

## DEPARTMENT OF SOCIAL POLICY



THE LONDON SCHOOL  
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**LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE**



The role of private sector development in a fragile region: A policy process  
approach to overcoming limited public sector employment in Indian  
controlled Kashmir.

Candidate Number: 58455

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SA452

**Dissertation submitted in partial fulfillment of the requirement for the degree.**

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## Abstract

Fragile State (FS) is an emerging concept of study, and private sector development (PSD) in FS's is much novel to this scholarship. The literature is fragmented across disciplines with little consensus on definition of FS. Though PSD is reflected as an inalienable part of FS development, there is lack of consensus between various schools of thought on what constitutes best policy practice. These differences are rooted in debates, which on one hand see conflict as a threat to PSD, and on other hand PS as threat to fragile society, and beyond these two debates fall the challenge of ineffective economic policy and poor governance. Considering these debates this study focuses on underlying policy issues that fall within various paradigms of PSD in Indian Controlled Kashmir (ICK). By positioning ICK within the FS definitions, it argues that ICK does share some characteristics with FSs, but its unique and differential nature makes it a fragile region (FR) rather than a FS. In relation to the debates on PSD in FSs, the evidence shows that in ICK the threat of conflict to PSD has reduced, and the predatory nature of PS is less evident but the lack of PSD friendly policy and enabling governance environment are daunting to PSD. Owing to limited literature and lack of a coherent model, this study contents by proposing a conceptual framework '*inclusive approach to PSD*'. The framework's focus is that feasible economic policy and governance *reforms* go together in creating conflict sensitive *PSD interventions*; with *assurances* against various *threats* such interventions can yield sustainable outcomes beyond long-term employment generation and reduced pressure on public sector jobs. However the functioning of this approach is hazardous unless *multiple stakeholders* and *parties to the fragility* are involved in policy process.

## **Acronyms**

CGI: Central Government of India.

FR: Fragile regions.

FS: Fragile State.

ICK: Indian Controlled Kashmir.

MIGA: Multilateral Investment Guarantee Agency (MIGA)

OPF: Other parties to the fragility.

PS: Private sector.

PSD: Private sector development.

SP: Social Policy.

## **Definitions of terms used in this study**

International actors: (bilateral and multilateral donors, or advisory groups).

Inward businesses or investors: Refers to investment from another region, whether within the same country or abroad. (John Bray, 2010).

Policy process: Process from assessment, to reforms, to PSD planning and implementation, and finally to monitoring and followup.

Public Private Partnership: Partnership between private and public, or inward private and regional private, or inward private, regional private, and public.

## Chapter 1:

### Introduction and Debate on Fragile States

#### 1.1.1 Background

The concept of FS is relatively new (Carment, *et. al*, 2010) to the study of conflict environments and the role of PS in socio-economic development of such environments is novel in this scholarship. There is limited literature on PS's promotion of sustainable longer-term employment in FS (GSDRC, 2009), but with growing empirical evidence on poverty as a common factor of conflict (McLeod and Davalos, 2008) fostering PSD as a counter-method has become a serious debate in policy arena. The examples of PSD in FSs across the World from last decade have shown that PSD not only creates employment opportunities but also raises revenues through PS taxation, which in the long run supports strengthening state-society social contract, state accountability and legitimacy and acts as an important redistributive mechanism to correct horizontal and vertical inequalities (McLoughlin, 2011). Arguably some examples have also reflected that in certain cases not being conflict sensitive and properly regulated, PS has exacerbated conflict by feeding warlords, and undermined fragile societies. Though some measures are suggested to overcome negative costs of PSD, there is a lack of an inclusive approach, which this study has tried to bring together by focusing on PSD in ICK.

One of the commonly found mistakes while debating about the economic development in ICK has been its unhelpful comparison with various states of Indian. This has not only led mismatched understanding of local issues, but also planning and implementation of faulty interventions. Being a politically ill region with economic stagnation, this study tried to represent ICK in the FS debate, find out why PSD is under-nurtured and how it can be facilitated. It argues that lack of sustainable PSD in

the region has created alarming unemployment and increased pressures on public sector jobs. This in turn has made public sector a preferred method of employment, increased corruption, nepotism, and socio-economic insecurity in the region. The study is ‘not arguing that supporting the PS is a cure, rather PSD effort is a significant contributor to peace, and development’ (Peschka, 2011, p.41) in ICK. The political settlements lay the ground for future stability, but without the injection of optimism and hope born from employment and economic opportunity, such settlements are rarely going to be sustainable (Gerson, 2001, p.103).

