Private Sector Development in fragile and conflict-affected states

Lessons learned from the DFID Private Sector Development Programme in the Democratic Republic of the Congo

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This is a learning brief produced by the UK Department for International Development's Private Sector Development Programme in the Democratic Republic of the Congo. The briefing is one of a series that will be published by the programme's Decision Support Unit. The briefings are designed to share information that helps others learn from the experiences gained delivering this ground-breaking programme.

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Introduction

Private sector development (PSD) programmes in fragile and conflict-affected states (FCAS), like the pioneering Department for International Development (DFID)-funded programme in the Democratic Republic of the Congo (DRC), face a range of daunting challenges caused by the complex political, economic, and social environment in which they operate.

In common with other FCAS, the DRC suffers from a constellation of stubborn problems, including a harsh business environment, political instability, corruption, and the harmful effects of 'rent-seeking actors'. In addition, the conflicts in the country do not follow a linear path from fragility toward stability, but rather experience recurrent cycles of conflict and violence. These characteristics create particular pressures and require different ways of working.

At the same time, as set out in DFID's 'Building Stability Framework',[1] PSD is key to reducing fragility and tackling poverty. Effective programming that is sensitive to the challenges of working within FCAS and targets some of the causes of fragility directly can help break the cycle of poverty, fragility, and conflict.

This learning brief summarises some of the research on PSD programmes in FCAS and presents some of the key lessons learned in delivering DFID's programme in the DRC.

[1] Lenzen, M. (2016) 'Building Stability Framework', DFID.

The DFID DRC programme: an overview

DFID has initiated an innovative £100 million PSD programme in the DRC. This is an ambitious, large-scale programme seeking to 'improve the incomes of the poor' in an extremely complex, conflict-affected environment.

The programme is split into three component parts:

1. A £50 million, five-year, market systems development project, **ÉLAN RDC**,[2] ending in December 2018. The project aimed to realise a cumulative net income increase of £88.4 million for 1 million low-income beneficiaries by 2020 through working across a number of sectors including agriculture, finance, renewable energy, and transport.
2. **Essor**, a five-year project that ends in January 2020 will invest up to £35 million with the aim of improving the DRC's business environment. The portfolio of interventions has included implementation of OHADA (a system of harmonised business laws adopted by 17 Francophone African countries), access to finance, access to electricity, and work to reduce corruption.
3. The **Decision Support Unit**, a £3.5 million component ending in 2023, which supports the ÉLAN and Essor projects with annual reviews, results verifications, evaluations, research, and learning and adaptation activities, intended to improve implementation and increase impact.

[2] www.elanrdc.com.

The relationship between PSD and fragility

It is generally accepted that conflict depresses growth, especially in the short term. This can contribute to the deterioration of the business environment and reduce employment opportunities.[3]

At the same time, there is widespread agreement that PSD can contribute to building stability and peace, although there is debate over its sequencing within the conflict recovery process.[4] The DFID 'Building Stability Framework' includes 'inclusive economic development which creates widespread benefits, reduces incentives for conflict and curbs illicit economies' as one of its five 'building blocks' for driving long-term stability.[5] The development of the private sector can build public trust and strengthen state institutions in the post-conflict period, since business can be among the few remaining points of contact between two sides during a conflict.[6]

Several authors argue that private sector activity can build social capital at the institutional level, through (for instance) the establishment of business associations that can subsequently engage in dialogue with government.[7]

According to the Donor Committee for Enterprise Development,[8] the private sector can contribute to reducing fragility and conflict in four key ways:

- **supporting the creation of stability and trust:** by supporting business across ethnic and other conflict divides, companies can help to foster trust and stability in the societies in which they operate;
- **fostering good governance:** by ensuring that they are themselves well run, companies can underpin the need for good governance in FCAS;

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3 Buckley, J. and McIntosh, K. (2016) 'A delicate balance: economic development and job creation in fragile states', GREAT Insights Magazine 5(61), February.

