



The Investment Climate in Post Conflict Situations

Private Sector Development & Peacebuilding

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Overview

- Scope of conflict's impact on the investment climate
 - Policy areas & broader 'enabling environment'
- Outcome: pervasive informality
- Benefits of investment climate reforms captured too slowly?
- Policy trade-offs & roles for development partners



The impact of conflict on the investment climate is comprehensive...

Security & Stability

- Physical security
- Macroeconomic stability
- Contract enforcement / judicial redress
- Land & property rights

Finance & Infrastructure

- Access to credit & financial services
- Access to utilities (power, water)
- Infrastructure (telecoms, transport)

Workers & Labour Markets

- Supply of skilled labour
- Ease of hire and fire

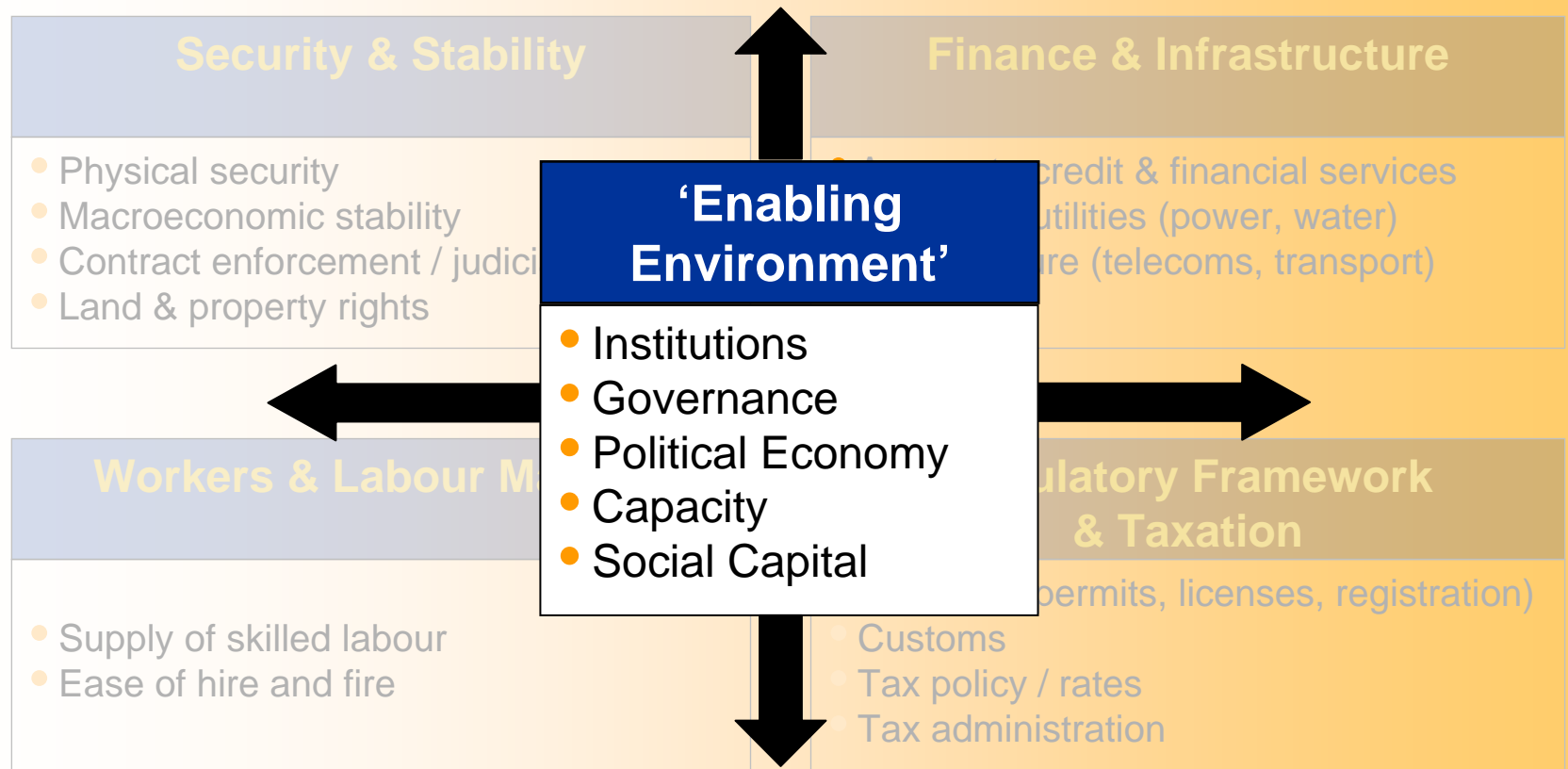
Regulatory Framework & Taxation

- Red tape (permits, licenses, registration)
- Customs
- Tax policy / rates
- Tax administration

...the policy response has to be equally broad



The broader enabling environment is also affected by conflict...



