No 00030
Peace Security and Development Network

How can Public–Private Cooperation contribute to sustainable economic development in Fragile States? – *from policy to practice*

SYNTHESIS REPORT

Working Group: Public–Private Cooperation in Fragile States

March 2010

Participating partners

Agency NL (overall PPC project coordinator)

Conflict Research Unit, Clingendael Institute (overall PPC project coordinator)

Cordaid

ICCO

Kadaster International

Munnik & Munnik Consultants

Netherlands African Business Council

Recovering Societies

This publication is an outcome of the work of the 'Peace, Security and Development Network' (PSDN), established in 2008. The Network aims to support and encourage the sharing of expertise and cooperation between the different Dutch sectors and organisations involved in fragile states. The PSD Network is an initiative under the Schokland Agreements of 2007. More information on the PSD Network: http://www.clingendael.nl/psdn/index.html

Contents

1. Introduction

Background: The current report presents the overall findings of the project 'Public–Private Cooperation (PPC) in Fragile States' carried out under the 2007 Millennium Accord on the Network for Peace, Security and Development.[1] The Network aims to support and encourage the sharing of expertise and cooperation between the different Dutch actors and organisations involved in fragile states. The conclusions are based on the outcomes of country case studies on Southern Sudan, Democratic Republic of Congo (DRC) and Afghanistan.

Project partners: The project team was composed of representatives from the various stakeholders involved in tripartite partnerships, i.e., government representatives (Ministry of Economic Affairs–Agency NL), the Dutch private sector (The Netherlands African Business Council [NABC], Kadaster International, Munnik & Munnik Consultants, Recovering Societies), civil society organisations (ICCO and Cordaid), and knowledge institutes (Clingendael Institute). The project was carried out in close cooperation with the Netherlands Ministry of Foreign Affairs. The team was coordinated by Agency NL and the Conflict Research Unit of the Clingendael Institute (CRU).

Project objectives and scope: The primary objective of the overall project was to identify key areas, local sectors, local needs and (im)possibilities where public–private cooperation can best or most efficiently contribute to pro-poor, just and sustainable economic growth. In view of the unstable character of the selected fragile states, the field research would also help to ensure the conflict-sensitive character of the final policy recommendations. The project thus aimed to identify local needs in terms of socio-economic development and how PPC could best contribute to alleviate such needs.

Project activities: Apart from this synthesis report, the project consisted of the following activities:

§ **Three extensive field studies** into local needs and opportunities, conducted by international and local consultants. The field studies in Southern Sudan and DRC were organised and carried out by ICCO.[2] In Afghanistan, Recovering Societies coordinated the field study. This resulted in three **country reports on Southern Sudan, DRC and Afghanistan,** providing country-specific information on the main opportunities and obstacles for PPC initiatives.[3]

§ **Joint fact-finding missions to DRC and Sudan** carried out by a combination of project partners with representatives from all stakeholders to tripartite partnerships. Several private companies, NGOs, government bodies and international organisations were interviewed. The fact-finding missions were carried out in close cooperation with the Netherlands Ministry of Foreign Affairs (MFA).

§ **Analysis of four concrete PPC initiatives** in Afghanistan, which enabled in-depth investigation of the practical complications of PPC in fragile states and yielded valuable lessons learned.

§ **Two round-table events on PPC** were organised in Juba (Southern Sudan) and Goma (eastern DRC). During these events, the potential preliminary results of the fact-finding missions and potential PPC opportunities were presented and tested with representatives from local stakeholders.

---

[1]http://www.clingendael.nl/psdn/ (Former) Schokland Agreement: "Peace, Security and Development Network, June 2007.
[2] A separate report on the outcomes of the Sudan field study has been prepared by ICCO and is available on request (*Report on the decentralised mission in Southern Sudan*; Specht and v. Dorp et al, 2009).
[3] All three country reports are available at:
http://www.clingendael.nl/psdn/documents_public_private_collaboration.html

- **Private sector development missions** were organised by the NABC in close cooperation with the Royal Dutch Embassies in Khartoum and Kinshasa, in order to identify concrete PPC opportunities from a private sector point of view and to introduce Dutch companies to the local business environment.

- **Preparation of a pilot PPC project.** After a call for proposals, the most promising project ideas have been further develop**ed into feasible project plans for a conc**rete PPC in Southern Sudan, DRC and Afghanistan. The project made available €10,000 for further development of the most promising idea for each country. For Southern Sudan a PPC project on waste management and sanitary landfill will be developed in the Juba region.[4] For DRC, a PPC in coffee production will be developed in North Kivu. For Afghanistan this same process of selection was taking place at time of writing this report.

