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A DISCUSSION PAPER

Business Environment Reforms in Fragile and Conflict-Affected Situations

BUSINESS ENVIRONMENT WORKING GROUP



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Executive summary

This report presents the results of a study into how donor and development agencies can support business environment reform (BER) in fragile and conflict-affected situations (FCAS). It focuses on the way humanitarian and transitional development assistance lays the foundations for private sector development (PSD) programmes and the introduction of BER measures. It is specifically concerned with how PSD programmes build on humanitarian assistance activities and introduce BER, while answering four research questions, which are presented below.

This report is directed towards reformers. This includes governments (who introduce and manage business environment reforms), business representative organisations (who advocate for reforms and can work with government to help bring about reforms), development partners (the donor and development agencies that support reform efforts), as well as other civil society actors. To guide the work of these reformers, this report is presented as a discussion paper, rather than a formal research report. Practical recommendations and ‘dos and don’ts’ are presented as guiding advice to donor and development agencies, drawing from the research findings.

The answers to the four research questions are briefly summarised below.

Question 1: To what extent should BER and humanitarian assistance measures be interlinked in FCAS and what are the minimal requirements for BER-support measures to be introduced?

This research found very little evidence of specific ‘interlinking’ between BER and humanitarian and transitional development assistance. However, this does not mean that linkages between reform assistance and humanitarian and other forms of development assistance are not established or possible. While reform support programmes themselves do not typically have these formal linkages embedded, many of the sponsoring donor and development agencies do run humanitarian and other forms of development assistance programmes.

The connection between these programmes is more clearly established under Research Question 2 (below) when the sequencing of reform support measures is examined. Economic and private sector development are important contributors to peace-building and stability; the earlier these interventions can be introduced within FCAS the better. However, there are many practical challenges to programming in these situations, which influence the relevance of introducing reform support programmes and the scope of reforms that are possible. Donor and development agencies often distinguish between working *in* conflict and working *on* conflict.

The minimum requirement for BER support programming involves some level of safety and security for staff, contractors and programme partners. However, early-stage BER interventions can play an important role in contributing to peace and stability, creating a virtuous cycle when reforms are focused on the pragmatic constraints experienced by investors and businesspeople. Beyond this, BER requires a demonstrated preparedness for state and non-state actors to engage with one another

and agree on reform priorities. Successful reforms also require a lead government agency that is willing to champion reforms and has the mandate to do so.

Question 2: What determines the sequencing of BER in FCAS and do some BER interventions pose more risk at different stages of conflict or post-conflict?

Priority reforms often reflect the most immediate needs of private investors, rather than long-term development visions. While a range of internationally applied tools are used to assess the business environment, these have limitations in FCAS. As a result, many assessments are augmented by local consultations with state and non-state actors, including consultations with a broad range of businessmen and women.

Donor pragmatism and opportunism is defined by the space in which donor and development agencies can operate in FCAS and the availability and suitability of potential programme partners. Virtuous sequencing—the process in which donor and development agencies support reforms while also proactively engaging with the private sector—is often used to build confidence and capacity among reformers, while dealing with the pragmatic concerns of private investors. Greater attention has been given to ‘deal-based’ reforms that focus on bottom-up, transformative investment opportunities, rather than broad, national and economy-wide reforms.

Question 3: To what extent should donor and development agencies support sub-national BER measures in FCAS and how should this be different than or interlinked with BER measures on the national level?

The levels and types of fragility and conflict tend to vary across territories, creating opportunities and entry points for sub-national programming. Donor and development agencies will often monitor and respond to these local variations. Even if a country is completely afflicted by fragility and conflict, there can be opportunities in which reforms can be supported at a local level.

The difficulties of supporting reforms at the national level can be reduced when working sub-nationally. There are fewer actors to work with and often a greater opportunity to focus on local problems experienced by private investors. However, major challenges are experienced in finding ways to either replicate successful subnational reforms into other jurisdictions or to systemically amplify these from the local to the national level.

Question 4: How can BER measures in FCAS facilitate PSD without doing any harm, while unlocking the peace-making effects of PSD?

Donor and development agencies can and should design and implement reform support programmes based on a sound understanding of the root causes of conflict and fragility while ensuring they ‘do no harm’. This understanding can be formulated using formal assessment instruments combined with

informal consultations and business dialogue. These processes work best when they are carefully aligned with other peace making and humanitarian support.

Many agencies have made significant investments in conflict assessments that are designed to assess the political economy, identify the drivers of peace and conflict, and determine the appropriate entry point for agency intervention. These assessments are also used to mitigate risk and often reflect a do-no-harm framework for assessing potential interventions. These assessments are often regularly undertaken at an agency or institutional level. In some cases, they are also done at a programme level, either prior to the formulation of a programme or at intervals during the programme's implementation.

Summary of Guidance Advice

The following summary of guidance is offered to donor and development agencies that support BER in FCAS.

The humanitarian-development-peace nexus

1. Donor and development agencies need to invest more time, energy and organisational capacity into ensuring the joined-up programming demanded by the humanitarian-development-peace nexus are achieved.
2. Consider the basic minimum requirements to BER programming and how to engage with state and non-state actors.

The role of private sector development in FCAS

3. When designing and implementing private sector development interventions, it is crucial to be aware of the political economy. While interventions need to be conflict-sensitive and pursue a do-no-harm approach, they also need to contribute to peacebuilding beyond the economic impact.
4. Develop programme indicators that measure reform impacts in terms of economic benefits as well as the stabilising and peacebuilding effects.

Challenges for business environment reform in FCAS

5. Donor and development agencies should invest in efforts to better coordinate, harmonise and align reform programming based on a clear understanding of the unique challenges facing businesses in FCAS. This requires a more joined-up approach to programming and increased coherence across aid and development instruments.

Fragility and the coronavirus

6. Support bottom-up responses based on a two-way dialogue between central government and local communities (if such a link exists) to determine ways in which the effects of the pandemic can be mitigated.

7. Direct reforms toward safeguarding the domestic private sector and building its resilience, without weakening its future competitiveness, while rebuilding damaged investor confidence.
8. Priority reforms are likely to be found in the introduction of digital and online technologies and the reform of business regulation, finance, tax, and trade, as well as economic reforms that boost the role of smaller firms in the economic stimulus.

Assessing the business environment in FCAS

9. Donor and development agencies should invest in public-private dialogue with state and non-state actors on a regular basis.
10. Aim to identify the most severe constraints to private sector growth.
11. Explore opportunities to align reform with government priorities.
12. Focus on the issues affecting the most vulnerable and those most affected by violence and conflict.

Do: Ensure that all consultations and dialogue regarding business environment reform are grounded in the realities faced by businesspeople.

Do: Combine assessment techniques with consultations involving a wide range of formal and informal stakeholders.

Don't: Rely on standard business environment assessment tools alone.

Focussing on common business environment themes

13. Consider reforms that build trust amongst conflicting parties. Humanitarian assistance and BER practitioners both need to make sure all relevant public and private stakeholders are represented in the dialogue schemes they initiate.
14. Be prepared to work with various political formations, including, where necessary, war lords and armed groups.
15. Donor-supported reforms should consider the whole investment system, including micro, small and medium-sized enterprises and the role of large national and multi-national companies.

Do: Consider the capacity of governments to implement newly adopted policy, legal, regulatory or administrative instruments.

Do: Identify and counter the forces that are likely to undermine, or resist increases in market competition.

Do: Focus on bottom-up, deals-based reforms that are strategic and opportunistic in nature.

Do: Link up with the global initiatives for greater corporate responsibility.

Don't: Design or introduce reforms without undertaking dialogue with a wide range of state and non-state actors.

Don't: Ignore the government constraints to implementing BER measures.

Sequencing reforms

16. Macro level interventions to promote a conducive regulatory and administrative environment should be avoided as long as violence is open and ongoing. Instead, it is better to focus on those reforms that reflect the needs of the private sector and are aligned with the political will of the government.

17. Simultaneously promote the introduction of new private investment opportunities while supporting better investment and business environment conditions.

Do: Give priority to supporting reforms that address local small business concerns which can unlock new opportunities for increased revenue, business growth and job creation.

Do: Support reforms that nurture the development of industry clusters in strategic sectors that improve the chances for globally integrated firms to succeed.

Do: Be flexible and responsive to changing circumstances—the fluidity of FCAS often means that the priorities for reform are subject to change.

Do: Take an opportunistic approach in which new programme partnerships are formed as emerging, relevant actors are identified.

Don't: Avoid broad, centralised reforms that are not grounded in the experience of businesspeople.

Don't: Expect governments to have the capacity to immediately manage the reform process or the implementation of a new legal or regulatory framework.

Aligning reforms with other humanitarian and development programmes

18. Agencies must understand how their programmes influence fragility, violence and conflict. Programming decisions should explicitly express this understanding. Regular programme monitoring should assess the extent to which reform programmes achieve these outcomes.

19. BER programming should be 'joined-up' with other humanitarian and development assistance wherever possible and seek to address the root causes and structural drivers of conflict.

Do: Look for ways that BER programming can specifically contribute to giving micro and small enterprises a 'voice', improving market access, rights, social cohesion, and trust between state, society and the business community.

Don't: Assume all reforms will lead to peace and stability.

Choosing when to focus on subnational reforms

20. Business environment assessments and reforms need to go deeper than country level, recognising local trends and opportunities for reform.

Do: Look for opportunities to engage local actors in order to mobilise their buy-in to reform measures.

Do: Maintaining flexibility in reform programming to ensure local, sub-national reform dimensions are accommodated.

Don't: Rely on aggregated national data to understand how reforms will affect different subnational territories.

Supporting key themes in subnational reforms

21. Donor and development agencies should deepen their engagement with stakeholders and agents of change beyond the representatives of the national state, including opposition groups, customary, religious and subnational leaders, social groups, and elites.
22. Donor and development agencies should invest in the development of suitable assessment tools and the collection of sub-national data on the experiences of private investors. Recognise and respond to the sub-national variations in the demand and opportunity for reform.
 - Do: Invest in good data and careful analysis.*
 - Do: Support PPD at the local level.*
 - Do: Use reforms to promote local conflict-resolution and peacebuilding initiatives to foster legitimacy and inclusivity from the bottom up.*
 - Don't: Assume all subnational economies and business environments are uniform.*

Responding to the concerns of vulnerable groups

23. Donor and development agencies should recognise the potential impact of reforms on vulnerable and marginalised groups and take steps to mitigate the negative effects reforms may have on these groups.
24. More attention should be given to reforms that promote inclusive economic growth and specifically focus on the experiences of vulnerable and marginalised groups.
 - Do: Take the time and effort to identify vulnerable groups and consider if or how any proposed reforms will affect these groups.*
 - Don't: Assume reforms will affect all social groups or categories of firms in the same way.*
 - Don't: Take action without considering the potential harm that could be created by reforms to vulnerable or marginalised groups.*

Applying conflict and risk assessments

25. While time-consuming and sometimes costly, it is important to invest in regular, integrated conflict assessments and to understand how proposed reforms will contribute to peace and stability or ignite further conflict.
26. Reform-support agencies should integrate their economic and business development programming with their security and peace-making expertise.
 - Do: Establish mechanisms for measuring the impact of BER on conflict and vice versa.*
 - Do: Establish multi-disciplinary teams to ensure assessments are both carefully targeted and sufficiently wide-ranging.*
 - Do: Design reforms that demonstrably minimise potential negative impacts while maximising positive impacts.*
 - Don't: Rely on agency-wide assessments (often the specific risks associated with reform programming are more relevant).*

Coordinating reform programmes

27. While it takes time and money—and can be particularly difficult in environments characterised by fragility, conflict and violence—the longer-term benefits of donor coordination and alignment are significant.
28. All partners in development, including government and the private sector, should see that donor and development agencies are aligned, coordinated and sharing resources wherever possible.
- Do: Participate in and support donor PSD coordination committee and structures wherever they exist.*
- Do: Explore opportunities for better information sharing and networking with other donor and development agencies supporting BER.*

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List of abbreviations

ACP	African, Caribbean and Pacific
BER	Business environment reform
DCED	Donor Committee for Enterprise Development
FCAS	Fragile and conflict-affected situations
FDI	Foreign direct investment
GIZ	<i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i>
GTZ	<i>Deutsche Gesellschaft für Technische Zusammenarbeit</i> , predecessor of GIZ
IFC	International Finance Corporation
ILO	International Labour Organization
NGO	Non-government organisation
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
PPD	Public-private dialogue
PSD	Private sector development
PWD	People with disability
SDG	Sustainable Development Goals (UN)
UN	United Nations
UNGC	United Nations Global Compact
USAID	United States Agency for International Development

1. Introduction

1.1 Donor supported business environment reforms

In 2008, the Donor Committee for Enterprise Development (DCED 2008) published guidelines on business environment reform (BER). These guidelines provide a valuable overview of good practices in donor-supported BER. They define the business environment as a sub-set of the investment climate, consisting of a complex of policy, legal, institutional, and regulatory conditions that govern business activities. This definition includes the nature of the relationship between public, private and civil actors and how these actors interact. Where the investment climate has an overall effect on private sector activities, the business environment is directly affected by government decisions at national, provincial and local levels.

Developing country governments, with the support of donor and development agencies, undertake BER because of the contribution this has to the development of the private sector, leading to economic growth, the generation of livelihoods and the creation of jobs. BER changes the behaviour of private enterprises by:

1. Reducing business costs: so firms are able to increase profits that may be further invested to increase market share so that output and employment is increased;
2. Reducing risks and uncertainty: by improving the quality and stability of government policies, laws and regulations in order to reduce the cost of capital and increase the number of attractive investments in the market; and
3. Increasing competitive pressures: firms become more competitive by making market entry easier and by stimulating the efficiency and innovating incentives of the market.

While a sound business environment facilitates private sector development (PSD), private enterprises face severe conditions in fragile and conflict-affected situations (FCAS). These situations are characterised as the ‘combination of exposure to risk [of negative events] and insufficient coping capacity of the state, system and/or communities to manage, absorb or mitigate those risks’ (Organization for Economic Cooperation and Development, OECD 2016). Fragility curbs the implementation of the Agenda 2030 for Sustainable Development – leaving behind countries and their people (OECD 2018).

Over the past decade, there has been considerable research conducted on the role of official development assistance (ODA) in FCAS (OECD 2018, 2016; World Bank 2011). There is general agreement regarding the importance that should be assigned to economic development and the support required by state and non-state actors to promote peace and stability. This includes the role of the private sector in development and peacebuilding, as well as the importance to supporting economic development through PSD (Sweeney 2009; Peschka 2011; Donor Committee for Enterprise Development 2010; Datzberger and Denison 2013; Whyte and Griffin 2014).

The World Bank (2011) highlights the necessity of strong state institutions that deliver security, justice and jobs to move beyond conflict. However, the private sector is also considered ‘essential to development and peace’ because it provides livelihoods and growth, ‘while delivering revenue

streams in the form of taxes so governments can provide services to their citizens’ (Peschka 2011). Humanitarian and development actors agree that the complex and shifting nature of crises mean people’s needs extend far beyond short-term support requiring a new way of working (Levine and Becton 2019). The International Labour Conference (2017) suggests a ‘phased multi-track approach [to] implementing coherent and comprehensive strategies for promoting peace, preventing crises, enabling recovery and building resilience.’

