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Is Impact Investment Possible in Conflict-Affected Regions?

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The Problem

Private sector development in conflict-affected regions is rarely discussed in global impact investment gatherings that seek to improve social outcomes in the world while supporting market forces to generate profits for entrepreneurs. The obvious security and political challenges along with those that arise due to a depressed economy are manifold. Indeed, it is often assumed that those regions labelled as places for humanitarian intervention are so far removed from being investment friendly that investment discussions in that direction are probably non-starters. While it is not surprising that investors would be turned off by the prospect of increased conflict in regions of potential investment, supporting efforts to generate jobs and revival of the economy is critical for further conflict prevention and peace-building. In that regard, understanding contextual challenges provides insights on how best to finds ways to take forward impact investment discussions into supporting peace and development. This is critical because it is impact investment, and not humanitarian assistance, that is most likely to create the critical long-term changes to communities and reduce dependencies.

Impact investment has been growing as a field of investment over the past two decades. At the heart of its purpose is the desire to achieve both economic returns for investors and social impact for communities in which the businesses operate. However, there is such a wide range of definitions that one is rarely clear on the most suitable investors, types of investments, returns expected, impact possibilities and importantly the context. Despite this diversity, impact investment, like other types of investment, is fundamentally about weighing the risks and returns.

The Evidence

In that regard, understanding the experiences of those who have invested or started enterprises in conflict affected areas is insightful. Experience suggests that some of the biggest risks for businesses in conflict-affected regions relate to security of staff and supply chain actors, non-existence of regulatory policies, potential diminishing of the brand value, absence of quality staff, sudden disruptions of operations and potential association with human rights violations.

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The main benefits of operating in these regions are prospects surrounding less competition and first mover advantages, employment and income generation, and creation of a sense of hope in communities for future peace-building. With a careful assessment of the socio-economic contexts and the respective business environments, impact investors can make a significant impact on conflict-affected economies.

Guiding Principles

For those investors seeking to support businesses in fragile contexts, especially those that may be prone to or are in minor intermittent conflict, the following guiding points are encouraged:

1. Ensure that businesses adopt ethical practices consistently
2. Expect non-market based returns in the short term
3. Focus on local companies that have strong networks and not just business systems
4. Help build brands, not only operations
5. Encourage the use of suitable and strong tools to support businesses stay resilient
6. Diversify investment risks by supporting different sectors and size businesses
7. Ensure that skills of the management team are diverse and complementary
8. Encourage the adherence to peacebuilding rather than conflict-escalation
9. Disburse funds in tranches to encourage cost-effective spending and lean management principles
10. Support the development of linkages to markets outside the region