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The Private Sector, Peacebuilding, and Economic Recovery

A Challenge for the UNPBA

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Preface – From the Project Director

At the 2005 World Summit in New York City, member states of the United Nations agreed to create "a dedicated institutional mechanism to address the special needs of countries emerging from conflict towards recovery, reintegration and reconstruction and to assist them in laying the foundation for sustainable development". That new mechanism was the UN Peacebuilding Commission and two associated bodies: a Peacebuilding Support Office and a Peacebuilding Fund. Together, these new entities have been characterized as the UN's new peacebuilding architecture, or PBA.

This Working Paper is one of nine essays that examine the possible future role of the UN's peacebuilding architecture. They were written as part of a project co-organized by the Centre for International Policy Studies at the University of Ottawa and the Norwegian Institute of International Affairs. All of the contributors to the project were asked to identify realistic but ambitious "stretch targets" for the Peacebuilding Commission and its associated bodies over the next five to ten years. The resulting Working Papers, including this one, seek to stimulate fresh thinking about the UN's role in peacebuilding.

The moment is ripe for such rethinking: During 2010, the UN will review the performance of the PBA to date, including the question of whether it has achieved its mandated objectives. Most of the contributors to this project believe that the PBA should pursue a more ambitious agenda over the next five years. While the PBC and its associated bodies have succeeded in carving out a niche for themselves, that niche remains a small one. Yet the need for more focused international attention, expertise, and coordinated and sustained assistance towards war-torn countries is undiminished. It remains to be seen whether UN officials and the organization's member states will rise to the challenge of delivering on the PBA's initial promise over the next five years and beyond, but doing so will at least require a vision of what the PBA can potentially accomplish in this period. The Working Papers produced in this project are intended to provide grist for this visioning effort.

Roland Paris
Ottawa, January 2010

Summary[1]

The private sector has become the darling of international and domestic organizations seeking strategic partners in building sustainable peace, including processes of demobilization of combatants, addressing victims' needs, and rebuilding wrecked economies. Arguments to attract the private sector combine economic (companies' economic performance suffers in violent contexts and is likely to improve in peaceful environments) with moral dimensions, appealing to companies' responsibility in overcoming the causes of armed conflict.

However, boosting economic recovery via private sector engagement *and* engaging the private sector in specific peacebuilding tasks is easier said than done. Investors shy away from conflict or post-conflict settings, and, after a certain threshold of private sector peacebuilding activism has been reached, efforts to further engage the private sector stall. At the heart of this puzzle is a divergence between economic recovery and peacebuilding processes and an imperfect understanding of the private sector's organizational make-up and decision-making processes.

At the same time, the importance of the private sector as a crucial source of resources, know how, and institutional capacity for building peace has not diminished. Business needs peace to thrive but, at the same time, peace needs business to progress and consolidate. In light of this challenge, the UNPBA should promote:

- Improved understanding of the mechanisms of economic recovery and of private sector decision-making in transitional processes in order to ensure private sector support and integration
- Improved understanding of the types of business sectors and companies involved in peacebuilding efforts
- Picking a pilot sector or peacebuilding task to illustrate how peace can gain from business and vice versa
- Greater coherence and synergy with other peacebuilding institutions

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1 An outline of this paper was presented at the workshop *The Future of the UN Peacebuilding Commission (UNPBC)*, organized by Roland Paris, University of Ottawa, September 23, 2009. I am grateful to Juan Diego Prieto for his assistance in the preparation of this document.

I. Introduction

Since the publication of Jane Nelson's *The Business of Peace: the private sector as a partner in conflict prevention and resolution* in 2000 and the first UN resolution on cooperation between the UN and the private sector in 2001, the private sector has become the darling of international and domestic organizations seeking strategic partners in building sustainable peace. Since then, private sector actors – including domestic companies of all sizes and sectors, business associations representing diverse interests, and multinational companies – have become the targets of increased attention and efforts to become involved in peacebuilding activities ranging from processes of demobilization of combatants to addressing victims' needs to rebuilding wrecked economies. Arguments to attract the private sector combine economic dimensions – the realization that most companies' economic performance suffers in violent contexts and the expectation that it will improve in peaceful environments (the peace dividend) – with moral dimensions, which appeal to companies' actual or perceived responsibility in overcoming the causes of armed conflict and violence in line with the general umbrella of corporate social responsibility (Doane 2005, Vogel 2005).

Within the United Nations (UN), the Global Compact, the set of voluntary standards aimed at promoting and making visible best corporate practice, was launched in 2000. Other institutions at the global and the domestic levels have adopted similar codes, policy briefs, and recommendations of desirable corporate behavior (such as the Extractive Industry Transparency Initiative (EITI) and the Kimberley Process in the diamond industry), underscoring the need to engage the private sector and examining how this can and should be done. Also, certification schemes – tying access to markets to the compliance with human rights and environmental standards – have been implemented to induce change in private sector behavior. Common to these initiatives is their interest in either promoting good corporate practice (such as the Global Compact) or preventing or sanctioning bad corporate practice (such as certification schemes seeking to impede access to markets for companies violating labor conditions or contributing to environmental degradation).

