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## **Financing armed groups during ceasefires**

While the financing sources of non-state armed groups (NSAGs) both during active hostilities and after peace agreements has received much attention in the academic and peace-practitioner fields, information about the funding of NSAGs during the time between active fighting and the conclusion of a peace agreement is much less available. This study aims to fill that gap by investigating the sources of financial support for armed groups during ceasefires and peace negotiations. Through information gathered from the selected cases of ETA in the Basque Country, the LTTE in Sri Lanka, the KNU in Myanmar, GAM in Aceh, and several armed groups in Mali, the study examines the various internal and external options available for NSAG funding when a unilateral or bilateral ceasefire is in place and analyses whether ceasefires represent a fundraising constraint or an opportunity for non-state belligerents. The study also makes projections for the longer-term prospects of NSAGs' receiving financial support to sustain their post-war security, political and socio-economic transformations. Lastly, some general lessons are drawn for third parties involved in supporting peace processes with NSAGs.

### **1. Introduction**

The financing sources of non-state armed groups (NSAGs)<sup>1</sup> have received much attention over the last two decades in both the academic and peace-practitioner fields. Specifically within the discussion of the political economy of war and the role of natural resources in conflict, the ways in which armed groups establish and maintain their organisations have come under much scrutiny. The various sources of funding, the motivations for pursuing them, and the effect that these particular funding sources have on the governance and actions of NSAGs

have all been examined in detail. At the same time, a great deal of information is available about the finances of an NSAG after a peace agreement has been concluded between the warring parties. Whether the post-conflict phase entails a disarmament, demobilisation and reintegration (DDR) process, some type of security sector reform process in which the NSAG's combatants are integrated into the armed forces of a country, or a political reconversion process entailing the transformation of an underground militant structure into a civilian political party, a plethora of funds are generally available for such processes. Potential donors include international organisations such as the United Nations (UN) or World Bank, individual nation states or a consortium of such states, or even non-governmental organisations (NGOs).

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<sup>1</sup> The term NSAG is used here as an all-encompassing category of organised groups that challenge the state's monopoly of the use of force. For a typology of NSAGs, see Schneckener (2009).

However, there is a conspicuous gap in information and knowledge about the funding of NSAGs during the time

between active fighting and the conclusion of a peace agreement. For instance, when NSAGs are negotiating the end to an armed conflict or when a (bilateral or unilateral) ceasefire is in place, it may be difficult or even impossible for them to continue with their fundraising activities, specifically if their geographical space for manoeuvre (and thus their ability to access taxable communities or other funding sources) is limited in some way due to the negotiations/ceasefire, or if a halt to fundraising activities is formally part of the negotiation requirements or ceasefire agreement.

Thus, many questions can be raised in this regard. If NSAGs are formally prohibited from using violent or coercive fundraising methods in order to sustain themselves, what other alternative financing mechanisms or sources are available to them during these periods? Do the NSAGs themselves develop these mechanisms, or are national and/or international actors involved in organising and providing the funds? Do NSAGs insist (as part of the negotiations or ceasefire agreement) on a commitment to receive funding for a certain period of time in order to cover the costs of their maintenance during the negotiations and/or ceasefire? If this funding is not forthcoming, how does it affect the negotiation process and/or ceasefire? To what extent are NSAGs truly willing to renounce their (illicit) sources of funding in order to abide by the ceasefire and/or negotiation conditions? Lastly, if an NSAG is listed as a terrorist organisation, what effect does this have on its potential funding sources during this period?

This study attempts to provide answers to these questions based on a literature review of the topic of the financing of armed groups, and on first-hand information gathered from interviews with individuals who are or were involved with NSAGs in Aceh (Indonesia), Mali, Myanmar, Sri Lanka and the Basque Country (Spain). The choice of cases was based on the availability of data: given the difficulty of conducting desk-based interviews (e.g. via phone or Skype) on such a highly sensitive topic, we had to consult experts or insider informants within our network of known researchers and (former) NSAG members.

The report is organised as follows: section 2 offers a succinct literature review of the various sources of funding that armed groups make use of during ongoing hostilities between conflicting parties. With the help of studies of selected cases, section 3 illustrates the sources of financial support that NSAGs may use during negotiations, especially when a unilateral or bilateral ceasefire is in place. Section 4 contains a projection of the longer-term prospects for NSAGs to receive financial support to sustain their post-war security, political and socio-economic transformations. The conclusion then summarises the main findings and draws some general lessons for third parties supporting peace processes involving NSAGs.

## 2. Sources of funding for NSAGs during an armed struggle

NSAGs' sources of funding has been a topic of much consideration and even controversy over the last two decades, specifically in terms of the "greed vs grievance" argument developed by Collier and Hoeffler (1998), which postulated that armed groups were more likely to be motivated by private gain (greed) rather than by any political or social grievance. The examination of NSAG funding has been placed into the broader research field of the political economy of war (see Collier, 2006; Humphreys, 2005) and often linked to the role that natural resources play in war (see Humphreys, 2005; Ross, 2004). The range of the various sources of funding that armed groups can potentially make use of is broad, yet will inherently be limited to certain types of financing depending on the objectives and motivations of a particular group. For instance, an NSAG that is considered to be more protective of communities will most likely have the financial support of such communities, as well as potential contributions from the diaspora, while armed groups that do not have the voluntary support of any communities may resort to criminal activity and/or predatory behaviour to finance themselves. Understanding the war economy that sustains an NSAG is essential for third parties seeking to engage with its members in support of a peace process, since the resources mobilised by these actors strongly affect their incentives for entering into ceasefire deals or substantive negotiations to end the conflict (Wennmann, 2009: 1132).

