Private-Sector Development in Fragile, Conflict-Affected, and Violent Countries

CSIS Working Group on Private-Sector Development in Fragile States

A Research Report from the CSIS Project on U.S. Leadership in Development and the Program on Crisis, Conflict, and Cooperation

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INTRODUCTION

Countries affected by fragility, conflict, and violence (FCV) pose significant challenges for development, including private-sector development. FCV countries are characterized by some combination of weak governance and ineffective national institutions; armed groups, high violence, and intense conflict; limited economic and social growth potential; extreme inequities in income, health care, and education; economic uncertainty; limited and degraded infrastructure; exclusive politics; ethnic rivalries; weak rule of law; broad-based corruption; low government legitimacy; and state institutions that lack the will or capability to provide security or basic services for their people. FCV countries represent disproportionately high levels of poverty and infant mortality, among other social ills.[1]

Official development assistance (ODA) has made little headway in such environments. For example, no low-income country affected by fragility or conflict has achieved any Millennium Development Goals (MDGs).[2] Yet private-sector activity does take place in such environments. Informal-market activity might provide only subsistence-level incomes, and illicit economic activity is certainly harmful, but both demonstrate that market actors can find ways to manage risks in FCV countries. More importantly, the presence of extractive industries, agribusinesses, distributors, security services, and other legitimate businesses demonstrates that some formal-market actors are interested in investing in such environments and have found ways to manage risks in some sectors. This suggests that there might be opportunities to engage and support the private sector as part of development efforts in FCV countries.

This report presents the results of a series of workshops hosted by the Center for Strategic and International Studies (CSIS) exploring challenges and opportunities for private-sector engagement in the development of FCV countries. The CSIS Working Group on Private-Sector Development in Fragile, Conflict-Affected, and Violent States hosted five working sessions in Washington and New York during 2012. Participants included 40 individuals representing the private, public, and volunteer sectors, including businesses, investors, multilateral organizations, bilateral donors, and government agencies. The working group identified tools available to the international business community and the U.S. government, as well as the gaps in needed resources. Participants also examined cases from Afghanistan, Iraq, Burma, and Liberia to glean examples of successes and failures in private-sector development, with the goal of identifying potential roles for host governments and the international private sector. ▶

FINDINGS OF THE WORKING GROUP

Scholars and practitioners generally agreed at the working group sessions that economic growth and integration into the international economy are essential to bolstering the stability of FCV states. The private sector can play a role in several areas, including providing early stabilization, spurring long-term growth, improving transparency, and fostering trade. Moreover, both local and international private sectors are already present in virtually all fragile states. In some cases, there is a thriving private sector even in the absence of a fully functioning government.

Participants noted that local and international businesses operate successfully in Somalia, and an article reviewed for this study noted that many Somalis are "achieving standards of living . . . that are equal or superior to many other African nations."[3] As in other FCV countries, Somalia's private sector generates up to 90 percent of the jobs, serves as the primary source of government tax revenues, and provides the capital required for major infrastructure projects. In performing these and similar functions, the private sector can serve as an engine of stability and development, but to date it remains a largely untapped resource.

Due in part to tight budgets, however, donors from the G20 and the U.S. government are increasingly considering non-traditional foreign aid mechanisms that do not use taxpayer money. Donors are looking more and more to private-sector development because it has the potential to thrive in environments where traditional approaches to aid and development fail.[4]

The working group's findings are as follows.

