Private sector development (PSD) in fragile and conflict-affected states often replicates past dynamics that led to social divides, conflict and violence. It undermines peacebuilding, state building and human development goals. The United Nations Peacebuilding Commission can help PSD promote national reconciliation and peaceful development. To do so, it must approach PSD as a process of building broad-based social and political consensus on economic matters – and as a peacebuilding process that requires ongoing support.
Key findings

- The private sector plays an inordinate role in peacebuilding environments. How it is organised, financed and operates profoundly shapes economies emerging from conflict – for better or worse.
- In many conflict contexts, the private sector results from, and further enables, patronage politics merged with corruption. This compounds state fragility and vulnerability to internal and external shocks.
- Decisions regarding PSD inevitably require trade-offs between competing interests, which have consequences not only for the economy – but also for peace.
- Perverse impacts of PSD emerge when governments, bilateral donors, development finance institutions and other national actors ignore the predictable impacts of PSD on conflict drivers.
- These conflict drivers typically include inattentiveness to the informal sector, inter-group inequality, ethnic exclusion, elite enrichment, the abuse of the state security apparatus for economic gain, or impunity of companies for the negative social and environmental impacts of their operations.

Recommendations

For the United Nations Peacebuilding Commission (PBC):

- Promote better understanding of PSD as an ongoing process of building broad-based social and political consensus on matters of the economy – and as a peacebuilding process that requires substantial support.
- Play a more prominent role in ensuring inclusive and collaborative analysis in each fragile and conflict-affected country. Analysis should highlight the peacebuilding (or conflict) impacts of national and international policies, regulations, financing and investments related to PSD.
- Promote local mechanisms that can credibly convene diverse parties, build common understanding of the local context, and nurture sufficient consensus for private sector investment and operations that support national reconciliation and peaceful development. These can draw on well-established practices and principles of infrastructures for peace.
- Promote broad-based norms and standards – and independent monitoring and evaluation – that ensure that principles and practices known to be more peace-positive are applied by companies, governments, bi-lateral donors, development finance institutions and others.
- Promote engagement of private sector actors as partners who support PSD-related peacebuilding processes. Their participation, financing, and accountability for impacts and outcomes should be a condition precedent to their access to commercial and financial opportunities.
Introduction

In most post-conflict contexts, the private sector marries patronage politics with corruption to restrict essential goods and services, and to exacerbate inequality and inter-group resentment. This renders the state more fragile and more vulnerable to both internal and external shocks. Persistent violence related to mining in Guinea and Sierra Leone, oil and gas in Mozambique and Nigeria, and commercial agriculture in Uganda and Ethiopia are only a few of the hundreds of examples across the continent.

This is in large measure because post-conflict private sector development (PSD) – defined as the policies, regulation, financing, investment and private business development that together define the contours of the business landscape and its operations – unfolds in a policy and institutional environment that ignores conflict dynamics. Evidence shows that peace processes largely ignore or marginalise economic issues, even though these are typically at the heart of violence between groups in conflict.

Thus, decisions made within elite circles can undermine peace. For example, they can privilege plantation agriculture over the many more people in the informal economy, or allocate land and water to corporate actors at the expense of local communities. They can lead to subsidised project finance that educes the company’s financial risks – distorting market conditions in ways that de-incentivise innovative management and other practices that ensure long-term sustainability – without accounting for the risks this creates for proximate communities and others.

Along such pathways, PSD tends to replicate pre-peace settlement dynamics, rendering the private sector a vector for persistent fragility. Almost every fragile state suffers conflict with a close nexus to the private sector, undermining social cohesion and inclusive development.

This policy brief focuses on ways in which the United Nations (UN) Peacebuilding Commission (PBC) can leverage its political mandate and convening power to promote international policies and programmes related to PSD that in fact helps to consolidate peace and reduce fragility.

A (missed) opportunity for the PBC?

The 2015 UN review of its peacebuilding architecture stressed that the PBC should, in fulfilling its mandate, convene ‘all relevant actors … including […] where relevant, the private sector.’

The PBC thus convened, jointly with the UN Economic and Social Council (ECOSOC), a June 2018 meeting on ‘Partnering with the Private Sector for Peacebuilding and Sustaining Peace’. It also convened in Cartagena a January 2020 meeting on ‘Good Practices in Financing for Peacebuilding and Partnerships’, the first PBC meeting outside of New York. Such efforts have helped to highlight issues and to suggest possible general frameworks for solutions.

