International Alert.

Addressing the economic dimensions of peacebuilding through trade and support to private enterprise

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Conflict Prevention Partnership

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Addressing the economic dimensions of peacebuilding through trade and support to private enterprise

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September 2006

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Executive summary

'War kills development as well as people'.[1] It destroys livelihoods as well as lives, and it undermines economic as well as political progress. Violence deprives people of opportunity as well as the physical infrastructure and social structures on which they rely. Above all, perhaps, it robs them of hope and belief in the future. In other words, the impacts of conflict are as damaging to the economic potential of a nation as they are to its social and political prospects. There is also a widespread assumption, although there is no direct causal relationship between the two, that poverty can be a factor driving violent conflict. Over the last decade, increasing recognition of these points has stimulated consensus on the nexus between security and development and has led to a greater appreciation that peace and economic development are inseparable.

Less clarity exists on what this means in practice. The relationship between the economy, conflict and peace is more complex than is often assumed. It has largely been approached in one of two ways, reflecting the different perspectives of those engaged in exploring this issue: for conflict specialists, attention has focused on war economies and the economic drivers of conflict more broadly, emphasising the potentially destructive consequences of shadow economies, elite capture of natural resource revenues and the illicit trades in people, weapons and drugs. For those concerned with the socio-economic pillars of traditional 'development', the focus has been on the importance of stimulating rapid economic growth as the most direct path out of poverty for the estimated 1.2 billion people living on less than $1 a day.

These are not mutually exclusive agendas but they have been pursued, for the most part, in isolation from one another, leaving a critical gap in understanding how to generate the kind of economic development which both addresses the underlying economic dimensions of conflict and also provides for the urgent priorities of creating jobs and ensuring basic services are delivered to the population. The global commitment to poverty reduction, enshrined in the Millennium Development Goals (MDGs), is illustrative. The ambitious nature of the MDGs, and the difficulties encountered in making progress towards them, has focused greater attention on the importance of economic growth as the *sine qua non* of poverty reduction. Applying this approach to countries threatened or affected by conflict is problematic, however, precisely because it risks ignoring the ways in which the economy itself may be a key feature of the conflict dynamic. Simply stimulating growth in an economy which may be characterised by structural injustices, horizontal and geographical inequalities, corruption and patronage may only succeed in reinforcing or reigniting violent conflict.

In theory, this is increasingly understood by international actors, not least by the EU itself. The EU Communication on Conflict Prevention and the European Commission Check-List for Root Causes of Conflict, for instance, include systemic discrimination, economic stagnation, regional inequalities and economic mismanagement as potential drivers of conflict.[2] As the world's largest aid donor, and also the most important trade partner for many countries affected by or emerging from violent conflict, the EU can lead the way in translating this policy-level recognition of the inter-relationship between economic issues and conflict into operational practice. To do so would deliver potentially substantial positive outcomes in countries prone to or affected by conflict.

In practice, there is scope to improve the degree to which the EU's promotion of economic activity helps to build peace. This paper, published under the EU-funded Conflict Prevention Partnership (CPP), and informed by discussions among international experts at a conference on private sector

1 DFID (2005) *Fighting Poverty to Build a Safer World: a Strategy for Security and Development* (London, UK: DFID)
2 European Commission Communication on Conflict Prevention, 2001 (Brussels, 11.4.2001 COM(2001)211 final); European Commission Check-List for Root Causes of Conflict, http://ec.europa.eu/comm/external_relations/cfsp/cpcm/cp/list.htm

development and peacebuilding in Berlin in September 2006,[3] looks at two aspects critical to economic development: trade promotion (specifically Economic Partnership Agreements) and support to private enterprise. Given that this is a comparatively new area of inquiry, there is a need for deepened research in the future, building on these first findings. In particular, this paper explores to what extent these instruments can be made 'conflict-sensitive', i.e. responsive to the requirements of conflict contexts; and secondly, to what extent they can contribute to promoting peace and stability.

Trade:

Promoting trade in conflict-affected regions is a multi-faceted challenge. Trade encompasses a wide range of exchanges, within and across borders, all with specific links to development and peace prospects. In conflict-affected regions, these trade activities include small scale and day to day informal trade in agricultural produce and other products of basic necessity, which go largely unrecorded in national accounts; official trans-border international flows of trade in primary commodities and manufactured goods; as well as illegal trafficking in valuable minerals, arms and people orchestrated by armed groups and powerful informal networks. Although informal economic interactions may be given little attention in the formal decision-making process, they will often have the greatest influence on the lives and livelihoods of local people. They also will be the most exposed to violent conflict.

The EU has recognised the links between trade and development but there are concerns that its trade policy does not go far enough in its sensitivity to development challenges and support to development policy. With a mandate to primarily protect the trade interests of the European Community, DG Trade manages preferential trade arrangements with developing countries. These schemes, however, may not be as preferential as they first appear, given the host of protectionist measures that exist outside tariff barriers. The EU is committed to shaping its trade policies as part of enhancing its 'Policy Coherence for Development Agenda'. However, there remain tensions between the goals of the European Consensus on Development, on the one hand, and the expected outcomes of the trade agreements, such as the reciprocal Economic Partnership Agreements (EPAs) that are currently being negotiated for the African, Carribbean, and Pacific (ACP) countries. Firstly, the EU is not accounting for the external repercussions that its Common Agricultural Policy may have on ACP countries as part of the negotiations. Secondly, trade-related measures, such as investment, competition policy, procurement and trade facilitation, are promoted as being 'developmental', while ACP groups are instead calling for a substantial increase in trade-related assistance. Thirdly, the EU appears reluctant to offer a sufficient amount of time, flexibility and compensation to mitigate the negative impacts that may result from the reciprocation principles that it is pushing for in the EPAs. Coping with uncertainty is not what ACP countries need most, however. Many are already highly vulnerable to external shocks, which combined with income inequality, has been recognised as contributing to instability and conflict. A more generous approach is therefore needed to support programmes tailored to local needs for peace and development.

Another area, which the EU is promoting as part of its trade and trade-promotion policies in developing countries, is regional trade integration. In respect of ACP countries, however, EPAs seem largely detached from the institutional, political and socio-economic realities on the ground. Conflicts provide a breeding ground for criminal or illicit activities in which the trafficking of small arms and light weapons (SALW) is often closely linked with the wealth generated by the exploitation of mineral resources. Conflicts also isolate people from markets, and destroy livelihoods and infrastructure, bringing further hardship and instability. In addition, conflicts can greatly undermine intra-regional trade prospects, not only by destroying most means of communication, but also by fuelling mutual mistrust between member states, as well as

3 'Private Sector Development and Peacebuilding – Exploring Local and International Perspectives', 14-15 September 2006, Berlin (co-hosted by BMZ, DFID, GTZ and International Alert). For conference communiqué and materials, see www.businessenvironment.org

contributing to corruption, weak governance, and the looting of natural resources to finance armed groups. The EU has initiated and/or participated in some important efforts to increase the management and transparency of natural resources in conflict-prone region. The Kimberley Process, the Forest Law Enforcement, Governance and Trade, and the Extractive Industries Transparency Initiative are three such examples the EU supports. While welcome, these initiatives are relatively new and do not yet cover the wider range of 'conflict resources' which feed into and flow out of conflict. They also remain too separated from the main body of the EU's trade policy. The links between trade and conflict are more numerous and more complex than the EU's existing engagement would seem to account for. For these reasons, it is vital that the EU institutions widen their collective understanding of the links between trade and conflict.

Peacebuilding should be at the centre of EU's trade and trade promotion strategies in developing countries, and Africa in particular. Given the breadth of the inter-relationship between trade and conflict, the EU needs to pay more attention to the range of potential negative impacts that its trade policy agenda could cause. The need for greater conflict-sensitivity applies to DG TRADE (focusing on establishing preferential trade relationships with partner countries in the south), DG DEV (focusing on providing financial assistance to boost their capacity to trade), as well as DG RELEX. The EU needs also to be sure to accompany Africa's regional integration process in such a way as to address fundamental development and governance issues and other risks to peace. This process will need to be based on a multi-track approach – involving civil society, businesses, governments, and regional institutions – for it to be successful. Only a slow but step-by-step process, built on high-level engagement as well as citizen and local business participation, is likely to be sustainable (and a genuine contribution to peacebuilding) over the long term. This must be in line with the pace of institutional and economic development of each respective country and region. A cautious approach is required.

In sum, EU peacebuilding actions in respect of trade should include the following:

- Widening understanding of the links between trade and conflict, and establishing institutional mechanisms (within and among directorates-general of the European Commission and across the EU) to ensure the conflict-sensitivity of trade policy and trade-related assistance.

- Meeting the commitment already made to prioritise trade-related assistance under the Country and Regional Strategy Papers (CSP and RSP) in the 10th European Development Fund (EDF). Only a focus on in-country capacity to raise domestic revenues and access new markets will genuinely help these countries to address their own developmental needs.

- A longer transition period than currently suggested by the EU under EPAs in order to allow time for addressing the numerous structural constraints that stop ACP countries competing effectively among themselves and with their European partners.

- Widening and deepening the participation of all civil society and business actors in EPA processes.

- A carefully balanced approach between promoting inter-state regional integration and supporting urgent needs for domestic reconstruction in war-torn nations.

- Further research on the impact that EPAs could have on local economies, capturing the often intricate connections not only between the trade sector and the rest of the economy, but also between informal and formal activities taking place within this sector.

- A fuller assessment of the likely impacts of the EPAs on the complex landscape of regional organisations in Africa. An additional layer may not help efforts to rationalise this landscape and make the organisations more effective in serving the people of their member countries.

Private sector development:

There is an emerging consensus within the international community that a strong domestic private sector is a crucial driver of the broad-based economic growth required to achieve poverty reduction and the Millennium Development Goals. The EU's technical and financial development assistance reflects this trend, including components which aim to strengthen private sector actors and associations, as well as the business environment in which they operate.

Template approaches for strengthening private enterprises need to be revisited in conflict-prone and conflict-affected countries however, and informed by a thorough understanding of conflict dynamics, including the often complex relationships economic actors have with conflict. This will help to ensure that activities supported by the EU in this area, at a minimum 'do no harm,' and, at best, proactively support peacebuilding processes and sustainable and widely shared economic development. Private sector actors ranging from informal, to small- and medium-sized, and larger enterprises, respond to conflict in different ways, some benefiting from opportunities thrown up by conflict; others coping with the negative impacts of conflict in order to minimise costs and improve chances of survival. In other instances, some proactively seek to contribute to peace and stability in their communities and beyond. Analysing and factoring in these different responses could help ensure that EU support in this area not only avoids the pitfalls of feeding further into conflict dynamics but also reinforces 'local capacities for peace'.

As the Uganda case study in this paper illustrates, 'conflict-blindness' holds the risk of reinforcing existing conflict fault lines, as well as generating new ones. In its past and present co-operation with Uganda, the EC delegation has a track record of addressing conflict issues. Yet much more needs to be done to extend this conflict perspective across 'different sectors and modalities of co-operation,' including EC activities in Uganda to support the private sector. High levels of regional and structural economic inequalities are at the core of Uganda's conflicts. The private sector, therefore, has an important role to play. At the same time, the links that exist between some business actors and conflict and the inherent tensions that pervade many private sector organisations particularly at the local level will mean that greater attention needs to be paid to conflict dynamics in designing the programmes that the EC will support under the Uganda's 2008-13 Country Strategy Paper (CSP) and the range of horizontal instruments available to European Development Fund (EDF)-eligible countries.

In respect of specific instruments, the EU could:

1. **Develop its own institutional capacity to identify and respond to conflict issues that impact on EU PSD programmes.** While the EU has engaged directly or indirectly in private sector development activities in conflict prone and affected countries, their conflict-sensitivity and potential entry points for mainstreaming conflict prevention has not yet been assessed. Work done by other European donors to collect and develop good practice in this area should be drawn upon, and extended where relevant. Guidelines and good practices on PSD should have an explicit focus on lessons emerging from European Commission Delegations. Improved coordination and a refined approach to the local private sector could be achieved at country level but also in Brussels, for instance by establishing shared analysis and channels of communication between relevant directorates within DG Relex, DG Dev and Europeaid.

2. **Engage the private sector in partner countries in policy dialogue.** The EU's commitment to fostering dialogue with third country private sectors in order to give them a voice in public

policy-making affecting their operations should be harnessed for peacebuilding purposes. Evidence from different conflict contexts suggests that involvement of the business sector in such policy dialogues can serve to surface conflict issues and related business concerns, and address them. Dialogue as part of EDF, the Development Co-operation Instrument (DCI), the European Neighbourhood and Partnership Instrument and Pre-accession Instrument, should be strengthened accordingly.

3. **Promote conflict-sensitive foreign direct investment and business-to-business linkages.** The promotion of foreign direct investment in fragile environments needs to be done with extreme care to avoid potential negative, conflict-feeding impacts. At the same time, it can be an important conduit for sharing best practices to promote good company conduct in conflict zones. Business-to-business cooperation, especially south-south, can at the same time contribute significantly to re-building trust where relationships have been damaged by violent conflict.