In contrast with these growing efforts, the experience of several countries and international institutions engaged in peacebuilding seems to suggest that both boosting economic recovery via private sector (or, more specifically, investor) engagement to provide the material basis for sustainable peace *and* engaging the private sector in specific peacebuilding tasks is easier said than done. Regarding the first point, Tripathi (2008) argues that investors tend to shy away from conflict or post-conflict settings because volatile contexts fail to provide a minimum of safety for operations and sufficient return on investments. Regarding the second point, after a certain threshold of private sector peacebuilding activism has been reached, efforts to further engage the private sector reach a plateau. The circle of “converted” companies is difficult to broaden, companies initially enthusiastic about supporting peacebuilding efforts step back from further participation, or companies flatly reject becoming engaged in peacebuilding efforts.

At the same time, the importance of the private sector as a crucial source of resources, know-how, and institutional capacity for building peace has not diminished. Plenty of arguments have been made to show how, on the one hand, business needs peace to thrive but, at the same time, peace needs business to progress and consolidate. What explains this gap between the ongoing need for private sector involvement and the limits to sustained private sector engagement in peacebuilding? How can it be closed?

In this paper I tackle these issues from the perspective of the UN Peacebuilding Architecture (PBA to refer collectively to the Peacebuilding Commission, the Peace Building Fund and the Peacebuilding Support Office). Founded in 2004, the UN Peacebuilding Commission has produced a wide variety of documents, many of which refer to the importance of including the private sector in peacebuilding tasks as well as designing strategies to favor and attract private investment as a condition for growth resumption after conflict (UN General Assembly 2005, UN Peacebuilding Commission 2006). In 2008, a task force was created to “focus on tangible ways through which the Commission could contribute to the strengthening of the role of the private sector in post-conflict peacebuilding, in accordance with the Commission’s mandate to bring together all relevant actors to marshal support and resources” (UN General Assembly 2008).

While the UNPBC’s documents reflect the prevailing consensus on the need to include the private sector as well as an awareness that the private sector needs incentives and inducements and cannot be mandated into its peacebuilding role, the way in which these issues are framed – more general than specific – suggests that in the PBA itself the question of defining a private sector road out of conflict is unsolved. As the body in which the UN System has invested the responsibility to lead peacebuilding activities and in light of the opportunity offered by its current evaluation process, this paper will focus on the PBA’s role and challenges in promoting conditions for economic recovery as a condition for sustainable peace *and* in garnering private sector support for building peace.

The paper will thus focus on two aspects of the private sector-peacebuilding relationship. First, it will examine difficulties related to promoting economic recovery by stimulating domestic and international private sector actors in conflict or post-conflict countries to produce and invest in order to reinvigorate economies, termed here *indirect peacebuilding* (as peacebuilding may be the desired outcome for policymakers but not the main motivation for corporate actors, who primarily seek a safe return on investment). To this respect, the paper will question the assumption that, were it not for conflict, market forces could be unleashed and would yield favorable results to post-conflict societies yearning for growth and progress. The paper will suggest that domestic private sectors – their structures of incentives, their practice and strategy – may have either adapted to conflict or remain undeveloped. This poor supply of entrepreneurial endowment (Acs 2006, Audretsch, Keilbach & Lehmann 2006) – not just of opportunity – in underdeveloped, conflict-ridden societies brings to the forefront an old debate on what is needed for peace, what is needed for development and where the two intersect.

Second, the paper will discuss aspects *directly* related to engaging the private sector in peacebuilding tasks such as employment creation for demobilized combatants or victims of armed conflicts, preferential investment in post-conflict development in affected communities, subscription of codes of good corporate behavior, or alliances between private sector foundations and other civil society organizations. Difficulties here are related to lack of trust in the peacebuilding processes and actors and fear of spoilers overall but also to an estimation of cost in terms of time and resources invested and risks faced. In addition, even when private sector partners trust the process and are willing to invest resources in peacebuilding they may still not know how to do it. As suggested by Tripathi (2008, 85), "companies are not peacebuilding institutions". As a result, potential private sector partners may express support of peacebuilding initiatives but may shy away from becoming actively involved. Others may simply decide not to become involved because they hope that someone else, such as the national state or the international community, will take on the costs associated with sustainably building peace (free riding) or because they benefit from conflict-related activities (opportunism).[2]

To analyze these two versions of the private sector-peacebuilding relationship and how they reflect a gap between the norm and the practice of peacebuilding as illustrated in the case of the PBA, this paper will first review the academic and practitioner literature regarding the role

2 This is similar to the distinction drawn by Cedric de Coning between "two very different operational models, namely targeted and systemic peacebuilding" (see Cedric de Coning, Clarity,Coherence and Context: Three Priorities for Sustainable Peacebuilding in this same working paper series).

of the private sector in peacebuilding. Then the paper reviews the highlights of the development of international norms and standards regarding the private sector's role in peacebuilding, including what the UNPBC and other international institutions have said about the private sector. Third, the paper presents in greater detail the difficulties and constraints emerging from the practice of stimulating economic recovery as a condition for stable peace and attracting the private sector to peacebuilding. Findings are summarized in the conclusions.

II. The private sector and peacebuilding: Peace needs business, business needs peace

The relationship between the private sector, conflict, and peacebuilding has received increased scholarly attention. Following the publication of Nelson's (2000) seminal work, articles by Gerson (2001) and by NGOs such as FAFO (Taylor, ed. 2003), Global Witness[3] and Oxfam (2007) have raised attention about the links between private actor economic behavior and the promotion of armed conflict.

Conflict in many societies has historically revolved around the allocation of privileges accrued to members of the economic elites. In this sense, business as a defender of the status quo is a prime factor in explaining internal conflicts as illustrated, for example, by studies of Latin American, African, and Asian oligarchies, which made systematic use of coercion to repress popular protest and protect their privileges (Gomez, ed. 2002, Marais 2001, Paige 1997).

