

English edition

PACA[®]
NEWS

Participatory
Appraisal of
Competitive
Advantage

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Edited by
Jörg Meyer-Stamer
jms@mesopartner.com

www.mesopartner.com/paca

Editorial

page 1

PACA and value chains in Laos

page 3

About tourism in a non tourist
country: An example from
Guyana

page 5

PACA in Aceh / Indonesia

page 8

Variations of P A C A

Delivering Local Economic De-
velopment (LED) in Conflict
Environments -

The Private Sector Promotion
Project (PSP), Nepal

page 10

Editorial: PACA and Value Chain Development

It looks very much like value chain development is going to be the next big thing in small business development. At last year's BDS conference in Turin the BDS community has officially moved from a BDS approach to a making markets work approach and a value chain approach. USAID is about to officially launch a new microenterprise strategy that focuses value chains. Other donors are also very interested in the subject.

What is the connection between PACA and value chain development? There are actually several links. For instance, the PACA tool to prioritise quick-win activities was developed in a value chain project. A few years ago, I advised the SENAI/SEBRAE/GTZ Competir project in Brazil's Northeast, Competir, which worked with value chains at the regional level. We had conducted a number of mapping workshops in different subsectors, and now we were moving towards practical action. But what all business people wanted was action on issues like high taxes, high interest rates and inflexible labour legislation. In order to direct them towards achievable goals, I suggested to check proposals for action against three criteria: Can we do it with the resources that are available? Can we start quickly? Can we get a visible result in a short period of time? Applying these criteria directed efforts away from the big and complicated political issues and towards practical upgrading activities. We have been using this tool in PACA Exercises ever since.

Another link has to do with the pragmatic focus of PACA. We have often seen PACA exercises

**The mesopartner Summer Academy on
Local Economic Development,
24 - 28 July 2006**

The Summer Academy is an event that targets experienced LED practitioners. It offers inputs on current topics and opportunity for exchange of experience. The next Summer Academy is open for registration. For more information please consult:

www.mesopartner.com/summer-academy/

conducted in regions with one or few dominating subsectors. Take the PACA exercise in a part of the Mekong Delta that was described in the March 2005 edition of the PACA News. The most important subsector in the Eastern part of the Delta is the production of Pangasius (catfish). So the PACA exercise quite naturally addressed the Pangasius value chain. During the exercise, the first ever map of the Pangasius value chain was elaborated, something that proved to be quite insightful and stimulating for local stakeholders. You will find a number of similar stories when you go through the Spanish editions of the PACA News.

Yet another link is something that we have observed, for instance, in Sri Lanka. PACA is used as one of the main tools by the Sri Lankan-German Economic Strategy Support Programme (ESSP) which promotes local and regional economic development in Sri Lanka's Central Province. One of the subsectors that consistently came up in PACA exercises was spice pro-

duction, in particular pepper, cloves, nutmegs and vanilla. However, there were limits to what ESSP could encourage and support in terms of upgrading activities by producers as the upgrading needs were defined by actors further down the value chain. Yet those actors were not present in the region. Fortunately, though, there is another GTZ supported project at the national level that promotes five value chains, spices being one of them. The champion in spice-related activities is the Spice Council, a national-level private sector organisation that emerged from an earlier USAID-supported competitiveness project. Connecting spice producers in the Central Province with the Spice Council provided producers with clear guidance in terms of upgrading needs and opportunities. At the same time, ESSP's work provided the Spice Council with a unique opportunity to interact directly with pro-

ducers who are scattered across Central Province. A national-level value chain project would otherwise battle with the challenge to set up communication and support structures at a territorial level.

What is the difference between value chain oriented PACA and other value chain promotion approaches? In my view, there are two main differences. First, the value chain approaches that I am aware of appear to suggest a sequential approach, such as selecting a chain > analysing it > formulating a strategy > implement activities > M+E. PACA, on the other hand, emphasises de-

velopment as an iterative process, self-selection, and action research. In our experience, having an external agent selecting value chains for promotion is fraught with risks, as powerful players in the value chain may resist external interference, adverse relations between players at different stages of the chain may inhibit any collective action, or the value chain may be doing

pretty well so that businesses involved in it are simply too busy to spend time in workshops. We have also found that separating research from action planning and implementation in terms of time and persons can generate serious problems regarding management of expectations, as researchers often have a tendency to make all sorts of promises in order to persuade actors along the value chain to spend some time and share some information with them.

