

Private Sector Development and Peacebuilding – Exploring Local and International Perspectives

September 14-15 2006, Berlin, Germany

CONFERENCE REPORT

In Mid-September, the BMZ, DiFD, the GTZ and International Alert organized a two-day conference in Berlin. During these two days some 140 experts in the fields of private sector development (PSD) and peacebuilding, representing various foreign offices and donor agencies as well as NGOs, research institutions and the private sector discussed how to promote a private sector role in peacebuilding. Discussions also explored how to integrate the two disciplines of PSD and peacebuilding to develop conflict-sensitive and peacebuilding PSD interventions. This was the first international conference of its kind to consider these topics. Therefore, the format of the event focused on exchange of experiences, reflecting the high demand for knowledge transfer, rather than on technically oriented workshops.

The main three objectives of the conference were:

- highlighting the domestic private sector's potential to contribute to peacebuilding in conflict-affected countries;
- exchanging emerging international experience in private sector development (PSD) programming at a country-level; and
- facilitating cross-learning between peacebuilding and PSD practitioners.

Following these objectives a total of 24 presentations followed by plenary discussions addressed a variety of topics within six major areas: The Private Sector, Economic Growth and Peace Processes; Post-Conflict Investment; The Peacebuilding Potential of the Domestic Private Sector; PSD in Conflict Settings; PSD in Post-Conflict; Improved Planning, Intervention and Coordination in Conflict and Post-Conflict Settings; as well as Emerging Issues in Conflict-Affected Economies.

The following document summarizes key messages and conclusions as well as debated issues and open questions.

General Key Messages

The right timing of post-conflict reforms / interventions: Immediate integration of PSD measures

So far PSD interventions have been handled as “second generation” interventions, i.e. scheduled after political institution building and humanitarian interventions. However, PSD is not only the engine for long-term, sustainable economic growth but certain PSD interventions can target post-conflict, short-term economic needs like employment creation and provision of public services. Moreover, PSD fosters social capital and if designed specifically can target the causes and

escalating factors of conflict thereby supporting the peacebuilding process and avoiding a dilemma of supporting structures that were or are causes for conflict.

Therefore there is:

- A need for systematic integration of PSD measures into the immediate post-conflict reform agenda, to lay the foundation for sustainable economic development and address short-term economic needs as well as support the peacebuilding process where feasible
- A need to use the post-conflict “window of opportunity” to make significant reforms in the economic sphere + build implementation capacities for PSD sector reforms side by side with policy reforms. Reforms in both spheres need to be undertaken in a conflict-sensitive way, i.e. with a strong understanding of the context and a ‘do no harm’ approach.

Strategic coordination within and between relevant stakeholders in conflict and post-conflict interventions, including PSD

Swift, strategic coordination *within* development agencies and *between* all relevant stakeholders is even more important in a post-conflict situation to ensure not only successful economic development but also sustainable peace.

Therefore there is:

- A need to coordinate country/region, PSD and peacebuilding experts within development agencies more closely
- A need to coordinate donor strategies more closely regarding PSD interventions.
- A need to integrate the (local) private sector (enterprises as well as business associations and chambers) in peacebuilding as well as PSD efforts
- A need to strengthen the cooperation and coordination between security forces and development cooperation in countries where international peacekeeping troops are stationed. A typical problem in this matter is that the military has a short-term horizon while development organisations have a long term vision.
- A need to foster a network of partnerships and dialogue between public sector, private sector, civil society, donors and NGOs

Only a comprehensive reform process can build sustainable development and peace

There is no one lever, which can be pulled for development and peacebuilding to neatly fall into place. Rather, PSD and addressing socio-economic issues more broadly, a regulatory framework, good governance, security as well as reconciliation are interdependent. Failure in one will likely risk failure in all.

Therefore there is:

- A need for holistic approaches to post-conflict development and peacebuilding
- A need for coordination at the strategic level, i.e. all stakeholders have shared goals that interlock and support each other.
- A good example for such comprehensive post-conflict coordination across different spheres of intervention is the Stability Pact for South Eastern Europe.

Economic growth and PSD do not *per se* contribute to peacebuilding

PSD always has a conflict-exacerbating potential as it has (re-)distributive effects in contexts where the distribution of resources in itself is highly contentious, and frequently one of the underlying causes of conflict. Moreover, as many conflicts have an economic dimension, interventions and measures in the economic sphere can have an effect on conflict-related factors.

Therefore, PSD interventions in countries affected by severe conflict need to be:

- Informed by the context of the specific conflict (by developing 'Peace and Conflict Assessments' (PCA) for instance), including the peacebuilding potential of the domestic private sector, and
- Specifically designed or adapted to ensure conflict-sensitivity and support peacebuilding. PSD interventions should contribute to reducing the root causes of conflict as well as to weakening escalating factors and strengthening deescalating factors of conflict.

The domestic private sector needs to be involved in the peacebuilding process

The domestic private sector in general and local small and medium enterprises (SME) in particular are directly harmed by conflict, for instance, through higher transactions costs, the destruction of physical, social and financial infrastructure as well as extortions and kidnappings. Unlike multinational counterparts, who can more easily divest if conflict costs become too prohibitive, they are an intrinsic part of the social fabric of a society. They, therefore, have an intrinsic motivation to address conflict issues where possible. This includes contributing to economic growth, but is not limited to it; businesses can also play an important role in fostering reconciliation in their communities, addressing security concerns, and participating in policy dialogue to address change at the political level. Moreover, local businesses play a crucial role in post-conflict situations, in particular to create jobs and income opportunities for ex-combatants and returnees, but also for jobless youth.

