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Is conflict sensitivity applicable to employment? Business in fragile and conflict-affected settings

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Is Conflict Sensitivity Applicable to Employment?

Business in Fragile and Conflict-affected Settings

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EXECUTIVE SUMMARY

“Conflict-sensitivity” is a catchword that addresses business practices in environments of armed conflict. The United Nations Global Compact and international finance institutions are devoting efforts into convincing companies to comply with principles aiming to provide the private sector with a role in peacebuilding. They portray employment creation as a key factor in attracting young people away from joining armed groups. This *Working Paper* introduces the term “conflict-sensitive employment” in order to shift the focus towards the job-related role of private business in conflict environments. A critical analysis of relevant documents and scholarly debates reveals major dilemmas. The almost complete absence of a regulatory state in the fragile and conflict-affected settings (FCAS) where protracted violence usually occurs contradicts the principle of the rule of law. The profit-orientation of investors and companies venturing into business in FCAS primarily tends to eclipse efforts towards decent employment. Workers may prefer offers provided by the war economy over civilian employment if it does not open up a long-term perspective. The *Paper* identifies two disparate narratives underlying the debate: The liberal peace ideal with its presumption of a harmonious society informs approaches to assign peacebuilding tasks to the private sector. A political economy perspective reveals that corrupt states and governments are an integral part of political marketplaces organized in the interest of businesspeople and competing powerholders. The tentative result of the analysis is that conflict-sensitive employment may be possible if it pays. Empirical research at the micro-level in FCAS is required to clarify if conflict-sensitivity is a viable approach.

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Main findings

Violent conflict affects economic sectors differently, and rebuilding war-torn economies requires case-specific approaches; micro-level studies, however, are rare

Economists point out that war reduces economic growth. It destroys assets, damages public institutions and regulatory compliance and thus enhances corruption. Violent conflict limits access to finance and labour and discards land ownership. It destroys infrastructure, distorts markets, and hampers tax collection. War interrupts production and trade and causes massive capital flight. It kills workers and entrepreneurs or compels them to flee. Sectors that are intensive in capital and transactions (manufacturing), as well as sectors that supply capital (construction) and transactions (transport, trade, finance), contract most rapidly whereas subsistence agriculture expands. Scholars caution that peace does not necessarily produce a dividend, because it neither recreates the fiscal nor the risk characteristics of the pre-war economy. Military expenditure is higher and the risk of renewed war greater, because the causes of war mostly persist during reconstruction. There is no blueprint for rebuilding war-torn economies; factor conditions such as land, labour and capital require country-specific consideration. Criteria such as the state of existing institutions, severity and duration of violent conflict, its root causes and effects should inform reform strategies. No rigorous evidence yet exists on which types of programmes are most effective at overcoming war's adverse impact on human capital.

Many peacebuilding approaches to reconstruction presume a strong state, which contradicts the fragile and conflict-affected settings (FCAS) prevailing after violent conflict; many studies ignore this dilemma

Although it is known that civil and economic institutions, as the state, are the main victims of war, especially internal war, many studies emphasise the need for a strong state to guarantee stability and

recovery and, through an adequate legal and regulatory framework, to attract private investment. They claim that transparency is important in order to constrain the high potential for rent seeking, especially in resource-rich countries. They consider the role of government in contributing to the creation of appropriate conditions for pro-growth entrepreneurship and adequate support of private sector development (PSD) as vital, and some even propagate a 'development state' to revamp the private sector. These studies do not address the fact that in many countries with violent conflict the wished-for strong state including its potentially mediating and regulatory institutions is absent or even an integral part of the problem, contributing to protract armed conflict. This inevitably leads to weak incentives towards cooperation within society. It produces gains for opportunists preying on cooperating groups with the consequence that trust within society erodes.

Infrastructure-building can enhance conflict or contribute to peace, if systematically planned; however, the impact of external assistance on economic outcomes is under-researched

Building infrastructure requires long-term funding. According to macro-economic surveys, electricity projects emerge about three years after the end of violent conflict and grow after five years. Private investment in transport, roads, railways and water starts much later. Cellular telephone network infrastructures, however, attract private investors even under conflict conditions, obviously because customers directly pay for the service. Public infrastructures rely on functioning state institutions which after violent conflict usually have a low absorptive capacity and are unable to distribute high amounts of aid. However, foreign assistance tends to be high immediately after war and to fade out when state institutions have gained the capacity to channel funds towards infrastructure investment. Scholars seeking to link investment to peacebuilding hold that rapid restoration of essential services such as water, sanitation and electricity will encourage the perception of a return to

normalcy within the population and move popular support away from pre-war or during-conflict loyalties. However, renegotiations of contract terms between project partners and privatisation of services sparking demonstrations of consumers are conflict drivers shaping the trajectory and cost structures of infrastructure investments. The role of external funding and the presence of aid agencies and peacekeeping missions for economic outcomes is significantly under-researched.

Entrepreneurs adjust to war economies, creating persisting structures that shape the economy long after the end of violent conflict

Business in war economies focuses on short-term, often illicit, gains. During violent conflicts, market competition acquires a militant dimension; armed actors dominate some businesses and warlords become businessmen. The breakdown of legal institutions and law enforcement extends business opportunities into spheres usually banned by law, in the domestic realm as well as to routes and networks for cross-border trade. Competitiveness depends on the ability of entrepreneurs to adjust to the violence-driven context, mainly through special relationships with powerful groups and networks of persons that can be trusted. Hence, businesses including small and medium enterprises (SMEs) are part of the conflict context. The continuous presence of extractive industries, agribusinesses, distributors, and security services demonstrates that formal market actors continue investing in FCAS environments. This often involves paying private security companies for protecting sites or transport routes, which can be a substantial cost factor. SMEs manage risks mainly through activities providing subsistence. Most business people are aware of the cost of conflict, and avoiding them is an important motivating factor for them to strive for peace. Nevertheless, the practices of entrepreneurs during violent conflict and the structures emerging

thereof are a legacy which shapes the economy for a long time after the violence has ended. Thus, unless and until war economies are dismantled, the prospects for durable peace remain poor.

Development agendas project roles onto the private sector suiting varying ideologies; a peacebuilding role appears to be the most recent projection

Many studies indicate that much investment, mainly in the extractive sector and large infrastructure projects, is harmful for large population groups. Displacement of land users, communal conflict over resources, and enforcement of patronage systems through large-scale foreign investors are most common outcomes. In war contexts, multinational companies appear as drivers of sustained conflict. Contrasting studies assume that intensified economic cooperation will prevent countries from fighting each other, leading to the so-called liberal peace. This perspective informs the policies of the international finance institutions (IFIs), which regard the private sector as driver of economic growth, job creation and stability. Recently they have focused on promoting investment in FCAS, surmising that companies, out of self-interest, may support conflict resolution mechanisms and curb corruption of state officials. Joint action of development agencies, community organisations, SMEs, and local leaders is portrayed as the way towards a constructive role for companies in peacebuilding. Some economists argue that entrepreneurship itself can be a tool to facilitate peace in FCAS, if the right incentives are provided. These imply external funding, because entrepreneurs are, by definition, profit-oriented. Moreover, their engagement requires efforts in state-building in order to create reliability. Balanced public and private sector development appears to be crucial for overcoming the features of a war economy.

SMEs are deeply entangled in the political economy created during the violent conflict, which raises doubts on their assumed peacebuilding potential; theories of change in FCAS are lacking

Most SMEs are part of informal economies, which maintain a considerable degree of self-organisation and regulations in FCAS, emanating from non-state actors and informal institutions. State engagement with the informal economy is complex and often entails negotiated arrangements over taxation or regulatory policies. State officials may pursue informal economic activities themselves, having vested interests in maintaining the informal economy. In FCAS, social legitimacy attributed to economic activities and the relative power of particular groups determines what is considered legal and illegal, not the government or state authorities. In this context, international organisations, sometimes in cooperation with local governments, have addressed business constraints and built capacities of informal SMEs with the aim to increase employment. Such projects failed as soon as the supporting programmes and organisations were withdrawn. Since enforcement of property and contract rights depends on trusted institutions, established local business networks may become crucial for re-constructing institutions after the end of violent conflict. In the economic literature, little evidence exists on the role of SMEs during ongoing conflicts, and no studies examine the effects on SMEs when international aid and foreign investment decline. There is a need for theories of change in SME development that do justice to the complexities in FCAS.

Employment policies in FCAS are based on unproven assumptions about an employment–peace nexus; insights from micro-level studies are missing

There is much evidence that employment is a key determinant of poverty reduction and that unemployment is a driver of instability. However, the role of employment for peace has not been examined

sufficiently in the context of FCAS. Existing literature just assumes the counterfactual, that employment creation will promote stability. Based on this, mainstream development studies insist on an employment–peace nexus and agencies have developed intuitive economic policies geared towards more employment opportunities for the jobless. These policies aim to reduce the likelihood that individuals will engage in violent activities because of the higher opportunity cost involved. Employment is assumed to moderate grievances, extend the range of livelihood options, create social capital, and if social services are added, to increase the tax base and enhance state legitimacy. Short, medium and long-term employment schemes need to run simultaneously for peace to be achieved and maintained. Open questions are which type of employment, if in the public or private sector has which effect on sustainable peace in which country context at which particular time, and if and under which conditions social policies are even more relevant than economic policies. Little research explores the micro-level or is evidence based. Much less studied are the effects of violence on employment.

Employment programmes in FCAS provide low-paid short-term jobs and lack long-term future perspectives for the youth, thus fostering frustration and migration

Military service and participation in non-state armed groups interrupt human capital accumulation, which affects large parts of the youth in FCAS. Another high proportion migrates. PSD programmes in FCAS employ skilled foreign labour rather than providing local jobs for local population groups. In the absence of a functioning state, development agencies provide ‘cash-for-work’, ‘food-for-work’, or ‘cash-transfer’ programmes and short-term skills trainings. Development agencies increasingly cooperate with private companies in employment creation, trying to integrate incentive structures for the private sector in reconstruction and peacebuilding strategies. Criticising this competitive market-led approach, political economists hold that international and local

entrepreneurs benefit, whereas local workers are exploited. The youth, which often had generated an income or worked as security providers during the armed conflict, loses its livelihood and may join criminal gangs or the informal sector. Bureaucracy hampers formal employment, creating a range of special target groups such as internally displaced persons, refugees, returnees, women, and youth, for which development agencies tailor special programmes. Employment concentrates on precarious jobs in agriculture, services, retail and construction, but not in industry and value-added production. Low-paid workers and large aid-dependent groups are the result, fostering frustration and migration. There is no effort to establish socio-economic rights for disadvantaged social classes.

Conflict-sensitive private sector development (PSD) requires awareness of the role of entrepreneurs, local and international stakeholders in the violent conflict and in FCAS

Conflict sensitivity requires the ability to understand the context of intervention, including inter-group tensions, divisive factors and potentials to connect groups across conflict lines. Where economic grievances are among the major causes of conflict, economic development with private sector involvement can have great potential. However, foreign and, even more so, domestic businesses operating in contexts of fragility and conflict tend to be inherently part of the political marketplace, besides local stakeholders and development actors. Entrepreneurs and employees will never be perceived as neutral in the highly political contexts of FCAS. Development agencies have produced guidebooks outlining PSD tools for FCAS, cautioning that a conflict-sensitivity approach requires programming relevant to the specific conflict. Cost-benefit analyses demonstrating the financial returns on investment in conflict-sensitive business strategies, learning from business impact assessments, and collaboration between businesses,

donors and civil society actors as well as trainings in doing business in FCAS are recommended, measures that should be accompanied by policy dialogue of international agencies with the government and the business community.

Conflict-sensitive employment requires equal commitment of private companies and government; it opens up a new field of micro-level research

Conflict-sensitive employment calls for employment practices that do not cause or exacerbate conflict. This demand not only relates to employers, but also governments and states. Company contributions to conflict-sensitive employment can involve particular employment practices, among them labour recruitment practices that are sensitive to local conflict dynamics and contexts, providing opportunities for training, decent wage levels and humane labour conditions. Hence, conflict-sensitive employment focuses on meaningful job creation providing future prospects. Moreover, employment needs to avoid divisive effects with the potential to create conflicts. More important than private sector employers are government policies and, in particular, the ministries in charge, among them those which themselves are providing employment or operating with contractors. Decent work, and even more so, conflict-sensitive employment, requires rules and regulations by the state. However, because of the high proportion of employment in the informal sector, companies and employers in informal economies also have an important role to play in creating conditions for conflict-sensitive employment. Many questions remain about how conflict-sensitive employment can be introduced in FCAS and, in particular, in the informal economies prevailing in FCAS.

Introduction

The concept of ‘conflict sensitivity’ originates from development and humanitarian actors, triggered by the genocide in Rwanda. This tragedy led to the realisation that humanitarian and development actors had contributed to increased tensions and exacerbated the conflict. Aid interventions have since been understood to be a part of the context – and in conflict settings, to be a part of the conflict. Subsequently, the framework set out in ‘Do No Harm’ (Anderson, 1999) was integrated into ethical guidelines for aid agencies, and the acknowledgement that aid is not neutral led to the recognition that donors need to consider the possible inadvertent side-effects of programming on conflict (Haider, 2014).

From these roots, ‘conflict sensitivity’ emerged as a concept and tool to help actors understand the unintended consequences of aid, to minimise harm and to achieve positive outcomes. In 2008, a group of 35 humanitarian, development and peacebuilding agencies joined together and established the Conflict Sensitivity Consortium, which produced a guide for intervention in societies affected by violent conflict. Accordingly, a conflict analysis should precede any intervention in order to understand the background, history, causes and groups involved in the conflict as well as these groups’ different perspectives. Conflict sensitivity involves “(t)he ability of an organisation to: 1) understand the context it operates in, (2) understand the interaction between its intervention and that context and (3) act upon this understanding in order to minimise negative impacts and maximise positive impacts on conflict” (Conflict Sensitivity Consortium, 2012). Even more pronounced, Saferworld has defined conflict sensitivity for any organisations operating in conflict environments as “understanding the context they operate in, especially the conflict dynamics; understanding the nature of their engagement and how this affects the conflict context, and vice-versa; acting on this understanding to avoid reinforcing conflict dynamics and to capitalise on opportunities to support peace” (Saferworld, 2016).

This definition makes it possible to extend the concept beyond the field of aid and development interventions and to apply conflict sensitivity to economic organisations operating in societies affected

by violent conflict. This *Paper* sets out to elaborate how conflict-sensitive approaches can inform investors and companies. The guiding questions are:

- \ How can private companies implement conflict-sensitive business practices?
- \ How can conflict sensitivity be applied to employment?

The remaining part of this introduction highlights the research field in three steps. Firstly, it introduces important global compacts and efforts to agree on standards, in order to clarify what conflict-sensitive business involves in practice. Secondly, it explains the meaning of fragile and conflict-affected settings (FCAS). Thirdly, it looks at the contradictions and dilemmas arising from the request to implement conflict sensitivity for businesses and, in particular, to strive for conflict-sensitive employment, in a setting of violent conflict and fragility. The introduction ends with an outline of the chapters of this *Working Paper*.

Applying conflict sensitivity to the private sector of the economy

Although conflict sensitivity originated in the humanitarian field, it has been applied in a wide range of development, peacebuilding and state-building contexts, as well as in private sector development (PSD) (Haider, 2014) and infrastructure development (Mashatt et al., 2008). Since the 1990s, various initiatives have emerged that address, to some extent, the need for businesses to be conflict sensitive in FCAS. Some of the initiatives focus on the extractive industries because these are particularly conflict-prone (see Annex for list of initiatives). In general, the focus of the initiatives is on business practices, recommending that companies make transparent the origin of resources, their operations and supply chains. In some cases, the initiatives also include prevention of corruption and implementation of human rights and transparency standards, issues which require government involvement. With more than 8,000 companies and 4,000 non-business members, the United Nations Global Compact (UNGC) is the largest initiative aimed at fostering responsible and sustainable business (UNGC, 2016).