Second, in the field there appears to be a certain tendency to run value chain initiatives simply as re-labelled sector initiatives, without attention to the improvements a proper value chain approach brings, especially the focus at the final customer. It is difficult to miss downstream activities with PACA, since we always emphasise the need to address not only producers but also services and distributors in a PACA exercise.



Local buyers: part of the spice value chain in Sri Lanka

What are the shortcomings of PACA as a value chain approach? Its most notable limitation is the territorial focus. We have repeatedly seen PACA applied to value chain initiatives not only locally but also at a regional level. But PACA, just like most other value chain methodologies, can hardly include national and global actors in a given value chain. Additional efforts and methods are necessary to cover this. A related challenge is the tendency of local stakeholders and LED facilitators to pay too little attention to national and global issues, focusing their attention at the territorial level. In our training courses, we have consistently emphasised the need to understand the link between local producers and national and global value chains for quite some time.

There are further conceptual challenges. We have recently prepared a conceptual paper that looked at the possible connection between the value chain approach and the “Making Market Systems work for the Poor” concept. We found that though the concepts can complement each other nicely, it is important not to merge them since this would erode the advantages each one has. In yet another research assignment, we found that a lot of further research is required to understand the evolution of value chains, possible entry points into value chains, and the potential to integrate small manufacturers with limited skills into value chains.

Jörg Meyer-Stamer
jms@mesopartner.com

PACA and value chains in Laos

The Lao-German Program Integrated Rural Development of Mountainous Areas in Northern Laos (RDMA) operates in the three Northern provinces of Bokeo, Luang Namtha and Sayaboury. In January and February 2006, the Sayaboury sub-program (which is funded by IFAD) contracted mesopartner to conduct a joint PACA training and exercise. The PACA exercise focussed on the following sub-sectors: rice, maize, garlic, handicraft (weaving), tourism and non-

timber forest products (paper mulberry) and covered two districts in Sayaboury Province, Hongsa and Ngeun.

At the end, the team leader Dr. Jens Kallabinski pointed out that this PACA exercise significantly contributed to the development of an integrated LED concept within RDMA. Beside the practical outcome of the PACA exercise, he particularly appreciated the skills development of his staff and the government representatives involved. The latter individuals got in touch with market principles for the first time.

In this article we will highlight two specific features of this first PACA exercise in Laos: (1) PACA’s ability to solve problems by simply making them explicit and (2) the discussion about how to link PACA with GTZ’s *ValueLinks* approach.

The Maize Sector in Hongsa District

For 2 years, local farmers in Hongsa have been encouraged by the district government to grow maize. The seed provider and collector of maize is the government’s Rural Development Company (RDC). RDC again holds a contract with the CP group in Thailand that provides the seed (hybrid) and buys the maize harvest which is then further processed to animal feed. The contract has been initiated by the provincial government and the deputy prime minister of Laos. However, during the ongoing PACA exercise we found out that RDC did not collect the maize harvested due to a lack of storage facilities and due to the fact that they are allowed to sell the maize to the CP group only a couple of months later. A multilateral trade agreement foresees the closing of the borders every year from January to June. Although the maize harvest in Hongsa took place in November 2005, at that time RDC didn’t have the funds available to collect the maize harvest and pay the farmers before the end of the year. RDC was then looking (unsuccessfully) for a special permission to sell the maize to Thailand before the re-opening of the border in middle of 2006. On the other hand, farmers do not have the skills and experience to properly store maize and, accordingly, were interested in selling the product as soon as possible. In January 2006, the maize was about to rot. Moreover,

the farmers urgently needed cash to purchase seed rice.

At this time, this contractual arrangement had been in place for 2 years. Since RDC could not forward 5 tons of seed in the first year (due to late supply by CP group), the seeds provided in 2004 had been stored for a couple of months, were thus partly spoiled and partly did not bear fruit. Nevertheless, RDC expected the farmers to pay for all seeds supplied. Until February 2006, other traders were not allowed to also invest in maize contract farming or to buy the harvest sitting in the villages (only after compensating RDC for the farmers training and the seeds). The PACA team decided that a specific proposal aiming at improving this situation would be appropriate to address in one of the first way-forward workshops at the end of the PACA exercise.

