also apply to Nepal.
For more information, see www.reliefweb.int/ocha_ol/civilians and www.ifrc.org/publications/conduct/code/asp

Box 25

Nepal: Basic Operating Guidelines agreed to by Undersigned Agencies

Basic Operating Guidelines agreed to by Undersigned Agencies in Nepal

Based on principles agreed internationally and in Nepal, we the undersigned have adopted the following Basic Operating Guidelines for all development and, if necessary, humanitarian assistance in Nepal.

1. We are in Nepal to contribute to improvements in the quality of life of the people of Nepal. Our assistance focuses on reducing poverty, meeting basic needs and enabling communities to become selfsufficient.
2. We work through the freely expressed wishes of local communities, and we respect the dignity of people, their culture, religion and customs.
3. We provide assistance to the poor and marginalized people of Nepal, regardless of where they live and who they are. Priorities for assistance are based on need alone, and not on any political, ethnic or religious agenda.
4. We ensure that our assistance is transparent and we involve poor people and their communities in the planning, management and implementation of programmes. We are accountable to those whom we seek to assist and to those providing the resources.
5. We seek to ensure that our assistance tackles discrimination and social exclusion, most notably based on gender, ethnicity, caste and religion.
6. We recruit staff on the basis of suitability and qualification for the job, and not on the basis of political or any other considerations.
7. We do not accept our staff and development partners being subjected to violence, abduction, harassment or intimidation, or being threatened in any manner.
8. We do not work where staff are forced to compromise core values or principles.
9. We do not accept our assistance being used for any military, political or sectarian purposes.
10. We do not make contributions to political parties and do not make any forced contributions in cash or kind.
11. Our equipment, supplies and facilities are not used for purposes other than those stated in our programme objectives. Our vehicles are not used to transport persons or goods that have no direct connection with the development programme. Our vehicles do not carry armed or uniformed personnel.
12. We do not tolerate the theft, diversion or misuse of development or humanitarian supplies. Unhindered access of such supplies is essential.
13. We urge all those concerned to allow full access by development and humanitarian personnel to all people in need of assistance, and to make available, as far as possible, all necessary facilities for their operations, and to promote the safety, security and freedom of movement of such personnel.
14. We expect and encourage all parties concerned to comply strictly with their obligations under International Humanitarian Law and to respect Human Rights.

Note: We seek to ensure our actions are consistent with the Principles of the International Red Cross and Red Crescent Movement's Code of Conduct.
For more information, please consult: http://www.reliefweb.int/ocha_ol/civilians/ and http://www.ifrc.org/publicat/conduct/code.asp

6.11 ..... Public-Private Partnerships in Post-Conflict Situations

Public-Private Partnerships (PPP) in the context of German Development Cooperation is a **combination of public and private inputs** in planning, financing and implementing projects that benefit both partners. The public sector is represented by the governments of Germany and the partner country, they benefit from PPP projects in terms of development impact. The private sector partners are local and foreign companies who benefit from the networks and know-how of the public sector partners and from reduced business risks and costs.[26]

Private companies are generally reluctant to invest in conflict or immediate post-conflict settings.[27] But there are companies who may be able and willing to take the risk, for example because they want to secure a good market position (quasi-monopolies), attain low production costs, or access local natural resources. A company's decision will depend on a risk-versus-profit assessment and they will prefer short term and 'light' investments which can be withdrawn easily in case of crisis. The service sector and light industries such as textile manufacturing are typical examples. International firms engaged in (post-) conflict countries are from various sectors, foremost natural resource extraction, energy, tourism, financial services, telecommunications, construction and agribusiness.

Most PPP partners are small and medium enterprises, including so-called diaspora entrepreneurs (refugees who are willing to return and invest in their home countries). Many multinational companies are afraid of the reputational risks of working in conflict-affected countries. Since international NGOs and the public in developed countries put increasing pressure on large companies to be 'clean', a partnership with the German government may encourage such companies to get engaged in conflict-affected countries. By the end of December 2006, GTZ counted 29 PPP facility projects (completed or ongoing) explicitly working in post-conflict reconstruction; however, a total of 153 measures financed through the PPP facility have been implemented in countries affected by conflicts (ca. 35 % of all PPP facility projects).

PPP seems to be more feasible in post-conflict situations and in long-term stabilisation processes, less in volatile conflict settings and acute crises. As private companies need a minimum of stability for investment, most PPP projects take place after violent conflicts. A growing number of PPP measures address conflict issues, especially in reconstruction and reintegration programmes. PPP may hold a potential to bridge the investment gap between international post-conflict assistance, which peaks usually in the first 5 post-conflict years, and resuming private investments, which usually increase around the 8th year after conflicts have ceased. The first companies to come into a post-conflict scenario are often foreign construction companies contracted by donors, or foreign banks and mobile telephone companies who see a market in the new local elites, aid agencies and peace keeping forces. Smaller local or regional companies, subcontracted by larger international firms during the years of post-conflict reconstruction, are more likely to invest with a long term vision and therefore deserve more attention from the public sector partners in PPP projects.