The process of negotiations towards reaching agreements on business standards, usually between companies, governments, civil society organisations and international agencies, has been lengthy, and implementation has been slow, with many setbacks. Engagement by governments and intergovernmental agencies is generally an inherent part of the initiatives aimed at conflict-sensitive business, because governments and international agencies are considered to be the main guarantors of peace and security, as well as human rights. For example, the Guiding Principle on Business and Human Rights No. 7 of the United Nations Human Rights Office of the High Commissioner (UNHROHC) requires that states support business respect for human rights in conflict-affected areas, among other things, by “ensuring that their current policies, legislation, regulations and enforcement measures are effective in addressing the risk of business involvement in gross human rights abuses” (UNHROHC, 2011, p. 9). However, for many governments, in particular in FCAS, it has been difficult to enforce standards, either due to lack of administrative and law enforcement capacities, lack of financial incentives or lack of political will. When it emerged that government participation in some states and that of intergovernmental organisations remained low, the UNGC recognised that conflict-sensitive business practices could not progress without practical public policy assistance to companies and demanded concerted engagement by public policy actors (Ballentine and Haufler, 2009).

The initiatives aimed at conflict-sensitive business consider conflict in mainly two ways: as an environment in which products generated in undesirable ways get into trade and international markets; and as a (potential) outcome of strategies of companies or investors striving at resource exploitation without caring for social and environmental damages. The initiatives have generated agreements about monitoring procedures for the processes of production, trade and export. In parallel, and in response to these initiatives, international non-governmental organisations (INGOs) and think tanks have conducted numerous studies and social impact analyses, sometimes adding environmental impact analyses.

Looking at the issue of entanglements between warlords and companies, or between state officials, politicians and companies for self-enrichment and rent-seeking, they highlight how this can contribute to greater social inequality, corruption, favouritism and exclusion. In particular, in mining and extractive industries, practices may be exacerbating poverty, among other things, through displacement, deforestation or pollution, through marginalisation of some communities while others benefit, through the crowding out of small local miners or suppliers, or through cronyism with local councillors. This in turn may have the potential to create or enhance social conflict and increased violence (see, among many others, Lenfant & Traoré, 2015). The reasoning is that if investment or company practices have adverse socio-economic impacts, the latter may lead to conflicts that could turn violent, or they may have divisive effects enhancing already ongoing violent conflicts.

On the other hand, for most companies, it is a challenge to combine ambitious standards with the need for competition with large international companies and profit orientation, which are the preconditions for thriving in international markets. For obvious reasons, in contexts of protracted violent conflict and related war economies, it will be difficult for companies to apply standards of conflict-sensitive business behaviour. According to the World Development Report 2013, companies claimed that political instability, corruption and the lack of finance were major constraints, and that they had to employ costly measures such as private security guards and paying bribes in contexts of violent conflict or its aftermath (World Bank, 2012, p. 195). Hence, beyond the dilemma between the profit-making interest and decent practices, companies have to face many more and contradictory challenges when conflict takes on multiple dimensions. At the same time, it can be in their own interest to continue business in local environments during conflict. How companies address grievances and seek to build trust with relevant groups in FCAS is an important part of the argument presented in this *Paper*.

The meaning of fragile and conflict-affected settings (FCAS)

FCAS are defined as “settings, in which the political environment is extremely polarised and divided due to a lack of trust among political actors” (NIMD, 2016). Others use similar terms, such as “countries affected by fragility, conflict and violence” (World Bank, 2016b) or “fragile and conflict-affected states” (OECD, 2010; Taylor, 2014). However, the Dutch research funding agency of the Netherlands Organisation for Scientific Research and its science division and other agencies linked to the Dutch foreign ministry prefer to study ‘settings’ instead of states or countries, because “fragile and conflict-affected contexts often coincide with state borders but may also pertain to specific areas within a state, or to regions encompassing the borders of several states” (NIMD, 2016). This less state-centred version of the term FCAS is adopted here due to the following considerations.

The legacies of violent conflict tend to shape societies for a long time after the end of the conflict, frequently surfacing as renewed violence, triggered by power struggles at national, local or even regional levels, and involving neighbouring societies. Government, administration and political representatives are often entangled with individuals who have been powerful leaders in the violent conflict, or the politicians and government officials themselves may have been leaders in the armed conflict before. This has been a major reason why building institutions with the capacity to promote peaceful negotiations of social conflicts in the aftermath of protracted violence rarely has been sustainable and successful, but is usually a lengthy process and faces repeated setbacks.¹ When violence ceases, even when there are prospects for a political transformation, the organisation of society usually continues along the lines in which communities and local leaders have developed under the conditions of armed conflict (Latham et al., 2001).²

Within such a context, local social orders, including particular justice systems and institutions, may grow into competing political power centres, complicating the establishment of a functioning central state that extends fully into the peripheries and holds the monopoly of violence (Migdal, 1994).³ Moreover, state officials and politicians often pursue particularistic interests and do not have the political will to establish state institutions functioning to the benefit of the majority of the population. Accordingly, public legitimacy tends to be low. Under these conditions, external political and economic forces will use the opportunity to gain a strong influence on certain groups in the country, within or outside the government, further enhancing “instability and insecurity within these settings” (NIMD, 2016). Hence, the Netherlands Institute for Multiparty Democracy (NIMD) defines fragile settings as follows:

Fragile settings are characterised by low social cohesion, and a lack of consensus on what organising principles should determine the contest for state power and how that power should be implemented. (NIMD, 2016)

Whereas this definition points to distrust and social divisions focusing on the national level, the same characteristics frequently expand across borders into the larger region during or after long-term violent conflict (Grawert, 2010, pp. 242–245). This also pertains to war economies, which may comprise local, national and frequently regional or even international markets.

Violent conflict or its aftermath and fragility are closely interconnected therefore, and have to be considered as mutually reinforcing phenomena (NIMD, 2016). This is the given context within which the literature related to conflict-sensitive business practices and behaviour and, in particular, conflict-sensitive employment will be discussed in this *Paper*.

1 \ For Afghanistan, see Giustozzi, 2015; for Sudan and South Sudan, see Grawert, 2013; for the Horn of Africa, see de Waal, 2015..

2 \ For Afghanistan, see several papers in Goodhand & Sedra, 2015.

3 \ For Afghanistan, see Wilde & Mielke, 2015.

Dilemmas of implementing conflict-sensitive business and employment in FCAS

The previous sections reveal four highly different perspectives, which in combination lead to contradictions or dilemmas that seem irresolvable.

- 1) The required ability of the state in establishing a framework for conflict-sensitive business practices and employment is contradicted by the fact that, by definition, states in FCAS are weak in performing their expected functions, officials are eager to reap benefits from companies for self-enrichment, enforcement of law and regulations is haphazard, and law enforcers are prone to abusing power for collecting extra fees and bribes.
- 2) Frameworks initiated by transnational actors and global regulatory conventions - aimed at monitoring adherence to standards of conflict-sensitive business behaviour in FCAS or at developing a particular role for the private sector in peacebuilding - may end up in a vicious circle due to the inherent premise of a strong state as dedicated implementer or as the provider of an enabling environment.
- 3) Investors and companies venturing into business in the risky FCAS, where violence is rampant and armed conflict remains unresolved, are likely to implement conflict-sensitive employment when they get tangible benefits from it, but not if this involves extra costs and endangers the profitability of the enterprise.
- 4) Workers may be attracted to civilian employment if wages and working conditions are competitive, or if employment offers a promising future perspective. Competing offers are usually recruitment into armed groups for better payment than in the civilian realm, engagement in risky but well-paying endeavours such as drug dealing, smuggling or trafficking, and migration to areas or countries with easier access to employment or better opportunities to generate an income.

The *Paper* aims to shed more light on these challenges and seeks to verify if these really are the given conditions, and if there have been attempts covered in the pertinent literature to overcome the dilemmas created by these conditions. It begins by looking at studies on how private companies can affect and, on the other hand, be affected by armed conflict, especially under conditions of protracted violence and in FCAS (chapter 2). This is followed by a review of academic literature and reports of development agencies attempting to substantiate a role for the private sector in peacebuilding and related policy initiatives (chapter 3). The Paper then focuses on employment in FCAS and the assumed employment-peace nexus. It examines policy papers and recommendations for conflict-sensitive business practices and employment, applying a critical perspective in light of the previous analysis (chapter 4). The conclusion highlights the insights as well as the research gaps identified, providing pointers for future research.

The private sector in FCAS

Mainstream economic science did not take much notice of the role of conflict in economic development until the mid-2000s, when the study ‘Greed and Grievance in Civil Wars’ (Collier & Hoeffler, 2004) reached a larger audience and was widely discussed. The study was a follow-up to a World Bank-sponsored research study, entitled ‘Breaking the Conflict Trap – Civil War and Development Policy’ (Collier et al., 2003). However, only in 2011, the World Development Report ‘Conflict, Security and Development’ (World Bank, 2011) signalled that dealing with countries in conflict had become a part of development policy. The economic field of development policy thus has become the vanguard for studies on business in conflict settings, whereas, until this day, most of the common economic textbooks completely ignore the problem.

The relationship between the economy, conflict and peace has largely been approached in either one of two ways, reflecting the different perspectives of those engaged in exploring this issue. For those concerned with the socio-economic pillars of traditional ‘development’, the focus has been on the importance of stimulating rapid economic growth as the most direct path out of poverty. However, simply stimulating growth in a FCAS often characterised by structural injustices, horizontal and geographical inequalities, corruption and patronage may reinforce or reignite violent conflict. For conflict specialists, attention has been focused on war economies and the economic drivers of conflict more broadly, emphasising the potentially destructive consequences of shadow economies, elite capture of natural resource revenues, and illicit trade in people, weapons and drugs (Banfield et al., 2006).

The works of Collier et al., the World Development Report 2011 and many subsequent studies only consider the macro-level (national economies, sectors), and not the micro-level (individuals, households, firms). Furthermore, the bulk of studies focus on how best to deal with the effects of conflicts, rather than explaining the causes, nature and dynamics of conflicts. On the other hand, there are more studies on the effects of employment and private sector programmes on violence (see, for example, Walton, 2010) than on the prior effects of violence on firms and employment, which is the focus here.

Moreover, research on the relationship between the private sector and violent conflict tends to be quantitative in nature, using large-scale datasets. While important, the explanatory power of such approaches is by nature limited given the complexity of the relationship. This suggests that quantitative studies need to be complemented by qualitative studies.

The micro-economic literature is even less systematic at present. Many factors appear to be adversely affected by civil war. Those individuals or households which participate in wars, or simply live through them, often suffer from persistent injuries, lose out on education, and see a permanent decline in their productivity and earnings. However, it remains largely unexplored understanding which impacts are more profound and persistent than others, which ones disproportionately strike the poor, and how those effects can be contained by local institutions and economic policies. In fact, each of these outcomes of war has implications beyond the individual. To the extent that these costs of violent conflict are borne unequally across groups, conflict can intensify economic inequality as well as poverty. The destruction (and deferred accumulation) of both human and physical capital also hinders macroeconomic performance. Combined with the effects of war on institutions and technology, all these factors have an impact on national income growth. However, in-depth studies – particularly on the ways in which companies are operating in conflict-affected environments and the repercussions – are very rare. Instead, the literature covers company practices in ‘post-conflict’ settings, usually assuming that there is a transitional period after wars, during which the private sector is restructuring.

Most of the literature on post-conflict recovery comes in the form of best practice summaries, case studies, and reports produced by international aid organisations, governments and non-governmental organisations (NGOs) (see, for example, MacSweeney, 2008). Academic research remains limited and, where it exists, it tends to focus on high-level analysis (for instance, on the relationship between aggregate foreign aid and national economic growth). Therefore, it remains largely unhelpful to those seeking specific programmatic solutions.

Nevertheless, this *Paper* attempts to outline the main findings of the available studies to help achieve a better understanding of the relationship between violent conflict and private business. The first section of this chapter discusses the literature on the effects of violent conflicts on the economy. Section two provides a review of the literature reflecting on the role of companies and businesses in civil wars and armed conflicts.

Effects of violent conflict on the private sector and trajectories of recovery

There are different forms of violent conflict—inter-state war, civil war, terrorism, coups, communal violence, political repression, crime – and the distinctions between them are not always clear. They are often overlapping. In the field of economics, however, the discussion concentrates on civil war. One main focus of economists is on the effect of violent conflict on national incomes and government revenues. According to such macro-analysis, the main reason why the poorest countries have failed to catch up with the middle-income and rich countries is their much greater likelihood of being involved in wars and civil conflicts. This factor alone accounts for an income loss of about 40 per cent over 20 years (Milanovic, 2005). War directly reduces production and causes a gradual loss of the capital stock due to destruction, dissaving and the substitution of portfolios abroad. During civil wars, the gross domestic product (GDP) per capita tends to decline at an annual rate of 2.2 per cent relative to its counterfactual. The decline affects sectors differentially. Sectors that are intensive in capital and transactions (manufacturing), as well as sectors that supply capital (construction) and transactions (transport, distribution and finance), contract more rapidly than the GDP as a whole. The sector with the opposite characteristics (arable subsistence agriculture) expands relative to GDP (Collier, 1999).

In her background paper for the World Development Report 2011, Peschka (2011) lists the following as constraints for private sector development following a period of violent conflict: asset destruction, macroeconomic instability, poor public institutions,

corruption, insecurity, limited access to finance, low access to labour, insecure land ownership, damage to infrastructure, market distortions, and poor tax enforcement and collection. Blattman & Miguel (2010) highlight that violent conflicts lead to the interruption of production and trade, massive capital flight and the destruction of physical capital. Workers and entrepreneurs, the human capital, are maimed, killed or compelled to flee. Infrastructure for education and healthcare is destroyed. The crucial questions for understanding war's impacts on economic growth and inequality, as well as priorities for post-conflict assistance, are in which ways, how much, for whom and how persistently human capital is affected. According to Blattman & Miguel (2010), no rigorous evidence yet exists on which types of programmes are most effective at overcoming war's adverse legacies on human capital.

Authors have pointed out that, in conflict-affected countries, transaction costs are extremely high. Trade and business activities are seriously limited, which prevents employment growth. A growing body of empirical literature estimates the magnitude of these effects of war on post-war income, poverty, wealth, health and education (Collier et al., 2003; Blattman & Miguel, 2010; Peschka, 2011). According to Collier (1999), the restoration of peace does not necessarily produce a dividend, because peace neither recreates the fiscal nor the risk characteristics of the pre-war economy; there is a higher burden of military expenditure and a greater risk of renewed war (Collier, 1999).

While the destructive consequences of armed conflict are great, warfare is also credited with the technological and institutional development that underpins Western economic prosperity (North et al., 2009). War has enabled the development of capable government institutions in Europe after World War II. However, the United Nations Development Programme's (UNDP) 'Crisis Prevention and Recovery Report' points to the tremendous funding initiative envisaged under the US Marshall Plan, which had not intended to restore the pre-war order but aimed for a qualitatively different socio-economic order. The volume of aid provided much-needed fiscal space for Europe,

allowing the countries to finance the reconstruction of key physical infrastructure, to extend social safety nets, to ease shortages of basic necessities, and to relax price controls and rationing. Moreover, the Marshall Plan funds were predictable and non-conditional, allowing for context-specific adjustments by the beneficiary governments. It contributed to enabling governments regain some popularity and boosted confidence that recovery was on track (UNDP, 2008, p. 128).