The novel thing about the more current literature is that it looks at how business promotes conflict in still other ways: To the extent that societies depend on investment, governments recurrently engage in actions to protect private interests, both national and transnational, often with a cost to citizens. The killing, in 1995, of popular leaders by the Nigerian official forces to protect oil giant's Royal Dutch/Shell's operations in Nigeria is an emblematic example of this (Wheeler, Fabig & Boele 2002). Spawned by this and similar cases a rich literature on the participation of companies in the trade of resources that have been linked to conflict, such as "blood" diamonds, oil, drugs, timber, and coltan has emerged, linked to a political economy of

3 See their multiple reports about natural resources and armed conflict on their website: http://www.globalwitness.org

armed conflicts framework (Berdal 2005, De Soysa 2000, Ballentine 2003, Humphreys 2005, Lujala, Gleditsch & Gilmore 2005, Pugh, Cooper & Turner, eds. 2008). In addition, private sector funding of private security companies in unstable contexts has been researched (Center for Public Integrity 2002, Singer 2003). Other examples of how business contributes to conflict are payment of bribes to gain lucrative contracts and money laundering, which deviate funds from developmental or peaceful purposes (Le Billon 2003, Schwartz & Gibb 1999, Shankelman 2007).

However, inasmuch as it controls and generates capital, and because it can and has spoiled peacebuilding processes (Rettberg 2007), business has been recognized to be a key partner in overcoming conflict. In the domestic realm, private sector support, both material and nominal, has been found to be crucial for peacebuilding activity to prosper (Azam et al. 1994, Gerson 2001, Gündüz, Killick & Banfield, eds. 2006, Pearce 1999, Rettberg 2004). Private sector development is a cornerstone of economic recovery plans in post-conflict societies (HPCR International 2009, Godnick & Klein 2009) and is expected to generate the required material basis for making peacebuilding policies viable and sustainable, especially in the face of diminishing international support and funding (UN Development Programme 2005, 2008:5). Many reforms that have been recommended in post-conflict phases are premised on the need to stimulate and protect dormant or nascent private sector activity. In addition, because of its managerial know how, because it can provide employment and make needed investments, but also because it provides political legitimacy to contested peacebuilding policy processes, the private sector is treated as a necessary partner in these activities.

How to bring business aboard the peacebuilding agenda is less clear, as revealed by an accumulating number of case studies on experiences of business involvement and emerging lessons (Gündüz, Killick & Banfield, eds., 2006). Efforts to overcome conflict hinge on policymakers' ability to convey a moral obligation to business (in the way that corporate social responsibility frameworks do, pointing out the traits of the globally responsible corporate citizen – Bendell 2005, Tripathi 2008), and on business willingness to pay for many of the costs peacebuilding implies or at least refrain from hindering peace to advance. Costs include tangible expenses such as potentially higher taxes, but also opportunity costs and higher risk. For multinational companies, one decision to be made is whether to stay or to move operations elsewhere. In addition, a peace dividend (actual or expected) needs to be conveyed to the private sector as a necessary condition for (re)activating productive activity in a war-torn country, fostering capital repatriation, and, more generally, for private sector peacebuilding to occur (Azam et al. 1994). In this sense, marketing peace to the private sector as a profitable undertaking becomes one of the crucial challenges facing policymakers seeking to build durable peace.

Doing so effectively is more complicated than adding up destroyed infrastructure, attacks and lives lost, as is common in studies on the costs of conflict (Collier 1999, Collier et al. 2003, Pinto, Vergara & Lahuerta 2004, Stewart & FitzGerald, eds. 2001). Rettberg (2008) suggests how even when costs to private sector activity related with armed conflict are high, this is still insufficient to generate massive private sector participation in peacebuilding. On the one hand, conflicts of long duration seem to generate the internalization of conflict costs, making it difficult for policymakers to convey the company-specific loss associated with conflict. In addition, armed conflicts are not synonymous to overall deterioration: specific sectors benefit from the turmoil and will actively oppose peacebuilding efforts and certain regions of a given country may remain unharmed. From weapon sales to security provision, and from warlords controlling trade in specific regions to insurance providers, the range of private sector actors and activities benefiting from unstable contexts is wide and diverse (Richani 2005, Singer 2003, Small Arms Survey 2009). Also, costs are often more of an indirect than of a direct nature: attacks on companies or personnel are infrequent, whereas transaction and opportunity costs are more frequent yet more difficult to measure, to attribute, and to use for private sector mobilization. The public-good quality of peace (once obtained, nobody can be excluded from enjoying peace's positive effects, regardless of whether s/he has paid its cost – see Olson 1971) is a fourth factor diminishing the weight of the moral argument often made by CSR practitioners and therefore hampering private sector involvement, because it may generate a preference for delegating costs and action to others (such as the state, the international community, or other private sector actors). Finally, differences within the private sector may explain different preferences and capacities faced with a context of conflict. In general, as suggested by neo-institutionalists (Thelen & Steinmo 2002, Schneider 2004, 2009), preferences depend on size, sector, organizational features, orientation, relations with the state, and ability to relocate or divert investments (Mahon 1996, Shafer 1997, Hirschman 1970). This suggests that companies facing conflict have diverse options, choose different strategies, and experience varying degrees of effectiveness. In sum, the private sector – and entrepreneurs in particular – is/are not a homogeneous category and require a differentiated approach from scholars and policymakers seeking to identify the proper incentives to produce private sector involvement in peacebuilding.