Provocatively, the PACA team suggested that RDC fully pulls out of the district maize market and that the negative consequences of the current contractual agreement between RDC and farmers are mitigated immediately. The district vice governor as well as the director of RDC attended the way-forward workshop. Surprisingly, the way-forward discussions pointed out that (1) RDC had started to collect all the maize three days before, that (2) only two villages were still waiting for the collection of their maize harvest (which was expected to be completed within the following two days) and that (3) farmers had been compensated and were not obliged to pay for bad quality seed they have been supplied with. Thus, the subsequent way-forward planning exercise focussed on the sub-activity to open the market



Maize....

for private traders in the future.

Later it was confirmed that the provincial and district government had learned about the discussions within the PACA team and about our intention to address the maize issue in public. In this way, the PACA Exercise had already started to solve a problem and improve the tight financial situation of the farmers concerned by simply detecting the details and intensively discussing about them.

Linking up PACA and ValueLinks

Starting from the second interim assessment during the PACA Exercise, the PACA team has been thinking in the framework of stakeholder maps and along value chain maps. This was in order to anticipate the discussions during the upcoming results workshop when the GTZ value chain expert Dr. Andreas Springer-Heinze joined in order to explore the possibilities of linking-up PACA with GTZ's ValueLinks approach.

Though we did not conduct a proper value chain PACA, in which value chain mapping is used as standard tool, discussions based on value chain maps provided more inter-connected insights and deeper information than in a typical 'territorial' PACA interim assessment. For instance, the severity of the maize issue, highlighting all stakeholders involved, only became clear after the profound analysis along the maize sector map.

During the results workshop, following the presentation of Dr. Springer-Heinze on systematic value chain mapping, the PACA team prepared generic value chain maps for all six sectors investigated. All subsequent brainstorming activities on the diagnosis of the sectors and the identification



Dr Andreas Springer-Heinze at the PACA Exercise in Hongsa / Laos

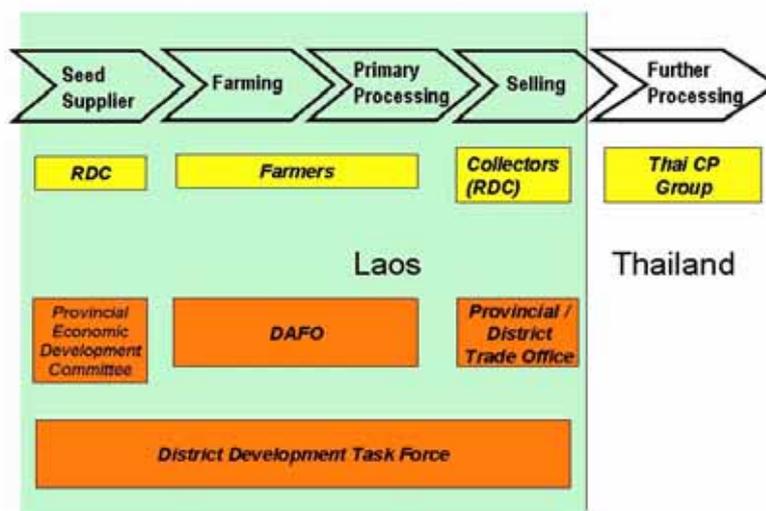
of LED proposals were based on these value chain maps.

The results of the internal discussions during and after the PACA exercise identified a number of similarities and differences of PACA and ValueLinks. Both methodologies are grounded in the same basic “development philosophy”, which is characterized by “systemic competitiveness”, common PRA principles, such as “optimal ignorance” and “appropriate imprecision” as well as aiming at quick wins instead of comprehensive planning.

The main difference between PACA and ValueLinks is methodological in nature: PACA a proven format for the application of research, decision-making and planning tools for regional economic development in general, whereas ValueLinks offers know-how and a menu of tools covering the complete cycle of value chain promotion projects.

There are different options in combining PACA and ValueLinks. The two most obvious options are to start the PACA exercise as a preparatory activity prior to a ValueLinks promotion project or to include the PACA exercise as tool within the ValueLinks’s toolbox. Yet there are still questions to be answered by practical testing in the field, such as:

- How can the visioning element be strengthened in a PACA exercise?
- Can PACA results be improved by structuring the analysis along particular value chains? (also in territorial exercises, such as in Hongsa/Laos)
- How to design a PACA exercise in preparation of a subsequent ValueLinks promotion project?
- How can PACA be modified to become a tool for ValueLinks? What are the requirements?
- What issues and tools should a basic PACA training include to better prepare the team



Simple GTZ ValueLinks Map

Simple Maize ValueLinks Map in Hongsa District

for a modified PACA exercise prior to or as part of a ValueLinks promotion project?