FRAGILE STATES ARE DIFFERENT FROM OTHER DEVELOPING COUNTRIES

FCV countries have some characteristics in common with other developing countries, but violence, conflict, and fragility create a set of challenges that set them apart—"lack of security, weak governance, limited administrative capacity, humanitarian crises, persistent social tensions, violence, or the legacy of civil war."[5] Violence in particular is often a self-reinforcing cycle. According to the World Development Report, armed conflict is 90 percent more likely in countries that have previously experienced violent conflict.[6]

Many FCV countries have identity groups, based on kinship, ethnic, or religious ties, who believe they are excluded from political power. Like government actors and organized criminals, such groups can either act as spoilers to peace and stability or become "political entrepreneurs" who

game the international aid system for their own advantage through predation ("the corrupt or crony corralling of resources at the expense of other groups").[7] Political violence can often morph into criminal violence: political groups can become criminal networks, which in some cases can be linked to the government itself. These substate and nonstate groups frequently seize control when the breakdown of institutional capacity leaves a power vacuum. These groups administer justice, participate in resource distribution, and exercise military power in a patron-client system. Several working group participants pointed out that, when the state is predatory or oppressive to such groups, the nonstate or substate actors who control territory without the state's consent are often better suited to govern that territory than the state is. It therefore should not be assumed that the international policy response should be to help the state take control, which can exacerbate the conflict, but to manage the conflict between the state and those who live in such territories or to mitigate the conflict's harms.

Institutional weakness or breakdown, entrenched patron-client interests, reliance on kinship networks, the presence of political entrepreneurs, and conflict between state actors and nonstate or substate actors often feed off one another. This reinforcing cycle generates corruption at many levels, which further degrades trust within society and further inhibits effective governance. As the OECD noted, "Weak government begets weak services, in turn weakening society . . . [in] a vicious cycle. Persistent decline may undermine the social fabric itself: communal tensions arise that make civil society increasingly uncivil."[8]

FCV countries cost the international community hundreds of millions of dollars every year, consuming more than one-third of all official development assistance (ODA), while certain economies fail to move away from aid dependence. For example, Afghanistan was the sixth-largest recipient of international aid in 2010, and received the equivalent of 67 percent of gross national income (GNI) as official development assistance.[9] Liberia was only the thirty-sixth-largest recipient of international aid in 2009. However, even that assistance equaled 58.1 percent of Liberia's GNI. Yet much of this assistance is provided in the same manner as it would be to other developing countries that do not suffer the unique problems FCV states face.

This approach may be changing. Over the last five years, the international community has increasingly recognized that fragile states are different from traditional developing countries and pose different kinds of challenges for development. The international community is also realizing that the opportunity exists to help move these states from fragile and conflict-affected to stable and prosperous. Robert Zoellick, the former head of the World Bank, noted that fragile states are not simply difficult development cases, but that they actually require different approaches to assistance delivery.[10] Leaders in FCV states, too, have acknowledged that they have unique challenges. In 2010, 19 fragile states formed the g7+ group to push for changes in the way international actors engage with fragile states, including aid delivery, advocating "new ways of working, better tailored to the situation and challenges of fragile contexts."[11] During the Busan Conference on Aid Effectiveness, the Republic of Korea, the Development Assistance Committee (DAC) members, several multilateral institutions, and the g7+ group endorsed "The New Deal for Engagement in Fragile States," which lists five clear priorities for fragile states: legitimate politics, justice, security, economic foundations, and revenues and services.[12]

THE "NEW DEAL" COULD BE A BIG DEAL

The New Deal for Fragile States came out of the international dialogue for peacebuilding and state-building among various multi- and bilateral donors and the g7+, a group of the countries that are the farthest from reaching the Millennium Development Goals. The working group highlighted the New Deal as being unique because it was created by officials from the fragile states themselves, and presses for new tools in development, such as private-sector development, that

are better suited to fragile situations than traditional official development assistance (ODA). The New Deal has three main components:

1. Five peace-building and state-building goals. These are goals that the fragile states involved consider central to their own development, including legitimate and inclusive politics, provision of security, access to and delivery of justice, macroeconomic foundations that produce jobs, and the accountable delivery of goods and services. None of these countries will meet a single Millennium Development Goal until they reach these basic goals. This component commits fragile states and international partners to develop indicators for each MDG that would assist them in tracking progress at both the global and country level.[13]

2. A new focus. The solutions will now come from the fragile states themselves, rather than through a donor-imposed prescription. The international community will, in turn, commit to focus on new ways to engage and support country-owned processes out of fragile situations.

