

Private sector development policies and instruments through a conflict lens

*Addressing the knowledge gap on the role of conflict
sensitivity in Dutch PSD policies and instruments*

November 2018



Colophon

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The Centre for Research on Multinational Corporations (SOMO) is an independent, not-for-profit research and network organisation working on social, ecological and economic issues related to sustainable development. Since 1973, the organisation investigates multinational corporations and the consequences of their activities for people and the environment around the world.



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Executive summary

Outline and objective of the research

Oxfam Novib and SOMO have conducted a study that aims to address the knowledge gap regarding how Dutch Private Sector Development (PSD) policies and instruments take into account the context of fragility and conflict. The study also looked at whether or not PSD instruments include conflict sensitivity requirements from corporate applicants, to what extent the implementing agencies of PSD instruments assess the potential impacts on conflict by these companies, and what information they provide to companies on the risks and challenges of operating in these contexts.

To unravel this knowledge gap, the researchers looked at earlier research, and analysed Dutch PSD and peace and security policies. This has improved our insight regarding the extent to which these policies and instruments take into account the conflict context in FCAS, and to what extent the “conflict lens” is being applied. A “conflict lens” basically involves being sensitive to the conflict context when private sector development interventions are developed and/or implemented in fragile and conflict-affected situations, in an effort to ensure that negative impacts on conflict and on local stakeholders are avoided and positive impacts are maximised.

It should be noted that this study is not a policy evaluation but is meant to provide a comprehensive overview of the state of knowledge regarding conflict-sensitivity in relation to Dutch PSD policies and instruments. The study also aims to stimulate a constructive dialogue between relevant stakeholders in order to improve policy coherence and development regarding conflict-sensitive private sector development.

The study consisted of a mapping exercise of Dutch PSD policies and support channels in Fragile and Conflict Affected Situations (FCAS) based on desk research, interviews with various policymakers and implementing agencies, a quick scan of studies on the impact of Dutch PSD policies on FCAS and of support channels for companies operating in FCAS and the requirements related to conflict sensitivity. The focus was on PSD instruments provided by the Dutch Ministry of Foreign Affairs and managed by implementing agencies RVO (including CBI), FMO, Atradius, Triple Jump, PwC and PUM.

Main conclusions

The research has led to a number of important insights on the role of Dutch PSD policies and instruments in fragile and conflict-affected situations, and to what extent the “conflict lens” is being applied. Overall, it can be concluded that a “conflict lens” is to some extent in some cases already being utilised in Dutch PSD policies and instruments (mostly informally and ad hoc). This finding offers opportunities to both build on and improve future implementation. The main conclusions are as follows:

1. Over the years, we have seen an increase in policy attention being paid to the role of PSD in fragile states, although, overall, there has been a lack of policy coherence between the Dutch government’s policy on private sector development and its security and rule of law policy.

2. In the new policy framework, strengthening the private sector is deemed essential for development. With regard to Dutch policy, it remains insufficiently clear just how the private sector can contribute to the prevention of conflict and instability, as one of the overarching goals of its new policy framework, “Investing in global prospects”¹. This aspect deserves greater recognition in Dutch policy. Meanwhile, the new policy framework provides a good opportunity to align PSD support (financial and non-financial) policies and practices to this overarching goal by applying the “conflict lens” to PSD policies and interventions in FCAS. The importance of a conflict-sensitive approach is recognised within the framework,² which is a positive sign and offers an excellent opportunity for a more structural integration into PSD policies when implementing the policy framework.
3. Dutch embassies could potentially play a key role here by, for instance, improving the knowledge of embassy staff on how to better support businesses that are planning to, or are already, operating in fragile settings. Moreover, applying the “conflict lens” could then become the missing link between SDG 8 (decent work and economic growth) and SDG 16 (peace, justice and strong institutions).
4. In practice, implementing agencies have in some cases paid extra attention to the conflict context when certain PSD instruments (financial and non-financial) have been applied in FCAS. This is an encouraging development because it means that, to a certain degree, a “conflict lens” is already being applied by the implementing agencies. For instance, the Dutch Good Growth Fund (DGGF) requires applicants to identify conflict drivers (such as land acquisition, hiring policies and natural resource use) as part of their context analysis. However, the application of the “conflict lens” by implementing agencies is still mostly informal and ad hoc.
5. There are also large differences amongst the various PSD instruments and implementing agencies with regard to how they consider the conflict context during the screening of corporate applications. This means that there is room for improvement, including the need to formalise and harmonise conflict sensitivity in the PSD support criteria, which can ensure the harmonisation of the various instruments and ensure that they abide by the same internationally recognised best practices for a conflict sensitive business.
6. The literature on business and peace argues that by applying conflict sensitivity and conducting business with due diligence in fragile contexts, private sector actors can help avoid inflaming existing conflicts and related violence. However, based on a review of studies and evaluations of PSD interventions in FCAS, it can be concluded that the evidence that there is a positive impact on peace and stability of PSD interventions in FCAS appears to be minimal. Meanwhile, there is significant evidence that often private sector actors – especially multinational corporations – have a decidedly negative impact on conflict dynamics or actually *profit* from conflict. This calls for more systematic research in this area, with the aim of accumulating evidence of

1 Ministry of Foreign Affairs, 2018, Investing in Global Prospects – For the World, For the Netherlands. Policy Document on Foreign Trade and Development Cooperation; <https://www.government.nl/documents/policy-notes/2018/05/18/investing-in-global-prospects> <Accessed on 1 October 2018>.

2 Ministry of Foreign Affairs, 2018, p. 43.

how companies can actually prevent conflict but also contribute to peace and stability. This can be accomplished by building on the work of (among others) CDA Collaborative Learning Projects, the Africa Centre for Dispute Settlement and PRIO³ who have studied the links between business, conflict and peace. It also strengthens the conclusion that it is crucial to apply the “conflict lens” when Dutch government support is provided to private sector development in FCAS, in order to ensure that this support will prevent conflict and instability, and, at the very least, not exacerbate it.

Main recommendations

The report offers a number of recommendations for the improving of current policies and for further research. The report’s key recommendations are:

1. Apply a “conflict lens”

The report recommends that a so-called “conflict lens” be added to all Dutch PSD policies, instruments and support channels (financial and non-financial). To have this “conflict lens” applied in a more consistent way, conflict sensitivity needs to be formalised and harmonised in the PSD support criteria. Moreover, a greater capacity to assess conflict sensitivity needs to be developed. This has the added advantage of making it easier for policymakers to measure progress on the conflict sensitivity of Dutch PSD support. To achieve this, a guidance document on conflict sensitivity for implementing agencies of Dutch PSD interventions should be developed. This guidance document should be tailored to the needs of its users and be “lean and mean”, because extensive checklists are undesirable. It is important that this “conflict lens” complements the existing international obligations of the Dutch government to ensure that companies conduct human rights due diligence as part of the state’s “duty to protect” against business-related human rights violations. It is also crucial that any new guidelines build on the existing ones covering responsible business conduct, such as the OECD Due Diligence Guidance for Responsible Business Conduct, to prevent duplication.

2. Adapt risk analysis and human rights due diligence to the conflict context

When assessing applications for PSD instruments in FCAS, the recommendation is for improving the assessment and prevention of human rights violations and other negative impacts related to the conflict context, including a thorough risk analysis. This conflict risk analysis should be integrated and embedded within existing social and environmental risk analyses and human rights due diligence policies. When assessing PSD instrument applications, we recommend employing local conflict or human rights experts when performing conflict-risk analyses.

3. Make trade missions “conflict proof”

Ensure that companies participating in trade missions are aware of the conflict-related risks of fragile and conflict-affected areas, especially for the local stakeholders (affected communities, local employees, etc). In a case involving a mission to a country with many risks for local stakeholders/rights holders, an action plan for enhanced due diligence of the participating companies could be requested in advance of the trade mission’s departure. A related recommendation is to extend the RVO country information for FCAS with a special section on the conflict context,

3 See: <https://www.cdacollaborative.org/cdaproject/business-and-peace/> and <https://www.prio.org/Research/Group/?x=28>.

challenges and opportunities of doing business in FCAS and above all prominent attention for the risks for local stakeholders/rights holders.

4. Expand the role of Dutch embassies in advising companies on how to operate in FCAS

The recommendation here is for Dutch embassies to capitalise on their knowledge of the conflict context in FCAS when providing actionable advice to companies. In general, the recommendation is to make more use of local conflict experts in these advisory services.

5. Learn from and scale up Dutch government efforts for a “conflict-sensitive” approach

The recommendation is to monitor and evaluate the implementation of the “conflict-sensitive” approach in fragile regions of the new Dutch policy framework, which, on paper, is an improvement. The results of the anticipated efforts to apply the “conflict lens” to PSD support by the Dutch Ministry of Foreign Affairs also needs to be closely monitored, in order to learn from this experience and scale up if successful. There is also a need to involve civil society more actively in this process, as they are in a better position to voice the perspective of local populations and interests. The Knowledge Platform on Security & Rule of Law could play an important role here.

6. Conduct an impact study on PSD instruments in FCAS

We recommend conducting an impact study on the application and effectiveness of PSD instruments in FCAS that will focus on the amounts of funding spent in FCAS, their economic impact and their (unintended adverse) impacts on beneficiaries, rights holders and stakeholders in a context of conflict and fragility. This study should lead to increased insights into the way that PSD interventions can be made more conflict-sensitive, thus supporting the application of a “conflict lens” in PSD policies and practice and contribute to improved evidence-based PSD policies.

Abbreviations

CBI	Centre for the Promotion of Imports from developing countries (Dutch: <i>Centrum tot Bevordering van de Import uit ontwikkelingslanden</i>)
CSR	Corporate Social Responsibility
DFID	Department for International Development
DGGF	Dutch Good Growth Fund
DRIVE	Development Related Infrastructure Investment Vehicle
DTIF	Dutch Trade and Investment Fund
FCAS	Fragile and Conflict Affected Situations
FDI	Foreign Direct investment
FDOV	Facility for Sustainable Entrepreneurship and Food Security (Dutch: <i>Faciliteit Duurzaam Ondernemen en Voedselzekerheid</i>)
FDW	Sustainable Water Fund (in Dutch: Fonds Duurzaam Water)
FMO	Dutch development bank (original Dutch abbreviation: <i>Nederlandse Financieringsmaatschappij voor Ontwikkelingslanden</i>)
IFC	International Finance Corporation
IRBC	International Responsible Business Conduct
MSMEs	Micro-, Small- and Medium-sized Entrepreneurs
OECD	Organisation for Economic Co-operation and Development
PSD	Private Sector Development
PSI	Private Sector Investment program
PUM	PUM Netherlands senior experts (Dutch: <i>Programma Uitzending Managers</i>)
RVO	Netherlands Enterprise Agency (Dutch: <i>Rijksdienst voor Ondernemend Nederland</i>)
SDGs	Sustainable Development Goals
SMEs	Small and Medium-sized Enterprises
SOMO	Centre for Research on Multinational Corporations (Dutch: <i>Stichting Onderzoek Multinationale Ondernemingen</i>)

1 Introduction

1.1 Reader's Guide

Oxfam Novib and SOMO have conducted a study that aims to address the *knowledge gap* regarding the way Dutch Private Sector Development (PSD) policies and instruments take into account the context of fragility and conflict. The study also looked at whether or not PSD instruments include requirements about conflict sensitivity from corporate applicants, to what extent the implementing agencies of PSD instruments assess the potential impacts on conflict by these companies, and what information they provide to companies on the risks and challenges of operating in these contexts.

The report consists of a number of sections, which do not necessarily need to be read in the order that they appear. Therefore, a reader's guide is provided to enable readers to decide which parts are most relevant.

- Chapter 1.2 - Research outline, objectives and methodology: This section provides the background for the research, the outline, scope and objectives of the research, the international policy context, its target audience and research methodology.
- Chapter 1.3 - Theoretical framework: This section provides a clarification of the key concepts used in this report, such as private sector development (PSD), fragile and conflict-affected situations, conflict sensitivity, conflict-sensitive business practices and the role of the private sector in contributing to peace and stability.
- Chapter 2.1 - Dutch development policies on Private Sector Development and peace and security: This is an overview of current Dutch development policies in relation to private sector development, as well as to peace and security. In order to understand the present policy choices, it is important to look back at how development policies have evolved over time.
- Chapter 2.2 - Instruments and support channels for private sector development in FCAS: In this section, the results of a quick scan of the main Dutch PSD instruments and support channels available for FCAS are presented. The aim of the quick scan is to ascertain whether these instruments apply a so-called "conflict lens".
- Chapter 2.3 - Case study of Mali: The risks and challenges of doing business in a fragile setting: This was carried out as an illustration of a fragile state where the Netherlands provides PSD support. The case study consisted of a desk review to analyse the conflict context in relation to PSD, carried out by a local consultant in Mali.
- Chapter 3.1 - Research on Dutch development policies regarding Private Sector Development and peace and security: This consists of an analysis of the findings and insights from the quick scan of studies on the impact of Dutch PSD policies on FCAS, as well as international studies on the interface between PSD support and conflict, peace and security.

- Chapter 3.2 - Research on instruments and support channels for Private Sector Development in FCAS: The relevance and availability of the main Dutch PSD instruments and support channels for FCAS was analysed through a quick scan of the literature on PSD instruments and support channels.
- Chapter 4 - Conclusions and recommendations: This chapter presents a number of important insights on the role of Dutch PSD policies and instruments in fragile and conflict-affected situations, and to what extent the “conflict lens” is being applied, as well as a set of recommendations.

Annex A includes a list of fragile and conflict-affected countries that have been included for the purpose of this research. Annex B consists of two tables on the availability of PSD support channels and instruments for 60 FCAS. Annex C includes a list of people who were consulted for the research report.⁴

1.2 Research outline, objectives and methodology

Background to the research

The nexus between PSD and conflict and peace is an emerging field that, over the past 15 years, has increased our understanding of the role of companies in fragile and conflict affected areas. It is generally agreed that companies never operate isolated from the context in which they do business, and that there are serious risks and challenges for those operating in FCAS. The way companies operate influences the conflict dynamics, either positively or negatively. According to the UN Guiding Principles on Business and Human Rights, the risks of business-related human rights abuses are particularly great in areas of poor governance, and especially in conflict-affected areas.⁵ If companies were to have a more conflict-sensitive and proactive approach regarding the challenges they face in these complex contexts they could potentially reduce their contribution to human rights violations as well as minimise the risks of operating in conflict-affected contexts. In this context, “risks” refer not only to the risks of the companies in terms of insecurity, political instability or other business-related risks, but also to the risks of a company becoming involved in the conflict itself, as a result of the fragility and lack of the rule of law in FCAS, and the negative impact this may have on different stakeholders (local communities, workers, etc.).⁶ By acting in a conflict-sensitive way, companies contribute to conflict prevention and potentially to a more peaceful environment as well.

Private Sector Development policies and instruments can play an important role in influencing the behaviour of companies in these challenging contexts by providing companies operating in FCAS with various instruments and support channels.

4 Only the people interviewed or consulted for this report who have given their consent to allow their names to be mentioned are included in this annex.

5 United Nations, 2011, *Guiding Principles on Business and Human Rights: Implementing the United Nations, “Protect, Respect and Remedy” Framework*, p. 9; http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf <Accessed on 1 March 2018>.

6 SOMO, 2015, “Multinational corporations in conflict-affected areas – Risks and challenges around human rights and conflict”; <https://www.somo.nl/risks-and-challenges-around-human-rights-and-conflict/> <Accessed on 1 March 2018>.

Outline, scope and objectives of the research

Dutch PSD policies and instruments aim to stimulate inclusive economic development and support Dutch trade interests abroad. Moreover, the Netherlands is also interested in playing an active role in preventing armed conflict worldwide and strengthening security and the rule of law by, for instance, supporting reconstruction in post-conflict countries.

Reconciling these two policy goals is important in order to ensure policy coherence. Oxfam Novib and SOMO have conducted a study to contribute to a better understanding of both policy fields (private sector development and peace and security) and the coherence between the two fields. The goal is to address the *knowledge gap* regarding the way Dutch PSD policies and instruments take into account the context of fragility and conflict. The study also looked at whether or not PSD instruments include requirements about conflict sensitivity from corporate applicants, to what extent the implementing agencies of PSD instruments assess the potential impacts on conflict by these companies, and what information they provide to companies on the risks and challenges of operating in these contexts. To unravel this knowledge gap, the researchers looked at earlier research and analysed Dutch PSD and peace and security policies. This has improved insight regarding the extent to which these policies and instruments take into account the conflict context in FCAS, and to what extent the “conflict lens” is being applied.

It should be noted that this study is not a policy evaluation, but is meant to provide a comprehensive overview of the state of knowledge about conflict-sensitivity in relation to Dutch PSD policies and instruments. The study also aims to stimulate a constructive dialogue between relevant stakeholders in order to improve policy coherence and development regarding conflict-sensitive, private sector development. The researchers have taken into account the current pilots and research that have already been initiated by governmental bodies or other institutions, and have attempted to provide constructive feedback and practical recommendations to enhance policy coherence.

This report is primarily focused on the extent to which the “conflict lens” is applied to Dutch PSD policies and instruments in Fragile and Conflict Affected Situations (FCAS). Nevertheless, it was important to take into account the results of research on the general effectiveness of Dutch PSD policies and instruments, as the challenges of PSD in more “stable” countries will ring even more true in FCAS.

It is also important to note that this report deals with private sector entities that receive PSD support from the Dutch government (which are, in most cases, SMEs from the Netherlands and elsewhere). The report is not focused on large Dutch/international businesses to which Dutch PSD policies and instruments are not directly applicable because they do not receive direct support. Having said this, all Dutch companies are expected to comply with national and international corporate responsibility standards, and the Dutch government is expected to take steps to prevent abuse abroad by business enterprises within their jurisdiction, as recommended by the *UN Guiding Principles on Business and Human Rights*, even when there is no direct support provided to the companies involved.⁷

7 United Nations, 2011, *Guiding Principles on Business and Human Rights – Implementing the United Nations “Protect, Respect and Remedy” Framework*, p.4; https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf <Accessed on 1 September 2018>.

International policy context

Dutch PSD policies are developed in and influenced by the international policy context. While it is beyond the scope of this report to provide an overview of all relevant policy developments in this field, it is interesting to highlight the UK government's initiatives, as it has been a frontrunner in taking into account the "conflict lens" in its PSD policies (see box below). Another interesting initiative is the International Finance Corporation's "fragility lens", which is a conflict-sensitive approach to working in countries recovering from conflict (for more details, see section 3.2).⁸

There is also an extensive body of international guidance on responsible business conduct, such as the *OECD Due Diligence Guidance for Responsible Business Conduct* from 2018, which specifically refers to conflict settings.⁹ For further details, an overview by SOMO of international guidelines and principles for companies operating in conflict-affected areas are available.¹⁰

Target audience

The primary goal of this report is to inform Dutch policymakers, in particular the Ministry of Foreign Affairs, as well as PSD-policy implementing agencies, in particular RVO (including CBI), FMO, Atradius and PUM. The Ministry of Foreign Affairs has shown a strong interest in the topic of the private sector and conflict in program development and for instance, during a roundtable on conflict-sensitive business practices organised by the Ministry of Foreign Affairs in February 2017 and during a conference on responsible sourcing from fragile areas in October 2017.¹¹ Key policymakers and representatives of implementing agencies involved in PSD in relation to FCAS were approached during the research to obtain their views and insights about the practical implementation of PSD policies and instruments in FCAS. This report can support them in achieving better results and seize the opportunities that have been identified.

Research methodology

The following methods have been used for this research:

- A mapping exercise of Dutch PSD policies and support channels in FCAS, based on desk research. The desk research consisted of an analysis of the Dutch government policies regarding PSD as well as its policies on peace and security, and an analysis of the coherence between these two policy fields. It is based on Dutch government policy documents, policy evaluations and academic papers. Policies have been selected on the basis of their relevance to this report's topic, since 2010, as this is generally considered the beginning of an era in which PSD became increasingly dominant in Dutch development policies.

8 IFC, 2016, "IFC Africa's "fragility lens - Supporting private sector growth in Africa's fragile and conflict affected situations (FCS)"; <https://www.ifc.org/wps/wcm/connect/a5ac8a07-9fca-4e01-ac0a-5d511adf8b6a/IFC-Africa-Fragility-Lens-Factsheet.pdf?MOD=AJPERES> <Accessed on 1 March 2018>.

9 OECD, 2018, *OECD Due Diligence Guidance for Responsible Business Conduct*; <https://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf> <Accessed on 1 September 2018>.

10 SOMO, 2014, *Multinationals and Conflict – International principles and guidelines for corporate responsibility in conflict-affected areas*; https://www.somo.nl/multinationals-and-conflict/?noredirect=en_GB <Accessed on 1 September 2018>.

11 See: <https://www.commgres.nl/event/extractive-resources-for-prosperity-conference/> <Accessed on 1 March 2018>.

Box 1 The UK Government and the role of businesses in fragile and conflict-affected areas

For a number of years now, the UK has paid special attention to the role of businesses in fragile and conflict-affected areas. Back in 2000, DFID's Conflict and Humanitarian Affairs Department began developing a strategy to work with businesses on conflict prevention and resolution.¹² There have been numerous exchanges of knowledge and expertise between DFID's private sector and conflict departments. More recently, the UK National Action Plan on Business and Human Rights of 2016 has made it clear that "companies operating in these difficult environments have an important role to play in contributing to stability, growth, development, prosperity and the protection of human rights".¹³ The UK government has also highlighted the importance of business activity in conflict and fragile states, or countries with high levels of criminal violence, within its policy document Building Stability Overseas Strategy.¹⁴

The UK also provides assistance to UK companies that intend to invest in FCAS. For instance, the UK embassy in Bogota has organised workshops in Colombia to inform UK-based companies about the risks and challenges of doing business in Colombia's post-conflict environment. The Business and Human Rights Toolkit is aimed at how UK overseas missions promote good conduct by UK companies. The Toolkit states that: "If your embassy is in a high risk area (e.g., a weak governance zone) greater care is expected of companies operating in these areas since they are at greater risk of becoming complicit in human rights abuses".¹⁵

- Interviews and consultations with various policymakers and implementing agencies (including the Dutch Ministry of Foreign Affairs, RVO, FMO, Atradius, Triple Jump, PwC, CBI and PUM), including a focus group discussion (FGD) with implementing agencies involved in PSD in relation to FCAS. This FGD was meant to obtain up-to-date information on the implementation of PSD instruments in FCAS, and to what extent these instruments take into account conflict sensitivity. Current policy developments have also been included in the report, including the 2018 policy framework "Investing in Global Prospects".