Post-conflict PSD unfolds in a policy and institutional environment that ignores conflict dynamics

The challenge for the PBC is to translate these initiatives into coherent PSD strategies for particular fragile and conflict-affected states. The absence of such a strategy can have tragic consequences. In 2006, for example, civil society actors in Burundi called on the PBC to use its ‘unique political mandate to engage in dialogue’ across the range of stakeholders to address known conflict drivers by orienting PSD in more inclusive directions.

However, neither the PBC nor others acted. Rather, in nominally post-conflict Burundi, ‘[t]he politicisation of business extends political fragility to the private sector,’ with many actors in the private sector ‘surrogates of politicians or people with strong political connections.’ As a result, the re-emergence of private sector dynamics that dominated before the Arusha Peace and Reconciliation Agreement contributed strongly to the instability and violence that came to a head in 2015. This has repercussions in the country’s ongoing political and humanitarian crisis.

Actors in the economic sphere often appear blind to these dynamics. For example, in Burundi in the period
2011 to 2015, bilateral donors and international financial institutions – most notably the IFC through its Conflict-Affected States in Africa initiative (CASA) – celebrated the contributions of PSD to peaceful development. They ignored the underlying, worsening dynamics of private sector corruption, cronyism, and exclusion that inevitably led to renewed conflict.

While sombre, this analysis suggests a potentially catalytic role for the PBC. In each fragile and conflict-affected state, it can help to apply a peacebuilding lens to PSD in order to:

- Articulate PSD challenges and opportunities with respect to national reconciliation and peaceful development
- Shape institutions and partnerships that can convene role players and build consensus on a path forward
- Promote norms for peace-positive PSD in order to both motivate and hold to account a wide range of actors.

In doing so, the PBC can at the same time open new avenues for the financing of PSD and peacebuilding.

**PSD constitutes a continuation of peace negotiations with outcomes perceived to be stable and just political settlements on economic matters**

**Peacebuilding lens for PSD**

The evidence is strong that, for PSD to reduce conflict, attention must be paid to the distribution of costs and benefits between conflicting groups, who are highly aware of how business activities create or restrict economic power and opportunities. Their assessments shape the perceived costs and benefits of continued conflict and resistance to collaboration.

Thus, absent intergroup settlements on the distribution of costs, benefits and risks from private sector activities, the resources invested in and generated from conflict-affected areas can be predicted to increase conflict risk. This holds even when there is an explicit intention to deliver a “development dividend”.

These realities confirm that questions of business and peace are essentially relational. Whether at the level of the individual firm and its host community or the level of policy for PSD at the national level, what matters is the working trust that is built (or broken) between groups as the economic dimensions of questions of sustainable peace and development are discussed and decided.

The PBC can grow understanding of PSD as a process that constitutes a continuation of the peace negotiations – the outcomes of which must be stable and just political settlements on economic matters. Thus, PSD
requires structured, accompanied approaches for reaching these settlements between diverse (and often enough conflicting) actors and perspectives on an ongoing basis.

**Defining peace-positive PSD**

PSD will inevitably include consideration of (and trade-offs between) rural and urban interests, sectoral priorities, different regional or ethnic interests, short and long-term perspectives, and so on. These have consequences not only for the economy, but also for peace.

The PBC should insist on peacebuilding principles of consensus-building and inclusion as policy, regulatory, and investment priorities for PSD are set.

For example, building a road from a plantation to a port may enable the quickest short-term gains in GDP, and generate corporate tax revenues that are easier for a new government to collect. But a road from a remote part of the country to the capital may provide much broader opportunities for smallholder farmers to develop sustainable markets – while avoiding the land conflicts and other human rights abuses associated with plantation agriculture and bridging a rural-urban divide.

Much is known about peace-positive PSD. It must stimulate broad-based economic growth (rather than within a few limited companies or industries); and it must expand economic opportunity in informal markets as well as in formal markets for countries whose overwhelming majority of people live in the former. PSD must reduce horizontal (between-group) inequalities; and it must acknowledge and address critical drivers of conflict and fragility, whether these take the form of ethnic exclusion, elite enrichment, the abuse of the state security apparatus for economic gain, or impunity of companies for their negative social and environmental impacts.