Project achievements: the activities undertaken by the working group exceeded the principal objectives of this project. Additional activities where organised and together with the planned activities they led to the following results:

- **Partnership-building concerning PPC in fragile states.** The joint fact-finding missions contributed to a better understanding of the views and the scope of the work by actors from the government, the private sector and non-governmental organisations (NGOs), and led to greater awareness of opportunities for private sector development in fragile states

- **The first-ever Dutch private sector development missions to Southern Sudan and DRC** were organised. The missions led to a number of actual projects in Southern Sudan.

- **Practical funding guides (market scans)** for private sector activities in Afghanistan, Southern Sudan and DRC were developed by Agency NL, and have been presented to the participants of the private sector development missions and at the PSDNetwork seminar *Afghanistan: pioneering and doing business*.[5]

- **Increased PSI Plus proposals for Southern Sudan**[6]

- **PSI Plus open to proposals for the DRC**

- **Viable contacts within the Netherlands** with all actors involved in economic development in fragile states

Intended audience: the primary audience consists of Dutch government officials, Dutch civil society and the Dutch private sector. The objective of this report is to encourage potential partners to consider starting an enterprise through tripartite partnership in the three selected countries and to inform the various stakeholders of the main opportunities and obstacles, and the steps that need to be taken. A second audience comprises local governments, private sector actors and civil society organisations (CSOs).

Questions that guided each case study:
- Can innovative ways of cooperation between Dutch public, civic and private actors contribute to fair and sustainable economic growth in fragile states?
- Which sectors are, from a local perspective, particularly interesting for PPC projects in terms of contributing to fair and sustainable economic growth? Within this range of sectors, which

---

[4] Information and results available at:
http://www.clingendael.nl/psdn/documents_public_private_collaboration.html
[5] Available at: http://www.clingendael.nl/psdn/documents_public_private_collaboration.html
[6] The Private Sector Investment Programme (PSI) is a programme of the Dutch government that supports innovative investment projects in emerging markets in Africa, Asia, Central and Eastern Europe and Latin America. For Afghanistan, Burundi, Palestinian Territories, Sierra Leone, Southern Sudan and now also DRC a separate PSI program called PSI Plus is available with more flexible conditions.

country-specific opportunities for PPC can be identified? In other words, are there PPC cases that potentially can contribute to local needs and at the same time are economically interesting for investment?
- What are the main challenges and risks involved in these particular PPCs and which steps are required by the various stakeholders to overcome such challenges?

2. The added value of Public–Private Cooperation in Fragile States

a. Rationale for PPC in fragile states

In the existing literature PPC has increasingly been recognised as a viable option for realising development objectives. The overall assumption is that, in theory, using a partnership approach can deliver significant improvements in sustainable development efforts in terms of both results and outcome. Importantly, the complex situation in fragile states may even *require* partnerships, allowing the sharing of expertise, resources and risks involved in such environments.

The recent debate relating to public–private cooperation has centred on:

- the potential contribution of various forms of PPC to sustainable socio-economic progress;
- the need to create PPC knowledge and facilities within the various organisations;
- the possibility of identifying promising PPC structures and opportunities;
- the requirements for implementing PPC structures;
- the possibility of extending PPC to smaller, regional and poverty-focused projects;
- the management of expectations concerning PPC.[7]

From the literature relating to fragile states, one could conclude that:

Because of the **high risks involved and the political uncertainty** in fragile states, in many cases cooperation between actors could be beneficial. Even though most countries offer potential for investors in many sectors, the reality is also that stakeholders are faced with fragile stability, corruption and in some cases uncertainty about forthcoming events such as elections. Although this situation will vary from place to place, and over time, the lack of an enabling environment – which is a characteristic of fragile states – seems to present huge obstacles. However, there are also actors who know to benefit from this situation and know how to use this space to their advantage. Support from government bodies in the form of insurance or (partial) risk coverage, and contributions from CSOs through the provision of information or facilitating support from communities, can be a precondition for investors.

Partnerships can play an important role in **maximising pro-poor spin-off from investments**, which is particularly important in fragile environments, where economic inequalities and marginalisation have been a factor in years of civil war. Tripartite partnerships can help to increase the likelihood that the benefits of investments and economic growth will be distributed more widely. The participation of both CSOs and the government plays an important role in this regard, by encouraging investment in certain sectors or the setting-up of parallel programmes involving communities. In fragile states, often characterised by weak government structures, the role of CSOs in this regard becomes even more prominent. NGOs can be an important facilitator for the private sector in a large number of areas, including sensitising the population as well as managing part of the project.

b. Project definition and criteria for PPC

[7] DFID, *Policy Planning and Implementation*, Key Sheet no. 23 on Public–Private Partnerships, November 2003