12 J. Nelson, 2000, *The Business of Peace - The private sector as a partner in conflict prevention and resolution*, p.125; <https://www.international-alert.org/sites/default/files/publications/The%20Business%20of%20Peace.pdf> <Accessed on 1 September 2018>.

13 HM Government, 2016, *Good Business - Implementing the UN Guiding Principles on Business and Human Rights*. Updated May 2016, p.8; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/522805/Good_Business_Implementing_the_UN_Guiding_Principles_on_Business_and_Human_Rights_updated_May_2016.pdf <Accessed on 1 September 2018>.

14 *Ibid.*, p. 8.

15 HM Government, 2011, *Business and Human Rights Toolkit - How UK overseas missions can promote good conduct by UK companies*, p.6; <https://www.gov.uk/government/publications/business-and-human-rights-toolkit> <Accessed on 1 September 2018>.

- A quick scan of research on the impact of Dutch PSD policies in FCAS, with the aim of identifying possible knowledge gaps that will require further research. This quick scan is based on a desk study of the most relevant research on:
 - Dutch PSD policies in relation to peace and security
 - Dutch peace and security and fragile states policies in relation to PSD
 - The interface between private sector development support and conflict, peace and security.
 Studies have been selected on the basis of their relevance to the topic of this report and only studies that have appeared since 2010 are included.

- A quick scan of support channels for companies operating in FCAS and the requirements related to conflict sensitivity. This includes the following support channels and instruments:
 - DGGF - Dutch Good Growth Fund
 - PSI, PSI Plus and PSI Arab
 - DRIVE – Development Related Infrastructure Investment Vehicle
 - FDOV – Facility for Sustainable Entrepreneurship and Food Security
 - FDW – Sustainable Water Fund
 - FMO-MASSIF
 - DTIF – Dutch Trade and Investment Fund
 - PUM
 - CBI
 - Trade and economic missions
 - RVO country information
 - CSR Risk Check.

- A case study of Mali as an illustration of a fragile state where the Netherlands is providing PSD support. This case study consisted of a desk review to analyse the conflict context in relation to PSD, carried out by a consultant based in Mali.¹⁶ This study was used in section 2.2 to illustrate to what extent the actual context differs from the information provided by the Dutch government (e.g., in the RVO country information).

1.3 Theoretical framework

In this section, we briefly discuss the theoretical framework used for the research. This includes the concepts of private sector development, fragile and conflict-affected situations, conflict sensitivity and conflict-sensitive business practices and the role of the private sector in contributing to peace and stability.

Private sector development

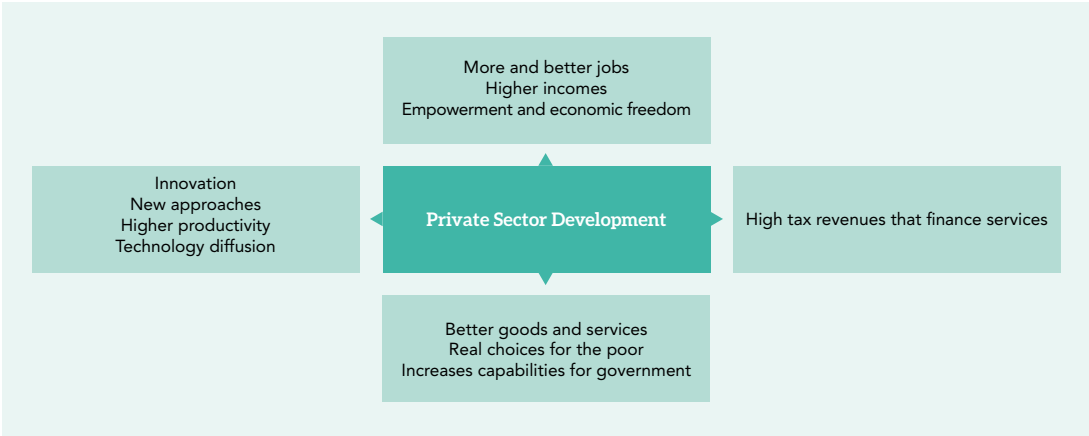
There are many definitions of private sector development, its goals and types of interventions. For the purpose of this report, we refer to the definition used by the Department for Sustainable

¹⁶ The desk review was carried out by Moctar Traoré, an independent consultant based in Mali.

Economic Development of the Dutch Ministry of Foreign Affairs:¹⁷ “PSD is the strategy for promoting economic growth and reducing poverty in developing countries by incorporating private industry and competitive markets into a country’s overall development framework”. The Ministry has a strong focus on SME development, and thus often refers to research that shows that “SMEs are the backbone of every economy because they account for around 80% of job creation and over 55% of employment in developing countries”.¹⁸

According to Mac Sweeney (2008), “Private Sector Development aims to achieve a vibrant and accessible market system, which encourages broad-based and inclusive economic growth”.¹⁹ The Australian House of Commons (2012) states that: “The overall role of the private sector in development, in terms of both local private sector activity and foreign investment, is to generate wealth and stimulate economic growth. The private sector does so by creating jobs, mobilising resources, introducing creativity and innovative solutions, and fostering skills development and training. At the same time, it is acknowledged that the private sector should not be viewed as a panacea that can solve all development challenges, or that one approach works in all countries and contexts”.²⁰ Figure 1 shows the main areas where private sector development can make a positive contribution to development.

Figure 1 Potential contributions of Private Sector Development (DFID 2008)



17 IOB, undated, “Werkdocument: Private Sector and Private Sector Ontwikkeling”; <https://psosamenwerken.wordpress.com/2012/02/29/werkdocument-private-sector-private-sector-ontwikkeling/> <Accessed on 1 March 2018>.

18 IFC and McKinsey, 2010, “Two trillion and counting”; cited in Goodwell investments, 2013, Dutch Good Growth Fund – enhance access to finance for SME segment in developing countries – (“spoor 2”), p.3; <http://goodwelladvisory.nl/wp-content/uploads/2015/02/Dutch-Good-Growth-Fund-report-advisory.pdf> <Accessed on 1 June 2018>.

19 Mac Sweeney, N., 2008, “Private sector development in post conflict countries – A review of current literature and practice”, p. 50; https://www.enterprise-development.org/wp-content/uploads/PostConflict_PSD_EN.pdf <Accessed on 1 March 2018>.

20 House of Commons, 2012, “Driving Inclusive Economic Growth: The Role of the Private Sector in International Development”, p. 25; https://www.enterprise-development.org/wp-content/uploads/Driving_Inclusive_Economic_Growth.pdf <Accessed on 1 March 2018>.

According to Liu and Harwit (2016),²² private sector development interventions can be classified into four categories:

1. Supporting firms/SMEs (multinationals, SMEs and micro-entrepreneurs)
2. Supporting firms/SMEs through financial intermediaries
3. Creating infrastructure
4. Improving business environment.

In this report, we will take into account all four types of interventions, with a focus on the first two. In practical terms, this means that the research is focused on PSD interventions by the Dutch government that provides direct and indirect support to businesses. This includes instruments for financial support, such as the Dutch Good Growth Fund and DRIVE, technical support for engaging in business abroad, such as PUM and CBI, and support channels for businesses, such as the country information provided by RVO and trade missions. Support can be offered to any type of enterprise, including multinational firms, locally based enterprises, SMEs and micro-entrepreneurs. It includes support for both Dutch and non-Dutch companies. The third category, infrastructure development, is taken into account by including the DRIVE instrument, while the fourth category, improving the business environment, is only touched upon in a more general way.

Fragile and conflict-affected situations

For the purpose of this report, we are going to use the DCED's definition of conflict-affected environments (2010):²³ "A conflict-affected environment refers to countries or regions where there is a high risk of violent conflict breaking out; that are in the midst of violent conflict; or have recently emerged from it, including countries classified as 'post-conflict'".

Fragile and conflict-affected situations can describe a wide range of places and contexts displaying very different challenges: some may be experiencing open armed violence, while others are not. Many of these countries are often referred to as "fragile states", which are generally understood to be poor developing countries that have either experienced violence and warfare or are in danger of collapsing into violence. However, the definition of fragile states is highly contested, especially by Southern governments. By now it has been acknowledged that it is not only fragility that defines a country, but also the resilience of certain states, which has allowed them to achieve and maintain peace over time, even when they are faced with economic stagnation. Therefore, a more common designation is "fragile and conflict-affected situations" (FCAS).²⁴

21 DFiD, 2008, "Private Sector Development Strategy – Prosperity for all: making markets work", p. 10; <https://www.enterprise-development.org/wp-content/uploads/DFID-Private-Sector-development-strategy.pdf> <Accessed on 1 March 2018>.

22 C. Liu and E. Harwit, 2016, "The Effectiveness of Private Sector Development Interventions in Fragile and Conflict-Affected Situations: Evidence from Evaluations", p. 7; https://www.ifc.org/wps/wcm/connect/e6f42677-7747-42a0-b7f1-b15a76d492e1/Report+of+a+systematic+review+of+PSD+interventions+in+FCS_final.pdf?MOD=AJPERES <Accessed on 1 March 2018>.

23 DCED, 2010, "Private sector development in conflict-affected environments", p. 7; https://www.enterprise-development.org/wp-content/uploads/PSDinCAE_KeyResourcesforPractitioners_Final.pdf <Accessed on 1 March 2018>.

24 SOMO, 2014, "Multinationals and Conflict – International principles and guidelines for corporate responsibility in conflict-affected areas", p. 12; <https://www.somo.nl/multinationals-and-conflict-2/> <Accessed on 1 March 2018>

For the purpose of our research, we have decided to focus not only on the more “traditional” fragile countries, such as South Sudan and the DRC, but to also include countries considered to be relatively stable but are nevertheless characterised by high levels of internal conflict, such as Mexico, Colombia, India and Turkey.

We have selected a total of 60 fragile and conflict-affected countries based on the following sources:²⁵

- The Fund for Peace’s Fragile States Index 2017²⁶
- The World Bank’s Harmonized List of Fragile Situations FY18²⁷
- Countries with Highly Violent Conflicts (HRV) according to the Conflict Barometer of the Heidelberg Institute for International Conflict Research²⁸
- Membership of the G7+.²⁹

This selection reflects the changing landscape of violence and conflict over the past decades.³⁰ Much of contemporary international policy operates within a long-standing framework in which conflict is defined as conventional fights – between governments or between governments and rebel groups – to gain control over territory and resources.³¹ However, according to Ganson and Wennmann (2016), “a narrow focus on armed conflict, however, is increasingly at odds with an era in which instability has become the new normal”.³² The World Economic Forum (2016) reports that “while the absolute numbers of outright wars and conflicts in the world is lower today than in the past, they continue to generate significant costs to government, business and societies alike. In addition, the prevalence of interpersonal violence is widespread, alongside a recent rise in violent extremism”.³³ According to Wennmann (2012), “the majority of conflicts in fragile situations – and especially those relevant to business – occur outside [the] contexts shaped by inter- or intrastate war. Rather, they occur in situations of chronic violence or turbulent political transitions that are shaped by a different set of dynamics, including organized crime, urban violence, deep and rapid political change, violent conflict

25 The full list of countries can be found in annex A.

26 See: <http://fundforpeace.org/fsi/> <Accessed on 1 March 2018>.

27 See: <http://pubdocs.worldbank.org/en/189701503418416651/FY18FCSLIST-Final-July-2017.pdf> <Accessed on 1 March 2018>.

28 See: <https://hiik.de/konfliktbarometer/bisherige-ausgaben/#ctsc-tab-content-2016> <Accessed on 1 March 2018>.

29 See: <http://www.g7plus.org/en/who-we-are> <Accessed on 1 March 2018>. The G7+ is an international, inter-governmental organisation that exists to provide a collective voice for countries affected by conflict, to forge pathways out of fragility and conflict, and to enable peer learning on how to achieve resilience and support between member countries. The G7+ was formed in 2010 in response to a gap identified by conflict-affected states in the achievement of Millennium Development Goals and service delivery and is committed to the New Deal for Engagement in Fragile States. Source: <http://www.g7plus.org/en/> <Accessed on 1 March 2018>.

30 B. Ganson and A. Wennmann, 2016, “Business and conflict in fragile states – The case for pragmatic solutions”, London: The International Institute for Strategic Studies, p. 104.

31 The standard international definition of armed conflict, based on the 1864 Geneva Convention, refers to “international armed conflicts, opposing two or more States, and non-international armed conflicts, between governmental forces and non-governmental armed groups, or between such groups only. Legally speaking, no other type of armed conflict exists”. ICRC, 2008, How is the term “Armed Conflict” defined in international humanitarian law?, ICRC Opinion Paper, p. 1; <https://www.icrc.org/eng/resources/documents/article/other/armed-conflict-article-170308.htm> <Accessed on 1 March 2018>.

32 Ganson and Wennmann, 2016, p. 107.

33 World Economic Forum, 2016, Responsible Investment in Fragile Contexts, p. 6; http://www3.weforum.org/docs/GAC16_Responsible_Investment_Fragile_Context.pdf <Accessed on 1 March 2018>.

arising from deep, long-term divisions, based on longstanding issues such as land disputes and external stress factors such as the economic crisis or climate change".³⁴

Conflict-sensitive business

In the peacebuilding literature, conflict sensitivity is a widely used term for an overall approach to all conflict-affected environments, and, according to MacSweeney (2008), essentially involves:³⁵ "being aware of the history of the political and social environment, identifying potential points of tension and hostility, and conducting intervention activities in a way which is sensitive to these".

According to Bardouille et al (2014), a conflict-sensitive approach to operating is one in which a company:³⁶

- understands the context and relevant conflicts in which it operates,
- understands the interaction between its operations and the conflict context, and
- plans and implements all of its activities in a manner that avoids negative impacts on conflict and maximizes positive ones.

According to International Alert (2015), "Conflict-sensitive business practice (CSBP) is based on the idea that conducting business with due care in fragile contexts can help avoid inflaming conflicts and violence, and may contribute to their reduction".³⁷

The conflict lens in PSD interventions

Although there is no generally accepted definition of the "conflict lens" in PSD interventions, it is basically about being sensitive to the context of conflict and fragility when private sector development interventions are designed or implemented in fragile and conflict-affected situations, to ensure that negative impacts on conflict and on local stakeholders are avoided and positive impacts maximised. One of the crucial elements to look at is if businesses operating in FCAS have a thorough understanding of the political context and local conflict environment.³⁸ The first OECD principle for engagement in fragile states is: "Take context as the starting point. It is essential for international actors to understand the specific context in each country, and develop a shared view of the strategic response that is required".³⁹ This context analysis should include a conflict analysis, with an assessment of the key parties to conflicts at the local, regional and national level. Another key element of applying a "conflict lens" is to check whether a thorough risk assessment has been

34 Wennmann, 2012, "20 Years of 'an agenda for peace': a new vision for conflict prevention?", p. 18; http://www.gppplatform.ch/sites/default/files/PP%2005%20-%2020%20Years%20Agenda%20for%20Peace%20-%20Oct.%202012_0.pdf <Accessed on 1 March 2018>.

35 Mac Sweeney, N., 2008, p. 22.

36 D. Bardouille, C. Berwind-Dart, S. Cechvala, and A. Ernstorfer, 2014, "Business for Peace: Understanding and Assessing Corporate Contributions to Peace". Discussion Paper, Cambridge, MA: CDA Collaborative Learning Projects, p.3-4; <http://cdacollaborative.org/publication/business-for-peace-understanding-and-assessing-corporate-contributions-to-peace/> <Accessed on 1 March 2018>.

37 International Alert, 2015, Peace Through Prosperity – Integrating peacebuilding into economic development, p. 10; <http://www.international-alert.org/publications/peace-through-prosperity> <Accessed on 1 March 2018>.

38 J. Miklian et al., 2018, "Business and Peacebuilding: Seven Ways to Maximize Positive Impact", p.15; <https://www.prio.org/Publications/Publication/?x=11008> <Accessed on 15 June 2018>.

39 DCED, 2010, p.9

building sustainable peace”.⁴⁴ Even though conflict and fragility have many other causes as well, it is recognized that businesses – especially large companies in the energy, mining or agribusiness sectors – are often a cause of conflict and violence in fragile situations, where predatory multinational companies violate human rights in already fragile settings or where they directly benefit from the war economy, thus exacerbating existing conflicts or creating new ones.⁴⁵ According to Hoffmann (2014), “the current enthusiasm for the private sector’s contribution to peace is based more on [an] eagerness to do things differently than on a strong evidence base of success stories”.⁴⁶ Forrer et al. (2012) found that “In some cases businesses resort to negative strategies as a coping mechanism against market and governance failure. Others may use them as a means to maximize profit. Negative strategies include bribery, flouting international laws and standards, cutting corners, and neglecting contractual arrangements. These can create new conflicts or exacerbate existing tensions”.⁴⁷ On the basis of extensive case research, Ganson (2018) concluded that “most enterprises experience many costs of conflict, but all the same either do not engage meaningfully to address key driving factors of conflict or in fact knowingly contribute to them”.⁴⁸ And finally, a recent report by the Peace Research Institute Oslo (PRIO) (2018) has come to the conclusion that “business ‘doing good for peace and development’ can spiral into local conflict situations that prove to be worse than if nothing had been done at all”.⁴⁹

In conclusion, there are different insights and views that emerge from the existing research regarding the role that the private sector could potentially play in contributing to peace, security and stability. This should be kept in mind when looking at the role of PSD policies and instruments in FCAS.

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- 44 J. Ford, 2016, Promoting conflict-sensitive business activity during peacebuilding, swisspeace, p. 7; <http://www.ssoar.info/ssoar/handle/document/46740> <Accessed on 1 March 2018>.
- 45 See among others: Ganson and Wennmann, 2016; SOMO, “Fragile! Handle with care”, 2017; <https://www.somo.nl/fragile-handle-care-multinationals-conflict/>; Bailey et al., 2015, “Investing in Stability – can extractive-sector development help build peace”? https://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20150619InvestingInStabilityBaileyFordBrownBradley.pdf <Both accessed on 1 March 2018>.
- 46 A. Hoffmann, 2014, “From ‘business as usual’ to ‘business for peace’? Unpacking the conflict-sensitivity narrative”, p. 4; <https://www.clingendael.org/sites/default/files/pdfs/CRU%20Policy%20Brief%2028.pdf> <Accessed on 1 March 2018>.
- 47 J. Forrer, T. Fort and R. Gilpin, 2012, “How business can foster peace, United States Institute of Peace”, p. 11; <https://www.usip.org/publications/2012/09/how-business-can-foster-peace> <Accessed on 1 March 2018>.
- 48 B. Ganson, 2017, “Unpacking the puzzle of business (not) for peace”, p. 3; <http://ganson.org/ganson-b-2017-unpacking-the.pdf> <Accessed on 15 June 2018>.
- 49 J. Miklian et al., 2018, “Business and Peacebuilding: Seven Ways to Maximize Positive Impact”, p. 7; <https://www.prio.org/Publications/Publication/?x=11008> <Accessed on 15 June 2018>.

2 The Mapping of Dutch PSD policies and support channels for FCAS

Policies (on economic development and peacebuilding) are found to be undergoing a converging trend, and peacebuilding policies increasingly demonstrate greater readiness to engage the private sector. ... The question now is whether these new insights are taken forward in more systematic collaboration between policymakers of both the peacebuilding and economic development domains.

Anette Hoffmann, Clingendael Institute⁵⁰

2.1 Dutch policies on Private Sector Development and peace and security

In this section, an overview will be provided of current Dutch development policies in relation to PSD, as well as peace and security. To understand the policy choices made, it is important to look back at how development policies have evolved over time.

Early days – The central role of the Dutch private sector in development cooperation

Kazimierczuk (2015) notes that since the inception of Dutch development cooperation in 1949, “alongside poverty alleviation and security, private sector development has taken a central role as it was assumed that poverty could only be alleviated when a country’s economy is stimulated”.⁵¹ Kazimierczuk (2015) further notes that “the Dutch government’s presumption has been that poverty reduction and social inclusion are linked to economic development via improved job creation and (productive) employment”.⁵² Therefore the Dutch government has strongly supported policies and initiatives stimulating PSD in developing countries. A key driver has been the promotion of Dutch business in, and export to, developing countries, as well as local private sector development and trade.

50 A. Hoffmann, 2014, “Policy Review: International and Dutch policies in the field of socio-economic development in fragile settings”, pp. 8 and 10; <https://www.clingendael.org/sites/default/files/pdfs/International%20and%20Dutch%20policies%20in%20the%20field%20of%20socio-economic%20development%20in%20fragile%20settings%20-%20Hoffmann.pdf> <Accessed on 1 March 2018>.

51 A. Kazimierczuk, 2015, “Historical overview of development policies and institutions in the Netherlands, in the context of private sector development and (productive) employment creation”, p. 3; <https://openaccess.leidenuniv.nl/bitstream/handle/1887/36351/ASC-075287668-3704-01.pdf?sequence=1> <Accessed on 1 March 2018>.