The opportunity for PSD that supports national reconciliation and peaceful development – and thus the PBC – becomes the support for broad-based social and political consensus-building around such analyses within each particular fragile and conflict-affected state, building from these general principles.

The PBC should insist on peacebuilding principles of consensus-building and inclusion as policy, regulatory, and investment priorities for PSD are set. The PBC can promote diversity of participation and effective decision-making across men and women, ethnic groups, youth and elders, regional and traditional authorities, human rights activists, smallholders and local communities.

At the same time, it should promote coherence across the many actors inside and outside of the UN, public and private, who are beginning to set strategies...
related to PSD and peace in fragile and conflict-affected states, helping to hold them account to these local stakeholders.

**Infrastructure for peace-positive PSD**

Peacebuilding requires ways to credibly convene diverse parties, build a shared understanding of the context, and nurture sufficient consensus around plans for how specific private sector investments will move forward.

These tasks are often left to nascent state institutions that are quickly overwhelmed. In Uganda, for example, oil and gas exploration started before many institutions to regulate it existed. In Liberia, a study concluded that the vast majority of concession agreements entered into by the State did not comply with Liberian law, particularly concerning issues such as community consultation that are at the heart of the conflict.

Concurrently, institutional reforms sponsored by bilateral donors and international financial institutions may lead to higher levels of foreign direct investment and GDP growth, as they are highly attentive to foreign capital needs. However, they do not address (and may exacerbate) the underlying drivers of fragility, as they are made ‘without any fundamental political restructuring’ and avoid addressing broader domestic concerns over the distribution of benefits and the legitimacy of government in the eyes of the population.15

The peacebuilding community has developed significant expertise in infrastructures for peace. These are defined as compensatory mechanisms for engaging diverse constituencies and building social consensus to address pressing problems in ways acceptable to a sufficiently broad swath of society.16 Such approaches are at their best transitional, helping to establish patterns of interaction that can progressively move from institutional grey spaces to greater formalisation as consensus around their functioning is built.

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The PBC can play a long-overdue role in transferring to PSD actors the proven technologies deployed by infrastructures for peace. These include participatory data collection, collaborative analysis, progressively expanded coalitions for change, targeted interventions that address conflict and violence’s most acute risk factors and sustained institutional support by an honest broker.17

These mainstream conflict risk management and peacebuilding practices have been shown in numerous cases to be applicable to prevent and manage conflict in the context of PSD. However, their implementation may
The PBC should insist that company obligations be independently mediated and emphasise that collaborative analysis and consensus-building takes place.

Companies already have obligations concerning conflict sensitivity, human rights due diligence, and community engagement. These arise under international human rights law (e.g., the UN Guiding Principles on Business and Human Rights); contractual obligations (e.g., the IFC Performance Standards, applied also by other development finance institutions and Equator Principle Banks); international treaty law (e.g., ILO Convention No. 169 on free, prior, and informed consent); any number of other international standards; as well as those emerging in national law (e.g., the recent French legislation on due diligence).

The PBC should insist that these obligations be carried out through independently mediated, participatory local processes that emphasise collaborative analysis and consensus-building on the best path forward, consistent with peacebuilding best practices. Institutional policies (e.g., within the IFC) often demand a conflict-sensitive approach to PSD. However, it is shocking the degree to which evidence of peacebuilding effectiveness is absent from the work of governments, bilateral donors, development finance institutions, and other international actors engaged with PSD – despite their claims to be building peace through private sector investment and business environment reform. The PBC should...
advocate for independent monitoring and evaluation of conflict and peace dynamics related to PSD.

Furthermore, this will most usefully be done not at the individual project level, but within a peacebuilding systems perspective. Consistent with peacebuilding best practice, such an approach considers the cumulative impact and coherence of efforts concerning crucial drivers of conflict and cohesion. Policy impact evaluation should occur within broadly participatory processes. These can maximise accountability as they create new forums for building sufficient coalitions supportive of PSD that advances reconciliation and peaceful development.

The processes advocated for in this policy brief directly benefit peace-minded private sector actors in achieving their business goals

Resourcing peace-positive PSD

The building blocks for peace-positive PSD described above may help to mobilise private sector resources for peacebuilding.