3. Trust. This is based on country-owned systems that give institutions the strength to function. Aid should be more transparent. Donors need to be more transparent on where aid goes and should focus on fragility assessment and the use of one vision, one plan.[14]

The New Deal is viewed as a major opportunity because it is a widely endorsed roadmap that fragile countries themselves support. It also represents a shift away from the more risk-averse nature of U.S. government spending in developing countries and a more innovative approach to tackling corruption and building institutional capacity.

An example of an innovative program to come from a framework similar to the New Deal is Liberia's Governance and Economic Management Assistance Program (GEMAP), a deal for funds signed by both the U.S. ambassador to Liberia and President Ellen Johnson Sirleaf.[15] The success of this program led to the signing of a new, $45 million Governance and Economic Management Support (GEMS) program to strengthen public-sector capacity in Liberia. The program will help Liberia build better financial, organizational, and performance management by working with key ministries and state-owned enterprises. If the GEMS program is successful, it could be adapted to fit other g7+ countries, tailored to local contexts and challenges.

However, the success of programs like GEMAP and GEMS and their potential to be used in other fragile states should be treated with caution. Proponents argue that GEMAP's financial controls increased government revenues by 50 percent and "improved transparency in concession agreements, extractive-industry practices and state-contract awards."[16] On the other hand, evidence suggests that financial mismanagement still runs rampant and that government corruption persists in Liberia's institutions. Limited progress has been made in reforming financial management and accountability in the country, but the program "did not deliver on its promises of mutual accountability or fully institutionalize its planned reforms."[17]

DEVELOPMENT AND SOCIAL CHANGE ARE SLOW IN FRAGILE STATES

The New Deal notwithstanding, FCV countries face severe obstacles to development, many of which can only be overcome with decades or generations of sustained effort. With respect to obstacles relevant specifically to private-sector development, the CSIS working group looked in detail at four countries, Afghanistan, Burma, Iraq, and Liberia, and found that the most pronounced obstacles were "statist" attitudes, corruption, insecurity, poor market access, and undiversified economies.

The first obstacle, statist attitudes, is not uncommon in countries that have suffered sustained civil strife. Citizens tend to rely on the public rather than the private sector to be the main participant in economic activities, while the governments, in turn, are reluctant to release their hold on lucrative state-owned industries. In Iraq, the legacy of the Ba'athist regime still dictates some policy toward private actors; and in Burma, most economic activities remain state-led and state-owned. Moving fragile states from state-led to private-sector-led economies may take generations.

Second, corruption is more widespread and persistent in fragile states than in other developing countries. In Afghanistan, for example, one-third of all foreign assistance provided since 2001 is unaccounted for due to corruption and mismanagement. This imposes high transaction costs, and private-sector actors do not have the tools or are unwilling to tolerate this level of risk.[18]

Third, insecure environments encourage donors to tailor programs for maximum short-term impact, which can prove counterproductive in the long term. In Afghanistan, development programs undertaken after the 2009 surge were often ineffective because of their compressed implementation timelines. Short-termism also inhibits growth in the long term by preventing the emergence of the reliable institutions and transparent governance that provide predictability for investors. Armed conflict creates an informal, highly distorted trade economy based on extraction and predation, and foreign aid can help entrench such distortions by making predation even more profitable.

Fourth, fragile states experience tremendous market-access difficulties due to lack of infrastructure, lack of finance, and counterproductive regulations in potential export markets. Conflict destroys infrastructure, raising the cost of producing and transporting goods in those countries. Securing finance is difficult because fragile countries lack predictable laws and institutions and have unreliable banking systems. Low levels of higher education mean that fewer individuals are trained on small business lending procedures, limiting the number of personnel that a private-sector company can interact with. Additionally, U.S. trade laws and regulations can limit market access. For instance, although the U.S. market has the potential to be a major buyer of Afghan goods, its regulations severely constrain such transactions. The United States simultaneously encourages the development of legitimate Afghan agriculture but bans imports of many Afghan agricultural goods.[19] Fragile states are often shut out of trade because of similarly protectionist laws and regulations among their potential trade partners.