52 Ibid., p. 3.

Kazimierczuk (2015) also observes that since the 1960s, a large number of instruments and institutions were created “to encourage Dutch businesses to invest in developing countries and consequently generate new capital, employment and increase transfer of knowledge”.⁵³

The focus on peace and security has been more recent, dating from the early 2000s, according to Kazimierczuk (2015) who adds: “more emphasis was put on ‘fragile states’⁵⁴ and relationships between defense, diplomacy and development (the so-called 3D approach), in response to 9/11 and [an] increased Dutch military presence in conflict countries”.⁵⁵

The past decade has seen a strong push towards responsible business as promoted by the Ministry of Foreign Affairs. Kazimierczuk (2015) notes that “Dutch companies were to act more responsibly by gradually adopting some of the international CSR principles, but only a small group of leading companies adopted a proactive approach. Compliance with the OECD Guidelines for Multinational Enterprises was and remains the main requirement for obtaining governmental funding”.⁵⁶

2010 – The WRR report: prioritising economic growth in development cooperation

In 2010, the Dutch Scientific Council for Government Policies (WRR) published its influential report “Less Pretension, More Ambition: Development aid that makes a difference” (Van Lieshout et al. 2010).⁵⁷ Kazimierczuk (2015) noted that “the report was a plea for a fundamental change in the course [of Dutch] development cooperation, away from poverty reduction as its main objective towards prioritising economic growth instead”.⁵⁸ Van Lieshout et al. (2010) noted that “investments can lead to development if they have a positive, catalyzing effect on the existing economic infrastructure and small and medium-sized enterprises (SMEs)”.⁵⁹ At the same time, the authors noted that “investments do not necessarily have such a positive impact. After all, business linkages in all directions can have both positive and negative consequences. ... To assess whether investments are development related, it is necessary to examine the entire chain”.⁶⁰

Kazimierczuk (2015) further states that “the WRR’s recommendations were partly implemented by (State Secretary Ben Knapen) during his term (2010-2012). ... The major changes included a shift in focus from social to economic development and stronger alignment of Dutch development priorities

53 This includes the National Advisory Council for Aid to Less Developed Countries (NAR) in 1964, the Investment Reinsurance Act in 1969, the Netherlands Development Financing Company (FMO) in 1970 and the Centre for the Promotion of Imports from Development Countries (CBI) in 1971. A series of other PSD instruments have been created since the 1990s, including ORET (Development-related Export Transactions programme), PSOM (Programme for Cooperation with Emerging Markets), the MASSIF Financial Sector Fund, and PSI (Private Sector Investment program). *Ibid.*, p. 7, 12.

54 The term ‘fragile states’ is commonly used in Ministry of Foreign Affairs policy documents. Whenever this is the case in this report, we use quotation marks to show that it is quoted from a policy document. As indicated in section 1.2, the more widely accepted term “fragile and conflict-affected situations” is also used throughout this report.

55 Kazimierczuk, 2015, p. 23.

56 *Ibid.*, p. 27.

57 P. van Lieshout, R. Went, and M. Kremer, 2010, *Less Pretension, More Ambition. Development Policy in Times of Globalization*. Edited by WRR. Amsterdam: Amsterdam University Press; <https://english.wrr.nl/binaries/wrr-eng/documents/reports/2010/01/18/less-pretention-more-ambition/R084e-Less-pretention-more-ambition.pdf> <Accessed on 1 March 2018>.

58 Kazimierczuk, 2015, p. 33.

59 P. van Lieshout, R. Went, and M. Kremer, 2010, p. 207.

60 *Ibid.*, p. 207-208.

with Dutch expertise and self-interest”.⁶¹ Another priority area was security and rule of law, and one of the categories of the partner countries was labelled “fragile states”.

In 2010, NL Agency was founded as a merger of three agencies within the Ministry of Economic Affairs (EVD, Netherlands Patent Office and SenterNovem). Kazimierczuk (2015) notes: “Through the years, the Ministry for Development Cooperation and the Ministry of Economic Affairs increasingly tightened their links. Consequently, NL Agency became responsible for [the] management of most of the private sector development instruments”.⁶²

2011 – Introducing the “top sector” approach

A new policy to promote Dutch “top sectors” was introduced in 2011. In that year, as part of a new enterprise policy, the Dutch government initiated its “top sector” approach, which was a comprehensive sector agenda that involved Public Private Partnerships (knowledge – industry – government). According to the Dutch government, the goal of this policy is to put the knowledge and skills of the Dutch “top sectors” to optimal use. It focuses on nine top sectors that are knowledge-intensive (R&D) and export oriented. The top sector approach contributes to a strong international position of Dutch sectors that use their knowledge and innovative solutions to tackle global challenges.⁶³ These nine “top sectors” are: Agriculture and food, Creative industries, Chemical industry, Energy, High tech, Horticulture and starting materials, Life Sciences and Health, Logistics and Water.⁶⁴

The introduction of this top-sector approach is relevant for this report because the companies involved are also operating in FCAS. For instance, in post-conflict Colombia, six of the nine Dutch top sectors are represented and are actively seeking new business opportunities after the signing of the peace agreement in 2016.⁶⁵

However, it is not clear how the top-sectors approach takes into account this conflict dimension. The policy neglects to mention any connection to the contribution that Dutch businesses can make toward peace and stability, or how the role of businesses as an actor to the conflict can have (unintended) negative impacts on the conflict when the “conflict lens” is not applied.

2012 – Introducing the Aid and Trade agenda

In 2012, Liliane Ploumen assumed her position as the first Minister for Development Cooperation and Foreign Trade. The creation of this joint post for development cooperation and foreign trade confirmed the importance of cohesion between these two policy areas. Kazimierczuk (2015) noted that “in Ploumen’s key policy framework, entitled ‘A World to Gain’, the Minister put Dutch self-interest and the combination of trade and development cooperation at the core of national

61 Kazimierczuk, 2015, p. 33.

62 Ibid., p. 27.

63 Topsectoren.nl, 2015, “Topsectoren – Hoe and Waarom”; <https://www.topsectoren.nl/publicaties/brochures/2016/02/25/hoe-en-waarom-topsectoren> <Accessed on 1 March 2018>.

64 Website Holland Trade and Invest; <https://www.hollandtradeandinvest.com/key-sectors> <Accessed on 1 March 2018>.

65 *Het Financieele Dagblad*, 2017, “Na vrede komt de groei”; <https://fd.nl/morgen/1230473/na-vrede-komt-de-groei> <Accessed on 1 March 2018>.

development cooperation policy".⁶⁶ The Ministry of Foreign Affairs has set the main goals of the agenda as:⁶⁷

- Eliminating extreme poverty within a single generation (approaching zero);
- Promoting sustainable and inclusive growth throughout the world;
- The success of Dutch companies abroad.

The Ministry furthermore states that "in order to achieve these ambitions, the Netherlands invests in themes in which it is strong: food security, water, sexual and reproductive health and rights, security and rule of law. Extra attention is also paid to the themes of women's rights and gender equality, private sector development and climate change".⁶⁸

Poverty reduction has remained a key priority, together with the promotion of inclusive growth and Dutch firms operating in the international marketplace. The Ministry of Foreign Affairs (2013) stated: "Together with companies, research institutions and civil society organisations, the Dutch government will help governments in developing countries achieve the conditions needed to enable enterprise. They include the effective rule of law, transparent legislation, an adequate infrastructure and access to finance".⁶⁹ The policy framework also states that "the Dutch business community is an important development partner. Through trade and investment, Dutch companies contribute to the development of local economies by creating local jobs and production capacity and by transferring knowledge, establishing partnerships with local entrepreneurs and training and educating people. Dutch businesses also provide solutions to problems in low- and middle-income countries, for example in the fields of clean drinking water, infrastructure and food security".⁷⁰

Kazimierczuk (2015) notes that "The intention of Minister Ploumen was not to substitute aid for trade or vice versa but, depending on development relationships with a given country, choose the most optimal combination of both. For that reason, the Netherlands maintained relationships with three different types of partner and focus countries, one of which was "fragile states", affected by war, weak governance, and major ethnic and political tensions".⁷¹ Security and the rule of law also remained a priority theme through the New Deal for Engaging in Fragile States.⁷²

66 Kazimierczuk, 2015, p. 37.

67 Ministry of Foreign Affairs, website featuring Dutch Development Results, <http://www.dutchdevelopmentresults.nl/> <Accessed on 1 March 2018>.

68 Ministry of Foreign Affairs, website featuring Dutch Development Results.

69 Ministry of Foreign Affairs, 2013, "A World to Gain: A New Agenda for Aid, Trade and Investment", p. 42; <https://www.government.nl/documents/reports/2013/04/30/a-world-to-gain> <Accessed on 1 March 2018>.

70 Ibid., p. 54.

71 Kazimierczuk, 2015, p.37.

72 The New Deal, initiated in 2011, is a key agreement between fragile and conflict-affected states, development partners, and civil society to improve the current development policy and practice in fragile and conflict-affected states. The signatory countries are also known as the G7+. To date, 47 countries and organisations have endorsed the New Deal. Website International Dialogue on Peacebuilding and Statebuilding, <https://www.pbsbdialogue.org/en/new-deal/about-new-deal/> <Accessed on 1 March 2018>.

2013 – Implementation of the Aid and Trade agenda: new instruments for PSD, focus on fragile states

In its 2013 policy statement, “A World to Gain”, both private sector development and peace and security play a prominent role.⁷³ However, it remains unclear how the two policy goals will reinforce one another. No mention is made of how Dutch support to the private sector in fragile situations will take into account the specific conflict context, and to what extent special measures will be taken to screen companies for how they deal with this context. The only reference in the policy document to the nexus between PSD and peace is an example of support to sustainable banana production in Colombia (see box below).

Box 2 Example of a project on the nexus between PSD and peace: Sustainable banana production in Colombia

The Ministry of Foreign Affairs (2013) states that: “Together with the Colombian private sector, the Netherlands supported efforts to ensure sustainable banana production, with local authorities investing in infrastructure. This public-private partnership was awarded the Colombian peace prize for enterprise in 2009”.⁷⁴ This initiative was also mentioned in an IFC review of PSD interventions in FCAS as “a highly effective and successful project because of its strong leadership, management coordination with local stakeholder needs, and a holistic approach on how to improve the entire supply chain”.⁷⁵

In a 30 September 2013 policy letter, Minister Ploumen provided more details on the new vision regarding “fragile states”. She explained that “Low-income countries and ‘fragile states’ are the least connected to international, regional and local production and trade chains. These countries are often not well able to distribute the prosperity earned through trade and investment in an equitable way. For many countries, there are barriers related to failing or absent local government, a poorly functioning customs and tax administration, inadequate physical and financial infrastructure, a low-skilled working population and legal uncertainty, for example in the field of land rights. Most ‘fragile states’ also have an unstable political and security situation. These barriers keep companies from investing in low-income countries and ‘fragile states’”.⁷⁶

73 Ministry of Foreign Affairs, 2013, “A World to Gain: A New Agenda for Aid, Trade and Investment”.

74 Ibid., p. 46.

75 C. Liu and E. Harwit, 2016, “The Effectiveness of Private Sector Development Interventions in Fragile and Conflict-Affected Situations: Evidence from Evaluations”, pp. 15-16; https://www.ifc.org/wps/wcm/connect/e6f42677-7747-42a0-b7f1-b15a76d492e1/Report+of+a+systematic+review+of+PSD+interventions+in+FCS_final.pdf?MOD=AJPERES <Accessed on 1 March 2018>.

76 Ministry of Foreign Affairs, 2013, “Ondernemen voor ontwikkeling: investeren in duurzame en inclusieve groei, Brief van de Minister voor Buitenlandse Handel en Ontwikkelingssamenwerking”, 30 September 2013, p. 4; <https://www.tweedekamer.nl/downloads/document?id=299041f0-7b79-4b1d-8a4e-31a840d6774e&title=Ondernemen%20voor%20ontwikkeling%3A%20investeren%20in%20duurzame%20en%20inclusieve%20groei.%20.pdf> <Accessed on 1 March 2018>.

One of the interventions designed to stimulate investments in low-income countries and ‘fragile states’ – despite these barriers – is a new instrument called the Dutch Good Growth Fund (DGGF). This fund was launched in 2013 to promote development-related investment in, and trade with, developing countries among (primarily) small- and medium-sized enterprises (SMEs). The assumption behind the fund is that SMEs are crucial for job creation, and that a lack of financing opportunities in low- and middle-income countries curbs the growth of small and medium-sized enterprises. It is noted that the DGGF improvements compared to the earlier PSI and PSI Plus programs include an improved mix of available instruments, ranging from loans, equities, guarantees, insurance, export finance, credit insurance and technical assistance. The DGGF consists of three tracks⁷⁷: 1) support to Dutch SMEs; 2) investment funds for local SMEs⁷⁸; and 3) support to exporting Dutch SMEs via export credit insurance and export financing. Track 1 is managed by RVO, track 2 by Triple Jump and PwC, and track 3 by Atradius Dutch State Business.

Minister Ploumen, in her 2013 policy letter, also indicated that “extra attention will be paid to entrepreneurs in ‘fragile states’, young entrepreneurs and female entrepreneurs. They often make a relatively large contribution to development. As a result, applications from young and female entrepreneurs and from entrepreneurs in ‘fragile states’ score higher in terms of development relevance. The fund managers will be actively looking for promising initiatives for these groups of entrepreneurs”.⁷⁹ The DGGF “will not invest directly in local entrepreneurs, but make use of existing and newly created investment funds. For example, (DGGF) can participate in private equity funds for financing investments in post-conflict states, ... or local financial institutions that finance SMEs”.⁸⁰ The goal was to allocate at least fifteen percent of DGGF track 2 to the funding of intermediary funds and projects in “fragile states”.⁸¹ According to the Ministry of Foreign Affairs, this is a minimum target and the aim is to go beyond 15%, given the importance of fragile states in the DGGF.⁸² To determine which countries are considered “fragile states”, the DGGF uses the Harmonized List of Fragile Situations of the World Bank.⁸³

As the policy framework explains, with regards to support to Dutch SMEs (in track 1 and 3): “entrepreneurs will identify the countries and sectors they want to trade or invest in, and possible risks – financial risks, but also risks relating to the environment, working conditions and human rights – will be discussed with them.” The Dutch government “will then be able to give them information or advice specifically tailored to their situation, or provide a loan if there are problems finding finance for activities, and will also look at ways in which entrepreneurs can contribute to improving the local business climate, or whether they can support local counterparts”.⁸⁴ This was a potentially important

77 Website DGGF, <https://english.dggf.nl/about-dggf> <Accessed on 1 March 2018>.

78 For track 2, funding can be provided to private equity funds, SME banks or other types of institutions providing financing to SMEs. Email by Triple Jump, 19 June 2018.

79 Ministry of Foreign Affairs, 2013, “Ondernemen voor ontwikkeling”, p. 19.

80 Ibid., p. 23.

81 Email by Triple Jump, 19 March 2018.

82 Pers. Comm. DDE, Ministry of Foreign Affairs, October 2018.

83 World Bank, 2018, Harmonized List of Fragile Situations, <http://www.worldbank.org/en/topic/fragilityconflictviolence/brief/harmonized-list-of-fragile-situations> <Accessed on 1 October 2018>.

84 Ministry of Foreign Affairs, 2013, “A World to Gain”, pp. 43-44.

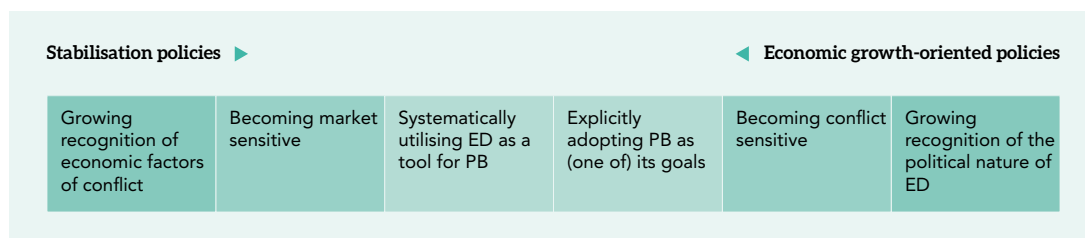
improvement, as this tailor-made approach provided the opportunity to tackle the specific risks and challenges that the private sector faces in FCAS.

In 2014, Minister Ploumen wrote a follow-up policy letter in which she discusses the implementation of her policy for private sector development.⁸⁵ One of the measures taken to achieve an integrated approach to private sector development is to carry out country analyses of the specific bottlenecks in the business climate.⁸⁶ The Minister's letter also mentions the PSD Platform, in which is meant "to increase the coherence and synergy between individual programs for private sector development".⁸⁷

Policy coherence between private sector development and peace and security

In a policy review of international and Dutch policies in the field of socio-economic development in fragile settings, Hoffmann (2014) concluded that "among selected Dutch policy documents, the Fragile States Strategy for 2008-2011 was identified as the only Dutch policy document that addresses the complexity of socio-economic development in fragile settings in an integrated manner".⁸⁸ The policies reviewed essentially focus on either economic development or on peacebuilding. According to Hoffmann (2014), "policies from these two fields are found to be undergoing a converging trend (see the figure below), and peacebuilding policies increasingly demonstrate greater readiness to engage the private sector. ... The question now is whether these new insights are taken forward in more systematic collaboration between policymakers of both the peacebuilding and economic development domains".⁸⁹

Figure 3 The Peacebuilding (PB) – Economic Development (ED) Spectrum Framework⁹⁰



85 Ministry of Foreign affairs, 2014, "Brief van de Minister voor Buitenlandse Handel en Ontwikkelingssamenwerking, Hulp, handel en investeringen", 25 April 2014; <https://zoek.officielebekendmakingen.nl/kst-33625-96.odt> <Accessed on 1 March 2018>.

86 Ibid., p. 5.

87 A variety of organisations, including RVO, FMO, IDH, CBI, MVO Nederland and PUM have been working together in the PSD Platform since a few years. The aim of this platform is to increase the coherence between the programs of these organisations in the recipient countries. In addition to coordination and synergy at country level, the PSD Platform works with joint protocols for monitoring and evaluation and for International Corporate Social Responsibility. Ibid., p. 5.

88 A. Hoffmann, 2014, "Policy Review: International and Dutch policies in the field of socio-economic development in fragile settings", pp. 7 and 18; <https://www.clingendael.org/sites/default/files/pdfs/International%20and%20Dutch%20policies%20in%20the%20field%20of%20socio-economic%20development%20in%20fragile%20settings%20-%20Hoffmann.pdf> <Accessed on 1 March 2018>.

89 A. Hoffmann, 2014, pp. 8 and 10.

90 Hoffmann and Beswick, 2013: 13; cited in A. Hoffmann, 2014, p. 29.

This converging trend was not yet visible in the development policy framework of 2013, where it was not clear how the two policy goals of private sector development and peace and security would strengthen one another. In a 2013 Ministry of Foreign Affairs policy letter the new vision regarding “fragile states” was explained, providing some clarity on the coherence between the two policy fields. Barriers related to failing or absent local governments, land rights, instability and insecurity prevented companies from investing in low-income countries and “fragile states”. One of the interventions to remove these barriers was the DGGF, introduced in 2013, to promote development-related investment in, and trade with, developing countries (primarily) among SMEs. The assumption made is that SMEs are crucial for job creation but that there is a lack of financing opportunities in low- and middle-income countries. The DGGF was meant to pay extra attention to entrepreneurs in “fragile states”, young entrepreneurs and female entrepreneurs because they often make a relatively large contribution to development. However, neither in the 2013 policy framework, nor in the policy letter that followed, it was explained how Dutch support of the private sector in fragile situations would take into account the specific conflict context, and to what extent special measures would be taken to screen companies for how they deal with this context.

When looking at the theories of change that were developed based on the 2013 policy framework (see below), it can be concluded that there appeared to be a disconnect between the Dutch government’s policy on private sector development on the one hand, and the security and rule of law policy on the other hand. The PSD Theory of Change does not mention conflict and peace, and only once refers to fragility, when it states that the DGGF will have a special focus on “fragile states”. In the security and rule of law Theory of Change, the role of PSD is mentioned: It states that the private sector has a key role to play in creating employment opportunities in fragile countries, and that this needs to be done in a conflict-sensitive way.

2015 – Theories of change for PSD and security and the rule of law

As an extension of the 2013 policy framework “A World to Gain”, two Theories of Change were developed by the Ministry of Foreign Affairs, in which the findings of the policy review by Hoffmann (2014) were taken into account:⁹¹

- **The Theory of Change for Private sector development** states that “the Netherlands is committed to sustainable, inclusive economic development through 1) Improving the business environment, and 2) Stimulating entrepreneurship.⁹² However, there is only limited attention for peace and security in the document. One of the few exceptions in this area is the assumption that “a successful business climate benefits from stability”.⁹³ There is also mention of the Dutch Good Growth Fund paying “special attention ... to entrepreneurs in ‘fragile states’”.⁹⁴

91 Pers. comm. Department for Sustainable Economic Development (DDE), Ministry of Foreign Affairs, October 2018

92 Ministry of Foreign Affairs, 2015, “Theories of Change Speerpunten en Prioritaire Thema’s – Private Sector Ontwikkeling”, p. 3; <https://www.rijksoverheid.nl/documenten/publicaties/2015/11/05/theory-of-change-privatesectorontwikkeling-zomer-2015> <Accessed on 1 March 2018>.

93 Ministry of Foreign Affairs, 2015, “Theories of Change Speerpunten en Prioritaire Thema’s – Private Sector Ontwikkeling”, p. 3.

94 Ibid., p. 6.

- **The Theory of Change for the security and rule of law policy priority in fragile situations**⁹⁵

This ToC explains that the overarching goal of the Dutch fragile states policy is “To promote ‘legitimate’ stability in fragile countries with a view to resolving and preventing armed conflict, protecting people and laying the foundations for sustainable development.” It consists of five policy goals: 1) human Security, 2) functioning rule of law, 3) inclusive political processes, 4) legitimate and capable government and 5) conflict-sensitive employment and social services”, which states that “by ensuring inclusive delivery of basic services and [the] generation of employment opportunities, government and other institutions will gain greater legitimacy with the public. It is important that external interventions [by] NGOs and the private sector involve (local) government institutions and do not undermine their legitimacy”. Also, “Shared social services, economic enterprise and trade can foster peaceful collaboration between rival groups if they conclude that they will gain from working together”.⁹⁶ It is also noted that: “Because the private sector [also] has a significant role to play in creating employment opportunities in ‘fragile states’, bilateral private sector programs may be implemented there. However, it is essential that conflict-sensitive approaches are adopted”.⁹⁷ This was actually the first time that conflict sensitivity is mentioned in relation to Dutch PSD policies.