We are confident that there will be a more systematic opportunity to test the combination of both approaches in practice soon. We will keep PACA practitioners informed about further attempts to link up PACA and ValueLinks and about the lessons learnt.

Christian Schoen
cs@mesopartner.com

About tourism in a non tourist country, or: how competitive advantages can be created.

An example from Guyana

Guyana, member of the Commonwealth, the only English-speaking country in South America, is at best known for its high emigration rates and the mass suicide of a sect around Jim Jones two decades ago. People with a more intimate, though still distant knowledge of the country may be aware that Guyana is producing one of the finest rums in the world, disposes of the highest single-drop waterfall (Kaieteur Falls) and is home to one of the densest rain forest which still exist. Only a few thousand tourist per year, mainly eco- or adventure tourists keen on

bird watching, river canoe tours or simply to walk the rain forest, find their way to Guyana.

Tourism infrastructure in Guyana is poor and mainly limited to the capital Georgetown. A handful of tourist resorts are predominantly used by rich Georgetowners or foreigners working in the capital. That situation is not the best starting point to enhance tourism in a disadvantaged town like Linden with approximately 30,000 inhabitants being situated some 100 km south of the capital on the main road linking Guyana to Brazil.

Linden is an old bauxite mining town which has seen the lay-offs of hundreds of workers during the past 15 years in a community whose biggest source of income vanished without anything new in sight. Government and EU decided to invest money into Region 10 (in Guyana the provinces are numbered; still a relict of old socialist times) made available for ACP countries in case of hefty decreases in world market mining earnings. The LEAP project (Linden Economic Advancement Programme) was borne with the ultimate objective to create 1,700 new jobs in the region through the diversification of the local economy.

LEAP being a project based on participatory approaches, the PACA methodology was taken on board in June 2005. Four sectors have been targeted, namely forest production (logging), furniture making, tourism and agriculture. And the tourism sector evolved into a true success story! Of course, we are not yet talking about international tourists but rather about an increased number of national visitors who are drawn to Linden through the organisation of various thrilling events.

The PACA methodology was instrumental in providing a push to the dormant “Region 10 Tourism Development Association” along with other favourable circumstances and developments: a dynamic association leader, projects and sponsors from the private sector, a tourism consultant hired by LEAP to accompany the association, the inflow of steady remittances from Diaspora Lindenians in Canada, the US, the Car-

ibbean or the UK, and the Diaspora organisation “Linden Fund” which triggered the wake-up call in the tourism sector.

In 2006, two private companies along with the “Linden Fund” took over the organisation of the Linden Town Day and transformed it into the “Linden Town Week” during 10 days in April. The crucial factor is that “Linden Fund” was



Scene from Linden’s main street with a ship coming in 100 km away from the coast to pick up a load of bauxite. The building on the right has been transformed into the new Museum.

able to bring in more than 170 Diaspora Lindenians from the States who were all booked on three negotiated excursion flights at advantageous rates. But many more Ex-Lindenians came from overseas on other flights according to their own private schedules.

The organizers set up a packed and interesting programme during 10 days with jazz, gospel, cricket and football, fitness walks, Karaoke, cycling race Georgetown – Linden, 4-day trade exhibition, Miss Linden contests, and many other events. Huge promotion efforts made sure that the whole country is informed about this programme.

For several months Linden prepared for this event, and the Tourism Association was among the most successful ones to exploit this opportunity with the help of sponsors. The first-ever “Discover Linden Magazine” was printed on glossy paper highlighting the tourist spots in and

around Linden (a significant benefit could be realized through massive advertisements in this magazine), a Museum was set up to display the industrial and socio-cultural heritage of Linden, a tourist programme offering historic-, boat- and fishing tours to visitors was set up and widely circulated. The tourism association, existing on paper only with volunteers and no income at all, reformed itself into a real association asking for membership fees and providing services to its members; these services concern the distribution of information and promotional material, assessing and rating bed & breakfast (B&B) offers, preferential rates for advertising on two giant tourist guide boards erected at the entry points to the town, set-up of the web page on the B&B opportunities, manufacturing of different signboards for member hotels, -restaurants and -B&B providers, channelling overnight bookings to its members, etc.