Firstly, many analyses within the same peacebuilding context – by the IFC paying a European think tank, companies flying in consultants for environmental and social impact analyses, and those by local and international NGOs – are unnecessarily expensive and duplicative. They are unlikely to have much cumulative impact. And they are unlikely to create the positive network effects that emerge when data gathering and context analysis draw on diverse perspectives and experiences.

The PBC can promote collaborative approaches that produce better analysis at a lower cost. Furthermore, the PBC can, within the infrastructures for peace-positive PSD that it helps to develop, ensure that the analyses help to build action networks. These networks can connect the experience and expertise of peacebuilding actors and peace-minded actors engaged with PSD within the UN system, international organisations, government, labour, local communities, civil society and the private sector.

Secondly, the processes advocated for in this policy brief directly benefit peace-minded private sector actors in achieving their business goals. They increase transparency and certainty. They decrease risks from blind spots or poor implementation. They help companies to make their strategic planning more permeable to outside influence sharing control over decision-making in ways that build trust. Simply put, they make it possible for a company to join an existing, ongoing effort – a value proposition more attractive to an ethical company than trying to engineer its own initiative.

Conversely, such processes interfere with the ability of private (and public) sector actors to take advantage of a peacebuilding environment. They make it harder to externalise social and environmental costs for private gain, as they
promote broad participation and the attendant formal and informal accountability. Thus, they at the same time incentivise positive PSD and disincentivize negative PSD. The PBC should expect that peace-minded actors engaged in PSD should be willing and able to provide support to peacebuilding processes related to PSD – in terms of participation, financing, and accountability for impacts – from which they benefit. Conversely, a business unwilling to participate in or finance such processes raises a red flag regarding their capabilities and bona fides as peace-positive private sector actors. They should potentially be excluded as business partners in sensitive peacebuilding environments.

The PBC should thus work with national and national actors to normalise private sector participation in, and financial support for, peacebuilding processes related to PSD. Private sector actors (as well as others engaged in PSD) can come to the table not as donors, but as partners in a joint enterprise that supports reconciliation and peaceful development, as well as peaceful business operations.

**Overcoming systemic barriers**

The proposals outlined above – however sound from a peacebuilding perspective – will likely be challenging to syndicate across the range of actors required for their implementation.

There are signals that, in light of the COVID-19 crisis and other developments in the global economy:

- Host country governments are increasingly desperate for foreign investment at any cost
- Bilateral donors are as interested in the business opportunities for their own companies as they are in local peace and development
- International development finance institutions facing competition from new development partners and private equity are downplaying social and environmental performance guarantees
- Private companies are investing more in being seen to be good actors than in actually changing their ways of doing business
- Even UN agencies and other development partners may stifle critique of the current course of PSD, lest it interfere with even the modest support from economic actors from which they currently benefit.

At the same time, ‘overlapping wedges in society … between capital and labour, skilled and unskilled workers, employers and employees, globally mobile professionals and local producers, industries/regions with comparative advantage and those without, cities and the countryside, cosmopolitans versus communitarians, elites and ordinary people’ make it harder to build consensus within a fragile context on a pathway for peace-positive PSD.

**Private sector and other actors can come to the table not as donors, but as partners in a joint enterprise**

We should therefore expect a difficult period ahead for those who wish to see PSD promote peace. But this is precisely the point of a peacebuilding framework for PSD. For PSD to help build peace, it must do so in the face of social division, legacies of grievance, weak institutions, lack of trust in government, pressing socio-economic challenges, and the presence of spoilers who exploit or tolerate conflict to meet their narrowly defined interests. These are the very conditions that define fragility and enable conflict with a nexus to PSD to fester and turn violent in the first place.

The PBC’s mandate, power of convening, and resource mobilisation should therefore be used not only to highlight such dynamics at a global level, but to see that effective peacebuilding processes be applied to PSD in every fragile and conflict-affected state.

This is a project not only of promoting better ideas related to PSD and peace. It is also one of careful, courageous, and coordinated mobilisation of coalitions, institutions, and resources. Efforts must be sufficiently sustained to prevent backsliding into patterns of PSD that replicate the political economy that led to violence, and that instead lead to a private sector that advances reconciliation and peaceful development.

**Notes**

PRIVATE SECTOR DEVELOPMENT IN FRAGILE STATES: A PEACEBUILDING APPROACH

14 Ibid.
18 Ibid.
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