26
In German Development Cooperation there are two approaches to PPP. First, there is the so-called PPP facility implemented through selected German development institutions (SEQUA, GTZ, DEG and KfW). It is a special fund made available by the German Federal Government to co-finance public-private projects that target a development impact beyond the business interests of the private partner. Second, there are PPP funds integrated in any kind of development projects and open to any public-private cooperation measure, again leading to development impacts. The following observations focus mostly on experiences with the PPP facility.

27
The following findings are based on an unpublished GTZ discussion paper (GTZ 2007b).

Conflict sensitive PPP projects should comply with international standards and DNH-principles. Ideally they address long-term structural conflict causes. In a broad perspective they can contribute to sustainable economic development and help to overcome the so-called conflict trap, breaking the vicious cycle of poverty and conflict. Since half of all post-conflict situations turn violent again within a few years, working on the conflict root causes is an important – albeit complex – issue. In particular economies dependant on the extraction of one or few natural resources need to be diversified. PPP projects can help economic diversification by promoting new or small sub-sectors.

Box 26

Afghanistan: Printing Machines

The German company 'Heidelberger Druckmaschinen Osteuropa Vertriebs GmbH' is the first producer of printing machines in Afghanistan. The company started its operations in the year 2000, looking for a new market.

Due to a lack of local purchasing power the company started by repairing and maintaining local printing machines of the 60 local printers. Most of these services were done free of charge, a kind of advertising campaign of the company.

The next step was the establishment of a printers training institute, a Public-Private Partnership sponsored by the German government. The institute trains staff members of the German company but is also open for anyone else. Apart from printing pre-printing services are also trained. This is of particular interest to women because it is an acceptable job for women.

There is a big demand for printed material in the country, foremost newspapers and school books which are paid for by aid organisations. Due to the PPP, a large portion of the required 20 million copies can be printed in the country and thus create income and jobs.

The PPP project contributes to peace by stabilising the economy through new income opportunities, skilled jobs, also for women, and by indirectly promoting reading skills and information dissemination.

6.12 ..... Examples of Peace Entrepreneurship

Source: International Alert, 2006

Afghanistan	• Business gets involved in the Afghan New Beginnings Program, a DDR programme, providing training and employment to ex-combatants. • Local businessmen participate in a shura, or council, that seeks to tackle corruption in the local administration.
Bosnia and Herzegovina	• Organic Medici, a business growing and processing organic herbs, works with farmers across ethnic and entity divides to source products, and employs minority returnees. • Croatian company Kras reinvests in the Mira Prijedor biscuit factory in Republika Srpska, assisting its recovery from wartime losses. • Informal markets such as Arizona in Brcko district provide spaces for inter-ethnic economic cooperation at the same time as securing livelihoods. • International NGO CHF's Municipal and Economic Development Initiative supports multiethnic business associations which form into the Regional Enterprise Network, contributing to economic policy-making at both local and national levels.
Colombia	• Business plays a high-profile role in the Pastrana administration's peace process with the armed group FARC. • The energy company Interconexión Eléctrica S.A. creates the Programa de Desarollo para la Paz, an initiative that tackles the root causes of conflict at the community level. • Compañía Envasadora del Atlántico, in collaboration with UNDP, helps to organise farmers' associations that produce passion fruit for its export business, providing them with livelihood alternatives to coca plantation. • Allianzas Red works to involve the private sector in reintegration initiatives that offer training and employment opportunities to IDPs. • The national Federation of Chambers of Commerce initiative Empresas por la Paz combines conflict resolution training at the micro-level with business start-up support to participants.
Cyprus	• Greek and Turkish Cypriot businesspeople participate in a cross-island dialogue initiative to develop strategies for economic cooperation and a peaceful settlement of the conflict.
DRC	• Local businesses in eastern Congo employ ex-combatants and cooperate with MONUC to strengthen stability at the community level and to engage in policy dialogue at the national level.
Kosovo	• The international NGO Mercy Corps promotes 'dialogue-rich development' in an initiative to foster both reconciliation and business linkages that were lost during the conflict between Albanian and Serb Kosovars.
Nepal	• The Federation of Nepalese Chambers of Commerce initiates negotiations to avert a Maoist threat to shut down industries, and to address some of their political and labour-related demands. • 14 apex business organisations set up the National Business Initiative (NBI) to support both the political peace process and socioeconomic development to address some of the root causes of the conflict.
Northern Ireland	• The Confederation of British Industry (CBI) engages in advocacy and support to the peace process, emphasising the benefits of a 'peace dividend'. Together with other business associations, CBI establishes the Group of Seven, which urges a settlement to the conflict through public campaigns and media statements at critical junctures during the peace process, as well as direct engagement with all parties to the conflict.