Picnic on the Butooba Beach, one of the boat tour destinations offered by members of the Tourism Association

B&B is a separate success story in Linden tourism development. It plays the crucial role in providing the badly required accommodation facilities for all expected guests because the nine existing hotels are predominantly of low standard (although they were all fully booked during the event). 140 households registered, almost all of them were visited by assessors (volunteers from the tourism association) after they have been trained by a local consultant. More than 70 were rated between 1 (lowest acceptable quality) and 4 diamonds (highest quality including separate access and air conditioning facilities). There are a number of houses which are not occupied in Linden because the owners migrated and left the keys with relatives or neighbours. Lots of households do have rooms which are not fully utilised so that the call for B&B accommodation really hit a niche which is now exploited.

Without almost any experience in this field, it is a great adventure for many Lindeners to go for B&B. Basic information were provided about key issues such as composition of breakfasts, provision of separate accesses for the visitors, additional services to be offered (laundry, transport, lunch/dinner on request, etc.). Monitoring forms have been developed to capture the impressions of the tourists; tariff and room inventory sheets have been designed, behavioural (client reception) and technical issues (proper environment, insurances, security, etc.) have been discussed in detail.

The Tourism Association now avails of a secretary as the central point to answer all requests and inquiries; the

membership grows daily because non-members realised that there are a lot of advantages for them, and the obvious success is a strong factor for drawing even more members.

A town like Linden with limited purchasing power can only make some economic strides ahead if external money is brought into it. The existence of an economically strong Diaspora coupled with the planning of thrilling tourist events and a sound tourism administration can make all the difference to the development. Spin-off effects for all other sectors can be expected through increased purchasing power.

The next new event, the Rockstone Fish Festival (Rockstone is a 30 minutes drive away from Linden at the scenic Essequibo Rover) is already in the planning stage and will be realized in September. The Tourism Association was fortunate to discover on the uninhabited Gluck Island off Rockstone a wealth of birds (bird watching) and two small lakes covered by the national flower, the Victoria Regia water lily, which de-

velops leaves on the water with a diameter of more than 1 meter. This discovery might be very interesting to nature lovers as it is the closest location from Georgetown where this plant can be seen in its natural habitat.

In March 2007, eight matches of the Cricket World Cup will be played in Guyana which is expected to draw some 35,000 visitors during a short span of time. Linden is only 45 minutes away from the Cricket Stadium, and visitors deciding to take an accommodation in Linden will not have to bother about traffic jams compared to those who stay in Georgetown with its incredible level of congestion during those occasions.



Torsten at work

One might be interested to judge in how far PACA – among all the other influencing factors - contributed to that development! Difficult to say! From my perception I would say that this methodology provided the required energy and the motivation to exploit an externally created single competitive advantage and to turn it into a longer lasting one. Three strings of development may be distinguished: the internal professionalisation of the association, the best possible contribution to making the immediate event, the “Linden Town Week”, a success and a memorable event for all visitors, and the elaboration of new event ideas in future which will be organised exclusively by the “Region 10 Tourism Development Association”. And that will be the real litmus test for its independent planning and execution capacities.

*Torsten Striepke
contorcon1@yahoo.fr*

PACA in Aceh / Indonesia

As part of its overall response to the Tsunami, the ILO is implementing a local economic recovery and local economic development (LED/LER) programme in selected localities in Aceh, Indonesia. The programme takes a participative and inclusive approach to planning and developing its specific interventions in order to ensure a high degree of relevance and ownership in the communities. A PACA exercise has been carried out in the district of Aceh Besar from 4 - 21 December 2005 to identify local economic potential for the subsequent development of local economic development strategies at the district level.

This PACA exercise was unusual in two respects. First, it was the first PACA exercise conducted in an area recently struck by a natural disaster (Tsunami). Second, the PACA location is at the same time a post-conflict area where the Indonesian government and the Free Aceh movement GAM just recently had negotiated a peace agreement.