Finally, a local economy that lacks diversity negatively affects the environment for private-sector operations. Burma's heavy reliance on oil and gas, for example, pushes inflation rates up. Iraq's dependence on oil, which accounts for most of its national revenue, stands in stark contrast to the fact that 90 percent of its small and weak business sector is actually concentrated in agriculture.[20]

These challenges are daunting and largely immune to rapid reform. Social change and development are slow processes, especially in countries starting at such a low level of institutional development. Attempts at sudden and rapid change can create new winners and losers and thereby generate new conflicts or exacerbate existing ones. Reforms that are not appropriately sequenced can be ineffective or counterproductive: a project that requires government participation on multiple tiers would require that good public financial management already be in place. In the short term, assistance for improved execution for public investment is vital. Large-scale infrastructure projects must consider the level of infrastructure already established and the potential destabilizing macroeconomic effects such projects undertaken by the public sector could cause with respect to debt and fiscal deficits.

IFC AND OPIC CAN PLAY A KEY ROLE IN FCV COUNTRIES

The working groups discussed at length the special roles that the International Finance Corporation (IFC) and the Overseas Private Investment Corporation (OPIC) can play in investing in fragile situations. The IFC is the private-sector arm of the World Bank, and has demonstrated in recent years a willingness to invest in fragile situations. The IFC has realized that it can have the most impact promoting private-sector development immediately following a crisis or a conflict, and consequentially the level of IFC activity in fragile situations has dramatically increased since 2005. Private-sector development in FCV countries now accounts for almost 6 percent of total IFC financing.[21] Advisory services to governments and private-sector businesses have also increased to around $26 million of spending in fragile states (14 to 15 percent of total advisory operations).[22]

The shift in focus to fragile situations also occurred because regional and field office operations realized that the IFC was missing a big opportunity to participate in post-conflict reconstruction efforts. This led to a number of initiatives including, for example, a 2006 commitment to participate in Lebanon's reconstruction. The IFC also started the Africa Post-Conflict Initiative to directly address fragile states in Africa, which account for more than half of the World Bank list of fragile states. Through the initiative, the IFC is more proactive about putting people on the ground and increasing funding for advisory work in infrastructure and agriculture.[23] It has implemented similar programs in Yemen and Haiti. The overall performance of advisory and investment programs is almost on par with the same projects in non-FCV states. IFC programs have seen some success because of changes on the operational level. The IFC no longer requires the stringent enforcement of all its standard requirements and criteria, which allows more partners to operate in FCV countries. Simply tweaking some procedures has allowed for success in areas such as Greenfield microfinance, trade finance services to commercial banks, and mobile banking. However, the IFC has had less success with infrastructure, agribusiness, and assisting in the growth of the local private sector. Private-sector development in these areas remains overwhelmingly implemented by foreign companies, in part because the IFC continues to struggle with finding local partners.

OPIC assists U.S. businesses in frontier markets as the U.S. government's development finance institution. Since 2006, OPIC has financed and supported investors in Afghanistan, Angola, the Democratic Republic of the Congo, Haiti, Kosovo, Liberia, South Sudan, and Iraq.[24] OPIC has supported sectors such as insurance, banking, extractive industries, and real estate. Afghanistan has the largest number of OPIC-supported business projects, followed by Liberia, Iraq, and Haiti. The majority of these OPIC-sponsored projects purport to have a positive development impact on the host country. Moreover, OPIC boasts a strong focus on environmental and social due diligence in its operations.[25]

The working group found that, as the U.S. government's complement to the IFC, OPIC has the added levers to support private-sector investment through its foreign policy imperative. OPIC is obligated to support U.S. foreign policy while it promotes U.S. business, investments, and partnerships. For example, in Iraq OPIC has offered U.S. compa-

nies political risk insurance and loan guarantees where Iraqi finance institutions were not yet equipped to provide these services.