### **1.1.2 Relevance to Social policy**

FSs are compelling area of study in Social Policy (SP) because among all developing nations they are furthest behind on the MDGs, with only 10% of them on track to halve poverty and hunger by 2015 (DFID, 2012). They comprise roughly 28-35% of absolute poor, 32-46% percent of the children that don’t receive primacy education, 41-51% percent of children who die before their fifth birthday and 27-35% who lack safe drinking water (Branchflower *et al*, 2004). In addressing these problems SP at the individual level ‘entails the study of human wellbeing, and the systems by which wellbeing may be promoted (Dean, 2006, p.2) and at the collective regional, or state level, entails enhancing institutional capacity and sustainable resources for achieving human wellbeing. ‘One of the main tangible things needed in achieving this wellbeing is a sustainable livelihood, and one of the means through which it can be organized is businesses, besides government and social groups (Ibid, 2006). With intensified gaps in the human wellbeing of developing countries (of FSs in particular) in the 21<sup>st</sup> century, PSD is seen as a key factor in eradicating poverty and achieving sustainable development (BASD, 2012). It is because PSD provides diversified opportunities of livelihood and supports in long-term socio-economic development of such countries. The PS generated tax revenues are used in meeting other wellbeing parameters (like



health, education, housing, and infrastructure) which further contribute in strengthening the state-society social contract and legitimacy.

It is this perspective of PSD, which inspires this study to find out the policy lacunae which undermine PSD in ICK and propose measures within which a symbiotic private sector can be created with contributions to both individual and collective objectives of SP.

### **1.1.3 Research Question**

Viability of private sector development in Indian controlled Kashmir.

.1Why should Indian Controlled Kashmir be considered a ‘fragile region’ not a ‘fragile state’?

.2Given the nature of ‘fragility’, why private sector development is under-nurtured, and how it can be facilitated in order to generate employment and overcome limited public sector avenues?

### **1.1.4 Methodology**

This study is predominantly interpretive, with some empiricism to compliment the argument. It applies critical approach to the understanding of PSD in FSs and compares and contrasts it with PSD in ICK. Considering the nature of the research question, the study borrows predominantly from subjective social, economic and political dimensions of PSD in fragilities, but it uses ‘mixed method approach’ (Bryman, 2008) to synthesize some quantitative findings, in validating qualitative ones. The conceptual framework, findings and analysis are drawn from secondary sources including a small amount of gray literature. As there is scant research of PSD in FSs, and especially PSD in ICK, conducting primacy research would have been more a suitable strategy but due to the time and financial constraints, it was not possible.

This study doesn’t generalize its findings to other FRs or FSs having different geopolitical attributes. However, the conceptual framework proposed and policy

implications drawn, are relevant contributions to the scholarship and can be used as a normative policy guide in understanding PSD in conflict based fragile environments.

### **1.1.5 Summary of chapters**

In chapter-1: *Introduction and debate on FS*, the first part gives background of the study by touching on PSD in FSs and ICK. It also shows relevance of topic to social policy, research question, and methodology adopted. The second part puts ICK in FS debates and show evidence that ICK is not a FS but a FR. This definition is followed as a guideline in the rest of study.

Chapter-2 reviews the *debates on PSD in FSs*. It explores the literature that shows PSD as an inalienable part of FS development but there is lack of consensus between various schools on best policy practices. Then it details three main debates which root this disagreement between various schools of thought: threat of conflict to PSD, threat of PSD to fragile society and the gaps in governance and economic policy. Finally, the chapter outlines a conceptual '*inclusive approach to PSD*' framework which attempts to fill gaps in the literature.

Chapter-3 argues about *facilitating PSD in ICK as a FR*. It starts with the policy context of ICK and then presents evidence that, unlike FSs, threat of conflict to PSD in ICK is reduced and the threat of PSD to local society is not evident yet, as PSD is at infancy stage but the gaps in governance and economic policy like other PS are undermining PSD. Finally, the chapter analyses how the proposed '*inclusive approach to PSD*' can be operationalized to deal these multiple challenges in ICK in order to create a symbolic and sustainable employment generating PSD.

Chapter-4 analyses the broader policy implications of defining ICK as a FR and '*using inclusive approach to PSD*' in ICK and other fragile environments. It also gives some recommendations for further research.