A reminder of the Tsunami

At present, the province Aceh is probably the place with the highest density of national (80) and international NGOs (400) in the world. Most of these organisations are involved in humanitarian and infrastructure reconstruction projects. However, the ILO makes the attempt to stimulate local economies in selected places where the living conditions are not too devastated by the Tsunami. Here, the PACA is employed to identify suitable project proposals that can later be supported by the ILO LED/LER project itself

and by activities of other donors. It needs to be mentioned that –contrary to other PACA locations – financial means are not a constraint. Channelling abundantly available funds in a developmental way is the critical factor.

In this context, it was particularly important to have team members from very different local organisations on the team (World Bank programme PPK, local chamber Kadin, young entrepreneurs’ association APINDO, the university FE Unsyiah, the provincial planning agency BAPPEDA as well as ILO staff), who had very good knowledge on sector-specific issues and contacts reaching into the business community and the support structure of Aceh Besar.

The PACA team deliberately decided not to focus on the still dominating sectors in Aceh Besar, namely agriculture, livestock and fishery that are contributing about 80% to the district GDP. Instead, we agreed to rather focus on those downstream sectors that are able to add more value to raw materials produced by the primary sectors and, by that, to help local enterprises to move into more lucrative activities and support the restructuring of the local economy. Accordingly, we analysed the sectors fish processing, agro-processing, construction material, and fertilizer production.

One important hypothesis on the current condition in Aceh Besar we had formulated at the beginning of the PACA exercise could be verified: the local business mindset is characterised by risk aversion and a certain degree of defeatism

(already before the Tsunami). The provision of capital needs to be accompanied by efforts to reduce business risks. We noticed that local actors are now surprised about all the attention and care they are suddenly facing after decades of neglect and even exploitation.

The information collected during the PACA exercise reveals some obvious cross-cutting

strengths and weaknesses affecting the whole SME sector in Aceh Besar. There is abundant availability of raw material, such as wood, minerals or aqua-cultural products, a high adaptability to market changes and a high demand for various products and services after the tsunami (partly caused by the presence of aid organizations), supported by a relatively safe post-conflict environment. On the other hand, companies lack management staff, particularly with skills in financial management and marketing, as well as working capital. Manufactured products are mostly supplied from outside the region, e.g. from Medan in North Sumatra. Medan is also the key market for products sold outside local markets. Aceh only hosts very simple processing industries,

no high-quality processing industry for export, and it even lacks basic manufacturers, such as producers of simple packaging material made of paper.

The PACA exercise resulted in a list of 23 short-, medium- and long-term proposals. Some of the proposals, such as setting up an LED Forum in Aceh Besar or giving advice to district government in setting up a one-stop agency, raised the question whether local actors already



PACA Team Aceh



Fish-drying facilities

have the capacities and competence to implement these activities. Regarding the setting up of an LED forum in a location previously untouched by LED we needed to consider that the variety of local development activities are carried out so far without proper coordination. Thus, the necessity of coordination is obvious and urgent and could be the responsibility of an LED forum. Moreover, the district authorities in Aceh Besar intend to set up a one-stop system without having proper knowledge of this kind of service. There are successful one-stop service systems in other parts of Indonesia, mainly on Java, which could be presented as positive examples.



Agro-processing (krupuk)

Following the PACA exercise, the ILO organised a couple of way-forward workshops in January and February 2006, mainly sector-wise, and based on these workshops put together concrete activities in cooperation with local actors. The implementation process is currently going on and will show whether our hypotheses about the Acehnese mindset and the district authorities' level of competence hold true.

In June 2006, the ILO in cooperation with mesopartner will conduct a value chain PACA in the fishery sector in South Nias, which is located 3 hours North of Aceh. UNDP and FAO are

funding ILO's activities in South Nias under a joint programme.

*Christian Schoen
cs@mesopartner.com*

Variations of PACA

PACA is a flexible and adaptable methodology. With the following article, we continue a series of reports by practitioners who have successfully tested with variations of PACA.

Delivering Local Economic Development (LED) in Conflict Environments – First Experiences from the Private Sector Promotion Project (PSP), Nepal

Since 1996 Nepal has been facing a violent conflict between the Nepalese government and the militant Communist Party of Nepal (Maoist) (CPN(M)). February 01, 2005, changed the situation and brought a third party to the conflict – the political parties which had been dismissed from the government. The conflicting parties in Nepal fight for political power and for ideological goals linked to different political systems – constitutional monarchy versus multiparty democracy (recently also agreed to by the CPN(M)).