Focus on Corporate Social Responsibility and business and human rights

Minister Ploumen’s policy framework presents a strong emphasis on the Corporate Social Responsibility (CSR) of Dutch companies. CSR became one of the major conditions to participation in any of the Ministry’s funding instruments.⁹⁸ The Dutch government took an important step by developing a National Action Plan on Business and Human Rights (NAP) in 2013.⁹⁹ According to this plan, “the Netherlands pursues an active policy to promote respect for human rights by the business community and to prevent companies from abusing human rights either directly or in their supply chains. The government expects companies operating abroad, in particular in countries where legislation or enforcement falls short, to pursue the same standards for CSR and human rights as they would in the Netherlands. ... For example, the government expects companies represented in a trade mission to look into the possible adverse effects of their operations on human rights, in the country in question, and to pursue policies to mitigate them”.¹⁰⁰

However, the Dutch NAP does not make the connection to conflict sensitivity and barely mentions conflict, peace and security. The only reference to conflict is in reference to the OECD Due Diligence

95 Ministry of Foreign Affairs, 2015, “Theory of Change for the security and rule of law policy priority in fragile situations”, p. 3; <https://www.government.nl/documents/regulations/2015/12/10/theory-of-change-for-security-rule-of-law-dsh-2015> <Accessed on 1 March 2018>.

96 Ministry of Foreign Affairs, 2015, “Theory of Change for the security and rule of law policy priority in fragile situations”, pp. 9-10.

97 Ibid., p. 11.

98 Ministry of Foreign Affairs, 2013, p. 24.

99 Ministry of Foreign Affairs, 2014, “National Action Plan on Business and Human Rights”; <https://www.business-humanrights.org/sites/default/files/documents/netherlands-national-action-plan.pdf> <Accessed on 1 July 2018>.

100 Ibid., pp. 9 and 15.

Guidance on Conflict Minerals. This is surprising given the fact that the UN Guiding Principles have clearly stated that the most severe human rights abuses take place in conflict-affected countries.¹⁰¹

2014 – Sector risk analysis and introduction of the IRBC agreements

In 2014, the Dutch government took the initiative to carry out a sector risk analysis of Dutch economic sectors, to identify sectors in which production-related social risks are high and to prioritize the strengthening of company policies relating to those risks. KPMG, a major audit, tax and advisory services company, performed a risk analysis in which they divided risks into the following categories: environment, labour and human rights, covering such issues as soil contamination, unhealthy working conditions, and dispossession of land. KPMG analysed the risks in 12 sectors.¹⁰²

KPMG's report made connections between certain sectors and the issue of conflict. For instance, the mining sector is associated with conflict minerals and local conflicts involving employees and local communities. The report also states that "the Netherlands is heavily dependent on metals from conflict regions or mines where ... local-level conflicts occur and is involved on several levels, namely as a processor of raw materials to semi-finished products, producer of finished products and as a consumer".¹⁰³ The agricultural sector also includes numerous high-conflict risks.

In the same year, the Social and Economic Council of the Netherlands (SER¹⁰⁴) recommended concluding multistakeholder agreements that promote international responsible business conduct (IRBC agreements¹⁰⁵) in each sector.¹⁰⁶ The abovementioned KPMG sector risk assessment served as a roadmap for the conclusion of various IRBC agreements.

Two of the IRBC agreements specifically mention conflict:

1. In the Gold Sector Agreement, it is recognised that "the complexity of the international value chain and its (potential) connection to conflict-affected and high-risk areas, calls for collective leverage to prevent or mitigate adverse impacts".¹⁰⁷ Also, reference is made to the OECD

101 United Nations, 2011, "Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, John Ruggie. Business and human rights in conflict-affected regions: challenges and options towards State responses", p.1; http://www2.ohchr.org/english/bodies/hrcouncil/docs/17session/A.HRC.17.32_en.pdf <Accessed on 1 July 2018>.

102 KPMG, 2014, "MVO Sector Risico Analyse. Aandachtspunten voor dialoog"; <https://www.rijksoverheid.nl/binaries/rijksoverheid/documenten/rapporten/2014/09/01/mvo-sector-risico-analyse/mvo-sector-risico-analyse.pdf> <Accessed on 1 March 2018>.

103 Ibid., p.39 <Accessed on 1 March 2018>.

104 The Social and Economic Council of the Netherlands advises the Dutch government and Parliament on key points of social and economic policy. The Council consists of independent Crown-appointed members, employers, and employees. SER website, <https://www.ser.nl/en/> <Accessed on 1 March 2018>.

105 In Dutch, these agreements are called "IMVO convenanten" (covenants in English). In policy documents, this is usually translated as "IRBC agreements".

106 SER, 2014, "Agreements on International Responsible Business Conduct"; <https://www.ser.nl/~media/files/internet/talen/engels/2014/international-responsible-business-conduct.ashx> <Accessed on 1 March 2018>.

107 SER, 2017, "Agreement on International Responsible Business Conduct of Companies in The Netherlands with Gold or Gold Bearing Materials in their Value Chains", p. 7; <https://www.internationalrbc.org/~media/files/imvo/gold/agreement-gold.ashx> <Accessed on 1 March 2018>.

Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas and the European Union conflict minerals regulation".¹⁰⁸

2. And, in the Banking Sector Agreement, the development of a publicly accessible human rights information and assessment tool is announced, which will include a specification of conflict-affected and high-risk areas.¹⁰⁹ Also, trade unions and CSOs will contribute by providing expertise on, among others, "ways to overcome obstacles to the fulfilment of human rights, including violations of labour rights, in repressive contexts; Interaction with governments in fragile, conflict-affected or quasi-ungoverned areas; and interaction with governments of states where serious human rights violations frequently take place".¹¹⁰

2015 – Introducing the Sustainable Development Goals: how are PSD and peace linked?

In 2015, the SDGs were launched. The Dutch government's report on the implementation of the SDGs (Kingdom of the Netherlands, 2017) states that "by combining foreign trade and development cooperation, the Netherlands invests in a strong global economy and a safer, [more] inclusive and [more] stable world, where extreme poverty has been eradicated and inequality reduced".¹¹¹

The report's chapter on SDG 16 (Peace, justice and strong institutions) states that "peace and justice is one of the central themes of the Netherlands' foreign trade and development cooperation agenda. Particularly in countries affected by violence, lawlessness and exclusion, the Dutch government takes an integrated approach towards peace, security and the rule of law".

There is little reference to the role of the private sector in relation to SDG 16. The only direct reference is the Dutch government's support for the IFC program on Conflict Affected States in Africa. The report states that "through this program, the Netherlands is investing in developing and strengthening the private sector in fragile African states to create jobs, particularly for young people, thus avoiding irregular migration and radicalization".¹¹² But all of the other examples regarding the Dutch contribution to SDG 16 relate to the role of governments and CSOs, not the private sector.

2017 and beyond – Recent policy changes on PSD and peace and security

We will now highlight a number of policy changes that have taken place since the beginning of this research project, some of which offer opportunities to build on and improve implementation.

108 Ibid. p. 7.

109 SER, 2016, "Dutch Banking Sector Agreement on international responsible business conduct regarding human rights", p.18; https://www.ser.nl/~media/files/internet/publicaties/overige/2010_2019/2016/dutch-banking-sector-agreement.ashx <Accessed on 1 March 2018>.

110 SER, 2016, "Dutch Banking Sector Agreement on international responsible business conduct regarding human rights", p.32; https://www.ser.nl/~media/files/internet/publicaties/overige/2010_2019/2016/dutch-banking-sector-agreement.ashx <Accessed on 1 March 2018>.

111 Kingdom of the Netherlands, 2017, "Report on the implementation of the Sustainable Development Goals", p. 7; <https://sustainabledevelopment.un.org/content/documents/16109Netherlands.pdf> <Accessed on 1 March 2018>.

112 Ibid., pp. 34-35.

In the fall of 2017, the Ministry of Foreign Affairs decided to move the sub-theme Economic Reconstruction from the Stabilization and Humanitarian Aid Department (DSH) to the Sustainable Economic Development Department (DDE). The Ministry of Foreign Affairs explained that this was to improve the links with private sector development policies for FCAS and the available PSD instruments, as well as the thematic focus of the DDE on youth employment. As of January 1, 2018, the senior policy officer assigned to the issue of employment for stability was transferred to the DDE, remaining liaised with the DSH in order to maintain a relationship with stability issues in FCAS.¹¹³

The Ministry of Foreign Affairs also reported that in autumn 2017, a short pilot involving the Dutch embassies in five conflict-affected countries was carried out by the Ministry of Foreign Affairs. According to the Ministry, there are two ways that employment and income-generating activities and PSD can contribute to stability: either as an explicit goal of interventions, or as an implicit effect of conflict-sensitive, private sector development. A theory of change and implementation tool for a “conflict lens” for PSD in FCAS will be developed in the course of 2018.¹¹⁴

With the appointment of Sigrid Kaag as the new Minister for Trade and Development Cooperation in 2017 came a new policy document. Some major policy choices had already been announced as part of the coalition agreement (*Regeerakkoord*) in October 2017.¹¹⁵ The coalition agreement states that “as an integral part of foreign policy, development cooperation aims to combat the root causes of poverty, migration, terrorism and climate change”.¹¹⁶ This is confirmed by the new policy framework of Minister Kaag, “Investing in Global Prospects”, which will focus more on preventing conflicts and combating instability and insecurity as one of the four overarching goals.¹¹⁷ According to the framework: “These goals are closely related, reinforce each other and call for an integrated approach. The government is working to achieve them through its combined agenda for foreign trade and international cooperation”.¹¹⁸ It also pointed out that: “Extreme poverty in the world is becoming more and more concentrated in fragile regions. It is in everyone’s interest to tackle the root causes of these problems in cooperation with the countries themselves”.¹¹⁹ Private sector development remains a priority of the Dutch government and the combined agenda on Foreign Trade and Development Cooperation will be continued.¹²⁰

113 Pers. Comm. Department for Sustainable Economic Development (DDE), Ministry of Foreign Affairs, February 2018.

114 Ibid.

115 VD, CDA, D66 and ChristenUnie, 2017, <https://www.kabinetsformatie2017.nl/documenten/publicaties/2017/10/10/regeerakkoord-vertrouwen-in-de-toekomst> <Accessed on 1 March 2018>.

116 Ibid., p. 48.

117 The four overarching goals are: 1) Preventing conflict and instability, 2) Reducing poverty and social inequality, 3) Promoting sustainable inclusive growth and climate action worldwide and 4) Enhancing the Netherlands’ international earning capacity; Ministry of Foreign Affairs, 2018, *Investing in Global Prospects – For the World*, For the Netherlands. Policy Document on Foreign Trade and Development Cooperation, p.22; <https://www.government.nl/topics/development-cooperation/documents/policy-notes/2018/05/18/investing-in-global-prospects> <Accessed on 1 June 2018>.

118 Ibid., p. 23.

119 Ibid., p. 10

120 Ibid., p. 10.

The area devoted to “Just and peaceful societies” notes that “the rule of law and a legitimate government are essential to sustained socioeconomic development, stability and security”.¹²¹

The new policy also states that “the SDGs are the ultimate prevention agenda: investing in the goals means investing in preserving peace and preventing conflict in fragile and unstable regions. Progress towards the goals can take away the breeding ground for conflict and radicalisation, help restore the social contract between people and the state, and thereby help prevent states and societies from disintegrating”.¹²² This provides a good starting point for realizing more coherence between PSD and peace and security. Applying the “conflict lens” will then become the missing link between SDG 8 (Decent work and economic growth) and SDG 16 (Peace, justice and strong institutions).

In the new policy framework, it is stated that Dutch efforts in fragile regions will become more based on a “conflict-sensitive” approach. According to the Ministry of Foreign Affairs, “one of the main causes of violent conflict is that groups feel excluded from decision making power, opportunity, justice and security. The aim is to take better account of the unintended effects of interventions on all groups in society and ensure that interventions do not fuel or reignite existing conflicts. In Ethiopia, for example, local consultants prepare social impact analyses in connection with support for investment in the agricultural sector.¹²³ The aim is to gain a better understanding of local grievances, for example, concerning land rights. Conflict-sensitive policy requires better identifying the risks associated with conflict and instability (early warning) in order to address them without delay (early action)”.¹²⁴

In the new policy framework, strengthening the private sector is deemed essential for development. How the private sector can contribute to the prevention of conflict and instability, as one of the overarching goals of the new policy framework, has remained an under-valued aspect of Dutch policies. It certainly deserves a more clear-eyed recognition. Meanwhile, the new policy framework provides a good opportunity for aligning PSD support (financial and non-financial) policies and practices to this overarching goal by applying the “conflict lens” to PSD policies and interventions in FCAS. The importance of a conflict-sensitive approach is recognised within the framework, which is a positive sign, and offers an excellent opportunity for a more structural integration into PSD policies when implementing the policy framework.

121 Ibid., p. 41.

122 Ibid., p. 23.

123 This example is also dealt with in section 2.2 (see Box 4).

124 Ministry of Foreign Affairs, 2018, p. 43.

It is also announced in the new policy framework that “the (Dutch) government is going to make its financial instruments more effective, so as to support Dutch and foreign private parties that wish to contribute to the SDGs.”¹²⁵ To this end, Invest NL, a new financing and development facility, will finance and develop international activities and projects through a joint venture with the Dutch development bank FMO.¹²⁶ Invest NL will partner with the Netherlands Enterprise Agency (RVO) and with the export credit insurance agency Atradius Dutch State Business to enable the further concentration of international knowledge and expertise. According to the policy framework, “RVO’s international financing instruments, including the Dutch Good Growth Fund (DGGF)¹²⁷ and the Dutch Trade and Investment Fund (DTIF), are to be integrated into the joint venture, making international financing more accessible to entrepreneurs. The criteria of the DGGF will also be modified to enable tailor-made support to be provided to Dutch businesses that wish to operate in high-risk countries”.¹²⁸ This could potentially be an entry point for applying a “conflict lens” in the Dutch PSD instruments, starting with DGGF, because of the fund’s specific focus on ‘fragile states’.¹²⁹

The establishment of Invest NL should be seen as an opportunity to integrate the “conflict lens”, in order to increase consistency between the different PSD instruments and how fragility and conflict are taken into account when screening corporate applications. We therefore recommend to formalise and harmonize conflict sensitivity in the PSD support criteria. This will aid the realisation of the new policy framework’s ambitions to provide “a larger role for the private sector (...), including the Dutch ‘top sectors’, with a view to[ward] tackling societal challenges worldwide”.¹³⁰

2.2 Dutch instruments and support channels for private sector development in FCAS

In this section, the results of a quick scan of the main Dutch PSD instruments and support channels available for FCAS are presented. The aim of the quick scan was to ascertain whether these instruments apply a so-called “conflict lens”. The quick scan focused on three key questions: 1) whether these instruments take into account the conflict context in the implementation of PSD instruments and support channels for companies in FCAS, 2) whether they provide companies with information on the risks and challenges of operating in these contexts, and 3) whether they include requirements regarding conflict-sensitivity from corporate applicants in their selection process.

125 Ministry of Foreign Affairs, 2018, p. 63.

126 Ministry of Foreign Affairs, 2018, p. 63.

127 This applies only to track 1 of the DGGF. Pers. Comm. DDE, Ministry of Foreign Affairs, October 2018.

128 Ministry of Foreign Affairs, 2018, p. 63.

129 In response to a draft version of this report, the Ministry of Foreign Affairs states that the criteria will not be modified. In its response, the Ministry states that they are “making adjustments in the type of financial products offered (higher risk products) and will more actively provide technical assistance”. Pers. Comm. DDE, Ministry of Foreign Affairs, October 2018.

130 Ministry of Foreign Affairs, 2018, p. 13.

Introduction

As stated in the previous section, support for the private sector has always played a central role in the Dutch government's development policies. Since the introduction of Minister Ploumen's 2013 policy framework, "A World to Gain", there have been two types of PSD support:¹³¹

- Instruments that support Dutch entrepreneurs who wish to engage in international trade and investment
- Instruments that support local entrepreneurs (mainly SMEs) in low- and middle-income countries.

For this research, a quick scan of the main Dutch PSD instruments and support channels available for FCAS was carried out.¹³² Twelve instruments and support channels were selected, based on their availability for FCAS.¹³³ These instruments were then analysed by observing their relevance to FCAS, the requirements of the instrument and to what extent they refer to conflict and fragility and the number of FCAS for which the instrument is available (out of a total of 60 FCAS). The results of the quick scan are summarised in table 1 below. Some of these instruments are no longer available, but they are included because they present a specific focus on, or are particularly relevant to, fragile situations. The quick scan also included interviews and consultations with Dutch Ministry of Foreign Affairs policymakers as well as the implementing agencies RVO (including CBI), FMO, Atradius, Triple Jump, PwC and PUM.¹³⁴

131 Ministry of Foreign Affairs, 2013, "A World to Gain", pp. 43-44.

132 See separate report for the full quick scan (available upon request).

133 This includes the country information provided by RVO on its website, as well as the information provided through the CSR Risk Check. Technically speaking, these are not PSD instruments or support channels, but they are included because they are part of the support provided to companies and play an essential role in understanding the context in which companies will operate.

134 See annex C for a list of the people consulted during the research.

Table 1 Summary of Quick Scan of PSD support channels and instruments available for Fragile and Conflict Affected Situations (FCAS)

Name of the instrument	Implementing agency	Short description	Relevance to FCAS	Reference to conflict and fragility of the instrument's requirements	FCAS- available instruments (of a total of 60 FCAS) ¹³⁵
1. DGGF – Dutch Good Growth Fund	Track 1: RVO Track 2: Triple Jump and PwC Track 3: Atradius Dutch State Business	Improved access to financial sources for entrepreneurs in the Netherlands, developing countries and emerging markets. Focus is on 3 tracks: 1) support to Dutch SMEs; 2) investment funds for local SMEs ¹³⁶ ; and 3) support to exporting Dutch SMEs via export credit insurance and export financing. ¹³⁷	High: Specific targets for intermediary funds that invest in young or female entrepreneurs and entrepreneurs in “fragile states”. The target for track 2 is at least 15% capital invested in fragile states, which has almost been achieved. ¹³⁸ No detailed figures for tracks 1 and 3 are available but implementing agencies confirm that capital invested in fragile states is less than 20%. ¹³⁹	Conflict and fragility are implicitly considered in the DGGF application process by checking the context in which a company will operate and – under specific circumstances – conduct enhanced ESG due diligence. But there is no explicit mention of conflict-sensitivity or potential risks related to doing business in FCAS. This offers opportunities for improvement.	38
2. PSI, PSI Plus and PSI Arab	RVO	Subsidy program (cancelled in 2015) supported innovative investment projects in developing countries. PSI Plus focused on “fragile states”. PSI Arab was introduced for projects in the Middle East and North Africa (MENA) region. ¹⁴⁰	High: PSI Plus was tailored to the needs of companies in “fragile states”. Here the involvement of PSI was seen as a means to reduce risk and stimulate additional investments. ¹⁴¹ Of the total number of applications (2009-2014), 20% came under PSI Plus and 7% under PSI Arab. ¹⁴²	PSI Plus was well adapted to the context of fragility and conflict and that there was explicit attention for the way companies were dealing with conflict and fragility in the application process.	29
3. DRIVE – Development Related Infrastructure Investment Vehicle	RVO	Supports investments in expansion and/or quality improvement of public infrastructure that improves development of the private sector by promoting entrepreneurship, productivity and employment opportunities, and by lifting wages. ¹⁴³ DRIVE succeeded the ORIO program. ¹⁴⁴	Medium: Although there is no specific focus on fragile and conflict-affected settings in DRIVE, it is acknowledged that infrastructural development and improvement of the business climate are key components to create an enabling environment for foreign investment, especially in fragile and conflict-affected settings.	Even though the local context is considered, there is no specific attention paid to conflict and fragility in the DRIVE application process. There is no explicit mention of conflict-sensitivity or the potential risks related to doing business in FCAS. This offers opportunities for improvement.	32

135 See annex A for the list of fragile and conflict-affected states used as the basis for this research.

136 For track 2, funding can be provided to private equity funds, SME banks or other types of institutions providing financing to SMEs. Email by Triple Jump, 19 June 2018.

137 Website DGGF, <https://english.dggf.nl/about-dggf> <Accessed on 1 March 2018>.

138 13% of current capital in track 2 is invested in fragile states, while 16% of total commitments (as of end of 2017) were made in fragile states. Email by Triple Jump, 19 March 2018.

139 Interview RVO, February 2018.

140 APE, MDF and Timpoc, 2016, p. 22.

141 APE, MDF and Timpoc, 2016, p. 55; Evaluation PSOM/PSI 1999-2014, p. 22; <https://www.rijksoverheid.nl/binaries/rijksoverheid/documenten/kamerstukken/2017/03/17/externe-evaluatie-psom-psi-1999-2014/externe-evaluatie-psom-psi-1999-2014.pdf> <Accessed on 1 March 2018>.

142 APE, MDF and Timpoc, 2016, p. 24.

Name of the instrument	Implementing agency	Short description	Relevance to FCAS	Reference to conflict and fragility of the instrument's requirements	FCAS- available instruments (of a total of 60 FCAS)
4. FDOV – Facility for Sustainable Entrepreneurship and Food Security	RVO	Supports public-private partnerships in food security and private sector development in developing countries. The instrument is currently closed. ¹⁴⁵	Medium: Even though no specific attention is paid to fragile and conflict-affected settings in the FDOV program, it does focus on high-risk settings, which is a key characteristic of FCAS.	Although the local context is considered, no specific attention is paid to conflict and fragility in the FDOV application process. There is no explicit mention of conflict-sensitivity or the potential risks related to doing business in FCAS. This offers opportunities for improvement.	38
5. FDW – Sustainable Water Fund	RVO	Public Private Partnership facility that contributes to water safety and water security in developing countries. The instrument is currently closed. ¹⁴⁶	Medium: Although no specific attention is paid to fragile and conflict-affected settings in the FDW program, it has a specific focus on high-risk settings, which is a key characteristic of FCAS.	Although the local context is considered, no specific attention is paid to conflict and fragility in the FDW application process. There is no explicit mention of conflict-sensitivity or the potential risks related to doing business in FCAS. This offers opportunities for improvement.	34
6. FMO-MASSIF	FMO	Access to financial services such as bank accounts, savings and loan products for micro-, small- and medium-sized entrepreneurs. ¹⁴⁷ MASSIF has 4 investment themes in a selection of mostly low and lower-middle income countries supporting: ¹⁴⁸ <ul style="list-style-type: none"> • The Unbanked: MSMEs in least financially penetrated and fragile countries • Agriculture and Rural Livelihoods • Women-owned businesses and youth entrepreneurs • Innovations in Inclusive Business 	High: Since the renewal of FMO's strategy in 2017, the FMO-MASSIF program partially focuses on fragile states. ¹⁴⁹ Investments under the theme of "The Unbanked" are centred around a subset of countries with very low levels of financial inclusion, covering World Bank-designated low-income countries (LICs) and fragile and conflict-affected states. ¹⁵⁰	Conflict and fragility are implicitly considered in the FMO-MASSIF application process by looking at the context in which a company will operate and by taking a risk-based approach. But there is no explicit mention of conflict-sensitivity or of the potential risks related to doing business in FCAS. This needs to be improved. FMO is currently developing contextual risk analysis that will pay special attention to the conflict context. ¹⁵¹	38

143 RVO website, <https://english.rvo.nl/subsidies-programmes/development-related-infrastructure-investment-vehicle-drive> <Accessed on 1 March 2018>.