1.2 Purpose

This study has been formulated based on an understanding of the unique and defining features of FCAS and the need for sustained humanitarian support and peacebuilding. It considers how BER contributes to peace and stability by promoting PSD and applies two perspectives on these issues.

The first concerns the way humanitarian assistance lays the foundations for PSD programmes and the introduction of BER measures.

The second deals with how PSD programmes build on humanitarian assistance activities and introduce BER.

It is envisaged that donor and development agencies—and their implementing agencies and development partners—can use this paper to better inform the design and implementation of BER measures in FCAS. Ultimately, this paper seeks to provide the basis for discussion and to gain consensus on the optimal phasing of reform programmes. To this end, the paper presents a series of recommendations and ‘dos and don’ts’ for donor and development agency support for BER in FCAS.

1.3 Scope and purpose of the review

The study seeks to answer four research questions:

1. To what extent should BER and humanitarian assistance measures be interlinked in FCAS and what are the minimal requirements for BER-support measures to be introduced?
2. What determines the sequencing of BER in FCAS and do some BER interventions pose more risk at different stages of conflict or post-conflict?
3. To what extent should donor and development agencies support sub-national BER measures in FCAS and how should this be different than or interlinked with BER measures on the national level?
4. How can BER measures in FCAS facilitate PSD without doing any harm, while unlocking the peace-making effects of PSD?

1.4 Methodology

The Business Environment Working Group of the DCED commissioned the research presented in this paper. Annex 1 contains the terms of reference for the study.

The literature on PSD and BER in FCAS was identified and reviewed. This included published academic articles, along with agency reports and selected program documents and reports.

A series of interviews with representatives of donor and development agencies who had extensive experience working on PSD and BER programmes in FCAS was conducted. Overall, 15 interviews were conducted. Annex 2 contains a list of these. To protect the anonymity of the respondents, no specific respondent comments are attributed to any single respondent in this paper.

1.5 Structure of the report

Having established the rationale, purpose and scope of the paper, Chapter 2 focuses on the relevance of PSD and BER within FCAS. It does this by framing the so-called ‘humanitarian-development-peace nexus’, which is used to position development assistance within situations marked by the effects of conflict, whether current or recent. It then examines the role of PSD in FCAS, highlighting the role performed by private sector and economic development. The chapter concludes by identifying the challenges to PSD and BER in FCAS. Given that the time the report was prepared coincided with the emerging global crisis created by the coronavirus (COVID-19) pandemic, reference is also made to the potential of the pandemic to exacerbate the risks many FCAS experience.

Chapter 3 presents the findings of the research and is organised around the four research questions presented above. A number of specific themes and sub-questions are discussed to formulate a clear answer to each research question.

Chapter 4 draws on the research findings and summarises the answers to the four research questions generated by the collated evidence. It includes the identification of any contested or unsettled issues identified and presents recommendations for donors and development agencies that support BER in FCAS.

2. Private sector development in FCAS

This chapter sets the scene in which this investigation is cast. It establishes the relevance of PSD and BER within FCAS. This is done in three steps.

First, the case for the humanitarian-development-peace nexus¹ is established. This positions development assistance within situations that are characterised by fragility, conflict or violence, whether current or recent.

Second, the role of PSD in FCAS is presented. Here, the importance of economic development, including PSD in FCAS is established. This moves beyond situations of current or recent conflict and includes situations facing many fragile states on developing economies.

Finally, the role of BER and its challenges is considered. While PSD has been identified as an important ingredient for peace and development, there are many ways this can be supported. For example, donor and development agencies may aid the provision of financial or business development services for PSD. This paper is specifically concerned with the use of public policy instruments, in the form of BER. Thus, this section examines the relevance of approaches such as these that rely on engagement with state and non-state actors.

At the end of this chapter, a brief reference is made to the emerging global crisis created by the coronavirus (COVID-19) pandemic. This is a powerful external shock to economies and societies around the world, which is likely to exacerbate the risks many private enterprises experience in FCAS.

2.1 The humanitarian-development-peace nexus

Key findings

While humanitarian assistance is the main tool the global system has for rapid relief, the concept of a 'humanitarian-development-peace nexus' focuses on the interventions required to address people's vulnerability before, during and after crises.

This is a challenging concept that influences the ways donor and development agencies work together. This includes internally (i.e., between humanitarian and development departments and structures), as well as with their development partners and other state and non-state actors.

Guidance advice

Donor and development agencies need to invest more time, energy and organisational capacity into ensuring the joined-up programming demanded by the humanitarian-development-peace nexus are achieved.

Consider the basic minimum requirements to BER programming and how to engage with state and non-state actors.

A new way of working in conflict and fragile situations

In its *World Development Report 2011*, the World Bank (2011, p. 191) describes humanitarian assistance as ‘the main tool the global system has for rapid relief.’ This vital life-saving and stabilising assistance reduces the cost of conflict and is, in part, ‘testament to the increasing effectiveness of humanitarian aid.’¹ Protracted, humanitarian assistance typically is not delivered through national institutions. Instead, international agencies and non-government organisations (NGOs) with both humanitarian and development mandates ‘can build bridges from relief to early results and institutional transformation.’

The concept of a ‘humanitarian-development-peace nexus’ focuses on the interventions required to address people’s vulnerability before, during and after crises.² It refers to a transition from urgent and immediate relief towards a medium- to long-term response. But, more than this, it describes the interconnections that can be found between peace and development. As the United Nations (UN 2015, p. 2) says in its report, *Transforming our world: The 2030 agenda for sustainable development*: ‘There can be no sustainable development without peace and no peace without sustainable development.’

At the World Humanitarian Summit in 2016, the United Nations (UN) and World Bank committed to what it called, a ‘new way of working’, designed to transcend the humanitarian-development divide. Since then, the concept has been considered in the context of UN reform, which has involved the promotion of a ‘triple nexus’, referring to the nexus between humanitarian assistance, development and peace. In short, the New Way of Working can be described as working over multiple years, based on the comparative advantage of a diverse range of actors, including those outside the UN system, towards collective outcomes. Wherever possible, those efforts should reinforce and strengthen the capacities that already exist at national and local levels (United Nations Office for the Coordination of Humanitarian Affairs 2017, p. 6).

The term ‘transitional development assistance’ has also been used within the context of a humanitarian-development-peace nexus. For example, Germany’s Federal Ministry for Economic Cooperation and Development (2020, p.3) describes how ‘transitional development assistance’ is geared towards ‘peaceful and inclusive societies’ and ‘a world without hunger’. This approach embeds a ‘whole-of-government approach for development cooperation’ with clear objectives and exit plan for either successfully concluding the activities or transitioning them to other development cooperation projects’.

¹ International Humanitarian Law is grounded in the following four principles: humanity (i.e., human suffering must be addressed wherever it is found, with particular attention to the most vulnerable), neutrality (i.e., humanitarian aid must not favour any side in an armed conflict or other dispute), impartiality (i.e., humanitarian aid must be provided solely on the basis of need, without discrimination), and independence (i.e., autonomy of humanitarian objectives from political, economic, military or other objectives) (European Union 2019).

² There are a variety of terms used to describe the nexus, including ‘humanitarian-development nexus’, ‘humanitarian-development-peace nexus’ and ‘triple nexus’. However, they all make reference to the need for more joined-up action across these areas (Howe 2019).

Good in theory, but challenging in practice

The OECD describes the significant role ODA plays in fragile contexts. Aid, says the OECD (2018) ‘is the only financial flow that directly invests in the foundations for peaceful and stable societies, an investment that invites more inclusive growth and sustainable development.’³ However, Oxfam (2019) describes how the nexus challenges the status quo of the aid system. This ‘overstretched’ system ‘operates with little coordination between project-based development and humanitarian interventions, resulting in it not effectively meeting the needs of the most vulnerable people.’ Thus, to work effectively, donor and development agencies need to invest more time, energy and organisational capacity into ensuring the joined-up programming demanded by the humanitarian-development-peace nexus are achieved. Oxfam (2019) says that the nexus approach requires consensus-building, brokering and building new partnerships; navigating and communicating complex ideas; using systems thinking; facilitating open dialogues; and co-creating ideas. A nexus approach requires the development of joint tools, analysis and language, while ensuring the views of people affected by crises are integrated at every step, and local leadership comes to the fore.

The humanitarian-development-peace nexus brings many challenges to the ways donor and development agencies support BER in FCAS. It suggests there are basic minimum requirements to programming that affect the ways in which agencies work and the ways they engage with state and non-state actors. This issue is explored further in Section 3.1.

2.2 The role of private sector development in FCAS

Key findings

The private sector, and private investment more broadly, has the potential to foster stability, peace and social cohesion, but also the capacity to ignite social unrest and increase competition for scarce resources.

PSD programming is generally evaluated from an economic perspective, without attention to stabilisation and, when stabilisation objectives do feature, the causal inferences are weak.

Guidance advice

When designing and implementing private sector development interventions, it is crucial to be aware of the political economy. While interventions need to be conflict-sensitive and pursue a do-no-harm approach, they also need to contribute to peacebuilding beyond economic impact.

Develop programme indicators that measure reform impacts in terms of economic benefits as well as the stabilising and peacebuilding effects.

³ The UN and World Bank joint study on violent conflict prevention, Pathways for Peace, provides a compelling business case for the economic benefits of conflict prevention. Even in the model’s most pessimistic scenario, the average net global savings would reach almost USD 5 billion per year; savings would be USD 33 billion and close to USD 70 billion in the neutral and optimistic scenarios, respectively (United Nations and World Bank 2018).

How the private sector supports and threatens peace-building and stability

Before focusing on the role of PSD in FCAS, it is necessary to recognise that the private sector can perform roles that are both beneficial and destructive in relation to conflict and peace. Peschka (2011) describes how, since the beginning of commerce and trade, ‘the private sector has played a crucial role in conflict – as a cause and catalyst of strife, and as an integral part of restoring and maintaining peace.’⁴

In the first instance, the private sector, and private investment more broadly, has the potential to foster stability, peace and social cohesion. For example, through job creation, tax generation and the provision of goods and services. Schrade et. al. (2017) analyse four cases of PSD implementation practice in ‘open and sustained violence’ (i.e., in Yemen and the Palestinian Territories) and argue that PSD helps to sustain jobs, livelihoods and business continuity, while contributing to stabilisation and peacebuilding efforts in times of war. Channell (2010b) argues that business ‘has the resources and understanding to confront many of the problems facing post-conflict countries by rebuilding relationships between the government and the governed, setting reform priorities, and actively monitoring results.’

The World Bank Group (2019) describes how the lack of economic opportunities and high unemployment exacerbate other fragility, conflict and violence drivers. To address this, a ‘vibrant and inclusive private sector can ignite economic growth, provide jobs and services, and help stabilise societies.’ However, the domestic private sector in most of these settings is underdeveloped. Only one per cent of global foreign direct investment (FDI) goes to FCAS countries, creating fewer prospects for the kind of private sector-led growth needed to lift people out of poverty (World Bank Group 2019).

Despite the contribution the private sector can make to peace and stability, business also has the capacity to ignite social unrest and increase competition for scarce resources. Thus, private firms—especially large and multinational enterprises—must become more aware of how their actions contribute to or undermine peace, whether or not this is intended (see Organization for Economic Cooperation and Development 2011). Moreover, it is essential for all stakeholders to understand that peace cannot be sustained without the positive contribution of the private sector and the possible ‘peace dividends’ that private companies can generate by acting in a more conflict-sensitive manner. This topic is discussed further in Section 3.1.2.

The private sector has diverse interests and capacities

The private sector is a diverse group of formal and informal organisations ranging from micro, small and medium enterprises specialised in one form of business activity, to large multinational corporations involved in many business activities. However, there are concerns regarding the ‘insufficient attention’ paid to the fact that these different forms of enterprise ‘hold very different potential developmental linkages’. Some of these firms ‘inherently hold far more risk of having a negative environmental, social or governance impact than others’ (Ford 2015). These are firms that

⁴ Peschka (2011) illustrates this with the origins of the modern insurance market in the seventeenth century, where it became necessary to insure ships against risks, including the risk of war and pirates.

directly profit from conflict and have an interest in prolonging conflict and inadequate government systems. However, there are many firms—often micro, small and medium-sized enterprises, that are strong advocates for peace and improved government systems. These firms pay a high cost for operating in fragile and conflict conditions and seek the reduction of conflict and more rule-based systems.

Nelson (2000) supports the view that the private sector has a vital role to play in creating wealth and promoting socio-economic development. However, she goes further and says it also has a role to play in contributing to the prevention and resolution of violent conflict: ‘as market economies become more widespread and as business becomes a more central actor in societies around the world, the importance of this role is increasing.’

Connecting economic development, jobs and fragility

Despite the positive role the private sector has been found to play in peace-making and development, there are concerns that the link between economic development, jobs and fragility and conflict are not always so clear. International Alert (2020) present evidence from Kenya and Somalia that question the causality between a lack of employment and conflict. In reality, this dynamic is more complex: ‘Economic marginalisation is often closely linked to, and rooted in, systems and structures of political and social exclusion.’ Furthermore, Datzberger and Denison (2013), in their review of the literature, find evidence that the impact of PSD programming in FCAS is very weak on a range of economic, stability and peacebuilding objectives, including equality of outcomes and opportunity, political participation and state-society relations. They find PSD programming is generally evaluated from an economic perspective, without attention to stabilisation and, when stabilisation objectives do feature, the causal inferences are weak.⁵

These critiques raise important questions, not only about the role of the private sector, but also about the role of state building. BER involves support for the interaction between state and non-state actors, including those who own micro and often informal enterprises. Thus, the participation and representation of private actors in the reform process deserves particular attention as does the need for social inclusion in broader PSD programming.

Glanville, Kerušauskaitė, and Harley (2016) suggest there is no apparent consensus on how to measure success and in what terms: ‘whether it is better to measure reform impacts solely in terms of economic benefits or to attempt the measurement of additional stabilising and peacebuilding effects.’ Moreover, they argue that indicators to effectively measure these impacts need to be developed. The International Labour Organization (ILO 2019) have developed a theory of change and indicators to measure the peacebuilding effects of employment promotion projects. These go beyond simply creating jobs leading to peace. They include the processes of creating dialogue and building trust.

⁵ The ILO (2019) has produced a handbook on how to design, monitor and evaluate peacebuilding results in jobs for peace and resilience programmes, which provides practical advice to address this problem. This includes measuring changes in economic opportunities, contact and inter-group relations (linked to the conflict driver ‘lack of contact’) and changes in inequality and citizen-state relations.

Schrade et. al. (2017) suggest that PSD interventions need to create employment opportunities and support local economic recovery. In the long-term, a dynamic private sector and conducive business environment has the potential to reduce disparities and tensions. However, PSD interventions always have to be aware of the fact that economic dimensions are frequently also one of the key drivers for conflict and do have an influence on duration and intensity of conflicts. When designing and implementing private sector development interventions, it is crucial to be aware of the political economy. While interventions need to be conflict-sensitive and pursue a do-no-harm approach, they also need to contribute to peacebuilding beyond economic impact.

2.3 Challenges for business environment reform in FCAS

Key findings

The challenges created by fragility, conflict and violence require approaches that are tailored to the distinct geographies, histories and conflict drivers of each setting.