4. **Conflict-sensitive finance.** The provision of financial services in conflict-prone and conflict-affected countries, frequently supported by the EU through local providers, needs to take into account factors beyond pure profitability and strength of business models. In situations where private sector activities have been traditionally dominated by certain individuals or enterprises, or concentrated in some regions to the exclusion of others, 'picking winners' in line with a pure market rationale may serve to further fuel tensions. Hence, initiatives such as micro-finance that target disadvantaged groups, can help promote more equitable access to financial services. Where appropriate and relevant, policies on non-discrimination, for example, could be made a pre-condition for access to EU-funded financial services.

5. **Reinforce the benefits of business networking.** Experience from different conflict-affected countries has shown that where business networks and associations are strong, they can be important channels for mobilizing business support and lobbying for policy reforms that are relevant from a conflict prevention and peacebuilding perspective, for instance transparent use of revenues, and clear rules and regulations for business conduct. They also can become conduits for collective business support for and implementation of initiatives in support of peacebuilding. Strengthening capacities of these representative bodies in a conflict-sensitive way is therefore important both for fostering peace and stability, as well as Private Sector Development.

Conclusion

A thriving economy is essential to building peace. But the impacts of rapid economic growth can drive conflict as much as build peace. The wrong kind of trade policies, or trade policies applied badly, can damage economies and divide peoples as much as support and unite them. The private sector itself can be a contentious force within society, reflecting and exacerbating discrimination, exclusion and inequality as much as addressing them, either through their own behaviour or their relationship to a structurally unjust economy. Like all interventions in conflict affected or threatened countries, therefore, the pursuit of economic development must be informed by a sound analysis of the conflict, an understanding of the interests, agendas and perceptions of relevant actors and an appreciation of the impacts it may have, particularly on vulnerable groups. Putting peace-building at the centre of its range of economic development and trade policies could notably contribute to greater policy coherence for development, but also help support the kind of economic growth which can help societies and regions permanently emerge from violence and war.

Introduction: the need to address the economic dimensions of peacebuilding

'Development policy and other co-operation programmes provide the most powerful instruments at the Community's disposal for treating the root causes of conflict. There is a need to take a genuinely long-term and integrated approach, which will address all aspects of structural stability in countries at risk.'[4]

'…what we are doing in our trade relations meets my broader view of politics. It's about providing a framework of opportunity in which economic change and social justice combine.'[5]

The EU is collectively the world's largest aid donor, and also, as a trading block, the most important trade partner of many less developed countries, including many prone to or affected by conflict.[6] The EU policy of promoting development and shaping its trade relations to address the special needs of developing countries reflects its confidence that the instruments at its disposal not only help boost economies, but also have wider impacts, including social justice and the promotion of peace. This needs to be looked at more carefully in the context of countries affected by or prone to conflict: firstly, to what extent are these instruments 'conflict-sensitive', i.e. responsive to the requirements specific to each context; and secondly, to what extent can these instruments positively contribute to promoting peace and stability? This paper will explore the potential that (a) EU's trade promotion policy, and (b) EU programmes directed at strengthening private enterprise hold in these respects.

Donors now widely accept the 'development-security' nexus, and there is an appreciation of the link between patterns of economic development and the dynamics of conflict and peace. On the one hand, profound inequities in wealth distribution, particularly where certain groups are excluded from fairly accessing and participating in the economic life of a society, can generate grievances that fuel tensions and perhaps widespread violence.[7] The presence of large numbers of unemployed people, particularly male youth also is seen, to substantially increase risks to peace. These economic drivers of conflict have, for example, been recognised in the EU Communication on Conflict Prevention and the European Commission Check-List for Root Causes of Conflict, which includes systemic discrimination, economic stagnation, regional inequalities and economic mismanagement among root causes of conflict.[8] On the other hand, conflict has significant negative impacts on economic life at micro, meso- and macro-levels, for instance by destroying lives, livelihoods and infrastructure; damaging socio-economic fabrics; undermining investment; and increasing underground activity in the economy.[9]

Hence, a fundamental element of peacebuilding is to improve the pattern and vitality of the economy. This agenda is, of course, inextricably connected to progress on the political and security fronts.[10] Socio-economic activities form part of a long and complex process of transforming attitudes, behaviours, and the structural conditions in society that lay the foundations for peaceful, stable and ultimately prosperous social and economic development. Moreover, where a country is beginning its transition from war to peace following a peace agreement, it is recognised that a 'peace dividend' has to materialise quickly, and be broadly shared.

4 European Commission Communication on Conflict Prevention, 2001 (Brussels, 11.4.2001 COM(2001)211 final).
5 Excerpt from EU Trade Commissioner Peter Mandelson's speech to the Joint Parliamentary Assembly in Bamako, 19 April 2005 (as cited in 'Trade for Development: the Economic Partnership Agreement between the European Union and West Africa' (DG Trade, October 2005)).
6 The EU is, for instance, West Africa's main trade partner, representing almost 40 per cent of the region's trade.
7 International Alert (2006a) *Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector* (London, UK: International Alert).
8 European Commission Communication on Conflict Prevention, 2001 (Brussels, 11.4.2001 COM(2001)211 final); European Commission Check-list for Root Causes of Conflict, at http://ec.europa.eu/comm/external_relations/cfsp/cpcm/cp/list.htm.
9 GTZ (2006a) *Private Sector Development in Reintegration and Reconstruction Programmes* (Eschborn, Germany: GTZ).
10 Smith, D. (2004) *Towards a Strategic Framework for Peacebuilding: Getting their Act Together* (Oslo, Norway: Royal Norwegian Ministry of Foreign Affairs).

The inter-relationship between economic activities and prospects for building peace has given a new dimension and significance to donor strategies for promoting trade, enterprise development and markets in conflict-prone and affected countries. Depending on the context and the nature of the economy, peacebuilding priorities relating to the economy will need to focus on the promotion of local businesses and increasing equitable access to income generation opportunities in local economies, for instance through microfinance and advice on business plans. In some contexts, especially Africa, a country's economic dependence on primary commodities, particularly in periods of economic decline, has been found to increase the risk level for violent conflict.[11] Here external assistance can be constructive in supporting diversification away from dependence on certain primary commodities (such as oil, timber or valuable minerals such as diamonds or coltan), as well as in creating new opportunities for local enterprises.

At the same time there is increasing recognition, including from European countries, that economic interventions at all levels need to be adapted to conflict contexts,[12] and approaches appropriately tailored: 'Strategies and measures for promoting private sector development and trade in (post)conflict countries must be sensitive to the causes and dynamics of the conflict and to the actors involved'.[13] Efforts in formulating policies and good practices in this area are few to date and fairly recent,[14] but they do suggest that this is an area that will receive increased donor attention in the years to come. This is especially important given that trade dynamics, as well as private sector activity, have been shown, on the one hand, to contribute to fuelling and financing conflict in many contexts,[15] and, on the other, to contribute to peace at different levels.[16] These different developments point to the need for donors to explore the role that strategies to promote private enterprise and trade co-operation can play, not only in avoiding fuelling conflict, but in proactively supporting peacebuilding processes. Interventions to strengthen local economies and economic actors should be promoted as part of a long-term conflict prevention and peacebuilding strategy.[17]

Furthermore, particular opportunities exist in the 'post-conflict' contexts for assistance to help to alleviate the sources of tensions that pre-date or result from violence: not only, though, is 'private sector development…an integral part of the rehabilitation process in conflict-affected countries and territories'[18], but the private sector, which includes formal businesses (national and international) and also a plethora of micro-enterprises in the informal economy (including family farms), is also by far the most important source of livelihood for populations living in conflict-prone countries. Interventions to strengthen local economies and economic actors should therefore be promoted as aspects of long-term conflict prevention and peacebuilding efforts.[19]

The EU already has committed on paper to mainstreaming conflict prevention in external assistance and trade relations.[20] In practice, there is scope to improve the degree to which the EU's promotion of economic activity helps to build peace. The following section sets the context of EU trade policies vis-à-vis third countries, exploring the links between trade activities and conflict dynamics at local, national and regional levels. Section 2 then gives an overview of the spectrum of links between private economic activity and conflict dynamics, which are of relevance to all EU development interventions. Drawing on selected country and regional case studies, both sections explore ways forward to improve the conflict-sensitivity and peacebuilding potential of EU support for trade and private enterprise development.

11 Collier, P. et. al. Breaking the Conflict Trap: Civil War and Development Policy. World Bank, 2003. Countries with a quarter of their national income deriving from this source had a risk of conflict roughly five times greater than nations without this level of dependence - see Conducting a Conflict Assessment: A Framework for Analysis and Program Development USAID (2004), p.9. (available through www.oecd.org/dac/conflict/analysis).

12 GTZ (2006b) *Conflict Prevention and Peace Building Elements of PSD/SED Programmes* (Eschborn, Germany: GTZ).

13 Norwegian Ministry of Foreign Affairs (2004) *Peacebuilding: a Development Perspective* (Oslo, Norway: NORAD).

14 See for instance GTZ, 2006b, op.cit.

15 For instance, Global Witness (2006) *Under-Mining Peace: Tin – the Explosive Trade in Cassiterite in Eastern DRC* (London, UK: Global Witness).

16 International Alert, 2006a, op.cit.

17 EU Commission Communication on the Prevention of Conflict 2001; UN Security Council Presidential Statement of 20 February 2001.

18 World Bank, Rapid Reaction Unit, 'Knowledge Services for Private Sector Development': 'The importance of Private Sector Development in Conflict-Affected Countries.' http://rru.worldbank.org/Themes/ConflictAffectedCountries/ .

19 EU Commission Communication on the Prevention of Conflict 2001; UN Security Council Presidential Statement of 20 February 2001.

20 IQSG Programming Fiche on Conflict Prevention.

Trade and peacebuilding: what role for the EU?

From a peacebuilding perspective, regional trade integration in conflict-affected regions is a multi-faceted challenge. Trade-related activities need to be understood as encompassing a wide range of different types of exchanges within and across borders – all with specific links to structural violence or conflict. These range from small scale, day-to-day informal trade in agricultural produce and other products of basic necessity that go largely unrecorded in national accounts, to official trans-border flows of trade in primary commodities and foreign manufactured and industrial goods, as well as illegal trafficking in valuable minerals, arms and people, orchestrated by armed groups and powerful informal networks. Although informal economic interactions may be given little attention in the decision-making process, cross-border informal exchanges often will have the greatest influence on the lives and livelihoods of local people. They are also the most exposed to violent conflict. In conflict-prone areas, people still need to trade, including with those on the other side of official borders. These are sustained by entrepreneurial energy as well as the need to maintain economic exchanges in order to survive and to exploit the limited opportunities that remain. In addition, some individuals or groups may be working to take advantage of unregulated trading patterns to make large profits. Trade can serve to prolong instability and drive conflict, significantly affecting its geographic focus, duration and intensity. For example, the wealth obtained from the extraction and trade in small, valuable, and hence easily looted, mineral and non-mineral resources can be used by certain individuals and groups to finance patronage networks, arms purchases and militias.[21] Those that have successfully captured the main trading routes have little incentive to support peace. In this context, external actors need to pay greater attention to the physical, cultural, historical, and socio-economic contexts that lead to particular patterns of trading in a conflict-prone environment.

This section sets the context in which the EU uses its range of trade-related instruments to address some of the above issues. Although the EU has thrown its support behind newly elaborated schemes to curb the trade of mineral and non-mineral resources that are known to finance conflicts, its development and trade agendas have yet to embrace the many other links that exist between trade and conflict in developing countries. As new trading arrangements are being negotiated and new trade-related assistance packages are put together, the EU should take this opportunity to explore the contribution that its trade policy and trade-related assistance could make towards peace, as well as their potential to drive conflict. This is all the more important given the instability of many of the developing countries with which it is engaged in trade-related negotiations. This section gives special attention to trade policies with and between African countries, given the high risk of conflict and instability in this continent.

An overview of EU trade policy in developing countries

The EU's trade promotion policy *vis-à-vis* developing countries has two main components: bilateral and multilateral trade agreements with third countries including those with developing countries, negotiated and managed by DG Trade; and provision of trade-related assistance by DG RELEX and DG DEV to developing countries as part of the overall goal to eradicate poverty in the world, and more specifically, contribute to the achievement of the Millennium Development Goals (MDGs). Much of today's debate on policy coherence focuses on reconciling the two, since DG Trade's mandate is primarily to protect the trade interests of the European Community, and does not support per se a development policy. Trade has therefore become one of the main priority areas in which the EU has agreed to take actions under its 'Policy Coherence for Development' agenda.

21 Ballentine, K. 'Conclusion' in Ballentine, K. and Sherman, J. (eds.) The Political Economy of Armed Conflict - Beyond Greed and Grievance. International Peace Academy/Lynne Rienner, 2003.