Finally, there is also the need to consider the fact that many conflict-torn countries are also first and foremost underdeveloped countries with poor entrepreneurial endowments. Acs (2006) and others (Audretsch, Keilbach & Lehmann 2006, Baliamoune-Lutz 2009) distinguish between necessity entrepreneurship (such as self-employment due to lack of formal employment options) and opportunity entrepreneurship (such as where the available institutional framework allows potential entrepreneurs to develop innovative ideas and business plans choosing among several options). The distinction is important because economic growth is positively associated with opportunity entrepreneurship. In underdeveloped societies, necessity entrepreneurship prevails and conditions for the development of opportunity entrepreneurship are limited (due to, for example, poorly developed capital markets, low investment capacity, and low knowledge capital). This adds an important caveat to expectations that economic recovery initiatives in underdeveloped and conflict-torn countries will be sufficient to promote the kind of private sector behavior expected by peacebuilding promoters.

In line with the previous paragraphs, several factors emerge as conditions underlying efforts designed to enlist the private sector as a force of economic recovery and to involve the private sector in peacebuilding. On the one hand, as for any other civil society actor, trust in the process is essential. This poses a challenge to the political abilities of peacebuilders in the building of alliances and agreements among very diverse stakeholder, including business. On the other hand, aspects related to the state of the transitional economy require attention, too. This refers to the extent to which a war system has developed linking business interests to the continuation of conflict, the level of entrepreneurial capacity, the degree to which a basic infrastructure for economic recovery is in place, and the level of institutional development. It also refers to the make-up of the private sector, in general, and of specific companies, in particular. Sectoral differences, such as the prevalence of rural or urban operations, the diversification of sectors from agricultural activities to trade, financial or service activities, the magnitude of the presence of international companies and the degree to which economic activity is linked to and dependent on international markets all play a role both in defining whether peacebuilders will find friendly ears within private sectors active in conflict-torn countries and in identifying the more likely private sector partners in post-conflict peacebuilding.

In the next section, the paper will describe some of the global efforts, specifically within the UN system, to promote private sector involvement in peacebuilding.

III. The private sector as the darling of peacebuilding and economic recovery

Economic recovery as a condition for durable peace has been promoted at least since the Second World War (Hogan 1987), explaining such massive international investment endeavors as the Marshall Plan to rebuild the devastated European post-war economy and halt the advance of communism (Mills 2008). In the past ten years, international norms, standards, and agreements have complemented this concern by increasingly referring to the need for direct engagement of the private sector as an economic force in peacebuilding. Today, it is uncommon for a self-respecting international agreement to fail to include even a cursory reference to the private sector.

In 2000 the Millennium Development Goals were signed to reduce extreme poverty and included the resolution to "develop strong partnerships with the private sector and with civil society organizations in pursuit of development and poverty eradication" (UN General Assembly 2000, Nelson & Prescott 2008). Also in 2000 the UN Global Compact was launched. This is a "strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption" (UN Global Compact 2009). Today, the UN Global Compact stands as the "largest corporate citizenship and sustainability initiative in the world –with over 7,700 corporate participants and stakeholders from over 130 countries". It "seeks to combine the best properties of the UN, such as moral authority and convening power, with the private sector's solution-finding strengths, and the expertise and capacities of a range of key stakeholders".

In addition, multi-stakeholder initiatives – including companies, civil society organizations, states, and international organizations – have been developed in specific sectors and regions of the world. The Voluntary Principles for Security and Human Rights, developed in 2004, are a set of non-binding principles "to guide companies in maintaining the safety and security of their operations within an operating framework that ensures respect for human rights and fundamental freedoms"[4]. The Business Leaders' Initiative on Human Rights, active from March 2003 to March 2009, sought to develop practical mecha-

4 Read more on the principles at http://www.voluntaryprinciples.org

nisms to implement the Universal Declaration of Human Rights in a business context (BLIHR 2009). The Extractive Industries Transparency Initiative[5] (first put forward in 2003) seeks to support "improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining". And the Kimberley Process Certification System in the diamond industry (Wright 2004), "a joint initiative to stem the flow of conflict diamonds" mandates "extensive requirements on its members to enable them to certify shipments of rough diamonds as 'conflict-free'".[6] Some industries, such as the extractive sector (including oil, coal, and timber), have adopted "do-no-harm" policies in which businesses, regardless of their record, submit to review processes to ensure that their corporate practices will not contribute to local instability and conflict (International Alert 2005). All these initiatives and others share an interest in combining rewards (affirming moral authority, pleasing stockholders, and earning a good reputation among consumers) with punishments (facing difficulty to access certain markets and bad reputation in the international community) to induce desired private sector behavior.

The functioning of these agreements and standards is based on growing demands for socially responsible corporate behavior by stockholders, consumers, and civil society organizations alike in countries in where these codes originated: Europe (especially Germany and the United Kingdom) and North America (especially Canada). Member companies tend to have a comparatively better social or environmental record while the bulk of the global business community – especially in specific sectors or from different nationalities, such as the Chinese – remains outside the virtuous circle (Tripathi 2008:96, Ruggie 2007). These initiatives also share the handicap of their mostly voluntary nature, which obstructs evaluation and monitoring processes. However, the initiatives have been effective in increasing private sector involvement in peacebuilding efforts all over the world, from Northern Ireland to Cyprus, Sri Lanka, Nepal, Mozambique, and Colombia (Alexander, Gündüz & Subedi 2009, Amarasuriya, Gündüz & Mayer 2009, Ben-Porat 2005, Rettberg 2006, 2009).