Predatory behaviour as a means of financing an armed group is most often associated with a particular sub-type of NSAGs often labelled as "warlords" (e.g. Schneckener, 2009: 11), such as those active in Liberia, Sierra Leone, and the Democratic Republic of the Congo (DRC). This method of financing refers to "the use of force to extort goods or money from their legitimate owners" (Collier, 2006: 3) and has also been referred to as "involuntary transfers" (Humphreys, 2003: 12) and "forced contributions from civilians" (Mampilly, 2011: 14). The concept of patronage can also be closely connected to predatory behaviour, such as in South Sudan, although it need not always be. Patronage can come in the form of looted goods or monetary payments that "flow down from the highest levels of the organization to the lowest fighters", creating a bond between an armed group's leadership and its fighters (Vinci, 2009: 17-18). This dependency of low-level fighters on their commanders is often what allows the leadership to exert control over the armed group. Control over the extraction of natural resources, most specifically primary commodity exports that are easily transported, has also been directly linked to the financing of many NSAGs. The abundance of such resources has been demonstrated to increase both the intensity of an armed conflict and the incentive for predatory behaviour (see Hegre, 2004: 245-47), and tends to lead to higher levels of indiscriminate violence (see Weinstein, 2007: 195-97).

The heavy focus in the literature on the role of natural resources in the financing of NSAGs has overshadowed

other motivations for engaging in armed violence and other opportunities to obtain funding. In particular, NSAGs make use of various sources of external funding, including financial support from diaspora communities. Diasporas based overseas have often fled conflict in their home countries and are often richer than their compatriots at home. Thus they are willing to contribute resources to what they perceive as a legitimate cause and/or war. Such practices have been well documented in cases such as Sri Lanka (Gunaratna, 2003) and Aceh (Missbach, 2009). The patronage of foreign governments has also been a regular source of financing for many NSAGs over the last decades, most notably during the Cold War, when both the Soviet Union and the U.S. financed various armed groups in the framework of these great powers' proxy wars.<sup>2</sup> Although this type of funding decreased dramatically in the 1990s, foreign governments' (covert) financing of NSAGs continues today in cases such as Syria, the DRC and Yemen. The type of support from such external donors can include money, weapons, equipment and/or training. Another type of external funding can come from well-meaning international solidarity organisations, which raise money from networks of sympathisers with the armed group, which is one way in which the Farabundo Martí National Liberation Front (FMLN) in El Salvador was financed in the 1980s (Kruijt, 2008: 84-85).

One critical source of financing that some NSAGs make use of is the support and assistance – in the form of food, clothing, housing, money, etc. – provided to the armed actors by supportive communities of civilians. Such support can occur on a voluntary basis from communities that feel protected or represented by the armed group, and whose fighters usually come from the community, as in the case of various ethnic armed organisations in Myanmar. Yet support may also be coerced, in the sense of community members fearing reprisals from the armed group if support is not voluntarily given. Levying “revolutionary taxes”, which certain members of the community are forced to pay, has also been prevalent in armed conflicts worldwide (e.g. Sri Lanka, the Philippines and El Salvador), and these taxes can be collected either coercively through extortion or in less compulsory and threatening ways. Those NSAGs that have a political wing or that are (in)formally allied with particular political parties may also be able to benefit from state funding (i.e. subsidies for electoral campaigning, salaries for members of parliament (MPs) and staff of local administrations, etc.) by diverting some of these funds to the armed organisation.

When NSAGs act as surrogate states performing governance functions in their homeland or areas under their control in the context of failed or absent governments (Mampilly, 2011), they can potentially carry out a wide variety of economic activities, depending on the

sophistication of their governance structures and economic resources. This can include taxes on land use or revenue from the agricultural sector. NSAGs that control large areas of territory can grow various legal crops that can contribute significantly to the local economy and directly or indirectly to the war effort. Humphreys (2003: 12) lists bananas, cashew nuts, tangerines and hazelnuts as legal crops that have supported the military efforts of various NSAGs. The production and sale of illicit goods, such as opium and coca crops, has also been a major source of funding for NSAGs, most notably in Afghanistan and Colombia. Besides drugs, illicit goods can also include arms, people, and even other (seemingly harmless) contraband products such as pirated CDs and knock-off designer goods. In many urban settings in South America, criminal networks who trade in any of these illicit goods need their own armed forces to protect them from state agents, and thus become non-state armed actors in their own right (see Davis, 2010: 30). Other forms of criminal activity, such as robbery, money laundering and hostage taking, can also be used to raise funds for military activities. In the 1980s, taking hostages proved to be highly lucrative for the FMLN in El Salvador (Kruijt, 2008: 84) and continues to be used by armed groups in Somalia or Mali today. Various areas of commercial activity under the loose territorial control of NSAGs – such as sea ports, markets, and roads along which goods are transported and where it is easy to set up checkpoints – may also provide excellent sources of (coerced) revenue. In Somalia, for example, warlords demand payment in exchange for safe passage on roads or through checkpoints (Vinci, 2009: 23).

Lastly, NSAGs are often able to finance themselves through the diversion of international aid from international agencies and NGOs, specifically in times of humanitarian disasters and/or intense fighting. This can be done through the manipulation of agencies by armed groups pretending to be civilians, but can also be done through outright looting and theft, as in the case of the Sudan People's Liberation Army/Movement (SPLA/M) in South Sudan (Podder, 2014: 229). Once the aid is in the NSAG's hands, it can be distributed to its fighters and/or sold at a high price to needy and desperate civilians. Moreover, Vinci (2009: 23-24) argues that an “aid economy” can be created when NSAGs provide security or housing for international aid agencies, “which is then tapped by the armed groups for their own funding”.

### 3. Sources of financial support during ceasefires and peace negotiations

#### 3.1 Introduction

Peace negotiations between a government and an NSAG may take place with or without an official ceasefire. The Free Aceh Movement (GAM) in Aceh, the Guatemalan National Revolutionary Unity in Guatemala and the FMLN in El Salvador opted for a “talking while fighting” strategy

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2 In the case of Angola, see Weinstein (2007: 285-86) for an account of U.S. and South African support for the National Union for the Total Independence of Angola and Soviet support for the People's Movement for the Liberation of Angola.

until the signing of a comprehensive peace accord that provided for a permanent ceasefire together with substantive security, political and socio-economic measures (Chounet-Cambas, 2016: 20). The reasons for armed groups to delay an official cessation of hostilities until the end of a peace process may be their negative experiences with previous attempts at bilateral ceasefires, as in the case of Aceh (see below). They may also seek to apply pressure at the negotiation table through a show of force on the ground.<sup>3</sup> It could also be the case that a bilateral ceasefire agreement is signed only a few weeks before the official peace accord, as in the negotiations that led to the 2005 Comprehensive Peace Agreement between the Government of Sudan and the SPLA/M in South Sudan. Nevertheless, negotiations are usually conditioned on or preceded by unilateral or bilateral ceasefires, which are seen as confidence-building measures and also testify to the leaderships' control over their forces. This reinforces the conflicting parties' legitimacy and demonstrates their ability to abide by their commitments.<sup>4</sup> However, given the power asymmetry between the belligerents in intra-state conflicts, NSAGs may potentially have a lot to lose by committing to a ceasefire before any of their (political) demands have been met. This may not only make them vulnerable in terms of security, but may also represent an important economic constraint, particularly if the ceasefire agreement prevents them from carrying out certain practices (considered by the government to be "extortion", etc.) or limits their access to certain areas.