Typically, FCAS have a weak private sector—largely informal, with poor capabilities and lack of access to finance. Conflict has a particularly acute impact on the formal private sector, where human capital is lost as a result of violence or migration.

State-owned enterprises tend to dominate the business environment of FCAS, while infrastructure and supply chains are typically inadequate.

The legal and regulatory framework of FCAS are typically weak, with low government capacity and weak institutions.

Guidance advice

Donor and development agencies should invest in efforts to better coordinate, harmonise and align reform programming based on a clear understanding of the unique challenges facing businesses in FCAS. This requires a more joined-up approach to programming and increased coherence across aid and development instruments.

As described above, PSD is an important ingredient in promoting peace and stability and contributing to economic and social development. Within this setting, attention is now turned to the role of donor supported BER in these situations.

Reforms need to respond to distinct geographies, histories and conflict drivers

BER interventions that typically rely on a close engagement with the state, while promoting constructive interactions with non-state actors in order to identify and manage policy, legal, regulatory, and administrative reforms designed to improve the conditions in which private investors operate.⁶ While the common business environment constraints faced by private firms in FCAS are

⁶ See DCED (2008).

considered in the following chapter, here the focus is on the operating conditions for supporting BER programmes.

The World Bank Group (2019) suggest that the challenges created by fragility, conflict and violence are ‘context-specific, complex, and nuanced, requiring approaches tailored to the distinct geography, history, and conflict drivers of each setting.’ However, three elements are often interrelated and mutually reinforcing: (1) Fragility (where countries with deep governance issues and state institutional weakness are characterised by deep grievances or high levels of exclusion, lack of capacity and limited provision of basic services to the population); (2) Conflict (where countries contain active conflict based on a threshold rate of conflict-related deaths); and (3) Violence (where countries contain high levels of interpersonal and gang violence, including gender-based violence and violence against children).

These settings are very challenging for PSD and, indeed, for BER programming in general: (i) a limited private sector, often largely informal, with poor capabilities and lack of access to finance; (ii) underdeveloped market structures characterised by a prevalence of state-owned enterprises or otherwise imperfect or incomplete markets; (iii) poor infrastructure and supply chains; and (iv) a weak legal and regulatory environment, low government capacity, and weak institutions (World Bank Group 2019, p. 12, Box 1).

In its *Doing Business in Afghanistan 2017* report, the World Bank describes how difficult it is to do business in countries affected by war and violence. Noting that conflict has a particularly acute impact on the formal private sector, it describes how human capital is lost as a result of violence or migration and infrastructure and institutions are destroyed. ‘Nevertheless, many fragile and conflict-affected states have been able to improve their business environment in a number of regulatory areas’ (World Bank 2017, p. 2). This includes regulatory reforms to improve the process of starting a business, getting credit, paying taxes, and trading across borders.⁷

The OECD Donor Assistance Committee suggests donor and development agencies working in FCAS need to support a transition towards peace and stability and a situation in which the state takes greater ownership and responsibility for the safety and welfare of its own people.⁸ To do this, BER should address the four critical obstacles that block the effective use of aid. These are: (1) the fragmented aid architecture and overlapping guiding principles; (2) risk-averse behaviour on the part of donors and implementing partners; (3) lack of prioritisation in plans and strategies; and (4) the lack of coherence across aid and development instruments (OECD 2012).

⁷ The World Bank (2017, Figure 1.2, p. 3) reports that from 2005 to 2016, there numerous reforms recorded in the 34 identified fragile and conflict-affected states. This included 74 reforms designed to improve starting a business, 52 in getting credit, 42 in paying taxes, and 42 reforms in trading across borders.

⁸ The term ‘transition’ describes countries and regions that are emerging from armed conflict or violent instability. These are normally fragile and conflict-affected situations where the pace of change—political, economic and social—is matched by uncertainty, and where international aid may be one strategic part of a wider foreign policy agenda. As they become more stable, these countries have the potential for sustainable development—the shared goal of the governing authorities and the international community (Organization for Economic Development and Cooperation 2012).

2.4 Fragility and the coronavirus

Key findings

The current COVID-19 pandemic creates new challenges for FCAS and for supporting reforms in these situations. However, it also creates new opportunities for reform.

Community-level initiatives can play a vital role in preventing the worst-case scenario from coming to pass. The help to shift from a top-down approach towards more two-way communication and mutual respect with affected communities.

Regulatory reforms are an attractive policy option to stimulate recovery from a crisis, particularly when other policy alternatives face fiscal constraints.

Guidance advice

Support bottom-up responses based on a two-way dialogue between central government and local communities to determine ways in which the effects of the pandemic can be mitigated.

Direct reforms toward safeguarding the domestic private sector and building its resilience, without weakening its future competitiveness, while rebuilding damaged investor confidence.

Priority reforms are likely to be found in the introduction of digital and online technologies and the reform of business regulation, finance, tax, and trade, as well as economic reforms that boost the role of smaller firms in the economic stimulus.

At the time of writing, the coronavirus (COVID-19) pandemic was well underway. The spread of COVID-19 has raised many questions regarding the ability of states and national health systems to respond. As well as to how governments can promote economic recovery and a more resilient private sector.

The OECD Crisis and Fragility Team has been tracking the spread of the virus across designated fragile states. The current COVID-19 pandemic creates new challenges for FCAS and for supporting reforms in these situations.

As the pandemic hits countries already struggling with violent conflict, or experiencing difficult periods of transition, it will interact with other causes and consequences of these conflicts. In particular, it is anticipated that COVID-19 may contribute to the decline of trust in government, as the Ebola virus outbreak in 2014-15 did in Liberia (Crozier 2020). The Liberia experience shows that community-level initiatives can play a vital role in preventing the worst-case scenario from coming to pass, 'shifting the government's initial top-down approach to one that emphasised two-way communication and mutual respect with affected communities' (Crozier 2020).

The current crisis appears to create an opportunity for reform in all countries, including those affected by fragility, conflict and violence. The International Crisis Group (2020) suggest there are opportunities to be seized in the midst of the pandemic: 'as the devastation spreads and economies shrink, pressures may grow on governments and opposition in polarised situations to find common ground if that is a condition for stability and receiving international assistance.'

Indeed, the OECD, (2010) drawing from case studies of policy responses to previous national and international crises, finds that regulatory reforms are ‘an attractive policy option to stimulate recovery from a crisis, particularly when other policy alternatives face fiscal constraints.’ Within the current pandemic, the International Monetary Fund (2020) also indicate that the crisis could create the conditions for reform. This crisis may ‘accelerate the push towards greater digitalisation, generating broader gains in areas such as transparency, efficiency of public service, and tax administration’, while increasing the formalisation of the economy, which would improve people and firms’ future access to commodities, services, finance and markets.

The ILO (2020) has identified a range of priority business environment reforms that governments should consider in the wake of the pandemic. This includes reforms to business regulation, digital and online technologies, finance, tax, trade, as well as economic reforms that boost the role of smaller firms in the economic stimulus. Other agencies, such as the World Bank Group (2020) have published advice on investment climate and business environment reforms that stem from the pandemic. While encouraging governments to prioritise health and safety, this advice suggests governments should safeguard the domestic private sector and build its resilience without weakening its future competitiveness. Governments should adhere to the following principles to do no harm and rebuild damaged investor confidence in this crisis environment:

- Dialogue with the private sector before introducing measures and ensure that those decided upon are addressing their most stringent business needs.
- Speed is of essence, and so is transparency, both in the allocation of resources and announcement of the measures in a form that is easily accessible to public.
- In a fast evolving and complex environment, the importance of data cannot be over-emphasized—tracking and monitoring evidence and impact makes a difference.
- Remember that the immediate crisis response steps will have to be replaced by policy measures that enable longer-term investment competitiveness taking account of the underlying global economic environment.

3. Review findings

This chapter presents the findings of the study and proposes a series of recommended dos and don'ts for donor and development agencies supporting BER in FCAS. It is organised around the four research questions presented in Section 1.2.

Section 3.1 reports on the findings regarding the ways donor and development agencies connect BER with humanitarian assistance. These findings help us answer the question: To what extent should BER and humanitarian assistance measures be interlinked in FCAS and what are the minimal requirements for BER-support measures to be introduced?

Section 3.2 examines the ways donor and development sequence BER in FCAS in order to answer the research question: What determines the sequencing of BER measures in FCAS and do some BER interventions pose more risk at different stages of conflict?

Section 3.3 considers the ways donor and development agencies support sub-national reforms in FCAS. It presents research findings to answer the question: If FCAS prevail at sub-national levels, what can donor and development agencies do to support sub-national BER measures?

Section 3.4 investigates the ways agencies identify and address the drivers to conflict and peace through BER. The research findings explore the question: How can BER measures in FCAS facilitate PSD without doing any harm, while unlocking the peace-making effects of PSD?

The research findings presented draw from a review of the literature on PSD and BER in FCAS along with the information provided by donor and development agency respondents who were interviewed for this study.

3.1 Connecting BER with humanitarian assistance

This section answers the research question: To what extent should BER and humanitarian assistance measures be interlinked in FCAS and what are the minimal requirements for BER measures?

In addressing this question, attention is given to when PSD should be introduced in a conflict or post-conflict situation. As described above, there is general agreement that the private sector and PSD can play an important role as part of the humanitarian-development-peace nexus. It then becomes relevant to consider which elements of the business environment are important and how to identify these. Thus, this section considers the use of BER in FCAS in two ways.

First, it examines the ways donor and development agencies assess the business environment in FCAS.

Second, it seeks to identify any common business environment themes or elements that donor and development agencies prioritise when supporting BER in FCAS.

3.1.1 Assessing the business environment in FCAS

This subsection examines the ways donor and development agencies assess the business environment in FCAS. Business environment assessments are the starting point for BER programming and assessment findings will influence the ability of reform programmes to connect with humanitarian assistance measures.

Key findings

Assessing the priorities for BER in FCAS is an iterative process. While standard business environment assessment tools are useful, many donor and development agencies undertake additional assessments and consultations that go deeper, involving regular consultation with formal and informal business environment actors.

Situations characterised by conflict and violence make it difficult to introduce BER measures. Some cessation of these events, however tentative, is often a prerequisite for assessment and reform.

Guidance advice

Donor and development agencies should invest in public-private dialogue with state and non-state actors on a regular basis.

Aim to identify the most severe constraints to private sector growth.

Explore opportunities to align reform with government priorities.

Focus on the issues affecting the most vulnerable and those most affected by violence and conflict.

Dos

Ensure that all consultations and dialogue regarding business environment reform are grounded in the realities faced by businesspeople.

Combine assessment techniques with consultations involving a wide range of formal and informal stakeholders.

Don'ts

Rely on standard business environment assessment tools alone.

Use of standard assessment tools and processes

In typical development settings (i.e., in countries that are not characterised as fragile or conflict-affected), many donor and development agencies—and their development partners—draw on a range of somewhat standard business environment assessment tools. These include, for example, the World Bank's Doing Business Index, Investment Climate Assessments and Enterprise Surveys, the World Economic Forum's Global Competitiveness Index, the Global Entrepreneurship Monitor, and the Competition Assessment Framework.⁹

⁹ On the Competition Assessment Framework see: DFID (2008) and OECD (2019a, 2019b, 2019c).

Many donor and development agencies also initiate their own business environment assessments when diagnosing the conditions for PSD and formulating a reform programme. This usually involves the review of investment climate and business environment assessment reports, consultations with governments, business representative organisations and various civil society organisations, as well as discussions with other donor and development agencies working in the country. However, working in FCAS creates a number of challenges to agencies undertaking this work and often requires the use of new or customised measures.

Writing from a market systems development perspective in Uganda, Levine and Becton (2019) describe how good market-based programming requires in-depth analysis of market constraints. While humanitarian programmes regularly include market assessments, the depth of this analysis is not sufficient to understand systemic market constraints. Often, the humanitarian situations make detailed investigation into market dynamics very difficult. This also appears to be true of business environment assessments in FCAS.

The DCED (2010) resource kit for PSD practitioners working in FCAS provides practical guidance on how to develop and evaluate PSD programming in these settings. This includes a discussion on the application of the World Bank Doing Business and Investment Climate Assessments in these settings. It suggests that ‘most PSD tools are suitable for use, with some adaptation and care, in situations where conflict is at risk of emerging or re-emerging.’ However, the relevance of these tools is largely reduced in situations of immediate conflict and violence.

Many donor agencies operating in FCAS also fund multilateral agencies such as the World Bank Group in their Doing Business assessments. They also fund reform programmes designed to specifically address the Doing Business findings and to improve their international ranking. These mechanisms facilitate joint programming and are often seen as an important symbol of how donors should work together to support priority reforms.

Going beyond standardised assessments

There is a significant body of literature that argues the general indicators used for assessing the business environment, such as the World Bank’s Doing Business and Investment Climate Assessments, are not usually relevant to FCAS (DCED 2010; Minoia and Schrade 2018).¹⁰ However, when assessing the business environment in Afghanistan, Tuckett (2017, p. 7) describes how investors and other private sector stakeholders are interested in how Afghanistan ranks for doing business, and what the government’s commitment is to supporting business growth. While the World Bank’s Doing Business assessments are ‘not an ideal interpretation of the challenges in doing business, it does provide an indication of trends and how changes occur over time.’

The World Bank Group (2019) recommends the use of systematic conflict-sensitive approaches for private sector investments in fragility, conflict and violence, building on country-level contextual analysis and pilot project-level conflict analysis. Thus, when working in FCAS, donor and development agencies are required to move beyond the generic assessments provided by the Doing Business

¹⁰ More broadly and outside of FCAS, there have been many critiques on the objectivity and robustness of the Doing Business methodology. See: Independent Panel Review (2013) and Besley (2015).

reports and to engage state and non-state actors on what the priorities for reform are. This includes a conflict analysis, which is discussed in more detail in Section 3.4.2.

This point was reinforced by the respondents to this study who described their use of the standard assessment tools mentioned above, while displaying varying degrees of satisfaction with this information in conditions characterised by fragility, conflict and violence. A number of respondents indicated that instruments like Doing Business, simply do not make sense in these contexts. They are considered to represent a ‘very Western model’ and are not linked to the realities for many FCAS. The concerns of many businesses working in FCAS are not reflected by these assessments.

Business environment assessment tools are typically complemented by consultations with government authorities and private sector representatives. In situations shaped by conflict and violence, there are often many other formal and informal actors consulted in this process. This includes various political formations, war lords and armed groups. Many respondents indicated that they regularly supplemented this information with these kinds of consultations.

Assessing the pragmatic constraints

Respondents often spoke of the importance of focussing reforms on the specific, practical concerns faced by businesses and investors. While these are not typically identified in formal assessment tools, they were described as important to private investors. For example, opening up to private investors and encouraging FDI is often seen as an important BER issue. Moreover, Leo, et. al. (2012) recommend that private sector promotion policies in FCAS prioritise three key issues: addressing the most severe constraints to private sector growth, matching the host government’s stated priorities, and targeting sectors and subsectors with proven track records, relative to other sectors. Similarly, the ILO (2016, p. 113) argues that policies promoting an enabling environment for the private sector in fragile and recovery settings should ‘focus on the sectors that offer the greatest opportunities for growth and Decent Work’. Specifically, these reforms should ‘target conflict-affected groups and those sectors directly involved in providing aid to conflict-affected groups’. For example, agriculture development can support business growth in vulnerable rural areas while improving food security. This would maximise the ‘peace dividend’ while giving these groups a stake in peacebuilding efforts.