## 1.2 Debate on Fragile States

Before engaging on the debates of PSD in ICK, one of the premises of this study is about how FS has been conceptually constructed and understood, and where ICK stands in this debate. Though the overall debate lies between fragility caused by civil or political conflict, or underdeveloped nature of states, ‘there is no internationally agreed definition of the term ‘fragile state’ (McLoughlin, 2011, p.9). This ambiguity in definition allows policy makers to adopt the concept in their own ways, (Carment *et. al*, 2010) giving certain direction to the argument about PSD.

Within *academia* ‘some see FS as an inherently political label reflecting Weberian ideals of how a 'successful' state should function, whereas other have taken it further, by linking it to a range of transnational security threats and humanitarian concerns like mass migration, environmental degradation and terrorism’ (McLoughlin, 2011, p.8). Based on experiences of post-colonial African and South Asian states, a relatively recent categorization defines fragility according to the underlying causes imbedded in informal systems of governance, power, or order which exists alongside or within the structure of the formal state (Ibid, 2011). Such fragilities include Neopatrimonial states (Bratton and de Waal, 1994) and Warlord states (Reno, 1998). Some authors like Stewart and Brown (2010) give more emphasis on internal breakdown of formal systems, and define FS as failing or in risk of failing with respect to authority, service entitlement, or legitimacy. On similar lines, Anderson (2008) argues that the volatility of state institutions undermine the predictability, transparency and accountability of public decision making processes and their provision of security and social services to the population. Zoellick (2008) sees it as lack of synthesis between security, governance and economics.

Collier (2007) goes beyond intra-state, to non-state interferences; FSs are caught in one of four traps: conflict trap, natural resources trap, trap of being landlocked with bad

neighbors and trap of bad governance. Similarly, CSRC (2007) considers fragility as susceptible to crisis in one or more states sub-systems vulnerable to internal and external shocks or domestic and international conflicts. Carment *et. al's*, (2010) inherently Weberian, gives a general model that FSs may incorporate numerous other candidate states; like-collapsed, failed and failing, developing, weak, and the democratizing states: fragility becomes a measure of differences between the actual practices and capacities of state and their idealized image.

Considering the normative and empirical shortcomings of the term FS, the *development agencies* favor broader terminology based on the degree or nature of failure (McLoughlin, 2011, p. 11). The common World Bank (2005) definition identifies FS by countries policy and institutional assessments and categorizes them as: deteriorating, prolonged crisis, post-conflict or political transition and early recovery or reform. Using different terminology for similar assessment the OECD (2006) considers the defining features of FS as states' inability or unwillingness to provide physical security, legitimate political institutions, sound economic management and social services to its population.

The critiques argue those embedded in Weberian conceptions of state do not adequately differentiate between the unique economic and socio-political dimensions of states at empirical level. While the others are limited to few categories and interventions based on such categorization may be harmful (McLoughlin, 2011). Movement away from these vague, mistaken and short cut assumptions, towards detailed analysis of context specific characteristics of individual situations is needed (Stepputat and Engberg-Pedersen, 2008).

While ICK has been variously defined from being a borderland issue (Zutshi, 2010), to a failure of social contract (Chandhoke, 2005) these definitions are inadequate and come under the ambit of FR when ICK is reflected through the lenses of FS thinking. The

region is caught in a conflict trap, landlocked and vulnerable to internal and external shocks. However, the difference from FS is that the sovereignty of the region is controlled by India and any socioeconomic and political decision has the hierarchical binding of central government of India (CGI) and regional regime. Further, the contest is not just between India and Pakistan, the third important party to fragility is region itself (Koithara, 2004). Having three parties to the conflict led to both internal and external boarder shocks from 1947 and made the region landlocked with Delhi becoming the only root of contact with rest of the World' (Ashraf, 2004). The legitimacy of the region is undermined by the central government of India (CGI) to serve its political functions, which further reduces the regional regimes capacity to govern. This has lead to 'violation of social contract and the failure in channel democratic practices' Chandhoke (2005, p.23). Hence, normatively the FS concept does apply to ICK but applying it locally make ICK a FR rather than a FS, with most important factor being control of IGI on its overall decision making power.