Linking trade with development

Helping developing countries to benefit from trade is an important priority of the European Development Consensus. In this strategy document, the EU recognises the supply-side constraints that these countries face. These include physical constraints, such as low value added in production capacity and poor transportation networks, but also low capacity in promoting reforms and negotiating trade deals. Consequently, donors have made new pledges specifically to increase trade-related assistance. Following the G8 Summit in Gleneagles (UK) in 2005, the European Commission announced it would contribute €1bn a year to trade-related assistance. This will range from customs reforms and technical support to assistance with multilateral and regional trade negotiations and include infrastructure improvements and product safety schemes.[22]

On the demand side, DG Trade manages three main preferential trade regimes: the Cotonou agreement between the EU and African Caribbean and Pacific (ACP) countries, under which over 97 per cent of ACP exports enter the EU markets duty-free; the Everything but Arms (EBA) arrangement which grants duty-free and quota-free access for all imports from least developed countries (LDC); and the Generalised System of Preferences (GSP), under which developing countries are given access to preferential rates for certain groups of products until they 'graduate'. These preferential schemes have been put in place to answer the specific needs of developing countries, on the basis that they needed to protect infant industries from external competition, while increasing their export share on international markets.

EU trade policy *vis-à-vis* developing countries is not as preferential as it first appears, however. The preferential schemes have been consistently undermined by tight and complex rules of origin and regulations, uncertainty (for GSP in particular), and the excessive use of non-tariff barriers, including phyto-sanitary standards and trade-distorting domestic policy, such as agricultural production subsidies. Part of the EU's response has been to launch the EBA initiative for LDCs and adopt a new GSP formula designed to be simpler, more transparent and more stable. These preferential schemes are unlikely to improve significantly. Balanced negotiations within the framework of these schemes is challenged by the fact that they are non-reciprocal, leaving little bargaining power to developing countries; with the EU deciding the degree of preferential treatment, based on considerations including its own commercial interests. In other words, developing countries will only truly strengthen their negotiating stance if they are able to reciprocate the preferences that they receive from the EU and other richer economic blocks. Reciprocity is what ACP countries have been asked gradually to do under the Economic Partnership Agreements. Under EPAs, six ACP groups of countries will adopt Free Trade Agreements (FTA) with the EU and finalise customs unions among themselves.

The tension between the EU's development and trade agendas is at the core of an ongoing debate about the future of ACP-EU relationships. Many agree that promoting reciprocity in trade preferences between one of the richest economic nations and some of the poorest countries (the majority of ACP countries are LDCs), will need to be part of a wider, coherent and powerful strategy for it to become developmental. The EPA negotiations, which started in September 2002, have been hindered by competing positions on what this strategy should entail, however.

The EPAs aim to be more than just trade tariff agreements. Described by the EU as 'development instruments', they will seek to create 'an economic area where goods, services and finance can be more freely traded' and 'a clear set of transparent, predictable rules, offering stability to traders and investors alike'. One immediate difficulty is that the EU excludes from EPA negotiations discussion on some multilateral issues, for instance those emerging from its Common Agriculture Policy (CAP). Some CAP export and domestic subsidies have already been ruled as unfair towards poor countries. For example, in September 2003, Mali, Benin, Burkina Faso and Chad,

22 European Commission, 'Making Trade Work for Development', January 2006.

logged an official complaint with the WTO regarding the use of cotton subsidies by the US and the EU and the dampening effect this has on world prices. The WTO ruled in their favour and recommended the elimination of cotton subsidies. Progress on this front will remain slow, however. At the same time, the EU wants to widen the EPAs to include other trade-related measures, such as investment, competition policy, procurement and trade facilitation. These so-called Singapore Issues were already the subject of contention between the developing and developed world during successive WTO Rounds. Developed countries had subsequently agreed to drop them from the agenda. The EU claims, however, that they would foster, rather than hinder, trade and development in the ACP regions. As rightly pointed out by the Southern Africa Development Co-operation (SADC)-minus group,[23] it seems that DG Trade and ACP groups may have very different visions of Africa's long-term developmental needs:[24]

> It has become clear that there is a variance between the EU and SADC on the meaning and scope of development and the issues to be addressed in the context of the EPAs. While the EU considers Singapore Issues as pillars of development, SADC does not share this view. As mentioned above, the region recognises the importance of these issues, but only wishes to have them included in a non-binding manner. What is more urgent as this point is the improvement of our capacity to trade, and amongst others, removing supply-side constraints. We all know that development is the central objective of the EPAs and therefore, in order to proceed, SADC and EU need to urgently come to a common understanding of the definition.

The EPA negotiations also have lacked transparency because of divergent views within each ACP group. As a result, the likely impact that EPAs may have on ACP economies remains largely unknown, despite attempts by many specialised agencies to inform the debate.[25] Most studies focusing on the trade aspect of EPAs nonetheless call for expectations relating to poverty effects to be tempered, however.[26] In addition, none of the studies commissioned by the European Commission can evaluate long-term dynamic gains or losses, resulting from the reallocation in productive resources, including jobs. Services – an important sector in many African economies – also are left unaccounted for. This has made it difficult for the lead negotiators to make informed decisions by assessing the exact costs and benefits of entering an EPA with the EU. Important decisions will nonetheless need to be made as the WTO waiver to extend the current Cotonou preferential arrangements expires at the end of 2007. What is certain, however, is that the many LDCs that are currently involved in the EPA negotiations are unlikely to forfeit the duty-free, quota-free preferences that they receive under the Everything But Arms scheme.

Challenges to trade integration

The EU promotes regional trade integration amongst developing countries as critical to addressing some of the main developmental challenges that they continue to face. Opening markets will help to create new economic opportunities, and with them, economies of scale, increased competitiveness and economic growth. For Africa, in particular, wider regional markets could reduce their strong dependency to a small range of primary commodities – an inheritance from colonial times – and help to compensate for the relatively small size of their domestic markets. As part of its pledge to increase aid for trade, the EU has launched a Trust Fund under its Partnership for Africa on Infrastructure and new regional envelopes are being put together under the 10th European Development Fund (EDF). The EU also aims to strengthen ACP integration through the EPA process, by carrying out separate negotiations with six separate ACP regions (four in Africa).

23 This ACP group comprises Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland and Tanzania.
24 'Status Report on the Economic Partnership Agreement Negotiations between SADC and the European Union', June 2006.
25 See for example Overseas Development Institue, Briefing Papers, 4, 5 and 6, June 2006. These studies fail to take into account adjustment costs such as the reallocation of factors of production across sectors.
26 'Regional Integration and Poverty', ODI, DFID, Emerging Markets Group, 2005.

Regional trade integration has long been on African countries' agenda. Yet, despite renewed commitment to adopt customs unions in the 1990s, the rate of regional integration in Africa has remained slow. According to the UN Economic Commission for Africa,[27] the Southern African Development Community achieves the highest level of intra-regional trade – 31 per cent of exports and 24 per cent of imports – but this largely reflect the impetus provided by South Africa. Next is the Economic Community of West African States (ECOWAS), with 17 per cent of intra-regional trade, and the Common Market for Eastern and Southern Africa, with 9.3 per cent of exports and 12.8 per cent of imports.

Removing intra-regional trade barriers alone is unlikely to create a unified regional economic space, however. Part of the EU's response is to push regional integration a step further. The EU's approach to trade integration goes beyond directly trade-related issues. According to the 2002 EU 'Communication on Trade and Development: Assisting Developing Countries to Benefit from Trade':

> the power of regional integration is enhanced when co-operation goes beyond border measures and is extended to deeper integration, including the convergence of domestic policies such as investment and competition policies; regulatory convergence and/or the adoption of harmonised or common standards; the development of regional financial services and the co-ordinated provision of infrastructure such as regional telecommunications, energy and transport networks.[28]

This somewhat ambitious agenda seems far detached from the reality on the ground. The main constraints to regional integration in ACP countries are economic as well as political. On the economic side, the major structural constraints to intra-regional trade in Africa are low levels of product diversification; the lack of transport infrastructure and isolation, low value-added, high trade concentration, development inequality, and an industrial capability gap.[29] On the political side; conflicts, mutual distrust, the lack of political will and poor governance are all deeply-entrenched structural constraints to intra-African trade. These are further explored in the following section.

A conflict-sensitive approach to regional trade integration: focus on ACP countries

As the table below illustrates, many ACP countries are conflict-prone or conflict-affected, requiring a conflict-sensitive approach to trade relations. This section sets out the potential conflict impacts of EU trade relationships with ACP countries, making the case for conflict-sensitivity.

27 UNECA, Report on Regional Integration in Africa, 2006.
28 2002 EU 'Communication on Trade and Development: Assisting Developing Countries to Benefit from Trade.
29 Oxford Analytica, Intra-regional trade fails to deliver, January 2006.

EPA Memberships and conflicts

ACP region	Member countries	Conflict-prone or affected countries within each region
Central Africa	Cameroon, Central African Republic, Chad, Congo-Brazzaville, Equatorial Guinea, Gabon, São Tomé and Príncipe, Democratic Republic of Congo (DRC)	Central African Republic, Chad, Congo-B, DRC
East and Southern Africa (ESA)	Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia, Zimbabwe	Burundi, Comoros, Eritrea, Ethiopia, Kenya, Madagascar, Sudan, Uganda, Zimbabwe
Southern African Development Community (SADC)-minus	Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland, Tanzania	Angola, Mozambique
West Africa	Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo	Côte d'Ivoire, Guinea, Guinea-Bissau, Liberia, Mali, Nigeria, Senegal, Sierra Leone

Links between trade and violent conflict

Disruption of trade

As well as destroying lives and livelihoods, conflicts can have an immediate but also long-term impact on trade. For example, in the DRC, the civil war caused significant disturbance to commercial flows in the eastern regions.[30] In Maniema, the closure of the railway line and the degradation of roads made air freight from Goma the only trading route possible. Trade that served the domestic market as far as Katanga before the war stopped, while neighbouring Rwanda, Burundi, and Uganda took over as the main purchasers and suppliers of goods.

Much of the flows of transit goods, but not all, also are diverted away from conflict zones. For example, when civil war started in Côte d'Ivoire – a major transit hub in West Africa – in 2002, borders with neighbouring (and landlocked) countries were closed. Trade flows were diverted via alternative routes towards Ghana and Togo, where traffic has since increased significantly. This has constituted an important economic loss for the Abidjan port and transportation sector in Côte d'Ivoire, but at the same time opened new opportunities for other coastal countries.[31] Similarly, in ESA, Djibouti has long benefited from the continued conflict between Eritrea and Ethiopia.

30 Evidence drawn from UNDP, 'Economie des conflits, Conflits armés en République Démocratique du Congo, *Le rôle des facteurs économiques et leçons pour la reconstruction.'*

31 'Rapport Thématique JUMBO: Crise ivoirienne et flux régionaux de transport', Agence Française de Développement, Septembre 2005.

In addition, the nature of trade in ACP countries has changed as a result of conflict. War situations provide a perfect breeding ground for illegal trading activities, not only in weapons, but also the trafficking of narcotics and people. As fighting cuts the main supply routes, subsistence goods also become dearer, in part because of higher transport costs and in part because of the emergence of war trade monopolies. Trading activities during conflict are mostly about local actors coping with, rather than taking advantage of, the situation. Nevertheless, those who have captured the main trading routes will have little incentive to make peace. Trade is also very unlikely to go back to its pre-war patterns in the short to medium term, because of the degradation in roads and transport system and also perhaps, because of the emergence of new trading groups. For example, in DRC, economic activities in the east have continued to be dominated by trade with Rwanda and Uganda after the end of the civil war. Significant investment in DRC's national infrastructure will therefore be needed to make a recovery in domestic trade possible. In the West African region, landlocked Mali and Burkina Faso, which heavily depended on Côte d'Ivoire for their imports and exports before the war started, will probably continue to keep their supply routes diversified, even after the Ivorian trade corridor re-opens.

Trade finances conflict

Another area of significance in which the EU has made new commitments to strengthen its 'Policy Coherence for Development' agenda is that of conflict prevention and security. The EU has been active in seeking to curb trade that fuels war; firstly by strengthening the control of legal arms exports, since many of its member states are significant arms exporters. The EU also recognised the importance of curbing the south-north trade in natural resources that can finance war, or so-called 'conflict commodities' and has made the issue part of its strategy for conflict prevention.[32]

Trade can also finance war. In Congo-B, oil from the port of Pointe Noire continued to be exported during the war. Much of the fighting in DRC, which at some stage involved six neighbouring countries, was about taking control of its mineral resources. In fact, countries like Liberia, Sierra Leone, Côte d'Ivoire, and DRC epitomises situations where access to high-value, easily accessible, mining resources has helped to sustain the war financially. Neighbouring countries that are known to have benefited from the war in DRC, like Rwanda, are those that successfully captured the main trading routes.

The European Commission, representing the EU as a whole, is a Participant in the Kimberley Process Certification Scheme (KPCS), and will become Chair in 2007. The EU also has launched a Forest Law Enforcement, Governance and Trade (FLEGT) action plan, which is a governance capacity-development and licensing scheme aimed at ensuring only legally-traded timber enters the EU. The experience from KPCS and FLEGT has been that a main difficulty is to build the capacity, and will of, government agencies to enforce the licensing mechanisms. Evidence shows that when implemented, the KPCS has helped. The aim of the initiative is to track diamond production, but also help producing countries provide better governance in respect of who produces and who trades the mineral resource. According to KPCS statistics, the value of official diamond exports has increased over the years. Tracking diamond exports back to the point of extraction can be particularly difficult, however. A challenge for the EU and other donors supporting KPCS also will be to devise similar transparency schemes that fit the characteristics of other high-value (but probably more bulky) mineral resources that are known to fuel war. To tackle the issue of transparency, the EU promotes the full implementation of the Extractive Industries Transparency Initiatives (EITI). The EITI is a multi-stakeholder agreement under which oil, gas and mining companies agree publicly to disclose all payments they make to developing countries, and governments agree to publish what they receive. It aims to improve transparency through the full publication and verification of the information received.