Early in the conflict, in the mid 90s, the CPN(M) gained support quite easily from the rural population, as the Maoists addressed socio-economic and political problems - the root causes of the conflict. Centuries of discrimination of lower castes or ethnic groups and unjust policies towards rural areas, corruption, nepotism fulfilling only the interests of the ruling elites created a fertile ground for the Maoist rebellion.

Today the CPN(M) dominates about 80% of rural Nepal, except the district headquarters and the Kathmandu valley, thus effectively crippling the supply of public services. Only selected donors, domestic and international NGOs as well as the private sector are in a position to operate under certain conditions in the Maoist-controlled



Army escorts public vehicles on highways

Adapting PACA to a Conflict Environment

The Nepal-German Private Sector Promotion Project (PSP) intends to contribute to conflict transformation and crisis prevention by addressing the root causes of the conflict and a conflict-sensitive implementation strategy. A recently published paper¹ documents first lessons learned including lessons on LED.

As reported in the PACA Newsletter Nr 8/2005, three German development agencies jointly implement LED efforts under the header “Joint LED Initiative”. We discovered that the LED approach, using the PACA methodology, is suitable for conflict environments because it is transparent, participatory, action- and quick impact-oriented, involving all relevant stakeholders in planning, implementation and monitoring. LED tools can easily be adjusted to address root causes, integrate conflict transformation and to meet the requirements of conflict sensitive development including “do no harm”².

PACA typically is facilitated and implemented by a local champion involving all relevant stakeholders – private sector, public sector and civil society – to identify competitive advantages and coordinate implementation. We have managed to create a “team of champions” in our pilot location Lekhnath, consisting of municipality, chamber and a “local development society” that

areas. The already weak and not democratic government of Nepal became even more fragile in the past years lacking legitimacy and effective public service provision capacity and capability.

The conflict has become increasingly violent: an estimated 12.000 people have already been killed and many more people suffered from human rights violations conducted by Maoists and the Security Forces. The number of internally displaced persons increased significantly; many young people have joined the Security Forces or the Maoist army to earn a living; others have migrated to urban centres or left the country to work abroad. Remittances from overseas workers account for almost 14% of GDP and 55.8% of total foreign currency reserves. Human capital has become Nepal’s number one export. 25% of all Nepalese households receive remittances. However, very poor households are rarely amongst those that benefit.

After a decade of privatisation and liberalisation the private sector has become Nepal’s largest employment provider outside the primary sector (more than 65% of the working population still depends on small scale agriculture and forestry). The private sector consists of a small number of larger firms in the hands of powerful business families and a large number of micro and small enterprises (99% of all enterprises according to UNDP definitions) with very little power at all; many of them belong to the informal sector. Between 1999 and 2002 the number of manufacturing enterprises is reported to have dropped from 3557 to 3213, thus decreasing the employment in manufacturing industries by almost 3% (from 187,316 to 181,943).

¹ Private Sector Promotion in Conflict Environments – First Experiences from the Private Sector Promotion Project (PSP), Nepal; Armin Hofmann (GTZ Nepal), Daniel Bagwitz (GTZ Nepal) and Helmut Grossmann (Free-lance Consultant), Kathmandu / Frankfurt, January 2006.

² The so called “Do No Harm” concept by M.B. Anderson explores the interaction between development interventions and the conflict. It provides a framework to analyse connectors and dividers, relationships between the anticipated aid outcomes and the conflict in order to design the programme accordingly. This framework will help to avoid negative and unintended effects which exacerbate the conflict and discover opportunities to maximise positive effects which keeps people disengaged from the violent conflict.

has identified competitive advantages and implemented 18 activities in 7 sub sectors within 6 months without any interference of Maoist rebels. By applying this participatory approach in a very transparent way, all parties involved seem to have agreed to the benefit of LED. Although it can not be proven, it is fairly certain that also sympathizers of the Maoist movement have been involved and benefited of the activities, suggesting that the dialogue during interviews and workshops can contribute to conflict transformation.

The Joint LED Initiative considers a number of ways to make PACA conflict sensitive. The following aspects are essential:

- **Transparency:** The entire LED and PACA process including monitoring and feedback must be transparent and public right from the beginning. This includes the sharing of the conflict sensitive method and conflict transformation objectives
- **Impartiality:** The local champion and the LED team should be acceptable to all conflicting parties and impartial towards the conflict. Ideally, they already play a positive role in dialogue and conflict transformation. They have to ensure that no politicisation takes place before, during or after the LED Exercise.
- **Inclusive/Participative:** Participants of the workshops should include representatives of or speakers of all disadvantaged groups (e.g. women, lower castes, ethnic groups). Their concerns must be heard, but expectations must be carefully managed during the exercise as not every good idea can be financed or implemented, which might lead to frustration. It has to be ensured that even con-

flicting parties do understand the LED approach and goals.