Connecting with humanitarian assistance

By focusing on the pragmatic concerns of businesspeople, business environment assessments can connect with broader areas of humanitarian assistance. This includes processes that involve dialogue with a wide range of formal and informal business environment actors (e.g., small-scale farmers, internally displaced people).

Determining the priorities for BER in FCAS is an iterative process. While it is possible to successfully apply the standard assessment tools, the limitations of these tools are particularly apparent in situations marked by state fragility, conflict and violence. The effective analysis of priority business environment constraints requires consultations with a wide range of formal and informal, state and non-state actors. Ultimately, the priorities for reform are found in the pragmatic problems experienced by businesspeople in FCAS.

3.1.2 Focussing on common business environment themes

This subsection looks at the common business environment themes or elements that donor and development agencies prioritise when supporting BER in FCAS. These themes provide a possible link to humanitarian assistance and help determine the minimal requirements for BER-support measures to be introduced.

Key findings

Public-private dialogue builds ownership, transparency and confidence in reform efforts. These are essential for successful reforms in FCAS.

Institutional and regulatory reforms promote a more transparent, rule-based business environment. These reforms promote greater levels of social inclusion while building trust and government accountability.

Competition policy increases the competitive pressures in the economy by making it easier and cheaper to start a business. While competition and privatisation policies can be contentious and difficult measures for governments in FCAS, there can be value in looking at a broader range of competition-enhancing reforms.

Deals-based reforms, focussing on the specific needs of transformative investment opportunities, are often more valuable than broad, national, multi-sector oriented reforms that are too generic and ambitious.

Business environment reforms need to recognise the importance of foreign and domestic investment, including the role of multinational enterprises.

Guidance advice

Consider reforms that build trust amongst conflicting parties. Humanitarian assistance and BER practitioners both need to make sure all relevant public and private stakeholders are represented in the dialogue schemes they initiate.

Be prepared to work with various political formations, including, where necessary, war lords and armed groups.

Donor-supported reforms should consider the whole investment system, including micro, small and medium-sized enterprises and the role of large national and multi-national companies.

Dos

Consider the capacity of governments to implement newly adopted policy, legal, regulatory or administrative instruments.

Identify and counter the forces that are likely to undermine, or resist increases in market competition.

Focus on bottom-up, deals-based reforms that are strategic and opportunistic in nature.

Don'ts

Design or introduce reforms without undertaking dialogue with a wide range of state and non-state actors.

Ignore the government constraints to implementing BER measures.

Link up with the global initiatives for greater corporate responsibility.

This study was interested in identifying any specific priority themes of the business environment that are most critical for PSD in FCAS. While it was anticipated that the selection of these elements would be based on the specific country context—and not necessarily a result of state fragility or conflict alone—there was an interest in understanding whether these contexts sharpen the focus on specific BER elements.

The following themes were identified through a review of the literature and in discussion with respondents.

Public-private dialogue

Public-private dialogue (PPD) is a basic building block for donor-supported BER. Without some level of interaction and agreement between state and non-state actors, albeit agreements that may be small and time-bound, the introduction of reforms will be futile. While not necessarily an expensive process, effective PPD takes time—especially in FCAS—as trust between parties is built. However, some form of PPD represents a minimum requirement for agencies wishing to support meaningful and sustainable reforms.

Many respondents highlighted the importance of PPD when supporting BER in FCAS. This view is also supported by the literature where PPD is considered an important starting point for PSD in FCAS (see World Bank Group 2014). While PPD is typically treated as a process for reform (i.e., focussing on how reform should be done), rather than a subject of BER, in conditions characterised by fragility, conflict and violence, PPD has a place of importance in its own right. PPD aims to improve transparency and confidence among diverse groups in the process of reform (International Finance Corporation 2019b). As one respondent put it, ‘what you do matters less than how you do it.’ PPD is an important mechanism for building consensus and helping state and non-state actors work together. However, despite these benefits, many respondents highlighted the difficulties of PPD.

Typically, when the government interacts with the private sector, only those businesses used to lobby or with links to the prevailing political party are engaged. Thus, reform-support programmes are required to ensure a broader range of economic actors are encouraged to participate in PPD. Pritchett, et. al. (2018b) describe how ‘powerbroker firms derive a greater benefit from lobbying’ because they earn direct rents. Depending on the causes of fragility, conflict and violence, PPD mechanisms are often non-existent in FCAS and need to be built from the ground up. In addition, many FCAS are characterised by low levels of trust in government and in the business community. Thus, nascent PPD efforts often seek to build trust between public and private actors and confidence in the process of dialogue.

One successful PPD mechanism identified during this research was the Myanmar Centre for Responsible Business. See Box 1.

Box 1: Myanmar Centre for Responsible Business:

The Myanmar Centre for Responsible Business (MCRB) was established in 2013. It is funded by the UK, Norway, Switzerland, Netherlands and Ireland, based on a collaboration between the UK-based Institute of Human Rights and Business, and the Danish Institute for Human Rights.

MCRB facilitates dialogue and processes aimed at building national and local capacity and partnerships on business and human rights related issues. It aims to provide a trusted and impartial platform for the creation of knowledge, building of capacity, undertaking of advocacy and promotion of dialogue amongst businesses, civil society, governments, experts and other stakeholders with the objective of encouraging responsible business conduct throughout Myanmar.

MCRB undertakes field-based research on a variety of sectors. It has researched the policy and legal framework and practice concerning significant issues for human rights due diligence in Myanmar. These include land, children's rights, indigenous peoples, discrimination (particularly on grounds of disability), and biodiversity. Briefing papers, targeted at businesses investing in Myanmar, have been published to assist them in human rights due diligence in line with the UN Guiding Principles on Business and Human Rights and Myanmar requirements for assessing and managing environmental and social impacts.

MCRB has conducted Sector-Wide Impact Assessments on the Oil and Gas Sector (2014), Tourism (2015), ICT (2015), Mining (2018) and is working on a SWIA on the Oil Palm sector in Tanintharyi. These sectors were chosen according to their relevance to Myanmar's economic development, their potential impacts and the cross-cutting issues they raise of interest to other sectors.

SOURCE: [Myanmar Centre for Responsible Business](#)

Depending on the context of an FCAS, PPD schemes can be more promising on the country-wide or lower levels. In some countries, high-level PPD is an essential. Particularly in centralised government systems, high-level PPD sets a framework for national dialogue, the benefits of which are expected to cascade down to lower levels of government authority. However, in other settings, such as in federated and highly decentralised political systems, national PPD mechanisms have been too difficult to achieve and it has proved more effective to begin at the local level.

Donors and development agencies need to build capacities of all PPD stakeholders to better participate in dialogue, as many actors don't have the capacity to manage PPD processes and to push forward on agreements reached through dialogue. This frustrates the private sector, who can quickly get sick of too many meetings that don't lead to action. In many FCAS there are many disparate business environment actors with mandates that are unclear and not always distinguishable. Motives are also unclear.

Institutional and regulatory reform

A major focus of BER in FCAS is the institutions and rules that govern the private sector. This area for reform is broad and diverse. It includes reforms that are somewhat benign, such as business

registration and licensing, as well as reforms that are more contentious and potentially threatening to powerful elites, such as competition, taxation and large-scale investments such as energy and infrastructure. Respondents described support for one-stop-shops for business registration and licensing as a pragmatic means through which essential legal and regulatory reforms could be achieved.

Appiah and Jackson (2015) argue that post-conflict reform efforts should ‘recognise and legitimise private sector-driven development’ and create business environments ‘characterised by a robust regulatory regime and a favourable investment climate.’ Institutions provide the regulatory framework, both formal and informal, governing actors’ behaviour and limiting the harm individuals and groups can inflict. The quality and legitimacy of institutions reflect social relationships in broader society, and institutions evolve together with those relationships (see United Nations and World Bank 2018; World Bank 2011).

Donor and development agencies supporting reforms in FCAS should consider the role of institutional and regulatory reform in promoting a more transparent, rule-based business environment. These reforms can promote greater levels of social inclusion while building trust and government accountability.

Competition policy

Donor and development agencies working in FCAS can improve competition and contribute to more dynamic markets and economies in a number of ways. This includes directly supporting the introduction of competition policy as well as other reforms that increase the competitive pressures in the economy, such as by making it easier and cheaper to start a business. Often, competition and privatisation policies are contentious and difficult measures for governments in FCAS to adopt. Thus, there can be value in looking at a broader range of competition-enhancing reforms.

Post-conflict reforms offer an opportunity to introduce a legal and regulatory system that applies equally to all economic actors. The pre-conflict legal system may have favoured and protected vested interests through a variety of restrictions on competition or through incentives for non-competition that favoured entrenched groups (United States Agency for International Development, USAID 2009). Channell (2010a) advises, that while competition is the goal, reformers should be aware of counteroffensives by prejudiced interests and should fashion the strategy for reform with that in mind. For example, in Ghana, reformers avoided vested opposition by focusing on ministerial decrees that could be delivered complete while bypassing opponents.

Problems in the energy sector are common in FCAS. However, the lack of investment and competition in this sector is often a result of monopolies, including state-owned monopolies and politically aligned incumbents. Thus, it is not easy to find a solely technical solution to this problem. There are few incentives to break these markets open and support reforms. Opening up to competition is threatening to firms with a current hold in the market. As a result, the appetite to work in partnership with the state is not always apparent.

Business environment implementation (government capacity building)

Problems with the implementation of government policies, laws and regulations were often cited as a weakness in FCAS. Indeed, many respondents cited this as a major concern and described investments in government capacity building as an important ingredient in BER programming. However, this problem is often exacerbated in FCAS by a high-turnover in government staffing and the political-appointment of government officials based on patronage rather than ability.

While some fragile states have good laws, these are often not implemented. As a result, many barriers to a healthy business environment are a result of poorly applied laws or regulations. These barriers require improved behaviour and not necessarily improved laws or regulations (Channell 2010b).

Donor and development agencies supporting reforms in FCAS should always consider the capacity of governments to implement newly adopted policy, legal, regulatory or administrative instruments. Indeed, these considerations should be made early in the process of reform design. While many government authorities face challenges in terms of limited resources and high staff turnover, agencies can work with government leaders and bureaucratic managers to introduce institutional incentives that support reforms and build the capacity of public officials. This may include a realignment of staff performance indicators and new skills development opportunities within areas where reforms are introduced.

Deals based reforms

A relatively recent discussion in BER in FCAS has emerged around what has become termed, 'deals based' reforms. This draws on the recent work of Pritchett, Sen and Werker (2018a) entitled, *Deals and development: The political dynamics of growth episodes*. Pritchett, et. al. (2018b) argue for policy reforms in developing economies, and in particular FCAS, that are 'deal based'.¹¹ Wholesale reforms that improve the national investment climate or aim to create a 'level playing field' are unlikely to work in deals-based economies. Instead, it is better to look at how 'microclimates for different kinds of firms are created and to what extent they can enable ordered deals to happen.' Thus, better growth outcomes may be achieved by concentrating reforms on the implementation of policies, rather than the design of overarching policy frameworks, which will have substantial impacts on investor expectations and initiate an acceleration of growth. Moreover, Pritchett and his co-authors suggest it is important to 'get the big deals right' in an ordered and transparent way. Big deals, such as those in mining or infrastructure projects, can be enough to single-handedly jump-start a country's growth acceleration.

Many respondents interviewed supported this view. While they did not identify any investment-specific (i.e., deal-based) reforms, they did describe BER programmes in FCAS that targeted specific sectors, territories or investor communities (e.g., diaspora). These were pragmatic and focussed reforms that targeted specific actors rather than the whole business environment.

¹¹ Deals are defined as a specific action between two or more entities or individuals. They are not the result of the impersonal application of a rule, but rather of characteristics or actions of specific entities which do not spill over with any precedential value to any other future transaction between other entities (Pritchett, Sen, and Werker 2018a; 24).

In an interesting variation of deal-based reforms, respondents from *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ) describe support to business clusters or associations that are facilitated through a process of identifying the specific, practical business environment constraints to their businesses. Representing a form of bottom-up, cluster-oriented deal-based reform, these processes apply PPD processes and focus on unlocking reforms that are of a pragmatic value to participating businesses.

While not all donor and development agencies working in FCAS can focus on deals-based reforms, the strategic and opportunistic nature of this approach is a lesson to all. Broad, national, multi-sector oriented reforms are often too generic and too ambitious within a context characterised by fragility, violence and conflict. Agencies need to find entry points for reform that are more focused and likely to demonstrate the benefits of reform as quickly as possible. This may also be of high interest for newly established government units that want to re-gain trust with quick wins. Thus, it can be extremely beneficial for agencies to focus their support for reforms on the specific needs of transformative investment opportunities and to integrate these focused reform efforts with other industry or market development interventions.

Engaging corporations to improve governance

Many donor and development agencies supporting reforms in FCAS are concerned with FDI and the potential for multi-national enterprises to increase their levels of investment.¹² Business environment reforms need to recognise the importance of foreign and domestic investment. Indeed, many small and medium-sized enterprises and middle class households in FCAS often look for ways to invest their savings outside of the country. Thus, donor-supported reforms should consider the whole investment system, including the role of large national and multi-national companies. By tapping into the global initiatives for greater corporate responsibility, agencies can engage these larger firms in an effort to support reforms that encourage peace-building and are more conducive to private investment.

There is growing interest in the ways the private sector, and in particular, multinational enterprises can contribute to peace and development in FCAS. There are many international organisations working in this field to encourage and advise private firms on how best to operate in conflict-affected environments. For example, the United Nations Global Compact (UNGC), launched in 2000, calls on companies to align their strategies and operations with its Ten Principles in the areas of human rights, labour, environment and anti-corruption. By 2018, the UNGC had 9,500 companies and 3,000 non-business signatories based in over 160 countries, with activities supported by nearly 70 local networks (UNGC 2018). This trend is also influencing private investment. Socially responsible investors representing US\$4.8 trillion in assets under management are backing more robust human rights reporting frameworks as well as benchmarking efforts to assess companies against the UN Guiding Principles (Shift, Oxfam, and Global Compact Network Netherland 2016).

¹² For example, the OECD Guidelines for Multinational Enterprises (OECD 2011) are recommendations addressed by governments to multinational enterprises to ensure that the operations of these enterprises are in harmony with government policies, to strengthen the basis of mutual confidence between enterprises and the societies in which they operate, to help improve the foreign investment climate, and to enhance the contribution to sustainable development made by multinational enterprises.

There are other examples of the growing interest in private sector engagement promoting peace and stability in FCAS. International Alert works with people directly affected by conflict to build lasting peace and has undertaken research and prepared guidance on how the private sector can operate in a more conflict sensitive manner and contribute to peacebuilding (see International Alert 2000). Similarly, Oxfam—a rights-based anti-poverty organisation—works on the intersection of business and development, providing practical guidance that promote solutions and lessons for companies. CDA Collaborative helps companies to improve their social impacts, support development in communities they affect, and operate in ways that strengthen their relationships with those communities (see Ernstorfer and Miller 2020; Miller et al. 2018).¹³ One Earth Future works to catalyse systems that eliminate root causes of war. Its research division produces empirically-informed research as a tool for policy making in peace, security and good governance. This includes close examination of the role of the private sector in peacebuilding (see One Earth Future Research 2017). Many actors influence the conditions in which the private sector generates a peace dividend. CDA Collaborative suggests that private sector enterprises in FCAS are ‘neither intrinsically peace-positive nor intrinsically peace-negative’. Private sector impacts on peace depend on ‘how a company operates and how it engages with other actors’ (Miller et al. 2018). Businesses should not be isolated from this broader context. Instead, private sector engagement should be integrated into relevant conflict-sensitive and peacebuilding programmes from the start.