Sierra Leone	• The Sierra Leonean branch of the Africa-wide mobile phone company Celtel enters a partnership with the international NGO Search for Common Ground, to launch a new mobile phone network in former rebel strongholds in the north, combining the launch with a radio-broadcast debate on the importance of national reconciliation and the role of communications.
Somalia	• Telecommunications company Nationlink enters a partnership with UNICEF and a local NGO to provide vocational training and employment to demobilised child soldiers. • Businesspeople invest in and supply goods for the running of local social services such as hospitals, and provide essential public services such as electricity.
South Africa	• The Consultative Business Movement (CBM) joins forces with others to consult with the different parties to the conflict to facilitate an inclusive peace process; it is subsequently invited to fulfil secretariat and administrative functions for the Convention for a Democratic South Africa process that brings about a new constitution. • After the first elections, CBM and the Urban Foundation form the National Business Initiative as a channel for business support; they work in partnership with government to tackle systemic problems hampering social and economic development. • Business leaders set up Business Against Crime, a non-profit organisation and a partner with the government in tackling threats to security. • A separate Business Trust is set up to deal with the problem of unemployment, in particular focusing on job creation in the tourism industry.
South Caucasus	• The Abkhaz Union of Women Entrepreneurs assists Georgian micro- businesses from economically marginalised districts through start-up funds and training. • International NGO, Conciliation Resources, facilitates a dialogue initiative between Georgian and Abkhaz businesspeople to build trust and identify shared issues of concern in the context of the current conflict. • Recently closed Ergneti and Sadakhlo markets were important centres for generating livelihoods as well as confidence and trust through cross-border trade between Georgians and South Ossetians, and Azeris and Armenians, respectively. • The Caucasus Business and Development Network seeks to facilitate regional business linkages by promoting information exchange. • The Turkish-Armenian Business Development Council is formed by Armenian and Turkish businesspeople to foster business linkages as well as providing a forum to advocate for rapprochement at the political level.
Sri Lanka	• Colombo-based big business forms the Sri Lanka First campaign, which mobilises citizen support for a peace settlement in the run up to elections in 2001, helping to bring to power a pro-peace government and leading to the signature of a ceasefire agreement in 2002. • The Business for Peace Alliance, a working group of business members from regional chambers of commerce from across the island, promotes trust-building and joint initiatives between Tamil, Sinhalese and Muslim businesspeople, as well as policy advocacy vis-à-vis the capital.

6.13 ..... Proposed Structure for Country Analyses to Ensure Conflict-Sensitive Portfolio Design in Line with PCA Logic

This structure can be used for studies, workshop concepts, or to record processes of advisory services on portfolio adjustment.

I. Preface – context, framework, objectives

Brief description of the **context and framework** (e.g. client and focus (development cooperation or technical cooperation)), within which the study was produced. What

was the specific **reason** for the study? Which **objective(s)** does the study pursue at political/implementation level? Who is its **audience**? Does it target the national level or are individual regions of a country analysed? Does the study have a technical cooperation and/or development cooperation **focus**? Is this focus national or international, and are international donors taken into account? Are the recommendations intended for a country, programme or project portfolio? We would also advise you to briefly lay out the **procedure adopted or the methods and sources used** (e.g. desk study of literature, in-country research, interviews, workshops with local experts, etc.). Refer to the relevant sections of the terms of reference.

II. Executive summary

A summary of the entire study, which highlights the most important points and recommendations. This provides a rapid overview and can be passed on to interested parties as a separate document where appropriate. To ensure that the Executive Summary contains not only recommendations out of context, you should also lay out the objectives and purpose of the study, give a (very brief) overview of the contents of Chapters III-V and a slightly more detailed overview of Chapters VI and VII along with, in depth as appropriate, the recommendations laid out in Chapter VIII.

III. Peace and conflict analysis

In contrast to earlier country analyses, the **focus** should be on **both the conflict situation and on the dynamics in the field of peacebuilding** in a given country. In a country analysis, the course of the conflict and the status of peace processes or negotiations at macro level are analysed. If it is clear from the outset that the study is to focus on certain regions (areas of intervention) within a country, the overarching conflict and peacebuilding situation should only be touched on briefly (to set the context), and then both the course of the conflict and the peace process in the area of intervention should be analysed. The following overview of points to explore should be seen as a maximum option. Depending on the reason for the study and the conflict situation, it may be more appropriate to structure this chapter in a different way, for instance along the lines of conflict, which then must be defined as a first step.

1. Conflict profile (brief overview)

a) Conflict type
Internal, international, or regional conflict, border conflict, social conflict, conflict over resources, conflict over identity or values (a combination of types is possible).

b) History of the conflict, and if appropriate of peace processes
(Optional, can also be dealt with briefly in the preface; in addition to the history of the conflict, peace initiatives to date should be described).

c) Conflict phase
Latent conflict, conflict escalation, acute conflict, end of conflict, post-conflict/reconstruction.

d) Scope of the conflict
Geographic, human scale (number of victims, food and health status), economic, military, acts of violence, human rights violations, etc.

2. Analysis of the causes
Presentation/analysis of the long-term structural factors (= underlying structures), which have brought about the conflict and stand in the way of resolution.

a) **Political factors**
e.g. problems involved in managing transition processes, the lack of a legitimate govern-ment, limited social and political participation, etc.

b) **Economic factors**
e.g. socio-economic inequality, competition for natural resources, etc.

c) **Social factors**
e.g. discrimination, social disintegration, marginalisation, culture of violence, etc.

d) **Security-specific factors**
e.g. uncontrolled army, arbitrary police actions, presence of weapons, etc.

e) **External factors**
e.g. negative consequences of international commitment, of the national and international setting, etc.