This obviously cannot be compared directly to the conditions of today's post-war developing countries and does not rule out the possibility that the economic devastation caused by civil war prevents some countries from achieving durable peace. However, clear conclusions cannot be drawn either, because good data is lacking in war-torn countries where the economy and institutions have collapsed (such as Congo and Somalia), while it is available in those that recover (such as Vietnam) (Blattman & Miguel, 2010, p. 39).

The neoclassical growth model based on Solow (1956) predicts that the capital stock will return to its steady state level once the fighting stops, implying relatively high returns and rates of investment that decline as the equilibrium is approached. Evidence from inter-state wars supports the model, suggesting that the post-war evolution of physical capital often behaves as predicted under the neoclassical model – that is, rapid recovery to equilibrium levels (Blattman & Miguel, 2010). This model presupposes that underlying institutions and technology are largely unaffected by the fighting, and that military spending, the returns to capital investment and the cost of capital similarly will return to pre-war levels. Yet, any political or economic uncertainty following war is likely to reduce expected returns, increase relative risk and possibly shorten investment horizons, thus reducing investment and raising the cost of capital. Hence, the model does not respond adequately to the characteristics of FCAS, which include the collapse of some institutions and of regulatory compliance.

UNDP (2008) emphasises that macroeconomic policies must give priority to minimising conflict risk, even as they promote growth. This may mean tolerating moderate inflation and budget deficits. Critically, recovery efforts must also promote policies that attract private sector investment as well as the

return of skilled workers. In fact, the causes of war often persist during the reconstruction phase and must be carefully taken into account.

Addison (2001) makes the point that the macro-framework for successfully re-building post-conflict economies requires decentralising political and economic power, avoiding high inequality and minimising macroeconomic shocks. In fragile societies, the costs of getting policy wrong—delaying reform but also creating errors in designing reform itself—are much higher than in more secure societies (Addison, 2001). Similarly, Carbonnier (1998) argues that potential trade-offs and contradictions between economic reform, external assistance and peacebuilding agendas often are not taken into account sufficiently. Country specifics are important—there is no blueprint for re-building war-torn economies. The specific circumstances of each country must be carefully analysed and the rationale behind every conflict must be properly understood. In many FCAS with reconstruction efforts, some of the most fundamental aspects of post-conflict rebuilding have been overlooked, mainly because they do not fit into the prevailing paradigm. Political stability cannot be relegated to a lower priority than, and must actually prevail over, economic efficiency when designing post-conflict policies (Carbonnier, 1998).

Various studies emphasise the need for a strong state, able to accelerate economic development and poverty reduction, to consolidate peace, to reduce the scope for extreme brutality and exploitation of social relations, and to withstand the intrusive interests of regional powers (Goodhand, 2003). UNDP (2008) also highlights that a strong and inclusive state is essential to guarantee stability and recovery. The report contends that the state's capacity to collect revenue and to allocate it effectively is crucial and demands improved transparency, especially in countries rich in natural resources, in order to constrain the high potential for rent seeking from the outset (UNDP, 2008). In fact, in many if not most countries, the wished-for strong state is absent, and it is hardly feasible to build that state first at the expense of all other efforts seeking to stabilise countries, bring peace, develop economies and create employment.

Brück et al (2000) find that post-war reconstruction, defined as obtaining external and internal balance and high per capita growth, is surprisingly difficult to obtain even under favorable political and economic conditions. The legacy of war is a key constraint on post-war growth, especially through the damaged commercial network, the loss of trust and the weakening of market institutions. In addition, political uncertainty in the post-war period inhibits private sector investment and significantly reduces the peace dividend. This is worsened by inappropriate stabilisation policies. The authors argue that aid policies should be modified for war and post-war economies to accelerate the reduction in foreign debt and to support small-scale private producers, including those in the countryside. Military spending does not fall and social spending does not rise as quickly as is generally expected, thus delaying a noticeable reduction in poverty. The clear sequencing but gradual implementation of government reforms, especially in the social sectors, is important for maintaining entitlements.

Recent research in economics points to the high importance of institutions for economic development and also to the role of violence in this context (North et al., 2013). For example, Rodrik (1998) states that deep-rooted (more or less) latent social conflict in a society with weak institutions of conflict management will suffer relatively more from external shocks than societies without strong conflict. He argues from a macroeconomic perspective that, while societies without violent conflict are able to react to and overcome external shocks, violent conflict-affected societies will in general experience more economic damage, since the economic costs of the external shocks “are magnified by the distributional conflicts that are triggered” (Rodrik, 1998, p. 2). In the absence of mitigating institutions, suspicion between groups will increase and the group perception that they are not getting their fair share of resources will become more likely. Hence, in economies with weak institutions, the incentives to cooperate are small and the gains of opportunism are likely to rise. If institutions are strong, they can prevent opportunistic groups from preying on cooperating groups (Rodrik, 1998).

According to Brück et al (2000), civil and economic institutions are the main victims of war, especially internal war. The importance of institutions in post-war reconstruction has been underestimated, and they should receive priority funding by donors and governments to accelerate post-war growth and poverty reduction. Similarly, Naudé (2007) considers well-functioning state institutions as a crucial precondition for the successful emergence of pro-growth entrepreneurship. Institutions are responsible for ensuring that governance is restored in FCAS. This entails “the establishment of rules, regulations, property rights, contract enforcement, limiting the role of the state as an economic player, and lowering the costs of business formation” (Naudé, 2007, p. 14). However, the strength of institutions depends on the initial conditions within a conflict society - for example, the just or unjust distribution of wealth. Nevertheless, the role of government in contributing to the creation of appropriate conditions for pro-growth entrepreneurship and adequate support of private sector development is considered as vital; even a ‘development state’ may be required in order to revamp the private sector (Naudé, 2007, p. 22).

In many FCAS, formal institutions have crumbled during the violent conflict, and alternative structures of power and exchange have been created mostly outside the formal economy. While most literature describes this as negative (for example, Denu, 2011), a few authors envisage the creation of potentially positive institutional structures that can provide a basis for a functioning post-conflict society. Nonetheless, studies have produced few definitive answers on the effect of civil war on institutions. This may well be because it depends on factors such as why a war started in the first place, how it is fought and how it ends. Moreover, those authors who examine the possibilities for reconstruction end up encountering the dilemma between the need for well-functioning state institutions enabling private sector recovery and the typical context in FCAS, which is characterised by low institutional performance by the state. Much research is currently under way following this lead; however, such research has neither resolved this dilemma nor does it yet deal much with microeconomic analysis, not to mention firms.

The importance of rebuilding infrastructure

An important aspect in FCAS is the re-building of infrastructure, which usually is destroyed during civil war. Hence, it is a crucial area of investment in reconstruction, often receiving public or foreign investment while involving private companies. Therefore, the emerging literature dealing with construction and rebuilding of infrastructure as a key necessity for 'post-conflict' states is discussed in some depth here.

In a background paper for the World Development Report entitled 'Attacking Poverty' (World Bank, 2000), Hoeffler (1999) reviews the challenges of infrastructure rehabilitation and reconstruction in 12 war-affected economies in Africa. Her study includes the water, transport, energy and telecommunications sectors and shows that the standard of infrastructure provision is very low in all of the 12 countries. She finds that as long as countries are not at peace and guerilla activities and banditry make the countries unsafe, private investors are unlikely to invest in infrastructure projects. Hoeffler concludes that once the countries are at peace, economic reconstruction should be paralleled by economic reform, because without an adequate legal and regulatory framework, countries are unlikely to attract private investment. However, despite their high risk rankings, some war-affected economies have been able to attract private investors – for instance, for cellular telephone networks. As the willingness to pay for safe water and energy tends to be high, the water and energy sectors could in principle be attractive to private investors as well (Hoeffler, 1999).

MacDonald (2005), writing for the UK Department for International Development (DFID) on infrastructure in post-conflict situations, covers water and sanitation, transport, shelter, communications and energy infrastructure sectors, as well as the reinstatement of public buildings. His study includes pertinent examples from both conflict and post-conflict countries. Accordingly, infrastructure providers face many difficulties in post-conflict situations. Whereas they can easily identify and mitigate some of these difficulties, others do not become apparent until later stages of

development. In the literature reviews and provider experiences reported by MacDonald (2005), the following key issues affecting infrastructure provision were cited:

- \ Immediate issues—such as lack of security provision and funding;
- \ Underlying problems—such as lack of institutional capacity, transparency, conflict sensitivity and governance;
- \ Problems of response—such as strategy and sector prioritisation, the roles of key stakeholders, short and long-term solutions, procurement and long-term financing.

Anand (2012) in a way builds on these issues, arguing that a coherent and coordinated reconstruction framework requires strategic planning. He claims that such planning needs in-depth stakeholder consultation to achieve legitimacy among and ownership by local citizens. Stakeholder consultations can pave the way for some degree of shared vision and buy-in. However, consultation is not the same as ownership, and stakeholders may perceive the process as being top-down window dressing that limits their role to that of passive recipients rather than creating a real opportunity to actively participate.

These studies show that experts consider infrastructure as fundamental for larger economic reform, institution building and strategic planning, which can be a lever to involve not only state authorities, but also stakeholders and citizens to enhance the legitimacy of post-war leaders. However, the urgent need to provide access to basic infrastructure services for populations in countries emerging from a conflict often faces the challenge of lack of adequate public revenue, government capacity and investor interest to re-establish these services quickly. Although donors often support the early phases of post-conflict reconstruction with generous aid packages, the public sector in FCAS is often constrained by extremely weak absorptive capacity. At the same time, a large number of urgent policy priorities in the immediate post-conflict period means that governments rarely focus on establishing a welcoming investment climate that can spark the interest of potential private investors in infrastructure.

Thus, for the first few years after war, states face a paradox – they can neither absorb fully reconstruction aid nor can they attract much private investment to infrastructure sectors in order to offset the state’s low absorptive capacity. Whereas telecommunications investments, particularly mobile telephony, usually materialise immediately after (or sometimes even before) the end of the conflict (Hoeffler, 1999), electricity generation and distribution projects start to emerge about three years after the conflict and increase in frequency after five years. Private investment in transport and water tends to start much later. Within the transport sector, seaports tend to receive the bulk of private investment. However, the experiences of a number of conflict-affected countries, such as the Philippines, Mozambique, El Salvador and Guatemala, suggest that there are possibilities for conflict-affected countries to speed up private investment in infrastructure through adequate policies, thus enhancing the contribution of the private sector to reconstruction processes and the resumption of growth (Schwartz et al., 2004).

Infrastructure development—with increasing contributions from the private sector—is the foundation of a sustainable economy and a means to achieving broader nation-building goals. Providing basic services is critical to security, governance, economic development and social well-being. In conflict-affected environments, the condition of infrastructure is often a barometer of whether a society will slip further into violence or make a peaceful transition out of the conflict cycle. Rapid restoration of essential services, such as water, sanitation and electricity, encourages the perception of a return to normalcy and thus contributes to the peace process. Infrastructure is fundamental to moving popular support away from pre-war or during-conflict loyalties and to attracting spoilers to post-war political objectives. These insights have led Mashatt et al (2008) to develop a model that links the infrastructure cycle with conflict analysis. This model is helpful to focus the attention of infrastructure programme planners and implementers on the conflict cycle instead of using an engineering perspective, through which infrastructure experts tend to approach problems. While this view is also

important, it must be linked with an appreciation of the conflict dynamics. Indeed, traditional engineering concerns, such as efficiency, are secondary in a conflict-sensitive approach (Mashatt et al., 2008).

Despite the considerable scholarship focused on infrastructure investment in the developing world and the substantial amounts of money spent each year on developing country infrastructure, little attention has been directed towards understanding the drivers of conflict that shape the trajectory and cost structures of these massive investments. Boudet et al (2011) highlight that the manifestation of conflict among stakeholders in infrastructure projects ranges from the renegotiation of contract terms by project partners to popular protests among consumers of privatised services. Country-level characteristics, such as the extent of democracy and the rate of INGO participation, are important elements in the levels of conflict related to water supply projects, but not in pipeline projects. Local impacts such as service price increases (water supply) and limited provision of oil and gas to the host country (pipelines) are important drivers of conflict for both subsectors. The involvement of one or more international financial institutions is also associated with the emergence of conflict in projects. Contrary to expectations, public consultation has been associated with conflict in both subsectors as well. Overall, the findings by Boudet et al (2011) suggest that factors associated with conflict in infrastructure projects can be minimised through careful project design. This links it to the conflict analysis requested by Mashatt et al (2008).

Hence, foreign financial aid and other international interventions could play an important role in rebuilding infrastructure and also in replenishing household assets after war. However, regarding the role of aid, there is only anecdotal evidence from countries such as Sierra Leone and Liberia showing that the role of the international community was decisive in shifting expectations about future conflict risk. Some studies suggest that foreign aid might play a key role in solidifying the transition to peace (Collier & Hoeffler, 2002; Collier et al., 2003; World Bank, 2011). In terms of armed interventions, economic outcomes are under-researched as well. Establishing

a causal impact of armed intervention on long-run political and economic outcomes is elusive, because variables related to both domestic and international political factors involved in the timing of foreign interventions are likely to be omitted (Blattman & Miguel, 2010). Since armed interventions have become a growing characteristic of FCAS, more research on the economic effects is desirable.

As stated at the beginning of this section, the bulk of the literature considers the macroeconomic level and does not link the insights to the level of firms and companies, households, employees, job-seekers and their decisions. The next section tries to shed more light on this aspect.

The role of entrepreneurs in violent conflict settings

Entrepreneurs have been defined as “people who create and manage a firm and who are therefore classified as either being self-employed or earning income from a small business” (Brück et al., 2013, p. 2). Beyond this descriptive definition, entrepreneurs have been characterised as being innovative and acting towards creatively destroying the market equilibrium by making use of incomplete market information for the benefit of their business. Among other things, this involves an attitude of facing and overcoming challenges, assessing and taking risks, adapting to different conditions and showing resilience (drawn from Springer Gabler, no year). These are also some of the characteristics of ‘entrepreneurship’ - that is, the strategies and forms of organisation that entrepreneurs use to successfully establish a business. Hence, entrepreneurs are “persons who are ingenious and creative in finding ways that add to their own wealth, power and prestige” (Baumol, 1990, p. 987; see also Brück et al., 2011). Entrepreneurs comprise owners or managers of large, medium, small and micro-enterprises, which use opportunities to profitably establish themselves in a market.

Violent conflict can affect entrepreneurship in both negative and positive ways, as indicated by the literature reviewed by Brück et al (2011). FCAS can affect firms through diminished security, destroyed

infrastructure, kidnapping, looting, loss of employees due to injury or death, emigration or joining the fight, insecure property rights, and decreased demand.

These conditions increase transaction costs and the cost of doing business, particularly for firms directed towards the international market that depend heavily on transport and logistical infrastructure. The result of such challenges is that companies may move out, close down or adjust.

On the other hand, some firms and entrepreneurs benefit from armed conflict, dealing with or producing goods used intensively in war (security services, alcohol) or making use of decreased market entry requirements that result in a lower cost of discovery for potentially worthwhile activities. According to Naudé (2007), “entrepreneurship is an ubiquitous quality in fragile and post-conflict states and therefore not lacking” because war and conflict do not prevent entrepreneurial ventures from emerging and thriving, as they fulfill “a threefold role in sourcing funds to sustain conflicts, overcoming the adverse impacts of conflict, and exploiting profitable opportunities arising from conflict” (Naudé, 2007, p. 4). Hence, “entrepreneurship may in itself be contributing to, and contributing from, the very conflict and poverty for which entrepreneurship is being prescribed as a panacea” (Naudé, 2007, p. 1). Accordingly, as the economy in conflict societies develops, employment patterns and workers’ strategies will change as “relatively more people will shift into labour employment, so that the entrepreneurship rate (...) will fall” (Naudé, 2007, p. 7). This will result in an increase in the average firm size, at least if it is reinforced by improvements in transport and infrastructure. After a certain level of development is reached, self-employment and the amount of smaller firms will then increase again.