32 See for example, the Commission's Communication on Conflict Prevention, April 2001.

While welcome, these initiatives remain partial, and somehow detached from the main plank of EU's trade policy. They are also all relatively new, and will need constant improving. More critically, what is needed from the EU is to embrace the multifaceted inter-relationship between trade and conflict into the whole range of its trade and trade-promotion policies in developing countries.

Trade, source of instability

Many developing countries, especially in Africa, have failed to diversify their economy away from primary commodities, despite pursuing export-orientated reforms and having preferential access to richer countries' markets. In fact, sub-Saharan Africa's share of the world's trade declined from 6 per cent in 1990 to around 5 per cent in 2003.[33] At the same time, their trade to GDP ratio is much higher than in any developing regions. This, combined with low product diversification, makes ACP countries particularly sensitive to external shocks. The EU's aim to support 'a smooth and gradual integration of ACP countries into the world economy' is in this sense misleading, since African ACP countries are particularly sensitive to abrupt change in the global environment. This is particularly relevant for trade. There is indeed enough evidence to show that, in countries that excessively depend on one or two primary commodities for their exports – that is the majority of ACP countries - hasty trade liberalisation or the high volatility of international commodity prices can cause negative economic shocks, and with it, increase the risk of socio-political instability. For example, fluctuations in the volume and price of labour-intensive primary commodities, such as cotton in CFA Franc countries or coffee in Burundi, will be reflected in movements in the trade and current-account balance but also in the income of the population that produces them. This contrasts greatly with oil-dominated economies, such as Nigeria, where the problem is one of ensuring that export earnings reach the local population. Overall, it is the process of controlling access to that wealth, and managing and distributing the resulting revenues that shapes, either positively or negatively, the dynamics of conflict and peace in a society. Where revenue distribution causes or exacerbates income inequalities, this can fuel the most resentment, and sometimes social strife.

Linking EPAs with instability in ACP countries

Compensating for fiscal losses

In countries that emerge from conflict and where states start resuming their basic functions, fiscal reforms are often greatly needed. With regards to trade, customs tariffs will have been greatly distorted by a host of other, and often illegitimate, tariff borders, as a result of check-points on the road and rising corruption at customs during the war. The first step in trade-related assistance should therefore be to help countries emerging from violent conflict to regain full control of their trade policy instruments. It is likely, however, that precedence will be given to fiscal adjustment needs required for the creation of a FTA with the EU and a customs union with neighbouring countries. Instead, the EU should help these countries to redefine their own trade agenda, a pledge already made at the G8 summit in Gleneagles (UK) in 2005. In addition, abolishing tariff borders with the EU is likely to generate an important loss in (or opportunity cost in raising) custom revenues, at a time when resources are most needed for reconstruction. Enough time should therefore be given before customs tariffs towards EU products are gradually lifted.

Whether conflict-prone or not, most ACP countries are likely to experience a significant loss in fiscal revenues if they agree to an FTA with the EU. The EU is by far the largest trading partner with ACP countries. As a result, all ACP groups have called for the EPA to cover the cost of economic fiscal adjustment. Smaller economies, however, could be permanently deprived of an important source of tax income, given their low potential for raising domestic taxes elsewhere. This could in turn increase their aid dependency, and with it, reduce their ability to address their own developmental needs.

33 Oxfam, 'Africa and the Doha Round: Fighting to keep development alive', November 2005.

Dealing with asymmetry in trade relations

African governments will remain reluctant to concede supranational powers to regional institutions, until they are convinced that their sovereign interests could be better supported by regional approaches. It is therefore important that ACP countries are not treated as four monolithic blocs. There are important differences within and between each ACP group. With further regional integration, smaller economies could become increasingly polarised, as they are overwhelmed by more powerful economic neighbours, or regional integration proceeds at too fast a pace. For example, according to the World Bank's Diagnostic Trade Integration Study on Burundi:

> Although regional integration is expected to be beneficial overall, there are justified concerns over possible negative impacts in the shorter term, related to government revenue and the ability of domestic enterprises to compete effectively.[34]

This also offers an explanation as to why plans for customs unions have been continuously delayed in some regions. Neo-liberal theory has it that the more nations trade between themselves, the more costly it is, and hence, the less likely they are to go to war. But this only stands if trade is 'symmetrical', i.e. when trade flows benefit all member countries equally. If trade is asymmetrical, opening borders could have a negative impact on the smaller economies.[35] Such was the case of Francophone West Africa, when the adoption of a customs union led to a remarkable (yet asymmetrical) increase in intra-regional trade, mostly on the back of Côte d'Ivoire's wide manufacturing base. In fact, some analysts[36] have argued that hasty regional trade integration in the 1990s partly explains today's instability in Francophone West Africa, a region then dominated by Côte d'Ivoire. Although the loss of customs revenues was partly compensated for, no other mechanism was set up to help the smaller economies cope with structural adjustment costs, such as the loss of competitiveness (and subsequent bankruptcy) of the manufacturing sector in Burkina Faso. The heterogeneity between coastal and landlocked economies has raised similar concerns within ECOWAS. The studies on the economic impacts of EPAs on ACP regions (trade creation/trade diversion, fiscal effect, welfare effect) also have confirmed that there will be winners and losers.

For regional integration to take place within heterogeneous Regional Economic Communities (RECs), a financial compensation mechanism needs to be in place to co-opt the smaller economies. Such a mechanism is used by the Southern Africa Custom Union (SACU, South Africa, Botswana, Lesotho, Namibia). Yet there are doubts whether all Africa ACP groups would be willing, or capable of, organising such transfers between member states. Technical assistance could be needed to accompany the process.

Tensions between regional and national integration

Economic constraints to trade integration tend to be reinforced by mutual distrust, and, in some cases, open conflict involving state and state-backed actors across conflict-prone and conflict-affected regions. In many ACP countries, where wars spread across borders and where most means of communication have been destroyed, further entrenching divisions between communities, regional integration is first of all about perceptions. For example, in a discussion paper based on the DRC's situation in 2001,[37] the European Centre for Development Policy Management (ECDPM) highlights the importance of perceptions regarding the regional dimension of the Great Lakes crisis:

34 World Bank, Diagnostic Trade Integration Study on Burundi.

35 Global Trade Negotiations, 'Trade and Conflict', April 2005.

36 'Developing an EU Strategy to Address Fragile States: Priorities for the UK Presidency of the EU in 2005', International Alert, 2005.

37 Bourque, A. and P. Sampson (2001) The European Union's Political and Development Response to the Democratic Republic of the Congo. (ECDPM Discussion Paper 28). Maastricht: ECDPM.

> Since independence, the Congo has promoted and actively participated in various regional/continental integration initiatives, such as those of the Great Lakes Economic Community (CEPGL), the Southern Africa Development Community (SADC), the Organisation of African Unity (OAU). Since 1998, however, several neighbouring countries that are members of those initiatives have sought to exploit the DRC's resources, providing vivid examples of possible variations in the interpretation of the term 'regional integration'. In this context, any reference to regional integration has *de facto* the connotation of promoting a country's occupation, and this has led to an increasingly 'isolationist' attitude among many Congolese. Nevertheless, there is evidence of an emerging different attitude to 'regional awareness', such as 'solutions without borders must be found to problems without borders.'[38]

These perceptions explain why African governments have been unwilling to comply with already existing regional agreements and/or support cross-border projects.

Regional integration policies for inter-state trade are only possible if a government exercises effective control and can apply its policies across its territory. In a fragile situation, a country is unlikely to be actively supportive of economic co-operation, let alone integration, with neighbours that threaten (or are perceived to threaten) its sovereignty. As a result, the main regional economic communities have started to widen their mandate to include a common security and defence agenda.[39] The EU, which supports some of these initiatives, notably through its African Peace Facility, also promotes regional economic co-operation as an important tool for peacebuilding. The more countries realise they share common economic interests, the less likely they are to go to war with each other. This is a motivation for example for the European Commission's support for the revival of the Economic Community of the Great Lakes (CEPGL), which is made up of DRC, Rwanda and Burundi. The objective of the reactivation of the CEPGL is to consolidate peace and stability in the Great Lakes Region. An initial €5m has been earmarked to support the CEPGL secretariat in the first phase. Future funding will go towards agriculture, energy and social cooperation.

The same approach has been used under the European Commission Regional Indicative Programmes. Again, the success of regional projects will largely depend on political will. DRC's decision to leave ESA for Central Africa at the end of 2005 shows that the DRC government would rather join a group of countries which had no interference during the 1998-2003 civil war than being tied to previous invading countries. Regional integration can bear a particular significance in countries emerging from conflict. In a statement in 2004, the European Commissioner for Development and Humanitarian Aid, Louis Michel described the revival of the CEPGL as a confidence and peacebuilding measure:

> Rather than being a natural border, the Great Lakes [i.e Rwanda, Burundi, DRC] have always been a focus of trade and a meeting place, so it is fair to talk of an entity dubbed 'the Great Lakes economy'.

Such a discourse seems to focus on one important 'space' for regional integration. Yet, given the immense ethnic, regional and physical divides between eastern and western DRC, promoting such a 'Great Lakes economy' seems likely, in practice, to exclude western DRC. Regional integration can bear a particular significance in countries emerging from a conflict. Given the EU's support for the territorial integrity of ACP countries, a carefully balanced approach is hence needed between promoting regional integration and supporting national reconstruction.

38 Bourque, A. and P. Sampson (2001) The European Union's Political and Development Response to the Democratic Republic of the Congo. (ECDPM Discussion Paper 28). Maastricht: ECDPM.

39 Lindsay A et alii, 'Regional approaches to conflict prevention in Africa, European Support to African processes', InBrief, No4, October 2003, International Alert/ECDPM.

Promoting or hampering regional integration?

The slow pace of regional integration in Africa not only reflects ongoing conflicts, and with it, a lack of political will and national ownership over the process, but also multiple memberships and competing agendas between the main regional institutions. There are 14 regional institutions in Africa, although a few are dormant. Most countries belong to more than one of these organisations. Yet, 'the presence of so many regional economic groupings spreads limited resources thin, complicates the overall continental integration process and puts enormous strain on governments' ability and resources to cope with diverse agendas and exigencies'.[40]

By throwing its weight behind the most viable RECs, the EU was expected to help to rationalise the regional integration process in Africa, as countries chose one ACP group over another. Given the different pace and contents of negotiations, EPAs split as much as unite the more established and successful RECs, however. More specifically, the impacts that EPAs may have on SADC, Common Market for Eastern and Southern Africa (COMESA), and Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC) and their emerging economic convergence and security programmes have largely remained unaccounted for. For example, different timetables for a customs union were negotiated in SADC-minus and ESA (including SADC members), until the SADC committee reaffirmed its commitment to a full customs union as part of its Regional Indicative Strategic Development Plan.

The EPA negotiations also have put a strain on many countries' already limited financial and human resources. Despite technical support to assist with multilateral and regional trade negotiations, these organisations have struggled to agree on common policies on specific subjects, such as the Singapore Issues, and also have lacked the capacity to negotiate them.

As RECs struggle to align their own agendas with those dictated by the EPAs, the EU has conceded that 'the establishment of a fully-fledged customs union is not a formal requirement for concluding an EPA'.[41] This would in effect mean, however, that each ACP country adopts an FTA with the EU, while no further commitment is made towards regional trade integration with its neighbours. As a result, one of the main benefits of EPAs would not take place. There is therefore a need to assess more fully the likely impacts of the EPAs on the complex landscape of regional organisations in Africa. An additional layer may not help efforts to rationalise this landscape and make the organisations more effective in serving the people of their member countries.

Undermining competitiveness?

While regional trade integration within each ACP grouping will remain a slow and uncertain process, there are concerns that FTAs between the EU and ACP countries will not only lead to an automatic loss in customs revenues, but could also result in the diversion of trade to the disadvantage of domestic producers. Opponents of EPAs argue that most ACP countries are not equipped to compete against (sometimes heavily subsidised) EU products freely entering their domestic markets. As a result, the negotiations between the EU and ACP countries include discussions on allowing a temporary protection for 'sensitive products', a transition period of about 10 years, as well as the inclusion of a safeguard mechanism for ACP countries to use if faced with a surge of subsidised EU imports.

Although this may not seem immediately relevant for regions that only produce a few import-substitution goods, such as Central Africa, EPAs could in effect lock these regions further into their current production patterns, as cheaper products from abroad (from both the EU and elsewhere) make it increasingly difficult for them to support emerging activities outside the range of narrowly defined 'sensitive products'. Other regions that have a small manufacturing sector and have reached food self-sufficiency, notably West Africa, will need protection on a wider range of products.

40 Statement by Abdoulie Janneh, UNECA, Seventh Ordinary Sesion of the Assembly of the African Union.
41 'A new approach tin the relations between EU and ESA countries', European Commission, September 2005.