Surprisingly, the emerging practice-focused literature on ceasefire negotiations (e.g. Chounet-Cambas, 2016) does not address the various issues linked to fundraising challenges faced by NSAGs, and the economy of peace processes – especially armed groups' sources of financial support during negotiations – remains a highly under-researched topic. This may be due to the various sensitivities surrounding the issue. Both conflict actors and third-party actors involved in past or ongoing negotiations are extremely reluctant to disclose information on the topic of financial support due to the legal grey area of economic transactions while NSAGs are still armed, particularly if the armed group is proscribed as a terrorist group.<sup>5</sup>

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3 For example, the FMLN launched an offensive in 1989 in the last few months of the peace process in order to highlight the military stalemate with government forces and increase its bargaining power.

4 Ceasefires can be defined as "agreements, facilitated by a third party, that define the rules and modalities for conflict parties to stop fighting". Some ceasefires are preceded by an initial "cessation of hostilities" agreement, which is often less formal and detailed (Chounet-Cambas, 2016: 1).

5 During the collection of data for this report several contacts who have extensive and trusted access to (former) NSAGs explained that despite years of contact with these armed groups, they have never dared to ask questions about financing for fear of raising suspicion or losing the confidence of their key informants. This explanation reflects Berghof's own experience of engaging with various resistance and liberation movements: the trust we have built with them over the years arises precisely from the fact that we do not ask such questions.

Below we will attempt to determine whether ceasefires represent a constraint on fundraising or an opportunity for NSAGs, how ceasefire agreements address – explicitly or implicitly – the issues of financing, under what circumstances and/conditions NSAGs are willing to renounce their sources of funding in order to abide by the ceasefire terms, how this affects the peace negotiation process, and what alternative financing mechanisms and sources are available to them.

### 3.2 Selected cases

The cases detailed below represent a mix of various types of conflicts and NSAGs (both ideologically and ethnically based). The common denominator among all these cases is that the NSAG in each case signed either a ceasefire accord with the government or declared one unilaterally. The sources used in this discussion are mainly informal interviews carried out with (former) conflict actors or third parties involved in the respective peace processes, complemented by a few references to secondary literature.

#### Basque Country: Euskadi Ta Askatasuna (ETA)

The resolution of the Basque conflict represents a unique type of peace process in many ways, including in terms of its unilateral nature. The definitive cessation of armed activities by the separatist armed group ETA and its demilitarisation in April 2017 were preceded by a general ceasefire declared by the organisation and internationally verified by a group of civil society experts. However, these achievements did not come as a result of bilateral negotiations with the Spanish government, which had refused to open a dialogue track ever since the last third-party-facilitated talks in 2006. In the absence of any formal peace accord, ETA has never benefitted from any international funding to support its demobilisation and transformation.

During the period of active conflict ETA militants raised their funds primarily through the support of local businesses and communities in the form of "revolutionary taxation" (what the government referred to as extortion). The group had declared four unilateral ceasefires over the years. The first three (1989, 1998-99 and 2006) did not include a cessation of extortion activities, and thus this practice continued. In its permanent ceasefire declaration in 2006 ETA committed to stopping both its actions against individuals and property and its acquiring of weapons, but continued to issue extortion letters (albeit allegedly without threats). This continued practice was thought to be one of the reasons why the talks ultimately broke down, because it was considered a sign of bad faith and ETA's continued belief in violence (Whitfield, 2014: 189).

In January 2011 the organisation unilaterally declared a "permanent and general ceasefire", followed by a subsequent declaration of a "definitive end of violence" in October 2011, and this ceasefire was extended to obtaining financing through extortion. Thus the group

fundamentally changed the way in which it financed itself, because it publicly committed to no longer rely on this major source of financial assistance. An International Verification Commission (IVC) – recognised by all Basque institutions, but not by the Spanish government, in the absence of an official peace process – was tasked with verifying ETA's compliance with the terms of its ceasefire and therefore met regularly with local parties, trade unions, churches and the Basque business association (Confebask) to confirm that ETA was no longer coercively taxing businesses and collectives. In its first verification report the IVC noted that it had been "informed of issues that [it did] not consider directly related to the ceasefire", such as "fundraising taking place for prisoners' families", but considered these activities voluntary because nobody had reported any forms of intimidation. The IVC subsequently verified that ETA had "fulfilled its commitment to cease all assassinations, bombings, attacks, threats and extortion".<sup>6</sup> Intelligence reports provided by the Spanish government also confirmed that extortion activities had ended, which was interpreted as a sign that ETA was finally ready to end all forms of violence (Whitfield, 2014: 248).

The organisation coped with the cessation of its main fundraising source by using complementary strategies. Firstly, the end of violence implied a restructuring process that greatly helped to reduce the organisation's costs. The amount of infrastructure that needed to be maintained and the number of clandestine militants that needed to be paid were drastically reduced. While there was obviously less need for operations, and militants were then partly absorbed into the group's political apparatus, the sustained surveillance and counterinsurgency activities of the Spanish state over the years meant that the vast majority of ETA operatives were in jail. On the other hand, while it was no longer possible for ETA to fundraise through coercive means, it continued to rely on voluntary contributions from its supporters. The group was also able to sustain itself from the "resistance funds" that had been collected and saved over the years. The group's political branch also granted symbolic funding to prisoners' families and lawyers; this was opposed by the Spanish state, which sought to criminalise such support channels.