3. Stakeholder analysis

Presentation of the parties/groups/actors involved. It is a good idea to make a further distinction between conflict and peace constituencies. This can be complemented by a split Lederach pyramid diagram, for instance. The presentation of each group should include their specific needs, interests and positions (onion model).

a) **Internal stakeholders**
Government, opposition, security forces/army, decentralised administrative structures, private sector, civil society (NGOs, civil society groups, religious associations…), if appropriate individuals (traditional or religious leaders), etc.

b) **External stakeholders**
Regional stakeholders (neighbouring countries, regional/multilateral associations), international donor community, UN organisations, World Bank, regional development banks, etc.

c) **Conflict mapping (optional)**
Graphic presentation of the relations between and among stakeholders; if workshops are held in the partner country, the materials, charts, maps, etc. produced can also be added in the form of photos or attached in the Annex.

4. Peace and conflict potential

Presentation of factors, that emerged or gained relevance in the course of the conflict, and which are having a negative or a positive impact on the course and duration of the conflict. We recommend that you structure these factors in the same way as you did for the analysis of the causes.

a) **Factors that prolong the conflict/cause it to escalate (conflict potential of a society)**
Political, economic, social, security-specific, external factors (see above) (e.g. loss in status of military and the arms industry once a conflict is over, failed peace negotiations, revenge and retaliation for acts of violence).

b) **Factors that promote peace/de-escalation (peacebuilding potential of a society)**
Political, economic, social, security-specific external factors (e.g. existing mechanisms for mediation and conflict management at various levels, peace initiatives, peace-stabilising donor strategies, etc.).

5. Conflict scenarios and trends

Realistic description of several possible developments of the conflict (preferably with the involvement of an expert or a long-term observer of the situation on the ground

at local level). Each scenario should not only be identified and described, but should contain indicators, which point out when the scenario in question has materialised. A discussion/documentation of possible priorities and strategies for each scenario can be added. (Although it is rare for a conflict scenario to materialise in precisely the form forecast, this work can make an important contribution to setting developments on track.)

IV. Identification of shortcomings and needs in the field of peacebuilding

The aim of this step is, firstly, to specify the conditions which could ideally help strengthen existing dynamics in the field of peacebuilding and, secondly, to compare the actual situation with the ideal. This comparison identifies the current shortcomings (and pertinent needs thus deduced) of peacebuilding in a country/region. In this chapter too it can make sense to structure information along the lines of conflict.

a) Description of the ideal state
The first step is to lay out the desirable or ideal state to be achieved in a country or part of a country, once major conflicts have been successfully resolved. Ideally this description should be produced in the course of a workshop at which the implementing organisations/donors and their partners achieve a consensus, and at the same time outline their shared vision. The 'ideal state' is logically linked to all results elaborated in Chapter III (Peace and Conflict Analysis). Where possible, the links to that analysis should be set out.

b) Analysis of shortcomings and deduction of peacebuilding needs
When comparing the **reality with the ideal state**, current shortcomings become apparent that stand in the way of successful peacebuilding (or conflict transformation). On this basis the **major peacebuilding needs** should be identified for a country in a conflict situation. When elaborating these needs you can and should name all relevant societal/political/economic fields, irrespective of whether or not they are typical assistance fields for development cooperation. It would be a good idea to break the information down by sector or by other appropriate criteria.

V. Taking Stock/Description of ongoing/planned Development Cooperation/Technical Cooperation Portfolio

A brief overview (perhaps in the form of a table) of the existing country portfolio, its special features (e.g. certain geographic focus), the way it is developing at present and a description of the sectors agreed with the partner government. At this point, where appropriate, you can also look at the approaches taken by major international stakeholders. **Depending on the objective of the study (see preface) you might leave the national level at this stage and look in more detail at the sector, programme or project portfolio to be adjusted. For the rest of the study you should then remain at this level** (or if you feel it necessary to leave this level, you must make it quite clear that you are doing so). The next steps are based on the assumption that a country portfolio is to be adjusted.

The necessary data/information for this chapter can be taken from workshops, interviews and/or the projects' own assessments. The procedure used to gather and process information might be sensitive because the consultant performing the work can easily come to be viewed as the 'judge' of the (current/planned) portfolio. It is thus absolutely essential to clarify roles and ensure transparency regarding the

criteria to be used for describing the portfolio. Concrete information on how to draw up a portfolio overview can be found in the Guideline for Conflict-Related Portfolio Analysis.

VI. Relevance Assessment of the existing/planned Development Cooperation/technical Cooperation Portfolio

Note: This step winds up the analytical part per se and marks the start of the assessment, on which the conclusions and recommendations will be based later on.

The existing country portfolio of development cooperation or technical cooperation (perhaps including the activities of international stakeholders), with its agreed priority sectors and individual measures (objectives, approaches and main activity lines), will be assessed in terms of its current contribution to peacebuilding. At the heart of the assessment is the question as to whether or not the objectives and main activities of a (project, programme or) country portfolio correspond to the peacebuilding needs (see outcomes regarding peacebuilding needs), and if so, how.

This step looks at whether certain measures/programmes within a country portfolio are in any way relevant for a peacebuilding process and opens up scope for discussion, whether appropriate adjustment could generate or increase their relevance. This is to foster a process of selection and decision-making which is intended to prevent excessive adjustment activities.