144 ORIO contributed to the development, implementation (construction and/or expansion), operation and maintenance of public infrastructure in developing countries. Peace, Security and Development Network, 2010, How can Public-Private Cooperation contribute to sustainable economic development in Fragile States? – from policy to practice, p.6; <https://www.kpsrl.org/publication/how-can-public-private-cooperation-contribute-to-sustainable-economic-development-in-fragile-states#> <Accessed on 1 March 2018>.

145 RVO website, <https://english.rvo.nl/subsidies-programmes/facility-sustainable-entrepreneurship-and-food-security-fdov> <Accessed on 1 March 2018>.

146 RVO website, <https://english.rvo.nl/subsidies-programmes/sustainable-water-fund-fdw> <Accessed on 1 March 2018>.

147 FMO website, <https://www.fmo.nl/partner-with-us/massif> <Accessed on 1 March 2018>.

148 Ibid.

149 Email by FMO, 10 June 2018.

150 FMO website, <https://www.fmo.nl/partner-with-us/massif> <Accessed on 1 March 2018>.

151 Email by FMO, 21 March 2018.

Name of the instrument	Implementing agency	Short description	Relevance to FCAS	Reference to conflict and fragility of the instrument's requirements	FCAS- available instruments (of a total of 60 FCAS)
7. Dutch Trade and Investment Fund (DTIF)	1. DTIF Investment: RVO 2. DTIF Exports: Atradius Dutch State Business	Loans, guarantees and export financing for Dutch companies seeking to invest in, or export to, foreign markets. DTIF consists of 2 components: investment and exports. ¹⁵²	Low: The fund is directed at non-DGGF countries, which are generally more developed and less fragile. But a significant number of ineligible countries under DGGF are also considered fragile and conflict-affected, so in that sense DTIF is also relevant for FCAS.	Even though the local context is considered, no specific attention is paid to conflict and fragility in the DTIF application process. There is no explicit mention of conflict-sensitivity or of the potential risks related to doing business in FCAS. This offers opportunities for improvement.	22
8. PUM	PUM	Coaching and management support for SMEs in developing countries and emerging markets. ¹⁵³	Medium: Although there is no specific focus on FCAS in the PUM program, it has a strong focus on SMEs with a tailor-made approach. This is why PUM could potentially make very valuable contributions to FCAS.	No specific attention is paid to conflict and fragility in the PUM application process. There is no explicit mention of conflict-sensitivity or the potential risks related to doing business in FCAS. This offers opportunities for improvement.	16
9. CBI	RVO	Support for the expansion of exports from developing countries to Europe. ¹⁵⁴	Medium: Although CBI does not specifically focus on fragile and conflict-affected settings, it is available in a large number of FCAS. CBI's support is available for all DGGF countries.	Although the local context is considered, no specific attention is paid to conflict and fragility in the CBI application process. There is no explicit mention of conflict-sensitivity or of the potential risks related to doing business in FCAS. This offers opportunities for improvement.	38
10. Trade and economic missions	RVO and various business associations	Identify new business opportunities for Dutch companies and increase their international networks. ¹⁵⁵	High: Many trade and economic missions focus on FCAS, especially in the post-conflict/reconstruction phase, when business opportunities arise for Dutch companies.	In most cases, no specific attention is paid to conflict and fragility in trade and economic missions. There is no explicit mention of conflict-sensitivity or of potential risks related to doing business in FCAS. This offers opportunities for improvement.	not relevant ¹⁵⁶

152 RVO website, <https://english.rvo.nl/subsidies-programmes/dutch-trade-and-investment-fund-dtif> <Accessed on 1 March 2018>.

153 PUM website, <https://www.pum.nl/about-us> <Accessed on 1 March 2018>.

154 It was noted by the Ministry of Foreign Affairs that CBI's support is available for all DGGF countries. On its website, a slightly different country list is provided; CBI website, <https://www.cbi.eu/about/> <Accessed on 1 March 2018>.

155 RVO website, <https://www.rvo.nl/onderwerpen/internationaal-ondernemen/netwerken-en-contacten/handelsmissie/overzicht-missies> <Accessed on 1 March 2018>.

156 In principle all countries worldwide are eligible for trade and economic missions. It includes all 60 countries from the list of fragile and conflict-affected countries compiled for this research.

157 RVO website, <https://www.rvo.nl/onderwerpen/internationaal-ondernemen/landenoverzicht> <Accessed on 1 March 2018>.

Name of the instrument	Implementing agency	Short description	Relevance to FCAS	Reference to conflict and fragility of the instrument's requirements	FCAS- available instruments (of a total of 60 FCAS)
11. RVO country information	RVO	Support for companies in orienting to foreign markets and finding business partners. Its website provides country pages with information about trade legislation, sectors, trade figures and subsidies. ¹⁵⁷	Medium: RVO country pages provide very limited information on the conflict context in FCAS. This information is mostly not very thorough and, in general, the information is focused on business challenges, and less on the risks of entanglement in conflict dynamics, and how companies become involved in serious human rights violations in a conflict context.	Not applicable because it is not a funding instrument but an information source, so there are no requirements for its users.	42
12. CSR Risk Check	MVO Nederland	CSR Risk Check is for entrepreneurs who purchase internationally produced products, export products or produce abroad. It assesses the CSR risks companies may encounter in its business activities. ¹⁵⁸	High: The risk assessment has special relevance for FCAS as the risks of serious human rights violations are greater in those settings, as acknowledged by the <i>UN Guiding Principles on Business and Human Rights</i> .	The CSR Risk Check poses a number of specific questions on conflict and security for companies that access it. Under the theme of Human rights and ethics, conflicts and security are mentioned as a specific risk.	not relevant ¹⁵⁹

¹⁵⁸ Website CSR Risk Check, <http://www.mvorisicochecker.nl/en/risk-check> <Accessed on 1 March 2018>.

¹⁵⁹ In principle, all countries worldwide are included in the CSR Risk Check, so this includes all 60 countries from the list of fragile and conflict-affected countries compiled for this research.

Conclusions from the quick scan¹⁶⁰

First of all, it can be concluded that a number of Dutch PSD instruments and support channels available specifically mention FCAS as one of their particular areas of attention. This includes the Dutch Good Growth Fund, PSI Plus and FMO-MASSIF. While the other instruments do not specifically mention FCAS, some of them are particularly relevant for FCAS, for instance, because of their particular focus on high-risk settings where the market falls short because the risk is considered too high. This includes DRIVE, FDOV, FDW, PUM and CBI. In fact, the Ministry of Foreign Affairs has announced that “after the evaluations of their respective 2016 programs, the Netherlands Centre for the Promotion of Imports from developing countries (CBI) and the Netherlands senior experts programme (PUM) will focus more on poorer countries and ‘fragile states’”.¹⁶¹

With regards to the DGGF, it is especially worth noting that track 2 pays particular attention to investment funds or other financial intermediaries that invest in companies in fragile countries, for which the target of 15% invested capital in fragile states has almost been reached.¹⁶² According to Triple Jump, one of DGGF’s implementing agencies, track 2 is currently at 13% of the total 15% target for fragile states. It is expected that track 2 will perform well on the 15% target, as fragile states are an important focus for track 2.¹⁶³ In terms of economic impact, track 2 has thus far financed 120 SMEs, which together created 659 direct jobs and 3,123 indirect jobs in fragile states.¹⁶⁴ Based on interviews with other DGGF’s implementing agencies, it seems that there are no detailed figures available for tracks 1 and 3. But the implementing agencies confirm that it is most probably less than 20%.¹⁶⁵

The Dutch government’s website on development results, including its work on PSD, indicates that there are specific data for various categories, including “fragile states”.¹⁶⁶ However, the website does not provide disaggregated data for “fragile states”, making it impossible to properly assess the contribution of Dutch PSD instruments there. It would be interesting to look into the share of DGGF (and other PSD instruments) that actually ends up in the 60 FCAS countries as defined for this study. It is expected that this will reveal that a much larger portion of Dutch PSD instruments actually

160 The complete results of the quick scan for the 12 PSD instruments can be found in a separate annex to this report. This annex is available upon request.

161 Ministry of Foreign Affairs, website on Dutch Development Results; http://www.dutchdevelopmentresults.nl/theme/private#ind_private_business_companies <Accessed on 1 March 2018>.

162 Email by Triple Jump, 19 March 2018; email by DDE, Ministry of Foreign Affairs, 19 June 2018.

163 For track 2 of the DGGF, end of 2017, 8 Intermediary Funds in the DGGF portfolio have made investments in fragile states, representing 13% of current capital invested by DGGF (versus the target of 15%). Countries invested in are: Palestinian Territories, Liberia, DRC, Ivory Coast, Nepal, Myanmar, South Sudan and Afghanistan. In terms of commitments (contracts signed) – of a total commitment of USD211 million made by the end of 2017, USD34 million (or 16%) is expected to be invested in fragile states. Email by Triple Jump, 19 March 2018.

164 Email by Triple jump, 19 June 2018.

165 Interview RVO, February 2018.

166 The PSD-list of “fragile states” is based on the World Bank’s Harmonized List of Fragile Situations; Ministry of Foreign Affairs, 2017, 15. methodological notes, p.; <https://www.rijksoverheid.nl/documenten/kamerstukken/2017/03/16/bijlage-kamerbrief-inzake-aanbieding-methodologische-notities> <Accessed on 1 March 2018>.

find their way to FCAS.¹⁶⁷ Moreover, the recommendation is to further initiate an evaluation on the economic impacts of the DGGF, as well as on the conflict and fragility impact in FCAS.¹⁶⁸

We can furthermore conclude that PSD support criteria do not include conflict sensitivity as a specific criterion, although, in practice, extra attention is paid to the conflict context by the implementing agencies. Even though this may not be the formal policy, it is reported that for some PSD instruments (in particular DGGF, PSI Plus and FMO-MASSIF), an additional screening for investments in fragile and conflict-affected settings is applied. For most implementing agencies, it is an integral part of the due diligence process to ask companies applying in FCAS to describe the context in which they will be operating and how they plan to deal with the risks and challenges involved. This includes the risks for the companies *and* the human right risks in the country of operation. For instance, the DGGF requires applicants to identify conflict drivers (such as land acquisition, hiring policies and natural resource use) as part of that context analysis, which forms part of the formal application process.¹⁶⁹ It is noted by interviewees that this is time consuming and requires an in-depth knowledge of the context.

If they have not previously invested in a certain context, companies are requested to show that they have the capacity and commitment to manage risks and the ability to monitor those risks. If they cannot convince the fund managers of their capacities, the deal will be rejected.¹⁷⁰

This is an encouraging finding and means that despite the fact that, on a policy level, the link between the two goals of private sector development and peace and security has until recently been non-existent, in practice in some cases these two goals are being linked. To a certain degree, a 'conflict lens' is already being applied by some of the implementing agencies. However, this is mostly done on an ad hoc and informal basis and there is a need to formalise conflict sensitivity in the PSD support criteria and develop more capacity to assess conflict-sensitivity and "do no harm". The different instruments could be better aligned and learn more from each other, and overall, improve the way they take the specific risks of operating in a broader conflict context into account.

167 It should be noted that on a project level, data on the economic impacts of Dutch PSD instruments are available on the RVO website (see: <https://aiddata.rvo.nl/>). However, it was beyond the scope of this research to analyse these data on a project level. Our research was focused on application of the "conflict lens" on the level of policies and instruments/support channels, not on a project level. In fact, one of the recommendations is to initiate an impact study on the application and effectiveness of PSD instruments in FCAS (see section 4.2).

168 There was the announcement that Itad, together with SEO Economic Research, have been selected to perform the impact evaluation of DGGF's first 5-years (2014-2019). The report has not yet been published. Source: <http://www.itad.com/projects/evaluation-of-the-dutch-good-growth-fund/> <Accessed on 1 June 2018>.

169 Email by RVO, 7 June 2018.

170 Interview FMO, February 2018.

Box 3: Two examples of Dutch PSD support in FCAS

DGGF support to private equity fund for SMEs in Afghanistan

The DGGF has supported a private equity fund in Afghanistan managed by InFrontier, an international specialist investment firm focusing on frontier markets.¹⁷¹ Support was directed toward “the launch of one of the few private equity funds for SMEs with an on-the-ground presence in Afghanistan, a country on the fragile states list. InFrontier will provide both much needed capital to high growth SMEs and significant knowledge transfer, [which is] considered critical for success in the Afghan context. Targeted SMEs are expected to generate new employment opportunities mostly for the [country’s] youth. In this transaction, DGGF has played a key role in allowing InFrontier to reach a minimum sustainable fund size”.¹⁷² DGGF supported InFrontier with USD 7 million.¹⁷³

FMO-MASSIF support to Central African SME Fund

The Central African SME Fund (CASF) is a private equity fund, established in 2010. According to FMO-MASSIF, who has invested USD 5 million in the fund, “it provides capital to 32 small and medium-sized enterprises (SMEs) in the DR Congo (DRC) and the Central African Republic (CAR). [These countries] are home to an overlooked group of talented entrepreneurs who have launched businesses in difficult, but often untapped, markets. These men and women find it very challenging to find financial support given the limited formal banking penetration and the perceived credit risks. The CASF supports these under-served SMEs, to create long-term opportunities for economic and social development”.¹⁷⁴

Both examples illustrate how Dutch PSD support can be used to reach SMEs in FCAS, by making use of intermediary funds with solid knowledge of the local context. In the context of FCAS, these kinds of investments are highly relevant and needed to revive the economy. It should be noted that based on the information provided, it is not possible to assess whether there has been sufficient attention for the conflict context and whether a “conflict lens” was applied.

171 Website InFrontier, <http://www.infrontier.com/our-focus/> <Accessed on 5 October 2018>.

172 Ministry of Foreign Affairs, 2017, Dutch Good Growth Fund – InFrontier AF LP; https://www.dggf.nl/documenten/formulieren/2017/12/13/investeringsfondsen-lokaal-mkb---transacties---voorgenomen-transacties---infrontier-af-lp_nl <Accessed on 5 October 2018>.

173 Email by Triple Jump, 29 June 2018.

174 FMO, 2017, “MASSIF Annual Report 2016”, p. 21; https://www.fmo.nl/l/library/download/urn:uuid:d2cbe05b-c5c0-4208-b686-15e9863f8ad2/massif+annual+report+2016_public.pdf?format=save_to_disk&ext=.pdf <Accessed on 1 June 2018>.

The literature review revealed that many SMEs operating in insecure and high-risk places prefer to deploy coping strategies rather than realising their own growth ambitions. This allows them to operate below the radar and minimise exposure to risks.¹⁷⁵ Hoffmann and Lange note that “where the level of conflict is expected to deteriorate over the next three years, economic (long-term) efficiency takes a backseat and entrepreneurs’ coping mechanisms are aimed primarily at resilience. In places where there is more confidence in the future, entrepreneurs take a less risk-adverse, more adventurous stance”.¹⁷⁶ Although this has not been assessed on a project level, it is worth looking into the potential contradiction between these coping strategies and the growth strategy requirement of many PSD instruments.

Implementing agencies generally agreed that too many eligibility criteria prevent Dutch (or other non-domestic) companies from initiating operations in FCAS. During consultations with implementing agencies, it was emphasised that in general, SMEs are primarily focussed on sound financial performance and a stable environment, which are both often lacking in fragile settings. Many SMEs may actually seek to invest elsewhere if they are required to comply with too many criteria that demand significant additional effort. The companies that decide to invest in “fragile states” are often extra motivated to do so. Project failures in FCAS are, however, mostly due to unforeseen circumstances or events. Even when entrepreneurs have an extensive understanding of the context, projects may still end up failing or may become too risky to implement. In practice, there are very few Dutch SMEs applying for support in “fragile states” because they consider the risks too high. The companies that do apply, indeed have a higher failure rate when operating in “fragile states”.¹⁷⁷

Dutch embassies play a key role in supporting PSD interventions, given their local knowledge and their networks. However, according to the implementing agencies and businesses operating in FCAS, the Dutch embassies do not always utilise this knowledge effectively, so there is room for improvement. A positive exception is that the Dutch embassy in Ethiopia has taken the initiative to assess the context and conflict sensitivity of Dutch horticulture investments in Ethiopia, after the conflict had led to severe and damaging impacts on Dutch flower firms (see box below). This was an initiative that deserves to be replicated, although it would have been better to take measures to ensure conflict-sensitivity from the beginning. Interviewees also noted that in high-conflict regions, Dutch diplomatic presence is often limited, meaning that there is also less support available for the private sector. As one interviewee noted: “The more conflict, the less diplomats”.¹⁷⁸

It is also worth mentioning that, in collaboration with the IFC, Clingendael Institute developed a private-sector-focused fragility and conflict assessment framework in 2015. The Clingendael Institute has since then guided the production of three business focussed conflict analyses. By identifying a country’s business elites, their multiple links with the fragile political economy and ensuing conflict

175 A. Hoffmann and P. Lange, 2016, “Growing or Coping? Evidence from small and medium-sized enterprises in fragile settings”, p. 41; https://www.clingendael.org/sites/default/files/pdfs/growing_or_coping_1.pdf <Accessed on 1 March 2018>.

176 Ibid., p. 41.

177 Interview RVO, February 2018. .

178 Interview RVO, February 2018.

risks, these studies offer relevant information for potential investors as well as PSD implementing agencies such as RVO.¹⁷⁹

A few years ago, a number of organisations (including RVO, FMO, IDH, CBI, MVO Nederland, PUM, Agriterre, FNV, CNV and the Dutch Employers' Cooperation Programme) established a private-sector development platform, a potentially helpful platform to encourage further discussion on conflict-sensitive and peace-conducive business issues. One of the agenda topics is decent work, which may serve as an interesting topic to link to conflict-sensitive hiring policies.¹⁸⁰

Box 4 Example of Dutch embassy support to conflict-sensitivity: Study on context assessment of Dutch horticulture investments in Ethiopia

A study by Douma (2017), commissioned by the Dutch embassy in Ethiopia, focused on trying to understand the context sensitivity of Dutch investments in Ethiopian agribusiness, particularly in the horticulture sector.¹⁸¹ The study was commissioned "to investigate the causes of the violent incidents that affected a number of large farms in Ethiopia and derive lessons learned regarding risk mitigation and prevention. ... The attacks [of] the farms can be framed within a broader context of recent instability in Ethiopia".¹⁸² During a wave of protests and violence in the Oromia and Amhara Regions in 2016, 25 agribusiness-owned farms were partially or totally destroyed. Among these were six Dutch owned flower, vegetable and dairy farms.¹⁸³

According to Douma (2017), "while the contextual factors of political and economic marginalisation, land expropriation and compensation for farmers played a key role in the violence against [the] farms, one of the main conclusions of the research is that often a specific set of local drivers or grievances contributed to the attacking of individual farms, including the Dutch-owned interests. Also, the findings indicate that the Dutch investors did not aggravate the existing situation and did not bear any specific responsibility with regard to the violent incidents. They suffered from the collateral fall-out of these incidents as agribusinesses in general were perceived to be associated with the government and therefore guilty by association".¹⁸⁴

Based on these findings, the report came up with a series of recommendations for the various stakeholders, including recommendations aimed at reducing conflict risks and broader suggestions on how to improve the investment environment for the agribusiness sector.

179 Emails by Netherlands Institute of International Relations 'Clingendael', 21 February 2018 and 26 June 2018.

180 Interview CBI, February 2018.

181 P. Douma, 2017, "Context assessment of horticulture investments in Ethiopia"; research commissioned by the Embassy of the Kingdom of the Netherlands in Ethiopia.

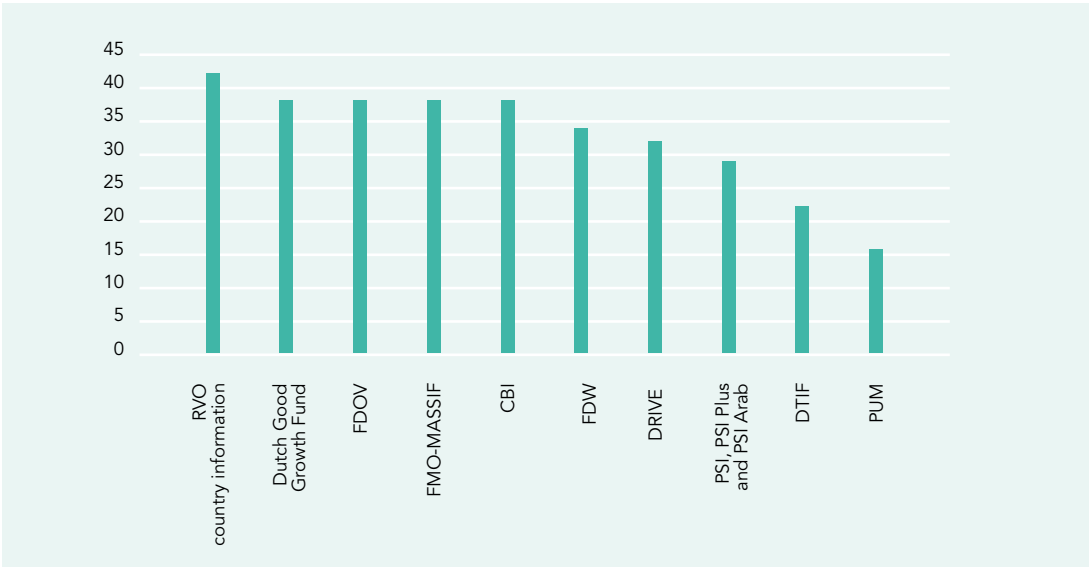
182 Ibid., p. 5.