Building on this theory, within this research project a PPC has been defined as the involvement of three actors, i.e., government, private enterprises and civil society/NGO stakeholders, in the development of a commercial project with the aim of fair and sustainable socio-economic development: in other words, a tripartite partnership. Where such a construction was not feasible or where other appropriate opportunities presented themselves, attention was turned to bilateral partnerships between two of the three actors. Rather than imposing a rigid definition of PPC from the outset, the project partners applied a number of criteria which ideally were to be met in each of the partnerships. The intention was to allow for more flexible criteria to emerge from the collaboration between the partners, as the criteria often differed from partner to partner. By doing so, the project enabled the stakeholders' different expectations and perceptions to be made transparent, as well as the various criteria that an actor might regard as a prerequisite for participation in a partnership. Three criteria were identified as the basis for partnership, hereunder discussed in more detail.

First, the goal of the project was to **identify, support and promote strategic examples of tripartite cooperation** (or bipartite partnerships where a tripartite construction was not viable) with the aim of sustainable economic development in fragile states. Such partnerships are considered a sub-type of public–private cooperation. Practice has indicated that tripartite partnerships are less common than, for instance, public–private partnerships between government and private sector actors or private non-profit partnerships in which the private sector partners only cooperate with a civil society actor. Tripartite partnerships are usually arranged so that tasks, responsibilities and risks are optimally allocated among the partners.

Second, the goal of the project was **to use PPC as a tool for contributing to fair and sustainable economic development**. Even though there is agreement on this broader goal, individual interests of stakeholders differ with regard to the sequencing or the various levels of contribution to broader economic development. Private sector actors mostly stress the fact that economic growth will eventually lead to a higher income level for the poorest population groups, whereas civil society and public actors emphasise that, especially in fragile states, there is a need to actively engage in ensuring positive income effects for the poor.

The third criterion was **the participation of Dutch stakeholders**. In line with the objective of the Millennium Accords, the current project aims to contribute to and encourage cooperation between Dutch partners involved in fragile states and hence the requirement to involve at least one or more Dutch stakeholders. Importantly, however, this does not exclude the necessity to also involve local actors in the PPC. In fact, during all phases of this project we have made use of available extensive local networks on the ground.

c. The added value of different partners

The case studies showed a number of aspects which confirm that **tripartite partnerships are particularly relevant for fragile states**. However, they also confirmed the notion that cooperation between more than two partners will increase coordination costs, which may inhibit engagement in a PPC. The lesson learned from the case studies and fact-finding missions is that partnerships can only be successful when they are relevant to the key business or **key organisational objectives** of each stakeholder. For all partners, the closer the activity is aligned to the organisations' key business or organisational objectives, the more likely the partnership will be successful. [8]

The **private sector** is the key driver for economic development and plays an important catalytic role for a country's economy by **bringing in investment capital, market knowledge, commercial insight, financial sustainability, external connections, employment creation and transfer of know-how**. This is crucial for achieving the objectives of NGOs and the public sector.

[8] For a schematic overview of potential roles and contributions of each actor, see Annex I.

The information, network and capacity-building programmes of **NGOs** can be crucial for the success of private sector initiatives. NGOs often have **an extensive local networks on the ground,** providing them with **deep insights into local dynamics, power relations and market opportunities**, and they can play an important role in terms of **creating a support base** for projects, and mobilising and organising local stakeholders.

The contribution of **the public sector** to the success of a PPC initiative can be the **provision of a legal framework, creation of a healthy business-enabling environment, and funding.** The host government and foreign governments each have a crucial role in this regard.

d. Challenges to partnerships in fragile states

This project sought to identify potential cases of public–private cooperation projects. The fact-finding missions, discussions with local stakeholders and analysis of four concrete PPC initiatives in Afghanistan, DRC and Southern Sudan, and the private sector development missions, also provided insight in the potential obstacles to a successful PPC initiative:

1. PPC initiatives in fragile states are faced with situations of different dimensions and dynamics from those encountered by partnerships in other contexts. They are distinctive in this regard in that they unfold in an uncertain, complex and often distant setting, where good governance and supportive state institutions are often lacking. Nevertheless, the joint missions have indicated that, despite these local challenges, fragile environments can be attractive for investors, i.e., they are largely unexplored markets and the potential for import substitution is generally very great, which means that opportunities exist. The perception is often more negative than the actual situation, causing private sector actors to shy away from entering these markets, and leading to relatively high profit margins for those companies that do decide to set up business.