VII. Assessing Results

This step focuses on the **level of the individual projects to be investigated/adjusted** within the framework of the overarching objective of the study. When assessing results, it is assumed that there is mutual interaction between a conflict and the projects (in a sector, within a programme). Concomitantly, both perspectives should be examined (how the conflict influences the projects and how the projects influence the conflict), and the respective cause-effect hypotheses drawn up.

a) **Risk assessment and estimation**
In the risk assessment the real or potential **impact of the conflict on the development in-tervention** is examined. In the offers for the individual projects/programmes the possible results listed here are reflected as risks or possible limitations. A central element in this analysis is staff security or the risk entailed by the conflict for the personnel of one or more project(s) or programme(s). The (existing or non-existent) relations of the project to the various parties to the conflict should also be highlighted and assessed at this stage.

b) **Peace and Conflict-Related Impact Monitoring**
In contrast to section a) the Peace and Conflict-Related Impact Monitoring looks at the existing or planned **impacts of a project or programme on the conflict and the peace process**. Important questions include whether processes and initiatives of the projects have impacted (positively) on changes in the peace process and which stakeholders benefit from these changes (category and number of stake-holders). The methods to be used at this stage include the **Do-No-Harm Analysis**, and the **production and use of results chains, indictors and checklists**. Special attention should be paid to establishing the (possibly divergent) perceptions of the participants and target groups of the projects/programmes and of other stakeholders in the wider environment.

VIII. Recommendations

This chapter deduces concrete recommendations and proposals for action for projects (intervention level), organisations (country portfolio level), donor countries (development cooperation level), etc. in reference to the previous chapters. The deduction should be easy to follow and refer to certain chapters (e.g. scenarios). You should also take into account the feasibility of the recommendations (real room for manoeuvre!). It is particularly important to keep your recommendations 'user friendly'. The reader should be able to understand them rapidly. This makes a good structure important, especially if you have several recommendations. Possible structures are:

- By field (political, social, economic, etc.), by sector (economic reform and market development, food security, etc.) or by political and social levels (=> Lederach's track model).
- By short-, medium-, and long-term recommendations.
- By target audience: international level, development cooperation level, technical cooperation level, project level, etc.
- A combination of the above (especially recommended when you give a large number of recommendations) e.g. 'Recommendations for the development cooperation level', 'Social level', 'Gender', 'Promoting local women's organisations', … .

Alternatively/in addition the recommendations (where you have only a few) or recommendation sections can be formatted as a headline, so that they can be clearly identified at a glance on the contents page (e.g. 'Strengthening local conflict mediation mechanisms').

Recommendations should not be worded too abstractly. The degree of detail and concretisation is important to enable the client commissioning the study to implement the recommendations (i.e. reduce unemployment, without any further specification, would be too vague for a recommendation).

6.14 ..... Glossary

Business in Conflict (BIC)

Since the late 1990s the role of business in crisis regions, particularly that of transnational groups, has been discussed under the heading of Business in Conflict (BIC). Companies extracting resources (crude oil, diamonds etc.) as well as those, which are involved as investors in conflict countries and regions with a wealth of resources, are of particular importance. Compared to small and medium sized enterprises (SME), transnational groups suffer relatively little impact on their costs and sales markets due to conflicts. At the same time, these groups controlling resources can often exercise much more influence on conflicts than SMEs. To date the role of transnational groups is mainly influenced by self-regulation initiatives (e.g. Global Compact of the UN), incentives, laws and monitoring by civil society. Up to now development cooperation has hardly used the potential of global economic players for crisis prevention and mitigation of conflicts.

Community-based Integration

The community-based integration approach means that project services are not provided directly to members of a particular target group but rather to the communities in which many members of the target group live (or have returned to live). One example for this is the identification of villages where many former members of guerrilla groups are living and the deliberate promotion of these villages. Quite often this approach is used in Targeted Integration.

Complex emergencies

Complex emergencies describe complex, multi-faceted humanitarian crises that can be traced back to interacting economic, political and ecological causes. They generate hunger, violence and displacement, and many civilians fall victim to them (dying, becoming refugees or displaced persons). They have no clear beginning or end.

Conflict

A relationship between two or more interdependent parties in which at least one of the parties perceives the relationship to be negative or identifies and pursues opposing inte-rests and needs. Both parties are convinced that they are in the right. Conflicts are an essential ingredient of social change. They become dangerous when not solved in a peaceful and constructive manner.

Conflict and post-conflict countries

There is no internationally accepted definition or list of conflict and post-conflict countries, which is why the BMZ derives its definition from the categorisation of countries within the scope of the BMZ's crisis early warning system (based on the definitions of the Working Group on the Causes of War (AKUF)). Conflict countries include developing countries and transition states in which violent conflicts are currently ongoing, either in individual regions or throughout the country. In post-conflict countries, violent conflict has been ended by a ceasefire or a peace agreement at least one year previously. Less than ten years have elapsed, however, since the end of violent hostilities. This categorisation is adjusted every year to bring it into line with developments.

Conflict-Related impact monitoring

Systematic observation of the positive and negative impacts of development cooperation on the dynamics of a conflict at the project and country level.