### **Sri Lanka: Liberation Tigers of Tamil Eelam (LTTE)**

The LTTE in Sri Lanka represents an interesting case of an NSAG adapting its sources of financial support over the years according to the way in which the conflict evolved and its governance access on the ground. It also benefitted from several sources of international funding during the peace process, including through contributions to its negotiation strategy via its Peace Secretariat and through the influx of development aid into the areas under its control.

During the armed conflict the LTTE financed itself from a

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<sup>6</sup> The IVC reports are available at <http://ivcom.org/en/international-verification-commissions-ivc-report/>.

number of different sources, including primarily the voluntary contributions of its supporters, in particular better-off members of the diaspora,<sup>7</sup> as well as from both voluntary and forced contributions from the inhabitants of the areas that it controlled. Other sources of income were commercial transactions and investments in legitimate businesses in Asia; the LTTE was also assumed to have been involved in criminal activities. The 2002 ceasefire agreement with the Sri Lankan government led to some changes in the LTTE's structure, because it was then in official control of parts of the north-east of the country. Thus, what the Sri Lankan government referred to as extortion (and which was explicitly prohibited in Article 2.1 of the ceasefire agreement), the LTTE considered to be legitimate "taxing" of the population and revenue collection, specifically from people working in government-paid professions (teachers, doctors, nurses, etc.) and through an annual tax on properties (Mampilly, 2011: 115-16). Thus the LTTE did not consider itself to be violating the ceasefire provisions.

Secondly, the establishment of the peace secretariats led to direct funding from the Norwegian government and other third-party actors. The parties created the concept of "peace secretariats" as a method of providing support and strengthening capacities for the upcoming negotiations. The secretariats in Sri Lanka (one each for the government, the LTTE, and the Muslim population in the country) were established after the ceasefire agreement and during the pre-negotiation phase; they carried out secretarial, capacity-building, communication, consultation, facilitation and implementation functions (Hopp-Nishanka, 2012: 139-41). All three secretariats received direct financial assistance to establish their office facilities and infrastructure, in addition to in-kind technical support in order to "improve the peace secretariats' skills and expertise and ... to engage them with each other and their respective constituencies" (Hopp-Nishanka, 2012: 61-62).

In addition, as a result of the ceasefire there was an influx of developmental aid (which increased significantly after the December 2004 tsunami) into the LTTE-controlled areas of north-east Sri Lanka provided by international NGOs and international agencies like the World Bank. While the ceasefire was still fragile, it was nevertheless sufficiently safe to provide aid. The Tamil administration sought to retain control of the development process and wanted to be perceived as a reliable partner, so it developed new structures such as the Planning and Development Secretariat to coordinate NGO activity (Mampilly, 2011: 125). Thus the flow of aid money into

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<sup>7</sup> Revenues from the diaspora – which were estimated to contribute to up to 80% of war and governance efforts during the war (Mampilly, 2011: 104) – were seriously impeded by the terrorist blacklisting of the LTTE in various countries and the European Union (in 2006). Towards the end of the conflict the LTTE also attempted to get "credits" from supporters in the Tamil diaspora. Criminal and civil court cases in various countries are still pending in connection with these efforts.

the region during the years of the ceasefire contributed substantially to the development of Tamil governance structures.

### **Aceh: Free Aceh Movement (GAM)**

The case of the Free Aceh Movement (Gerakan Aceh Merdeka, or GAM) in Aceh is interesting because the failures of a first peace process conditioned by the 2002 Cessation of Hostilities Agreement – partly linked to funding-related disputes – led to the decision to engage in negotiations without a ceasefire during the subsequent talks that led to the 2005 peace accord.

During its active armed struggle against the Indonesian government GAM financed itself almost entirely through voluntary popular support, and through coerced extortion to a much lesser extent. According to a former GAM member, it was relatively easy to mobilise funds for the movement, because GAM enjoyed a very high level of popular support. Money was raised in villages in Aceh, in the diaspora and even in parliament in Jakarta among sympathetic MPs. The funds were often channelled via GAM businesses either directly to Aceh or to Sweden, which was the location of the government in exile. Both Malaysia and Singapore acted as central funding collection hubs through which money was then transferred to Aceh. Furthermore, middlemen often travelled with cash (up to \$15,000) every few months. The Indonesian military was also rumoured to be colluding with renegade GAM units to carry out illegal activities such as logging, but this has never been confirmed.

GAM and the Indonesian government entered into a first phase of negotiations from 2000 to 2003. The rebel leaders were strongly motivated by a desire for greater international legitimacy, which was provided by involving an international body as a third party, i.e. the Henry Dunant Centre (HDC) in Geneva, and by locating various negotiation rounds outside Indonesia. In May 2000 senior negotiators on both sides signed the Joint Understanding on a Humanitarian Pause for Aceh. A Joint Security Committee comprising members from GAM, the Indonesian army and international observers was established to monitor compliance with the agreement and investigate violations. After the Humanitarian Pause, a more substantial Cessation of Hostilities Agreement (CoHA) went into effect in December 2002. According to HDC mediators involved in the process, there is no information about advanced financing of GAM being used as leverage to get it to the negotiating table and give up any of its fundraising activities. The CoHA envisaged a ceasefire, the establishment of “peace zones”, the disarmament of GAM and the relocation of army troops outside of Aceh, to be followed by the convening of an inclusive political dialogue on the conflict’s root causes, in the hope that these security measures would foster a climate of trust and allow for creative efforts to find a permanent solution to the conflict (Aguswandi & Zunzer, 2008: 13).

The Humanitarian Pause was highly beneficial for GAM leaders, who developed their political strategy, increased

their internal legitimacy, united the movement’s political and military wings, and expanded their territorial control over Aceh. The movement also started to organise and strengthen its state structures in parallel to government administrative structures in more systematic ways, including by introducing a taxation system to supplement the unofficial system of voluntary contributions (Aguswandi & Zunzer, 2008: 15). A number of international donors (i.e. the Tokyo Conference group comprising Japan, the U.S., the European Union (EU) and the World Bank) pledged to offer official transparent support for the planned transition and reconstruction of Aceh that could be disbursed during the peace negotiations, including by funding infrastructure development, humanitarian aid and public information campaigns on the peace process. Such foreign funding would have benefitted GAM, since these activities were to be conducted locally by businesses or local civil society organisations affiliated to the movement. However, these pledges were withdrawn when the CoHA collapsed in May 2003 and the government imposed martial law on Aceh.