As Peschka (2011) points out, private entrepreneurs and hence a private sector exist in all conflict situations, and they have the potential to both exacerbate and ameliorate conflict. Far from disappearing, private businesses continue to operate even during the most violent situations. However, the nature of business is profoundly different from that observed in periods of peace: it regularly focuses on short-term,

often illicit, gains. Frequently, actors fuse—such as warlords or military officers who become businessmen (Peschka, 2011). This indicates that entrepreneurs try to overcome bottlenecks resulting from the destruction of physical infrastructure and the flight of local human and financial capital by making adjustments to changed market conditions. Moreover, market competition acquires a militant dimension so that armed actors dominate some businesses (Le Billion, 2005; Schlichte, 2009; Zuhur, 2016). In peace and conflict research, the notion of war economies has been developed, which describes the typical forms of business and entrepreneurship (see Box 1).

Box 1

Features of war economies

- \ *(War economies) “involve the destruction or circumvention of the formal economy and the growth of informal and black markets, effectively blurring the lines between the formal, informal and criminal sectors and activities;*
- \ *Pillage, predation, extortion, and deliberate violence against civilians is used by combatants to acquire control over lucrative assets, capture trade networks and diaspora remittances and exploit labour;*
- \ *War economies are highly decentralised and privatised, both in the means of coercion and in the means of production and exchange;*
- \ *Combatants increasingly rely on the licit or illicit exploitation of/trade in lucrative natural resources where these assets obtain;*
- \ *They thrive on cross-border trading networks, regional kin and ethnic groups, arms traffickers and mercenaries, as well as legally operating commercial entities, each of which may have a vested interest in the continuation of conflict and instability”*

(Ballentine and Nitzschke, 2005, p. 2)

The activities outlined in Box 1 show that the breakdown of legal structures and law enforcement extends business opportunities into spheres that are usually banned by law. Whereas some groups and individuals take direct advantage of the power of arms to seize property and money, raise dues, use forced labour and control trade as well as assets and natural resources, others thrive in the war economy, organising supplies by establishing routes and networks for

trade across borders. Competitiveness depends on the ability of entrepreneurs to adjust to the violence-driven context. This usually implies building special relationships with powerful groups and relying on networks of persons that can be trusted. Frequently, these networks comprise family members, kin and members of the same ethnic or other common identity groups. Accordingly, the relationship between the private sector and conflict depends on a multitude of factors, ranging from individual leadership to the nature and structure of the society in which private business is operating. Focusing on local business, Killick et al (2005) state that, while there are clear differences in size and type, local businesses are by definition part of the existing conflict context.

Whether or not firm owners benefit or lose from violent conflict depends on the characteristics of their entrepreneurial activity and their relation to the conflict environment. Decisive factors include the lootability of the produced or traded goods, the proximity to urban centres, the use of resources easily controllable by the armed forces, and the capability to diversify and adapt rapidly the whole supply chain according to a moving frontline. Conflict puts a premium on creativity. While it stretches a firm’s ability to remain in business, it may also offer new opportunities (Brück et al., 2011).

Armed violence in FCAS is just one of a whole series of factors that define business decisions. As regards investment in conflict countries, company attitudes have been found to depend on four principal factors (Wennmann, 2012):

- \ Magnitude of physical assets in specific violence-affected areas, for example, large-scale site-specific investments in non-movable assets such as roads, buildings, production chain;
- \ Core business of the enterprise, for example, natural resource exploitation, services, construction or transportation;
- \ Strategy behind the investment, for example, outputs that are produced for foreign or domestic markets, or the use of integrated production cycles;
- \ Level of exit costs—defined as the balance between fixed and mobile assets.

Based on these factors, companies may decide to work in situations of armed violence and attempt to minimise the effect of armed violence on their operations and activities. The presence of extractive industries, agribusinesses, distributors, security services and other legitimate businesses demonstrates that some formal market actors are interested in investing in FCAS environments and have found ways to manage risks in these sectors. For bigger companies, this may involve paying private security companies for protection of their sites or transport routes, which can be a substantial cost factor in some contexts. Small entrepreneurs may manage risks in FCAS through activities providing subsistence or illicit production or trade (Hameed & Mixon, 2013).

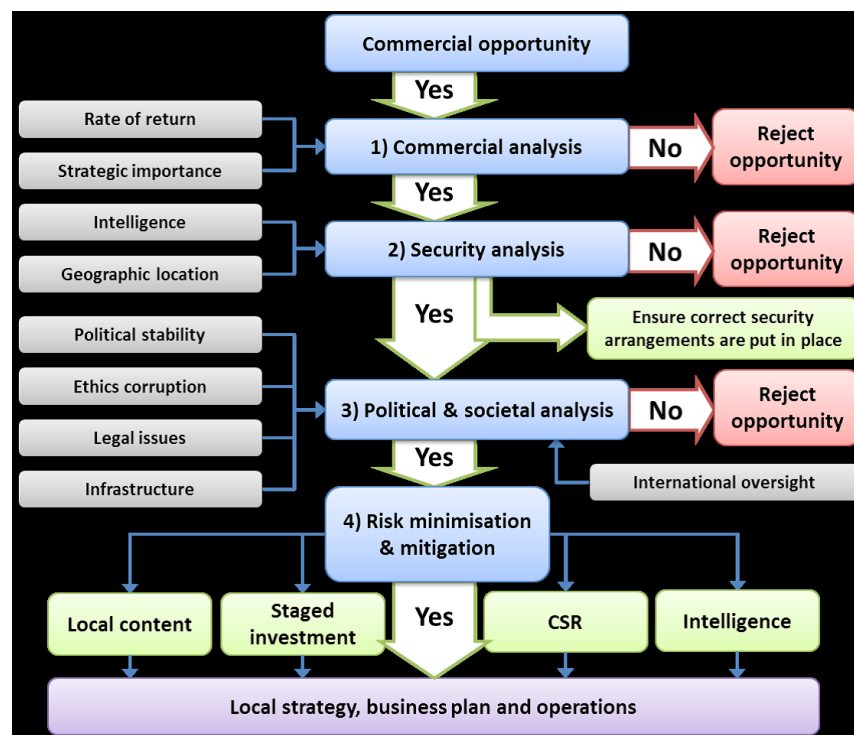
Small and medium-sized enterprises (SMEs) diverge significantly from larger enterprises regarding their different ability to deal with risk. Some studies emphasise that SMEs are vulnerable to the economic and political environment of FCAS because they have

limited capacity to absorb shocks, whereas larger companies are more likely to overcome problems such as lack of infrastructure in FCAS by developing their own facilities (GIZ, 2015). Davis & Balt (2014) identify four phases in company decision-making processes, highlighting in particular how companies tend to analyse risks in fragile contexts:

- \ Commercial analysis;
- \ Physical security risk;
- \ Risks associated with political, ethical and societal issues;
- \ Mitigation, management and minimisation of risks (see Box 1).

Figure 1 shows that, from the perspective of entrepreneurs, political risks including the risks connected to violent conflict are just another risk among those facing businesses every day. Therefore, conflict is not always an impediment to business. However, the majority of businesses stand to gain from lasting peace and are aware of the cost of conflict to the

Figure 1
Four phases in company decision-making processes



Source: P. Davis, Boardrooms and bombs II: Strategies of multinational companies in conflict areas, Geneva: PeaceNexus Foundation, 2012, p.18

private sector. Avoiding these costs is an important motivating factor for business people, particularly for larger companies, which are able to take on risks strategically. Smaller businesses are more likely to have no choice and to focus solely on survival (Hettiarachchi, Holdaway, & Gündüz, 2009, p. 193).

Since, in most FCAS, there is a greater predominance of SMEs than larger companies, the subsequent sections focus on the conditions for SMEs in FCAS in particular.

Small and medium-sized enterprises in FCAS

In most countries, SMEs form the most important sub-sector of the private sector. They are different from micro-enterprises, which usually only consist of the employer, have no employees, often operate part time, and have no intention or business plans aimed at growing and gaining significant market shares (Gibson & van der Vaart, 2008, p. 28). It is undisputed that SMEs constitute a large part of the economy in developing economies. Legally registered enterprises exist alongside informal enterprises and activities. However, what defines a SME is not universally agreed upon. Thus, definitions tend to be based around the number of employees, assets and revenue, although there is debate over what the precise definition is (see below).

The Brookings Institute argues that SMEs should have meaningful definitions, based on their functional and behavioural attributes rather than quantifications. Since this appears to be impossible, a definition that takes into account the local context of a country may be the second-best solution, such as the following: “An SME is a formal enterprise with annual turnover, in US dollar terms, of between 10 and 1,000 times the mean per capita gross national income, at purchasing power parity, of the country in which it operates” (Gibson & van der Vaart, 2008, p. 18). This definition can be used “as a flexible guide or starting point in determining the most appropriate definition of SMEs to be applied to any given programme or project” (Gibson & van der Vaart, 2008, p. 27), especially if it is adjusted to subnational regions to accommodate for economic disparities within countries. This

Table 1
SME definitions used by multilateral institutions

Institution	No. of employees*	Revenue or turnover ^{*,**}	Assets ^{**}
<i>World Bank</i>	300	15,000,000	15,000,000
<i>Multilateral Investment Fund (IDB)</i>	100	3,000,000	none
<i>African Development Bank</i>	50	none	none
<i>Asian Development Bank</i>	No official definition, uses definitions of national governments		
<i>UNDP</i>	200	none	none

Notes: *Maximum number; **in US dollars

Source: Gibson & van der Vaart, 2008, p. 5

would make it possible to set SMEs in relation to the overall economy so that their relative weight can be assessed appropriately.

It is widely agreed that the core characteristics of SMEs are their critical role in any country’s economy, be it through job creation, entrepreneurship or income generation. SMEs are often more labour intensive than larger firms and, hence, employ more labour. Employees often work with informal arrangements and tend to have insecure livelihoods, with unstable and inadequate earnings and low productivity (Pain & Mallet, 2014, p. 1). Typically, SMEs have strong linkages to other activities, thus stimulating the national economy. They use more local inputs and are less import dependent than large enterprises. They produce for lower-income markets and are widely geographically dispersed, two factors which are positive for national development. SMEs are also commended for their ability to innovate and for their flexibility. Moreover, their role as a training ground for entrepreneurs has been widely recognised. Biggs & Shah (2006) emphasise that SMEs may circumvent market failures and lacking formal institutions by creating private governance systems in the form of long-term business relationships and tight, ethnically-based business networks. Trust building hence is an important aspect of functioning networks involving SMEs.

However, among economists, it is disputed whether a focus on SME promotion by policymakers is advisable, because there is no evidence that small and micro-enterprises can drive growth in developing countries. On the other hand, knowledge-based innovation is much more likely to happen in smaller and hence more flexible firms (Naudé, 2007, pp. 5-6). Moreover, there is evidence that SMEs are less affected than larger businesses by the general economic uncertainty, imperfect information and high transaction costs prevailing in FCAS. Informal and small survivalist firms predominate under such conditions, with employment patterns determined by the coexistence of a multitude of small and micro-enterprises that are created out of mere necessity. However, those ventures are hardly profit maximising, but rather seek to keep the risks low (Naudé, 2007, pp. 5-7).

This brief overview indicates that the micro-economic literature only scratches the surface of the range of possible civil war impacts on the economy and employment. Evidence on the educational, employment and health impacts of conflict on armed group participants and civilians, including internally displaced people, is scarce. Whereas the potential of SMEs for economic and social development is covered extensively in the literature, little evidence exists on the role of SMEs during ongoing conflicts. No attention seems to have been paid to the effects on and role of private enterprises in phases when international aid and foreign investment start to decline, usually some years after the formal end of a violent conflict. Similarly, there seems to be little or no knowledge about the relative performance of domestic firms that are cooperating with foreign companies or other actors.

Private sector development and peacebuilding

The private sector includes widely different forms: local firms that operate in the domestic market, regional and international firms that operate in different countries, formal and informal establishments, legal and illegal enterprises, those built by local capital and those based on remittances of the diaspora. The main role of the private sector is a purely economic one, largely in terms of promoting growth and wealth creation. Beyond this, particular roles have been ascribed to the private sector in the academic literature, but also by the international community and civil society as well as business associations.

Since colonialism, foreign and multinational corporations (MNCs) have focused on resource exploitation in colonies and, later, on independent countries, mostly for exportation. In this context, private companies, particularly MNCs, have been perceived as promoting violence due to “corporate greed, indifference to suffering ... political and legal manipulation, loyalty to no master, and impunity” (Ganson and Wennmann, 2016, pp. 60–61). Until contemporary times, there has been a narrative that considers investment in the extractive sector and in large infrastructure projects in particular as harmful for large population groups. Land users are displaced or have to move away due to pollution, and wealth created by foreign investors is barely redistributed to the local communities. Often, the resources are a source of communal conflict, or they inherently enforce a system of patronage or support a power imbalance (see, among many others, Dinham & Hines, 1983; Grawert & Andrä, 2013; Ganson & Wennmann, 2016, pp. 35–45). Moreover, investments in extractive industries have little potential to build the local value chain or to generate employment (Hameed & Mixon, 2013). As a result, the role of the private sector in FCAS has been described in particularly negative terms, focusing on its conflict-sustaining dimensions in war economies (Duffield, 2001; Le Billion, 2005).

Ganson & Wennmann (2016, p. 35) highlight another narrative that runs in parallel to that on “predatory companies in fragile states”. The liberal peace narrative re-surfaced in the context of a new wave of liberal state building emerging in the mid-1980s. It followed the classical liberal line of thought reflected

in the ‘Second Treatise’ of John Locke (1689), the ‘Principles of Political Economy’ of John Stuart Mill (1848) and later Howard V. Perlmutter (1969). Friedman (1990) pursues the same line of economic thought, holding that a global supply chain will contribute to peace, because those countries involved would not fight each other in order to safeguard their economic interests.

The policy goals of the International Monetary Fund (IMF) and the World Bank have pursued this ideology through economic liberalisation programmes. The Washington Consensus of 1990 and the direct financial support of private investors through the World Bank Group sought to create an enabling environment for the private sector. The policies of the IFIs in general seek to open up more space for the private sector and to close the space for the public sector. The International Finance Corporation (IFC), a member of the World Bank Group, invests in FCAS, funds companies that employ ex-combatants and promotes private sector development (PSD), which it considers a key driver of economic growth, job creation and stability (Ganson & Wennmann, 2016, pp. 67–74). The IFC claims that “o(O)ur priority is to create opportunity where it’s needed most—in the poorest and most fragile countries, and for the most vulnerable segments of the population” (IFC, 2015, p. 13). It maintains that it will create “opportunity in strife-torn environments” (IFC, 2015, p. 52) through the International Development Association (IDA), which is also part of the World Bank Group. In 2015, the IFC invested nearly US \$18 billion, out of which it mobilised more than US \$7 billion from other investors, stating that the creation of good jobs was a priority (IFC, 2015, p. 22).

In the liberal peace narrative, MNCs are portrayed as acting towards greater stability in FCAS out of a type of enlightened self-interest. Accordingly, they seek to pay higher wages, respect labour rights and contribute to democratic transition, as suggested by the cases of South Africa and Brazil (Ganson & Wennmann, 2016, pp. 67–70). The World Bank Group ascribes a peacebuilding role to companies due to their ability to open new economic sectors, even in FCAS, and an assumed self-interest that may encourage them to support conflict resolution mechanisms and

to curb the corruption of state officials (World Bank, 2011). The fact that foreign direct investment in FCAS is well protected by investment treaties and insurances, which restrict regulation of foreign investment by the host states, indicates that it is not necessarily pure commitment which leads to MNC engagement in FCAS. Ganson & Wennmann (2016, p. 76) argue that, in spite of this protection, MNCs nevertheless fear the fragile state. Accordingly, state-building has reached the agenda of the World Bank Group and the OECD as a central objective, but tied to PSD, particularly in FCAS (Rodrik, 2006; OECD, 2010; World Bank, 2011).