183 Ibid., p. 5.

184 Ibid., p. 6.

The PSD support channels and instruments that reach out to the highest number of FCAS are: RVO country information (available for 42 FCAS), DGGF, FDOV, FMO-MASSIF and CBI (available for 38 FCAS) (see figure below). The instruments with the lowest outreach figures are DTIF (22 FCAS) and PUM (16 FCAS). Trade and economic missions and the CSR Risk Check were not included in this comparison because, in principle, all of the world’s countries are covered or eligible for these two instruments.

Figure 4 Number of Fragile and Conflict Affected Situations (FCAS) for which PSD support channels and instruments are available¹⁸⁵



When looking at individual FCAS, one observes a large variety in the number of available PSD instruments and support channels, ranging from one to nine instruments. Eleven countries (Colombia, Ethiopia, Kenya, Mali, Myanmar, Nepal, Pakistan, Philippines, Rwanda, Sierra Leone and the West Bank and Gaza (OPT)) have nine available instruments. Another 12 countries (Afghanistan, Angola, DR Congo, Djibouti, Egypt, Gambia, India, Kosovo, Lebanon, Mozambique, Nigeria and Uganda), have eight available instruments. The remaining FCAS all have seven or less available instruments (see table below and annex B).

185 Based on quick scan of PSD instruments and support channels in FCAS, see table below.

Table 2 Number of available Dutch PSD instruments and support channels in Fragile and Conflict Affected Situations (FCAS).¹⁸⁶

Number of available instruments and support channels per country	Number of FCAS
9	11
8	12
7	11
6	2
5	2
4	0
3	3
2	5
1	14
Total	60

2.3 Case study of Mali: the risks and challenges of doing business in a fragile setting

As part of this research project, a case study of Mali was carried out as an illustration of a fragile state where the Netherlands provides PSD support.¹⁸⁷ This case study consisted of a desk review to analyse the conflict context in relation to PSD, carried out by a local consultant in Mali. The study, which was carried out by a local consultant in Mali, consisted of a literature review and interviews with 14 people from the business community, government and civil society.

Key findings of the case study

In 2012, Mali experienced its most serious political and security crisis since its independence in 1960. This crisis was characterised by armed conflict and political and institutional instability, and it has had significant consequences in all sectors, particularly in the private sector. Despite all of the efforts made by the state, the UN peacekeeping force (MINUSMA) and the French military presence, the security situation remains very fragile in the north and the centre of the country. Industries have suffered material damage and theft estimated at 500 million CFA francs (or circa €760,000). Some of the worst hit sectors have been tourism, agriculture and livestock.¹⁸⁸ In terms of employment, women have especially been the victims in this crisis as they can no longer carry on with their main economic activities such as the production and sale of artisanal products, tourism, agricultural processing and

¹⁸⁶ Please refer to annex A for the complete list of all 60 FCAS.

¹⁸⁷ M. Traoré, 2018, “Recherche au Mali sur le manque de connaissances concernant le rôle de la sensibilité aux conflits dans les politiques de développement du secteur privé néerlandais et les canaux de soutien – Etude pour SOMO et Oxfam Novib”. The report has not been published but can be obtained upon request.

¹⁸⁸ The crisis of 2012 has accelerated the gradual shift of Malian livestock from the dry zones in the north to the more humid zones in the south because of the advance of the desert and the decline of natural grazing lands. The increasing scarcity of agricultural land in the south increases the risk of conflicts. Traoré, 2018.

small trade. Industrial mining has been left relatively untouched because the mining sites are located in southern Mali.

According to our research, Mali is facing the following political and security challenges:

- Very fragile security situation despite the signing of a peace accord in 2015
- Absence of state authorities in certain regions, especially in the north and parts of the centre
- Unstable government (the last 4.5 years have seen 5 changes of government)
- Social unrest, also in relation to the presidential elections, scheduled for July 2018
- Deteriorating social cohesion
- The perceived risks of investing in Mali by foreign investors

In the agricultural sector, one of the most serious impacts on fragility is the increased theft of livestock by so-called “*coupeurs de route*” (gangs of thieves operating along the main roads). An interesting development, that shows the resilience of the Malian society, occurred in the north and central Mali. Since banks and MFIs have left the region because of the crisis, private operators (mainly large domestic traders and owners of rice processing units) have replaced them and play a stabilising role in providing agricultural producers with loans and credits.

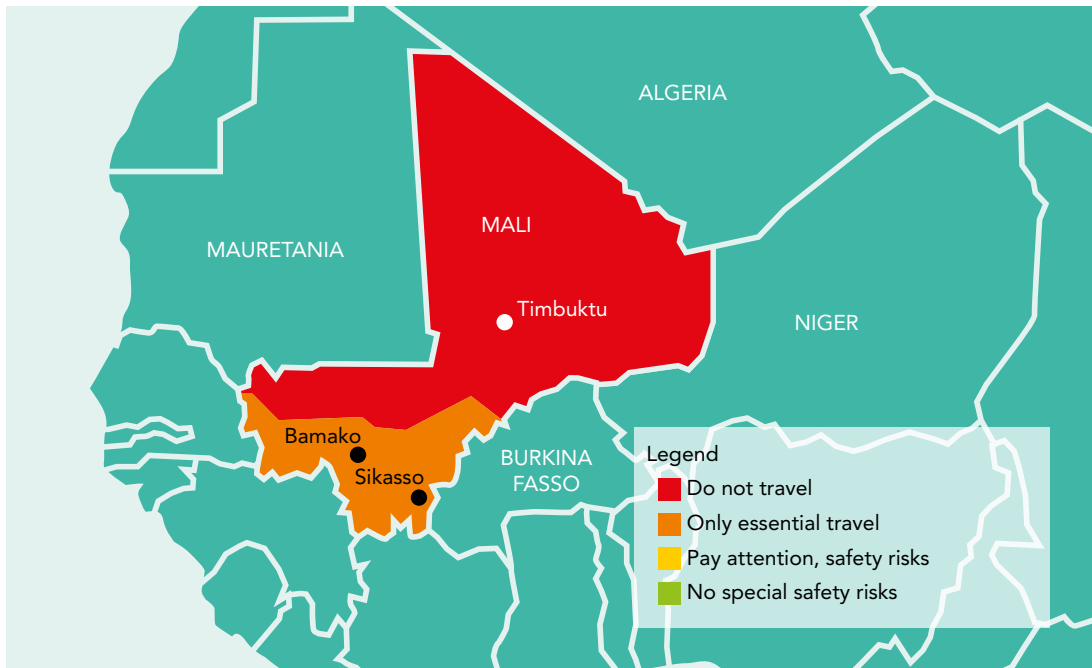
Another interesting finding is that the conflict has affected SMEs more severely than it has large companies because of the low resilience of SMEs in the face of this crisis. Large companies operating in crisis-affected areas make use of UN military escorts or regional peacekeeping forces which is likely to reduce the risk of attacks. On the other hand, most SMEs have poor security because of the high cost of armed escorts. To illustrate the limitations that local companies face, our study has noted that the only oil distribution company able to operate in northern Mali belongs to a Touareg who is closely aligned with local armed groups.

It can be concluded that the political and security crisis has had a major impact on the private sector. When investing in Mali, companies (both domestic and foreign) need to be aware of this context and adopt a conflict-sensitive approach.

RVO country information

The findings of this case study provide an overview of the risks, challenges and opportunities of doing business in Mali. This type of information is crucial for private sector actors who intend to invest in Mali to ensure proper due diligence and risk analysis. However, compared to the information provided by the Dutch government (for instance, via the RVO country information¹⁸⁹), it appears that this clearly falls short of what is needed in a fragile context as seen in Mali. The RVO country information never once refers to the crisis in Mali, except in reference to Dutch government travel advice (which does not really focus on the private sector). For instance, the section on “Do’s and don’ts in Mali” is limited to information about social etiquette, advice on clothing, communications and business culture. Moreover, the section on CSR only provides general information on how to deal with CSR when operating internationally.

189 Website RVO, <https://www.rvo.nl/onderwerpen/internationaal-ondernemen/landenoverzicht/mali> <Accessed on 1 June 2018>.

Figure 4 Map of Mali with Dutch Ministry of Foreign Affairs travel advice¹⁹⁰

Observations and recommendations

After surveying the FCAS covered by the RVO country information, it appears that this lack of information is the norm rather than the exception. Limited information on the conflict context is only available for a few of the countries. However, in most cases, what information it provides is not very thorough and, generally speaking, the information is more focused on business challenges than on the risks involving conflict dynamics or on how companies end up becoming involved in serious human rights violations during the conflict.

One positive exception involves a report on CSR in Colombia, which was commissioned by the Dutch Embassy in Bogota. It provides a thorough background and a context analysis of the conflict in Colombia as well as recommendations for the involved businesses on how to deal with this conflict context.¹⁹¹ This could serve as a good example for other FCAS.

The recommendation therefore involves extending the country information for FCAS by providing a special section on the conflict context, including the risks, challenges and opportunities of doing business in such contexts.

¹⁹⁰ Website Dutch Government, <https://www.nederlandwereldwijd.nl/reizen/reisadviezen/mali> <Accessed on 1 June 2018>.

¹⁹¹ BBO and MVO Nederland, 2016, "CSR in Colombia – Observations and recommendations"; <https://www.rvo.nl/sites/default/files/2016/05/Colombia%20CSR%20Country%20Scan%20Report.pdf> <Accessed on 1 March 2018>.

3 Findings of the quick scan of research

It does not matter who is in power, as long as stability continues – instability is bad for business. Dutch entrepreneur interviewed by Marije Balt and Peter Davis¹⁹²

Successful business strategies that allow a small Afghan logistics company in the Eastern province of the country, a restaurant owner in Juba or a domestic livestock farmer in the Democratic Republic of Congo (DRC) to sustain operations despite daunting insecurity may seem inefficient from a purely economic stance. Only when placing the firm in its broader institutional and societal context does it become clear why certain ostensibly less efficient or even growth-adverse measures are in fact the prerequisites of survival and growth.

Anette Hoffmann and Paul Lange, Clingendael Institute¹⁹³

In this chapter, the findings of the quick scan of research on PSD policies and conflict, peace and security policies are analysed in relation to Dutch policies, instruments and support channels in FCAS.

3.1 Research on Dutch and international PSD and peace and security policies

This section contains an analysis of the findings and insights from the quick scan of studies on the impact of Dutch PSD policies on FCAS, as well as international studies on the interface between private sector development support and conflict, peace and security.

Policy coherence and effectiveness

Our quick scan of research reveals that the Dutch integration of Development and Trade into one Ministry in 2012 has been met with mixed responses. Some experts stated that it was a step in the right direction towards more coherence. The AIV, the Dutch Advisory Council on Foreign affairs, noted that “the aim of restructuring the ministries in this way was to achieve greater coherence in the Netherlands’ foreign policy and establish a clearer link with the private sector”.¹⁹⁴ The OECD (2016) observed that “political drivers for private sector engagement created an opportunity for greater policy coherence between institutions responsible for development and trade. ... The merging of aid and trade has also led to significant gains in terms of integrating responsible business conduct

192 M. Balt and P. Davis, 2014, “International companies creating jobs in fragile settings – The case of Dutch small and medium-sized enterprises in Africa”, p. 28; https://www.academia.edu/10622598/International_Companies_Creating_Jobs_in_Fragile_Settings_the_Case_of_Dutch_Small_and_Medium_Sized_Enterprises_in_Africa <Accessed on 1 March 2018>.

193 A. Hoffmann and P. Lange, 2016, “Growing or Coping? Evidence from small and medium-sized enterprises in fragile settings”, p. 6; https://www.clingendael.org/sites/default/files/pdfs/growing_or_coping_1.pdf <Accessed on 1 March 2018>.

194 AIV, 2016, The Dutch Diamond Dynamic - Doing Business in the Context of the New Sustainable Development Goals, p. 38; <https://aiv-advies.nl/download/ad4cd569-2111-4292-b04d-25aa7ba41441.pdf> <Accessed on 1 March 2018>.

efforts into trade-related activities and sectoral policy discussions. Notably, CSR has become a prerequisite for private sector engagement in development activities".¹⁹⁵

There are also more critical assessments. According to Kazimierczuk (2015), "some scholars and NGOs, criticized the move [to merge development and trade], claiming that the new Minister was an instrument of the Ministry of Economic Affairs within MFA structures and her role would be to promote Dutch export[s] and protect [the] Dutch private sector in developing countries – a combination which may be "toxic" and overrule other development objectives".¹⁹⁶

The Dutch Policy and Operations Evaluation Department (IOB) IOB (2014) found that "there is little information about achieving the ultimate objectives of PSD programmes, including poverty reduction. Furthermore, there are hardly any measurements at [the] outcome and impact level".¹⁹⁷

The AIV (2016) concluded that "there was little criticism of this restructuring of policy areas. Criticism focused mainly on the austerity measures that were being introduced at the same time and the lack of an overall vision. ... The main challenge now is to integrate policy areas like trade, foreign relations, supporting Dutch companies abroad, and development cooperation. This requires effective use of the missions (embassies, consulates and Netherlands Business Support Offices)".¹⁹⁸ The AIV still sees "scope for strengthening the link between trade, development cooperation and top sectors policy".¹⁹⁹

The OECD (2017) concluded that "the (Dutch) government has invested in various mechanisms to strengthen the role of the private sector in development co-operation, to promote corporate social responsibility and to encourage investment in fragile states. Where official development assistance (ODA) is used to catalyse other finance, the Netherlands should ensure that development objectives are given precedence over other interests".²⁰⁰ With respect to the significant volumes of private finance flowing from the Netherlands to developing countries, the OECD (2017) concludes that "it is difficult to assess how the FMO portfolio, part of which is publicly financed, is complementing Dutch development programmes".²⁰¹

In an evaluation of the impacts of the agenda on Aid, Trade, and Investment, Kaleidos Research (2017) concluded that "four years after the new agenda on Aid, Trade, and Investment was launched in 2013, there is still limited knowledge about the impact of the 'new' agenda. The current execution of the agenda it is not coherent enough and might in some cases be counter-productive, mainly because of the dominant focus on the private sector in the Aid and Trade agenda".²⁰²

195 OECD, 2016, "Private Sector Peer Learning - Country Report: Netherlands", p. 5; <https://www.oecd.org/dac/peer-reviews/Peer-Learning-Country-Report-Netherlands.pdf> <Accessed on 1 March 2018>.

196 Kazimierczuk, 2015, p. 37.

197 IOB, 2014, "In search of focus and effectiveness: Policy review of Dutch support for PSD 2005-2012", p. 13; <https://www.oecd.org/derec/netherlands/In-search-of-focus-and-effectiveness%20.pdf> <Accessed on 1 March 2018>.

198 AIV, 2016, p. 39.

199 AIV, 2016, p. 39.

200 OECD, 2017, "OECD Development Co-operation Peer Reviews: The Netherlands 2017", p. 15; https://www.oecd-ilibrary.org/development/oecd-development-co-operation-peer-reviews-the-netherlands-2017_9789264278363-en <Accessed on 1 March 2018>.

201 OECD, 2017, p. 15.

202 Kaleidos Research, 2017, p. 28.

The first reactions to the new policy framework of Minister Kaag are also critical of the strong focus on trade. MVO Platform (2018) concludes that “The new Foreign Trade and Development Cooperation policy note centres around the Sustainable Development Goals (SDGs) and promoting trade and investment for Dutch companies. ... While the new policy sets strong trade objectives, it shows little ambition regarding responsible business conduct. ... The policy almost exclusively focuses on potential positive contributions of companies to sustainable development, thereby ignoring the various ways in which companies can also have a harmful impact on human rights and the environment”.²⁰³

Evidence base of the effectiveness of PSD interventions in FCAS

In a general way, there is little agreement on the effectiveness of PSD interventions in developing countries, let alone in FCAS. Proponents claim that, as also noted in section 1.2, private sector development will generate wealth and stimulate economic growth. The Australian House of Commons (2012) states that: “the private sector does so by creating jobs, mobilising resources, introducing creativity and innovative solutions, and fostering skills development and training. At the same time, it is acknowledged that the private sector should not be viewed as a panacea that can solve all development challenges, or that one approach works in all countries and contexts”.²⁰⁴ ActionAid et al. (2012) have concluded that the shift from development aid to PSD by the Dutch government is not supported by strong evidence. On the contrary, little is known about the effectiveness of the PSD programs, the evidence base for the development impact of PSD support and the relation to other types of development cooperation is unclear.²⁰⁵

Focusing on FCAS, our literature review shows that the evidence base of the effectiveness of PSD interventions in FCAS is not very strong either. Datzberger and Denison (2013) conclude that “SME development programmes in fragile settings show at best mixed results, but no evidence base exists that shows the impacts on the ground. The evidence of a link between job creation and stability in ‘fragile states’ remains hitherto weak. Similarly, the evidence that PSD programmes have had the above impacts is also deficient”.²⁰⁶ They continue by stating that “PSD programmes are often evaluated against economic measurements, with little mention of their effect on stabilisation. Where stabilisation is a feature of an evaluation, causal inferences are generally weak, and based on unclear methodological approaches. This is largely because PSD programming in conflict-affected areas is a new strand of programming, with little evaluation to date”.²⁰⁷ This highlights the urgency of research on the impacts of PSD policies and instruments in FCAS.

203 MVO Platform, 2018, “Dutch government puts trade objectives above responsible business conduct policies”, <https://www.mvoplatform.nl/en/dutch-government-puts-trade-objectives-above-responsible-business-conduct-policies/> <Accessed on 1 July 2018>.

204 House of Commons, 2012, “Driving Inclusive Economic Growth: The Role of the Private Sector in International Development”, p. 25; https://www.enterprise-development.org/wp-content/uploads/Driving_Inclusive_Economic_Growth.pdf <Accessed on 1 March 2018>.

205 ActionAid Nederland, Both ENDS and SOMO, 2012, “Bijdrage private sector aan ontwikkeling niet gegarandeerd”; <https://www.somo.nl/nl/wp-content/uploads/sites/2/2012/10/Bijdrage-private-sector-aan-ontwikkeling-niet-gegarandeerd.pdf> <Accessed on 1 March 2018>.

206 S. Datzberger & M. Denison, 2013, “Private Sector Development in Fragile States”, pp. 3-4; https://www.researchgate.net/publication/288003443_Private_Sector_Development_in_Fragile_States?enrichId=rgreq-cd5ef5d1a9f57bd-62c296126d0f14c12-XXX&enrichSource=Y292ZXJQYWdlOzI4ODAwMzQ0MztBUzozMTA1OTAwMjU3MzlwOTZAMTQ1MTA2MTg0MDA4Mw%3D%3D&el=1_x_2&_esc=publicationCoverPdf <Accessed on 15 June 2018>.

207 S. Datzberger and M. Denison, 2013, p. 3-4.

According to Datzberger and Denison (2013), “the literature also reveals a mixed picture of the effects of Foreign Direct investment (FDI) on stability and conflict. FDI is generally seen as a potential engine of economic development, and economic development has been linked to reducing the chances of a recurrence of violence. However, the conditions in ‘fragile states’ often result in reduced stability and increased chances of conflict, as a result of FDI”.²⁰⁸

A World Bank evaluation (2014) found “surprisingly little evidence and guidance on what types of targeted small and medium-size enterprise support actually works, either for direct beneficiaries or, more broadly, for markets and economies”.²⁰⁹ A meta-evaluation of PSD interventions in FCAS, carried out for IFC by Liu and Harwit (2016), concluded that “fewer than 50 percent of PSD interventions were successful in terms of achieving planned outcomes and impact, for example, in job creation or investment generation. Also, there was no clear evidence that the reviewed PSD interventions contributed directly to peace and stability”.²¹⁰ Nevertheless, Liu and Harwit (2016) also concluded that “conflict and vulnerability sensitivity analyses which included a peacebuilding or ‘do no harm’ approach, seemed to improve the overall positive results and effectiveness of projects or programs”.²¹¹

Studies have shown that PSD support has certain risks, especially in FCAS, for example, in the area of human rights.²¹² According to Hoffmann and Lange (2016), “other risks include the exposure of beneficiaries of PSD support to extortion by armed actors, as well as the unequal distribution of economic benefits over certain groups in society, leading to potential grievances”.²¹³ Based on a two-year research project on the private sector as a peacebuilding actor, Ganson (2017) reports that “the private sector remains on the whole one of the vectors for persistent and often growing instability and its impacts that fall disproportionately on the most vulnerable”.²¹⁴ He adds that “the dynamics of the political economies of fragile and conflict affected states help explain why business is not necessarily good for peace, simply through the jobs, tax revenues or other economic impacts of its investment, presence and operations. In fragile and conflict affected states, in which elites within both the political and bureaucratic classes exercise inordinate control over the formal economy, the distribution of benefits and risks from economic activity remain skewed and highly contested. In many (fragile and conflict affected states), efforts to accelerate economic growth and promote private sector development without attentiveness to these realities has predictably increased fragility and, in many cases, led to overt violence”.²¹⁵ The cases in which businesses

208 Ibid., p. 3-4.

209 World Bank, 2014, “The Big Business of Small Enterprises: Evaluation of the World Bank Group Experience with Targeted Support to Small and Medium-Size Enterprises, 2006–12”. Washington, DC: World Bank, p. xi-xx; http://ieg.worldbankgroup.org/sites/default/files/Data/Evaluation/files/sme_eval1.pdf <Accessed on 15 June 2018>.

210 C. Liu and E. Harwit, 2016, p. 1-3.

211 Ibid., p. 1-3.

212 ActionAid Nederland, Both ENDS and SOMO, 2012, “Bijdrage private sector aan ontwikkeling niet gegarandeerd”, p.1; <https://www.somo.nl/nl/wp-content/uploads/sites/2/2012/10/Bijdrage-private-sector-aan-ontwikkeling-niet-gegarandeerd.pdf> <Accessed on 1 March 2018>.