The government used GAM’s refusal to comply with its demand for the armed movement to cease all fundraising activities as one of the reasons for abandoning the ceasefire, but there were many other reasons for the collapse of the CoHA, including ineffective monitoring, divergent interpretations of its clauses, and the mediators’ inability to impose sanctions on violators. Furthermore, the government was concerned that the CoHA would introduce excessive foreign influence into Aceh. A few years later, during the Helsinki process that led to the 2005 peace accord, no bilateral ceasefire agreement was in place – only a unilateral ceasefire declared by GAM the day after the December 2004 tsunami. The parties feared that a premature focus on security issues would once more delay or jeopardise the peace process, so it was decided to end armed hostilities directly through the final peace accord.

### **Myanmar: Karen National Union (KNU)**

In 2015 the Nationwide Ceasefire Agreement (NCA) was signed between the Government of Myanmar and eight separate non-state ethnic armed organisations (EAOs) in the country. The KNU is one of these eight organisations, yet it had already signed a bilateral ceasefire with the former government in 2012 and has played a central role in Myanmar’s multilateral peace process since then.

Before the ceasefire the KNU’s primary source of revenue was the mining sector, but it also received significant income from taxation, specifically on agricultural products and cross-border trade. By imposing 5-10% levies on the activities of smugglers, the black-market trade used to be the “armed opposition’s lifeblood” for many years, especially before the liberalisation of formal cross-border trade between Myanmar and Thailand in 1988 (Brenner, 2017: 9). Although there have been some reports of coercive taxation, most of the people in the Karen regions support the KNU and have become accustomed to the taxation system. The tax revenues are raised locally, funnelled up through the KNU hierarchy and distributed among the

seven districts under the organisation's administration. While village leaders can keep 10% of the sums gathered, most of the taxation revenue goes to the fighters, which currently number 6,000-7,000. Nevertheless, taxation is a sensitive issue, with the government viewing all EAO taxation as illicit and denouncing the groups for its collection (Jolliffe, 2016: 53).

After the signing of the NCA the financing of the EAO signatories has largely remained the same, relying on the taxation of populations, businesses and cross-border trade. Chapter 6 of the NCA allows EAOs to implement "interim arrangements" that include "health, education, and socio-economic service delivery, as well as environmental conservation, drug eradication, cultural promotion, international and national aid and private sector activities" (ISDP, 2015: 5). However, no concrete details are available as to how these arrangements should be implemented. After the 2012 ceasefire the KNU Economic Committee was established and mandated to coordinate with private businesses seeking to establish themselves in the Karen region. The NCA and the interim arrangements have brought opportunities for mining companies to access the area and conduct business with the brigades of the KNU's armed branch, the Karen National Liberation Army. Thus, some liaison offices established as part of the ceasefire agreement to facilitate inter-military cooperation on security and conflict management in the community have also become business hubs in the extractive sector. Furthermore, the central government has allowed – and even encouraged – signatories to legally register and operate businesses to compensate for the request to "reduce taxation on local people". This state support for local development, however, is somewhat controversial, and some figures in Karen society view it as "aimed primarily at distracting KNU leaders from their political agenda, and to weaken the organization's solidarity" (Jolliffe, 2016: 51). It could also potentially lead to the self-enrichment of certain KNU leaders and resentment among KNU combatants against leaders who are perceived as profiting from the peace process (Brenner, 2017: 11). The government's "peace through development" strategy is based on the belief that by promoting Karen businesses, the region will grow richer, which will discourage its inhabitants from taking up arms. Yet it remains to be seen how many of these businesses, which are thought to be owned by KNU commanders, will lead to the development of the Karen people as a whole.

Furthermore, since the signing of the NCA in 2015 there has been an even larger increase in the number of international humanitarian actors in the Karen region, but little effort has been made to coordinate and regulate their activities (Jolliffe, 2016: 57). Yet it has increased the level of international NGO cooperation and the possibility of obtaining funds for development, health care and education. According to the KNU's humanitarian policy, the organisation should exercise control over all development and humanitarian projects; this could potentially allow the KNU to exact funds from these actors. There is real concern among certain members of the KNU that international assistance for government social services (and

thus government expansion) in their heartland may lead to the government's reputation improving, thus weakening the KNU's bargaining position in peace negotiations (Jolliffe, 2016: 59-60). Thus the KNU's interest in seeking better control over international development assistance funding could be seen as an attempt to counteract the increase in social services provided by the government. Experts on the Karen region have suggested that the KNU keeps the taxation system in place because it might be more democratic and accountable than establishing companies or taxing international aid, which will continue to be needed in order to support local services.

### **Mali: Coalition of Azawad Movements (CMA)**

Even though Mali is currently undergoing a post-peace accord phase, with the Algiers Agreement on Peace and Reconciliation having been signed in mid-2015, the challenges related to transitional funding options remain acutely relevant, because the parties are still engaged in protracted negotiations over the implementation of the peace accord, and the cantonment and DDR processes for armed groups have not started.

The eruption of the latest cycle of armed violence in early 2012 in north Mali (or Azawad, according to the name used by Tuareg separatists) resulted in a lawless territory controlled alternately by rebels, Islamist "terrorists" and leaders of illicit economies (so-called *grands trafiquants*). With kidnapping for ransom (Lacher, 2012) and the trafficking of various goods (basic goods, but also illicit ones like cigarettes and drugs, as well as, increasingly, migrants) being the main source of revenue for both jihadi groups and armed movements of all types – i.e. both coalitions representing separatist movements (the CMA) and pro-state armed groups (the Platform of Self-Defence Movements) – the boundaries between the various categories of armed groups became notoriously porous, and their leaders and combatants were said to transition or rebrand from one group to another as opportunities arose (Boutellis, 2015).

