

»»» How can the private sector contribute in fragile contexts?



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The role of the private sector in reducing poverty is widely recognised. For almost a decade, private sector development (PSD) has been seen as key to success, including in fragile contexts and conflict situations. This is demonstrated in the 2011 World Development Report, the UN 'Business for Peace' initiative (2013), the Addis Ababa Action Agenda (2015) and the World Bank's recently published strategy on "Fragility, Conflict and Violence (2020-25)". So how can private sector development help to promote peace and reduce fragility?

The private sector in fragile contexts...

Similarly to the situation in developing countries more generally, around 90% of the private sector in fragile contexts is made up of small and micro enterprises — the vast majority of which are in the informal sector. At the other end of the spectrum are a very small number of major state companies or multi-national groups which together represent the majority of foreign direct investment in fragile countries at just 2%. Even though the private sector is as heterogeneous as the fragile contexts in which it operates, the conditions under which private sector activity occurs in fragile contexts typically include:

- major political uncertainty and minimal state enforcement capability (e.g. rights of ownership, tax obligations, regulations);
- low-quality basic infrastructure (electricity, roads, market access, etc.) and inadequate financial infrastructure (including limited access to capital and loans);
- a precarious security situation.

...and its ambivalent role in peace and fragility

Despite the difficult conditions in fragile contexts, the private sector holds potential for greater peace and stability. The faith placed in its positive impact on peace is primarily based on the im-

portant contribution that the private sector can make in the following areas:

- creation of prospects for the future and rebuilding public trust and social cohesion through employment/income generation (outside of conflict groups)
- increasing the availability of goods and services and (re)building important supply infrastructure (water, municipal administration, etc.)
- generation of public revenue to provide basic public services (security, education, health care, etc.).

However, the empirical research on the potential for private sector development to promote peace and reduce fragility is not unequivocal and many studies point to the ambivalent role of the private sector in fragile contexts. This is because, even if it can make an important contribution to the "peace dividend" by improving the economic conditions, the private sector can also trigger and exacerbate (violent) conflicts. Issues around access to and the distribution of (scarce) resources among the population play a particularly key role here.

Aspects of the development policy approach

To address these hurdles and achieve some impact on peace, there are various conceivable approaches to PSD. The main target group is micro, small and medium-sized enterprises (MSME) in the (in)formal sector. Overall, there is a wide spectrum of measures to consider, including:

- support to individual start-ups through financial aid, with particular importance assigned to pro-employment measures
- (re)building of basic infrastructure (especially electricity)
- promoting MSME access to working capital and investment financing by providing refinancing lines or guarantees to private financial intermediaries, along with advisory components

for the MSME and financial intermediaries.

An important factor in ensuring success is the creation of synergies between the private sector's economic interests and the pro-peace, stabilising impact that we hope to achieve.

Remaining challenges

In spite of these possibilities, all private sector development measures must address two key challenges: first, they must be flexible and designed for the long term. Volatile contexts make thorough political and economic analysis particularly important when designing and implementing private sector development measures. Secondly, private sector development must not be viewed in isolation, as functioning markets can maximise their potential in the context of a capable state. Since adequate political, legal and administrative contexts are a necessary prerequisite for investment, trade and corporate growth, even if they are insufficient on their own, private sector development should be accompanied by measures to develop an effective public sector.

Conclusion: PSD offers potential for peace

Even though private sector development is still a comparatively young and complex promotion area, which has not yet been tried and tested much, it nonetheless contains major potential for promoting peace and reducing fragility. Realising this potential and avoiding effects which could exacerbate conflict requires thorough analysis of the causes of conflict and the lines of division. ■