Nevertheless, if sensitive products under the EPA are limited to import-substituting goods that ACP countries presently produce, this will leave no scope for protection in sectors where the region has comparative advantages but that have yet to be explored. This should be takein into account in EPA negotiations. The EU should meanwhile strengthen its support for all ACP sensitive products to achieve standards of quality that are recognised and respected throughout the world. So far, only a limited number of products in sub-Saharan Africa have qualified for the International Organisation for Standardisation (ISO) 9001 quality standard.

At the same time, significant trade diversion could take place in favour of EU products. While the EU is still the main source of imports and destination of exports for the ACP countries, China, for example, has in recent years captured an important share of their domestic markets and become a major purchaser of their mineral resources. Preferential access to ACP markets could help the EU to counter this trend. While EU's trade with Africa compared with other regions of the world is small, EU's position as the main trading partner of the continent has a strong strategic significance. EPAs could therefore seek to protect the interests of a few businesses, as does the EU's Common Agricultural Policy in farming, where the protectionist measures mostly benefit large farming lobbies.

Timing of trade integration

Many gaps exist between the extent to which the EU is prepared to include developmental considerations into its main plank of trade policy and the evident urgency to promote the right kind of trade promotion in developing countries. The different directorates-general of the European Commission therefore need to better co-ordinate their actions to answer to the ACP countries' main concerns that EPAs may only provide a risky trade-off between definite short-term costs and uncertain long-term benefits.

There is a general consensus that the main reason why ACP countries have been unable to take advantage of the EU's preferential system in the past is because of low supply capacity. In fact, the majority of ACP countries still depend today on the same products as 20 or 30 years ago. Raw materials are not processed and manufacturing industries set up in the years after independence have been dismantled (with a decline from 12 per cent of GDP in the 1970s to 5 per cent today[42]). One key recommendation made by the UN Economic Commission for Africa (UNECA) is that emphasis on building supply-capacities in Africa should supersede trade liberalisation.[43] The Council of the EU also advocates an increase in trade-related assistance as a way to strengthen the developmental aspects of EPAs. New pledges, however, will not be bound to the EPA agreements, and will be negotiated separately at country and regional level as part of the 10th EDF DG TRADE and DG DEV should therefore work closely together so that trade priorities under the Country and Regional Strategy Papers of the 10th EDF match closely the adjustment needs resulting from EPAs.

Finally, as they currently stand, EPAs would provide a transition period of about 10-15 years for full trade liberalisation. Yet even with a significant increase in trade-related assistance, the transition period suggested by the EU under EPAs will not be enough to address the numerous structural constraints that stop ACP countries competing effectively among themselves and with their European partners. As a result, some EU member states have distanced themselves from the ongoing EPA negotiations. According to the UK Department for International Development (DFID) and Department of Trade and Industry,[44]

> Each ACP regional group should make its own decisions on the timing, pace, sequencing, and product coverage of market opening in line with individual countries' national development plans and poverty reduction strategies.

EPA arrangements should not only be tailored but also flexible, since the pace of trade liberalisation may not necessarily follow a linear path.

42 The Courier ACP-EU, May-June 2002.
43 Regional Meeting on EPAs, 29 September 2005.
44 'Economic Partnership Agreements: Making EPAs deliver for development', DTI/DFID, March 2005.

The need for a long-term, multi-track approach

Regional integration is a long-term endeavour, which will need to be based on a multi-track approach – involving civil society, businesses, governments, and regional institutions – for it to be successful. Yet, in some ACP countries, where the social contract between citizens and those that govern them remains weak, governments may not be in a position, or may be unwilling, to pay full attention to the long-term impact that the EPA could have on the livelihood opportunities of the population. In many ACP countries, trade-related activities epitomise dual economies, where the bulk of the population makes a living in the informal sector – with trade and transportation activities often coming second as the main source of livelihood after farming – while a handful of businesses – some foreign – dominate the more lucrative export-import industry. While the latter only serves to exacerbate trade patterns inherited from colonial times, the former is where regional integration is actually taking place. Africa's informal sectors are 'larger, more dynamic and more regionally integrated' than the official economies.[45] Regional trade integration in Africa is to some extent happening at local levels, that is, in market towns and villages situated along borders and where trans-border roads exist. A host of cross-border activities is for example evident in eastern Congo along the border with Uganda, Rwanda and Burundi, or in the Malian market town of Sikasso, which borders Burkina Faso and Côte d'Ivoire. Although they are arguably the most immediately concerned, the bulk of the population has remained largely excluded from the EPA negotiation process in some regions. Widening and deepening the participation of all actors in EPA processes should therefore be encouraged.

In these countries, EPAs remain largely an externally-driven process, with limited involvement from local civil society and business. This contrasts greatly with the EU, where business interests have long shaped the trade agenda. The negotiations also have received little media coverage and parliaments have not been involved in the debate. In conclusion, regional trade integration will only become a reality as communities are linked to markets, creating new livelihood opportunities within and across borders. Roland Pourtier's study on reconstruction and integration prospects in Central Africa[46] calls this the multi-spatial approach, where 'spatial relationships are defined both in terms of connecting or overlapping areas, or in terms of a network of relationships in unconnected areas'. While this study may seem irrelevant for policy makers in Europe, it actually serves as an important reminder of the realities on the ground. The greatest potential for regional trade integration is with the host of micro-, small- and medium-size enterprises, and farming households that need to graduate into the formal economy to have better access to markets, information and skills. Other 'spaces' for regional trade integration – which include ethnic and linguistic kinship, migration and the African Diaspora and urbanisation – highlighted by Pourtier also need to be built on as the regional integration policy agenda evolves.

As the largest trading partner in African Caribbean and Pacific (ACP) region, the EU has a strong role to play in ensuring that the whole range of its trade co-operation strategy and trade-related assistance in ACP countries is not only conflict-sensitive but also contributes to peace. This is because trade has an impact on peace prospects in the way it contributes to, and shapes, the economy. Only a slow pace of regional integration in line with the pace of development of each respective country, and coupled with a generous package deal from the main regional economic powers is likely to lead to a genuine – peaceful and developmental– regional trade integration process. In the case of the EU – itself built as a way to prevent conflict between former second world war enemies – asymmetric trade was compensated for by significant aid money being poured into the economies of the poorest member countries (in itself a major attraction to join the EU), and a full customs union was only established with the Maastricht Treaty in 1993. Given the EU's commitment to peace and development in third countries, a similarly cautious approach is required. Alternative EPAs (or alternatives to EPAs) should be fully explored.[47]

45 Gumisai Mutume, 'How to boost trade within Africa. Lower barriers and diversify production', Africa Recovery Vol 16, September 2002.

46 Roland Pourtier, 'Central Africa and the Cross-Border Regions : Reconstruction and Integration Prospects', INICA, June 2003.

47 Sanoussi Bilal and Francesco Rampa, 'Alternative (to) EPAS, Possible scenarios for the future ACP trade relations with the EU', Policy Management Report 11, February 2006.

In conclusion, as already pledged at the G8 summit commitment in Gleneagles (2005), developing countries should be let to lead their own trade agenda. The EU actions should include the following:

- Widening understanding of the links between trade and conflict, and establishing institutional mechanisms (within and among directorates-general) to ensure the conflict-sensitivity of trade policy and trade-related assistance.

- Regional trade integration can bear a particular significance in conflict that spreads across borders. A carefully balanced approach is needed between promoting regional integration and supporting national reconstruction.

- Greater commitment to prioritise trade-related assistance under the Country and Regional Strategy Papers (CSP and RSP) in the 10th European Development Fund. This will need to focus on in-country capacity to raise domestic tax revenues and access new markets, a main priority in post-conflict reconstruction programmes. The overall objective should be to help these countries to address their own developmental needs.

- This, coupled with increased regional trade-related assistance, also will require a longer transition period than that suggested by the EU under EPAs in order to allow time for addressing the numerous structural constraints that stop ACP countries competing effectively among themselves and with their European partners.

- Widening and deepening the participation of local civil society and business – both local and foreign – in EPA processes.

- Conduct further research on the impact that trade and trade-promotion policies could have on local economies, capturing the often intricate connections not only between the trade sector and the rest of the economy, but also between informal and formal activities taking place within this sector.

- Assess more fully the likely impacts of the EPAs on the complex landscape of regional organisations in Africa. An additional layer may not help efforts to rationalise this landscape and make the organisations more effective in serving the people of their member countries.

Private Sector Development and Peacebuilding: what role for the EU?

Links between private sector actors, peace and conflict

As summarised by the EU Commission Communication on Support for the Development of the Business Sector, 'the important contribution that the business sector and in particular the private sector can make to aid development and help fight poverty, over and above public action, is now widely understood and appreciated.'[48] In particular, this includes the 'central role of the private sector in terms of growth, employment and trade integration'. Reflecting this development paradigm that has been emerging over the last decade or so, international development policy and practice seek to support the private sector in contributing to global development goals, by targeting interventions at all three macro-, meso- and micro-levels.[49]

Template approaches for strengthening markets and private enterprise need to be qualified in conflict-affected contexts. This is because **PSD interventions inevitably affect and alter the distribution of resources (in itself frequently one of the key underlying conflict causes), with the potential to generate new tensions.** They can also inadvertently fuel existing conflict further, for instance by reinforcing structural inequalities, or unknowingly 'doing business' with war profiteers. At the same time, there are serious economic impacts of violent conflict that can reverse development achievements by years and need to be tackled directly as part of a comprehensive strategy for supporting peace. Many of the interventions required in this regard lie within the direct remit of PSD interventions. Yet 'to date, specific strategies aiming at economic development in a conflict-sensitive and peacebuilding way are yet to be developed for [Private Sector Development] interventions'.[50]

In particular, economic actors' role in conflict dynamics need to be well understood to ensure that interventions supported by the EU in this area 'do no harm', and support peacebuilding processes and sustainable and widely shared economic recovery. Private sector actors ranging from informal, to small and medium-sized, and larger enterprises, respond to conflict along a spectrum ranging from opportunism such as engaging in war economies and other conflict-sustaining activities; to coping with the negative impacts of conflict in order to minimise costs and broaden chances of survival. In some instances, some proactively seek to contribute to peace and stability in their communities and beyond. An outline of these dynamics is given below.[51]

The potential for business to directly fuel violent conflict is relatively well documented in the ongoing debate on war economies.[52] A second aspect of the relationship between business and conflict relates not so much to the financing of patronage networks and the activities of armed groups, but to the private sector's perhaps inadvertent role in perpetuating structural conflict issues, such as lack of access to land, or discrimination against some groups. In Colombia for instance, deep socio-economic grievances and the historical gap between rich and poor are underlying causes of conflict, as well as hostility of some businesses toward trade unions and freedom of association.[53] In Nepal, uneven development and social exclusion found articulation in the Maoist 'People's War', which has targeted business as a 'class enemy'. Structural inequalities across Sri Lanka have historically been reflected in the employment practices of businesses: a recent survey carried out among Colombo-based small businesses for instance found that 68 per cent employed only workers from their own ethnic community; 25 per cent had workers from two different ethnic communities; and only 7 per cent employed workers from all three ethnic communities.[54]

48 COM(2003)267.
49 UN Commission on the Private Sector and Development (2004) *Report to the Secretary-General of the United Nations - Unleashing Entrepreneurship: Making Business Work for the Poor* (New York, US: UN Department of Economic and Social Affairs).
50 GTZ, 2006b, op.cit.
51 This section draws on International Alert 2006a, op.cit.
52 See for instance Ballentine, K. and Sherman, J. (2003) *Political Economy of Armed Conflict: Beyond Greed and Grievance* (International Peace Academy).
53 Guàqueta, A. (2006) 'Doing Business Amidst Conflict: Emerging Best Practices in Colombia' in International Alert, 2006a, op.cit.
54 Mayer, M. and Salih, M. (2006) 'Sri Lanka: Business as an Agent for Peace', in International Alert, 2006a, op.cit.

In pursuing their *raison d'être*, businesses need to adapt to the conditions and challenges posed by operating in the midst of conflict in ways that allow them to cope, and increase chances of survival. Such strategies invariably impact the context and this can be for better or worse, whether intentionally or not. Giving in to extortion and illegal taxation, a frequent phenomenon in conflict contexts, is a way of coping for instance. Clearly, the payment of bribes or extortion money to armed groups – whether under duress or freely to secure protection – is a strategy that can act to fuel or prolong violent conflict. Coping or survival responses also entail businesspeople leaving the country, as apparent among sections of the business class in Afghanistan and Tamil areas of Sri Lanka. The impact that the large-scale departure of businesspeople has on conflict dynamics varies from situation to situation: for example, diaspora business communities may represent a source of revenue for armed groups or a potential source of investment in post-conflict recovery.