Consequently, during the 2000s, the assumed potential of the private sector to contribute to crisis prevention or conflict mitigation came into focus. A growing body of literature emphasises the importance of PSD for peacebuilding purposes because of its potential to help develop economies in conflict-affected countries (Gündüz et al., 2006; GTZ, 2009; Curtis et al., 2010; Peschka, 2011; World Bank, 2011; Avis, 2016). The World Bank continues to lead in advocating for private sector investment as a means to create jobs and stabilise the economy in FCAS. PSD has become closely related to the creation of employment, as the bulk of employment in developing countries is in private enterprises - according to some estimates, nine out of ten jobs are in the private sector (IFC, 2013, p. 4). However, PSD and employment are not identical and not all forms of PSD are identical in their impact on employment.

The emerging literature on PSD and peacebuilding is dominated by studies conducted by bilateral and multilateral development agencies as well as INGOs. It considers continued business activities as 'resilience', despite the challenges posed by violent conflict. The authors argue that due to its ability to adjust business activities and to change shape and direction, the private sector can be a powerful vehicle for reconstruction and regeneration, playing a role in supporting stabilisation, spurring long-term economic growth, improving transparency and fostering trade (Avis, 2016). These are areas where official development assistance (ODA) has made little headway in FCAS, unlike private business, which has had a definite impact.

NGOs and development organisations emphasise the joint action of stakeholders from development agencies, community organisations, SMEs, and sometimes local leaders, as a way forward towards developing a constructive role for companies in peacebuilding. Some economists have contributed to this discourse by identifying peacebuilding potentials in the characteristics of entrepreneurship. Naudé (2007), for example, argues that entrepreneurship itself can become a tool to facilitate peace and to improve the living conditions of people in FCAS, where the government is usually not capable of promoting security and prosperity. However, as entrepreneurial ventures do not automatically contribute to economic growth, development and the establishment of peace, "productive, pro-growth entrepreneurship" (Naudé, 2007, p. 2) will have to be created. This requires careful consideration of the following six dimensions:

- \ Context of war and conflict;
- \ Relationship between institutions and entrepreneurship;
- \ Particular characteristics of entrepreneurship in poor and conflict-affected countries;
- \ Scope of the market in these countries;
- \ Human and financial capital requirements;
- \ Relationship between government and the private sector in FCAS (Naudé, 2007, p. 2).

Entrepreneurship itself is not intrinsically good or bad, but rather depends on the structure of incentives within a particular society at a certain time. Thus, the right incentives may lead to a productive economy in FCAS. Hence, rather than trying to increase the number of entrepreneurs, it will be more important to "change the allocation of entrepreneurial effort into productive entrepreneurship" (Naudé, 2007, p. 4). Naudé considers this possible when well-functioning state institutions are in place. Such institutions are decisive when it comes to creating alternative profit opportunities to criminalised actions resulting from survivalist behaviour that entrepreneurs acquired during war time. This occurs especially in large informal economies that typically persist after the armed conflict has been settled (Naudé, 2007, p. 15).

However, claiming that well-functioning state institutions are the precondition for PSD does not reflect the reality in FCAS. The above characteristics of the economy in FCAS will have to be taken as a given and as a starting point from where to develop private sector support for peacebuilding. This perspective is still largely missing from the literature, be it academic papers or practitioners' reports.

Many initiatives seeking to promote PSD address and target the needs of multinational and large businesses, neglecting the importance of SMEs (Brück et al., 2015). This is a significant oversight, given that SMEs are the biggest contributors to employment in developing countries (Ayyagari et al., 2011, p. 2) and are the prevailing form of enterprise. So far, support programmes for SMEs have been oriented towards reducing poverty and improving livelihood, rather than towards growth as an important condition for economic reconstruction after violent conflict. Naudé strongly argues that an emphasis on small businesses, especially when it comes to the creation of start-ups, may enhance growth; hence, "focusing on start-ups that can result in pro-growth, entrepreneurial ventures should be an important objective when promoting entrepreneurship in fragile and post-conflict states" (Naudé, 2007, p. 7).

The following section examines the potential roles of SMEs in peacebuilding and then outlines the environment required for such roles.

Potential roles of SMEs in peacebuilding

A growing body of literature on PSD in FCAS discusses the role that local private firms can play in post-conflict contexts and peacebuilding, as well as the appropriate support needed. Considering that entrepreneurs can help to spur or generate conflict, Killick et al (2005) claim that this in itself provides strong reasons for trying to engage them in a constructive role. In a sense, it is the deep-rooted relationship of local businesses to the conflict that is crucial for enabling entrepreneurs to play a peacebuilding role. Local business people constitute a powerful section of society (either in terms of political

leverage or, at the lower level, the kinds of services provided). They hold a variety of linkages to different social and political actors and strata through business relations (with staff, business partners, etc.), but also along other lines, including political, cultural, ethnic or religious lines.

Against this backdrop, SMEs have become the focus of a particular strand of literature, which builds on the insight that most SMEs are local in their origin and market orientation. Authors consider the local private sector to have a range of motivations for wanting to address fragility and conflict. Being part of the local private sector, SMEs are assumed to be more interested than large enterprises in making a difference in peacebuilding and stabilisation efforts, as they are impacted much more from conflict. When engaged appropriately, SMEs may deliver a number of benefits, as follows:

- \ Since SMEs tend to be more labour intensive than large firms, they can create employment, which could be a factor in the need to establish a visible peace dividend.
- \ Because SMEs depend less on imports and maintain more linkages with other local enterprises, they can contribute to quickly stimulating the local economy through investment and expansion.
- \ As SMEs are more likely to have sub-national urban centres as their base, they can provide a stimulus for regional development.
- \ Representing less economic power individually, SMEs are easier to deal with for national and local governments than larger companies (Avis, 2016).
- \ Countries with a high share of SMEs have succeeded in making income distribution fairer and more equitable (UNIDO, 2001, p. 2). If this is true, SMEs may have the potential to alleviate tensions arising out of inequality.

It is important to note that these benefits may occur when SMEs are engaged properly. Since SMEs are known to be highly adaptive and less driven by regulation and bureaucracy than large enterprises, they can quickly take advantage of gaps in the

market (Organisation for Responsible Business, 2009). A large proportion of SMEs, especially the smaller ones, are characterised by informality, which the ILO has framed as follows:

The informal economy comprises half to three-quarters of all non-agricultural employment in developing countries. Although it is hard to generalize concerning the quality of informal employment, it most often means poor employment conditions and is associated with increasing poverty. Some of the characteristic features of informal employment are lack of protection in the event of non-payment of wages, compulsory overtime or extra shifts, lay-offs without notice or compensation, unsafe working conditions and the absence of social benefits such as pensions, sick pay and health insurance. Women, migrants and other vulnerable groups of workers who are excluded from other opportunities have little choice but to take informal low-quality jobs.

(ILO, 2016a)

The phenomenon of economic informality has attracted the renewed attention of donors and development agencies, focusing on the potential for job creation and PSD in FCAS. Yet, conventional responses to informal economies may not be suitable due to the particular challenges posed by the dynamics within FCAS. Development actors face a number of dilemmas regarding the appropriate level of engagement with and the development potential of informal economies, the envisaged role for the state and hybrid forms of economic governance. As Schoofs (2015) observes, the World Bank report on 'Jobs' (World Bank, 2012) does not elaborate on how the presumed transformational potential of the informal economy can be tapped. He argues that informal economies are predominantly looked at through the lens of coping and survival activities, economic growth, social protection and, more recently, job creation - largely owing to the dominance of multilateral agencies, such as the World Bank, IMF, UNDP and ILO, in policy discourses on the subject.

This situation reinforces a tendency to reduce the informal economy to a purely economic phenomenon, at the expense of contemplating its intrinsically political character. The key point is that the informal

economy exists for political as well as economic reasons. Hence, it is imperative to steer clear of a reductionist view that perceives the informal economy solely in terms of economic (dis)incentives for compliance with formal rules and cost-benefit decisions of informal operators. (Schoofs, 2015, p. 6)

According to Schoofs (2015), in order to render intervention strategies geared towards addressing economic informality in fragile contexts fit for purpose, development actors need to acknowledge the following points.

- \ Informal economies are not ungoverned spaces but maintain a considerable degree of governance, self-organisation and structure, where (informal) regulations emanate from a variety of non-state actors and informal institutions.
- \ State engagement with the informal economy is complex and can even entail negotiated arrangements over taxation or regulatory policies between government actors and informal actors. Furthermore, state representatives themselves can engage in informal economic activities.
- \ Political interests shape economic informality, and political actors with a vested interest in maintaining the informal economy may be an important reason for the state's inability to extend its regulatory regime to the informal economy.
- \ Applying labels of 'legal' and 'illegal' can be problematic - in fragile states, social legitimacy attributed to economic activities and the relative power of particular groups defines what is legal and illegal (Schoofs, 2015).

Schoofs (2015) highlights that international development actors therefore need to recalibrate intervention strategies geared towards addressing economic informality in FCAS. Beyond the economic dimension, attention will have to be directed at the political and social undercurrents that sustain patterns of economic informality in FCAS. Moreover, questions about the manner in which informal economies shape governance, development and conflict patterns in FCAS have to be addressed (Schoofs, 2015).

In fact, donors promoting the growth of SMEs and entrepreneurship increasingly are working with local governments to design and roll out incentive packages and strategies. Most of these approaches are addressing business constraints or directed towards creating an enabling business environment. Similar to Schoofs (2015), Lange (2014) indicates that most often these interventions and strategies fail to take into account the complex political and social dimensions of which SMEs are an intrinsic part, and the impact they can have on FCAS. There is a need for theories of change for inclusive SME development that do justice to the complexities in FCAS.

Regarding the employment-creating abilities of SMEs, Davis and Balt (2014) have analysed eight cases from different conflict-affected countries to understand private sector engagement in FCAS under the perspective of 'how employment can be made sustainable'. The analysis leads to the following insights—namely, that SMEs can grow and increase employment through:

- \ Capacity building in the framework of development programmes or partnering with an NGO;
- \ Establishing backward and forward linkages to make SMEs part of a larger value chain;
- \ Linking up with other companies, which requires facilitation;
- \ Providing support in gaining access to finance.

However, there is no evidence on whether increased employment is sustainable and long-term following withdrawal of supporting programmes and organisations.

Beyond the roles that SMEs might play in restoring the economy and providing employment, the argument of linking PSD, and in particular SME development, with FCAS has been brought forward. SMEs' flexibility in quickly taking opportunities to fill market gaps and their embeddedness in local communities are the main characteristics leading to such propositions. Due to their ability to discover and occupy market gaps, it is assumed that SMEs can easily offer products that create social and/or environmental benefits (Organisation for Responsible Business, 2009). Moreover, SMEs are regarded as having the ability to assume a key role towards broadening and

diversifying domestic economies, thus decreasing susceptibility to sectoral shocks or fluctuations in international private capital flows (Davis & Balt, 2014, p. 14). This stabilising quality is regarded as having the potential to mitigate shocks occurring in FCAS as well. In addition, since SMEs often subcontract business to other small entrepreneurs or borrow equipment from others, they are prone to bridging horizontal divisions in communities through alliances; as a result, they can foster trust between different groups in FCAS (Spence et al., 2001). As locally embedded actors, small and medium entrepreneurs are regarded as being able to tackle manifestations and repercussions of wider problems within their own communities (Hettiarachchi, Holdaway, & Gündüz, 2009, p. 10) and even as having the ability to address conflicts and play an active part in peacebuilding at the local level. The reasoning behind this can be summarised as follows.

- \ SMEs can be engaged for local and regional economic development approaches as important actors among other stakeholders, whose efforts will have to be harmonised to ensure effective and sustainable implementation of PSD in FCAS (GTZ, 2009, p. 56).
- \ Cooperation in a coalition with other companies and NGOs can create a level playing field within the private sector, so that companies can fight corruption without fear of being displaced by less ethical investors in situations where remnants of the war economy persist (Williams, 2013).
- \ Due to their local position, SMEs can be useful in early warning systems for renewed outbreak of conflict. Whilst the SMEs themselves will benefit from these early warnings as they are usually most affected when violence breaks out, local authorities and security agencies would also benefit. They would be able to prevent the conflict before it reaches an escalation point that is not easy to contain. To perform this role, SMEs need to be connected to local institutions so that issues can be raised and mitigation strategies can be developed.

- \ As many drivers of conflict are locally rooted, such as those instigating community tensions or resentment, SMEs are well placed to identify these drivers. Shared economic interest can be a powerful motivation for bringing together conflicting parties and thus fostering economic development in FCAS (Curtis et al. 2010, p. 4).

Most of these propositions are directed towards PSD in FCAS, which is alleviated and facilitated through SME engagement in development programmes or initiatives. Some propositions go one step beyond PSD and ascribe to SMEs a role in introducing conflict-sensitive approaches that can support peacebuilding. As SMEs are situated within the communities where violence occurs, and hence are particularly affected by violent conflicts, they may become committed partners to peacebuilding (GTZ, 2009, pp. 14, 63; International Alert, 2006). An example of this is the Business for Peace Alliance (BPA), which was facilitated by International Alert in Sri Lanka (Mayer & Salih, 2006).

Notwithstanding the example of the BPA, there is still a need to better understand the role of SMEs in contributing to stability in FCAS, and how international development agencies can support this. Support so far includes investing directly in SMEs to augment their operations and maximise profits, creating an enabling environment, building the capacity of SMEs, enhancing understanding of conflict sensitivity and implementing conflict-sensitivity measures. However, such initiatives proved to be unsustainable as long as there was no coordination mechanism to keep the momentum going and to include the activities and interests of stakeholders. As the example of the BPA shows, the business community's interest in peacebuilding can be sustained if such initiatives have a practical and tangible benefit for SMEs.

The assumed peacebuilding potential of companies does not only pertain to SMEs. As violent conflict imposes a range of costs on companies, a conflict-sensitive approach to doing business—one that seeks to avoid these costs by developing informed conflict management strategies—is therefore a strategic choice for company managers. At the local level,

Box 2

Business for Peace Alliance (BPA): An example of involving SMEs in peacebuilding

The example of the BPA demonstrates how SMEs can be brought together effectively to promote responsible practices and work across ethno-political conflict divides. Within the BPA, SME entrepreneurs from across Sri Lanka are cooperating in addressing local issues, brainstorming on solutions and sharing best practices. They have developed practical models for reconciliation and conflict prevention at the local level, as well as joint business ventures to strengthen multi-ethnic business partnerships.

Initiatives undertaken by BPA members include:

- \ *Joint trade fairs for people from different ethnic and religious backgrounds and geographies;*
- \ *Community festivals – in places where communal violence had occurred in the past or where there was a risk of such violence, the business community organised community festivals aimed at celebrating the diversity of cultures among different communities. Although sometimes criticised as not being the best use of resources, the festivals provided an opportunity for otherwise isolated communities to come together and helped to diffuse communal tensions.*
- \ *Corporate social responsibility (CSR) initiatives – the Ceylon Chamber of Commerce piloted a youth entrepreneurship programme, where members of the chamber provided mentorship to young entrepreneurs from diverse ethnic, religious and political backgrounds*

(Mayer and Salih, 2006; see also Sweetman, 2006, pp. 43–44).

through improved relationships with stakeholders, and at regional and national levels, companies can benefit from avoiding or handling conflict more effectively through a joined-up understanding of all conflict risks and impacts.

Based on the review of documents and studies on PSD in FCAS, Table 2 provides a summary of the broader impacts, both positive and negative, that PSD can have on peacebuilding efforts. It highlights the impact that private business can have in FCAS in fostering or hindering equitable economic development, security, justice and stability, transparency and accountability of business, building and extending infrastructure and supplies, and fostering human and workers' rights.