As a result of weak government capacity, CSOs may be the main partners for (foreign) investors to support them in exploring the local dynamics, power relations and market opportunities, all of which are very important for the sustainability of the project. For instance, SNV a large Dutch NGO, carried out in-depth surveys on agribusiness locations in DRC, which are very useful for potential investors in DRC. At the same time, absence of information and regulation also means that investors run higher risks, making the availability of financial instruments such as PSI Plus or ORIO[9] in many cases decisive for investors. In addition, political risk insurance provided by the Multilateral Investment Guarantee Agency (MIGA) can help to reduce these risks.

2. PPC stakeholders need to be prepared to convince their own organisations or sector of the potential benefits of partnerships. CSOs may be criticised by some of their peers for getting too close to business, and by companies for lacking know-how and being too dependent on government support. The involvement of companies might be seen by NGOs as too focused on making maximum profits, while being indifferent towards the socio-economic problems in the country. Public sector officials may be criticised for the fact that engaging in these partnerships might be viewed as diluting core responsibilities of the state.

Stakeholders should be aware of the risks involved and respect the limitations of other stakeholders in accepting those risks. Overall, project requirements and conditions may become more complex when more partners become involved. In some existing PPC projects that were studied in Afghanistan, specialised consultants were hired to deal with this aspect by, for instance, playing a mediating role between the various partners. [10]

---

[9] ORIO contributes to the development, implementation (construction and/or expansion), operation and maintenance of public infrastructure in developing countries.
[10] This is a common practice, especially because meeting all requirements for subsidised funding is a time-consuming process that companies cannot or will not afford to do by themselves. In the Baghlan Cheese Factory case, an external consultant was hired to meet the conditions of the RNE. In the Tradepoint Distribution Centre

3. PPC in fragile states requires a greater degree of trust and understanding of the specific backgrounds of each partner, often because of the complex environment. Perceptions and expectations concerning the partnership and its outcomes are likely to diverge as well. Traditional analytical frameworks, which presuppose a 'normal' context for contractual arrangements or the moral obligation of actors to engage in activities, may not be adequate. Also, ideas and concepts may circulate at a much faster rate within private sector organisations and working methods may be very different. [11] Entrepreneurial success often depends on a high degree of flexibility and operating efficiency, and this can be hampered by bureaucratic and lengthy processes with the other partners. Overall, in fragile states, actors' staff turnover is usually rather high, risking a loss of momentum and knowledge for partnerships. However, the case studies have demonstrated that practical involvement between the different actors may already contribute to a greater degree of trust and understanding between potential partners. After all, private sector actors, governments and NGOs do not become partners because they trust each other, rather they (start to) trust each other because they are engaged in a partnership.[12] The awareness of the need for goal congruence is crucial for each partnership.

4. The high-risk, high-gain environment in fragile states can attract private sector actors aiming for quick wins. Private sector actors often work on the basis of a much shorter time perspective (e.g., a payback period of a few years for each investment made) than that of, for instance, NGOs or public actors, which generally emphasise the sustainability aspect of activities. However, from the private sector point of view, only a successful project is sustainable, and NGOs suffer in general from a dependency on donors, which makes their projects often fundamentally unsustainable. Although the longer and shorter timeframes could complement each other rogue investors who overlook the implications of their actions and are merely interested in a quick win are a threat to economic development in fragile states.

5. Fragile states often require investment in several aspects of a value chain in order for sustainable economic development to be achieved. In fragile states, value chains can be anything from incomplete to non-existent, as a result of, among other things, conflict or the overall lack of investment. Investments therefore generally require a set of interlinked interventions in the entire value chain. PPC can be an adequate tool for value chain development in this regard, but it remains a challenging task to implement all changes in the value chain in a timely manner. As illustrated by the Afghanistan Baghlan cases, a typical processing plant needs better raw materials, new modes of transport, new skills inside the processing plant, a new marketing concept, a new retailing system, etc. This requires, among other things, importing different inputs and machines and it involves training many people on how to use them. Investors may realise only during the project that in order to guarantee certain results, they need much more control over the entire value chain (both backwards and forwards in the value chain). Indeed, this is the main rationale for PPC, where different partners can cover different parts of the overall change process that is needed. For example, NGOs can deal with the organisation, sensitisation and training of farmers, while private investors focus on supplying the know-how and inputs, and subsequently on processing and marketing. At the same time PPC requires close coordination between the different partners. Each of the partners has to perform its part of the bargain on time and with sufficient quality. This is complicated, as each partner has to deal with completely different sets of overall objectives, procedures and systems and a different culture from its own. Therefore, proper coordination becomes particularly complex and important.

---

case, an external company facilitated the PSOM (Programme for Cooperation with Emerging Markets) application for Tradepoint.

[11] Van Tulder, R. and Kostwinder, E. (2008). From Idea to partnership; evaluating the effectiveness of development partnerships analytical framework. Expert centre for Sustainable Business & Development Cooperation.