...these are critical issues, but hard to handle



The post-conflict environment is characterised by informality

Informal business environment

- Increased risk & vulnerability for participants
 - Greater reliance on social networks
 - Customer base more localized & less diverse
 - Fewer economies of scale
- New generation of entrepreneurs operating outside formal sector

Informal regulatory framework

- Not a 'benign free-for-all'
 - Existing rules in place, but enforcement predatory or arbitrary
 - New 'unofficial' regulatory framework
- ➔ Unaccountable
- ➔ Prone to rent-seeking
- ➔ Potentially highly restrictive



Improving the investment climate can help cement the peace following conflict ...

Employment

- Private sector best source of sustainable jobs
- Job-holders have stake in the peace

Delivery of Services

- Government capacity limited
- Small-scale delivery possible
- Rapid & responsive

Building Social Capital

- Business transactions bridge divides
 - Socio-economic
 - Rural-urban
 - Borders
- Build institutional capital
- Direct participation

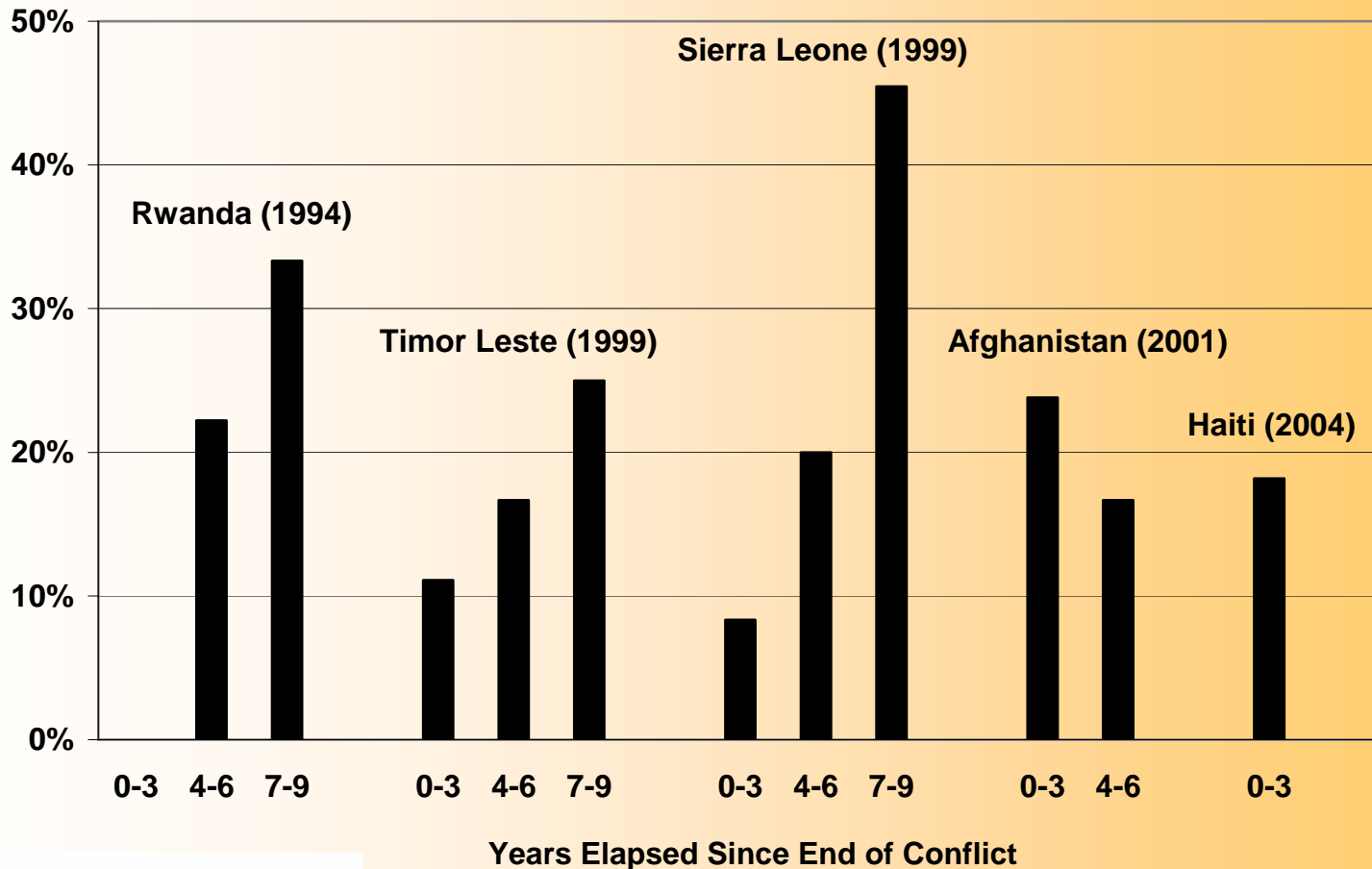
Addresses both 'greed' and 'grievance' factors