The outburst of initiatives seeking to induce private sector involvement in peacebuilding is, however, no guarantee of actual knowledge of the required conditions for activating the private sector in transitional economies, of how the private sector works, what its potential is in terms of peacebuilding, and what can or should not be expected from the private sector (such as asking it to give up earning returns on investments as a demonstration of its sincere interest in peace, which

5 Read more at http://eitransparency.org/eiti
6 Read more at http://www.kimberleyprocess.com

is equal to renouncing to the capitalist nature of the global economic system, ref.).

The disconnect between initiatives seeking private sector involvement without a full understanding of the mechanisms of economic recovery and corporate decision-making processes lies at the heart of a division of labor within the international community between organizations pursuing macroeconomic strategies, such as the World Bank and the International Monetary Fund (IMF), and those institutions in charge of local and more context-related development and peacebuilding involving political negotiation with difficult stakeholders, such as the UN Development Program (UNDP) and the PBA.

The division of labor may in part be intended (Paris 2001) and may in part be the result of institutional inertia typical of a complex system that has developed across decades (see Alger 2006, Gerson and Colletta 2001) and in part be related with the professions, methodologies, and data used in each group of institutions (more econometric and quantitative studies in the first camp, more qualitative and small-N analysis in the second camp). In the process of designing policy to address the needs of transitional countries, the divide is reflected in that some organizations place insufficient emphasis on getting the economy running as a facilitating condition for private sector involvement (for example, when the World Bank's work on the economic dimension fails to feed into peacebuilding policy or when the UNDP's focus on inclusive markets materializes in) while others pay limited attention to the fact that economic recovery and sustainable peace depend, to a large extent, on the political ability of peacebuilders to negotiate alliances and support and neutralize spoilers within the private sector, in addition to the technical merit of their proposal.

In practice, the gap may explain why business involvement in peacebuilding initiatives tends to stall after a certain threshold: as reflected in the experience of institutions and countries seeking to engage the private sector in peacebuilding, only very specific companies tend to heed the call (Berman 2000, Haufler 2001, Killick, Srikantha & Gündüz 2005, Jamali & Mirshak 2009, Rettberg 2004, Sherman 2001). Those who do become involved fall into one or more of the following categories: 1) They are generally tied to and dependent on international trade and consumer networks that punish "bad" corporate behavior with decreasing company earnings or access to markets; 2) they are of comparatively larger size (a predictor of greater investment capacity in peacebuilding activity and of exposure to risk); 3) they have developed philanthropic traditions predisposing them to assume peacebuilding responsibilities, and 4) they face a greater cost to operations as a result of armed conflict or associated economic and political turmoil. With a few exceptions (as in the oil industry which pioneered peacebuilding initiatives in response to international scandal surrounding Human Rights violations linked to oil operations), involved companies tend not to be the main culprits within the business community: unless they are linked to international networks, domestic companies most frequently associated with contributing to conflict are also most reluctant to assume responsibility in peacebuilding.

In addition, when and once companies have become involved, a pressing question for policymakers and activists becomes how to keep them involved and avoid desertion. Different reports on efforts to promote business involvement in peacebuilding illustrate that institutions have learned from past experience and that they have realized that bringing the private sector to peacebuilding also requires attention to the task of keeping it there. In this regard, organizations have proposed that private sector actors should do what they know and not be expected to assume roles they are unprepared for (Berman 2000, Tripathi 2008). One example of this accumulated learning relates to the role of the private sector in providing employment for demobilized combatants (Peacebuilding Commission Working Group on Lessons Learned 2009). Once a standard recommendation, this has been put on hold in light of the difficulties and hardship experienced by companies and governments seeking to turn former combatants or criminals into law abiding workers (Puentes, Moreno, Rivas & Márquez 2009). Thus, new options to attract the private sector include investment in demobilization funds for productive projects. As a result, much like what has happened in the broader CSR movement (Vogel 2006, Doane 2005), the private sector's role in peacebuilding has tended to focus on activities related to core operations, hiring policies and investment.

In sum, after an initial "enchantment" the private sector peacebuilding crowd has tended to stabilize instead of growing as expected by policymakers and activists and needed for economic recovery after conflict. In addition, it has specialized in certain sectors and tasks, instead of branching out into different activities and sectors. Not involved, or not sufficiently involved, is a large number of companies that are, on average, smaller, less connected to global markets and more dependent on domestic markets yet more disarticulated amongst each other, and that often benefit from political instability or thrive despite conflict. They are not the entrepreneurs economic recovery relies on but they can spoil economic recovery efforts. There is no precise measure of the percentage these private sector actors comprise, but judging from the numbers of member companies reported by initiatives aimed at involving business into peacebuilding, they may well be the majority.

The previous paragraphs bring home a fundamental dilemma that was made clear by then Secretary General Kofi Annan' statement to the Security Council of the United Nations (UN Security Council 2004) in 2004: "the bottom lines of private corporations could no longer be separated from such key goals of the United Nations as peace, development and equity". In addition, he said "business itself has an enormous stake in the search for solutions", adding that companies required a stable environment in order to conduct their operations and minimize their risks. The following section addresses how this dilemma plays itself out within the UNPBA.

