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June 2016

POLICY BRIEF

Private Sector Investment in Fragile and Conflict Affected Regions

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The Policy Need

There is no doubt that the need to support people trying to flee conflicts through sustained humanitarian and development efforts. For the global private sector seeing key global economic fundamentals changing whilst incidents in the Middle East escalate, there is a need to think through whether in fact there is a role for it in complex environments through responsible investment and employment creation.

It comes as no surprise that countries such as Iraq, South Sudan and Afghanistan have fallen back into violence due to insufficient economic opportunities for youth. Lack of stability in countries such as Eritrea and Congo are also to a large extent linked to high youth unemployment and underemployment. Many youth in conflict affected countries and migrant-dominated parts of cities hope for better lives and peace, but few see sustained and effective efforts to meet their needs. The answer to promoting durable peace in post-conflict countries and disadvantaged cities through job creation is not simple, but complex environments require practical and innovative solutions, not just quick-fixes that allow symptoms of instability to remain in dormancy.

A holistic solution should include initiatives that enable youth aspirations to be matched and also changed. This requires a responsible and concerned private sector that can enter and lead employment creation. Conflict affected cities and regions desperately need private investment that can drive the creation of good jobs. Private sector and self-employment jobs not only bring

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incomes to households; they bring hope to individuals and interdependencies that can become the glue for social cohesion.

Two Puzzles within a Possible Policy Mix

Within this suggested policy mix, there are two puzzles that need to be unravelled. The first is that it is very challenging to attract private sector institutions into fragile places that may not deliver an adequate investment return. Indeed, in situations which may be high risk but with low returns, one cannot expect charity from investors. The second is even if large investors do invest, there is little assurance that they will also seek social returns in addition to financial ones.

The Solution

The answer to these puzzles lies in searching for the sweet spot within the links amongst business facilitation, investment guarantees and focus on employment creation that is satisfying to youth. This can be achieved by focusing on two key priorities.

The first should be for third party actors to provide investment facilitation and guarantees because information gaps are just too large in post-conflict and fragile contexts. These actors should provide funding, work with governments to streamline processes and support external private investors to adapt to local contexts. These could be banks or consulting firms, but it would be preferable to have new public-private entities funded by institutional donors to build neutral platforms to facilitate investment. As much as conflict comes at a cost, so does peace. The government or an external donor must bear part of the cost of facilitation. Nevertheless, it must do so in a way that does not crowd out or compete with private sector investment. By providing guarantees on private investments that have clear employment outcomes, the government must step up and back to ensure that the private businesses has the space to invest innovatively in an employment friendly manner. Such guarantees will significantly reduce private sector risk perceptions and incentivize a proactive approach.

The second is to ensure that the private sector keeps to its side of the bargain. Whilst the government can bear part of the risk, the private sector must be able to commit to a monitoring process that ensures social and economic returns in addition to the financial ones. The start of this could be a certification system of businesses in post-conflict and fragile contexts that compels large corporates to adhere socially beneficial standards. Businesses whose investments are facilitated should first be certified that they have the genuine concern and ability to create employment-friendly dividends in a conflict-sensitive manner. The end social result of employment for youth must be front and centre of this approach.

Whilst these government support through development and humanitarian aid are important, it is just as, or perhaps more, important that the funds are spent well and leverage the right type and levels of private sector investments that can tackle the fundamental employment challenges faced in the conflict affected and fragile contexts.