213 A. Hoffmann and P. Lange, 2016, p. 59.

214 B. Ganson, 2017, “Unpacking the puzzle of business (not) for peace”, p.15; <http://ganson.org/ganson-b-2017-unpacking-the.pdf> <Accessed on 15 June 2018>.

215 Ibid., p. 4.

contributed to conflict, ranging from the brutality of the Dutch East India Company in Indonesia in the 17th century to more recent reports of violent and deadly reprisals against opponents of foreign mining and agribusiness interests in conflict-affected countries, have been widely reported, among others by Ganson and Wennmann (2016).²¹⁶

Importance of enabling environment in FCAS

The literature appears to show that the enabling environment (including the business climate, good governance and functioning rule of law) is a crucial factor for companies starting operations in FCAS. According to Van Lieshout et al. (2010), “the decision to invest is often not dependent on the fact that government support is available, but much more on whether a country has clear laws governing property rights or legal procedures, a functioning labour market, and a state that can guarantee physical safety, in addition to financial returns for the company”.²¹⁷

Research by DIIS (2017) has shown that “it is crucial to be aware of the impact of political dynamics on implementation of PSD policies, and on how potential benefits are distributed. In other words, there is a need to address the underlying sources of risk to investors. Also, donors should improve the enabling environment for investors”.²¹⁸ This will enable companies to invest in FCAS in the first place.

PSD support beyond conflict-sensitivity

Our literature review also provided entry points for the possibility of going beyond conflict-sensitivity and do no harm, towards the ambition of contributing positively to broader state and peacebuilding processes through support of the private sector.²¹⁹ Ganson (2017) concluded that “the evidence shows that exceptional private sector enterprises can and do make a measurable contribution to moderating the dynamics of conflict and supporting the dynamics of peaceful development, particularly at more local levels.”²²⁰ The potential role of local businesses in peacebuilding is also emphasized by Miklian et al. (2018) in a report on the lessons from a four-year study of corporate peacebuilding initiatives. It is concluded that there are “several explicit or implicit examples of how local business has contributed to peace objectives. Local business leaders in particular are uniquely positioned to navigate conflict economies as well as to transform them into peace economies. Local businesspeople in conflict situations are, however, usually and understandably not too eager to become too visible, in the interests of their own political, reputational, and personal safety. As a result, we advocate policy that could amplify the voices of such actors, finding ways to support those local business initiatives that intervene meaningfully in conflict situations”.²²¹

216 B. Ganson and A. Wennmann, 2016, “Business and conflict in fragile states – The case for pragmatic solutions”, London: The International Institute for Strategic Studies, p. 35-66.

217 P. van Lieshout, R. Went, and M. Kremer, 2010, p. 210-211.

218 DIIS, 2017, “Engaging with business as a partner for development, DIIS POLICY BRIEF MARCH 2017”, p. 3; http://pure.diis.dk/ws/files/818990/Engaging_with_business_as_a_partner_for_Development_webversion.pdf <Accessed on 15 June 2018>.

219 A. Hoffmann, 2014, p.32-33

220 B. Ganson, 2017, p. 15.

221 J. Miklian et al., 2018, “Business and Peacebuilding: Seven Ways to Maximize Positive Impact”, p. 7; <https://www.prio.org/Publications/Publication/?x=11008> <Accessed on 15 June 2018>.

In the FCAS context, a focus on local economic development, inclusive growth and employment is highly relevant when addressing the drivers of fragility, with important linkages to state-building and peacebuilding activities. This step could also involve a more proactive company approach towards peacebuilding, including a stronger focus on SDG 16.

3.2 Research on Dutch instruments and support channels for PSD in FCAS

The Dutch government has various instruments that support both Dutch entrepreneurs who wish to engage in international trade and investment, and entrepreneurs in low- and middle-income countries. The relevance and availability of the main Dutch PSD instruments and support channels for FCAS was analysed through a quick scan of the literature on PSD instruments and support channels.

The Dutch Good Growth Fund and the conflict lens

From our quick scan we can conclude that the DGGF has both strengths and weaknesses. One of the main improvements to the DGGF, since the introduction of PSI and PSI Plus programs, is that it provides an improved mix of available instruments, ranging from loans, equities, guarantees, insurance, export finance, credit insurance and technical assistance. At the launch of the DGGF, ActionAid et al. (2013) concluded that the fund “includes a number of progressive elements, such as the commitment that fund managers will actively search for favourable initiatives for companies in fragile countries. Unfortunately, (at the time of the launch of the DGGF²²²) this ambition lacks a clear goal, specific setup [and] budgetary earmark”.²²³ The DGGF has been criticised since its inception, by, among others, Cordaid (2013) for placing low-income countries and “fragile states” into a single category. Cordaid noted that “by doing so, there was a risk that investments will mainly be done in countries like Ghana and Tanzania instead of Afghanistan and DRC. Both the need for finance and the potential positive impact on SMEs is especially big in such fragile countries. ‘High risk, low reward’ investments are seemingly unattractive”.²²⁴ It should also be noted that a target of a minimum investment of 15% was set for fragile states in track 2 (Investment funds for local SMEs). This 15% goal is considered relatively low, given the importance assigned to “fragile states” in Minister Ploumen’s 2013 policy framework, while no targets were set for tracks 1 and 3. An estimated 16% of total funding for track 2 actually goes to fragile states.²²⁵

222 Added by author.

223 The study recommends that the IFC Performance Standards should be applied in full at the project level and not just in the initial review. A more specific focus and guidelines are required within the framework of high-risk investments such as those that affect land rights. ActionAid, Both ENDS and SOMO, 2013, “The Dutch Good Growth Fund - Who profits from development cooperation?”, p.11; <http://www.eurodad.org/files/pdf/1546061-the-dutch-good-growth-fund-who-profits-from-development-cooperation-.pdf>

224 Cordaid, 2013, “Dutch Good Growth Fund: No Guarantee Fragile States”; <https://www.cordaid.org/en/news/dutch-good-growth-fund-attention-fragile-states/?emailaddress=<Accessed on 1 March 2018>>.

225 By the end of 2017, track 2 of the DGGF had 8 Intermediary Funds that were investing in fragile states, representing 13% of current capital invested by DGGF (versus a target of 15%). The countries that received investments were the Palestinian Territories, Liberia, DRC, Ivory Coast, Nepal, Myanmar, South Sudan and Afghanistan. In terms of commitments (contracts signed) by the end of 2017, 16% were expected to be in “fragile states”. Email from Triple Jump, 19 March 2018.

Especially when it comes to Dutch (and other non-domestic) companies, in the most fragile settings, entrepreneurs often came to the conclusion that the involved risks were too high when loans were provided, as was the case in track 1 of the DGGF (Loans to Dutch SMEs). In some cases, entrepreneurs resorted to other types of financing better geared towards “high risk low return” such as impact investors, which tend to be more flexible, quick and engaged.²²⁶ It should be noted that DGGF is focused particularly on SMEs that cannot access financing elsewhere, so, when companies do manage to find funding elsewhere, it means that DGGF no longer has a reason to invest (additionality criterion).²²⁷

It is observed that a relatively small portion of the Dutch PSD instruments actually ends up in FCAS. With the exception of DGGF track 2, no specific data are available on the funding amounts spent in FCAS. Moreover, there is very limited publicly available information on the economic impacts of the DGGF in fragile states, and on its impact on conflict and fragility.²²⁸ Therefore, the recommendation is for the initiation of an impact study on the application and effectiveness of PSD instruments in FCAS.

Trade missions, the role of the embassies and the conflict lens

As for trade missions, the MVO Platform (2016) observed that there is a lack of progress in the implementation of the CSR policy in Dutch trade missions.²²⁹ This can be especially harmful in case of trade missions to fragile and conflict-affected areas, for example, the construction/infrastructure mission to Colombia (2014) and the food and agribusiness mission to Liberia/Sierra Leone/Guinea (2015).²³⁰ It is unclear whether participating companies are aware of the risks involved in fragile and conflict-affected areas, but this is certainly an area for improvement where the Dutch embassies, together with the Ministry and RVO, can play a key role.

A particular challenge of Dutch development cooperation is the role of the embassies. According to the OECD (2017), “whilst mechanisms have been established to improve co-ordination between headquarters and the field, embassies and their country partners struggle to obtain a full picture of Dutch activity, including its development bank (FMO) investments. This inevitably means missed opportunities for maximising impact and sustainability, as observed by the Policy and Operations Evaluation Department (IOB)”.²³¹

226 M. Balt and P. Davis, 2014, p. 29-30.

227 Pers. Comm. DDE, Ministry of Foreign Affairs, October 2018.

228 In a response to a draft version to this report, Triple Jump, one of the implementing agencies of track 2 of the DGGF, stated that “For DGGF it is too early to draw conclusions with regards to impact on conflict and fragility.” Email from Triple Jump, 19 June 2018.

229 MVO Platform, 2016, “MVO in economische missie’s”; https://www.mvoplatform.nl/publications-nl/Publication_4337/ <Accessed on 1 March 2018>.

230 MVO Platform, 2016, p. 2.

231 OECD, 2017, p. 18.

**Box 5 Example of Dutch embassy support to PSD in FCAS:
The supporting role of the Dutch Embassy during the post-election
violence in Kenya²³²**

According to Balt and Davis (2014), “many companies were caught by surprise by the post-election violence in 2007-8 in Kenya. Due to the threat to the physical premises and staff, many in Naivasha had to stop, which was very costly. The embassy, however, had invested in the local private sector alliance (KEPSA) bringing together local and international companies. Through that network Dutch companies were able to voice their concerns. This had an effect: after one month of violence, KEPSA put such pressure on the politicians and other stakeholders that, together with other lobby groups, it managed to bring in more effective mediators, who managed to forge an agreement between the parties involved in the conflict. This investment indirectly paid off for the Dutch companies, which were able to continue their operations. This case also demonstrates the strong drive of private sector for peace and stability, as the best basis to do business”.

Eligibility criteria for PSD support and conflict-sensitivity

It is generally agreed by implementing agencies of PSD support channels that too many eligibility criteria might prevent companies from operating in FCAS. This is in line with a conclusion from our literature review that pointed out that there is a need for greater uniformity in the conditions for government support for international activities. This should imply a standard assessment of the compliance with the OECD Guidelines of the involved businesses.²³³ According to Oxfam Novib (2017), “an important starting point would be to publish the ICSR standards uniformly on the websites of all PSD instruments and support channels. Also, one set of ICSR standards must apply to the entire range of instruments, based on the highest international standards”.²³⁴

From the quick scan of literature, there seems to be a need for improved integration of conflict-sensitivity into funding criteria, which need to take the realities of fragile and conflict-affected settings into account. Balt and Davis (2014) concluded that there is “a need to integrate ‘Do no harm’ as an important principle of PSD instruments available for FCAS as part of the corporate social responsibility standards”.²³⁵ With regards to specific criteria on conflict sensitivity, it is confirmed by implementing agencies that a guidance document on conflict sensitivity would be helpful, but that there is no need for extensive checklists. In conclusion, when a “conflict lens” is added to the PSD instruments and support channels, it is important to strike the right balance between not making the “conflict lens” top-heavy, while still ensuring that implementing agencies take into account the

232 M. Balt and P. Davis, 2014, pp. 35-36.

233 Netherlands Institute for Human Rights, 2014; cited in AIV, 2016, p. 48.

234 Oxfam Novib, 2017, “Zaken eerst: BV Nederland in ontwikkelingssamenwerking”, p. 22; <https://www.oxfamnovib.nl/files/rapporten/ZakenEerst-BVNederlandInOntwikkelingssamenwerking.pdf>

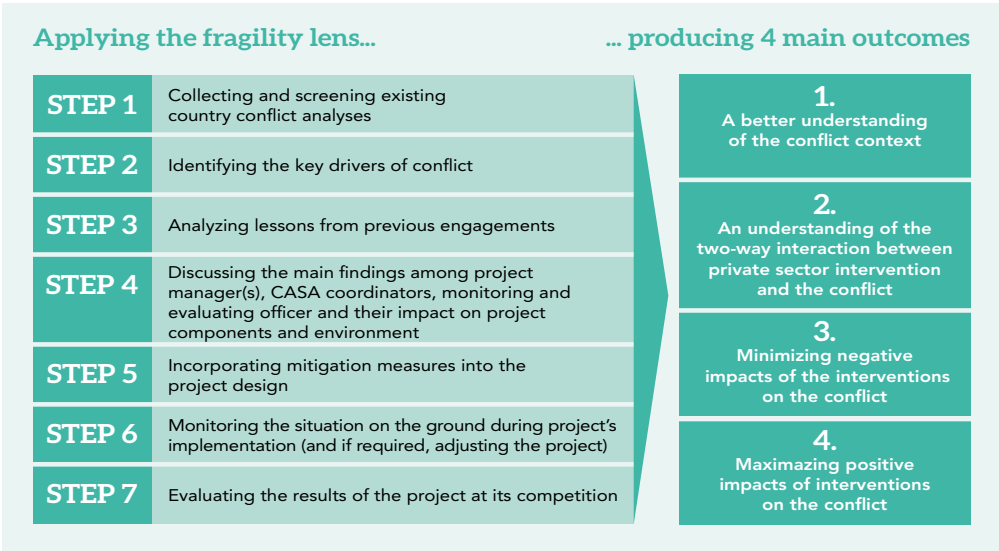
235 M. Balt and P. Davis, 2014, p. 8.

conflict context and the extra risks that come along with operating in FCAS. The so-called “fragility lens”, developed by the IFC, could serve as an example (see box below).

Box 6 Example of the IFC Africa’s Fragility Lens – Supporting private sector growth in Africa’s fragile and conflict-affected situations

IFC, backed by donor partners Ireland, the Netherlands, and Norway, launched the Conflict Affected States in Africa Initiative (CASA) in 2008. CASA was designed to help kick-start private sector growth in “fragile states” by coordinating and adapting IFC’s development programs there, with a focus on supporting smaller businesses, attracting investment, and guiding investment climate reforms.

IFC’s FCS Africa Program has developed a conflict-sensitive approach to working in countries recovering from conflict. According to IFC (2016), “the ‘fragility lens’ helps identify and navigate the complex workings of FCS, where risks and dangers are commonplace, but not always obvious (see figure below). Only by understanding the past and present relationships among various, competing groups can a development organization like IFC effectively support private sector growth in FCS”.²³⁶



236 IFC, 2016, “IFC Africa’s ‘fragility lens’ – Supporting private sector growth in Africa’s fragile and conflict affected situations (FCS)”; <https://www.ifc.org/wps/wcm/connect/a5ac8a07-9fca-4e01-ac0a-5d511adf8b6a/IFC-Africa-Fragility-Lens-Factsheet.pdf?MOD=AJPERES> <Accessed on 1 March 2018>.

4 Conclusions and recommendations

4.1 Conclusions

Main conclusions

This research aims to address the *knowledge gap* regarding the way Dutch Private Sector Development (PSD) policies and instruments take into account the context of fragility and conflict. The study also looked at whether PSD instruments include requirements about conflict sensitivity from corporate applicants, to what extent the implementing agencies of PSD instruments assess the potential impacts on conflict by these companies, and what information they provide to companies on the risks and challenges of operating in these contexts.

To unravel this knowledge gap, the researchers looked at earlier research, and analysed Dutch PSD and peace and security policies. This has led to improved insight regarding to what extent these policies and instruments take into account the conflict context in FCAS, and to what extent the “conflict lens” is being applied. A “conflict lens” is basically about being sensitive to the conflict context when private sector development interventions are designed or implemented in fragile and conflict-affected situations, to ensure that negative impacts on conflict and on local stakeholders are avoided and positive impacts are maximised.

It should be noted that this study is not a policy evaluation. Instead it aims to provide a comprehensive overview of the state of knowledge about conflict-sensitivity in relation to Dutch PSD policies and instruments. The study also aims to stimulate a constructive dialogue between relevant stakeholders in order to improve policy coherence and development regarding conflict-sensitive private sector development.

Overall, it can be concluded that a “conflict lens” is to some extent in some cases already being utilised in Dutch PSD policies and instruments (mostly informally and ad hoc). This finding offers opportunities to both build on and improve future implementation. The main conclusions are as follows:

1. Over the years, we have seen an increase in policy attention being paid to the role of PSD in fragile states, although, overall, there has been a lack of policy coherence between the Dutch government’s policy on private sector development and its security and rule of law policy.
2. In the new policy framework, strengthening the private sector is deemed essential for development. With regard to Dutch policy, it remains insufficiently clear just how the private sector can contribute to the prevention of conflict and instability, as one of the overarching goals of its new policy framework, “Investing in global prospects”²³⁷. This aspect deserves greater recognition in Dutch policy. Meanwhile, the new policy framework provides a good opportunity

237 Ministry of Foreign Affairs, 2018, Investing in Global Prospects – For the World, For the Netherlands. Policy Document on Foreign Trade and Development Cooperation; <https://www.government.nl/documents/policy-notes/2018/05/18/investing-in-global-prospects>

to align PSD support (financial and non-financial) policies and practices to this overarching goal by applying the “conflict lens” to PSD policies and interventions in FCAS. The importance of a conflict-sensitive approach is recognised within the framework,²³⁸ which is a positive sign and offers an excellent opportunity for a more structural integration into PSD policies when implementing the policy framework.

3. Dutch embassies could potentially play a key role here by, for instance, improving the knowledge of embassy staff on how to better support businesses that are planning to, or are already, operating in fragile settings. Moreover, applying the “conflict lens” could then become the missing link between SDG 8 (decent work and economic growth) and SDG 16 (peace, justice and strong institutions).
4. In practice, implementing agencies have in some cases paid extra attention to the conflict context when certain PSD instruments (financial and non-financial) have been applied in FCAS. This is an encouraging development because it means that, to a certain degree, a “conflict lens” is already being applied by the implementing agencies. For instance, the Dutch Good Growth Fund (DGGF) requires applicants to identify conflict drivers (such as land acquisition, hiring policies and natural resource use) as part of their context analysis. However, the application of the “conflict lens” by implementing agencies is still mostly informal and ad hoc.
5. There are also large differences amongst the various PSD instruments and implementing agencies with regard to how they consider the conflict context during the screening of corporate applications. This means that there is room for improvement, including the need to formalise and harmonise conflict sensitivity in the PSD support criteria, which can ensure the harmonisation of the various instruments and ensure that they abide by the same internationally recognised best practices for a conflict sensitive business.
6. The literature on business and peace argues that by applying conflict sensitivity and conducting business with due diligence in fragile contexts, private sector actors can help avoid inflaming existing conflicts and related violence. However, based on a review of studies and evaluations of PSD interventions in FCAS, it can be concluded that the evidence that there is a positive impact on peace and stability of PSD interventions in FCAS appears to be minimal. Meanwhile, there is significant evidence that often private sector actors – especially multinational corporations – have a decidedly negative impact on conflict dynamics or actually *profit* from conflict. This calls for more systematic research in this area, with the aim of accumulating evidence of how companies can actually prevent conflict but also contribute to peace and stability. This can be accomplished by building on the work of (among others) CDA Collaborative Learning Projects, the Africa Centre for Dispute Settlement and PRIO²³⁹ who have studied the links between business, conflict and peace. It also strengthens the conclusion that it is crucial to apply the “conflict lens” when Dutch government support is provided to private sector development in FCAS, in order to ensure that this support will prevent conflict and instability, and, at the very least, not exacerbate it.

238 Ministry of Foreign Affairs, 2018, p. 43.

239 See: <https://www.cdacollaborative.org/cdaproject/business-and-peace/> and <https://www.prio.org/Research/Group/?x=28>.

More specifically, the following conclusions were made.

Policy level

Our research reveals that, there is a general lack of policy coherence between Dutch PSD policies and peace and security policies, with not enough attention being paid to the FCAS conflict context in PSD policies. This changed somewhat for the better with the 2013 policy framework “A world to gain”, which increases the focus on fragile states and pays more attention to the political and conflict context and also how PSD needs to take this into account. In 2015, a Theory of Change for the security and rule of law policy priority in fragile situations was developed. This was the first time that conflict sensitivity was mentioned in relation to Dutch PSD policies, which is an encouraging development, although it was mainly focused on conflict-sensitive employment in FCAS.

Since 2017, the Dutch Ministry of Foreign Affairs has taken more positive steps, among others by strengthening the connection between the different units dealing with the themes of PSD and peace and security. It has also announced efforts to integrate conflict sensitivity more systematically into its PSD policies, including the development of a theory of change and implementation tool for a “conflict lens” for PSD in FCAS. Another step in the right direction is that in the new policy framework “Investing in Global Prospects”, it is stated that Dutch efforts in fragile regions will now be based on a “conflict-sensitive” approach. It is also announced that the criteria of the Dutch Good Growth Fund (DGGF) will be modified to enable tailor-made support to be provided to Dutch businesses that wish to operate in high-risk countries. This could potentially be an entry point for applying a “conflict lens” in the Dutch PSD instruments, starting with DGGF. Also, the establishment of Invest NL should be seen as an opportunity to integrate the “conflict lens”, in order to increase consistency between the different PSD instruments and monitor how fragility and conflict are taken into account when screening corporate applications. We therefore recommend the formalisation and harmonisation of conflict sensitivity in the PSD support criteria. This will aid in the realisation of the new policy framework’s ambitions to provide a larger role for the private sector with a view toward tackling societal challenges worldwide. It is important that the implementation of this integration of the “conflict lens” is closely monitored.

Based on the fact that the new policy framework does not refer to the role of the private sector in the prevention of conflict and instability, it can be concluded that there is still a lot more that could be done to improve the coherence between (and efficacy of) Dutch PSD policies and peace and security policies. At the same time, there is clear momentum to change this and make the policies more coherent.

The new policy also states that the SDGs are the ultimate prevention agenda: investing in the goals means investing in preserving peace and preventing conflict in fragile and unstable regions. This provides a good starting point for realizing more coherence between PSD and peace and security.

The challenge for the Dutch Ministry of Foreign Affairs is to apply a “conflict lens” and translate the overarching goal for conflict prevention to all PSD support policies and practices (financial and non-financial). If this would be done in a structured and coherent way, the new policy framework actually offers a good basis for the Dutch government to pro-actively encourage businesses to take a conflict-sensitive and peace-conducive approach in FCAS.