[12] Van Tulder, R. and Fortanier, F. (2009). Business and sustainable development: from passive involvement to active partnerships. In: Doing good or doing better: development policies in a globalizing world. Edited by Kremer, M., van Lieshout, P. and Went, R. WRR Scientific Council for Government Policy.

e. Cases of PPC in fragile states

The project resulted in several potential business case opportunities public–private cooperation in DRC and Southern Sudan. In Afghanistan already existing cases have been analysed. Several of them will be further developed as a result of this project. Some of these projects and some existing PPC projects prove the potential for this kind of partnerships.

§ **Waste collection and sanitary landfill in Juba, Southern Sudan**

A consortium chaired by Duvilla and consisting of five actors from both the private and the public sector in the Netherlands as well as Southern Sudan has won the Call for Proposals to formulate and prepare a public–private cooperation project on the possibility of implementing an integral waste management and sanitary landfill development project in Juba and surroundings. The project's goal is to improve the health and environmental situation for the inhabitants of Juba by offering a clean and sustainable alternative for the current uncontrolled waste disposal system and to stimulate local economic growth by investing in waste management and sanitary landfill development.
Status: Finalised business plan. Possible candidate for PSI Plus

§ **Poultry Value Chain in Southern Sudan**

This potential business case was identified during the fact-finding mission and economic mission to Southern Sudan was discussed during a round-table discussion with relevant stakeholders. The aim would be to develop a viable poultry industry in Southern Sudan, replacing expensive imports. Several chain actors have to cooperate in order to achieve a functioning supply chain: from feed producers (rural farmers) to feed millers, poultry farmers (hatching, rearing and processing) to animal production farmers to consumers. While mostly a private sector-driven project, possibilities exist for cooperation between private actors (private feed and poultry businesses), public donors (such as Agency NL, World Bank or International Finance Corporation [IFC]) and NGOs (such as Cordaid, ICCO and others).
Status: No specific actions have been undertaken yet on a poultry chain. However, a PSI Plus project on an abattoir for beef processing was approved by Agency NL in 2009. The project started in January 2010 with a total investment of €1.5 million. It is a joint venture between a British and a Sudanese company.

§ **Shea-nut butter production in Southern Sudan**

This potential business case was identified during the fact-finding mission and economic mission to Southern Sudan and has been discussed during a round-table discussion with relevant stakeholders. Lulu Works is an organisation that coordinates the collection and processing of shea-nuts by women's groups. The collection takes place in various locations in Southern Sudan, and the processing is done in Juba using the collected shea-nuts and some ingredients (especially flavourings) that are purchased in Khartoum. Lulu Works is supported by a Kenyan NGO and has received minor funding from international NGOs. Its current production volumes are low, yet the products are surprisingly well packaged and seem to be of good quality. This business case aims to increase production and sales, including exports.
Status: No actions undertaken

§ **Fresh fish production in Southern Sudan**

In various areas of Southern Sudan, there are excellent fishing waters, e.g., Lake No and the River Nile. This potential business case explores the broad lines of a fisheries project, which would make use of local fishing communities and would aim primarily at the export of fish to processing facilities in Uganda. Fish would be a relatively low-cost food item for the inhabitants of Juba. Given the high volume of sales of chicken, the local market for fish could be quite impressive. In Uganda, there is a supply shortage due to fishing restrictions on Lake Victoria. This project will be challenging, but potentially offers high rates of return: fish is abundant in Southern Sudan, there are local fishing communities, and local and regional demand is high.
Status: No actions undertaken

§ **Setting up a sales network for phone cards in DRC**

This is an actual PPC project between a Dutch NGO (Cordaid) and one of the largest telecom enterprises in DRC (Zain). In 2008, 2,000 people living with HIV/AIDS were selected and trained as small entrepreneurs. They were provided with the set-up material (table, publicity materials, etc) and an initial stock of phone cards to start up their own business. The initiative turned out to be very successful and responded to both the company's and the NGO's objectives. As these people could be reached via Cordaid's network and traced through their sales of the phone cards they were initially provided with, the phone company suddenly had a sales network in places it normally could not have reached.

§ **Coffee production in North Kivu, DRC**
The company Schluter has won the Call for Proposals to formulate and prepare a public private cooperation project on the revitalisation of the coffee sector in North Kivu. The PPC project will involve cooperation between Schluter, Advance Consulting, Solidaridad and Organisation Nationale de Café. The PPC proposal could lead to an investment of €300,000 in local coffee production, training of local coffee farmers, supply chain organisation and quality certification.
Status: Finalised business plan.