IV. The UNPBA and private sector peacebuilding: Neither economic recovery nor private sector mobilization

The UN PBA's approach to private sector peacebuilding reflects the larger context described in the previous sections. Founded in 2004 in response to the need to centralize peace-building authority and alleviating organizational problems (Paris 2001), the PBA has faced severe criticism that it has not lived up to the expectations (Berdal 2008, refs to other chapters in the book). Currently active in four African countries (Burundi, Central African Republic, Guinea-Bissau and Sierra Leone), the PBA is undergoing a process of revision seeking to provide recommendations designed to strengthen its role in peacebuilding.

The role of the private sector as a partner for peacebuilding was addressed by the UNPBC in 2008 (UN General Assembly, par. 19), when a task force facilitated by Indonesia was called upon to recommend a strategy for private sector involvement in peacebuilding. Its objectives were to

> examine the various forms of contributions by the private sector, particularly for consolidation of peace and resource mobilization, 2) focus on the possible catalytic and advocacy role of the PBC to encourage private sector engagement in post-conflict situations, and 3) define the scope of the Commission's advice in this field" (PBC Organizational Committee 2008).

As a result of the task force's work, it was decided that consideration would include three specific areas: **microfinance**, **remittances** and partnerships with **private foundations**. The accompanying concept note (PBC Organizational Committee 2008) for the meeting is helpful in tracing the motivations underlying this choice.

In line with the international consensus, the note states that

> the private sector is a critical, but often an underutilized, actor in peacebuilding. If effectively engaged, it can play a significant role in filling a key gap between peacebuilding and medium- to longer-term economic recovery and development. In that light, promoting the role of the private sector is an important element of the PBC's mandate to bring all relevant actors together to marshal support and resources and to enhance coordination for sustainable peacebuilding (p.1).

Regarding the role of **microfinance**, the note states that

> foreign microfinance institutions that invest in microfinance banks in fragile countries, thereby creating the conditions for economic recovery even in the most fragile and remote environments; or small private equity deals often linked with foreign investments in the infrastructure or commodity sectors (p.3)

can bring additional resources toward peacebuilding and creating domestic wealth. Regarding **remittances**, the note states that they

> can also feed into private sector development. The diaspora from several post-conflict countries has been increasingly active by creating "hometown associations" that invest in local business development and share their knowledge, technology and skills (p.4).

However, the note cautions that

> leveraging the impact of remittances is difficult because most senders and receivers, including beneficiary micro enterprises, remain outside the formal financial system. Overall, there is seldom any money transfer strategy between remittances, private sector development and peacebuilding (p. 4).

Finally, regarding **private foundations** and **philanthropy**, the note states that they

> are also important sources of funding that can benefit peacebuilding in post-conflict countries. In recent years, the development community has been witnessing the rapid growth of private philanthropy (p.3-4).

However, the note continues that

> only a limited share of foundations' grant giving goes to international development and the most fragile states are often neglected. How increased flows from these sources could be channeled toward post-conflict countries and their peacebuilding priorities, thus, remains an open question (p. 4).

In light of arguments put forth in the previous sections and in light of some of the questions the note itself raises, I will now discuss this orientation given to private sector and peacebuilding by the UNPBC.

Even before it earned economist Muhammad Yunus a Nobel Prize, **microfinance** has been publicized as an alternative road out of poverty and underdevelopment (Brau & Woller 2004, Hammond et al. 2007, Lodge & Wilson 2006, Prahalad 2004, UNDP 2008, Yunus 2006). Advocates have underscored its contribution to the building of social capital and community empowerment by improving the welfare and income of individuals and communities. However, its role in overcoming poverty is less well documented and economists in institutions such as the World Bank and the International Monetary Fund, as well as elsewhere, continue recommending old fashioned macroeconomic policy focusing on fiscal adjustment, export promotion, and revenue raising (Karnani 2007, 2009; Khawari 2004, World Bank 2007).

From the perspective of the scale of resources required for economic recovery and peacebuilding, microfinance seems difficult to sustain: First, its focus on the household level does not provide large inflows of capital and investment needed in post-conflict settings. Second, it is slow in yielding results. Third, and until it reaches sustainability (if it does), microfinance depends on the ongoing disposition of investors and funders. Fourth, its focus on community projects and subsistence activities does not generate the kind of large infrastructure and reconstruction projects required in post-conflict settings. Fifth, at the local level it often competes with alternative informal economic activities linked to illegal, perhaps more lucrative activities (Lindley 2009). Finally, it does not unleash entrepreneurial capacity on a massive scale, such as that required by economic recovery and peacebuilding efforts, as described above.

Remittances refer to the portion of migrants' earnings sent from their place of residence to their place of origin to support families and friends remaining in the conflict country (Turner 2008). In post-conflict countries such as El Salvador a steady flow of remittances has been associated with providing the economic backbone for impoverished communities and relief for weak states unable to address social demands (Fagen & Bump 2006, Orozco 2002). They are often "seen as an inventive way of bypassing corrupt elites and political structures, thus ensuring that resources go directly to those in need" (Turner 2008: 175). Although they alleviate economic pressure on sectors of transitional societies, remittances are not the kind of investment most keenly needed in post-conflict settings to overcome the structural heritage of conflict. They tend to be spent on consumer and subsistence goods, are not reflected in greater savings or investments, are often not declared to and taxed by the state and, thus, do not strengthen the state's fiscal resources to invest for example in DDR; they remain an informal income not linked to activating economic processes, capital and investment flows, and fail to have a redistributive impact, especially in countries with weak economic and political institutions (Barajas et al. 2009, Catrinescu et al. 2009). Remittances are also highly vulnerable to global economic fluctuations. Additionally, Collier et al. (2003: 162) have pointed out that, although diasporas can play a productive role in economic reconstruction, they can also be "an important risk factor in post-conflict societies", considering some diasporic communities' record of supporting and financing violent political organizations through remittances.