Conflict management

Conflict management is the attempt to regulate a conflict by acting to help prevent or end violence. It seeks to bring about constructive solutions from which all the parties involved can benefit. This term is often used in development cooperation synonymously with the term conflict transformation, although the latter actually also embraces the overcoming of structural causes of conflict, and of the attitudes and behaviour patterns of the parties to violent conflicts. Conflict transformation is thus wider than mere conflict management and leads to a change in the way those involved act and perceive the problem.

Conflict phases

Conflicts may have the following five phases:

····· Latent conflict:
Although from the outside the situation still looks stable, the structural causes of the conflict already exist and at least one of the parties is aware of them. The relationship between the parties is tense and it is not possible to settle the issue within the framework of the existing political and social order. The tensions may already be expressed in occasional violent actions.

····· Conflict escalation:
The conflict is now public and the behaviour of one or several parties is increasingly confrontational (e.g. public demonstrations, local clashes). Mutual trust disappears quickly and the parties prepare for further confrontations.

····· Acute conflict:
The conflict has reached its greatest intensity. The level of violence is high, normal communication between the parties involved is almost impossible. Peaceful options for sett-ling the conflict seem to be excluded.

····· Termination of conflict:
The victory or surrender of one party, mediation, peace negotiations or interference by a third party terminates the acute crisis. The intensity of violence and tension drops and parties resume communication. This phase may extend over a prolonged period of time in which ceasefires get broken and violent action continues regionally.

····· Transition to post-conflict situations:
The situation stabilises although political, economic and social insecurities persist. The risk of a new escalation prevails unless all causes and consequences of the conflict are purposefully tackled. As with all phase models, this one also describes an idealised sequence of events. Development cooperation for crisis prevention is most effective during the initial phase (latent conflict) as well as being an instrument for reconstruction and reintegration during the phase of conflict termination and in the post-conflict period. During the acute conflict phase other instruments (diplomacy, defence, emergency aid) are more efficient.

Connectors/Local Capacities for Peace

In every society in conflict, people who are divided by some things remain connected by others. Connectors, or 'Local Capacities for Peace' are socioeconomic elements, such as markets, infrastructure, common experiences, historical events, symbols, (formal) traditions, shared attitudes, formal and informal associations; all of these continue to provide continuity with non-war life and with former colleagues and co-workers now alienated through conflict. Similarly, all societies have individuals and institutions whose task is to maintain intergroup peace. These include justice systems (when they work!), police forces, elders groups, school teachers or the clergy and other respected and trusted figures.

Crisis prevention

Crisis prevention means early, planned, systematic and coherent action at various levels of state and society for the prevention of violent conflicts. Measures for crisis prevention aim to achieve the following before, during or after violent conflicts: diminish the potential for violent conflict and promote the development of institutions, structures and 'cultures' for the peaceful settlement of conflicts.

Dividers

Dividers are those socioeconomic elements that are sources for tension between groups, i.e. 'what divides the groups'. They may be rooted in deep-seated, historical injustice (root causes) but they can also be recent, short-lived or manipulated by leaders (proximate causes). They may arise from many sources including economic relations, geography, demography, politics or religion. Some may be entirely internal to a society, others promoted by outside powers. Understanding what divides people is critical to understanding, sub-sequently, how assistance programmes can feed into, or lessen, these forces.

DNH-approach

By far the most important rule for development cooperation in crisis situations is the principle of 'DNH', introduced by Mary B. Anderson. In line with this principle, unintended consequences of humanitarian aid and development cooperation and any unintentional aggravation of the conflict should be recognised, mitigated or all together avoided, while effects fostering peace and bridging the differences between parties to the conflict should be intentionally strengthened. This means that before implementation, the content and operative aspects of development projects must be reviewed according to their relevance for the conflict, risks of conflict and actual impacts (see 'Impact').

Early warning

Systematic observation of a latent conflict using conflict prediction models. The objective is to detect the signs of conflict escalation in time (early warning) in order to initiate preventive measures (early response, early action).

Economy of violence/markets of violence

A broad distinction can be drawn between spheres of the economy that are illegal but do not induce any direct violence, and industries in which the main profiteers can only secure their revenues by using violence or threatening the use of it. The latter case is referred to as economies or markets of violence. The relationship between the use of violence and economic activity is of a causal and systemic nature.

Entrepreneur of violence

An Entrepreneur of violence is a rebel leader or warlord who makes his income by taking resources violently. However, governments, members of the state elite, military leaders, etc. may also be part of the structures of the economy of violence or may be protecting its practitioners.

Failed states

Failed states are those states that cannot perform their basic security and development functions and have no effective control over their territory and borders. It is difficult to ascertain when a weak state has failed.

Peace (positive vs. negative)

Negative peace means the absence of organised (military) violence, whereas positive peace is only deemed to have been reached when there is an absence of structural violence in a society. Structural violence, in turn, is defined as systematic ways in which a given regime prevents individuals from achieving their full potential.

Institutionalised racism and sexism are examples of this. Development policy aims to achieve positive peace.

Peacebuilding

Medium and long-term measures aimed at setting up mechanisms of peaceful conflict management, overcoming the structural causes of violent conflicts and thereby creating the general conditions in which peaceful and just development can take place.

Peace constituencies

Civil society or political groups or institutions which stress common factors shared with members of other parties to the conflict and play down divisive factors. They foster dialogue and cooperation between parties to the conflict and thus make a contribution to non-violent conflict resolution.