Other topics

In addition to the above, a range of other BER topics are identified in the literature and were raised by study respondents. These include:

- **Corruption.** While this is a concern in many FCAS, it is often difficult to address directly. However, reforms that improve transparency and accountability contribute to a virtuous cycle of business environment improvements that stimulate higher levels of private investment and create a greater domestic demand to address corruption.
- **Value chain and market systems development.** External shocks, conflict and violence can create enormous disruption to value chains, weakening markets and reducing the economic returns to investors. Thus, many donor and development agencies support market-based value chain interventions that aim to increase the market opportunities for market actors.
- **Energy:** Drawing from its enterprise surveys, the World Bank (2011, p. 19) finds that the lack of electricity is ‘the number one constraint for businesses in fragile and violent areas.’
- **Foreign investment.** There is some variation among agencies regarding the focus for investment-oriented reforms. For example, Channell (2010a) suggests BER should focus on

¹³ The CDA Collaborative report, *A seat at the table*, presented the results of a two-and-a-half year learning project entitled ‘Engaging the Private Sector as a New Peacebuilding Actor’. It documents the efforts of individual companies, as well as those of associations of companies acting collectively, as they sought to transform the dynamics of conflict unfolding around them. The analysis identifies patterns that are common to effective approaches to peace and conflict by private sector actors, and the specific means and resources through which private sector actors implemented those approaches in successful cases. It offers insights for individual companies, for peacebuilding actors, and for policy organisations seeking to define and establish a role for the private sector in efforts to address fragility and conflict (Miller et al. 2018).

domestic investment.¹⁴ On the other hand, foreign direct investment (FDI) and multinational companies can provide a country with access to capital, jobs, skills, technology, and international business networks that are unavailable domestically, while being a valuable source of reconstruction financing, tax revenue, and foreign exchange (Whyte and Griffin 2014).

- **Access to finance.** Because conflicts put a halt to the normal operations of banking services and financial institutions do not usually go back to business-as-usual in the early stages of post-conflict, access to financial services is a major challenge (Peschka 2011; International Finance Corporation 2019b; Glanville, Kerušauskaitė, and Harley 2016). Reforms that maximise the use of digital money and online payment systems can be useful in fragile and conflict-affected areas.

Link to humanitarian assistance—determining the minimal requirements for BER-support

Sections 3.1.1 and 3.1.2 have focused on how donor and development agencies approach BER programming in FCAS. The use of standardised and customised assessments has shown how agencies require specific tools and process to understand the issues affecting private investment in FCAS. It has emphasised the importance of focusing on the pragmatic concerns of the private sector and the role of PPD—both as a means of assessing the business environment as well as a theme for ongoing reform.

There are a wide variety of possible BER issues that programming can address. The priority BER themes most critical for PSD in FCAS were presented above. While each of these provide an opportunity for interlinkage with humanitarian assistance, more information is needed on how agencies prioritise and sequence reforms. This issue is explored further in Section 3.2. Similarly, the minimal requirements for BER-support measures is also considered as a part of the process programme sequencing.

3.2 Sequencing reforms in fragile and conflict-affected situations

This section considers the research question: What determines the sequencing of BER measures in FCAS and do some BER interventions pose more risk at different stages of conflict? It is organised by considering two issues connected to this question.

Firstly, it looks at whether donor and development agencies sequence reforms and the issues that inform or influence these decisions.

Secondly, it considers whether agencies combine or complement BER programmes in FCAS with other kinds of programmes, such as humanitarian or social development programmes, governance programmes or market systems and value chain development programmes.

¹⁴ Channell (2010a) says approximately 90 per cent of investment comes from domestic investors, and two-thirds of foreign investment comes from neighbours and diasporas. Non-extractive foreign investors are seldom interested in conflict-affected zones, so investor-friendly reforms should focus on attracting domestic business investment.

3.2.1 Sequencing reforms

This subsection considers whether donor and development agencies should sequence reforms and the issues that inform or influence these decisions.

Key findings

Donor and development agencies working in FCAS have limited scope for long-term planning and must plan within a shorter time period and be flexible.

There is much discussion regarding the political or security preconditions for BER in FCAS. While there may be physical prerequisites for reform (e.g., safety), when introduced early, BER efforts can contribute to ‘virtuous sequencing’ towards peace-building.

In a FCAS, it is sometimes better to support implementation by building the capacity of the institution even if the regulatory framework is not fully in place

Guidance advice

Macro level interventions to promote a conducive regulatory and administrative environment should be avoided as long as violence is open and ongoing. Instead, it is better to focus on those reforms that reflect the needs of the private sector and are aligned with the political will of the government.

Simultaneously promote the introduction of new private investment opportunities while supporting better investment and business environment conditions.

Dos

Give priority to supporting reforms that address local small business concerns which can unlock new opportunities for increased revenue, business growth and job creation.

Support reforms that nurture the development of industry clusters in strategic sectors that improve the chances for globally integrated firms to succeed.

Be flexible and responsive to changing circumstances—the fluidity of FCAS often means that the priorities for reform are subject to change.

Take an opportunistic approach in which new programme partnerships are formed as emerging, relevant actors are identified.

Don'ts

Avoid broad, centralised reforms that are not grounded in the experience of businesspeople.

Expect governments to have the capacity to immediately manage the reform process or the implementation of a new legal or regulatory framework.

While the business environment problems in FCAS are many and multiple-layered, it is not possible to address all these at once. Business environment assessments are used to identify priorities and determine short, medium and long-term reform needs (see Section 3.1.1). In the case of FCAS, there

is limited scope for long-term planning, so many agencies must plan within a shorter time period and be flexible. BER priorities are typically complemented by consultations with government authorities and private sector representatives. In situations shaped by conflict and violence, there are often many other formal and informal actors to interact with. Where PPD mechanisms exist, these may also be used to form an agreement around the first and second-order reform priorities.

Determining the preconditions for reform – creating a ‘virtuous cycle’

Glanville, Kerušauskaitė, and Harley (2016) suggest there is an ‘ongoing debate over sequencing and timing issues’ in BER in FCAS. This includes whether some political or security preconditions should be met before BER reforms can be effective. The International Finance Corporation (IFC 2009) finds that while it is generally necessary to engage in reforms as early as possible, reforms require a number of pre-conditions before programming can commence. These include:

- Basic safety and security to allow for the movement of people and goods and the resumption of normal business activity;
- Provision of humanitarian relief is well underway;
- There is broad donor interest in engaging in the country; and
- Existence of a government counterpart—ideally, one interested in reform.

Elsewhere, the IFC (2019a) has described its sequencing of reforms based on positive change in fragile and conflict situations. In what it describes as ‘virtuous sequencing’, the IFC says donor and development agencies should not wait for reforms, but rather proactively engage with the private sector.

The virtuous sequencing—starting from improving the business environment to attracting investors—is ideal, but it is not the only model. Drawing from its experiences in Guinea, the IFC suggests that investment projects can be an effective entry point into a country. When the implementation of these projects strikes regulatory bottlenecks, then these can be addressed through reform programmes. Thus, while waiting for investment climate reforms to be initiated or completed, ‘we simultaneously pursue business development and identify investment opportunities’. This appears to be consistent with the ‘deals-based’ approach to reform identified earlier in this report.

Drawing from experience in Yemen and the Occupied Palestinian Territories, Schrade et. al. (2017) propose a set of recommendations for designing and programming PSD interventions in contexts of open and sustained violence. These are also relevant for BER programming:

- Assess and identify economic sectors that show potential despite open and sustained violence;
- Think about your target group and do not exclusively focus on the poorest of the poor alone—for economic and peacebuilding aspects;
- Keep PSD objectives in contexts of open and sustained violence realistic;
- Build up a solid relationship with local implementing partners; and
- Monitor conflict at the intervention level, anticipating conflict potential while selecting businesses and implementing partners.

Channell (2010a) suggests that ‘demand is the starting point.’ BER is most effective when ‘the needs of the private sector are aligned with the political will of the government and funding priorities of donors.’ Pritchett, et. al. (2018b) recommend that policymakers interested in creating the conditions for the strongest, ‘most capacious industries’ that favour a fair, productive and open business environment could push for cluster-building activities in ‘magician and workhorse industries’ that improve the chances for globally integrated firms to succeed.¹⁵ Along the way, the political demands of these firms would improve the country’s overall chance of success and achieving structural transformation.

Targeting reform efforts

There are many interventions used by donor agencies to target support PSD in FCAS. Sweeney (2009) illustrates how some donors favour programming which targets specific groups and individuals for direct assistance, while others focus on reforming market structures and making broader systemic changes. Donor and development agencies were found to support a combination of approaches, tailored to the specific situation at hand. Support for improvements to the investment climate include legal reform and business regulations; strengthening financial institutions and macroeconomic frameworks; rebuilding infrastructure; reforming trade policy; encouraging FDI; and donor country policy reform.¹⁶

In contexts of open and sustained violence the entry points for PSD are different than in other developing economies. The DCED (2010) argues for PSD programmes to maximise their beneficial impact across four aspects of peace-building: economic development, governance, building security, stability and trust, and infrastructure. *Deutsche Gesellschaft für Technische Zusammenarbeit* (GTZ) (2008), the predecessor of GIZ, suggests there are three conventional PSD approaches with a demonstrated potential to contribute to crisis prevention, conflict transformation or peacebuilding, while promoting systemic competitiveness. These are BER, local and regional economic development, and SME and value chain development. These interventions span macro, meso, micro and meta levels of intervention.

Build capacity while supporting reforms

Because many FCAS lack central government structures and other institutions of functioning statehood, BER interventions are difficult to implement. Schrade et al. (2017) argue that macro level interventions to promote a conducive regulatory and administrative environment should be avoided as long as violence is open and ongoing. Often in these cases, structural weaknesses or the lack of formal institutions also severely constrain opportunities for PSD. Instead, these authors suggest the most promising area for intervention is at the micro level. They argue that private firms, especially

¹⁵ Pritchett, et. al. (2018a) identify these actors as significant for economic growth. Magicians are the exporters that operate in competitive industries. They are labelled magicians since they make a market out of nothing (as opposed to firms serving the domestic population that can rely on a captive market). Workhorses are those firms operating in competitive markets that serve the domestic economy. Among the workhorses in a developing country are its subsistence farmers, livestock raisers, builders, restaurant owners, petty traders, hairdressers, village lenders, and some of its importers.

¹⁶ Donor country policy reform includes the reform of donor country trade policies and the regulation of multinational corporations.

micro and small enterprises ‘do not need a state, state-like institutions or any other formal structures to exist. Thus, ‘from the perspective of PSD contributing towards peacebuilding, micro level support of the local private sector offers significant potential’ and local business support offers opportunities for immediate effects in job and income generation, potentially becoming a stimulus for local economic development.

The DCED has argued that PSD professionals need to develop ‘field-craft’: the ability to understand and manage these issues as an integral part of their job. See Box 2, below.

Box 2: Skills for BER practitioners in FCAS

Talk to specialists in other disciplines, as many private sector development challenges are faced by those working in other areas of development programming.

Use the business environment itself as a diagnostic. A country’s business environment reflects the local history and circumstances and an assessment of what reform is needed of a country’s business environment can also be used as an assessment of the political economy.

Observe and listen. Communicate and collaborate with a range of people to gain insights and views that help in developing an understanding of the host country and of the political economy challenges and how they might hinder or shape efforts at business environment reform.

Continually evaluate during reform to ensure things are on-track and the evolving political economy.

Develop a wide network of people who will be able to provide an on-going range of perspectives into what is going on in a country.

Remember the art of the possible. Be sanguine about what can and cannot be achieved.

Address the effects of constant staff rotation. If regular turnover of staff is inevitable, then agencies need to ensure that hand-over procedures are as comprehensive as possible to maintain a sophisticated understanding of the country within the organisation.

SOURCE: DCED (2011)

Drawing on German experience in BER in Afghanistan, Palm (2005) describes how, in a stable political environment, we might expect to improve the regulatory framework before focusing on the implementing agency. However, in a FCAS the contrary might be true. In these situations, it may be better to support better implementation by building the capacity of the institution even if the regulatory framework is not fully in place.

Recognising that the perfect is often the enemy of good, Channell (2010b) suggests the existence of conflict mandates the urgent need for interventions to get the economy back on the road to recovery. This often demands an urgent need for new laws. However, urgent law-making can undermine the long-term processes needed to ensure legitimacy.¹⁷ Instead, meaningful business legislation in post-conflict countries requires private sector input. Business is a vital link in drafting laws that lead to effective economic policy development reform. GTZ (2008) also suggest that one of the main

¹⁷ Laws that are introduced urgently are often illegitimate as they too often violate one or more of the three tenets of legitimacy: process, substance, and representation. In addition, on average, most laws take at least 2-5 years after the first draft is prepared, with major reforms sometimes taking more than 10 years in normal circumstances (Channell 2010b).

challenges of BER in post-conflict situations is to create quick and tangible impacts or peace dividends. Because policy reforms have long lead times, ‘it is advisable for PSD projects to start by supporting the kinds of policy reform which are likely to be passed and implemented quickly.’ These are usually reforms in which decision makers have a strong personal or political interest, such as attracting foreign investment.

Box 3: Business Registration Reforms in Burundi

The Government of Burundi requested support from the World Bank and IFC in 2010 to improve the procedures for starting a business, which was identified as a concern in the Doing Business assessment.

Government established a high-level Steering Committee for Doing Business, chaired by the Second Vice-President, an Executive Reform Committee with four full-time reform staff, ten technical working groups for each of the Doing Business indicator, and one full-time reform advisor in the Office of the Second Vice President.

This led to the creation of a one-stop-shop (OSS) in order to streamline the procedures to start a business. In order to start a business in Burundi, a prospective business had to visit several agencies, including the Commercial Court as the custodian of the Business Registry, the Revenue Authority, the Social Security Fund, and the Health Fund. In establishing the OSS, focus was put on simplifying the ‘front office’ procedures and cutting the number of steps and days needed to start a business. Representatives of all relevant stakeholder agencies were seated in one office space.

As a result of the reform, prospective business could come to one place to complete most of the procedures needed to start a business. This reform significantly reduced the steps necessary to register a business from eight to four, and the days from 13 to eight. The costs were also reduced from 117 per cent to 18.3 per cent of income per capita. This contributed to an overall improvement in Burundi’ Doing Business rankings for the indicator Starting a Business—from 99th to 27th place overall.

However, these reforms did not tackle the major problem of the business registration regime, which was that Burundi did not have an accurate, up-to-date, transparent, accessible, and reliable business register. Indeed, this constraint is not captured by the Doing Business indicators. Furthermore, it became apparent that the OSS was only created to handle the incorporation of new companies. Any subsequent changes of registered companies, such as change of address, directors, etc., continued to be registered the ‘old way’. This led to the unintended results that the OSS caused the splitting of the business registration process into two separate streams, one for the incorporation of new companies and one for registration of changes to existing company data.