- **Careful:** Participation at workshops must be carefully considered and prepared; otherwise there might be a risk that a workshop is hijacked. In particular kick-off and final presentation workshops must not offer a stage for agitators. The workshops and the workshop participants must be acceptable to all conflicting parties.



Public strikes cause breakdown in transportation



People walking on highways

- **Based on facts:** Each activity must be based on facts and informal agreements of people, esp. disadvantaged groups and conflicting parties (e.g. establishing modern recycling systems may disadvantage traditional waste-collectors).

- **Anticipative and flexible:** In the pre-exercise hypothesis workshop, planning workshops, interviews and later

during the monitoring, conflict issues and “do-no-harm” checks must be done at any stage and for each activity. This will help to get to know coping strategies, and to redesign activities for positive effects also on conflict factors.

- **Conflict management skills:** LED facilitators have to bear in mind that dialogue between various stakeholders can also create new conflicts or increase existing conflicts, esp. when it comes to the investment of scarce public funds. Therefore, they must be familiar with moderation and conflict management techniques.

LED-based business promotion includes strengthening locational advantages, which makes a location more attractive for entrepreneurs and employees. In our context business

promotion is combined with regional or urban, ecological and social development. In a conflict situation this objective should always take following conflict-sensitive goals into consideration:

- Ensure that local resources are tapped, e.g. construction and supply contracts financed by public investment are benefiting the local economy.
- Making local government more efficient and responsive should not only benefit entrepreneurs but all citizens.
- Improvements to housing, environment, schooling, and cultural, health and social facilities should benefit all social groups and conflicting groups.
- Infrastructure development should employ as many local companies and people as possible, especially from disadvantaged groups.
- Infrastructure development may be used to integrate disadvantaged groups into mainstream society or to promote dialogue between conflicting parties: e.g. community centres, market places, social housing programme, roads, bridges, public transport to remote areas.
- Ensure that environmental regulations, real estate development or upgrading of transport and communication facilities do not create new conflicts or make existing conflicts



Bomb planted on the main road near Biratnagar

worse (“do no harm check”): e.g. research people’s dependency on natural resources, clarify property rights and usage, look into potential military use of infrastructure.

Private sector development in a conflict environment must produce quick and visible impact for the poor, for people living in the conflict affected areas and for disadvantaged groups. If these objectives are not met, socio-economical and political conflicts can increase and turn people in favour for conflicting parties.

The vision of the PSP is to enable the private sector to contribute to conflict transformation in Nepal. Furthermore, the private sector may play a crucial role in the subsequent post-conflict rehabilitation phase.

Armin Hofmann, Armin.Hofmann@gtz.de

Daniel Bagwitz, Daniel.bagwitz@gtz.de

Sonja Vorwerk, Sonja.Vorwerk@gtz.de

Helmut Grossmann, helmgrossmann@yahoo.com

New LED-related publications are available at the mesopartner website:

- *Planning or doing Local Economic Development? Problems with the orthodox approach to LED* analyses the planning-based approach to LED
- *Regional Integration and Territorial Development in Latin America* analyses the link between two so far unrelated approaches in development policy.

In 2005, we again sponsored a student from the Institute of Social Studies who conducted an impact study on PACA, this time in Sri Lanka (where PACA is called LOCA). Tutik Rachmawati, who is now back in her position at the Parahyangan Catholic University in Bandung, Indonesia, looked at the LOCA experience from the angle of social capital. Her report is available under “Testimonials” at www.paca-online.org, just like the 2004 study on PACA in Ecuador.

PACA® is a product by mesopartner, a consultancy firm specialised in local economic development. mesopartner are Dr Ulrich Harmes-Liedtke (uhl@mesopartner.com), Dr Jörg Meyer-Stamer (jms@mesopartner.com), Christian Schoen (cs@mesopartner.com) and Frank Wältring (fw@mesopartner.com).

mesopartner offers training and advice on local economic development in general and PACA in particular.