Table 2
SME definitions used by multilateral institutions

	Positive impact	Negative impact
Economic development	<ul style="list-style-type: none"> \ Creating jobs and incomes \ Spurring long-term growth \ Creating potential for broader tax base \ Producing a trickle-down effect from larger to smaller enterprises in the supply chain \ Producing goods and services \ Fostering trade 	<ul style="list-style-type: none"> \ Places economic power in the hands of foreign companies or one group of local elites \ Can lead to greater dependency \ Likely to deepen existing inequalities and to create new ones
Security, justice and stability	<ul style="list-style-type: none"> \ Supporting stabilisation \ Can create enterprises which span different ethnicities and religious identities \ Restoring workers' confidence \ Providing integration opportunities for victims of conflict \ Helping to reconcile efforts 	<ul style="list-style-type: none"> \ Can exacerbate existing tensions between different groups \ Can raise expectations beyond what is actually achievable (this may also be positive or provide an impetus for change) \ Can create violent competition over contracts \ Some companies may have a vested interest in continuing the conflict
Governance	<ul style="list-style-type: none"> \ Ensuring that enterprises work through legitimate governance processes \ Encouraging the use of international norms that may help to improve transparency, efficiency and accountability, for example, of accounting 	<ul style="list-style-type: none"> \ Fuelling corruption among officials \ Undermining the long-term legitimacy of the state as a public service provider
Infrastructure	<ul style="list-style-type: none"> \ Encouraging commercial value chains, especially with international investors \ Can contribute to providing public goods such as healthcare and education \ Providing private goods 	<ul style="list-style-type: none"> \ Private sector is more likely to fail in public service provision in the long term, which is likely to increase fragility and instability
Humanitarian and human rights	<ul style="list-style-type: none"> \ Providing opportunities to offer work to displaced persons \ Providing opportunities to introduce and implement responsible business practices—for instance, through the Extractive Industries Transparency Initiative (EITI), Voluntary Principles on Security and Human Rights (VPS), and Kimberley Process 	<ul style="list-style-type: none"> \ Can negatively impact the environment and disrespect workers' rights

Note: Compiled by the authors

Environment for a positive private sector role in peacebuilding

The business environment in conflict-affected contexts is marked by enhanced risk, uncertainty and increased costs. These factors tend to drive up prices, reduce the quality and quantity of goods and services available, and limit competition. Post-conflict economies are frequently characterised by a few larger players, often newly emergent, which have been able to survive the chaos, along with numerous informal actors eking out a subsistence living. This profile of economic disparity is often true of pre-conflict economic relationships as well, with the primary difference arising from changes in economic power: conflict may eliminate or reduce previously dominant businesses and increase the overall number of people at the subsistence level. Such disparities can create perceptions of unfairness and injustice, and can badly undermine social stability. Moreover, conflict damages trust, which is one of the principal risk-mitigation factors that enables healthy economic relationships (Channell, 2010).

The World Bank's 'doing business' benchmarking of 190 countries currently is one of the most accessible and widely used measures of a country's business and investment climate (World Bank, 2016a). Ten sets of indicators document the extent of regulation, the time and cost to firms of regulatory compliance, the extent of legal protection available to investors, the effects of employment regulation on economic flexibility and the impact of the tax regime. A sound business environment is important for growth in all contexts, including that of FCAS. The World Bank's 'doing business' indicators can be useful for identifying areas for government reform and for developing a pro-reform constituency. They provide a useful benchmark for initial programme design in conflict-affected environments, but must be supplemented by other diagnostic tools (Curtis et al., 2010, pp. 25-27). A useful complementary instrument is a growth diagnostic, identifying the binding (that is, the most immediate) constraints for growth (Hausmann et al., 2005). The diagnostic identifies the self-reinforcing relationship

between government failures and market failures and the difficulty in determining which of these might be the underlying binding constraint. Among the specific difficulties faced in applying the 'doing business' methodology in FCAS are data gathering and quality, institutional weakness (affecting institutional memory), limited administration and enforcement ability, and audience. This is because the approach primarily addresses foreign investors, who will not come unless domestic investors, who may face different constraints, emerge (Fowler & Kessler, 2015).

Critics of the 'doing business' methodology argue that it focuses "too narrowly on generic and economically defined business constraints. They assume a kind of level playing field, both between businesses and among countries. What they overlook, or at least fail to address, are the wide range of complex political and social dimensions that impact the potential of SMEs in settings marked by conflict and fragility" (Lange, 2014). In a broader sense, it is argued that challenges such as political instability, lack of security, poor governance, deep social divisions and structural inequality, which may add to the difficulty of 'doing business', are not taken into account. However, this critique goes beyond the intention and substance of the 'doing business' indicators, which do not claim to present an understanding of the economic, political and social dimensions that determine the environment in which businesses operate in FCAS. They simply present the results of certain background processes. The technical proposals made on the basis of the indicators may indeed be appropriate in the FCAS context.

Not least due to these assessments of the business climate in FCAS, most of the literature on FCAS considers a degree of stability and peace as a prerequisite to PSD interventions (Naudé, 2007; World Bank, 2012, p. 196). The authors claim that, without this, it is unlikely that larger formal and international private businesses will be willing to invest, because there will be too many associated risks. Accordingly, as the GIZ argues, a "business enabling environment" is key to private investment and employment in any state (GIZ, 2009, p. 54). This implies that there should

be no inappropriate regulations on businesses or excessive taxation, that investment in local businesses should already exist, that competition should be fair and that the policy environment should be stable. Assessments of the potential positive and negative impacts of PSD on peacebuilding in FCAS have to address these aspects.

Altogether, these requirements seem to involve a task that resembles squaring the circle. Hence, the literature tends to focus on some aspects and ignore others.

Collier (2009), for example, highlights that a post-conflict society has to give overriding priority to lowering the risk of renewed conflict. Two economic policies in this regard are reducing military spending and increasing employment opportunities for unskilled young men. In terms of political opportunities, the first decade following violent conflict is best suited to rapid economic reform. Regarding economic processes, Collier highlights the importance of encouraging the repatriation of flight capital, of improving the governance of mineral rights and of managing construction booms. However, none of these activities features very prominently in conventional post-conflict economic strategies. In terms of fiscal strategies, Collier advocates a package consisting of low taxation, high aid, a high-scrutiny model of public spending and low inflation.

With a similar implication of making a peace dividend accessible to the poorer strata of society, Gerstle & Meissner (2010) emphasise the importance of market development, aimed at stimulating broad-based, inclusive economic growth that reduces poverty. Market development initiatives often target industries in which large numbers of poor people are concentrated, either as business owners/operators or employees. The objective of market development is to ensure that the poor participate in, and benefit more from, existing and potential markets in which they do business. These markets include the inputs (supplies) and services that enable poor producers to be productive, as well as the final consumers that buy those products or services (Gerstle & Meissner, 2010).

The UNGC (no year) states that weak and conflict-prone states present an adverse incentive structure for private business, because domestic regulation is poor or absent, competition over lucrative contracts is intense, and company misconduct may take place with impunity. As the private sector is involved in conflict as well, the objective will be to change incentives, an aspect also emphasised by Maresca (2004). Taking into account the fact that business is about taking risks and being competitive and innovative for financial gain, the right incentives become crucial. There are two important insights related to the issue of incentives - namely, that the economic benefits made available to combatant parties through war may reduce their motivation to seek peace and that economic interventions are not the panacea for peacemaking as some had hoped for (see, among others, De Soysa, 2016). Ballantine & Nitzschke (2005) contend that, when taken in combination with diplomatic and military interventions, measures to curtail the financing of conflict can apparently contribute to positive outcomes. For policymakers, the lesson is as clear as the challenge is daunting: unless and until war economies are dismantled, the prospects for durable peace remain poor (Ballantine & Nitzschke, 2005).

Less straightforward, Peschka (2011) argues that PSD in FCAS requires special policies and instruments, given the backdrop of the distortions caused by conflict and the high potential of a return to violence. Accordingly, support from international financial institutions, bilateral donors and other actors could potentially make a significant contribution to PSD by ensuring ongoing access to finance, imports and exports. These efforts may work best if they are coupled with reforms to re-establish or strengthen transparency, trust, effectiveness and legitimacy in those government institutions that provide the framework for private sector activities. Hence, reconstructing the private sector is regarded as a parallel and interconnected process with rebuilding state institutions.

In a similar vein, Avis (2016) suggests that a balanced strategy combining emergency employment, income-generating activities as part of general PSD,

and the creation of an enabling environment through legal and regulatory reforms is necessary to support more durable economic growth and to enhance the private sector's positive impact. Hence, using PSD for peacebuilding purposes may be possible when a balanced approach is taken, allowing the private sector to develop alongside a public sector that supports it. This balance is important because without government policies that stabilise markets, businesses will be dissuaded from investing, while excessive regulations will stifle competition and remove the autonomy of these businesses. This in turn could discourage investment, innovation and entrepreneurship in various sectors (Khan & Ahmed, 2014, pp. 7-8).

Some authors offer arguments seeking to circumvent this dilemma. The Institute for Economics and Peace (IEP) (2015) highlights that businesses have a considerable amount to gain by investing in peace. Violence around the world is thought to cost the global economy US \$14.3 trillion, a figure that includes both the direct and indirect costs. Reducing conflict would mean that these funds could be invested into other productive areas of the economy, including private business.

Gerstle & Meissner (2010) make the point that promoting economic recovery is highly contextual and cannot be simplified to a sequence or even one list of interventions. This is due to the broad array of environments and factors affected by conflict. Factor conditions in the economy need to be considered—that is, endowments of land, labour and capital. A more viable alternative to an ideal-typical phasing of reform measures, which practitioners and donors tend to apply, will be selecting appropriate strategies according to a number of criteria. Among these should be the state of existing institutions, the severity and duration of the conflict, and its root causes and effects (Gerstle & Meissner, 2010).

Channell (2010) maintains that creating a business enabling environment offers significant challenges and risks in a conflict environment, as well as numerous opportunities for effective peacebuilding initiatives. Economic opportunity depends, at the most basic level, on enforceable property rights and

enforceable contract rights. The complex network of business laws, regulations and institutions rests on these foundations. Enforcement - which underpins all rights - depends on the existence of a continuum of trusted and trustworthy institutions, ranging from informal community pressure to formal court systems backed by the power of the state. The disruption of these institutions during violent conflict can lead to opportunities during reconstruction, including opportunities to:

- \ Establish regulatory and legislative legitimacy;
- \ Expand and protect ownership mechanisms;
- \ Expand dispute resolution mechanisms;
- \ Expand opportunities for women;
- \ Reduce and simplify regulation (Channell, 2010).

Such reforms would contribute to a change in the investment climate, which is an important part of the business environment. The IFC highlights that reforms addressing the investment climate are critical to state-building. Reforms of government institutions that regulate the business environment are expected to inculcate transparency, honesty, professionalism and client service - all of which are key to restoring government legitimacy (IFC, 2009).

In order to pursue the parallel approach of rebuilding public and private sectors, business networks come into the focus. Gündüz et al (2006) point to the experience from various conflict-affected countries, where business networks and associations were strong. They suggest that these can be important channels for mobilising business support and lobbying for policy reforms that are relevant from a business perspective, as well as a conflict prevention and peacebuilding perspective. Similarly, Varshney (2001) found that businesses that had worked with opponents during a conflict were more sustainable and therefore profitable. Inter-communal businesses are most likely to survive because they connect the business interests of different communities (Varshney, 2001, p. 372). When these businesses risk losing all they have due to communal splits, they will alert their community as well as the wider public about the dangers of communal violence (Varshney, 2001, p. 378). This behaviour gives companies a more stable

footing in their wider community beyond the normal social spheres. It suggests that business associations, professional groups and trade unions (along with political parties and sports clubs) stand out as being most effective in controlling conflict (Varshney, 2001, p. 363; see also Ganson and Wennmann, 2016, pp. 183-193). Essentially, as most businesses will be negatively affected by continuing conflict, they will have a strong interest in maintaining peace. Therefore, it is important that they are involved in peacebuilding coalitions.

Appropriate support from external partners can have a great impact on the outcome of a peacemaking and developmental perspective, determining if it is positive or negative (Peschka, 2011). Despite a broad consensus that the private sector has a role to play in preventing and resolving conflict as well as addressing fragility, there is mixed evidence on how best to engage with the sector and facilitate PSD (Avis, 2016).

Hence, whereas indicators are useful for investors and companies to provide an overview of the business climate in FCAS, the review indicates that local contexts and interactions may make a difference. Moreover, balanced public and private sector development appears to be crucial for overcoming the features of a war economy.

Employment–peace nexus

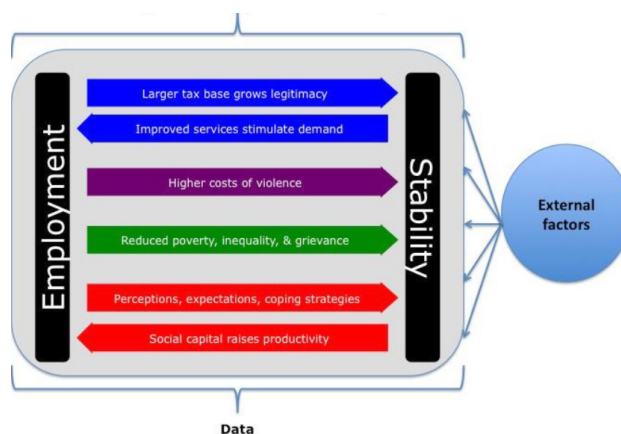
Employment consistently has been identified as a major factor in empirical studies that identify the key determinants of poverty reduction in a range of different country contexts. However, similar studies were not conducted in FCAS. The literature on employment in fragile states indicates a theoretical bias, with many studies and policy documents being based on the assumption that employment creation will promote poverty reduction and stability. Despite the lack of empirical evidence, there is an agreement in popular international discourse that an employment–peace nexus exists, as for example in the UN Post-Conflict Employment Creation, Income Generation and Reintegration (PCEIR) policy document (ILO, 2009) and further documents (ILO, 2012, p. 46; Holmes et al., 2013; World Bank, 2012, p. 126; Cramer, 2010). The assumption regarding the employment–peace nexus is largely based on the mainstream development literature that identifies employment as a central determinant of the nexus between growth and poverty reduction.

The fragile states literature does highlight the relationship between unemployment and instability, adopting a range of analytical approaches—including political economy, institutional analysis and econometrics—to argue that unemployment is a driver of instability (see, for example, Collier, 2006). However, there is not a commensurate literature offering an evidence base about the impact of employment creation on stability. This is possibly due to the indirect nature of the effect and attributional problems in contexts where data are scarce and research opportunities constrained. As with poverty, the policy developed in this area is primarily intuitive (for instance, the UN PCEIR, ILO 2009). Moreover, it is based on the assumption that if unemployment contributes to instability, then employment creation will promote stability. Hence, despite the centrality of employment creation as an instrument to promote stability in the fragile states policy discourse, no robust qualitative or quantitative evidence was found to illustrate this relationship in the literature.

This is confirmed by a study commissioned by the Overseas Development Institute (Holmes et al., 2013), which identified only one empirical study that

linked employment and peace. Accordingly, Ofem & Ajayi (2008) explored youth restiveness as the indicator of stability in Nigeria, but with only limited methodological robustness (Holmes et al., 2013, p. 22). Based on quantitative analysis of survey data, the authors identified numerous causes of youth restiveness, including unemployment. However, more important were a lack of social welfare, bad governance, a corrupt government, inadequate training provision and an urge by youth to satisfy their basic needs (Ofem & Ajayi, 2008, p. 143). In terms of utilising employment as a means to reduce conflict, the authors recommend providing more opportunities to youth but also upskilling them, as well as ensuring that there are suitable governance structures in place (Ofem & Ajayi, 2008, p. 146). Despite being criticised for its lack of technical robustness, this study's findings highlight the difficulty of seeing the employment–peace nexus in solely economic terms. It demonstrates that although there is perhaps a causal link between employment and peace, there are other contributing factors within this relationship that may be required for peacebuilding.

