

Is business the missing link?

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ED BUTLER retired from the British Army, as a Brigadier, after an operational career spanning 24 years, much of it command of UK Special Forces. He completed 3 tours in Afghanistan, from the initial overthrow of the Taleban in 2001 to leading British Forces into Helmand in 2006. He is now CEO of CforC Ltd, a company that drives business recovery by working 'on the ground' with corporates and investors in frontier markets.

A question often asked by my headquarters in Helmand in 2006 was how can we prevent the ordinary Afghan farmer from becoming an insurgent and turn the insurgent back into a farmer? The answer given to me by many tribal elders and officials was simple: "We want to sleep safe at night and we want jobs. With a job we get paid ... and will not have to accept US\$12 a day from the Taleban... We will keep the terrorists away and you can go back to your own families." 10 years on, how can we improve our chances of coming home early?

The answer is the engagement of businesses and investors alongside those responsible for planning and conducting operations in Afghanistan. Strikingly, however, whether in Afghanistan or any similar context where significant international assistance is committed, it is difficult to find a model that incorporates foreign



business investment with development objectives.

It remains a tenet of stabilisation operations that effective security is the platform on which to build governance and sustainable development. In close coordination with their Afghan partners and military forces, foreign experts are working to this end. Yet, it remains for Afghans to be given a stake, not just in the provision of their own security and governance, but also in forging their own economic future – and with the financial means to do so. A credible investment of the private sector into the stabilisation plan would also provide a useful stimulus for improved governance and regional development – a virtuous circle. Investment in factories, mines and agro-businesses as well as financial services, is necessary for development. This is the expertise of the private sector: it remains the missing link. This should be the next level of 'Afghanisation' or 'Partnering'.

Lack of business engagement

What struck me during my time in Afghanistan, and even more so now as Chief Executive of CforC Ltd, is the almost complete lack of engagement of the commercial sector by the military, their governments and International Organisations. By definition, aid and development personnel are not business people.

To illustrate my point, I cite NATO's expansion into Southern Afghanistan where early engagement of business could have made a difference. In the Spring of 2006, both the Coalition and the Taleban acknowledged the Kajaki Dam as strategically and symbolically important. 'Turning on the lights' in the main towns would 'make the difference to the ordinary Afghan' to which both soldiers and ministers so frequently refer. Unsurprisingly the Taleban made the same deduction and did their best to prevent the completion of this project. The British Army then devoted much of the summer of 2008 to delivering the huge turbine to the dam; an incredible feat of military planning, execution and daring. The plant is only now generating a relatively minor amount of power (33 MW), a small proportion required by the region.

It would have been far more effective in time, money and lives, to engage a company that provides temporary power. There is a British company that delivers 20 such projects in some of the most challenging parts of Africa. Of note, this company currently provides 30 per cent

Afghanistan: a challenging but surmountable business and security environment

of Yemen's power requirements. The instantaneous delivery of power to the people of Afghanistan would have sent a hugely positive message and provided them with something that the Taliban could never deliver.

Unless intervention forces can quickly make a difference to the ordinary people that they are trying to help, they will, at best, only stabilise the patient. They will not address the underlying drivers of conflict. As we witnessed in the Balkans, Iraq and Afghanistan, initial euphoria at the overthrow of an oppressive regime is a dividend that rapidly turns to tolerance, then anger and then aggressive reaction.

As a result of the economic and strategic security shocks of the last nine years, the private sector and financial services, must now become an integral part of crisis prevention, management and sustainable resolution: very much a case of 'Trade not Aid'. This is received wisdom that stretches back to the era of the US Marshall Plan.

Regrettably, and at ever increasing costs in blood and treasure, this wisdom is not being applied. Our company's experience of operating in challenging markets, such as Zimbabwe, is that there is now a firm requirement for new Joint Ventures (strategic and operational) between Governments, International Financial Institutions (IFIs), international business, NGOs and the private sector – at both the local and national level. Most importantly, there must be early engagement with communities and positive partnering with local business people and entrepreneurs.

Attracting Investment

How then does one attract businesses and investors into post-conflict and frontier markets? The first priority is to understand the motivations of the international entrepreneur and the dynamics of the local business environment. A detailed Investment Appraisal must be done in conjunction with local business people, indigenous communities, the Diaspora and those who have invested and operated in the region before. Sit down with anyone from the natural resource sector, and he will tell you that there is no such thing as too risky an investment – just so long as the incentives are there. Much of this is about closing the gap between perception and reality – be it security or good governance. 'Ground truth' can dissipate much of this gap.