§ **Trade Point distribution centre in Afghanistan**
This business case describes an actual project that never materialised because of lack of commitment on the part of one of the partners, local government. Tradepoint is a company specialised in importing to and exporting from emerging markets. Tac Taz is a freight-forwarding company. The aim of this cooperation project was to set up a distribution centre near the airport in Kabul in 2006. The project failed, mainly because the consortium could not reach an agreement on leasing the land from the Government of Afghanistan on the conditions proposed by the consortium.
Status: An attempt to set up a distribution centre failed because a land-lease agreement could not be finalised on the terms proposed by the consortium.

§ **Baghlan Cheese Factory Afghanistan**
The Baghlan Cheese Factory case involves an NGO, the Dutch Committee for Afghanistan (DCA), in private sector development. DCA rehabilitated and will privatise the Baghlan Cheese Factory with support from both the former Dutch Provincial Reconstruction Team (PRT) and the Royal Dutch Embassy (RNE). DCA's aim was and still is broader than the factory alone; it intended and intends to develop the dairy value chain in Baghlan, of which the cheese factory is one element. The project seems to suffer from the lack of sense of ownership on the part of certain actors, notably the Government of Afghanistan and the farmers, who would both profit the most from the initiative.
Status: Larger dairy sector development programme, Baghlan Cheese Factory. operating, but still at a loss

§ **Baghlan Sugar Factory Afghanistan**
This case has been chosen to compare the German Government's model of supporting private sector development with the Dutch approach. The scale of the investment was much larger than in the preceding two cases, with total investment budgeted at €17 million. Primary stakeholders in this partnership are the Government of Afghanistan, which owns the factory and the land, the Government of Germany, through its development agency DEG, four Afghan private investors, and the German seed company KWS Saat AG. After four years in operation, the factory is struggling to survive. In fact, the four private investors submitted a proposal to dissolve the company in June 2009. In all likelihood, they will sell their shares to DEG for a fraction of the original value.
Status: Factory rehabilitated but after a few years of operating at a loss, currently idle

§ **Dried fruits and nuts value chain in Afghanistan**
The dried fruits and nuts value chain case has been chosen in order to get first-hand insight into the start-up of public–private cooperation. The case involves four partners, while a partnership with a fifth organisation is in preparation. The partners plan to set up a modern processing facility in

Afghanistan which would process dried fruits and nuts from the area north of Kabul and at a later stage also from Uruzgan. The idea for this venture already came up in 2007 but the case is still in the start-up phase.
Status: In start-up phase for the past two years

3. Conclusions

1. The complex environment in fragile states requires intense cooperation between actors. The joint missions indicated that the high risks involved and the political uncertainty of the countries in many cases *require* cooperation between actors in order for the private sector to become involved, rather than being a mere added value obtained from working together. This is especially the case in terms of the support in sustainability and risk coverage for the private sector. Contributions by NGOs can be of significant added value in terms of information from the ground. as well as their ability to support companies' acceptance within communities. However, PPC is no guarantee for success. Cooperation requires a great deal from the various stakeholders with regard to trust-building, openness in communication, reliability, etc.

2. There is potential for public–private cooperation projects in fragile states. PPC projects are currently a rare phenomenon, especially in Southern Sudan and DRC. In Afghanistan such cooperation is less uncommon, and a number of existing PPC cases there have been studied. There are multiple obstacles facing the private sector when trying to start up businesses; they include not only the insecure environment (Afghanistan), but also uncertainty about the future (Sudan), and the lack of infrastructure and a proper business-enabling environment (DRC). Undoubtly these obstacles are linked to the host government's inability to play a strong role in general and as a partner in PPC initiatives in particular (characteristic of fragile states). Conversely, PPC may offer ways to deal with these weaknesses. Building on the specific knowledge, experience and networks of partners can be beneficial to the private sector, civil society and the government. Moreover, despite these challenges, fragile environments can be attractive for investors, in that they are largely unexplored markets, and there is generally very great potential for import substitution, which means there are opportunities there.

Finally, the project also clearly ascertained that there are business cases where no NGO involvement is required, and capacity-building projects where no involvement of the private sector is needed.

3. There is hesitation about public–private cooperation. Both the Dutch and the local private sector were hesitant with respect to any large government or NGO involvement, which they deemed to be a complicating factor. Therefore it is important to demonstrate in the field the advantages in terms of sustainability and risk-reduction that PPC can bring, by highlighting successful examples of PPC.

4. PPC should not be considered as a goal in itself. NGOs, the private sector and government think and act differently from each other. PPC initiatives will be successful only when there is a viable business case, based on local needs and demands, and when the key objectives of all stakeholders are met. Only then, empirical evidence shows, will stakeholders be able to find each other.Therefore, sustainable economic growth through PPC should not be considered as a goal in itself.