Peacekeeping/peace enforcement

Observation and enforcement of the implementation of a peace accord and of agreed confidence-building measures, if necessary by military force.

Peacemaking

Short-term diplomatic, political and military activities aimed at the immediate ending of violent confrontations and the conclusion of a peace accord.

Targeted integration

The concept of targeted integration means allowing only 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 identified as the target group of a project. Often targeted integration is combined with community-based integration (see glossary).

War economy

According to a definition coined by the Overseas Development Institute (2002), a 'war economy' only comprises those economic activities that are undertaken in a war situation by the groups involved in the violence (militias, warlords, military forces) and/or their leaders and that contribute to the financing of the hostilities. Other authors use 'war economy' to describe the overall set of structural changes in an economy caused by war (see also 'economies of violence').

Working on conflict

Working on conflict describes attempts to influence the way in which conflicts are settled by means of regulation, prevention of violence and attempts at ending them. This work aims to find constructive solutions, which will be beneficial for all parties involved.

6.15 ..... Post-Conflict Recovery in Sierra Leone – The Rehabilitation, Reintegration and Reconciliation Activities (ReAct) Programme Case

Key Lessons

It is a dangerous fallacy to expect that in a country like Sierra Leone, where many of the root causes of conflict still remain to be addressed, the end of conflict automatically results in a peace dividend that will unleash private sector growth leading to poverty reduction. ReAct encountered an extremely fragile and weak investment climate with private sector concerns over security and stability that could only be partially offset by the presence of a large external peacekeeping presence. Aside from concerns over post-UNAMSIL security and stability, PSD was constrained by extreme deficiencies in basic economic infrastructure, near absence of functioning financial systems, weak rule of law and property rights enforcement, and a poorly educated and unskilled labour market. Against this bleak background, the ReAct programme was tasked with reconstruction, rehabilitation and reintegration of demobilized combatants in devastated rural communities.

Key lessons, with regard to PSD under post-conflict LDC conditions from ReAct include:

a) **Reconstruction of Local Infrastructure:** ReAct interventions targetted impoverished and divided rural villages. Activities and resources were subject to Memorandums of Understanding signed with Community Development Committees, but when CDCs were dominated by local elites, the rural poor complained about collusion and inequity, frustrating the intervention's goals. Instead of specific enterprise-level interventions which might be seen as favouring one group over another, conflict sensitive PSD under conditions of deep social cleavages should at least initially focus on employment promotion through broadly-supported economic infrastructure reconstruction. Local committees must be formed based on DNH analysis and must be supplemented by procedures (e.g. independent surveys and community reporting/accountability mechanisms), which confirm widespread support for programme interventions.

b) **Skills Training:** Over 80% of the 76,000 ex-combatants registered for demobilization participated in vocational or skills training programmes of several donors. A survey of more than 1000 participants of these programmes indicated relatively successful results by international standards, finding that:

- 42% of graduates found jobs. (half self-employed, half formal).
- An additional 33% could be considered underemployed as artisans or farmers.
- Nearly 75% believed that their job was directly related to the skills they received in training.
- Over 90% believed that the skills they learned would be useful in the future.
- The most common complaints were delays in the delivery of allowances and toolboxes and lack of support for finding or creating jobs.

The survey results confirm the utility of the integrated design of the ReAct Programme. With less than one-quarter of participants finding formal sector

employment, there was clearly a need for agriculture and income generating activities to support the majority of the main target group. A destroyed agrarian economy cannot provide sufficient formal sector employment opportunities to absorb large numbers of ex-combatants and returnees, self-employment and sustainable livelihood strategies should therefore be supported through activities and instruments (like sustainable micro-enterprise formation) backed by access to credit and business development services.

c) **Credit and Business Development Services:** Scope and scale of conflict defined the ReAct instruments for credit and business development services. Improving access to credit has the potential to quickly and effectively satisfy self-help demands of a broad target group. But building sustainable credit institutions requires research on viable credit products, development of internal systems and procedures, and not least, qualified and professional staff. Design choices for improving access to business development services can be influenced by the target group volumes. This implies potential trade-offs between the quantity and quality of services. These pressing requirements can be met with temporary revolving funds and mass training approaches for business development services.

d) **Short and Long-term PSD Initiatives.** ReAct was designed to assist economic and social reintegration in the immediate post-conflict period in Sierra Leone with a contiguum of services to reestablish economic networks within rural communities during a critical period. ReAct was primarily tasked with the immediate challenge of rebuilding rural communities, not with addressing the social and economic rules of society to trigger broader cycles of development. It seems best to maintain this dichotomy with the provison that immediate interventions adhere as closely as possible to the DNH principle in order not to frustrate more long-term initiatives.