Finally, **private foundations** have been champions of the peacebuilding cause both at an international and at a domestic level (Greenberg 2006). Consequently, they are often among the primary and most willing partners of peacebuilding organizations seeking private sector engagement. In contrast with member companies, foundations often have developed skills for political negotiation among stakeholders in peacebuilding. However, like companies, foundations have an agenda to further, which may or may not be aligned with that of peacebuilding institutions. As companies, they need to be held accountable by their executive boards, who want to see a return on their social investment, a difficult task in volatile post-conflict settings marked by uncertainty and lack of clarity on political and economic rules. In addition, foundations have a private, not a public agenda. Its components may but need not be aligned with overall peacebuilding policy put forth by states and international organizations in terms of focus and methods. Therefore, the existence of foundations does not relieve states and international organizations from defining goals, standards, and evaluation procedures. Dependent as they are on member companies' continuing willingness and ability to support foundation efforts, foundations often suffer from funding shortages, especially when economic crisis makes companies wary about philanthropic giving (see *Wall Street Journal*, 9 November 2009). Finally, although they can promote and publicize private sector involvement in peacebuilding tasks, foundations are not actors or leaders of economic recovery, which is a task that requires macro and microeconomic incentives and needs to be promoted by states, international funding institutions, and companies.

In sum, the UNPBC´s commitment to including the private sector in peacebuilding tasks reflects the prevailing consensus in the international community and among many private sector actors of the developed world. It is also an important shift away from security-related programming, as criticized by Aning and Lartey's chapter. Its focus on microfinance, remittances, and private foundations as stimulants of private sector engagement in peacebuilding, however, falls short of its potential role in capitalizing on accumulated lessons on the mutual effects between private sector activity and economic recovery for peacebuilding and on mobilizing private sector support for specific peacebuilding tasks. Specifically, the recommendation to pursue these three types of activities appears to be at odds with available empirical evidence on the nature and impact of the proposed mechanisms. Also, some of these mechanisms appear to be contrary to an overarching concern in peacebuilding, which is strengthening the state and its political, social, and economic institutions. The three activities proposed in the note have been identified as leading to state substitution, not state strengthening.

The following section will outline some of the ways in which the UNPBA could play an innovative and converging role in reinvigorating the links between economic recovery, peacebuilding and the private sector.

V. The potential of the UNPBA

There is no set of institutions like the UNPBA in terms of centralizing peacebuilding as the prime mission in its mandate. The upcoming 2010 revision process is a unique opportunity to reflect about how the UNPBA can develop its full potential, especially regarding the sustainable engagement of the private sector in direct and indirect peacebuilding. The considerations presented below should be read from two perspectives: the divergence discussed above between institutions pursuing economic recovery for peacebuilding and those seeking more targeted private sector participation in peacebuilding, on the one hand, and the resulting difficulty in broadening the group of private sector partners of peacebuilding, on the other. This paper suggests that the UNPBA should lead the way at the global level by integrating lessons from both camps of the peacebuilding community and promoting direct and indirect peacebuilding with the private sector.

Improved knowledge and understanding of the mechanisms of economic recovery and of private sector decision-making in transitional processes in order to ensure private sector support and integration into economic recovery and peacebuilding strategy

Peacebuilding is an endeavor that is still highly contested and insufficiently understood. As discussed above, there is significant divergence between institutions pursuing tasks related with peacebuilding in terms of issues, methods, and standards. As related to the subject of this paper, the private sector, one tangible result of this gap may be the difficulty to broaden the group of companies – domestic and international – supporting economic recovery aimed at peacebuilding or specific peacebuilding tasks. The reasons for this difficulty, suggested above, can be found in an insufficient understanding of the workings of economic recovery processes and of the motivations underlying business strategy in volatile contexts and in unrealistic expectations as to the capability and willingness of the private sector to support these processes.

To bridge this gap, the UNPBC could promote an improved understanding and communication among both camps, for the sake of improved peacebuilding strategy towards the private sector. Drawing from management sciences, political science, and economics, an interdisciplinary approach could significantly help avoid the recurrent bottlenecks faced by efforts to broaden the pool of private sector partners in peacebuilding and identifying the links (and tensions) between economic recovery and peacebuilding efforts. In addition, an integrated approach will allow answering overarching questions such as: Is the organizational make-up of the private sector and the incentives structure governing private sector activity (i.e. ongoing risk associated with resilient conflict, fiscal structure, investment capacity, return on investments, foreign loans) favoring the development of economic mechanisms and processes suited for building lasting peace? Is peacebuilding strategy towards the private sector taking into consideration the constraints of transitional economies (limits to funding, disarticulation of commercial and trading networks, loss of trust, weak institutions, illegal activity) and the particularities (sectoral diversity, structure of ownership, degree of informality) of the domestic private sector? Finally, an integrated approach will make possible the harmonization of recommendations coming out of each group, so as to avoid inaction as a result of misunderstanding.