4. Recommendations

This section offers the main recommendations as highlighted by the three case studies, i.e., Southern Sudan, DRC and Afghanistan. For country-specific recommendations, please refer to the separate country reports.

For all actors involved:

1. Prioritise the conducting of a context assessment. Fragile states can be characterised as highly politicised and extremely polarised. The actors involved should attempt to create an understanding that is context- and culture-sensitive, since any action may have an impact on the dynamics of the conflict. Actors involved in fragile states should take a conflict-sensitive approach by carrying out extensive local consultations. A complicating factor in PPC will be that different actors will have different viewpoints on this. However, when this is dealt with in a thorough manner, PPC can have a stabilising effect.

2. Facilitate investors by ensuring specialised, in-country facilities. Many investment opportunities and best practices for working in fragile states are unknown to international companies. For a better understanding of local PPC opportunities, an office established in the country itself could act as a 'business incubator', bringing partners to the attention of local, regional and international companies. Certain NGOs (e.g., ICCO, Cordaid, SNV, NABC) as well as companies could play this role in cooperation with the Royal Dutch Embassies (RNEs).

For the Dutch Government

3. The RNEs in fragile states are recommended to adopt a more proactive role in private sector development, employment, growth and equity, as part of the peace dividend strategy and the integrated approach in fragile states. Public–private cooperation can be beneficial in this regard, because of the specific knowledge, experience and networks of different partners. Programmes such as ORIO and PSI Plus contribute to private sector development in fragile states. In order to benefit more from these programmes, a proactive approach from RNEs to promote the possibilities of programmes such as ORIO and PSI Plus is recommended.

For the Government and Dutch private sector

4. Small-scale business missions of small and medium-sized enterprises (SMEs) to fragile states could gain a better understanding of public–private cooperation opportunities and could select potential local partners. Small-scale business missions will contribute to the more proactive approach that is required, and to closing the information gap among Dutch private sector actors and between Dutch and local businesses. Information gained by such missions is particularly relevant for SMEs, as larger companies will primarily rely on their own sources of information. Especially SMEs will need to be made aware of business opportunities as well as funding instruments in fragile states.

For the Dutch private sector

5. Link up with other private sector development initiatives in the relevant country. A recurring problem encountered during the joint missions was the lack of strong local counterparts. This was specifically the case with Southern Sudan and Afghanistan. Entrepreneurial skills are lacking and investment capital is often scarce. Given these shortcomings, PSI Plus does not require the local partner to be an officially registered local company; moreover, private individuals can be considered. Yet linking up to parallel private sector development initiatives could support the strengthening of the local private sector. In Southern Sudan, for instance, the World Bank Business Plan competition attracted 2,000 applications and led to 60 Southern Sudanese 'new' entrepreneurs joining a training programme. After completing their programme, these participants could be suitable counterparts for Dutch companies. Also, the IFC has indicated that it is now going to start informing local investors of the possibilities under the PSI Plus programme. The Africa Enterprise Challenge Fund (AECF), partly funded by the Netherlands MFA, could be both an alternative to, and a source of, new proposals for PSI funding. Agency NL is a member of the AECF Investment Committee.

6. Ensure a proper assessment of the feasibility of the business case. A viable business case is the precondition for any private investment. The enterprise's economic viability needs to be assessed in a feasibility study and/or business plan; when larger investments are needed, a third-party evaluation, with local and market expertise to employ due diligence, may be required, to assess the validity of basic assumptions and hypotheses. A possibility that could be considered is to commission an independent party, instead of the future beneficiaries, to conduct the feasibility study, perhaps funded by the public sector. All assumptions that are critical for the feasibility of the enterprise have to be investigated. In addition, it is recommended that an environmental impact assessment of economic activities be made.

For Dutch NGOs

7. NGOs are encouraged to adopt a more business-oriented approach. The case studies demonstrated that most NGOs currently neither link nor cooperate with the private sector (with the exception of a few large Multinationals), generally as a result of a lack of trust between the actors as well as a lack of knowledge about the respective capabilities and expertise. NGOs are encouraged to include possibilities for local business activities in their areas of expertise and, if possible, to use the business sector's expertise for extending their local network to include contacts within the private sector from the outset of programme or project implementation (i.e., during assessments or early stages of project planning/involvement). A longer-term approach for implementation and follow-up will enable NGOs to make a positive contribution to PPC interventions. Furthermore, NGOs and the private sector (mostly SMEs) should be open to initiatives proposed by each other, respecting each other's mandate and the basic principles of cooperation (i.e., demand-driven, profit-oriented, ownership, building on social inclusion, and durability) not only as social corporate responsibility strategy but as core business.