4 McIntosh, K. and Buckley, J. (2015) *Economic Development in Fragile and Conflict-Affected States: Topic Guide*, University of Birmingham, Birmingham.

5 Lenzen (2016).

6 Mills, R. and Fan, Q. (2006) 'The Investment Climate in Post-Conflict Situations', *World Bank Policy Research Working Paper 4055*, the World Bank Institute, Washington DC.

7 Mills, R. and Fan, Q. (2013) 'Channel 2010' in Datzberger and Denison Private Sector Development in Fragile States, EPS-PEAKS.

8 Donor Committee for Enterprise Development and Private Sector Development in Conflict-Affected Environments (2010) 'Key Resources for Practitioners', Cambridge.

- **developing infrastructure:** companies help support the creation of both hard infrastructure (i.e. roads, etc.) and 'soft' infrastructure (i.e. business networks and training provision); and
- **creating economic growth:** the private sector is crucial to the development of a strong economy and economic growth, which provides income to individuals and drives tax revenues for host countries.

Some authors, however, argue that there might also be a risk of PSD contributing to the political economy of a conflict. In a weak regulatory environment, private sector actors could help embed corrupt practices through bribery and undermining the establishment of effective laws.[9] Equally, some companies and businesses that are typically involved in low technology/high value commodities may be indifferent to (or have an interest in preventing) the restoration of peace.[10] Programmers need to be aware of these risks and have monitoring procedures in place to ensure interventions are not contributing to the fragility of the environment in which they operate.

[9] Mills and Fan (2006).

[10] Keen, D. (2009) 'Economic Initiatives to tackle conflict: bringing politics back in', Crisis States Research Centre, LSE, London.

Fragility and conflict: the DRC context

There are specific challenges that impede PSD and increase the cost of doing business in FCAS like the DRC. Damaged and poorly developed infrastructure, as well as institutions and a regulatory environment that are weak, pose significant challenges. Governments often operate with a limited tax base, while entrepreneurs and small- and medium-sized enterprises (SMEs) struggle to access capital and training.[11]

Another feature that the DRC shares with other FCAS is a private sector with a 'missing middle'—that is, a proliferation of informal, micro-enterprises alongside large, often international or state-owned, firms, but a lack of medium-sized companies. This results in a large proportion of the population working in the informal economy.

In the DRC, the private sector remains small and heavily geared toward extractives, while the majority of the population live off subsistence agriculture and/or informal sector jobs. An estimated 70% of the population are involved directly or indirectly in agriculture.[12] The informal economy employs 24.5 million people, representing 55.3% of total GDP.[13] Despite the fact that small-scale agriculture and large-scale mining are expanding rapidly, the absence of growth in the manufacturing sector and constraints to SME development suggests that job creation has been small.[14] Regional inequities also mean that commercial activities take place predominantly in a small number of large commercial hubs, with far fewer opportunities in neglected, often rural, settings.[15]

Perhaps the most striking feature of the DRC context is that business legislation in the country is often seen as being well drafted and fit for purpose, but the implementation and regulation of that legislation is extremely poor. This, again, is a feature common to many FCAS, where the rule of law is not uniformly enforced.

Despite this, there has been some progress, with evidence that the '*Guichet Unique*'—a government programme for consolidating the documents needed to do business and reduce process costs—is starting to be implemented more effectively. The DRC also became the 17th country to sign up to the OHADA treaty in 2012, a system for harmonising the business laws adopted by 17 Francophone African countries. Both these frameworks are seen as laying a strong basis for business environment reform in the DRC.

[11] Buckley and McIntosh (2016).

[12] IMF (2015) 'Article IV consultation staff report—Democratic Republic of the Congo'.

[13] IMF (2015).

[14] World Bank Group (2013) 'Country Assistance Strategy to DRC, FY2013–2016'.

[15] Davis, P., Spearing, M. and Thorpe, J. (2018) 'Private sector development in countries progressing to peace and prosperity', DFID.