OPIC and the IFC struggle with some of the same issues, including rules requiring that local partners have three years of audited financial statements. Companies operating in fragile situations sometimes cannot comply with these standards because of frequent business disruptions due to instability, and so do not seek out the insurance or loans that they may need. Both organizations have sought innovative solutions to deal with this: the IFC, for example, has lessened regulations if a company's financial record is sound.

Another problem faced by both organizations is addressing and adhering to social, environmental, and human rights standards. The working group pointed to several ways in which OPIC and the IFC have dealt with this. For example, the IFC was previously unable to invest in the Ivory Coast because of child labor in the country's cocoa industry. The IFC now works with institutions and farmers to address the problem and has created an advisory program to work with cocoa buyers who are also concerned about child labor. Both organizations also must often work with "corrupt" local actors, who have paid money to government forces or rebel groups in order to continue operations during the conflict. The IFC's new approach is to focus on the future, on the grounds that the businesses were not active participants in the conflict.

TRADITIONAL APPROACHES BY EXTRACTIVE INDUSTRIES OVERLOOK OPPORTUNITIES

Private-sector development (PSD) has historically focused on extractive industries and fragile states, but companies and investors tend to ignore or disregard host-country geopolitics. Some investment in this sector has the potential to be harmful, especially if the resources are a source of communal conflict, or if the resources inherently enforce a system of patronage or support a power imbalance. Investments in this sector, moreover, have less potential to build the local value chain or generate employment. Revenues from oil and gas industries in Burma, for example, flow directly into the hands of the government and government-owned companies, rather than to the local population.[26] International investments in oil and gas have often perpetuated conflict between governments and ethnic minority groups who live on the land.[27] Thailand has heavily invested in a dam and shipping center in Burma, but has sent in migrant Chinese and Thai workers instead of hiring locals, which has angered the thousands who have been misplaced by the dam.

The working group pointed to other examples of international investors misunderstanding the political workings of a recipient fragile state, including companies that have signed deals with autonomous Kurdish leaders in northern Iraq without negotiating the terms through the central government, as required by law.[28]

Despite this, private-sector actors have carefully and thoughtfully chosen to invest in small and medium enterprises (SMEs), which stimulate employment, entrepreneurship, and innovation. These businesses account for up to 90 percent of all business and 50

percent of employment worldwide.[29] Small businesses are often overlooked as development opportunities because of risk and high transaction costs, but they are usually more invested in quick economic recovery than are large corporations, and are often willing to pour more resources into the local economy after conflict or other episodes of disruption.[30]

THE UNITED STATES HAS TOOLS TO ASSIST THE PRIVATE SECTOR, BUT NOT ENOUGH

Participants in the working group discussed several tools that the U.S. government could offer that would be useful to them and identified what role the United States could play in assisting and encouraging private-sector development. While some participants believed that additional U.S. government assistance would have had no impact on their operations, or perhaps could have negatively affected their development projects, most participants saw a role for the U.S. government in mitigating challenges. The U.S. government could assist in identifying opportunities and resources, providing the private sector with information about local actors, foreign governments, and typical government and institutional procedures. Not understanding these elements of the local environment increases risk for businesses, and sometimes that risk drives away potential investors.

While small investors might balk at the idea of doing business in a risk-filled environment, large multinational companies can bear more risk and are therefore better able to enter fragile situations. They can create viable business models that generate employment and use local supply chains. In a country like Somalia, one participant said, "Wherever I go, I always manage to get a cold Coca-Cola."[31] Further research on the models used by Coca-Cola and other multinational corporations (MNCs) such as Nestlé and Procter & Gamble, including how they develop local supply chains while adhering to international standards and regulations, would help to identify ways that smaller companies could mitigate risk. The U.S. government could also encourage private-sector development by making Multilateral Investment Guarantee Agency (MIGA)-type guarantees more readily available and revisiting the limitations imposed by the Foreign Corrupt Practices Act. The stringent laws and regulations imposed by the legislation discourage some businesses from entering FCV markets because they cannot do business the way business is done locally. Further, corruption in any society takes decades to root out, so waiting for anti-corruption efforts to succeed—and many such efforts do not succeed—is not a viable policy option in the medium term.