The ceasefire and preliminary agreement signed in Ouagadougou in 2013 did not include any provisions dealing with the illicit economies that represented either a driving force or a primary source of support for armed actors; in fact, drug traffickers and other criminal leaders were allegedly represented at the negotiation table and embedded in the various negotiating delegations – including that of the government (Planta & Dudouet, 2015: 5). Later, during the Algiers negotiations that led to the May 2015 peace accord, the armed opposition groups received in-kind support from the lead mediator (Algeria) and the UN Multidimensional Integrated Stabilisation Mission in Mali (MINUSMA) for their travel and local living expenses, but no direct financial contributions. In fact, the negotiators regularly complained about the absence of per diems, which did not allow them to cover basic expenses linked to their negotiation duties such as communication (telephone) costs. Besides the mediating bodies, all armed groups forming part of the CMA have allegedly received direct funding from various neighbouring

states during the negotiations (a practice called “suitcase diplomacy”).

Since the signing of the Algiers accord the only official funding source for the signatory groups consists of monthly allocations (as well as material contributions such as houses and cars) paid to members of the various implementation commissions and mostly based in Bamako. These are either disbursed by the multi-donor trust fund managed by MINUSMA (and largely subsidised by France, in the case of members of the Agreement Follow-up Committee) or through the Mali government (which is itself largely subsidised by foreign donors) for the sectoral commissions on DDR, integration, operational coordination, reconciliation, etc. Additional financial incentives have been allegedly used to encourage these groups to take part in dialogue sessions such as the National Conference of Understanding in March 2017.<sup>8</sup> The threat of the suspension of all allocations in early 2017 when the peace implementation process was at an impasse seems to have encouraged the armed groups’ political and military leaders to take a more active role in the various commissions.

It is unclear whether such subsidies have played a supportive or constraining role in the peace process: although they may have encouraged some armed leaders to shift their main sources of income from the illicit economy to formal salaries by taking on civilian positions in the peace implementation bodies in Bamako, they have also partly resulted in a vested interest in prolonging the process of slow-motion negotiations rather than prioritising their timely conclusion. Moreover, these practices might have contributed to a widening fragmentation of these groups and a deepening mistrust among rank-and-file combatants. Because the cantonment and DDR processes have still not started, combatants in the north do not receive any state-based or international resources, with the exception of the 400 CMA and Platform fighters who have joined the first mixed patrols. Nor do they receive any subsidies from their leaders, who claim that the monthly salaries they receive in Bamako are not sufficient to cover the needs of their broader organisations. Most combatants are thus forced to continue to rely on populations and/or organised criminality as their primary source of income.

### 3.3 Comparative insights on internal and external funding

Based on the five case studies, these comparative reflections aim to answer the overarching questions addressed in the introduction to this section, i.e. whether ceasefires represent a fundraising constraint or opportunity for NSAGs. Firstly, with regard to internal resources, it is quite

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<sup>8</sup> See <http://nordsudjournal.com/2017/03/28/mali-400-milions-de-fcfa-pour-amener-les-groupes-armes-a-la-conference-dentente-nationale/>.

obvious that an NSAG’s ability to maintain its sources of revenues during a ceasefire and/or a peace process largely depends on what type of resources it had in the first place. For instance, if the funds come primarily from the diaspora, these will not dramatically decline during a ceasefire – unless other dynamics such as international proscription (as in the case of the LTTE, which was added to the EU terrorist list in 2006) come into play. Ceasefires are more likely to represent a fundraising constraint if the group’s revenues come primarily from its predatory behaviour. If NSAGs rely on coerced taxation or foreign governments, patronage systems are likely to be (negatively) affected by ceasefires, unless a ceasefire is seen as a chance of generating new sources of revenue through government contracts, international support, etc. (as seen in Myanmar and Sri Lanka), which would allow these patronage systems to remain in place. Criminal activity such as the trafficking of illicit products is also likely to be severely constrained by ceasefires. However, if an NSAG thinks there may be economic opportunities to market illicit goods during a ceasefire, such activity could also be seen as an opportunity.

The financial impact of ceasefires also depends to a great extent on what type of financing is prohibited under the ceasefire agreement, although the cases discussed above indicate that there is no simple answer. In early instances of ceasefires in Aceh (2002) and the Basque Country (2006), the “taxation” or extortion of local communities and businesses was not formally mentioned in the respective ceasefire declarations or agreements, but the continuation of (or even increase in) such practices had an alleged negative impact on the peace process, because the other side interpreted it as a sign of bad faith. By contrast, the LTTE in Sri Lanka formally committed to ending extortion, but denied violating this provision by claiming that its taxation system was a component of its “regular” (quasi-)state governance functions in Tamil Eelam. By contrast, in its final ceasefire in the Basque Country (2012), ETA made the ending of extortion a key sign of its readiness to abandon violent activities once and for all, and invited international experts to verify that this practice had indeed ended. This was, however, conditioned by the organisation’s decision to move towards the disarmament and demobilisation of its armed apparatus, which meant that it no longer needed extensive resources to support its members and operations.

One expert on rebel governance has found that during times of relative peace or during a ceasefire many insurgents will devote more of their financial resources to civil governance efforts (Mampilly, 2011: 223-25). One can indeed assume that if a ceasefire agreement does not explicitly prohibit collecting taxes or receiving support from communities, this could be seen as a good opportunity to use the funds for peaceful (instead of military) activities, such as the consolidation of civilian governance structures or the development of a political party. Other sources of revenue, such as diaspora funds, could also be used for such purposes, as well as legal revenues from the sale of agricultural products and natural resources, if the NSAG were given the opportunity to market these

products openly and transparently. Ceasefires may represent an opportunity for NSAGs to expand their quasi-state functions and territorial outreach – especially when they are seen as having a legitimate monopoly of force in the areas under their control.