Three lessons in BER can be drawn from this experience.

First, a joint engagement can enable the move from ‘quick win’ reforms to a more sustainable reform model. While it is important to facilitate PSD by easing company registration through reduction of cost and time, this is not the main objective of business registration reforms. The ultimate purpose, in this case, was the creation of a sustainable, up-to-date, accurate business register available to all stakeholders.

Second, while Doing Business is useful to create reform momentum, it is important to understand and address in parallel systemic issues that are beyond what Doing Business measures in order to ensure sustainability. It is important to know what Doing Business measures and what it does not measure.

Third, it is important to phase the reform process. Through this reform programme, the World Bank Group was able to overcome emerging challenges and work with a few key reformists in government to build their capacity and drastically improve key elements of the business environment over a short period of time. As the programme progressed, it was able to address the more systemic issues affecting business registration, such as the need for an accurate, up-to-date, transparent, accessible, and reliable business register.

Where there is a significant lack of capacity, starting on Doing Business measures and supporting structural or systemic reforms in parallel can help to progressively develop capacity. However, teams must plan for structural reforms immediately to avoid promoting a dysfunctional system.

SOURCE: Marusic and Karuretwa (2014)

A number of respondents spoke of the need for donor and development agencies to be flexible and responsive to changing circumstances. While agencies develop plans and programmes to support reforms based on their assessments, the fluidity of FCAS often means that the priorities for reform are subject to change. Thus, agencies are frequently required to be flexible and to respond to these changes as they emerge. This can require an opportunistic approach in which new programme partnerships are formed as emerging actors are identified.

3.2.2 Aligning reforms with other humanitarian and development programmes

This subsection considers whether agencies combine or complement BER programmes in FCAS with other kinds of programmes, such as humanitarian or social development programmes, governance programmes or market systems and value chain development programmes.

Key findings

Economic and private sector development are important instruments to promote peace and stability in FCAS.

Donor and development agencies working in FCAS are working in conflict, requiring them to apply conflict sensitive and risk management strategies at all times. However, they are also working on conflict. It is anticipated that reform programming will also contribute to peace and stability.

Guidance advice

Agencies must understand how their programmes influence fragility, violence and conflict. Programming decisions should explicitly express this understanding. Regular programme monitoring should assess the extent to which reform programmes achieves these outcomes.

BER programming should be 'joined-up' with other humanitarian and development assistance wherever possible and seek to address the root causes and structural drivers of conflict.

Dos	Don'ts
Look for ways that BER programming can specifically contribute to giving micro and small enterprises a 'voice', improving market access, rights, social cohesion, and trust between state, society and the business community.	Assume all reforms will lead to peace and stability.

In assessing the extent to which BER measures in FCAS are sequenced in response to the risk profile of a country, it was important to reflect on how agencies combine or complement BER programmes with other kinds of programmes, such as humanitarian, social development or governance programme, or indeed other PSD programmes.

Economic and private sector development promote peace and stability

Economic development and, within this overarching frame, PSD represent important instruments to promote peace and stability.¹⁸ For example, Peschka (2011) argues that incomes, employment and access to services needed early in a time of conflict to deliver peace dividends to the population. She describes a growing consensus that an 'early focus on economic growth as a mechanism to promote stability and recovery through jobs and improvements in the standard of living for both sides is a key first priority.'

The World Bank Group (2019, p.25) suggests its support to the private sector has fostered resilience in ways not otherwise covered by traditional humanitarian response: 'During conflict', says the Bank, it is vital to invest in the private sector to sustain jobs and livelihoods and to preserve basic private sector capacity for post-conflict recovery, including by promoting the resilience of micro-level and informal sector activity.' Similarly, Appiah and Jackson (2015) describe the presence of the private sector as a 'determining factor for creating an environment for human development and social justice.'

Working in conflict situations to reduce conflict through BER

Often, donor and development agencies distinguish between working *in* conflict and working *on* conflict.

Working *in* conflict is a reality for agencies in FCAS. Because it is difficult to avoid working in conflict, many donor and development agencies need to apply conflict sensitive and risk management strategies. Here, the interrelations between PSD interventions, the economy at large and the conflict situation must be considered at all stages of the project cycle (GTZ 2008).

Working *on* conflict means that the strategy and the objective of an intervention are, at least partly, a direct attempt to address conflict issues. Thus, development assistance aims to contribute to peacebuilding, either directly or indirectly.¹⁹

¹⁸ Also see: GIZ (2008), IFC (2019b), Leo, et. al. (2012), Pritchett, et. al. (2018b), Schrade, et. al. (2017), Sweeney (2009).

¹⁹ Also see: Gibbons and Piquard (2006).

While there is a broad understanding of the value of PSD in FCAS, donor and development are often confronted with the need to decide when and how PSD approaches should be introduced. As discussed previously, the concept of the humanitarian-development-peace nexus suggests that PSD programming can coincide with humanitarian support. Indeed, the OECD (2019, IV1(b)) highlight the importance of ‘joined-up programming’ designed to ‘address the root causes and structural drivers of conflict’. This includes ‘making a positive contribution to voice, access and rights, social cohesion, trust between state and society and to inclusive and meaningful political dialogue, fairer power structures, economic development and legitimate and effective institutions.’ These are all issues that BER support programming can contribute to.

Box 4, below, shows how the World Bank Group (2019) considered these issues in Yemen.

Box 4: Supporting the Humanitarian-Development-Peace Nexus in Yemen

The World Bank Group describes how it has supported reforms in Yemen since conflict broke out in 2015. Early lessons in Yemen demonstrate the value of applying a humanitarian-development-peace nexus approach. In a complex humanitarian crisis, development funding supported a system-oriented approach that complemented the emergency response of humanitarian agencies.

The World Bank Group’s multi-year funding adds value and helps preserve institutional capacity, protecting human capital and bolstering national preparedness for shock response. Similarly, support to the private sector fostered resilience in ways not covered by traditional humanitarian response. During conflict, it is vital to invest in the private sector to sustain jobs and livelihoods and to preserve basic private sector capacity for post-conflict recovery, including by promoting the resilience of micro-level and informal sector activity.

SOURCE: (World Bank Group 2019, p. 25, Box 4)

3.3 Supporting sub-national reforms

This section considers the research question: If FCAS prevail at sub-national levels, what can donor and development agencies do to support sub-national BER measures?

In answering this question, two related issues are examined.

The first is whether or not agencies found it necessary to focus BER or PSD within specific regions or localities and what are the determining factors behind these decisions.

The second concerns the key themes pursued in subnational reforms, including any focus on specific industry sectors or sub-sectors. Often, industry sectors have a regional orientation and there may be cases where sub-national reforms are complemented by sub-national focus.

3.3.1 Choosing when to focus on subnational reforms

This subsection looks at whether or not agencies found it necessary to focus BER or PSD within specific regions or localities and what are the determining factors behind these decisions.

Key findings

Subnational assessments are very relevant to FCAS. Many FCAS are characterised by ‘pockets of fragility’ at the subnational level and these variations can influence the design and implementation of reform programmes.

The drivers and effects of fragility have transnational and local dimensions, which need to be incorporated into reform programming.

Where necessary, donor and development agencies can focus their support for reforms in areas of reduced conflict.

The decision to focus on subnational reforms has often been associated with the ability to work in conflict areas.

Guidance advice

Business environment assessments and reforms need to go deeper than country level, recognising local trends and opportunities for reform.

Dos

Look for opportunities to engage local actors in order to mobilise their buy-in to reform measures.

Maintaining flexibility in reform programming to ensure local, sub-national reform dimensions are accommodated.

Don'ts

Rely on aggregated national data to understand how reforms will affect different subnational territories.

Sub-national Doing Business assessments

Over the last 15 years, increasing attention has been given to the role of subnational business environments and the value of subnational reforms (see White 2016; DCED 2016). In 2005, the World Bank Group launched its first Subnational Doing Business report, which dealt with Mexico. This applied quantitative indicators to business regulations and their enforcement in 12 cities and states. Subnational Doing Business studies capture differences in business regulations and their enforcement across locations in a single country. They provide data on the ease of doing business, rank each location, and recommend reforms to improve performance in each of the indicator areas. To date, these have benchmarked 510 locations in 75 economies (World Bank 2020).

Only a handful of the published Subnational Doing Business studies deal with FCAS (e.g., Mozambique 2019, Nigeria 2010, 2014 and 2018, Afghanistan 2017, Colombia 2017, Philippines 2011). Box 5, below, describes the approach adopted to the first Subnational Doing Business assessment conducted in Afghanistan.

Box 5: Doing Business in Afghanistan 2017

Doing Business in Afghanistan 2017 was the country's first subnational Doing Business study. It benchmarks four provinces: Balkh, Herat, Kandahar and Nangarhar. The largest business cities are Mazar-i-Sharif, Herat, Kandahar and Jalalabad.

The objective of the study was to gain a broader understanding of the business environment across Afghanistan and to provide good-practice examples and reform recommendations to help guide policy at the national and subnational levels.

The study focused on indicator sets that measure the complexity and cost of regulatory processes affecting four stages in the life of a small to medium-size domestic firm, from starting a business, to dealing with construction permits, to getting electricity and registering property. These four indicator sets were selected because they relate to areas of business regulation in which implementation of the common legal and regulatory framework differs across locations—because of differences in local interpretations of the law and in the resources and efficiency of local agencies responsible for administering regulation.

Publishing comparable data on the ease of doing business in different locations within a country can help drive regulatory reform—because it is difficult for local governments to justify regulatory practices that make doing business in their city or province more burdensome than in neighbouring locations. Moreover, sharing the same national legal and regulatory framework makes it easier to adopt the good practices of other locations. Even small administrative improvements, requiring no major regulatory changes, can make a big difference in the life of a small or medium-sized firm.

SOURCE: World Bank (2017)

Local pockets of fragility

Subnational assessments are very relevant to FCAS. The United Nations and World Bank (2018) describe how conflict today is often 'simultaneously subnational and transnational'. Thus, partner engagement needs to be 'sustained, inclusive, and targeted' at all levels. Similarly, the OECD (2016, p. 161) describes 'pockets of fragility at the subnational level.' This highlights the problem with quantitative data collection that does not go deeper than the country level. Indeed, the drivers and effects of fragility have transnational and local dimensions.

Papahagi and Sanchez-Ortega (2010) describe the challenges in collecting subnational data for the 2010 Subnational Doing Business study of Nigeria:

Producing a rigorous set of primary quantitative micro data can be challenging even in the best of circumstances. Imagine what the task is like when attempting to reach even the remotest corners of Nigeria to benchmark local business regulations and their enforcement across 36 states and the federal capital, Abuja. With such a vast territory to cover, there was a lot to be learned, including securing local buy-in, maintaining flexibility, and building a team on the ground—some of it along the way.

Local areas of stability nurture reform

The World Bank Group (2019) suggests that, in cases of high-intensity subnational conflict, its private sector engagement focuses on the more stable areas of a country. This view was reflected by a number of respondents who described decisions to focus on local areas where conflict was lower than in other areas. In some cases these decisions were influenced by pragmatics. For example, when it was simply too unsafe to work in a specific area. In other cases, support for PSD and the drive for reform were presented as incentives for stability.

Thus, subnational authorities and the local private sector would benefit from donor and development agency support once a degree of peace and stability had been achieved. ‘In cases of high-intensity subnational conflict’, says World Bank Group (2019, p. 26) ‘private sector engagement will focus on more stable areas of a country’.

Government systems and local reforms

Sometimes, the political structure is more conducive to subnational reforms. For example, federated and decentralised political and government systems were often cited as providing a conducive environment for subnational reforms. However, this was not always the driving factor. As with the identification of other BER themes, the decision to focus on subnational reforms was often more associated with the ability to work in conflict areas.

3.3.2 Supporting key themes in subnational reforms

This subsection examines whether donor and development agencies pursue any specific themes when supporting subnational reforms.

Key findings

While many agencies find it useful to focus BER within specific regions or localities, there are few common themes that typify this support. There are many variations in types of industry sectors or sub-sectors addressed at the local level.

The benefits of working at the subnational level include a smaller number of actors to work with and a greater opportunity to focus on local problems experienced by private investors.

Even if a country is completely afflicted by fragility and conflict, there can be opportunities in which reforms can be supported at a local level. However, it can often be difficult to find ways to either replicate successful subnational reforms into other jurisdictions or to amplify these from the local to the national level.

Guidance advice

Donor and development agencies should deepen their engagement with stakeholders and agents of change beyond the representatives of the national state, including opposition groups, customary, religious and subnational leaders, social groups, and elites.

Donor and development agencies should invest in the development of suitable assessment tools and the collection of sub-national data on the experiences of private investors. Recognise and respond to the sub-national variations in the demand and opportunity for reform.

Dos	Don'ts
Invest in good data and careful analysis. Support PPD at the local level. Use reforms to promote local conflict-resolution and peacebuilding initiatives to foster legitimacy and inclusivity from the bottom up.	Assume all subnational economies and business environments are uniform.

Local dialogue focuses on the pragmatic concerns of businesspeople

As indicated in Section 3.1.2, often support for PPD is focused on subnational dialogue. This is particularly the case when central government dialogue was too difficult to establish—possibly because of conflict, fragility or other political power dynamics—or where subnational authorities were able to drive reform processes. Indeed, because public sector institutions are weak in most FCAS and the private sector is fragmented the World Bank Group (2014, p. 5) recommends focusing on subnational, sector-specific and process-oriented issues. In such cases, subnational PPD ‘allows newly empowered stakeholders to address practical problems with solutions that require few resources’.

van Veen and Dudouet (2017, p. 37) argue that donor and development agencies working in FCAS need to deepen their engagement with stakeholders and ‘agents of change’ beyond the representatives of the national state, including opposition groups, customary, religious and subnational leaders, social groups, and elites. Agencies should ‘promote local conflict-resolution and peacebuilding initiatives to foster legitimacy and inclusivity from the bottom up.’

Focus on critical subnational constraints

As noted above, there is general support for Subnational Doing Business studies. Indeed, there are suggestions that these assessments can be adapted to compare differences in business environments at the municipal level (United States Agency for International Development 2009). However, the scope of these assessments is somewhat limited to a reduced indicator set often, but not always, applied in the national Doing Business assessments.

Many respondents suggested that the critical subnational business environment constraints may be found outside of these indicators. For example, World Bank Group (2019) describes how some drivers are rooted in local issues, such as conflicts around land, water or extractive industries; others are subnational, such as when territories are disconnected or lagging in terms of opportunity and access to resources; others are national, such as problems of accountability, elite capture, and corruption within the state.

Benefits of local reform

Many agencies have found it useful to focus BER within specific regions or localities. Because there are many instances where fragility and conflict vary across sub-national areas, there is a demand for sub-national approaches. Donor and development agencies should recognise and respond to the sub-

national variations in the demand and opportunity for reform. Even if a country is completely afflicted by fragility and conflict, there can be opportunities in which reforms can be supported at a local level.

The difficulties of supporting reforms at the national level can be reduced when working sub-nationally. There are fewer actors to work with and often a greater opportunity to focus on local problems experienced by private investors.