Coping with fragility: lessons learned designing and delivering PSD interventions in the DRC

Designing for flexibility

Several studies have demonstrated that, in dynamic and unpredictable environments, the effectiveness of PSD projects is more influenced by their design than any external influences, with the single most important design factor shown to be the extent to which projects are given the ability to be flexible.[16] The DFID 'Building Stability Framework' states that programmes need to 'be flexible enough to manage risk and return', adding that 'new approaches to flexible and adaptive programming can achieve difficult outcomes in challenging contexts'

An evaluation of 56 PSD projects in FCAS found that internal design and implementation factors play the most important role in influencing project success.[17] Another study highlighted a number of examples of the types of adaptability that might form features of successful programmes. For example, working on both a short-term and long-term timeframe—committing resources for the long term to ensure continued support for processes which will take time, but setting relatively short-term goals where there is traction for change—resulted in projects which were able to demonstrate impact but also leave room to respond to windows of opportunity when they arose.[18] Other examples included structuring investments in phases to enable better monitoring and adaptation, having adaptable targets, and piloting particular activities on an initially smaller scale to assess their relative effectiveness.

[16] OPM (2018) 'Effective entry points and sequencing of private sector interventions in African fragile situations'.

[17] Liu, C. and Harwit, E. (2016) 'The effectiveness of private sector development interventions in fragile and conflict-affected situations: evidence from evaluations', IFC, Development Impact Department.

[18] OPM (2018).

CASE STUDY

Where the DRC programme has been most successful, it has adopted many of these features detailed above. ÉLAN RDC's interventions in North Kivu have been impacted by ongoing armed conflict, which has been compounded by the outbreak in summer 2018 of the world's second most deadly Ebola epidemic. Under these circumstances, fragility has two levels of impact: 1) on the effectiveness of the businesses the programme works with; and 2) on the capacity of the programme to properly evaluate and monitor their performance.

In response, ÉLAN RDC has had to operate with extreme flexibility. The team has implemented a model of initiating a large number of small-scale pilots, with quick decisions made about whether to decommission or scale up partnerships. Short-term (typically lasting three to 12 months) flexible contract agreements are put in place, with payments tied to 'milestones'. Payments can be made pro rata if targets are partially achieved because of factors outside of a business's control. If the programme team cannot access a particular partner to undertake monitoring, then this needs to be reported and explained, but there must be flexibility at all levels of the evaluation process.

LEARNING POINT

It is important to make sure that implementers have the ability to make decisions rapidly, and that processes are in place to support rapid commissioning and decommissioning of projects. Often this will mean decentralisation of decision making, and investment in oversight and management functions to cope with the demands of rapid programme changes. A separate learning brief covering the lessons learned in 'designing for flexibility' within a programme of this type is published here.

Political, economic, and context analysis (PECA)

To deliver an adaptive approach successfully requires a detailed knowledge of local contexts to identify opportunities and barriers as they arise. The experience in the DRC has shown that a detailed and nuanced PECA can improve the impact of interventions.

CASE STUDY

Different parts of the programme in the DRC have used contrasting processes for delivering context analysis, identifying risks, and planning mitigating actions.

Essor, the Business Environment Reform (BER) programme, has introduced formalised quarterly PECA matrices that help workstreams identify risks ahead of time and plan mitigating actions. However, ÉLAN DRC has used a more bespoke approach, commissioning PECA analyses on specific issues as they arise. In both cases, PECA is supported by security assessments and due diligence work on partner organisations, with the results feeding into overarching programme risk registers.

LEARNING POINT

A number of areas should be considered when undertaking a PECA for PSD projects in FCAS.