Annex I

This Annex provides an overview of the potential roles and contribution of each actor in a tripartite partnership, as discussed in 2c above.

Private sector

Why do firms engage in partnerships (objective)?
§ Risk-sharing § Access to capital § Opening up new markets for future profit-bearing activities § New sources for purchasing raw material § Benefit from specific assets other partners can bring to the table § Knowledge of the local context § Corporate social responsibility
What is the added value of firms in partnerships (input)?
§ Specific knowledge and expertise about the core business, management, marketing and technical expertise § Widening of distribution (including, potentially, export) and sourcing networks § Financial resources/capital § Expertise in operational management of a for-profit enterprise in fast-paced business environment § Knowledge of corporate governance systems and procedures § Greater leverage and visibility § Career development and learning opportunities for current and future staff members and volunteers[13] § Skilled workforce[14]
Which conditions need to be in place before firms engage in partnerships (preconditions)?
§ Viable business case, including a good potential return on investment § Access to finance/subsidies/grants § More simplified grant procedures including open deadlines and rapid turnaround of applications to meet with the fast pace of the business world § Enabling business environment § Coverage of extreme, fragility-related risks

[13] Van Tulder, R. and Fortanier, F. (2009). "Business and sustainable development: from passive involvement to active partnerships". In: *Doing good or doing better: development policies in a globalizing world*. Edited by Kremer, M., van Lieshout, P. and Went, R. WRR Scientific Council for Government Policy.
[14] Killick, Srikantha, Gunduz. (2005) *The role of local business in peacebuilding*. Berghof Research Center

Public sector

Why do governments engage in partnerships (objective)?
§ Achieve goal of sustainable development § Explore alternative ways of delivering aid to increase effectiveness
What is the added value of governments in partnerships (input)?
§ Capital (foreign and host government) § Expand network (foreign government) § A third-party evaluation of the business case (foreign government) § Make government-owned land available (host government) § Diplomacy (foreign government) and protection § Personnel for development projects (foreign government)[15] § Knowledge about governance (foreign government) § Act as a broker, in which role the government, given its extensive network in developing countries, could help to facilitate access to markets (foreign government) § Regulatory framework (host government) § Provide legitimacy (host government) § Increase (long-term) credibility (host government)
Which conditions need to be in place before governments engage in partnerships (preconditions)?
§ Foreign governments generally fund part of the partnerships and will set specific criteria for the partnerships, which include: stimulation of sustainable development and an emphasis on pro-poor economic development rather than economic development alone § Other conditions that foreign governments may set include: promotion of the Millennium Development Goals (MDGs), conflict sensitivity, avoidance of corruption, innovation, etc[16] § Other conditions that host governments may set include: transparency in the enterprise and in the set-up of the enterprise[17] and non-substitution (the tendency of host governments to want to see their capabilities reinforced while maintaining control. Governments do not like to be bypassed or replaced by parallel structures created by companies or NGOs.)

[15] Kolk, A., Van Tulder, R., Kostwinder, E. (2008). "Business and partnerships for development". *European Management Journal*, 26, pp. 262-273.
[16] Van Tulder, R. and Fortanier, F. (2009). "Business and sustainable development: from passive involvement to active partnerships". In: *Doing good or doing better: development policies in a globalizing world*. Edited by Kremer, M., van Lieshout, P. and Went, R. WRR Scientific Council for Government Policy.
[17] Bray, J. (2007). *The role of private sector development in post-conflict economic recovery*. UNDP.

Civil society organisations (NGOs)

Why do NGOs engage in partnerships (objective)?
§ Funding opportunities § Achieving development goals § Private sector development can be a tool in alleviating poverty, but most NGOs lack experience with private sector development and thus need partners with this experience § The character and mission of many NGOs prohibit activities with a profit motive, therefore NGOs need to engage in partnerships
What is the added value of NGOs in partnerships (input)?
§ Specific knowledge about local needs and circumstances § Local network and staff § Training and capacity-building of local people and organisation of local resources § Ability to organise groups of producers and/or employees and to strengthen their role and position in the value chain; leading to more balanced power positions and reliable and good-quality production § Commitment (partnership) to development objectives § Knowledge about long-term development processes, owned by local communities § Building backward linkages through value-chain approach § Create local support for the enterprise's activities § Raise funds for enterprises with a development objective § Ideas for business cases § Improve image of the private partners
Which conditions need to be in place before NGOs engage in partnerships (preconditions)?
§ Recognition of role and mandate § Common development agenda including a focus on pro-poor approach (enabling funding conditions, i.e., availability of donor funds for private sector development accessible to NGOs with accommodating conditions) § Common agenda in counterbalancing the state on issues such as anti-corruption, accountable government organisations and good governance, and pro-poor growth § Equitable development