Some participants noted that the U.S. government could support the private sector by identifying areas ripe for development and guiding the private sector away from areas that are not economically viable. Some recommended the development of a matrix that lists relevant opportunities, challenges, target industries, information on subnational and local governments, and which companies can operate in the local environment. This matrix should include U.S. government priorities. This would help clearly identify the priorities and objectives of all actors, and where interests of different stakeholders overlap.

The absence of sovereign wealth funds in the U.S. government was highlighted as a barrier for a level playing field. Because capital for new ventures is scarce, especially with the high cost of capital for risky environments, the United States could create a fund that would function by investing and exploring opportunities in frontier markets. This would help U.S. businesses gain initial traction. Such a fund could help in reducing risk and the cost of capital in the initial stages. The U.S. government could also provide tax credits as an incentive for foreign investment in FCV countries that are of strategic importance to the United States.

Finally, U.S. businesses also want to see an increase in communication with U.S. government entities in FCV states. The State Department can provide counseling to help businesses become familiar with the situation on the ground. They have tools that can assist in fostering entrepreneurship. But overall, USAID, the Embassies' Economic Sections, the Department of State, and the Department of Commerce should coordinate more with U.S. businesses in fragile states in both Washington, D.C., and the field. ▶

RECOMMENDATIONS

The United States is not doing enough to foster an enabling environment for private-sector development in FCV countries. The good news is that it already has many of the tools and much of the information that would be needed to do more. It can also use its good offices to convene key players and promote high-level information sharing. It can foster private-sector activity, attract private investment and entrepreneurship, and help FCV countries capture positive spillovers from this activity by taking the following steps.

- Provide better information. U.S. embassies and offices should create a clear explanation of an FCV country's political economy and distribute this information among U.S. businesses and international investors. An understanding of a country's complicated political economy would help investors navigate a country that is rich with potential but that has unfamiliar laws and actors that could complicate investment. In addition, they should provide information about what U.S. resources are available to U.S. businesses in-country, as well as information about how to navigate the host country's laws and bureaucracies: what the requirements are for investing, which offices and individuals have which functions, and so on. A 'tool kit' or manual of the different offices in frontier markets and their counterparts in the United States would be immensely helpful to businesses.

- Streamline operations. While preparing information about what services the United States provides to U.S. businesses, the United States might discover that its own processes are needlessly bureaucratic. Where this is discovered, the U.S. ambassador to that country should lead a study of how those processes could be streamlined.

- Make better use of existing resources. The U.S. Commercial Service has trade professionals in more than 74 countries around the world, and has potential to greatly expand private-sector development opportunities in FCV countries. The role of trade officials in embassies could likewise be expanded. OPIC's capabilities could be bolstered by allowing equity funding and first-loss funding to serve as guarantees for U.S. businesses in frontier markets.

- Negotiate more bilateral investment treaties. The United States should improve access to FCV markets by implementing more bilateral investment treaties (BITs), an option that is far underutilized. BITs are pacts between two countries to frame, assist, promote, and regulate foreign direct investment (FDI) flows. BITs are useful for the recipient country because they

demonstrate its intent to respect international standards of business and property rights. They promote inward FDI, provide core protection for investors, and reduce political risk. Compared to the rest of the developed world, the United States negotiates an extremely low number of BITs, having only 42 currently in place.[32] A BIT with the United States might improve an FCV country's business environment and stimulate a fragile economy. But they are not without risks. Numerous BIT-related litigation cases highlight the fact that there is an unresolved tension within BIT clauses between state sovereignty and the rights of investors.[33] There have been cases where investors or the government have attempted to break the terms of the BIT when they have become inconvenient. That does not suggest, however, that BITs are not a useful tool, only that they are a useful tool that needs to be carefully negotiated and monitored, as the benefits seem generally to outweigh the risks.