Improved knowledge and understanding of the types of business sectors and companies involved in peacebuilding efforts

Much too often, as revealed throughout this paper, and as reflected even in the UNPBC taskforce's recommendations on the subject, the "private sector" means different things to different people. To corroborate findings presented in this paper, the UNPBC should commission a study to provide a portrait of businesses involved in peacebuilding. The study should identify the most recurrent private sector partners of peacebuilding across countries and initiatives. This would also yield insight on the most likely spoilers. A study of this kind would be useful to avoid some of the shortcomings of the literature on and practice of the private sector in peacebuilding, such as the "disproportionate focus on TNCs" and "the primary perceptions of the private sector as either agent of economic development divorced from the wider peacebuilding process, or else negative drivers of conflict" (Killick, Srikantha & Gündüz 2005: 20). The comparative study would probably find that only a critical mass of a given private sector is needed to support peacebuilding efforts, as opposed to large sectors and activities tied to economic recovery efforts.

In producing this portrait, the UNPBA would do well in avoiding the naming and shaming typical in some civil society circles or regarding specific types of industry. While denouncing illegal or conflict-enticing behavior is vital for affirming the rule of law in transitional contexts and providing guidance on acceptable corporate behavior, too often simplistic generalization hurts the development of desperately needed partnerships in mutual learning processes. Again, paying attention to macro incentive structures giving rise to certain kinds of corporate behavior may prove more useful than strictly normative approaches (better reserved for other institutions in the global system) for effecting change in business strategy, protecting vulnerable alliances with potentially resistant private sector actors, and broadening groups beyond the already converted. In addition to a profound understanding of the history giving rise to the particular political economy of conflict-torn countries, this would also aid in designing a compelling economic argument for peace and provide elements for a political strategy for private sector involvement in peacebuilding.

Pick a pilot sector or pilot peacebuilding task to illustrate how peace can gain from business and vice versa

In order to focus the use of limited resources and build a successful record, the UNPBA could pick a fraction of the private sector or a specific peacebuilding task relevant to private sector activity to build its own capacity, expertise, and authority with other peacebuilding institutions and within the private sector. A sector with links to international markets and a task such as DDR would be best suited for such a combined piloting and consolidating exercise. This would also allow the UNPBA to broaden its scope of action and seek out intermediate country cases. Currently, the UNPBA is involved in African countries on the lower end of the development frontier (all of whose GDP per capita are less than 800 USD – World Bank 2009). Needs in these countries are huge and entail tasks of a political, social, and economic nature.

However, in order to affirm authority at the global level, develop peacebuilding strategy in lieu with existing private sector partners, facilitate its task and diversify its portfolio, instances like the General Assembly, the Secretary General, the Security Council, ECOSOC, or specific interested countries may be well advised to suggest expanding the UNPBA's focus for example to some Latin American countries, such as El Salvador, Guatemala, Colombia, and Peru. In the case of Colombia, a country still engulfed by conflict but pursuing peacebuilding tasks in DDR, transitional justice, and reparations, a comprehensive peace accord putting an end to the conflict – a requirement for UNPBC attention to a country – is not foreseeable in the near future. However, the country's multiple peacebuilding needs, the Colombian conflict's regional implications, its intermediate state mechanisms, and its comparatively diverse and complex private sector make it an excellent candidate for UNPBA attention.

Greater coherence and synergy with other peacebuilding institutions

While representatives of the United Nations Development Programme (UNDP), the International Financial Corporation of the World Bank and the United Nations Foundations of International Partnerships have been invited to UNPBC meetings where they presented areas for possible partnerships between their respective entities and the UNPBC to promote the engagement of the domestic and international private sectors in peacebuilding, there is surprisingly little convergence among institutions and mutual learning in peacebuilding issues. This is no news for students and practitioners within the UN system (and is also addressed in other chapters of this book, e.g. Cedric de Coning), but comes out with yet an additional twist in this paper, which examined the divergence regarding the possible role of the private sector in peacebuilding and economic recovery.

The resulting recommendation is obvious and urgent: the identification and strengthening by the UNPBA of links with other UN and international organizations (such as the UNDP, the World Bank) which have accumulated private sector and peacebuilding experience and knowledge for the purpose of cross-fertilization and mutual and improved understanding and synergy in strategies. Included in the group of potential partners of the UNPBA in dealing with peacebuilding, private sector, and economic recovery should also be agencies fighting illegal international networks in drugs or weapons, such as UNODC, in order to understand the structures of incentives subjacent to illegal, often criminal, war systems impeding private sector transformation and mobilization for economic recovery of transitional societies, in general, and for peacebuilding, in particular. The debate should occur across involved institutions, but also at different international and national levels including different kinds of actors.

VI. Conclusions

This paper has contrasted the emergence of the private sector as a crucial actor of peacebuilding with the multiple and often contradictory expectations regarding its actual or potential capacity to deliver solutions in transitional societies. At the heart of this puzzle, this paper has argued, is a divergence between economic recovery and peacebuilding processes and between the understanding of the private sector, of its organizational make-up and decision-making processes and of the proper ways it should be enlisted by institutions engaged in each type of work. A reflection of the gap, this paper has argued, is the tendency for the group of private sector partners of peacebuilding to stabilize in number and specialize in terms of origins of capital, size and sector of involved companies. While only a critical mass of the private sector needs to be included in peacebuilding activity (to provide both resources and political legitimacy), the difficulty to broaden the circle of “converted” private sector partners remains an important challenge for peacebuilding policy makers.

The UNPBA’s work on the private sector, so far, reflects some of these constraints, as reflected in the expectation that microcredit, remittances, and private foundations provide adequate scenarios for boosting either economic recovery or peacebuilding. The paper discusses these recommendations in light of considerations summarized in the previous paragraphs and ends with four recommendations for the UNPBA directed at capitalizing its role in sustainably attracting the private sector to peacebuilding and economic recovery efforts.

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