## Chapter 2: The Debates on Private Sector Development in Fragile

### States

#### 2.0 PSD an inalienable part in FS Development.

Within the nexus of security, governance and economics, the economics has remained most laid off in FSs (Zoellick, 2008) with PSD particularly less prioritized compared to other interventions of relief work, security and nation building. With overtime realization of PS contributions in FSs peace and development, PSD has become an integral part with other forms of interventions (Sweeney, 2008). It provides strong basis for long term job creation (GSDRC, 2009), implements programs where institutional capability is lacking, stimulates the local economy and delivers revenue streaming through PS taxes, so that governments can provide services to their citizens (Peschka, 2011, De Vries and Specker, 2009). The increased private real wage reduces the reliance on cash transfer benefits and taxation-led increased public expenditure acts as important redistributive mechanisms allowing states to correct horizontal and vertical inequalities (McLoughlin, 2011). Moreover, PS job creation also reduces the lack of alternatives, creates routine, normalcy, reduces the vital psychological effect of tension and unpredictability and generates sustainability (Siegle, 2011). Overtime it contributed in strengthening the state-society social contract, state accountability to its citizens, and state legitimacy ((McLoughlin, 2011). Hence there is an agreement that PSD is an inalienable part in FSs development. However, there is lack of consensus on best practices (Sweeney, 2008). The *traditional and contemporary* schools of thought debate ‘when?’ PSD should be facilitated, and the *investmentalist and interventionist* on ‘how?’ it should be facilitated.

The *traditional school* of thought argues that PSD should follow after first-generation imperatives of demobilization, and humanitarian assistance whereas the *contemporary school* believes that an early PSD can provide opportunities for economic growth and

stability through jobs and improvement in the standards to living (Peschka, 2011). This is also supported by other authors like Beasley (2006) who argue that instead of sequencing security first and PSD reforms late, PSD should be promoted at all levels, and Gerstel (2006), who emphasizes on engaging in market development almost immediately after a crisis.

*Investment climate approach* aims at creating suitable investment climate related to both foreign and local investment by improving the economy as a whole, rather than directly helping specific individuals or businesses. Public agencies are important in creating a stable macro-economic environment by bringing legal reform and business regulations, strengthening financial institutions and macroeconomic frameworks, rebuilding infrastructure, reforming trade policy, and encouraging foreign direct investment (FDI).

*Interventionist approach* in contrast with investment approaches, aims to promote the local private sector at several different scales. The direct interventions allow donors to target the most vulnerable groups, as they do not rely on government institutions to function effectively especially in wear state structures. The interventions include promoting market linkages and value chains, promoting business associations and community groups, access to employment and vocational training, micro finance, and targeted support.

(Sweeney, 2008, pp. 51-66)

Sweeny (2008) argues that, while practitioners of both schools tend to dismiss each other, in reality there is an overlap, and the donors use a mix of both. Going a step back, the rest of the chapter will explore literature on three main debates which root this lack of consensus among various schools of thought regarding PSD in FSs.

## **2.1. Conflict as a threat to PSD.**

Lack of physical and legal security and return of conflict are very divisive between PSD in FSs. On physical and legal security challenges Sweeney (2008, p.19) mentions that FSs are unlikely to guarantee a complete rule of law where basic security and properly functioning judicial system with clear property rights and channels of dispute resolution are in place. Mills and Fan (2006) argue that such an insecure physical and dysfunctional legal system presents extensive rent-seeking opportunities for unscrupulous individuals. It changes the nature of efficient business life and benefits of scale by making PSD less transparent, less competitive, with greater reliance on personal contacts. Further Peschka (2011) argues that ineffective security is the main consequence of conflict which severely disrupts and reshapes PSD, weakening regulatory institutions and increases reluctance of PS's investment. It also halts the normal operation of banking services (Ibid, 2011, p.16), even if they operate they are not equipped to serve vulnerable people (Sweeney, 2008, p.56) who have to rely on unregulated and expensive informal financial services (Mills and Fan, 2006, p.9), which further strengthens clientelist roots and insecurity (Wood and Gough. 2006).

The return of conflict possibility within a decade following the end of violence is 40 percent (Collier, *et al*, 2008), placing major limits on the shape and activities of PSs (Sweeny, (2008, p.19). GSDRC (2009), mentions that it limits PSD to short-term job creation interventions. Bray (2009, pp. 8-11) argues that such risk of insecurity is equal for both foreign and domestic investors. However, it creates a sequential system of inward investment based on the analysis of scale of the investment needed, the means of getting paid, and the speed of return. With this sequencing, the first to enter are usually telecommunication, transport, logistic, with hotel companies having relatively less to invest (with faster and higher returns), and construction companies because of their obvious need. International actors such as the Aga Khan Development Network and



World Bank's Multilateral Investment Guarantee Agency (MIGA) sometimes support such companies in FSs like Afghanistan. The major transnational companies are unlikely to take risk of investing in dangerous markets unless they see global opportunities like petroleum and mining. Banks also tends to be risk-averse, especially retail banks, unless they are confident about political and regulatory stability.