The limited policy coherence between Dutch PSD policies and peace and security policies is also noticeable in other Dutch policies focussed on stimulating economic development, for instance, in the Dutch “top-sector” approach that was introduced in 2011. The goal of this policy is to put the knowledge and skills of Dutch “top sectors” to optimal use. However, it does not take conflict and fragility into account, even though numerous involved companies also operate in FCAS. For instance, in post-conflict Colombia, six of the nine top Dutch sectors are represented and are actively seeking new business opportunities after the signing of the 2016 peace agreement. However, it is not clear how the top-sectors approach takes into account this conflict dimension. The policy neglects to mention any connection to the contribution that Dutch businesses can make toward peace and stability, or how the role of businesses as an actor to the conflict can have (unintended) negative impacts on the conflict when the “conflict lens” is not applied.

It can also be concluded that, so far, no specific attention has been paid to the potential peace-building role of companies in Dutch PSD policies. The lack of consensus on the desirability of such a role means that a thorough discussion needs to take place regarding to what extent the Dutch government actually wants to stimulate this role, and if so, how this can best be done.

Implementation level

Based on our research, we conclude that PSD support criteria do not refer to conflict sensitivity as a specific criterion. At the same time, in practise, in some cases extra attention is already being paid to fragility and conflict, and the local (conflict) context is also often being taken into account. It appears that some (parts of) implementing agencies of Dutch PSD instruments, in practice, to some extent apply a “conflict lens” when applications for support are made in FCAS. These identified positive practices can serve as a starting point. They show, that although on policy level the link between the two goals of private sector development and peace and security is yet to be made, in practice these two goals can be aligned and applying the “conflict lens” can be an integral part of the policy and practice by the ministry and all implementing agencies involved in PSD support (financial and non-financial).

A number of available Dutch PSD instruments and support channels specifically mention FCAS as one of their areas of attention. This includes the Dutch Good Growth Fund, PSI Plus and FMO-MASSIF. While the other instruments do not specifically mention FCAS, some of them, like DRIVE, FDOV, FDW, PUM and CBI, are particularly relevant for FCAS, for instance, because of their particular focus on high-risk settings where the market falls short because the risk is considered too high.

The review also pointed out that Dutch PSD instruments and support channels are available for a large number of FCAS. The PSD support channels and instruments that reach out to the highest number of FCAS are: RVO country information (available for 42 FCAS), DGGF, FDOV, FMO-MASSIF and CBI (all available for 38 FCAS).

There are large differences amongst the various PSD instruments with regard to their approach to the consideration of the fragility and conflict context during the screening of corporate applications. This includes how risk assessment/due diligence is being performed. Some instruments include a risk assessment and human rights due diligence with attention paid not only to the financial, political and security risks of companies operating in FCAS, but also to the human rights risks for communities

and other local stakeholders/right holders as well as how company activities affect conflict, mostly on a local level. If the various instruments were better aligned they could learn from each other and, overall, improve how they take into account the specific risks of operating in a broader conflict context.

Specifically, with regards to Dutch PSD instruments, it is difficult to assess the contribution of Dutch PSD instruments to “fragile states” because of a lack of disaggregated data. With the exception of DGGF’s track 2 (investment funds for local SMEs), there are no other available data on the amounts of funding distributed to FCAS. There is also no aggregated publicly available information on the Dutch PSD instruments’ economic impact in “fragile states”, and its impact on conflict and fragility.

Growing vs. coping strategies

Some instruments, it was determined, only provide support to companies when they show verifiable growth plans. And so, companies that are less focused on growth are often ineligible for support or funding. One of our literature review findings was that many SMEs operating in insecure, high-risk regions, in fact, turn to coping strategies, aimed primarily at resilience, which prevent them from realising their growth potentials. This strategy allows them to operate under the radar and thus minimise their exposure to undue risks. These coping strategies sometimes do not fit into the aforementioned growth requirements, which may mean that they may not be eligible for PSD support, or they may end up turning to unrealistic business plans in order to remain eligible for PSD support. On the other hand, it is clear that growth is not the primary goal of PSD support, but only a means to establishing a sustainable business that creates jobs and continues operating in the long run. When SMEs or fund managers are able to survive these periods of stagnation and manage to begin growing again over the longer term, PSD instruments often tend to be quite flexible and can continue to fund these companies even during difficult times. Although this has not been assessed on a project level, it is worth looking into the potential contradiction between these coping strategies and the growth strategy requirement of many PSD instruments.

The Role of Dutch embassies

Dutch embassies play a key role in supporting PSD interventions, given their local knowledge and their networks. However, according to the implementing agencies and businesses operating in FCAS, the Dutch embassies do not always utilise this knowledge effectively. This means that there is room for improvement, for example by improving the knowledge of embassy staff on how to better support Dutch businesses that are planning to, or are already, operating in fragile settings. A positive exception is that the Dutch embassy in Ethiopia has taken the initiative to assess the context and conflict sensitivity of Dutch horticulture investments in Ethiopia, after the conflict had led to severe and damaging impacts on Dutch flower firms. This was an initiative that deserves to be replicated, and it also again points to the need to take measures to ensure conflict-sensitivity from the beginning.

Making the RVO Country Information conflict proof

A case study was carried out on the risks, challenges and opportunities of doing business in Mali, as an example of a fragile and conflict-affected country. This type of information is crucial for private sector actors intending to invest in Mali so that they can carry out a proper due diligence and risk analysis. However, when we compare the information provided by the Dutch government

(for instance, via the RVO's country information), it appears that it clearly falls short of what is needed in a fragile context such as Mali. The RVO country information never once refers to the fragility in Mali, except in reference to travel advice offered by the Dutch government.

Findings of the quick scan of available research

Our literature review of PSD interventions in FCAS, which covers studies by, among others, the World Bank, IFC and DFID, reveals only limited evidence of any positive impact on development of PSD interventions in the context of FCAS. The existing literature on SME development programs in fragile settings shows, at best, mixed results, with a lack of evidence of positive impact on the ground, and little evidence of a link between job creation and stability in FCAS. On the other hand, a meta-evaluation of PSD interventions in FCAS found that conflict-sensitivity analyses of PSD interventions that included a peacebuilding or "do no harm" approach, seemed to improve the overall positive results and effectiveness of projects or programs.

4.2 Recommendations

The report offers a number of recommendations for the improving of current policies and for further research. The report's key recommendations are:

1. Apply a "conflict lens"

The report recommends that a so-called "conflict lens" be added to all Dutch PSD policies, instruments and support channels (financial and non-financial). To have this "conflict lens" applied in a more consistent way, conflict sensitivity needs to be formalised and harmonised in the PSD support criteria. Moreover, a greater capacity to assess conflict sensitivity needs to be developed. This has the added advantage of making it easier for policymakers to measure progress on the conflict sensitivity of Dutch PSD support. To achieve this, a guidance document on conflict sensitivity for implementing agencies of Dutch PSD interventions should be developed. This guidance document should be tailored to the needs of its users and be "lean and mean", because extensive checklists are undesirable. It is important that this "conflict lens" complements the existing international obligations of the Dutch government to ensure that companies conduct human rights due diligence as part of the state's "duty to protect" against business-related human rights violations. It is also crucial that any new guidelines build on the existing ones covering responsible business conduct, such as the OECD Due Diligence Guidance for Responsible Business Conduct, to prevent duplication.

2. Adapt risk analysis and human rights due diligence to the conflict context

When assessing applications for PSD instruments in FCAS, the recommendation is for improving the assessment and prevention of human rights violations and other negative impacts related to the conflict context, including a thorough risk analysis. This conflict risk analysis should be integrated and embedded within existing social and environmental risk analyses and human rights due diligence policies. When assessing PSD instrument applications, we recommend employing local conflict or human rights experts when performing conflict-risk analyses.

3. Make trade missions “conflict proof”

Ensure that companies participating in trade missions are aware of the conflict-related risks of fragile and conflict-affected areas, especially for the local stakeholders (affected communities, local employees, etc). In a case involving a mission to a country with many risks for local stakeholders/rights holders, an action plan for enhanced due diligence of the participating companies could be requested in advance of the trade mission’s departure. A related recommendation is to extend the RVO country information for FCAS with a special section on the conflict context, challenges and opportunities of doing business in FCAS and above all prominent attention for the risks for local stakeholders/rights holders.

4. Expand the role of Dutch embassies in advising companies on how to operate in FCAS

The recommendation here is for Dutch embassies to capitalise on their knowledge of the conflict context in FCAS when providing actionable advice to companies. In general, the recommendation is to make more use of local conflict experts in these advisory services.

5. Learn from and scale up Dutch government efforts for a “conflict-sensitive” approach

The recommendation is to monitor and evaluate the implementation of the “conflict-sensitive” approach in fragile regions of the new Dutch policy framework, which, on paper, is an improvement. The results of the anticipated efforts to apply the “conflict lens” to PSD support by the Dutch Ministry of Foreign Affairs also needs to be closely monitored, in order to learn from this experience and scale up if successful. There is also a need to involve civil society more actively in this process, as they are in a better position to voice the perspective of local populations and interests. The Knowledge Platform on Security & Rule of Law could play an important role here.

6. Conduct an impact study on PSD instruments in FCAS

We recommend conducting an impact study on the application and effectiveness of PSD instruments in FCAS that will focus on the amounts of funding spent in FCAS, their economic impact and their (unintended adverse) impacts on beneficiaries, rights holders and stakeholders in a context of conflict and fragility. This study should lead to increased insights into the way that PSD interventions can be made more conflict-sensitive, thus supporting the application of a “conflict lens” in PSD policies and practice and contribute to improved evidence-based PSD policies.

Annex A

List of fragile and conflict-affected countries

The following fragile and conflict-affected countries have been selected for the purpose of this research because they appear on at least one of the following four lists:

- The Fragile States Index 2017 by the Fund for Peace
- The World Bank's Harmonized List of Fragile Situations FY18
- Presence of Highly Violent Conflicts (HRV) according to the Heidelberg Institute Conflict Barometer 2016
- The G7+ membership list

Table A1 List of fragile and conflict-affected countries selected for the purpose of this research

Fragile and Conflict-Affected Countries	1. Fragile States Index 2017 (index above 90)	2. Harmonized List of Fragile Situations FY18	3. Presence of Highly Violent Conflicts (HRV)	4. G7+ member countries
Afghanistan	X	X	X	X
Angola	X			
Brazil			X	
Burundi	X	X		X
Cameroon	X		X	
Central African Republic	X	X	X	X
Chad	X	X	X	X
Colombia			X	
Comoros		X		X
Congo (DR)	X	X	X	X
Congo (Republic)	X	X		
Cote d'Ivoire	X	X		X
Djibouti		X		
Egypt			X	
El Salvador			X	
Eritrea	X	X		
Ethiopia	X			
Gambia		X		
Guinea	X			X
Guinea Bissau	X	X		X
Haiti	X	X		X
India			X	
Iraq	X	X	X	
Kenya	X		X	
Kiribati		X		
Kosovo		X		

Fragile and Conflict-Affected Countries	1. Fragile States Index 2017 (index above 90)	2. Harmonized List of Fragile Situations FY18	3. Presence of Highly Violent Conflicts (HRV)	4. G7+ member countries
Lebanon		X		
Liberia	X	X		X
Libya	X	X	X	
Mali	X	X		
Marshall Islands		X		
Mauritania	X			
Mexico			X	
Micronesia, FS		X		
Mozambique		X		
Myanmar	X	X	X	
Nepal	X			
Niger	X		X	
Nigeria	X		X	
North Korea	X			
Pakistan	X		X	
Papua New Guinea		X		X
Philippines			X	
Rwanda	X		X	
Sao Tomé and Príncipe				X
Sierra Leone		X		X
Solomon Islands		X		X
Somalia	X	X	X	X
South Sudan	X	X	X	X
Sudan	X	X	X	
Syria	X	X	X	
Timor-Leste	X			X
Togo		X		X
Turkey			X	
Tuvalu		X		
Uganda	X			
Ukraine			X	
West Bank and Gaza (OPT)		X		
Yemen	X	X	X	X
Zimbabwe	X	X		

Sources:

1. <http://fundforpeace.org/fsi/> <Accessed on 1 March 2018>.
2. <http://pubdocs.worldbank.org/en/189701503418416651/FY18FCSLIST-Final-July-2017.pdf> <Accessed on 1 March 2018>.
3. <https://hiik.de/konfliktbarometer/bisherige-ausgaben/#ctsc-tab-content-2016> <Accessed on 1 March 2018>.
4. <http://www.g7plus.org/en/who-we-are> <Accessed on 1 March 2018>.

Annex B

Country-specific data on PSD support channels and instruments in FCAS

Table B1 Availability of PSD support channels and instrument in FCAS

Fragile & Conflict-Affected Countries	1. Dutch Good Growth Fund (DGGF)	2. PSI, PSI Plus and PSI Arab	3. Development Related Infrastructure Investment Vehicle (DRIVE)	4. Facility for Sustainable Entrepreneurship and Food Security (FDOV)	5. Sustainable Water Fund (FDW)	6. FMO-MASSIF	7. Dutch Trade and Investment Fund (DTIF)	8. PUM	9. CBI	10. Trade & economic missions	11. RVO country information	12. CSR Risk Check	Number of instruments per country
Afghanistan	X	X	X	X	X	X			X	n/a	X	n/a	8
Angola	X	X	X	X	X	X			X		X		8
Brazil		X					X				X		3
Burundi	X	X		X	X	X			X		X		7
Cameroon							X						1
Central African Republic							X						1
Chad	X		X	X	X	X			X				6
Colombia	X	X	X	X	X	X		X	X		X		9
Comoros							X						1
Congo (D. R.)	X	X	X	X	X	X			X		X		8
Congo (Republic)							X				X		2
Cote d'Ivoire	X		X	X	X	X			X		X		7
Djibouti	X	X	X	X	X	X			X		X		8
Egypt	X	X	X	X	X	X			X		X		8
El Salvador		X					X						2
Eritrea	X			X		X			X		X		5
Ethiopia	X	X	X	X	X	X		X	X		X		9
Gambia	X	X	X	X		X		X	X		X		8
Guinea	X		X	X	X	X			X		X		7
Guinea Bissau							X						1
Haiti	X		X	X	X	X			X		X		7
India	X		X	X	X	X		X	X		X		8
Iraq		X					X				X		3
Kenya	X	X	X	X	X	X		X	X		X		9
Kiribati							X						1
Kosovo	X	X	X	X	X	X			X		X		8
Lebanon	X		X	X	X	X		X	X		X		8
Liberia	X		X	X	X	X			X		X		7
Libya	X	X		X	X	X			X		X		7
Mali	X	X	X	X	X	X		X	X		X		9
Marshall Islands							X						1
Mauritania							X						1
Mexico							X				X		2
Micronesia, FS							X						1

Fragile & Conflict-Affected Countries	1. Dutch Good Growth Fund (DGGF)	2. PSI, PSI Plus and PSI Arab	3. Development Related Infrastructure Investment Vehicle (DRIVE)	4. Facility for Sustainable Entrepreneurship and Food Security (FDOV)	5. Sustainable Water Fund (FDW)	6. FMO-MASSIF	7. Dutch Trade and Investment Fund (DTIF)	8. PUM	9. CBI	10. Trade & economic missions	11. RVO country information	12. CSR Risk Check	Number of instruments per country
Myanmar	X	X	X	X	X	X		X	X		X		9
Nepal	X	X	X	X	X	X		X	X		X		9
Niger	X		X	X	X	X			X		X		7
Nigeria	X	X	X	X	X	X			X		X		8
North Korea							X						1
Pakistan	X	X	X	X	X	X		X	X		X		9
Papua New Guinea							X						1
Philippines	X	X	X	X	X	X		X	X		X		9
Rwanda	X	X	X	X	X	X		X	X		X		9
Sao Tomé & Príncipe	X		X	X	X	X			X		X		7
Sierra Leone	X	X	X	X	X	X		X	X		X		9
Solomon Islands							X						1
Somalia	X		X	X	X	X			X		X		7
South Sudan	X	X		X	X	X			X		X		7
Sudan		X					X				X		3
Syria							X				X		2
Timor-Leste							X						1
Togo	X		X	X	X	X			X		X		7
Turkey							X				X		2
Tuvalu							X						1
Uganda	X	X	X	X	X	X		X	X				8
Ukraine							X						1
West Bank and Gaza (OPT)	X	X	X	X	X	X		X	X		X		9
Yemen	X	X		X		X			X				5
Zimbabwe	X			X		X		X	X		X		6
Total number of FCAS for which this instrument is available:	38	29	32	38	34	38	22	16	38		42		

Sources

1. <http://english.dggf.nl/country-list> <Accessed on 1 March 2018>.
2. <https://english.rvo.nl/sites/default/files/2015/09/PSI-Country-List.pdf> <Accessed on 1 March 2018>..
3. <https://english.rvo.nl/subsidies-programmes/drive/country-list> <Accessed on 1 March 2018>.
4. See note 1.
5. <https://english.rvo.nl/sites/default/files/2017/12/FDW-Policy-Rules-November-2017.pdf> <Accessed on 1 March 2018>.
6. FMO-MASSIF Country List March 2018, obtained from FMO.
7. <https://english.rvo.nl/subsidies-programmes/dutch-trade-and-investment-fund-dtif> <Accessed on 1 March 2018>.
8. <https://www.pum.nl/how-we-work/countries> <Accessed on 1 March 2018>.
9. It was noted by the Ministry of Foreign Affairs that CBI's support is available for all DGGF countries. On its website, a slightly different country list is provided: <https://www.cbi.eu/about/cbi-countries/> <Accessed on 1 March 2018>.
10. The country list does not apply to trade and economic missions because, in principle, all countries worldwide are eligible.
11. <https://www.rvo.nl/onderwerpen/internationaal-ondernemen/landenoverzicht> <Accessed on 1 March 2018>.
12. The country list does not apply to the CSR Risk Check because, in principle, all countries worldwide are covered by this instrument.

Table B2 Number of available PSD support channels and instruments per FCAS

Country	Number of FCAS	Country	Number of FCAS
Colombia	9	Sao Tomé & Príncipe	7
Ethiopia	9	Somalia	7
Kenya	9	South Sudan	7
Mali	9	Togo	7
Myanmar	9	Chad	6
Nepal	9	Zimbabwe	6
Pakistan	9	Eritrea	5
Philippines	9	Yemen	5
Rwanda	9	Brazil	3
Sierra Leone	9	Iraq	3
West Bank and Gaza (OPT)	9	Sudan	3
Afghanistan	8	Congo (Republic)	2
Angola	8	El Salvador	2
Congo (D. R.)	8	Mexico	2
Djibouti	8	Syria	2
Egypt	8	Turkey	2
Gambia	8	Cameroon	1
India	8	Central African Republic	1
Kosovo	8	Comoros	1
Lebanon	8	Guinea Bissau	1
Mozambique	8	Kiribati	1
Nigeria	8	Marshall Islands	1
Uganda	8	Mauritania	1
Burundi	7	Micronesia, FS	1
Cote d'Ivoire	7	North Korea	1
Guinea	7	Papua New Guinea	1
Haiti	7	Solomon Islands	1
Liberia	7	Timor-Leste	1
Libya	7	Tuvalu	1
Niger	7	Ukraine	1

Annex C

List of people consulted for this research report

Name	Organisation	Position
Marije Hensen	Atradius	Senior Environmental and Social Advisor – DGGF track 3
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Charissa Bosma	FMO	Portfolio Analyst MASSIF
Patricia Nicolau	FMO	Senior Environmental and Social Officer
Marleen van Ruijven	FMO	Senior Sustainability Officer
Monique Calon	Ministry of Foreign Affairs	Senior Policy Advisor, Department for Sustainable Economic Development (DDE)
Mirco Goudriaan	Ministry of Foreign Affairs	Policy Coordinator Dutch Good Growth Fund, Department for Sustainable Economic Development (DDE)
Fia van der Klugt	Ministry of Foreign Affairs	Senior Policy Officer – Department for Sustainable Economic Development (DDE)
Job Runhaar	Ministry of Foreign Affairs	Senior Policy Officer - sDepartment for Sustainable Economic Development (DDE)
(names omitted at their request)	Ministry of Foreign Affairs	Policy Officers, DGBEB/DIO
Anette Hoffmann	Netherlands Institute of International Relations 'Clingendael'	Senior Research Fellow, Private Sector Development & Fragility, Conflict Research Unit
Anna Bulzomi	PwC	Manager, ESG team for DGGF track 2
Rens van Gelder	PUM	HR, Learning & Development
Derk de Haan	RVO	Programme Advisor
Martijn Moonen	RVO	Project Advisor Private Sector Investment
Michel Ridder	RVO	Project Advisor Private Sector Investment / Corporate Social Responsibility
Marjolein Vink	RVO	Project Advisor Private Sector Investment
Natascha Korvinus	Triple Jump	Senior Investment Associate Fund Investments, DGGF track 2
Andres van der Linden	Triple Jump	ESG and Impact officer, DGGF track 2

Private Sector Development policies and instruments through a conflict lens

Addressing the knowledge gap on the role of conflict sensitivity in Dutch PSD policies and instruments

Oxfam Novib and SOMO have conducted a study that aims to address the knowledge gap with regard to conflict sensitivity in Dutch Private Sector Development (PSD) policies and instruments. The research has led to a number of important insights on the role of Dutch PSD policies and instruments in fragile and conflict-affected situations, and to what extent the “conflict lens” is being applied. Overall, it can be concluded that to some extent, a “conflict lens” is in some cases already being utilised in Dutch PSD policies and instruments (mostly informally and ad hoc). In practice, implementing agencies have in some cases paid extra attention to the conflict context when certain PSD instruments were applied in FCAS.

The new Dutch policy framework ‘Investing in global prospects’ provides a good opportunity to align PSD support (financial and non-financial) policies and practices to the overarching goal of prevention of conflict and instability by applying the “conflict lens” to PSD policies and interventions in FCAS. The Dutch embassies could potentially play a key role here, for instance by strengthening the capacity of embassy staff on how to better support Dutch businesses when they (have plans to) operate in fragile settings. Also, applying the “conflict lens” could then become the missing link between SDG 8 (Decent work and economic growth) and SDG 16 (Peace, justice and strong institutions).