This study also examined to what extent international third parties involved in peace negotiations between governments and their armed challengers are ready to disburse funds to support NSAG negotiators and their organisations as compensation for stopping their illegal fundraising activities. We found no concrete evidence of such direct support, and in fact all mediating bodies involved in the cases discussed stated their explicit refusal to nurture a culture of “per diems” to incentivise negotiations.<sup>9</sup> Only in Mali did neighbouring states allegedly make use of such incentives for leaders of the MNLA and other armed groups, although it is not known whether they played any positive role in the lead-up to the Algiers peace accord. On the contrary, such practices, which continued during post-peace accord negotiations, seem to have had a highly negative impact on these organisations’ internal cohesion by increasing rivalries and divisions within them, and widening the gap between political/military leaders and combatants, thus running the risk of renewed escalation by disgruntled splinter groups. Similar dynamics seem to be occurring in Myanmar, as a result of the influx of state, private sector and international investment into KNU heartlands. If development policies were officially aimed at fostering peace dividends for the rebel movements to discourage them from armed activities, the Myanmar government hoped that the increase of development services in the EAOs’ heartlands would increase its standing and reputation, which could then lead to a decrease in the legitimacy of the rebel groups and their governance systems. However, these developments seem to have led to a growing internal polarisation within armed groups, between some commanders and political leaders allegedly becoming self-enriching businessmen, on the one hand, and their followers feeling betrayed and decrying the ceasefires as buy-off strategies by the state and international companies, on the other hand.

In short, across the five cases under study, ceasefires seem to have rather represented both a financial and a political opportunity for NSAGs, although these “benefits” came with some side effects for the peace process or the groups themselves (in terms of maintaining internal cohesion and legitimacy). If the gains made by these groups during peace processes were perceived by the government as being too great, this resulted in a loss of confidence by the state that its opponents were negotiating in good faith, ultimately resulting in a breakdown of the ceasefire and negotiation process (as seen in Aceh and Sri Lanka).

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<sup>9</sup> One of our respondents also noted that in contexts where armed leaders have become enriched by years of predatory economic activity, even generous per diems and in-kind contributions during negotiations would not constitute credible peace incentives.

## 4. Post-war funding options to incentivise transitions away from illicit war economies

While the “ripeness” factor for some peace processes lies in a “mutually hurting stalemate” experienced by all belligerents, Wennmann (2009: 1128) suggests instead that most starting points for negotiations may be seen as a “mutually profitable stalemate”, because the parties have to feel that peace dividends will offer “higher rewards than the continuation of fighting”. According to this logic, long-term political or economic incentives can help strengthen NSAGs’ political will to commit to a peace process and to make the necessary concessions, including abiding by a ceasefire.

The sources and types of financial support that are typically granted to demobilised combatants are well known, and include: support for the cantonment, demobilisation, disarmament, and socio-economic reinsertion/reintegration of NSAG combatants; support for the transformation of underground militant structures into peaceful political organisations, usually in the form of a political party; and support for structural reforms (because NSAGs usually recruit a large proportion of their combatants among the most deprived areas and poorer sectors of society, and they may be able to benefit from development schemes and socio-economic reforms). A core feature of these various support schemes is that they tend to be channelled to individual combatants via an independent body such as a DDR commission (Knight, 2012).

An alternative approach, which may facilitate more sustainable and empowering transitions to post-war peaceful leadership, consists in supporting self-managed reintegration structures set up by NSAGs themselves. In Mindanao in the Philippines, the Bangsamoro Leadership and Management Institute (BLMI) managed by the Moro Islamic Liberation Front received funding from both the government and international donors (including Australia, Japan and the Asia Foundation) that helped the organisation to train its members and sympathisers in public administration, leadership empowerment and international diplomacy to prepare them for work in a future administration (Dudouet et al., 2016: 20). In Aceh, GAM’s armed wing was transformed into a civilian Transition Committee (KPA) in the wake of the 2005 peace accord in order to oversee and facilitate combatants’ transition to civilian life. The KPA received the funds allocated for the socio-economic reintegration of GAM combatants directly from the government and foreign donors, and disbursed them across the province to the wide network of members, relatives and supporters according to its own qualification criteria (Wandi, 2012).

One common denominator among these various forms of support is that they are all time-bound and thus may not offer credible incentives for sustainable income, hence their limited role as incentives for NSAGs to pursue exclusively peaceful strategies. This logic may explain the protracted nature of many ongoing armed conflicts,

where the belligerents refuse to honour a signed peace deal (such as the 2016 peace accord in South Sudan) because the continuation of fighting is more profitable than any socio-economic facilitation package they may receive as part of a demobilisation and disarmament process.

## 5. Conclusions: lessons learned for the provision of external support to peace processes

Based on a succinct review of the literature on war economies, a preliminary exploration of the impact of ceasefires as fundraising constraints or opportunities for NSAGs, and some brief reflections on post-agreement support options that may (or may not) incentivise combatants to adopt a peaceful strategy of engagement, this final section aims to draw some lessons learned and options for third-party facilitators who are involved in either the pre-negotiation or negotiation stages of peace processes.

### 5.1 Doing the analysis right: understanding the nature, interests, incentives and power of NSAGs in context

When negotiating or mediating with an NSAG, it is critical to have sufficient understanding of the actor itself. This does not just mean knowledge of its demands and/or political grievances, but rather a much more in-depth understanding of the nature of the group and its sub-units, its specific and general interests, and the potential incentives that its members would respond to, specifically in terms of bringing them to or keeping them at the negotiation table. This entails having detailed knowledge of their economic interests, as well as their source(s) of power, which have the potential to change dramatically over the course of the conflict. Thus, when considering negotiating and/or implementing a ceasefire, it is essential that the economic aspects and needs of the NSAG concerned are taken into account and the interlinkage between its financing sources and its initial *raison d'être* is recognised. Wennmann (2010: 74) argues that engaging armed groups solely on political or military issues can be counterproductive, and the economic factors affecting the NSAG should be “recognized, related to political and military issues and integrated into a comprehensive conflict resolution strategy”.

It is also important to understand the NSAG's sub-national (regional, district or local) governance functions and to explore how a ceasefire will impact on these sub-national dynamics. If a ceasefire decreases the ability of the group's leaders, commanders and/or members to “govern” the areas or communities they control (perhaps due to the inability to raise funds or sustain their fighters' livelihoods), this could decrease their legitimacy and potentially have a detrimental effect on their willingness or authority to maintain the ceasefire. A thorough analysis of

sub-state governance practices also helps to identify the real power brokers on the ground and ensure that these individuals are involved in the negotiations, as opposed to solely engaging with exiled or capital-based leaderships.