- **Offer more incentives for investment.** OPIC should consider creating a small fund to offer incentives, such as first-loss funding, for investment in frontier markets. This would help businesses gain traction in the initial stages of an emerging market. The United States should also explore offering tax credit to businesses that invest in fragile states, not unlike the kinds of tax credits that are currently awarded to companies for research and development.

- **Be particularly sensitive to local politics and conflicts.** All U.S. stakeholders should be wary and tread carefully regarding local politics and conflicts between ethnic or sectarian groups. Companies should be aware of current tensions and political crises before beginning operations in FCV countries. Those working in the extraction industry should be well informed about potential conflicts over natural resources, especially those concerning minority groups, and should review the Voluntary Principles on Security and Human Rights to help them avoid exacerbating local conflicts, which reduce the potential for economic growth.[34] Additionally, investors, large companies, and the U.S. government can do more to integrate themselves into the local economy by hiring locally, building local value chains, and coordinating with the host government. All parties should consider diversifying beyond extractive industries and toward more sectors with potential for sustained job creation.

- **Foster and capture positive spillovers.** FDI has traditionally been a focus for private-sector-led development in FCV countries. There are significant opportunities to ensure that FDI and other economic activities avoid creating negative spillovers—damaging local economies—and instead foster positive spillovers, such as improving competitiveness, building value chains, and improving standards for product quality or worker protections. Helping recipient countries capture these positive spillovers to develop their local economies could lead to a more sustainable economic activity and support long-term stabilization. A healthy local economy, in turn, provides suitable partners for U.S. businesses.

CONCLUSIONS AND FUTURE RESEARCH

The CSIS working group sessions clearly highlighted the need for further research on private-sector development in FCV environments. This conference report provides findings from the roundtables along with policy recommendations. But it also raises important questions about private-sector development and highlights the need for future research in several important areas.

First, sovereign wealth funds have proven to be successful and useful in other countries with large private sectors, but the United States does not have one. Research into how those models could be implemented in the United States on either the state or federal level, as well as identifying mechanisms for establishing them, would be useful both to the United States and to private-sector actors. U.S. sovereign wealth funds would have the flexibility to invest in fragile situations where typical U.S. businesses or the U.S. government could not. A starting point could be to conduct research on other sovereign wealth funds that have been successful in benefiting the private sector in FCV countries.

Second, this paper has acknowledged that BITs sometimes cause problems for host governments, which sometimes struggle with the legal challenges of guarantees. One solution is to explore the possibility of building capacity in FCV countries to handle BITs appropriately and assist them in designing the legal framework for agreements and memorandums of understanding.

Last, while some members of the working group acknowledged that U.S. government assistance would have been helpful in FCV countries, others said they operated better without government interference. What was the nature of the environment in some FCV countries that allowed U.S. businesses to profit? Future studies should bring together global business leaders to discuss the minimally acceptable conditions for businesses to operate and prosper. By understanding these conditions, researchers may create a framework to assist the U.S. government in identifying where services are needed and why.

The policy recommendations do cover ways to provide an enabling environment by bridging information gaps, but there are further considerations that need to be researched, including the costs, feasibility, and ability of each identified office in the U.S. government. To achieve greater cohesion between the offices for the provision of information to businesses, the actual

processes, procedures, and future steps need to be mapped out. With declining aid money, the feasibility of increasing personnel in the commercial services sections of embassies or costly coordination offices also needs to be considered. Similarly, the mechanisms and costs associated with a first-loss equity fund under OPIC needs to be explored further.

Future research from CSIS will explore the possibility of developing local economies and possible space for the private sector to provide services for bridging information gaps in governments and with other private- and public-sector actors. Additionally, future research will focus on tying the policy recommendations presented here to existing research on absorptive capacity in FCV countries to better understand the absorptive capacity of the private sector. ▲

ENDNOTES

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