... but the investment climate has not been prioritised by development partners

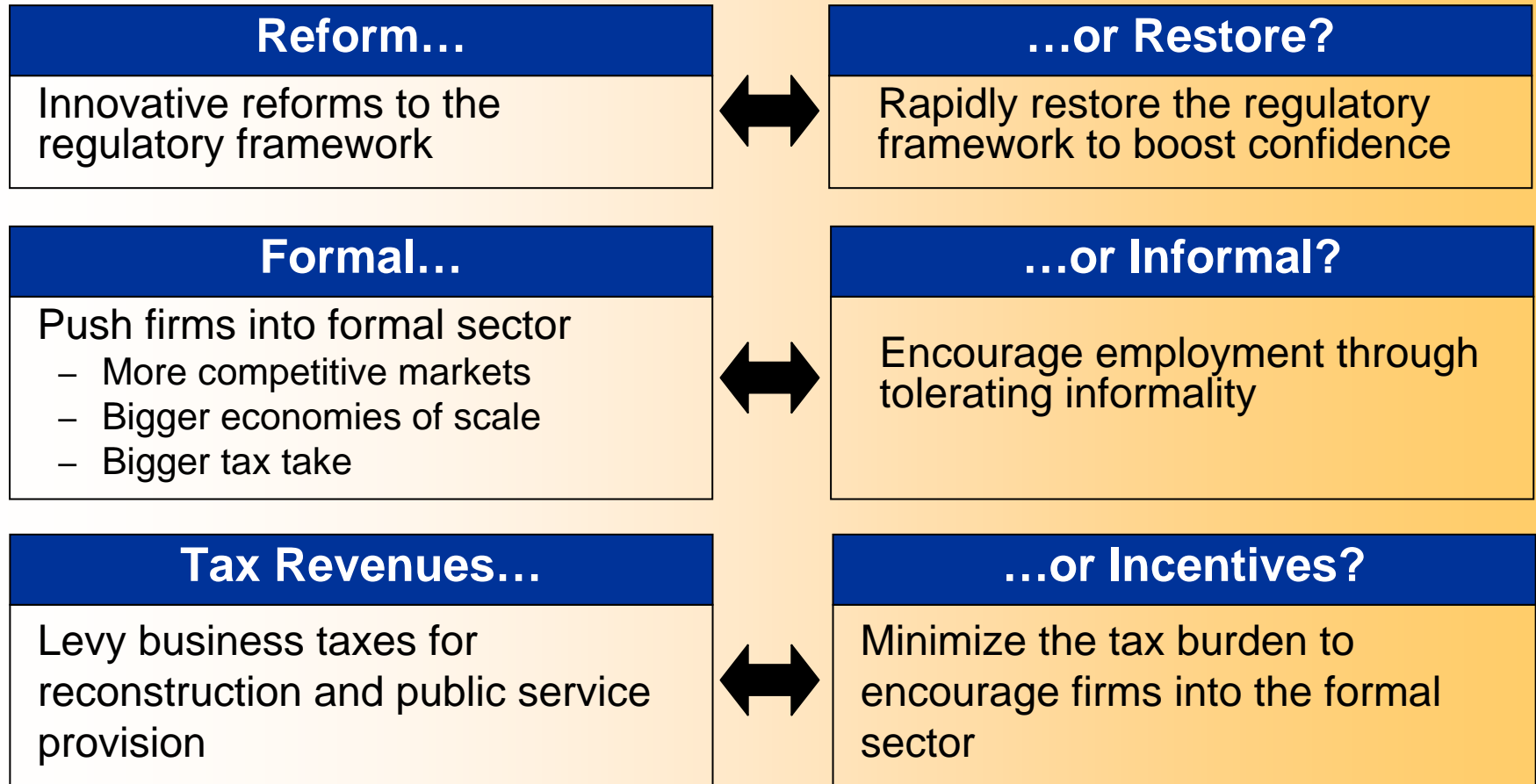
PSD Focus in WBG Financial Operations

Operations With Substantive PSD Element (%)





Investment climate reforms can involve tough trade-offs...



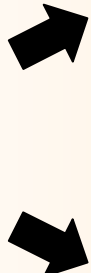
...but quick wins can boost business confidence



Successful investment climate reform requires a high level of country ownership...

Challenges...

- Wide-ranging reforms
- Vested interests



... & Approaches

- Building capacity
- Improving dialogue & partnership



Different roles for DPs

...but development partners have an important role



Conclusions

- Peace vs. PSD?
- A strong investment climate favours legitimate business activity
 - Enforcement capacity
 - Creates a level playing field for MSMEs



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