Conflict opportunism, or pro-active embrace of the new opportunities that present themselves during the lawlessness of conflict or in its aftermath when previous economic patterns and distribution have been altered, represents another survival response that will have either driving or mitigating effects. On the other hand, informal trade across conflict divides can create bridges and pockets of mutual understanding and shared interest, as has been observed in the context of the South Caucasus for instance.[55]

At the same time, evidence exists that local business actors, faced with armed conflict, have made individual as well as collective efforts to address the insecurity and violence affecting their societies.[56] Such responses range from advocating for and participating in political-level peace processes; to addressing security challenges, for instance by providing jobs for former combatants as well as the communities to which they return;[57] promoting trust and reconciliation between divided communities, e.g. in the workplace; and tackling underlying socio-economic causes, as well as impacts, of conflict. Perhaps evidently, most expectation is placed on the latter, for instance in terms of generating much needed jobs, investment, and tax revenues for governments. However reducing the private sector's potential role to purely economic contributions risks missing peacebuilding opportunities. Rather it should be assessed and promoted by external cooperation in a holistic way.

EU assistance to support an environment conducive to private enterprise in countries prone to, affected by or emerging from conflict has to be informed by a good understanding of the potentials that businesses have in exacerbating, as well as addressing and mitigating, conflicts in a given context. It should aim to deter those business activities that could or do fuel conflict, as well as strengthen the coping strategies of the most numerous so that a resumption of productive business activity can serve to strengthen the social fabric of a conflict-affected society and accelerate socio-economic recovery. **Where possible, it should aim to harness and strengthen the potential positive contributions that private sector actors can make to conflict prevention and peacebuilding**, as indicated.

55 Mirimanova, N. (2006) *'Between pragmatism and idealism: businesses coping with conflict in the South Caucasus'* in International Alert, 2006a, op.cit., and International Alert (2006c) *Peacebuilding in the South Caucasus: What can the EU contribute?* (London, UK: International Alert).
56 These different efforts are discussed in detail in International Alert, 2006a, op.cit.
57 See also International Alert (2006b) DDR: Supporting Security and Development – the EU's added value (London, UK: International Alert).

EU support to private enterprise - overview

Reflecting broader development paradigms: EU PSD cooperation instruments

The broader paradigm shift in development policy and practice during the 1990s that places greater emphasis on market forces and actors is mirrored in evolving EU policy in this area. This is reflected for the first time in the 1998 EU Commission Communication on Private Sector Development (PSD) in ACP countries.[58] The Communication lays out four principal areas for greater involvement of and outreach to the private sector:[59]

- Systematic involvement of the private sector in political dialogue and in defining cooperation strategies, policies and priorities.
- The private sector having a larger responsibility in the implementation of projects and programmes.
- More diversified packages of financial and private sector support instruments.
- Provisions for capacity-building support to strengthen the organisation and representation of intermediate private sector bodies.

PSD-related cooperation covers three levels of intervention:

Macro-level: initiatives that improve or reform the macro-economic business and investment environment and support the legal, regulatory and institutional framework

Meso-level: support to sound intermediate private sector structures and business associations that can better articulate and represent their interests in dialogue with governments and enhance their effectiveness as service providers

Micro-level: measures that foster the productivity and competitiveness of individual enterprises (such as access to credit, technical support, improving quality control, improved management, better information on market access, etc).

This new emphasis on private sectors was extended to other developing countries by a Council Resolution in 1999, and consolidated in the Commission Communication on future support for the development of the business sector in 2003.[60] While private sector-related interventions differ from region to region, the 2003 Communication on PSD sets out an overarching intervention framework across EU cooperation.[61]

Direct and indirect EU assistance to private sectors spans a broad range of interventions, sectors and funding instruments. An extensive evaluation of 380 EU projects between 1994 and 2003 in this area was carried out in 2005, with recommendations both in terms of policy and practice. According to the evaluation inventory, a total of €4,249.73 million was committed through these interventions during the evaluation period.[62] This amount does not include separate funding instruments or facilities set up to separately to target private sectors.[63]

58 For more information on instruments supporting PSD in the Cotonou Agreement see ECDPM (2001) 'New Policies towards Private Sector', Cotonou Infokit 17. Available from www.ecdpm.org.

59 'A European Community strategy for Private Sector Development in ACP countries', COM(1998)667 final - Communication from the Commission to the Council and the European Parliament.

60 COM(2003)267.

61 ADE (2005) *Evaluation of Community Support to Private Sector Development in Third Countries,* Final Report (Louvain-la-Neuve, Belgium: ADE).

62 Ibid., especially Annex 5 - Information Base .

63 For the ACP region, these include for instance the Centre for the Development of Enterprise, a joint ACP-EU agency to improve competitiveness of ACP businesses through advise and technical assistance (www.cde.int); Pro€invest, managed by CDE on behalf of EuropeAid, which aims to promote investment in ACP countries and facilitate contact between European and ACP businesses, with a 7-year budget of €110 million under the 8th European Development Fund (www.proinvest-eu.org); and the EIB-managed Investment Facility, a risk-bearing instrument providing different forms of finance and related services to private sector projects as well as working to strengthening local financial institutions and markets, funded through €2,200 million under the 9th EDF.

The evaluation places PSD support in the context of wider EU external policy objectives, principally those relating to development. It also asserts that support to private sector development 'can make a significant contribution' to the objective of 'building peace and ensuring political stability and security' as set out in the EU Foreign and Security Policy.[64]

Indeed according to the report, PSD interventions were carried out during the evaluation period in several countries that can be considered conflict-prone or conflict-affected, including Angola, Chad, Eritrea, Ethiopia, Haiti, Cote d'Ivoire, Mozambique, Rwanda, Uganda, the Philippines, Sri Lanka, Bosnia and Herzegovina, Colombia, the Palestinian Authority, Armenia, Azerbaijan and Georgia.[65] However their conflict-sensitivity, or potential for contributing to conflict prevention, has not been explicitly assessed to date.

One issue of particular relevance is coherence with other areas of EU external policy: 'proactive dialogue should be promoted with EC staff responsible for non-PSD policies (e.g. by inviting them to join the PSD network) to ensure that the latter take into account the impact of their policies on third countries' private sectors.'[66] **Equally, PSD policies and interventions should be harmonized with EU policies on conflict prevention. This includes do-no harm and conflict-sensitivity approaches, for instance by applying related methodologies developed for Commission staff, such as the Check-List for Root Causes of Conflict. Improved coordination can be achieved, for instance by inviting EU Commission staff responsible for conflict prevention, e.g. from DG Relex, to join the PSD thematic network, an informal group formed by staff from Europeaid, DG Development, DG Relex and DG Enterprise.**[67]

The next section illustrates the relevance of conflict-sensitivity for PSD interventions on the ground, drawing on the case study of Uganda.

Understanding conflict-sensitivity in PSD: case study Uganda

The economies of the EC and Uganda are linked through extensive trade and business-to-business relationships, with the EC as a whole the biggest trading partner of Uganda consuming 40 per cent of Uganda's exports including non-traditional exports of fish, flowers, fruit and vegetables. Like other Least Developed Countries, Uganda is a beneficiary of unlimited duty-free and quota-free access to the EU market as part of the Everything-But-Arms initiative. The EC Delegation in Uganda provides trade-related information to Ugandan exporters and European companies in order to deepen this relationship.

The most extensive co-operation between the EC and Uganda takes place in the area of development, with Uganda a partner to the Cotonou Agreement. Strategies and implementation areas for development co-operation between the Uganda government and the EC are laid down in a Country Strategy Paper (CSP) and a National Indicative Programme (NIP) for every EDF. The current value of programme assistance to Uganda under the NIP 2002-07 is €246 million, though actual commitments are higher as previous programmes are ongoing. About one-third of total resources is disbursed in the form of General Budget Support, with a monitored focus on Uganda's Poverty Eradication Action Plan (PEAP). The remainder is channelled through projects and sector-specific activities implemented by the government or other stakeholders, as well as a small amount through technical assistance.

Conflict issues in Uganda are addressed primarily through the EC Delegations' Governance and Civil Society sector, which has a special focus on four areas: Rule of Law, Good Governance and Human Rights; Rehabilitation and Conflict Resolution in Northern Uganda; Decentralisation; and Capacity Building and Institutional Support to Civil Society, through the

64 ADE, 2005, op.cit.
65 Ibid.
66 Ibid.
67 At the time of writing, the thematic network was to be revitalised after a period of inactivity.

Civil Society Fund.[68] Other relevant projects also are undertaken under the European Initiative for Democracy and Human Rights, and through financial support to European NGOs in Uganda. In its past and present co-operation with Uganda, the EC delegation has a track record of addressing conflict issues. Recent media statements by the Head of Delegation in Uganda underline the importance the EC attaches to addressing the problems of the conflict in the north and there are a number of programmes which specifically focus on the conflict-affected regions.[69] These are highly attuned to conflict issues and proactively support local and national capacities for conflict prevention.[70] The Governance and Civil Society Unit also has promoted donor co-ordination on conflict issues in Uganda.

Yet, according to a recent report by Saferworld, a UK-based conflict prevention NGO active in promoting conflict-sensitive development assistance in Uganda, 'the approach of the EC to addressing conflict in Uganda is not yet coherent and consistent' – despite its commitment to mainstreaming conflict-sensitivity across its interventions – and much more needs to be done to extend the conflict perspective across 'different sectors and modalities of co-operation'.[71] The report highlights potentially positive and negative impacts of projects in the two sectors of land and rural development; and infrastructure in the presence or absence of a conflict-lens to programming; as well as the broader issue of risks associated with budgetary support in conflict-prone or conflict-affected countries.

This analysis needs to be extended to Private Sector Development, recognised by the EC's Uganda Delegation as an essential engine of economic growth: EU support to PSD is programmed to strengthen sector policies and institutions, business development services and to provide direct assistance to market players. The EC promotes trade policy capacity building through support both to the government and private sector. Support to the private sector also cuts across programmes designed to boost agriculture, fisheries, forestry and infrastructure. A summary of current PSD-related projects and funding is shown in Annex 1.

EC support in these areas is in need of being reviewed from the conflict perspective. This is because the high levels of regional and structural economic inequalities are at the core of Uganda's conflicts. The private sector and equitable access to economic opportunities thus have an important role to play in moving towards a more stable Uganda and even in contributing to peace.[72] At the same time, the links that exist between some business actors and conflict and the inherent tensions that pervade many private sector institutions particularly at the local level demand that greater attention to conflict dynamics be paid in designing support.

It is apparent however that analysis of the links between conflict issues at local and national levels and the various private sector initiatives is not yet being integrated into the design and implementation of programming. In other words, the EC's PSD has been 'conflict-blind' in Uganda – as indeed has that of many of the donors present.[73] The following potentially negative impacts of this gap in EC programming can be identified:

- EC PSD programming largely avoids Uganda's primary conflict-affected areas (with the exception of some small activities in the past in Arua and Gulu). This deliberate avoidance denies much needed support to business activity away from conflict-affected areas, risking further exacerbation of one of the principal causes of conflict in Uganda, namely the long-term inequity of economic opportunities between regions, especially historically deliberate neglect of

68 www.civilsocietyfund.or.ug.

69 https://allafrica.com/stories/200605170702.htm quoted in *Saferworld Programming and Implementation of the Country Strategy Paper for Uganda: Taking Conflict into Account* (June 2006).

70 Ibid.

71 Ibid.

72 International Alert (2006c) *Mobilising the Ugandan Business Community for Peace: Summary Report* (London, UK: International Alert).

73 Recognition of this gap led the PSD Donor Sub-Group for the North to organise a seminar in January 2005 on conflict-sensitivity and to develop guiding principles for conflict-sensitive PSD programming. This important initiative has yet to be expanded or deepened into individual donors' planning however.

the north *vis-à-vis* the south in terms of productive investment.[74] It also misses opportunities to lever positive impacts on the conflict context through PSD activities, by addressing precisely these regional inequalities.

- Conflict issues lie beneath the surface throughout Uganda, not just in the north. A recent International Alert study found these to manifest themselves often in the marketplace or through business-to-business competition.[75] Therefore, lack of conflict-sensitivity risks inadvertent negative impacts on local balance of power and conflict dynamics – especially given the presence of high degrees of ethnic and political tensions in virtually all institutions, including local businesses and associations.

- At the national level the EC works principally with the Private Sector Foundation of Uganda (PSFU), which has attained a high level of professionalism and efficiency in its working methods, has sustained its own growth and expansion and is today one of the better resourced business organisations.[76] Some challenges remain to be addressed in the future however:

    - Currently, its membership is almost entirely Kampala-based with only indirect outreach to the rest of the country, through other associations.

    - Its reach and representativeness as an independent private sector voice is in the view of some observers limited: it operates as a 'safe' interlocutor on private sector policy issues whilst claiming to be fully representative. Other associations seem to view it at times as a competitor rather than a coalition-builder that is able to reflect their own concerns at the high policy-level at which it operates.

    - A large part of its work is focused on implementing donor programmes such as the World Bank Private Sector Competitiveness Project and the EU Enterprise Development Service, as well as on representing Ugandan private sector interests in the region and internationally. While these activities all have private sector growth as their goal, the attention of the PSFU is perhaps diverted away from stimulating locally-driven development of a private sector constituency and voice in Uganda.

- Despite micro-finance representing a quasi-industry in its own right within Uganda, in which the EC plays a major part, a lack of support to smallest enterprises was reported during this research. This is problematic, given the importance of stimulating broadly shared economic opportunities at small-scale levels for Uganda's stability.