Figure 2
Mediating institutions (formal and informal)



Source: Brück et al., 2015, p. 24

Still, most arguments presented in the existing literature are based on an economic approach to peacebuilding, as presented by Brück et al (2015) in Figure 2, which shows the mutual impacts of employment and stability on each other. This approach

follows the understanding that unemployment leads to violence because those without jobs not only have less to lose by engaging in violence, but actually have a comparative advantage in doing so (Hirshleifer, 2001). Thus, a logical conclusion drawn in the literature is that more employment opportunities for the jobless reduce the likelihood that those individuals will willingly engage in violent activities because there is a higher opportunity cost involved in doing so.

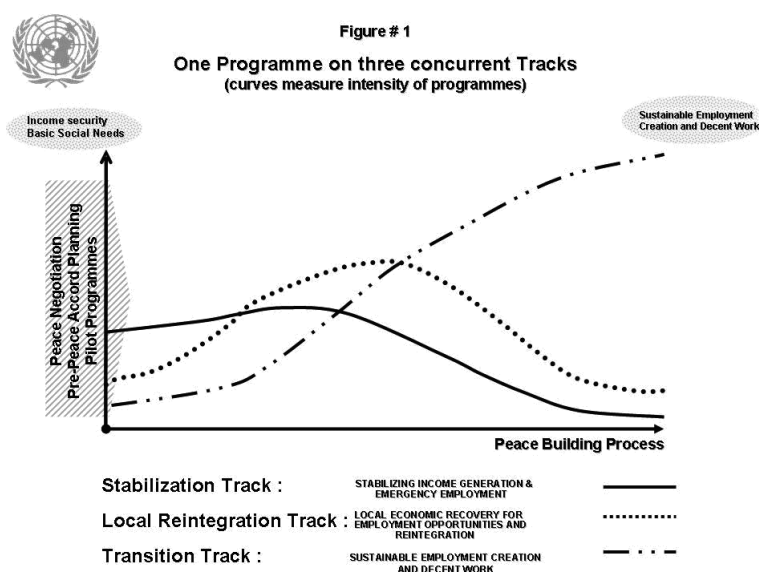
Agenda-setting organisations promote the employment-peace nexus despite a lack of evidence. Hence, creating jobs as a peacebuilding tool is included in the World Bank’s 2011 World Development report and in its report on ‘Jobs’ (World Bank, 2012). The World Bank assumes that peace and stability can be reached if the economic foundations of a country allow for a prosperous life for all population groups. In the World Bank terminology, employment and sustainable, pro-poor growth represent key components of economic foundations and, hence, the basis for peaceful development. Unemployment and high inequality, on the other hand, with typical features of social segregation and marginalisation, can contribute to the perception of injustice and lead to

frustration. The lack of opportunities and prospects often constitutes a major driver of conflict, fragility and violence (see also GIZ, 2015; Collier & Hoeffler, 2004).

The UN PCEIR is a widely accepted and commonly referred to framework for employment as a peacebuilding tool. The policy differentiates between types of job creation and their impact on peace over different lengths of time. Specifically, it highlights three ‘tracks’ that lead to short, medium and long-term stability through employment in conflict-affected countries (Figure 3).

Assuming there is a connection between employment and peace, this approach seeks to demonstrate that different strategies need to run simultaneously for peace to be achieved and maintained through employment schemes. Track A focuses on stabilising income generation and providing emergency employment in the short term through employment programmes. This activity is often temporary in nature. Track B focuses on employment opportunities at the local level where reintegration takes place. While these programmes include capacity development of local government, communities and NGOs,

Figure 3
Three-tiered employment creation in FCAS



Source: UN, 2009, p. 12

Track C focuses more on the private sector. The goal is to promote long-term development that sustains productive employment and decent work, while respecting human rights as well as gender equality and integration of marginalised groups (UN, 2009, p. 12). Ultimately, it is hoped that the concurrent running of a programme or programmes along these different tracks will bring immediate and lasting peace to FCAS through employment. The key premise of Figure 3 is that while creating sustainable employment, mainly in the private sector, takes longer to develop, over time it will constitute the biggest part of all employment.

Despite the absence of a strong evidence base from which to assess the impact on stability of direct employment, enabling macro-policies or the promotion of self-employment, there has been a growing body of literature on this. The literature includes many proposals on how and why employment is important during reconstruction after violent conflict (for example, Addison, 2001; ILO, 2003; Kamphuis, 2005; MacSweeney, 2008; Agborsangaya-Fiteu, 2014) and on building up the private sector in post-conflict economies (for example, Nenova, 2004; Demirgüç-Kunt et al., 2011). A section of the literature discusses connections between the creation of employment and peace (ILO, 2009; UN, 2009; GTZ, 2009; Cramer, 2010; World Bank, 2011). However, little of this research explores the micro-level or is evidence based. Much less studied are the effects of violence on employment.

There are four main reasons as to why it is difficult to prove an employment-peace nexus through research. Firstly, assessing the impact of employment on peace is deemed problematic because it is a long-term process and thus requires evaluation over a long period of time (Holmes et al., 2013, p. 26; Watson, 2009, p. 9; UN, 2009; GTZ, 2009).

Secondly, there is a lack of micro-level studies exploring the link between employment of at-risk groups and a decline in anti-social behaviour (Brück et al., 2015, p. 27). Whereas the assumption of an employment-stability nexus is being studied at the macro-level, it is then just transferred to the micro-level. The micro-level relates to the perceptions, attitudes and expectations of individuals, where social norms supporting peace and stability might emerge.

According to Brück et al (2015), moving away from wider economic explanations of cause and effect to more localised socio-political and economic factors could provide valuable insights into the relationship between employment and social behaviour.

Thirdly, it is necessary to consider that the link between employment and peace could be dependent on the type of employment and structure of the economy. Employment in FCAS such as Kosovo was more likely to strengthen public service provision than it was in Liberia, as it was able to draw on a larger formal economy and stronger bureaucratic resources post-conflict (Brück et al., 2015, p. 25).

Finally, and perhaps most importantly, simply equating jobs with peace is oversimplifying a highly complex relationship. The type of job created is far more important than just creating a job (World Bank, 2012, p. 127). Brück et al. (2015, p. 36) argue that quality of employment can only be measured objectively to a certain degree, as it is located within the individual's experiences, attitudes, perceptions, expectations and coping strategies.

Taking into account these cautionary remarks, the following section discusses the literature on the role of employment creation for stability and peace-making as it is evolving.

Employment creation in FCAS

During armed conflict, soldiers and combatants form an important group of employees. Military experience is a poor substitute for civilian education and labour market experience. In settings where a large proportion of youth have been actively participating in fighting, aggregate economic impacts will be quantitatively important. The most pervasive impact of military service and fighting in non-state armed groups is the interruption of human capital accumulation. The large and persistent falls in earnings and higher mortality reported in studies on US and European veterans of the Second World War are echoed in findings from developing countries (Blattman & Miguel, 2010). The new and rapidly growing micro-economic literature has identified persistently negative war impacts on individual human capital, especially in African cases. However, while

the short-term impact of war is clearly disastrous, there is mixed evidence on how long the economic effects on human capital and quality of life persist.

There is another equally important feature of violent conflict—that is, labour force migration, even to other conflict areas. According to Hoeffler (2013), 20 per cent of the 18 million migrants from fragile states—and more than half of the eight million refugees (2012 data)—settled in other fragile states. Thus, migration appears to be both a consequence and possible cause of conflict and fragility. Economic factors, such as higher wage incomes, are a central motivation for migration. Given the militant socialisation of the youth and the migration of large groups, PSD programmes in FCAS may create employment, but mainly for skilled foreign labour rather than local jobs for local population groups.

Private sector development and employment creation are strongly related to each other, but not identical. While most employment is in the private sector, this is not true for all employment. Especially in the shorter term, employment creation schemes, driven by aid agencies or governments, are required to get local war-affected population groups involved. With the multiplicity and complexity of conflict drivers, ranging from a mix of unique yet overlapping political, social, economic and security factors, there is a great potential for economic development intervention (GTZ, 2009, p. 12).

Dudwick (2013, p. 17) and others emphasise the importance of re-establishing social cohesion after protracted violent conflict. They argue that whether or to what extent employment can help build social cohesion, or whether social cohesion can promote employment, depends crucially on the institutional environment, and this environment is largely determined by government policies. Without certain guarantees of physical security and the application of rule of law through a strong judiciary, businesses are unlikely to risk investing in FCAS, and hence will not create employment. As a consequence, approaches to employment promotion that neither require a strong network of trust nor rely on close collaboration between actors have better chances of yielding positive results in the short term. Such approaches include ‘cash-for-work’, ‘food-for-work’, ‘cash-transfer’

programmes and short-term skills training. While conventional thinking underlines the necessity of security at a minimum for employment creation schemes to begin, development agencies increasingly have become aware that the risk associated with not engaging tends to outweigh the risks of engaging in the first place (GIZ, 2015).

In their review of the evidence on the impact of employment creation on stability in fragile states, Holmes et al (2013) find three broad categories of employment creation: emergency employment creation, long-term employment creation through enabling macro-policies, and self-employment. Employment promotion programmes always influence the distribution of income, be it by offering access to jobs to some (and not to others) or by increasing the income level of certain households (and not of others) (GIZ, 2015). However, evidence on the impacts of long-term employment creation and self-employment is lacking (Holmes et al., 2013).

Much of the literature agrees on the importance of cooperation by business and development actors in order to create employment in fragile contexts. A study by Davis & Balt (2014) identifies the different incentive structures of the private sector and potential synergies with what development agencies do to create employment in FCAS. The authors’ model (see Figure 1) demonstrates important access points for development actors intending to collaborate with the private sector in creating employment and ‘good’ jobs. The most significant research gap concerns how to integrate the private sector incentive structures in post-conflict reconstruction and peacebuilding strategies. This integration is important to be able to plot more synergies between the private sector and development actors’ roles in creating employment for stability. According to Davis and Balt, most important are knowledge sharing, capacity building, service delivery and advocacy, in order to establish common ground.

Pugh (2008), in contrast, focuses on the fact that the employment policies of interveners (comprising aid and development agencies as well as international finance institutions) exhibit a competitive market-led approach, which is exploited by international and local entrepreneurs. High exploitation of illegal refu-

gee workers is the norm. Bureaucratic hindrances entailed in securing formal employment leads to the definition of special target groups that are considered as having special needs. Hence, the ILO has tailored special programmes for internally displaced persons (IDPs), refugees and returnees, including those involving the restitution of property and land. Ex-combatants have special needs too. The youth are usually excluded from decision-making in peace processes, although they have had a role in the conflict as income generators and security providers. They may join gangs or the informal sector. Emergency job creation schemes for ex-combatants and the youth are set up because they are considered a danger. Opportunities have been found in agriculture, services, retail and construction, but not in industry and value-added production. A building boom, which often follows a peace agreement, tends to cause a surge in imported materials rather than invigorating local supply (Pugh, 2008, pp. 146-147). Women's income generation projects by the ILO leave women at low and precarious levels and do not redress job loss in the public sector or industry.

The ILO may sponsor start-ups, training, internships and apprenticeships, but not strategic employment creation for these 'vulnerable groups'. Setting up mobile phone networks and facilitating credit for transport, trade and export promotion does not create long-term employment strategies. Strategies to empower at least one breadwinner per family through employment programmes seek to make people independent of aid, but they do not establish socio-economic rights for disadvantaged social classes. This fosters frustration and migration. Pugh argues that, in the liberal peace framework, fragmentation, regrouping and material impoverishment of social capital makes labour vulnerable to post-conflict exploitation. Labour unions may split along ethnic lines, protecting jobs for some and excluding others. Security companies may flourish with high-risk wages and suspension of rights for employees (Pugh, 2008, pp. 148-149).

Pugh claims that the neoliberal approach pushes socio-economic rights out of the zone of human responsibility and side-lines them in favour of civil and political liberties (Pugh, 2008, p. 143). It privileges liberty over justice, so that assets take priority and

are protected by the self-interest of entrepreneurs and the monopoly of force in a minimal state. The distribution of resources among entrepreneurs in civil wars, but also resource distribution by intervening agencies in FCAS, circumvent the social contract. Prioritising market liberalism and deregulation in FCAS is taking place alongside protection of the interveners from competition. Against this backdrop, building peace will enhance existing inequities (Pugh, 2008, p. 144).

From conflict-sensitive business to conflict-sensitive employment: Needs and challenges

Returning to the discussion on the potential role of businesses in peacebuilding, the UN PCEIR framework for employment creation in the private sector has some of the characteristics required for conflict sensitivity. Its main rationale is that in situations where economic grievances are among the major causes of conflict, economic development can have great potential and PSD is crucial to help fuel economic development. Authors agree on the importance of applying strategies that are sensitive and relevant to the particular conflict (UN, 2009; Curtis et al., 2010, p. 9; Norton & de Haan, 2012, p. 16; Goldwyn & Chigas, 2013).

In this regard, development agencies increasingly have offered guidance on how to design conflict-sensitive PSD programmes in FCAS. The German Federal Government aid agency (GTZ, 2009) has developed a comprehensive framework on how to make economic development conflict sensitive, including requirements for the private sector. There are also two guidebooks developed by the Donor Committee for Enterprise Development (DCED). The first guidebook outlines PSD tools that could be used in conflict-affected environments, but ultimately suggests that PSD programmes should be flexible, provide practical support, recognise the long and short-term issues, be innovative, prioritise certain interests, be realistic, accept risk, and be coordinated and coherent (Curtis et al., 2010, pp. 10-11). It emphasises that the drivers and issues of each conflict are complex and often unique. Hence, there is no definite blueprint

that one can follow to ensure that PSD contributes to conflict alleviation (Curtis et al., 2010, p. 14). This means that using a conflict-sensitivity approach requires a preceding analysis of each specific context to ensure that programming is relevant to the specific conflict. The second guidebook presents methods of measuring results and achievements of PSD in reducing conflict (Fowler & Kessler, 2015).

An example of a conflict-sensitive approach is an agribusiness investment that is made after negotiating access to land with the relevant government and traditional authorities, as well as analysing the impact of the investment on relations between different community groups in the area. If the investment exacerbates tensions between pastoralists and farmers, and causes violence between them, this will constitute a 'conflict-insensitive' business. A conflict-sensitive approach would reveal the presence of underlying conflicts between different livelihood and ethnic groups. It would lead to a project design that takes account of and mitigates the problem—for instance, by leaving transhumance routes intact or, if this is not possible, by seeking land elsewhere (International Alert, 2015).

Conflict sensitivity requires the ability to understand the context of intervention, including inter-group tensions, the divisive factors and those factors that have the potential to connect groups across conflict lines. Hoffmann (2014) makes the point that the intrinsic challenge for private sector actors trying to acquire such an understanding lies in the fact that foreign and, even more so, domestic businesses operating in contexts of fragility and conflict are, or become, inherently part of the political marketplace. This makes it difficult, if not impossible, for them to conduct such an analysis on their own—for example, as part of a due diligence or risk assessment procedure. Related to this is understanding the impact that intervention and context have on each other. Entrepreneurs and employees have to be aware that they will never be perceived as neutral. The assumption that businesses can operate as apolitical agents in highly political contexts has been proven wrong in cases where actions by international investors or local businesses have had harmful consequences.

