

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

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

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Chapter two

Local business and the economic dimensions of peacebuilding

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The business of business is business

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

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

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

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

The business of business is development

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

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

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

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

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

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

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

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

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

The business of business is peacebuilding

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

Addressing the economic root causes of conflict

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

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

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

Nepal – business as 'class enemy'

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

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

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

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

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

Reaching out to socio-economically disadvantaged groups

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

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

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

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

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

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

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

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

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

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

Nepal – the National Business Initiative

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Empowering disadvantaged groups in the workplace – La Frutera Inc.

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

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

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

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

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

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

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

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

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

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

The Three Sisters' Trekking Agency

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

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

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

Reframing labour opportunities to address conflict issues – Indupalma in Colombia

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

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

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

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

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

Promoting better governance

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

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

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

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

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

Burundi Enterprise Network

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

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

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

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

The Turkish-Armenian Business Development Council

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

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

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

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

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

The Business for Peace Alliance – public policy advocacy

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

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

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

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

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

Addressing economic drivers of conflict

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

War economies

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

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

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

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

Arizona market – formalising the informal

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Generating employment

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

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

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

Sadakhlo market – cross-border trade supporting livelihoods

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

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

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

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

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

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

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

Addressing economic impacts of conflict

Doing business across the conflict divide

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

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

Ergneti market

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

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

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

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

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

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

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

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

Raising awareness about economic impacts of conflict

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

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

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

Creating a peace dividend

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

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

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

A peace dividend in South Africa

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

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

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

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

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

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

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

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

Somalia – filling the gaps in public services

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

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

Conclusions

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

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

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

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

Lessons for business

Understanding the conflict

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

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

Focusing on economic aspects of conflict

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

Understanding the diversity of the private sector and mobilising collective action

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

Addressing conflict issues through internal practice

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

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

Addressing conflict issues through investment

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

Addressing conflict issues through public policy dialogue

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

Lessons for others

Conflict-sensitising economic interventions

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

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

Partnering with the private sector

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

Creating jobs

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

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

Promoting cross-border and inter-ethnic co-operation

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

Formalising the informal

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

Focusing on governance

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

Endnotes

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