- As Uganda has come to rely on in-flow of budgetary support and other assistance in lieu of local revenue collection, it is possible to argue that development of the 'social contract' between governing and governed particularly with regard to business – a key provider of revenue – has been undermined (and the political negotiation of rights between business and government that would otherwise ensue). This in turn has implications for the long-term stability of the political system.

The Saferworld report identifies design of the 10th EDF Country Strategy Paper, from 2008-11, as a major opportunity for the EC to broaden its conflict-sensitivity programming, and makes practical recommendations as to how this should be approached.[77] It is promising that inclusion of livelihoods and economic opportunities as a specific strand of the Rehabilitation and Conflict Resolution in the North strategy is already under consideration. Review of support to the private

74 Ginywera-Pinchwa, A.G. (1989) 'Is there a Northern Question?' in Rupsinghe, K. (ed) (ed) *Conflict Resolution in Uganda* (London, UK: James Currey).
75 International Alert, 2006c, op. cit.
76 The PSFU is Uganda's private sector umbrella organisation, made-up of 85 business associations representing all sectors of the economy, corporate bodies and some key public sector agencies that support the growth of the private sector. Initially formed in 1995 as a World Bank project, it transitioned in 2002 into a membership driven institution. It continues to receive substantial support from, and act as an implementer for different donors, especially, the EU, USAID and the World Bank. Its mission is to act as a focal point for private sector growth through dialogue with the government and the donor community.
77 Saferworld (2006) op. cit.

sector more broadly in Uganda also should be a key component of this expansion in light of the critical structural links between economy and conflict. An issue paper being drafted in preparation for PSD in the new CSP has already determined to adopt the Uganda Joint Assistance Strategy as its guide, whereby major donors commit to coordinating their development assistance according to a shared analysis of priorities and in line with the Rome Statute. **Informal discussions already underway between individuals in the Governance and Civil Society sector, and those responsible for PSD must also be broadened, institutionalised and advanced into substantive joint planning as part of this process.** This will bring the twin benefits of minimising potentially negative impacts through conflict-blind programming and harnessing the positive potential of the private sector to contribute to sustainable economic development and peace across Uganda.

What role for EU PSD-related co-operation in peacebuilding?

The 2003 Communication identifies 5 areas of intervention for EU PSD-related cooperation:

(1) Overall policy dialogue and support, in particular as regards macro-economic and trade policy and good governance, providing the necessary regulatory framework, institution-building and advice.
(2) Investment and inter-enterprise co-operation promotion activities.
(3) Facilitation of investment financing and development of financial markets.
(4) Support for small and medium- sized enterprises in the form of non-financial services.
(5) Support for micro-enterprises.

Each has potential implications and opportunities for long-term conflict prevention and peacebuilding as outlined above:

With regard to the first point, mechanisms for **policy dialogue between private sector representatives and the EU** could be important channels for a two-way exchange on conflict-related issues, both with regard to raising awareness and sensitising business actors to the potential of business activities fuelling conflict; and vice-versa gauging business needs particular to conflict contexts. Consultations with private sector representatives and bodies through different regional fora should be considered from this perspective.[78] Policy dialogue with domestic businesses and associations has in some post-conflict contexts led to important business environment reforms. The Regional Enterprise Network facilitated by CHF International in Bosnia for instance (see box below) has been participating in the EU's Regional Economic Development (RED) strategy, which promotes regional economic planning as a first step towards BiH's eventual accession to the EU. In February 2004, REZ officially became the Central BiH Regional Development Agency (RDA), which will be responsible for coordinating a regional development strategy in association with official agencies, business associations and civil society. It provides a strong example of addressing economic dimensions of peacebuilding in an integrated way, through strengthening business associations.

With regards to **promoting investment and inter-enterprise co-operation promotion activities,** it is still a matter of contention how far Foreign Direct Investment is 'developmental' even in stable contexts, with proponents of inter-enterprise co-operation and FDI pointing to north-south technology and know-how transfer and beneficial impacts through local supply chains for instance. In conflict-affected or post-conflict countries, it is widely agreed that certain forms of FDI hold the potential to exacerbate conflict further, if they are not accompanied by appropriate regulations for instance revenue transparency.[79] It

78 One promising forum in this regard is the newly launched EU-Africa Business Forum, envisaged as a regular platform for exchange on public policies affecting the private sector. Its objectives are to influence improvements in the business and investment climate; giving the private sector a voice in dialogue between the European Commission and the African Union Commission; and improving the continent's image for external investment.
See http://www.europe-cares.org/africa/business_forum_en.html.

79 Extractive Industries Transparency Initiative

Peacebuilding through strengthening business associations: Municipal and Economic Development Initiative (MEDI), Central Bosnia[80]

The MEDI project ran from September 2001 to September 2004, and benefited from funding of $6.8 million from United States Agency for International Development (USAID) and a subsequent grant of $510,000 from the Swedish International Development Cooperation Agency (SIDA). CHF International, the US-based NGO that administered the project, places particular emphasis on community development, and drew on the earlier experience of a similar project in Romania. MEDI involved a total of 14 municipalities in Central Bosnia and Zenica-Doboj Cantons: Kiseljak, Kresûvo, Vitez, Travnik, Novi Travnik, Busovaca, Fojmica, Visoko, Kakanj, Zenica, Zavodivi´ci, Malgj, Zûpcû and Tasanj.

The MEDI project had two main components:

- CHF worked with local firms and private individuals to set up business associations in each of the 14 municipalities. CHF undertook to provide the associations with technical and management training, and USAID provided funding for the REZFOND micro-credit scheme. This scheme was one of the main ‘hooks’ encouraging people to set up associations. By September 2004, REZ-FOND had provided loans to 606 SMEs, and interest from the loans provided a significant ongoing source of income to the associations, thereby increasing their chances of survival once the project was completed. It was a condition of CHF’s involvement that the associations should be multi-ethnic and democratically managed from the outset. In many towns they were the first such civil society organisations to be set up since the war. The overall ethnic composition of the 14 associations was 71 per cent Bosniak, 26 per cent Croat, 2 per cent Serb and 1 per cent ‘other’, while 12 per cent were returnees. This breakdown roughly reflected the region’s post-war demographics. Between them, association members employed some 14,000 people.

- The second component of MEDI was CHF’s work with the municipal administrations in the 14 towns. Members of the public had previously complained that they often had to pass through several different offices before they could accomplish even routine tasks at the municipal offices. CHF worked with office staff to set up databases and improve procedures for key transactions, including the administrative machinery for approving business regulations and planning applications. In this way the municipalities became more service-oriented and more accountable.

80 From Bray, J. (2006) ‘Bosnia: CHF’s Munipal and Economic Development Initiative – A Case Study in Local and Regional Peacebuilding’ in International Alert, 2006a, op.cit.

Local advocacy

CHF's involvement with both the business associations and the municipalities meant that it was well placed to mediate between them. Collaboration with the business community had never been part of official culture. BiH's socialist past was one reason for this: government officials had little experience of working with private business and, in some cases, were openly hostile. Such attitudes had practical consequences. The municipalities were typically short of financial resources, which meant that their natural inclination was to interpret tax regulations strictly: they wanted to maximise short-term revenue even if the taxes threatened the viability of the companies that paid them. Legally registered companies complained that they, rather than businesses operating in the black economy, were penalised by overly strict interpretations of outdated regulations. Business leaders felt that they were in a stronger position to approach the municipality if they were part of a larger association. For example, in Zavidoviçi, high local taxes were such a concern that some local start-ups were moving their businesses elsewhere. With CHF's help the business association managed to negotiate a reduction in the tax rate and now holds monthly meetings with the municipality. Elsewhere, the business association and the municipality have worked together to draw up economic plans for their towns. Altogether, MEDI advocacy resulted in 127 'effective actions' of this kind.

Regional and national public-private partnership

In late 2002 the 14 MEDI business associations and municipalities combined to form the Rasvojna Ekonomska Zajednica, or Regional Enterprise Network (REZ). REZ has contributed to national reform through its participation in successive phases of the Bulldozer Initiative.[81] Paddy Ashdown, the former High Representative in BiH, launched the first phase of the initiative in November 2002. Its aim was to identify 50 business-friendly reforms and to ensure that they were enacted in 150 days. REZ members successfully proposed 13 out of the first 50 Bulldozer reforms and 11 out of the second 50, all of which were successfully enacted.

is clear that when it comes to investment promotion in these contexts, attention needs to be paid to reconstruction requirements in the short term, as well as economic rehabilitation and stability in the longer term. This means that FDI in these contexts may need phasing and prioritization. At the same time, the debate on 'business and conflict' has so far evolved mainly *vis-à-vis* companies based in the global north, with important advances made in terms of policy and practice, both on voluntary and regulatory bases. This needs to be extended to and increasingly involve domestic private sectors. north-south business-to-business promotion initiatives and 'technology transfer' could therefore include exchanges of experience between companies on adopting good practices and participation in international initiatives, such as the Voluntary Principles on Security and Human Rights; and other Conflict-Sensitive Business Practices.[82] **EC cooperation in this area should incorporate and encourage such know-how transfer on good business practices.**[83]

Inter-enterprise cooperation is not only relevant from a north-south perspective; **south-south inter-enterprise cooperation promotion has been used in different contexts to address conflict issues directly,** for instance strengthening mutual trust, and generating win-win economic opportunities through business linkages between communities divided by violent conflict, for instance between Israel and Palestinian territories, or between Serb and Albanian Kosovars.[84] **Where PSD**

81 For background, see Herzberg, B. (2004) *Investment Climate Reform: Going the Last Mile. The Bulldozer Initiative in BiH* (Washington DC, US: World Bank).

82 Voluntary Principles on Security and Human Rights - http://www.voluntaryprinciples.org/ ; International Alert (2005) *Conflict Sensitive Business Practice: Guidance for Extractive Industries* (London, UK: International Alert).

83 One example is the Commission's Asia-Invest Programme, which supports exchange of experience, networking and matchmaking between European and Asian Small and Medium Enterprises, including capacity-building and technical assistance. Funding for 2006-07 is €20 million, to be allocated to multilateral partnership projects between business intermediary organisations, for meetings as well as capacity-building. See http://ec.europa.eu/comm/europeaid/projects/asia/sector_priv_en.htm.

84 For a detailed discussion see International Alert, 2006a, op.cit.

interventions aim to achieve such improved channels of communication and co-existence between divided communities for instance through joint seminars and conferences, attention has to be paid to integrating dialogue processes and approaches explicitly (see box below).

PSD interventions targeted at promoting such linkages also need to be mindful of the economic symmetry between the two sides: where businesses on one side are, or are perceived to be, at an economic disadvantage for instance when it comes to technical know-how, size and market outreach of sectors etc., attempts at increasing cooperation and integration can be perceived as economic colonisation by the disadvantaged side.[85] The EU's access to PSD as well as conflict prevention expertise leaves it in a strong position to seek to combine these in the design and implementation of PSD programmes in conflict contexts.

Facilitation of investment financing and development of financial markets: while the Commission does not set out to manage the day-to-day administration of related investment instruments, such as the Investment Facility (managed by the EIB), or Pro€Invest (managed by the Centre for Development Enterprise),[86] 'the Commission will work in close cooperation with these specialised

Agri-business and dialogue conference in Kosovo[87]

During 2001-02, the international NGO Mercy Corps organised three, three-day agri-business and peacebuilding conferences for the Albanian and Serb Kosovar participants, partners and beneficiaries of its Kosovo programmes. Farmers, producers, processors, association and cooperative representatives, and local government representatives with whom Mercy Corps had been working attended. Kosovar Albanians, Kosovar Serbs and members of other minorities were all represented.

Before participants engaged in official dialogue many of them were brought together in Mercy Corps' offices to informally discuss their projects and possible cooperation. This worked well toward the goal of creating inter-ethnic business linkages and a number of transactions were concluded before the conferences. A location considered safe and neutral by all was found for the events to ensure a context in which the groups felt free to speak openly. Care was taken to invite people from different ethnic groups who engaged in similar activities, as well as in upstream and downstream supply and demand chains. This meant that beekeepers, greenhouse owners, cooperative managers, animal-feed producers, dairy producers, manufacturers and other service providers from the various ethnic groups were all present. The purpose of each conference was to provide participants with the opportunity to:

- Establish and strengthen relationships in their sector
- Reflect on and design strategies for building and strengthening effective cross-ethnic
- linkages and stability, which the participants themselves could implement
- Identify threats to, and opportunities for, sustaining businesses with a cross-ethnic motive
- Develop a strategy for sustainable cross-ethnic, post-donor cooperation in Kosovo.

The organisers took care that the conferences were not just opportunities to explore doing business; instead the process included many dialogue elements, such as active listening, building trust and confidence among participants, and opportunities to exchange personal experiences of the conflict. In the evenings social events were arranged in different cultural settings, for example, dinner at an Albanian restaurant or a boat trip to an Orthodox monastery.