### 5.2 Weighing the pros and cons of strict fundraising regulations in ceasefire arrangements

The decision on whether to recommend a formal ceasefire agreement (e.g. as opposed to parallel unilaterally declared ceasefires) and what such an agreement will entail should be considered with great care. Understanding the economic (as well as the political and security) dynamics of an NSAG should assist negotiators and/or mediators to decide how strict or how vague to make the wording of a ceasefire agreement. It is imperative to reflect on what is realistic and achievable in each specific context.

An NSAG's agreement to stop all activities that involve raising revenues, such as revolutionary taxes or extortion, can be understood as a sign of a credible commitment to the ceasefire and ultimate peace accord, and can increase confidence in the NSAG's sincerity. However, it is imperative that the conflict parties are treated evenhandedly in negotiation processes, and given the power imbalance that is inherent in all intra-state conflicts, this imbalance could be reinforced if the NSAG loses its (primary) sources of revenue, while the state's revenues remain unaffected. This might then affect the NSAG's ability to comply with the ceasefire provisions if it does not have the means to meet its obligations (Hayson & Hottinger, 2004: 15). If this situation is prolonged it could lead to internal frustrations and a loss of commitment to the peace process.

It might therefore make sense to limit the constraints on fundraising to violent or coercively enforced methods<sup>10</sup> and allow, for instance, voluntary revolutionary taxation to continue, provided that it is used for non-violent activities, and that its non-coerced character can be verified, as in the Basque Country, by setting up an independent verification body, or additional measures for citizens to anonymously report cases of threats, pressure or intimidation. One may also aim for “constructive ambiguity” in ceasefire provisions (such as that in the NCA in Myanmar) that allows for a less strict reading of the limitations on NSAG fundraising. Such a way forward could potentially be more pragmatic and lead to less unrealistic expectations about what an NSAG can commit to. It could also be a way of encouraging NSAGs to slowly transform their

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10 For example, Article 15 of the Code of Conduct signed by the Nepali government and the Maoist party in May 2006 requested the parties “not to collect or mobilize donation or financial support, in cash or in kinds or services against one's will”; see [http://peacemaker.un.org/sites/peacemaker.un.org/files/NP\\_060525\\_25%20Point%20Ceasefire%20Code%20of%20Conduct.pdf](http://peacemaker.un.org/sites/peacemaker.un.org/files/NP_060525_25%20Point%20Ceasefire%20Code%20of%20Conduct.pdf).

war economies and/or businesses into legal (political, economic or social) activities, bearing in mind, of course, the possible side effects that it may have on the group if its leaders are perceived to be taking personal economic advantage of a ceasefire. The success of such a strategy would also depend on the central government's abstaining from entering NSAG-controlled areas to carry out its own governance functions (thereby overriding the NSAG's authority in these areas).

### 5.3 Devising support options by mediators and international guarantors

Besides allowing NSAGs to continue to rely on their typical sources of revenue and encouraging a switch from illicit to legal income-generating activities, other support options seem at present to be somewhat limited. Potentially, there could be funding for NSAGs from international sources – either directly or indirectly – as compensation for or an incentive to stop illegal and/or violent activities and coercive fundraising, or to encourage commitment to the peace process. To our knowledge, however, no such formal funding arrangements have been implemented in response to a unilateral or bilateral ceasefire. The direct financing of NSAGs is certainly off limits to most donor agencies for various reasons. Firstly, some NSAGs may be proscribed as terrorist groups, in which case providing funding to them is impossible due to legal constraints. Furthermore, political and strategic limitations – such as the disapproval of the government in question – may also play a role, as well as the moral implications of funding an armed group as an incentive to desist from violent activities without obtaining any formal concessions or promises from the group in return. NSAGs themselves may be reluctant to accept the replacement of internal funding sources by formal external support schemes prior to the signing of a peace accord, since this may entail disclosing sensitive information on the number and locations of their combatants, which may be used for counterinsurgency purposes if the ceasefire deal were to break down. However, experienced mediators suggest that mechanisms should be put in place to ensure that the parties can deliver on their ceasefire promises, and it should be understood that such promises will necessarily have some financial implications. Hayson and Hottinger (2004: 15) argue that there is a “responsibility on those negotiating a ceasefire to ensure that the ... parties have or will have adequate funds to meet their obligations. The agreement might need to specify who will provide the funds and to whom it [sic] will be provided.”

One option may be to channel funding to negotiation support structures or “peace architectures” associated with the conflict parties (such as the LTTE Peace Secretariat in Sri Lanka or the BLMI in Mindanao) instead of transferring funds directly to an armed group. This may be done unilaterally, if the government can be convinced that such funding will ensure that its negotiation partner is able to deliver on its ceasefire promises and keep its members united behind the leadership during protracted

negotiations. Support can also be provided to both/all sides, if it helps third parties to maintain their status of (perceived) even-handedness. However, such funding should be conditioned on visible and measurable progress in the negotiations in order to avoid negotiators' developing a vested interest in protracted dialogue processes that do not deliver any concrete outputs (as seen currently in Mali).

Another potential option would be to build economic incentives early into the details of the peace process to compensate for the temporary loss of war-time revenues, allowing the leadership to have faith in the availability of economic opportunities as a result of the negotiations. This means finding “ways to strengthen the prospects for tangible economic opportunities after a conflict in order for the armed group to recognise that it is worthwhile to stop fighting” (Wennmann, 2009: 1128). Such incentives may take the form of power-sharing arrangements (relevant positions in the administration that earn consistent revenue), promising an influx of development aid into the relevant regions (which may not always be beneficial for local communities, as we have seen in Myanmar), meaningfully negotiating socio-economic reforms (e.g. land redistribution), or offering generous and sustainable DDR packages. Giving credible commitments to post-war peace dividends – not just economic opportunities – is a critical part of any peace negotiations, in order to allow both parties to move forward towards a “mutually profitable” resolution of the conflict.

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