Based on our experiences, there are a number of key criteria for successful investments and business recovery in frontier markets, all of which are applicable to Afghanistan. First, identify those sectors that are instrumental in generating local employment and foreign exchange. Industries within these types of sectors tend to be "recovery multipliers", driving benefits down to the bottom of the socio-economic pyramid. They also often provide training opportunities

for young people, enabling them to become direct beneficiaries of economic opportunity, so reducing the risk of disenchantment, exclusion and, in the case of Afghanistan, the cycle of renewed violence. In the south of Afghanistan this will give young men the chance to break away from just being opiate labourers and hired guns for the Taliban.

Second, target sectors that will be competitive on a regional scale, promoting export and growth opportunities. CforC is currently advising a small company that is trying to regenerate the pomegranate industry countrywide. Their plans include the planting of 70m pomegranate trees over the next 10 years. The company has already begun discussions to sell its products to brand name international supermarkets.

Third, prioritise business continuity by maintaining infrastructure as the country recovers. Business survival and recovery after war is often made much harder by erratic power supply, poor roads, expensive credit and scarce working capital. Infrastructure aid, new equity partners and imaginative development finance can keep businesses going and position them well for recovery and expansion.

A post-war economy must aim to shift from donor dependence to a diversified commercial economy built

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Ed Butler, CEO, CforC Ltd



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Ed Butler in Afghanistan

on investment. It is critical to move beyond the parallel economies and black markets to a single, integrated and legal economy in which incentives for profits and peace are aligned, generating an essential tax base.

Lastly, the communities must have a sustainable financial stake in new businesses. There are huge downstream advantages if the inter-dependencies between physical security, financial welfare and overall long term prosperity are properly established. In the case of Afghanistan, incentivising the local community to provide their own security would assist in keeping narco-criminals, former warlords and Taleban away from their new livelihoods. This 'soft security', which is considerably cheaper, is often more effective and enduring than imposed 'hard security' options.

Business people and investors naturally seek potential engagement in new ventures. Our experience is that investors have altered their risk calculus in emerging markets, driven by tighter profit margins since the 2008 financial and economic crisis. They want to improve supply chain security in order to reduce their distribution and operating costs. However, for governments to attract businesses into countries such as Afghanistan they must provide convincing answers

to the following questions:

- Who is going to make sure payment is made reliably for services provided?
- Is there going to be sufficient security over the course of the investment cycle?
- Can I convince the market it will add meaningful value to shareholders?
- On whom can I rely for a quality and impartial assessment of the political, business, social, cultural and security 'ground truth'?
- With whom can I reliably partner in the market?

Way Forward – New Joint Ventures, Cultures and Mindsets

After nearly 10 years the Afghanistan campaign is at a tipping point. Over the last four years a deep and enforced transformation has occurred in thinking and approach to conflict resolution by all the international stakeholders. The aid community, the vital lifeline for so many vulnerable Afghans through decades of conflict, has experienced a similar pressure to adapt. There is now a far better understanding of the nature and dynamics of the country and its complex tribal tapestry. There is recognition that this is an Afghan problem requiring an Afghan face and an Afghan plan – *led by Afghans*.

There is a pressing requirement for a new way of thinking, a change in mindsets, cultures, structures and policies if there is to be a sustainable and integrated approach to resolving the crisis in Afghanistan. Governments, corporations, NGOs and International Organisations must work together with private entrepreneurs to establish, develop and grow the economic infrastructure, jobs and prosperity for ordinary people. This is all about business hearts and minds. Business people and investors must be incentivised to take 'risks' in these areas and assume greater responsibility for their part in ensuring regional and global security.

This will require new Joint Ventures and consortia between businesses and governments, the public and the private sector, between corporates and the military. The recruitment, selection, training and development of our public and crown servants must facilitate the new partnership paradigms. Secondments between the public and private sectors would be one means of ensuring the exchange of best practice, and promoting policies that facilitate novel funding and consortium solutions.

It is now a question of going 'forward to the future, not back to the future' on how physical, environmental and economic security is delivered in the 21st century. There is no alternative, in the light of rising threats, resource insecurity and scepticism of the public for expeditionary armies. A long-term post conflict and COIN strategy needs a "dynamic business solution." **F**