However, major challenges are experienced in finding ways to either replicate successful subnational reforms into other jurisdictions or to amplify these from the local to the national level. These include the need for suitable assessment tools and sub-national data on the experiences of private investors in these areas. Good data and careful analysis are essential. It is also important to bring influential reformers and leaders on board in the reform effort and to ensure an effective communication strategy is in place.

3.4 Addressing the drivers to conflict and peace

This section considers the research question: How can BER measures in FCAS facilitate PSD without doing any harm, while unlocking the peace-making effects of PSD?

To answer this question, the research looked at how BER can promote a more inclusive and participatory approach to reforms that create conducive conditions for sustainable PSD. This approach aligns with the interests of many donor and development agencies, and their partner countries, as expressed in Sustainable Development Goal (SDG) 16: ‘Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.’ In particular, SDG Target 16.7 aims to ‘ensure responsive, inclusive, participatory and representative decision-making at all levels.’²⁰

To this end, three related topics are discussed below to shed light on how donor and development agencies can promote inclusive development and peace-making, while managing risk and harm.

The first topic concerns the identification of vulnerable groups within FCAS and whether BER should specifically address the concerns of these.

The second topic is focused on the use of conflict and risk assessments. While many donor and development agencies apply these assessments when working in FCAS, this study sought to understand how this information was used to design or management BER programmes.

The third topic concerns the ways donor and development agencies align with government development frameworks and, in particular, with each other.

3.4.1 Responding to the concerns of vulnerable groups

This subsection considers whether donor and development agencies identify and focus on specific vulnerable groups and whether this is done to reduce harm or to unlock the peace-making effects of PSD.

²⁰ This target is measured by the percentage of seats held by women and minorities in national parliament and/or sub-national elected office according to their respective share of the population.

Key findings

FCAS create high levels of vulnerability in the economy. Particularly vulnerable groups include women, young people, migrants or refugees, internally displaced people, those from ethnic or tribal minorities, indigenous people, people with disabilities, and landless or nomadic farmers.

While many donor and development agencies agree these groups require attention, overall, many BER programmes do not focus on these groups. Instead, they introduce reforms that are oriented to the general business sector and rely on other social programming to address vulnerable and marginalised groups.

One exception to this is the recent focus on gender, and specifically businesswomen, in the business environment.

Guidance advice

Donor and development agencies should recognise the potential impact of reforms on vulnerable and marginalised groups and take steps to mitigate the negative effects reforms may have on these groups.

More attention should be given to reforms that promote inclusive economic growth and specifically focus of the experiences of vulnerable and marginalised groups.

Dos

Take the time and effort to identify vulnerable groups and consider if or how any proposed reforms will affect these groups.

Don'ts

Assume reforms will affect all social groups or categories of firms in the same way.

Take action without considering the potential harm that could be created by reforms to vulnerable or marginalised groups.

FCAS creates vulnerability -- but these are not common BER target groups

Many FCAS contain social groups that are particularly vulnerable. The nature of the conflict, along with other national, social, economic, cultural, and political factors will affect the kinds of people who are most vulnerable. However, these groups often include women, young people, migrants or refugees, internally displaced people, those from ethnic or tribal minorities, indigenous people, people with disabilities (PWD), and landless or nomadic farmers.

Many respondents described their agencies' specific concerns for vulnerable groups, such as people living in poverty, women, young people, and PWD. There are also instances where agencies have focused on people who have been particularly marginalised as a consequence of conflict or violence, such as ethnic and religious groups, and internally displaced people.

While agencies often identify these groups as requiring particular attention, overall, many BER programmes do not focus on specific groups. Instead, they introduce reforms that are oriented to the general business sector.

Some BER programmes were found to focus on specific sectors or territories. Some of these reforms are implicitly oriented towards certain vulnerable groups, such as small-scale farmers. However, these programmes tended to focus on strategic sectors rather than vulnerable or marginalised groups.

This approach is reflective of the ‘contested issue’ raised by the DCED (2008) in its donor guidance on business environment reform. This issue was based on whether BER should focus on enterprises that are owned and managed by poor people. Some agencies argued that general reforms of the business environment are not sufficient and there is a need to focus reforms on the specific barriers that poor women and men experience directly when operating in the business environment. However, other agencies argued that targeted approaches create additional biases and market distortions and are not consistent with a systemic approach to business environment reform that improves the system for everyone. From this review of donor-supported BER in FCAS, it appears that the latter argument is more pervasive.

Gender and vulnerability in FCAS

The one major exception to the above finding centres on women. Many donor and development agencies working in FCAS exhibit a clear interest in the issues affecting women and this focus can be occasionally found in BER programming (see Salam 2017; Miles 2016; Aidis 2017; McIntosh and Buckley 2015). For example, writing on Afghanistan, Salam (2017) identifies a number of key social and cultural issues that are fundamental to improving the enabling environment for PSD and women’s economic employment.

Describing gender mainstreaming in BER as ‘a relatively new area’, Aidis (2017) highlights the need in Bangladesh for practical and targeted gender-sensitive interventions, the incorporation of gendered perspectives within the implementing organisation, and a strong gender analysis throughout the design, implementation and monitoring of BER programmes.

Box 6: Improvements for women in business in the Democratic Republic of Congo

The Democratic Republic of Congo saw the largest increase in its Women, Business and the Law index (from 42.50 in 2009 to 70 in 2018). Improvements in the Democratic Republic of Congo were based on reforms allowing married women to register businesses, open bank accounts, sign contracts, get jobs, and choose where to live in the same way as men.

The legal requirement for wives to obey their husbands was removed, as were restrictions on women working in specific industries such as mining, manufacturing, and construction. The Democratic Republic of Congo also introduced gender non-discrimination laws in employment and access to credit.

SOURCE: Das and Espinoza (2019, p. 110)

Thus, donor and development agencies supporting reforms in FCAS should take the time and effort to identify vulnerable groups and consider if or how any proposed reforms will affect these groups. This does not require agencies to focus specifically on these groups. Instead, and at the very least, they should recognise the potential impact of reforms on these groups.

3.4.2 Applying conflict and risk assessments

This subsection looks at the use of conflict and risk assessments to understand how this donor and development agencies used these assessments to design or management BER programmes.

Key findings

Many agencies have made significant investments in conflict assessments that are designed to assess the political economy, identify the drivers of peace and conflict, and determine the appropriate entry point for agency intervention. However, individual conflict assessments are often less helpful for BER programming. The extremely fluid and fast-moving pace of conflict and violence in FCAS often means these assessments can quickly become out of date.

Supporting the approaches to subnational reform (discussed above), working in more than one area can make it easier to adjust programming based on changing patterns of conflict.

Guidance advice

While time-consuming and sometimes costly, it is important to invest in integrated, regular conflict assessments and to understand how proposed reforms will contribute to peace and stability or ignite further conflict.

Reform-support agencies should integrate their economic and business development programming with their security and peace-making expertise.

Dos

Understand and analyse the specific conflict context and how proposed reforms affect this.

Establish mechanisms for measuring the impact of BER on conflict and vice versa.

Establish multi-disciplinary teams to ensure assessments are both carefully targeted and sufficiently wide-ranging.

Design reforms that demonstrably minimise potential negative impacts while maximising positive impacts.

Don'ts

Rely on agency-wide assessments (often the specific risks associated with reform programming are more relevant).

Conflict assessment is the basis for many humanitarian and development programmes. It is used as a foundation of knowledge on the context and conflict dynamics, as well as to provide knowledge that informs the design of reforms and interventions. Assessments are also used to monitor the interaction between the reforms and the broader context to better understand impact, while helping agencies to better understand and learn from reforms outcomes.

While many donor and development agencies apply conflict and risk assessments when working in FCAS, this study sought to understand how this information was used to design and manage BER programmes. There were a variety of views expressed among respondents concerning the use of

conflict and risk assessments. However, overall, most were sceptical of the value of formalised or official conflict assessment instruments.

Understanding how reforms can reduce or ignite conflict

In the early 2000s, DFID initiated a series of Powers and Drivers of Change studies. These were undertaken to better understand the linkages between a country's political framework and the operations of development agencies. The approach focused on 'the interplay of economic, social and political factors that support or impede' poverty reduction (OECD 2005). This was one of the first attempts by a donor agency to understand the political-economic environment at the country level. It aimed to identify what factors (i.e., the drivers of change) would create incentives for change over the short, medium and long-term. In 2009, many of the findings of these assessments were encapsulated in a DFID 'how to note'. This provided an accessible introduction to the way the concept of drivers of change analysis had evolved into a broader instrument. It established a set of analytical tools to be used for various purposes at different operational levels.

Another well regarded assessment tool is the World Bank's Problem-Driven Political Economy Analysis. This is designed to help development practitioners identify what policies and strategies are most likely to succeed in addressing difficult and persistent development challenges (Fritz, Levy, and Ort 2014).

A number of the commonly used tools for assessing the political economy are presented in Box 7.

Box 7: Commonly used tools used to assess the political economy

- Asia Foundation: Faustino, J. and Booth, D. (2014) [Development entrepreneurship: How donors and leaders can foster institutional change](#), Case Study 2, Asia Foundation/ODI
- Australian Department of Foreign Affairs and Trade (2016) [Political economy Analysis; guidance note](#), DFAT, Canberra
- Food and Agriculture Organization of the United Nations (FAO 2017) [Strengthening sector policies for better food security and nutrition results; political economic analysis](#), Guidance Note 8, FAO, Rome
- GSDRC: Mcloughlin, C. (2014) [Political Economy Analysis: Topic Guide](#) (2nd Ed.) Birmingham, UK: GSDRC, University of Birmingham.
- OECD (2009) [Donor approaches to governance assessment](#); 2009 sourcebook
- OECD (2012), [International Drivers of Corruption: A Tool for Analysis](#)
- Swedish International Development Agency: Pettit, J. (2013) [Power Analysis A Practical Guide](#)
- United Kingdom Department for International Development (DFID, 2009) [Political economy analysis how to note; A DFID practice paper](#)
- World Bank (2014) [Problem-driven political economy analysis: The World Bank's experience](#)

Adopting a conflict-sensitive way of working

In addition to these instruments, donor and development agencies conduct more focussed conflict assessments to assess and respond to potential risks.²¹ A conflict sensitive approach involves gaining

²¹ For example, see DFID (2003).

a sound understanding of the two-way interaction between activities and context. It provides information that can be used to minimise the negative and maximise the positive impacts of interventions on conflict, within an organisation's given priorities or objectives. Conflict assessments allow donor and development agencies to factor conflict awareness into programming and mitigate any harmful effects. The Conflict Sensitivity Consortium (2012) argue that conflict sensitivity can 'contribute to the effectiveness and efficiency of donor interventions', while improving the design of programme interventions to 'contribute to building the sustainable peace necessary for promoting long term development.'

Working within the context of PSD in FCAS, the DCED (2010) describes three steps to conflict-sensitivity, which are also relevant to BER programming:

1. Understanding and analysing the specific conflict context of a PSD programme.
2. Understanding the range of possible interactions between a proposed PSD programme and its context and mutual impacts.
3. Based on this understanding, designing and adapting the PSD programme in such a way that minimises potential negative impacts and maximises positive impacts throughout the programme cycle.

Assessing the impact of proposed reforms on peace and conflict

Many agencies have a conflict assessment team or set of experts to advise on conflict issues across the agencies' programmes. While this advice is considered extremely valuable, respondents have suggested there is a need for information that aids the formulation of specific BER support interventions. Many respondents indicated that individual conflict assessments were often less helpful for BER programming. The extremely fluid and fast-moving pace of conflict and violence in FCAS often means these assessments can quickly become out of date.

Often, due to the presence of conflict, donor and development agencies are unable to be directly involved in these assessments. In these cases, they must rely on third-party contractors for conflict and political-economy assessments or for continued programme monitoring. One respondent described how time consuming these assessments may be, taking up to a full year to procure an adviser and receive a completed assessment report. Moreover, as important as political economy assessments are, it can be very difficult to incorporate the findings of these assessment directly into BER programmes.

There were a variety of views expressed by respondents on the value and utility of these assessments. Where some agencies invested significant resources in this work, others adopted more informal approaches. While country level political economic analysis is important, it is often more useful to examine how a specific reform is likely to affect the dynamics for peace and security. For example, will the reform create winners and losers. Some agencies described how they often relied on the views of businesspeople who had experience in the ground, rather than formal conflict assessments.

Respondents often indicated they tend to rely on private sector partners to advise them on these matters. Because there is a lot of local variation in conflict and violence—where some areas are more unstable than others—it may be possible to work in some locations but not others. Working in more than one area can make it easier to adjust programming based on changes in conflict.

The International Finance Corporation (2009) suggests that conflict sensitivity in the context of investment climate reform should include inclusive PPD, along with:

- Making tax payment and trade processes easily accessible to private sector elements that have faced discrimination;
- Developing special economic zones in ways that respect community land ownership; and
- Strengthening an investment promotion agency so it makes the prohibition of government bribery or payment to a fighting force as important as the terms of the deal.

Build peacebuilding into reform design and theory of change

International Alert (2020) recommend ensuring that programme design is informed by a robust analysis that combines political economy analysis and labour market analysis as well as conflict analysis to ensure that the programming meets the needs of the context. It further recommends building ‘peacebuilding into the design and theory of change of interventions’, including by integrating conflict indicators in the M&E plan in order to measure the potential contribution of the intervention to stability and peace.

Align reform programming within humanitarian-development-peace nexus

Donor and development agencies can and should design and implement reform support programmes based on a sound understanding of the root causes of conflict and fragility while ensuring they ‘do no harm’. This brings us back to the application of the humanitarian-development-peace nexus.

By applying this understanding, BER-support programmes can be formulated using formal assessment instruments combined with informal consultations and business dialogue. These processes work best when they are carefully aligned with other peace making and humanitarian support.

Many agencies have made significant investments in conflict assessments that are designed to assess the political economy, identify the drivers of peace and conflict, and determine the appropriate entry point for agency intervention. These assessments are also used to mitigate risk and often reflect a do-no-harm framework for assessing potential interventions. While some agencies do this regularly at an agency or institutional level, these assessments can also be carried out at a programme level, either prior to the formulation of a programme or at intervals during the programme’s implementation.

3.4.3 Coordinating reform programmes

This subsection considers how donor and development agencies align with each other and within government development frameworks. Good coordination and government alignment are considered important for unlocking the peace-making effects of PSD.

Key findings

While all agencies agree that coordination is important, most agencies tended to design programmes based on their own interests, style of operation or political interests.

Donor coordination committees have been useful in sharing information and strengthening donor-government-business networks, but these formations don't always lead to joint-programming or collaboration.

Basket funds and other forms of shared resourcing and programming, such as those created by the World Bank Group and European Union, have created valuable platforms for joint-programming and collaboration.

Guidance advice

While it takes time and money—and can be particularly difficult in environments characterised by fragility, conflict and violence—the longer-term benefits of donor coordination and alignment are significant.

All partners in development, including government and the private sector, should see that donor and development agencies are aligned, coordinated and sharing resources wherever possible.

Dos

Participate in and support donor PSD coordination committee and structures wherever they exist.

Explore opportunities for better information sharing and networking with other donor and development agencies supporting BER—including the collection and promotions of good donor-practices.

