Panel Discussion on 14.9.2006:
‘Peace process, economic growth and private sector development’

Introduction

In the early years of this new millennium, it is evident that the world has not become a more peaceful place yet. Violent crises and conflicts are neither less frequent, nor less intense than before. Instead of wars between countries, we are now confronted with numerous civil wars, "markets of violence" in disintegrating states and global terrorist threats.

For GTZ, a private company owned by the German Federal Government, operating in weak or fragile states has become a regrettable but ‘normal’ context and concerns about 35 of its 90 partner countries.

In response to such global phenomena, GTZ has recently adopted the concept of sustainable development as the foundation of its work. The sustainable development concept provides a normative framework for autonomous parties to negotiate and settle differences concerning economic, social and economic interests in a spirit of partnerships. In its work GTZ supports this negotiation process and search for workable compromises. One of our core competencies is capacity building, that is raising the performance of people and their organisation so that our partners can speak for themselves in negotiating for sustainable development. Highly relevant to conflict-affected countries, the methodological approach that GTZ stands for is holistic as well as process- and value-oriented.

Part 1: Importance of economic and private sector development in the peace process

Looking at the importance of sustainable economic development in post-conflict countries, we in GTZ agree with many other practitioners that in the past the economic dimension has been neglected in peace processes of many conflict-affected countries and that there are windows of opportunity for conflict sensitive economic reform in the transition from conflict to peace.

Being in Germany and Berlin, you might be interested in looking at the historic experience of Germany after World War II. A major effort to support economic recovery was the Marshall Plan with massive money transfer (12-13 billion US$; Germany ca. 1,6 billion) to be used for European imports from the Dollar countries (Canada, US). In exchange, European countries liberalised its import and currency regime and engaged in regional integration. The Marshall Plan however was a reconstruction, not a development plan. It is hardly applicable to the conflict-affected countries of today, the reason being that pre-war European countries were fully industrialized and with functioning institutions.

However, important lessons were drawn from post World War II experiences when setting up the Stability Pact for South East Europe as a post-conflict economic development strategy in 1999. Its is based on the assumption that conflict prevention and peace building can only be

\footnote{GTZ turnover of some € 200 million in fragile states (2004)}
successful if interventions start at the same time in three key sectors: the creation of a secure environment, the promotion of sustainable democratic systems, and the promotion of economic and social well being. Progress in all three sectors is necessary for sustainable peace, democracy and development. It appears that the drivers of success are its conditionality of international support and ultimately EU accession in return for reforms (two-way-street) and the high degree of donor coordination. The Stability Pact is the first serious attempt by the international community to engage in a comprehensive, long-term conflict prevention strategy.

However, framework conditions in post-conflict countries vary substantially. They depend on multiple factors, such as the pre-conflict level of development, the remaining social and physical infrastructure and capital as well as conflict specific conditions such as the degree of expulsion, grievance, the duration of the conflict and the status of reconciliation. While countries in South East Europe or Iraq were able to fall back on a high stock of human capital as well as a functioning system of institutions and bureaucracies, others like Sierra Leone or Afghanistan struggle with an almost complete lack of infrastructure, very weak institutions, a lack of human capital and often limited physical security. Depending on these framework conditions, the particular set of our PSD interventions will differ while the focus on GTZ’s core competence - capacity building of partners, organisations and systems at micro, meso and macro levels - will be equally relevant.

Part 2: Conflict-sensitive Private Sector Development in Post-Conflict Countries

The question of this conference is: what should be the role of private sector development in peacebuilding? It is the position of GTZ that private sector development has considerable potential for conflict transformation and should be built into the post-conflict reform agenda. From our perspective, this needs to be done in three different ways:

- **First**, the needs of the private sector have to be reflected in immediate post-conflict interventions such as political reform, governance, security and infrastructure development so that it can become the ‘engine of growth’. Economic development is of such high importance for the peaceful development of societies and countries that it is critical to create a conducive environment immediately. Business environment reforms should thus not longer be treated as “second generation reforms”. Our experience in Afghanistan shows that support to the new investment law and the establishing of the Afghan Investment Support Agency (AISA) as early as 2002/3 was highly useful to get investment back into the economy.²

- **Second**, GTZ experience shows that private sector development interventions should commence at a very early stage after the conflict has ceased. Integrated PSD interventions (Investment climate reform, financial systems development, SME development etc.) allow for growth which is key to
  - provide people with much needed goods and services and phase out emergency aid

² Today, AISA, has facilitated the establishment of more than 3,300 enterprises with a planned investment of more than 1,3 billion USD and expected 130,000 jobs.
generate opportunities and jobs, thereby creating economic prospects especially for peace-critical actors, such as ex-combatants, returnees or disadvantaged groups

strengthen the basis for tax revenues that enables government to invest in infrastructure and public services, including security.

Because private sector development affects the resource distribution in an economy and can thus create conflict itself, the third dimension is to ensure that interventions in post-conflict countries are conflict sensitive and contribute to peacebuilding. Thus PSD interventions can be designed to contribute to reducing horizontal inequalities, e.g. between regions or ethnic groups, which are often a cause of conflict. Tomorrow we will hear about a GTZ approach in Nepal addressing rural poverty as a cause for conflict. The intervention also deals with the use of allegations by the Maoists against business people for exploiting labour as a justification for insurgency. Moreover, PSD interventions can strengthen private sector actors in conflict prevention and peace building based on the assumption that most entrepreneurs (apart from war profiteers and certain sectors) benefit from peace. Their influence can be used to mediate conflicts utilising their potential as ‘connectors’, as many of the cases from the IA study presented this afternoon show. In more general terms, economic interaction between opposing groups that is beneficial for both sides can contribute to conflict transformation, if and when people realise and appreciate the ‘peace dividend’.

Conclusion:
Looking at the potential of private sector development in peace processes, we in GTZ are convinced that:

- we have to begin with economic and private sector development interventions immediately post-conflict
- we have to develop integrated PSD approaches impacting on pro-poor economic growth and peacebuilding
- we need to invest in donor coordination to be able to link international support to economic reform and to engage more long term in a systematic peace building strategy.