Hoffmann (2014) suggests that for the private sector to acquire a deeper understanding of the political marketplace, cross-sector cooperation with local stakeholders and development actors is needed. She argues that, so far, such collaboration has been on an ad hoc basis at best, and that there is ample scope for a more systematic approach.

Hoffmann concludes that whether a business can avoid harm and help build peace will not depend on the company alone, but depends on “the commitment of the international development community to systematically engage with the private sector: to jointly build up a sound business case for conflict sensitivity and to supplement the existing wealth of guidelines with practical support and concrete possibilities for cross-sector collaboration” (Hoffmann, 2014, p. 6). This includes, among other things, investment in cost-benefit analyses demonstrating the financial returns on investment in conflict-sensitive business strategies, encouragement of shared learning from business impact assessments, and creation of multi-stakeholder observatories to enhance collaboration between businesses, donors and civil society actors. Moreover, international agencies should complement this by providing trainings in doing business in FCAS and, at the same time, engage in policy dialogue with government. Development programmes should create an enabling business environment that connects peacebuilding and economic interests integrally (Hoffmann, 2014).

The suggestion of business entanglement in a political marketplace is important with regard to FCAS, where patronage relationships prevail and markets tend to be structured along political-economic power contestations. However, Hoffmann overlooks the fact that 'local stakeholders' and even 'development actors' are usually part of this 'political marketplace' as well (see de Waal, 2016) and not distanced outsiders.

The focus of these frameworks and guidebooks is on conflict-sensitive PSD, which is implicitly assumed to have a positive employment effect. The publications presume that there is an employment-peace nexus and do not explore whether employment has a causal relation to peace. Conflict-sensitive employment appears to be a subordinate aspect of

conflict-sensitive (private sector) development, which is not addressed separately in the literature so far.

Presumably, conflict-sensitive business behaviour is strongly related to employment. Employment is regarded as reducing the probability of joining armed groups, especially for youth. The assumption is that the high proportion of youth in many societies, referred to as the “youth bulge” (Urdal, 2004), may potentially contribute to incidences of insurgency or civil war if young people have no prospect of employment and, as a result, may be easily recruited into armed groups for payment (Collier, 2000, p. 4). Underemployment may be just as significant a cause as unemployment in terms of creating tensions (Cramer, 2010, p. 6). However, the link between employment and conflict is not straightforward. The World Development Report 2013, for example, warns that cash-for-work programmes will have divisive effects on society if all groups are not considered and the context remains affected by violence. Hence, “not all jobs are alternatives to violence, especially if they provide little income and the work is drudgery” (World Bank, 2012, p. 195).

Conflict-sensitive employment should not only focus on job creation therefore, but on meaningful job creation so that individuals or communities consider the jobs as providing future prospects (Cramer, 2010, p. 6). Moreover, employment should be inclusive so that divisive effects with the potential to create conflicts are avoided. Private sector employers can contribute to this, but even more important are government policies and, in particular, the ministries in charge of education, labour, economy, development and those responsible for each economic branch (such as agriculture, industries, irrigation, forestry, fishery, transport, construction, trade) as well as the employment strategies of the public sector. The ILO standards for decent work underline the same interconnection. They comprise “opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men” (ILO, 2016b).

Hence, decent work is by no means the responsibility of companies and investors alone, but requires rules and regulations by the state. Conflict-sensitive employment even exceeds the standards for decent work, the Human Rights Convention and the International Labour Standards of the ILO.

Ultimately, conflict-sensitive employment calls for employment practices that do not cause or exacerbate conflict. This demand not only relates to employers, but also governments. Company contributions to conflict-sensitive employment can involve particular employment practices, among them labour recruitment practices that are sensitive to local conflict dynamics and contexts, providing opportunities for training, including on-the-job training, decent wage levels and humane labour conditions.

Because of the high proportion of employment in the informal sector, companies and employers in informal economies have an important role to play in creating conditions for conflict-sensitive employment. In societies affected by violent conflict, low-paid or unpaid jobs, subsistence agriculture and petty trade prevail. Many people are doing several jobs at a time, and women become more involved in jobs in societies where they usually do not work in public. Illegal activities often provide a source of income as well, but according to the World Bank they are “distorting incentives and generating rents” (World Bank, 2012, p. 194). The World Development Report 2013 states that “informal jobs can also be transformational” (World Bank, 2012, p. xiii). In its section on conflict-affected countries, the report also highlights that jobs are not only crucial for making a living, but also for restoring the social fabric and “breaking cycles of violence” (World Bank, 2012, p. 193). As a consequence, the World Bank has taken the lead towards a new focus on PSD and job creation, now touted as important stepping stones for transition out of conditions of violent conflict and fragility. This has placed the informal economy at the centre of policy discourses and international support strategies once again. However, questions remain about how conflict-sensitive employment can be introduced in FCAS and, in particular, in the informal economies prevailing in violence-affected societies.

Conclusion

The literature review has revealed two contradictory perspectives on the potential of private sector companies to contribute to peacebuilding or at least to act in a conflict-sensitive way. One perspective is informed by the assumption that private entrepreneurs have an inherent interest in peace—and hence in contributing to peacebuilding—due to their need for an attractive business climate that poses low business risks. The argument put forward by the World Bank and mainstream economics analytical literature is that, in FCAS, building or rebuilding state institutions should be undertaken in parallel with providing incentives for investment in PSD. This means, more specifically, providing advantageous loans or insurances for large companies and for both SMEs and large companies, giving financial support for any other than normal business activities related to overcoming societal divisions or other aspects of peacebuilding. The actors envisaged for such cooperation are development agencies, civil society organisations, community-based organisations and local government officials, whose task will be to ‘engage’ with companies towards conflict-sensitive business practices. This approach presumes a harmonious society that will achieve peace by enhanced cooperation, which appears to be feasible if the right incentives and technical conditions (such as creating platforms for dialogue) are provided by international supporting agencies. Underlying this outlook is the narrative of liberal peace.

By contrast, the political economy perspective starts from the assumption that there are diverse and contradictory interests in FCAS, some of which thrive during periods of extended war and others during times of peace, according to the ease of making profit. Competing political power centres exist, both state and non-state. Activities of external interveners—such as the World Bank or INGOs as well as local governments or community organisations—are considered as being guided by their own interests. Examples include taking over the representation of certain groups in society in an advocacy like way (in lieu of mostly weak or prohibited workers’ unions) and supporting short-term jobs or small-scale self-employment. The working conditions will be below

ILO labour standards for a number of groups identified as ‘vulnerable’, according to categories used by the respective agency. Private solutions that appeal to individual self-responsibility are promoted instead of fostering sustainable public investment—for instance, in education and vocational training. As analysts from this perspective contend, there is a political marketplace which greatly influences economic decision-making according to interdependencies in the complex patronage networks prevailing in FCAS. Investment and money flows are triggered instead by opportunities anchored in beneficial relationships than by liberal market considerations. International development assistance and investment will be channelled accordingly, thus feeding patronage networks and benefitting selected clientele. Companies either have to be part of powerful networks or to pay high compensation in the form of bribes to corrupt government authorities and officials and/or non-state power holders. This explains why concerted engagement by public policy actors towards conflict-sensitive PSD may not work towards its intended aim.

Insights gained from the literature applying a political economy perspective shed some light on three of the dilemmas outlined in the introduction. Firstly, the analyses clarify that the given structures in FCAS are hardly state dominated, but that there is dispersed domination including dispersed means of coercion among various power centres. These power centres will use companies operating in their sphere of influence to generate revenue. They will abstain from any law enforcement and act arbitrarily or impose regulations that are valid locally. Therefore, if international agencies try to implement regulatory frameworks, they will have to pragmatically deal with the existing power centres because the state in FCAS, by definition, will not reliably implement and enforce rules. Direct support and funding of investors and companies aimed at implementing conflict-sensitive employment may help. However, given the likelihood of their connections to patronage networks, it is likely that they will siphon off funds and that the result may be small or non-existent, unless the companies envisage greater profitability for their business if they pursue conflict-sensitive employment

strategies. It is yet unknown what shape this will take, how strong local variations will be, and what differences between state and non-state spheres of influence will look like. As a result, empirical research is required at the micro-level.

How can private companies implement conflict-sensitive business practices?

As the literature on PSD often focuses on growth strategies, it should be emphasised in conclusion that simply stimulating growth in FCAS, which are characterised by structural injustices, inequality, corruption and patronage, may reinforce or reignite violent conflict. Further empirical research is required to understand the impacts of PSD, including growth strategies and other economic policies, on different social groups and on local institutions in FCAS.

How can conflict sensitivity be applied to employment?

Conflict-sensitive employment requires the creation of meaningful jobs providing future prospects for individuals and countering divisive effects in communities in FCAS. Taking the results of the literature review into account, this will require either external funding with a long-term perspective for upgrading skills adjusted to the local market, or a process of self-organisation of workers' interests and the formation of trade unions. Given the conditions in FCAS, these are likely to be embedded in patronage networks and may use the relevant bargaining means to advance the particular interests of certain clientele. If the patronage networks have divided structures, the divisive effects of trade union formation of this kind can hardly be avoided. Moreover, enforcement of regulations and standards agreed upon will depend on the modes prevailing in the patronage system and will not likely be exerted by the state in FCAS.

Conflict sensitivity also requires that employment practices do not cause or exacerbate conflict. Employees, employers and governments need agreements with this aim and comprising procedures that every party can rely on. In FCAS, which are usually structured strongly along patronage networks, there may be various groups of employees, employers and either government or other controlling group

representatives that make their own agreements in parallel networks. These can include procedures for labour recruitment that are sensitive to local conflict dynamics and contexts, or provisions for training opportunities, adequate wage levels and labour conditions, among others.

In addition, conflict-sensitive business and employment practices must be a matter of bilateral negotiations between neighbouring states, regional investors and employers with international branches. This is because FCAS most often have regional and international links and dimensions, with distrust and social divisions as well as war economies extending beyond local or national levels. The known pattern of preferred employment of foreigners over locals, often exerted by international agencies and companies, will require changes if conflict sensitivity is the aim. How locals can get equal chances requires more empirical research, but one factor is already obvious—namely, the skills difference. However, in FCAS, more aspects than skills inform employment strategies, and these will need to be identified by empirical research. Case studies may be most useful, provided that the particular history, context and structures of relationships within regions differ greatly across the FCAS existing in the world.

Hence, the fourth dilemma outlined in the introduction remains unresolved so far. Further empirical research has to establish, for particular cases of FCAS, what are the existing competing offers for employment, what attracts employees to one or more of them and under what conditions, and what role do business strategies play in helping to foster conflict-sensitive employment.

Most importantly, regarding the topic of conflict sensitivity in the private sector and in employment, is the need for more research in FCAS – not from a 'post-conflict' or 'transition' perspective, which assumes the rebuilding of dominant state institutions, but under conditions where violence is rising again. This is a typical pattern in FCAS that has been ignored nevertheless in empirical studies. Empirical research must openly address the following questions, among others. What complementary roles can be played by the private sector—and particular sub-sectors of it

—and the public sector? Which investors are available and what role can they assume under conditions of rising armed conflict in FCAS? Under what conditions is infrastructure building possible, and can it pursue a conflict-sensitive business strategy and have conflict-sensitive employment effects? What is the role of public and private actors in such contexts? Does infrastructure, similar to employment creation, have to begin—and be supported by development agencies—before violent conflict ends?

A final question relates to how entrepreneurs—who rationally act in the short term, sometimes in the illicit sphere, and link up with local power networks to make gains in a ‘political marketplace’—can introduce conflict-sensitivity standards. Military officers or warlords who are also business people may have SME clientele depending on them. Against this background, there is a need to identify which incentives will make them act as conflict-sensitive employers. Also, during ongoing conflicts, can financial and material international assistance be conditional and reach these networks for meaningful investment and with sustainable outcomes in terms of skilled labour, solid infrastructure, regional trade and a win-win situation for a larger part of society in FCAS? The self-governance systems and local orders emanating from non-state social and economic institutions will have to be taken as a given structure and framework of equal importance to state structures (which are often entangled with the ‘informal’ structures anyway) when it comes to negotiating on conflict-sensitive PSD and employment approaches. Obviously, beyond the need for empirical research on employment in FCAS experiencing rising violence, there is also a requirement for theories of change in such settings, particularly regarding economic change.

On a more general note, the institutional environment, its changes in FCAS, and the avenue for positive changes towards more stable institutional arrangements, is not given much attention - if any - in the reviewed literature. In order to assist stabilising and developing FCAS, much more attention has to be given to institutional factors.

A sobering result of this literature review is that the scope for general lessons from other FCAS for a specific country is more limited than assumed by most. Any study has to give more attention to the specific characteristics of the country studied.

ANNEX

Initiatives towards conflict-sensitive business

- \ OECD/DAC network on Conflict, Peace and Development Cooperation (CPDC)—established in 1997 to promote conflict-sensitive business standards, the CPDC brings together conflict prevention and peacebuilding experts from bilateral and multilateral development agencies, including UN organisations, the European Commission, the International Monetary Fund (IMF) and the World Bank, for meetings to define and develop common approaches in support of peace (OECD, 1997).
- \ Voluntary Principles on Security and Human Rights (VPs)—established in 2000 by a number of mainly Western countries (currently nine), big companies and international non-governmental organisations (INGOs) in the extractive and energy sector (Voluntary Principles on Security and Human Rights, 2016).
- \ Kimberley Process—a joint initiative established in 2000 by governments, business and civil society organisations to stem the flow of blood diamonds (Kimberley Process, 2016).
- \ Publish What You Pay campaign—launched in 2002 to help citizens of resource-rich developing countries hold their governments to account on revenue from extractive industries (Publish What You Pay, 2016).
- \ UN Global Compact—developed a Conflict Impact Assessment and Risk Management guide in 2002 (UNGC, 2002).
- \ United Nations Human Rights Office of the High Commissioner (UNOHCHR) Guiding Principles on Business and Human Rights—established in 2011 to implement the UN ‘Protect, respect and remedy’ framework, which provides companies with a guide on how to ‘protect, respect and remedy’ potential abuses in their supply chains (UNOHCHR, 2011).
- \ Extractive Industries Transparency Initiative (EITI)—a coalition of currently 51 countries that encourage transparency in the oil, gas and mining sectors and that agreed on a common standard in 2013 (EITI, 2016).

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ACRONYMS AND ABBREVIATIONS

BPA	Business for Peace Alliance	BPA
CPDC	Conflict, Peace and Development Cooperation	CPDC
CSE	Conflict-sensitive employment	CSE
CSEF	Conflict-sensitive employment framework	CSEF
CSR	Corporate social responsibility	CSR
DAC	Development Assistance Committee	DAC
DCED	Donor Committee for Enterprise Development	DCED
DFID	Department for International Development (United Kingdom)	DFID
EITI	Extractive Industries Transparency Initiative	EITI
FCAS	Fragile and conflict-affected settings	FCAS
GDP	Gross domestic product	GDP
GIZ / GTZ	Gesellschaft für Internationale / Technische Zusammenarbeit	GIZ / GTZ
IFC	International Finance Corporation	IFC
IFI	International finance institution	IFI
ILO	International Labour Organization	ILO
IMF	International Monetary Fund	IMF
INGO	International non-governmental organisation	INGO
MNC	Multinational corporation	MNC
NGO	Non-governmental organisation	NGO
NWO	Netherlands Organisation for Scientific Research	NWO
ODA	Official development assistance	ODA
OECD	Organisation for Economic Cooperation and Development	OECD
PCEIR	Post-Conflict Employment Creation, Income Generation and Reintegration	PCEIR
PSD	Private sector development	PSD
SME	Small and medium-sized enterprise	SME
UNDP	United Nations Development Programme	UNDP
UNGC	United Nations Global Compact	UNGC
USIP	United States Institute for Peace	USIP
VPs	Voluntary Principles on Security and Human Rights	VPs

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