Therefore:

- Ongoing efforts by the domestic private sector to address conflict issues should be supported by PSD interventions.
- PSD and peacebuilding practitioners should reach out proactively to the domestic private sector to create awareness of its own conflict impacts as well as opportunities for contributing to peace
- Depending on size, local businesses on their own may not be influential enough and/or too vulnerable to become actively involved in peacebuilding on an individual basis. Therefore, collective corporate action such as the establishment of business membership organisations (BMO) or the support of existing BMO in peacebuilding activities is crucial. This also paves the way for more professional approaches, since BMO can hire / train experts for such tasks.

Other Points

- Every conflict has unique complexities - there are no blueprints to post-conflict PSD. It is, therefore, crucial to understand the conflict, its causes and factors before the implementation of PSD projects.
- One of the most important post-conflict hindrances for private sector growth are unresolved property rights – they should be addressed as soon as feasible to create an enabling environment for growth.
- Private sector activity should be promoted not just in the capital, but inasmuch as possible in remoter and perhaps marginalized regions of the country. This can also help address structural/regional imbalances.
- The option to deliver public services through the private sector in post-conflict situations should be explored as it can be faster and more innovative in the service provision than official structures. However, it has to be ensured that this does not foster inequalities, or replace state responsibility in the longer-term to provide services to its citizens.
- Workers are often neglected and should be included in post-conflict reform discussions. In some conflict contexts labour issues in themselves are conflictive, therefore an inclusive process can help address this conflict issue directly.
- Time horizons for economic activity in conflict and post-conflict tend to shrink. This can make longer-term focused economic interventions for instance credit schemes difficult as opportunism opposes a culture of credit.
- For the private sector to maximise its role in peacebuilding, leadership as well as cooperation between different business actors and bodies are crucial.
- In most contexts, development cooperation in support of the domestic private sector is small compared to the much larger sums flowing into a country in support of other interventions, for instance peacekeeping or infrastructure construction. PSD should seek to capitalise on these potential opportunities, for instance by helping the domestic private sector access tendering contracts to deliver goods and services to international missions.

Debated Issues

Capacity Building

- The argument put forward by Prof Collier that “capacity building in post-conflict is the wrong concept. There is not time to build capacity, you have to put in technical assistance to DO things.” was widely debated and not agreed upon. Most participants agreed that it is necessary to have a parallel approach that includes immediate responses and action by the donor community and their organisations as well as a long-term approach to institution building for lasting peace and sustainable development.

Quick fixes vs. longer term reform

- Long term reform vs. quick fixes: There seems to be agreement that in immediate post-conflict situations the creation of jobs is a key element to avoid the outbreak of new violence in the short term. It buys time to address structural questions that are crucial for lasting peace. To create those jobs pragmatic approaches, including subsidies and the establishment of new efficient institutions before the appropriate legal framework is created are needed.

- However, there can also be a trade-off between "quick fixes" and long term reform approaches. In order to stabilize a post-conflict situation it can be necessary to implement fast reforms. Those measures often consist of either reinstating old systems and institutions or establishing new ones that are not necessarily suitable for sustainable development in the long term. Such measures might be necessary because quick impact is vital in the short term. However, once such institutions or systems are established they are often hard and longsome to dismantle. Therefore, before implementing such quick fixes the long term effects should be considered.
- Of further debate was the question of prioritisation of different reforms and the kinds of interventions needed to support private sector activity from early on. Concrete suggestions were made that securing property rights will bring down risks and build a solid foundation for private sector investment. Also securing capital repatriation and securing trust in the local currency will stabilize investment rates as well as secure government liquidity through seigniorage. This line of argument, however, is based on the definite need to build investors confidence through large-scale international military intervention in post-conflict situations, as all economic and political solutions to stabilization take years.

What role for military intervention in sustaining peacebuilding?

- To build and sustain peace, a range of activities is needed to address security, governance, economic issues and reconciliation. The international community has typically got engaged in conflict and post-conflict contexts through military, political as well as economic interventions. External peacekeeping can provide a valuable short- to medium-term guarantee of security and reduction of conflict-risk, potentially enabling longer-term political and economic reforms to take root.
- Therefore, sustainable peace has to be addressed through all four channels. While first priority should be the reduction of risk for renewed outbreak of violence and the establishment of security by all means, e.g. through peace keeping troops and every means to create jobs for critical groups quickly to generate a broadly shared 'peace dividend', in the longer-term, development cooperation has to support societies to address structural causes of conflict and create an enabling environment for sustainable economic development.
- Opinions differed on whether military intervention is the most important element for stabilization with some participants arguing that only in selected cases military intervention is an essential part of a comprehensive approach to peacebuilding.

Open Questions and Need for Further Research

- How can the Diaspora be harnessed for PSD and peacebuilding efforts (know-how as well as their remittances)?
- Capital flight in times of conflict and also in immediate post-conflict phases leads to massive asset accumulation abroad. Those assets often lead to high remittances later on which can and should be used to finance economic development. Development cooperation should explore ways / instruments to enhance/ensure the positive effects of those remittances with regard to sustainable economic development.
- Is there a role for the private sector in combating the evolving patterns of terrorism?

How to move fwd – Possible follow-ups

- The next conference should be in the form of smaller workshops, possibly regionally organized and should include more representation from the private sector
- Start more coordinated knowledge transfer (within organizations, between organizations).
Online platforms?
- Develop evaluation criteria, monitoring systems for the impact of PSD interventions on peace in post-conflict countries.