Don'ts

This study sought to understand the experience of donor and development agencies working in multi-donor or development partner platforms to share experience and coordinate PSD and BER programming in FCAS. The aim was to learn about the effectiveness of these mechanisms and what appeared to work or not work.

Use of donor coordinating platforms

There was some variation in how donor and development agencies were coordinating with other agencies and participating in coordination platforms. A number of respondents described the value of basket funding arrangements, many of which are organised by the World Bank Group. Indeed, agencies described the value of working within World Bank Group frameworks that were focused on PSD or BER.

Agencies participating in coordinating structures described the value in sharing information with other agencies, including development partners. However, very few respondents suggested these structures were used to facilitate joint programming. On the whole, agencies tended to design programmes based on their own interests. Indeed, respondents indicated that there a few incentives for donor collaboration and harmonisation. The exception to this were cases where the World Bank Group provided a mechanism for joint collaboration (e.g., donor trust fund).

Obstacles to alignment and coordination

There were numerous examples of the limitations to donor alignment and coordination when supporting BER in FCAS. These included the political interests of individual donors and the lack of a clear framework for government alignment.

There were times when donor engagement in reforms were described as politically oriented. For example, in instances where the donor was a former colonial government, the neutral role of agencies was sometimes questioned. Moreover, there were cases cited where there are no formal donor coordinating structures in place (e.g., Liberia).

While many governments had some form of a framework for development planning, these were often treated as overarching, high-level structures. Often, key business environment constraints or investment barriers were too detailed for inclusion in these documents.

It is essential that donor and development agencies working in FCAS do whatever they can to align with government development frameworks and invest in agency coordination and collaboration efforts. While, again, this kind of work takes time and money—and can be particularly difficult in environments characterised by fragility, conflict and violence—the longer-term benefits are significant. It is important for all partners in development, including government and the private sector, to see that donor and development agencies are aligned, coordinated and sharing resources wherever possible.

4. Summary and conclusions

4.1 Interlinking business environment reforms with humanitarian assistance

Question 1: To what extent should BER and humanitarian assistance measures be interlinked in FCAS and what are the minimal requirements for BER-support measures to be introduced?

Interlinkages occur at the agency level more than at the programme level

This research found little evidence of specific ‘interlinking’ between BER and humanitarian assistance. However, this does not mean that linkages between reform assistance and humanitarian and other forms of development assistance are not established or possible. While reform support programmes themselves do not typically have these formal linkages embedded, many of the sponsoring donor and development agencies do run humanitarian and other forms of development assistance programmes.

Support for BER in FCAS is defined in terms of donor and development agency efforts to work on the humanitarian-development-peace nexus. The nexus focuses on interventions that address people’s vulnerability before, during and after crises and describes the transition from urgent and immediate relief towards a medium- to long-term response. It also describes the interconnections that can be found between peace and development programming interventions. These characteristics of the nexus are shared with BER support programming.

BER does support economic development and peace-building

There are many opportunities for BER programming to be interlinked with humanitarian assistance. Indeed, while Chapter 2 identified challenges in implementing the humanitarian-development-peace nexus, it is clear that BER does support economic development and peace-building.

The connection between these programmes is more clearly established under Research Question 2 (below) when the sequencing of reform support measures is examined. PSD is an important contributor to peace-building and stability and the earlier these interventions can be introduced within FCAS the better. However, there are many practical challenges to programming in these situations, which influence the relevance of introducing reform support programmes and the scope of reforms that are possible.

Donor and development agencies support for economic development and, as a sub-set of this, PSD, is a valid and valuable contribution to dealing with fragility, conflict and violence. The decision to interlink these responses (i.e., the peace response and the development response) is often based on the practical challenges faced amidst times of conflict and violence. In many instances, it may simply not be physically possible to begin to support PSD.

Minimum requirements for BER support programming

The minimum requirement for BER support programming involves some level of safety and security for staff, contractors and programme partners. However, early-stage BER interventions can play an

important role in contributing to peace and stability, creating a virtuous cycle when reforms are focused on the pragmatic constraints experienced by investors and businesspeople.

Beyond this, BER requires a demonstrated preparedness for state and non-state actors to engage with one another and agree on reform priorities. Successful reforms also require a lead government agency that is willing to champion reforms and has the mandate to do so.

Working in and on conflict

This study has raised the issue of working *in* conflict compared to working *on* conflict.

Working in situations characterised by conflict and violence raises many challenges to donor and development agencies, whether they are providing humanitarian or development support. These challenges include the risks to agency staff, contractors, programme partners, and potential beneficiaries, as well as the potential to cause more harm and conflict.

Where the immediate risks can be managed, it is important to initiate development programme as soon as it is feasible. This includes issues related to economic development and support for BER.

Some donor and development agencies include an assessment of the political economy of the country while determining reform priorities and undertake an ex-ante assessment of the potential of a proposed reform programme to reduce or incite conflict.

FCAS are subject to rapid change and, as a result, conflict assessment may quickly become out-of-date. Thus, these assessments do not always provide the kind of guidance required when formulating or managing a reform programme. To address this, many agencies engage in regular dialogue with a range of formal and informal actors.

Because support for BER involves work with state and non-state actors, there requirements that make this work more or less feasible in any given situation. For example, reforms often require a government agency that is willing to lead and champion reforms and has the mandate to do so. Often in FCAS there are many government agencies with overlapping mandates and low levels of government unity, capacity and coordination. Similarly, non-state actors can be many and poorly organised. Thus, finding the correct entry point for introducing macro-level PSD interventions takes time. This process is addressed more directly in the second research question.

Assessing reform priorities

Priority reforms often reflect the most immediate needs of private investors. This study has identified a range of internationally applied tools that donor and development agencies use to assess the business environment and identify possible constraints or barriers to private investment and PSD. However, for many of the reasons describe above, there can be limitations to the use of these tools in FCAS. To address this, formal business environment assessments should be augmented by local consultations with state and non-state actors, including a wide range of businessmen and women. It is essential to engage in consultations with government, the private sector and a variety of other formal and informal actors to determine the most pressing needs of the private sector. While these needs may not always concern the business environment, there are often elements of the business environment that are of immediate importance.

Increasing the opportunity for foreign investment is an important priority and a powerful symbol of the potential benefits of peace and stability. Support for PSD can improve opportunities for local investors, including micro, small and medium enterprises, as well as larger firms and foreign investors.

Finally, the answer to this research question echoes the advice presented by Pritchett, et. al. (2018b): the goal of a policymaker in a developing economy is to improve people's lives by sustaining economic growth over the medium run or, if economic growth is absent, to accelerate it, and to improve the probability that the growth dynamics bring about increased strength of those constituencies who favour inclusive growth policies.

4.2 Sequencing business environment reforms

Question 2: What determines the sequencing of BER in FCAS and do some BER interventions pose more risk at different stages of conflict or post-conflict?

Bottom-up pragmatism trumps grand, top-down reforms

Pragmatism should be the major defining feature in sequencing reforms in FCAS.

The pragmatism of donor agencies in sequencing reforms can be characterised as an opportunistic approach to defining and sequencing reform priorities. This is defined by the space in which donor and development agencies can operate and the availability and suitability of potential programme partners.

Programme flexibility in a fluid situation

As described above, circumstances created by fragility, conflict and violence—whether current or in the recent past—often determine the physical safety and space in which agencies can or cannot operate. Fragility, conflict and violence create very difficult circumstances in which to work, making it difficult to engage closely with programme partners, increasing the time it takes to assess, plan and implement reforms, while also increasing the demand to use third-party agents.

The fluidity of this situation affects the partners agencies can work with. Many respondents to this study described the need for donor and development agencies to be flexible. Development programmes designed in headquarters are rarely fulfilled. Instead, country-level office staff are required to adjust to changing circumstances and as information about potential programme partners emerge.

Adopt virtuous reform sequencing

Much of the literature and many respondents refer to what the IFC (2019a) described as 'virtuous sequencing'. This refers to the process in which donor and development agencies support reforms while also proactively engaging with the private sector. Often, reforms begin wherever it is possible and then work towards broader, more systemic response to the critical constraints to private investment and PSD. In some cases, this will involve a focus on the implementation of laws and regulations that are far from perfect. This helps build confidence and capability. In other cases, it involves the rapid introduction of new laws, regulations or administrative procedures that are seen

as unlocking immediate opportunities for growth. The emergence of ‘deal-based’ reforms also reflects this view.

4.3 Supporting sub-national reforms

Question 3: To what extent should donor and development agencies support sub-national BER measures in FCAS and how should this be different than or interlinked with BER measures on the national level?

Local entry points for reform programming

Donor and development agencies in FCAS should focus their efforts on subnational territories. In some cases, this may simply be because the level of conflict in an area makes it too difficult to work. However, it can also be because work with subnational authorities is particularly relevant for certain kinds of reform (e.g., business licensing and permits, local one-stop-shops). This may be especially relevant in federated political systems or where there is some degree of decentralisation of government authority.

Many countries do not experience fragility, conflict or violence uniformly. There are subnational variations. Indeed, there may be subnational sources of conflict and violence that spill over to other territories, as well as into other countries. Thus, the decision to support subnational reforms will be influenced by a range of economic, social and political factors. Similarly, the major themes for reform and possibly the major industrial sectors or sub-sectors around which BER may be formulated will vary according to these factors.

The difficulties of supporting reforms at the national level can be reduced when working sub-nationally. There are fewer actors to work with and often a greater opportunity to focus on local problems experienced by private investors. However, the major challenge comes in finding ways to either replicate successful subnational reforms into other jurisdictions or to amplify these from the local to the national level.

The need for local disaggregated data

The World Bank Subnational Doing Business studies provide a useful source of data for many agencies looking to support BER at the subnational level. However, as with national business environment assessment tools, the use of this data is typically supplemented by local consultations with state and non-state actors. Moreover, the number of Subnational Doing Business studies dealing with FCAS is somewhat limited. Although, these seem to be increasing in recent years.

4.4 Ensuring reforms reduce harm and promote peace

Question 4: How can BER measures in FCAS facilitate PSD without doing any harm, while unlocking the peace-making effects of PSD?

Reforms that respond to the root causes of conflict and fragility

Donor and development agencies can and should design and implement reform support programmes based on a sound understanding of the root causes of conflict and fragility while ensuring they ‘do no harm’. This understanding can be formulated using formal assessment instruments combined with informal consultations and business dialogue. These processes work best when they are carefully aligned with other peace making and humanitarian support.

Many agencies have made significant investments in conflict assessments that are designed to assess the political economy, identify the drivers of peace and conflict, and determine the appropriate entry point for agency intervention. These assessments are also used to mitigate risk and often reflect a do-no-harm framework for assessing potential interventions. These assessments are often regularly undertaken at an agency or institutional level. In some cases, they are also done at a programme level, either prior to the formulation of a programme or at intervals during the programme’s implementation.

Conflict-sensitive reform programming

A conflict sensitive approach to reform programming involves gaining a sound understanding of the two-way interaction between activities and context. This information is used to minimise the negative and maximise the positive impacts of interventions on conflict, within an organisation’s given priorities or objectives. However, these assessments take time and are often difficult in the presence of conflict and violence. Many agencies are required to rely on third-party contractors for conflict and political-economy assessments or for continued programme monitoring.

Coordination and alignment challenges

While there was some variation in how donor and development agencies were coordinating with other agencies and participating in coordination platforms, very few respondents suggested these structures were used to facilitate joint programming. The main exception to this was through the use of basket funding arrangements, which many agencies participate in. These arrangements provided a structure for collaboration and often reduced the transaction costs associated with programme design, management and monitoring.

On the whole, agencies tended to design programmes based on their own interests.

While many governments had some form of a framework for development planning, these were often treated as overarching, high-level structures. Often, key business environment constraints or investment barriers were too detailed for inclusion in these documents.

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Annexures

Annex 1: Questions for research respondents

This research involved a series of interviews with respondents from representatives of donor and development agencies that had been involved in BER in FCAS. These interviews were semi-structured and based on the following questions.

Primary research questions (to which respondents were invited to comment):

1. To what extent should BER and humanitarian assistance measures be interlinked in FCAS and what are the minimal requirements for BER measures?
2. What determines the sequencing of BER measures in FCAS, also in relation to humanitarian assistance measures, and do some BER interventions pose more risk at different stages of conflict?
3. If FCAS prevail at sub-national levels, what can donor and development agencies do to support sub-national BER measures?
4. How do donor and development agency supported BER measures in FCAS facilitate PSD without doing any harm, while unlocking the peace-making effects of PSD in FCAS?

Respondent questions

1. Based on your work in FCAS, what elements of the business environment are most critical for private sector development?
2. Have you been engaged in any BER programming in FCAS? If so, what topics or themes have these programmes pursued?
3. Have you found it necessary to sequence BER programmes? If so, can you indicate what sequencing has been necessary (i.e., first, second, third order BER priorities)?
4. If you have sequenced the focus of your BER, what factors have influenced this sequencing?
5. Have you found it necessary to combine or complement BER programmes in FCAS with other kinds of programmes (e.g., humanitarian or social development programmes, governance programmes, market systems development, value chain development)?
6. Do you prepare a conflict assessment when designing a BER programme?
7. Have you found it necessary to incorporate the concerns of any special or vulnerable groups in your BER programming (e.g., women, young people, ethnic or indigenous groups, migrants and internally displaced people)? If so, how have you done this (e.g., integrating sensitivity toward these groups in all programming and monitoring, formulating specialised programmes to address the needs for these groups)?
8. Have you found it necessary to focus BER or PSD on sub-national areas (e.g., specific regions or localities)? What considerations are made when doing this? What problems or successes have you encountered?

9. Have you found it necessary to focus BER or PSD on any specific industry sectors or sub-sectors? What considerations are made when doing this? What problems or successes have you encountered?
10. Do you participate in any multi-donor or development partner forums to share experience and coordinate BER/PSD programming? How effective are these? What works or doesn't work?
11. Do you have any advice or recommendations on how BER and PSD can best contribute to peace-making?
12. Are there any documents related to BER/PSD that you can send me (e.g., programme documents, programme results, reports, research, guides)?
13. Is there anyone else you suggest I contact?

Annex 2: List of respondents

The following people were interviewed or provided written responses to this study. Their help is gratefully acknowledged.

1. Diego Borrero, Technical Lead, Business Environment Reform, Investment Climate Reform Facility, Brussels
2. Peter Brimble, Senior Technical Advisor (Private Sector Development), DaNa Facility, Myanmar
3. William M Butterfield, Acting Deputy Director, Trade and Regulatory Reform Office, Bureau for Economic Growth, Education, and Environment, USAID, Washington DC
4. Alexandre Chatillon-Mounier, Chief of Party, Private Sector Development Programme Libya
5. Alicia Contreras-Donello, Division Chief, Private Sector Development, Office of Trade and Regulatory Reform, Bureau for Economic Growth, Education, and Environment, USAID, Washington DC
6. Holger Grundel, DCED Secretariat (previously DFID DRC)
7. Angela Hinrichs, Donor Relations and Partnerships Officer, Emergency and Resilience Division, Programme Officer, Resilience Management Team, FAO, Rome
8. Aysha Johnson: Private Sector Development Adviser, DFID Somalia
9. Mikhail Malkov: Deputy Programme Coordinator, FAO Ukraine
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11. Philip Priestly, Conflict Analyst, FAO, Rome
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