- Consider regional differences and make sure your assessment has a broad geographical reach. Political mapping at the provincial level will help implementers identify potential champions, as well as their interest and resources.
- Look at the extent to which commitment to reform and power differs at different levels of government. Looking in depth at relevant government ministries and agencies will help inform your entry points.
- A more nuanced analysis of the nature of the private sector will pay dividends. Knowing the size, sector, and ownership of large companies will provide a useful assessment of the (often informal) relationships between government and the private sector.
- Look for areas of 'accidental political will', where the political motivation for progress is not specifically about developing the private sector.

Support from government

The literature on PSD projects in FCAS shows that the effect support from government has on programme success is variable and depends on the context and the sector. There are examples where support from host governments contributes greatly to project success, particularly in countries transitioning away from conflict.

Interestingly, evidence suggests that, where investment climate reform projects have most success, this has been the result of both a positive and trusting relationship between the donor and the government, and the presence of several key government counterparts who are 'champions of reform'.[19] Additionally, one study stressed the need to take small steps with the aim of demonstrating that change need not be detrimental to vested interests.[20]

CASE STUDY

The evidence discussed above has been borne out by the experience of the DRC programme. For example, the project manager of the 'access to energy' team has an office within the Ministry of Energy. This has helped to build relationships and trust, but has also developed the implementation capacity of the ministry. The project team has deliberately purposefully chosen to work within a single ministry where they have a strong political advocate, rather than engage across a range of departments. In doing so, they have avoided the 'power plays' between ministries that result when rival politicians fight to have the last word on a decision. At the same time, the project maintains its independence, with the funding for three pilot renewable electricity plants run through a 'special purpose vehicle' rather than directly through government budgets.

LEARNING POINT

Using a 'network-based' approach as part of your analysis of the political context and working out the informal linkages and lines of patronage between different parts of your stakeholder environment can help you choose effective champions within government, and avoid becoming embroiled in squabbles between different ministries.

Business environment reform versus direct interventions

There are two main schools of thought on sequencing of PSD. One favours an institutional approach, which encourages the prioritisation of indirect support through investment climate reform and improving the enabling environment for the private sector; the other favours an interventionist approach, which encourages direct intervention through financial and

[19] *Ibid.*

[20] Davis, Spearing and Thorpe (2018).

technical support to private sector entities.[21] Those advocating for an exclusive focus on reforming the institutional environment argue that interventionist approaches have largely failed, while proponents of the interventionist approach argue that political will for reform is often lowest in FCAS, and the systemic approach will therefore have limited success.

Although evidence from African FCAS suggests that there are far fewer attempts at investment climate reform in those countries where political conditions are the most challenging, there are examples of success in these contexts, particularly in countries signed up to implementing OHADA law.[22]

CASE STUDY

In the DRC, DFID sought to pursue both approaches simultaneously. In its business case, DFID argued that PSD in the DRC was an inherently complex problem, with lots of idiosyncratic and interrelated features that were both causes and effects of an underdeveloped economy. Tackling any one of these problems in isolation, it argued, was therefore unlikely to unlock PSD. Every part of the system must be looked at simultaneously.

LEARNING POINT

The timeframes for BER are longer in FCAS, and therefore costlier than in other countries. Contingency for this needs to feed into the design and implementation; programmes must be designed to have realistic prospects of achieving sustainability, which might imply donors needing to plan for an extended period of support.

[21] MacSweeney, N. (2008) 'Private sector development in post-conflict countries: a review of current literature and practice', DCED, Cambridge.

[22] IFC (2011) 'An impact evaluation of the OHADA Uniform Act on Secured Transaction', internal document.

Conclusion

The complexity of working within FCAS mean that PSD approaches have to be adapted if they are to be successful. A review of the research into programmes in this type of environment has identified some of the common characteristics of effective programmes, which are worth understanding before attempting to design and implement an intervention. The ability to be flexible has been shown to be a key feature of successful approaches; this has been strongly recognised in DFID's work in the DRC, where the most impactful interventions have coupled long-term goals with short-term milestones and flexible contracts. Other key features include close monitoring of the political and economic context and the ability to work carefully, and strategically, with government.

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