   Recognizing the social tensions during reconstruction and acknowledging that structural changes are most likely to emanate from the centre to the periphery argues for the simultaneous yet separated implementation of short and long-term PSD initiatives. Addressing long-term PSD constraints is equally important and pressing during post-conflict periods to avoid eventual relapses into violence as short term relief and reintegration work.

e) **Programme Management.** ReAct's integration into a multi-sector strategy implies additional management challenges that impact on programme results. A 2001 review drew attention to special post-conflict conditions that need to be better reflected in the design of programme organisation and staffing arrangements. Programme administration is not immune to the prevailing currents of corruption and the weak rule of law that contributed to the onset of conflict. Ensuring transparent and accountable programme administration is essential for developing trust within the local communities. Difficult and dangerous conditions do not attract experienced international staff and qualified national staff is often unwilling to relocate to rural areas. These extremely challenging assignments often fall to relatively inexperienced professionals. Dealing with traumatised individuals and communities in a fluid environment take an increasingly greater psychological toll on staff over time. This difficult implementation environment justifies a careful review of the package of benefits offered to attract qualified staff and points to the need for more staff with smaller task assignments than might normally be expected. Simply put, programme management in a post-conflict LDC environment is not 'business as usual'.

Summary

Between 1991 and 2002 state institutions in Sierra Leone had virtually collapsed. More than two million people were driven from their homes and around 70,000 people are estimated to have been killed. Several factors combined and contributed to the onset and duration of the war. These include inequities established in a colonial past, the current structure of social and economic institutions, the protracted decline of the state, regional dimensions, and the existence of lootable natural resources. Many if not all of those factors prevaled after the conflict.

The ReAct Programme was based on an integrated multi-sectoral strategy. The programme components with significant PSD Elements included: a) Community Services; b) Agriculture; c) Construction; d) Skills Development; and e) Income Generation. Key lessons learned include:

- The formation of local committees alone is insufficient to guarantee conflict-sensitive choices in infrastructure reconstruction. They must be supplemented by procedures, such as independent surveys and community reporting and accountability mechanisms, which confirm widespread support for programme interventions.
- The formal sector is unlikely to provide sufficient employment opportunities in the immediate post-conflict period. Therefore, integrated multi-sectoral programmes which provide a continuum of services are likely to be required. Basic skills training provide the foundation upon which other PSD instruments may be systematically combined.
- The scope and scale of conflict may imply trade-offs between the quantity and quality of financial and non-financial business development services. The factors of urgency and volume in Sierra Leone dictated the choice of temporary revolving funds and mass training approaches for business development services.
- Responsibilities for implementing short-term and long-term initiatives to promote PSD in post-conflict LDC environments should be separate. This is based on the inherent tension of local relationships during reconstruction and acknowledges that structural changes for PSD are most likely to emanate from central government policy changes and not necessarily from the rural areas.
- Programme management and administration in a post-conflict LDC environment is not 'business as usual'. Corruption may be rampant and it is difficult to attract qualified international and national staff to rural assignments. These factors justify a careful review of the package of benefits offered to attract qualified staff and point to the need for higher staff complements with smaller task assignments.
- ReAct illustrates that in post-conflict Sierra Leone not one but many complex problems need to be addressed. PSD in rural areas requires an integrated solution with skills training as the foundation supported by a systematic combination of rapidly implementable instruments. Long-term structural changes to promote PSD are equally important, but should be promoted through a separate process.

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Abbreviations

AISA	Afghan Investment Support Agency
BDS	Business Development Services
BEE	Business Enabling Environment
BIC	Business in Conflict
BMO	Business Membership Organisation
BMZ	German Federal Ministry of Economic Cooperation and Development
BOG	Basic Operating Guidelines
BOT	Build-Operate-Transfer
CEFE	Competency based Economies through Formation of Enterprise
CBM	Consultative Business Movement
CIDA	Canadian International Development Agency
CHASE	DFID's Conflict, Humanitarian and Security Department
CPR	Conflict Prevention and Reconstruction Unit
CSR	Corporate Social Responsibility
DANIDA	Danish International Development Agency
DC	Development Cooperation
DDR	Disarmament, Demobilization and Reintegration
DED	Deutscher Entwicklungsdienst
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DEZA	Swiss Agency for Development and Cooperation
DFID	UK Department for International Development
DNH	Do-No-Harm
EITI	Extractive Industries Transparency Initiative
EUR	Euro
FARC	Revolutionary Armed Forces of Colombia
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
FRCS	Food Security, Regional Cooperation and Stability in the South Caucasus
FWMS	Freetown Waste Management System
GC	Global Compact
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH
HR	Human Resources

IDP	Internally displaced person
ILO	International Labour Organization
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
LED	Local Economic Development
LRED	Local and Regional Economic Development
M&E	Monitoring and Evaluation
MNC	Multinational Company
MSME	Micro, Small and Medium Enterprise
NBI	National Business Initiative for Peace
NGO	Non-Governmental Organisation
NORAD	Norwegian Agency for Development Cooperation
ODA	Official Development Aid
OECD	Organisation for Economic Co-operation and Development
CPDC	OECD/DAC Network on Conflict, Peace and Development Cooperation
PCA	Peace and Conflict Assessment
PCM	Project Cycle Management
PEECE	Promotion of Economic Development and Employment in Conflict and Post-Conflict Environments
PSD	Private Sector Development
PPP	Public-Private Partnership
PSP	Private Sector Promotion Project
RMO	Risk Management Office
SDC	Sustainable Development Commission (UK)
SME	Small and Medium Enterprise
SNV	Netherlands Development Organisation
UN	United Nations
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioners for Refugees
USD	**United States of America Dollars**
VC	Value Chain Promotion
WFP	United Nations World Food Programme

Figures

Boxes

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