85 Peace Forum, Center for Conflict Resolution, Consortium of Humanitarian Agencies, Forum of Early Warning and Response, International Alert, Saferworld (2004) *Conflict-Sensitive Approaches to Development, Humanitarian Assistance and Peacebuilding: A Resource Pack* (London, UK).
86 See http://www.proinvest-eu.org/page.asp?id=565 and http://www.eib.org/site/index.asp?designation=acp.
87 Based on Preuss, G. (2003) *Harvesting Learning: Integrating Peace and Development Through Dialogue in the Balkans* (Mercy Corps).

The mix of participants generally meant that business contacts were made. By dealing with the threats and opportunities they had identified in the conference, both across ethnic lines and within their own group, participants had developed new strategies for conducting business with each other by the time they returned home. For example, transactions were concluded by Kosovar Albanian dairymen to supply milk to Serb cheese manufacturers, or Kosovar Serb and Kosovar Albanian beekeepers came to an agreement under which honey would be marketed under a single, multi-lingual label.

financial institutions and take a leading role in defining regional objectives, financial conditions attached to investment facilities, guidelines for allocation of resources, and monitoring and evaluation procedures.'[88] **There are therefore real opportunities for the Commission to harness these instruments for conflict prevention and peacebuilding objectives through policy and strategic inputs.**

The provision of financial services in conflict and post-conflict countries for instance has to take into account factors beyond pure profitability and strength of business models, in order to avoid feeding further into conflict dynamics: especially in situations **where entrepreneurship and enterprises have traditionally been dominated by some, or concentrated in some regions, at the exclusion of others, 'picking winners' in line with a pure market rationale may serve to further fuel tensions.** In these situations it may be necessary to combine interventions with targeted training and services to disadvantaged groups in order to ensure equitable opportunity to access financial services (see box below).

For example in areas where ethnic tensions exist, the ethnic composition of financial services customers should be monitored to broadly reflect the ethnic composition of the location. Where appropriate and relevant, **conflict-sensitivity conditions could be attached to access to EU-funded financial services,** such as anti-discrimination policies in hiring, or the requirement to advertise employment opportunities in ways that make them accessible to all parts of society. Financial services and investment also have to be made accessible to vulnerable parts of the population, especially women, youth, the displaced, as well as ex-combatants.

In terms of **Business Development Services and capacity-building** of companies as well as professional associations, these can be a conduit for sharing best practices on Corporate Social Responsibility and Conflict-Sensitive Business Practices. Experience from different conflict-

Monetising and diversifying the rural economy in Burundi[89]

The limited extent of banking infrastructure and the fact that few people outside the capital have access to financial services are major obstacles to economic development in Burundi, reducing people's ability to conceive and realize business plans or improve on their subsistence living conditions. This problem affects rural areas, in particular. A study found that the banking system worked reasonably well in the distribution and receipt of Disarmament and Reintegration payments for ex-combatants, but different groups benefited differently. Most ex-army had accounts but the other armed groups did not, and required a brief 'education' session in the demobilization camps on how to open one. Some initiatives are looking to find ways to increase people's awareness on how to make and manage money, and make it last. The radio is one potentially significant medium for trying to achieve this.

88 COM(2003)267.
89 From International Alert (2006b) *DDR: Supporting Security and Development – the EU's added value* (London, UK: International Alert).

affected countries has furthermore shown that where business networks and associations are strong, they can be useful channels for mobilizing business support and lobbying for policy reforms that are relevant from a conflict prevention and peacebuilding point of view (as the MEDI case study above exemplifies). They also can become channels for mobilizing collective business support for and implementation of conflict prevention and peacebuilding initiatives (see box below). **Strengthening capacities of these representative bodies is therefore important both from a conflict prevention and PSD perspective.**

The Business for Peace Alliance (BPA) in Sri Lanka – strengthening regional chambers to work for peace[90]

Founded in 2002, the BPA is a working group of business members from 20 regional chambers of commerce representing all Sri Lanka's provinces and ethnic business communities. Its objectives are to support reconciliation, business-to-business relationships across the ethnic divide and regional inclusion in the peace process. In the context of the current escalation in violence, and precariousness of the 2002 ceasefire, the BPA is the only civil society organisation with an active membership across the island.

The mission of the BPA is to build peace and reconciliation through the business community. Its objectives are:

- to generate peace dividends at the local level,
- to strengthen provincial and inter-provincial economic activity through chambers and other business associations,
- to persuade policymakers to act on key issues affecting peace and stability, and
- to practice the principles of CSR in all its programmes and activities.

The BPA has launched a series of projects that combine private sector interests with peacebuilding, including:

- Business exchange visits between chambers in the rest of the country and the Jaffna Chamber of Commerce. The visits are intended to create cross-regional economic activity, as well as community and inter-personal understanding.

- 'Peace visits' designed to replicate the reconciliation and cooperation experienced by BPA members themselves. The BPA acts as a coordinator for members of regional chambers who wish to make business and peace visits to other areas of the island. The visits always contain a business dimension, such as finding sectoral matching for investors, suppliers or distributors, but they also promote understanding and reconciliation.

- Training workshops focusing on topics such as communication and presentation skills, peacebuilding and CSR.

- Coordination of the production of a directory of regional businesses, in conjunction with the Ceylon Chambers of Commerce and the Federation of Chambers of Commerce and Industry Sri Lanka.

- Establishing a 'Peace Bridge' – an inter-regional trade and investment fair, promoting peace and including cultural and contextual sharing of food, music and cultural items.

90 See Nawaz Mohamed (2006) *Building Peace through the Private Sector in Sri Lanka* (Feasibility Study undertaken by International Alert for the Business for Peace Alliance) (Colombo, Sri Lanka: International Alert).

Members of the business community also decided to become more vocal in their efforts to influence policy makers, particularly with regard to economic development and the challenges they face as provincial enterprises. The BPA has already had some success in this process. For example, the group lobbied the government to open a small and medium-enterprise (SME) bank with low interest loans, not reliant on collateral, to assist business and reconstruction. SME bank branches are now opening in Galle, Ampara and Jaffna.

Access to financial and non-financial services, as well as information about markets, can be an important stimulus for **micro-enterprise development** and is proactively promoted by many donors. In countries affected by conflict, this needs to take into account further needs of recipients for them to be able to take full advantage of these services, especially when it comes to vulnerable groups. Such services therefore need to be tailored and combined, where necessary, with other forms of support. In Colombia for instance an initiative by the Bogota Chambers of Commerce, Empresas Por la Paz (Businesses for Peace) worked between 2003-04 to mobilise business mentoring and micro-enterprise support to internally displaced populations. Given the trauma and associated psycho-social problems created by violent conflict among these groups, the initiative combined the business-support side with psycho-social counseling and conflict resolution training for recipients. These components of the programme were delivered by experts in these fields.[91]

In conclusion, conflict prevention strategies and principles of conflict-sensitivity need to be extended to the broad range of interventions, sectors and funding instruments that channel EU support to the private sector. As argued above, both business activity itself, as well as EU interventions to strengthen it, hold peacebuilding potential that should be harnessed more systematically. In summary the following recommendations can be made with a view to increasing the EU's institutional capacity to optimise its engagement in PSD in conflict-prone and conflict-affected countries:

- Conflict prevention and peacebuilding priorities should inform all external interventions in conflict-affected countries, including PSD. Therefore as a minimum, conflict analysis and exchange between relevant headquarters-based units and Delegations should be encouraged.

- As a starting point, ongoing work by Europeaid Operations Quality Support Directorate to gather and disseminate best practices from different Delegations' experiences with PSD, could have an explicit focus on lessons emerging from Delegation work in countries affected by or emerging from conflict.

- Platforms and fora of exchange on PSD-related experiences within the EU, such as staff thematic networks, should aim to include Commission staff working on conflict prevention, for instance in DG Relex or Europeaid.

- Likewise, the domestic private sector should be factored more into 'traditional' conflict prevention, such as reconciliation and dialogue efforts, or civil society capacity-building.

91 Guàqeta, op.cit.

Conclusion

A thriving economy is essential to building peace. The jobs it generates, the livelihoods it sustains, the opportunities it delivers and the relationships it can help to build are all critical to giving societies a stake in a non-violent future. Trade within and between countries is not just a driver of economic growth but can also serve to establish or re-establish personal and business connections across conflict divides. As a key contributor to and beneficiary of trade and economic growth in general, the private sector is critical to ensuring these theoretical benefits are translated into real gains on the ground.

But these benefits cannot be assumed. The economy can drive conflict as much as it can build peace. The wrong kind of trade policies, or trade policies applied badly, can damage economies and divide peoples as much as support and unite them. The private sector itself can be a contentious force within society, reflecting and exacerbating discrimination, exclusion and inequality as much as addressing them, either through their own behaviour or their relationship to a structurally unjust economy.

Like all interventions in conflict affected or threatened countries, therefore, the pursuit of economic development must be informed by a sound analysis of the conflict, an understanding of the interests, agendas and perceptions of relevant actors and an appreciation of the impacts it may have, particularly on vulnerable groups. It also must be understood as part of a wider peacebuilding process, one that supports more accountable governance, delivers greater physical security at both individual and national levels and provides access to justice for all, as well as healing divisions between individuals and peoples. In other words, it requires a conflict-sensitive approach to be integrated into all economic development initiatives

The EU is well placed to deliver on this ambitious but critical agenda. Through its institutional policies, the instruments and funds at its disposal, its delegations on the ground, its relationship to other donors, including Member States, and its position as the world's largest aid donor, it has the tools necessary to support the kind of economic growth which delivers benefits across societies and regions struggling to emerge from violence and war.

Annex 1 – EU-funded support to Private Sector Development in Uganda[92]

Project	Objective	Main Features
Support to Strengthen the institutional arrangements for coordination and monitoring of the MTCS and SEP Ref: SX99/14 Amount: 669,468 4 years, ends in Oct 09	Support to Strengthen the institutional arrangements for coordination and monitoring of the MTCS (Medium Term Competitiveness Strategy)	• Technical Coordinator + support staff • Office Facilities and equipment • Studies, consultancy, field trips & travel, workshop & seminars
BUDS-EnterpriseDev Scheme (EDS) Ref: SX90C/17 Amount: 1,852,523 3 years, ends in June 06	The Private Sector Foundation Uganda (PSFU) is implementing the Enterprise Development Support (EDS) through the Business Uganda Development Scheme (BUDS) The Project's purpose is to increase the capacity of the private sector by granting reimbursements of up to 50% of approved costs for activities centred on use or acquisition of 'know-how' and use of business support services	• Operations and Management of the implementing team • Acquisition of know-how: local and international cost sharing (grants), capacity building for Associations • Capacity Building for suppliers (newly introduced feature)
Uganda Sustainable Tourism Development Programme (UGSTDP) Ref: 8.ACP.UG.037 Amount: 5,000,000 5 years, ends in Dec 06	To contribute to the growth, development and diversification of the Ugandan economy through sustainable growth and dev of the tourism sector. To create additional sustainable economic and financial benefits to stakeholders in the tourism sector	• Image rehabilitation/ enhancement to increased confidence in Uganda tourism product • Uganda's tourism offer improved (new products) • Increased coordination and discussion of tourism related issues and policies • Community based tourism • Increased visitor to Uganda

92 Correspondence between International Alert and EU PSD team in Uganda

Project	Objective	Main Features
EU Support to Promote Private Sector-Oriented Capacity Building and Programme Development at the Uganda Wildlife Authority (UWA) Ref: SX99/15 Amount: 1,037,700 2 years, ends in Dec 08	To strengthen UWA's role in the MTCS by enhancing its ability to effectively partner with the private sector through the development and diversification of its tourism products and services.	• Strengthening of private sector partnerships (forums, trainings, meetings, communication) • Support for improving UWA's financial sustainability (meetings, consultancies) • Developing and diversifying tourism products and services (communication, trainings) • Operating costs • Technical Assistance
Support to Feasible Financial Institutions and capacity Building Effort (SUFFICE), Phase II Ref: 9 ACP UG 001 / SX99/04 Amount: 6,196,695 6 years, ends in Dec 09	Objective: The purpose of the project is to assist sustainable and efficient financial intermediaries inter-link to offer high-quality and diversified financial products and services to a large and growing portion of the economically active poor population throughout Uganda	• Programme Support • Capacity Building • Commercial Credit • Accreditation • New product Dev • Credit Reference
Support to implementation of the strategic plan for expansion of sustainable microfinance in Uganda (MOP) Ref: SX90CFS/15 Amount: 3,435,895 3 years, ends in may 07	The Microfinance Outreach Plan (MOP) is designed to spread sustainable microfinance services to under-served areas in Uganda with the aim of benefiting as many as possible, thus supporting the government's ultimate objective of eradicating poverty and building a prosperous stable nation. Several implementing agency are part of the plan, among them SUFFICE.	• Coordination Unit • Remote Rural Outreach Window • District level finance committee • Recruitment + training of the FEW (financial extension workers) • CB Unit, establishment and opt • Data collection monitoring & updating of MFI outreach map • Performance monitoring system

Project	Objective	Main Features
Uganda Programme for Trade Opportunities & Policy (UPTOP) Ref: SX93/06 Amount: 4.5m 4 years, ends in June 07	Enhance participation of Govt, private sector and civil society in trade policy	• Institutional support to MTTI & PSFU • Funding for selected negotiations meetings, • Public awareness, consultative meetings • Trade Research Fund • Trade Advice Centres • Training

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