In the ICK, conflict has predominantly been responsible for severing the international legendary entrepreneurial history (Habibullah, 2004), curtailed local business culture, and brought state domestic product well below the nationally average (Schaffer, 2005). However, unlike the 1990's peak insurgency the current security situation is considerably better. Therefore the possibilities of conflict-led threat to PSD have reduced and can further be minimized through an '*inclusive approach to PSD*'. This is explored further in chapter 3.1 and 3.4.

## **2.2: PS as a threat to fragile society.**

Bray (2010, p.5, 2009, p.10,19) mentions that companies naturally consider the risks and threats posed to their own interests, but they have historically been less sensitive to the impact of their own activities on local communities, and have always created winners and losers. Mainly, the resource rich war-torn and institutionally weak countries like Nigeria's Niger Delta and Sierra Leone have had huge socioeconomic and environmental costs from extractive-companies. The financing of conflict and uneven distribution created by these companies resorted to violence from loser-groups.

Barbara (2006) argues that it is poorly designed PSD which adds to political tensions and conflict-risks instead of alleviating them. On a similar note, Sweeney (2008, p.37) says that strong predatory elements of the PS sometimes exploits widespread informality in conflict environment through various illegal forms including war economies. Even legal entrepreneurial activities undermine peace if they are carried out

in a way that strengthens horizontal inequalities. The specific case of Afghanistan, as noted by Peschka (2011, p.32) shows that initial PSD reforms of federalization of government that are poorly designed strength regional warlords who were competing over resources.

GSDRC (2010) argues that with regards to limited resources neoliberal economic politics in FSs have undermined state legitimacy and led to persistently high unemployment rates due to manipulation. In Haiti, the free trade push devastated local rice producers, rural economy and labor market. The universal relevance model adopted was based on priorities of donors and multilateral corporation, with little choice for local government (Peschka, 2011, p.30). On donor policy Sweeney (2008) further mentions that when the local governments misuse their money, PS is seen as an alternative. This creates public and private sectors as mutually exclusive, and undermines state building. Instead of working around FSs, the need is to work on FSs in consultation with the state, which has remained largely untapped to date.

In case of ICK, the PS is still dominated by informality, and formal PSD is at infancy stage, therefore the predatory nature of PSD is less evident. Considering huge resource potential for PSD such threats can be predicted. However, drawing from relevant positive lessons of some FSs and using them within proposed '*inclusive framework to PSD*' would minimize such threats to a greater extent. This is further explained in chapter 3.2 and 3.4.

### **2.3. Gaps in governance and economic policy.**

FSs represent the world's most challenging business environments embedded within bureaucratic hurdles and limited business protection. Among the bottom 25 economies in business ranking, 20 are FSs (Peschka, 2011, p.13). The USAD (2009, p.51) mentions that increased corruption in conflict societies leads to disparate and

unpredictable enforcement of businesses and trade regulations, licensing restrictions, and fluctuating enforcement policies; making it difficult to pursue rational business plan. On powerlessness and nepotism, Anderson (1999), Peschka (2011, p.10) and Mcloughlin (2011) argue that PS activities are often dominated by family owned businesses. This undermines the representation of others due to limited political power, poor organization and distorts healthy market development. On rent-seeking, Mills and Fam (2006, p.28) mention that in the absence of a well governed state, extracting rent from investors takes place at all levels of public offices and repairing this damaging climate needs a broader enabling governance environment. On capacity deficit, Sweeney (2008, p.19) notes that due to war, crises governments are likely to suffer from limited (especially skilled) human resources, therefore, from practical as well as ideological perspectives they may not be able to effect change. Also, the political fragmentation and factionalism can pervade civil society bringing severe implication for economic activities.

Within economic policy, the distortion of basic infrastructure and lack of business friendly climate are seen as main challenges for PSD. This includes asset distraction, lack of access to the electricity, transport, communication, finance, macroeconomic stability, depleted national fiscal base and dependence on import duties (Peschka, 2011), poor market analysis (Wilson 2002) and lack of monitoring and evaluation (USAID 2009). Bray (2009) argues that physical infrastructure recovery is first attraction to FDI, but long-term economic and political recoveries like institutional and business regulatory framework, security of property rights and special incentives are equally important. In fact, lack of these measures keep not only international, but also local PSs away from entering FSs or working effectively for large-scale employment generation. While referring to local enterprises, Sweeney (2008, p.17) says that loss of assets makes it harder for them to resume economic activities; it shrinks their purchasing power and market contribution, and leads to market distortion.

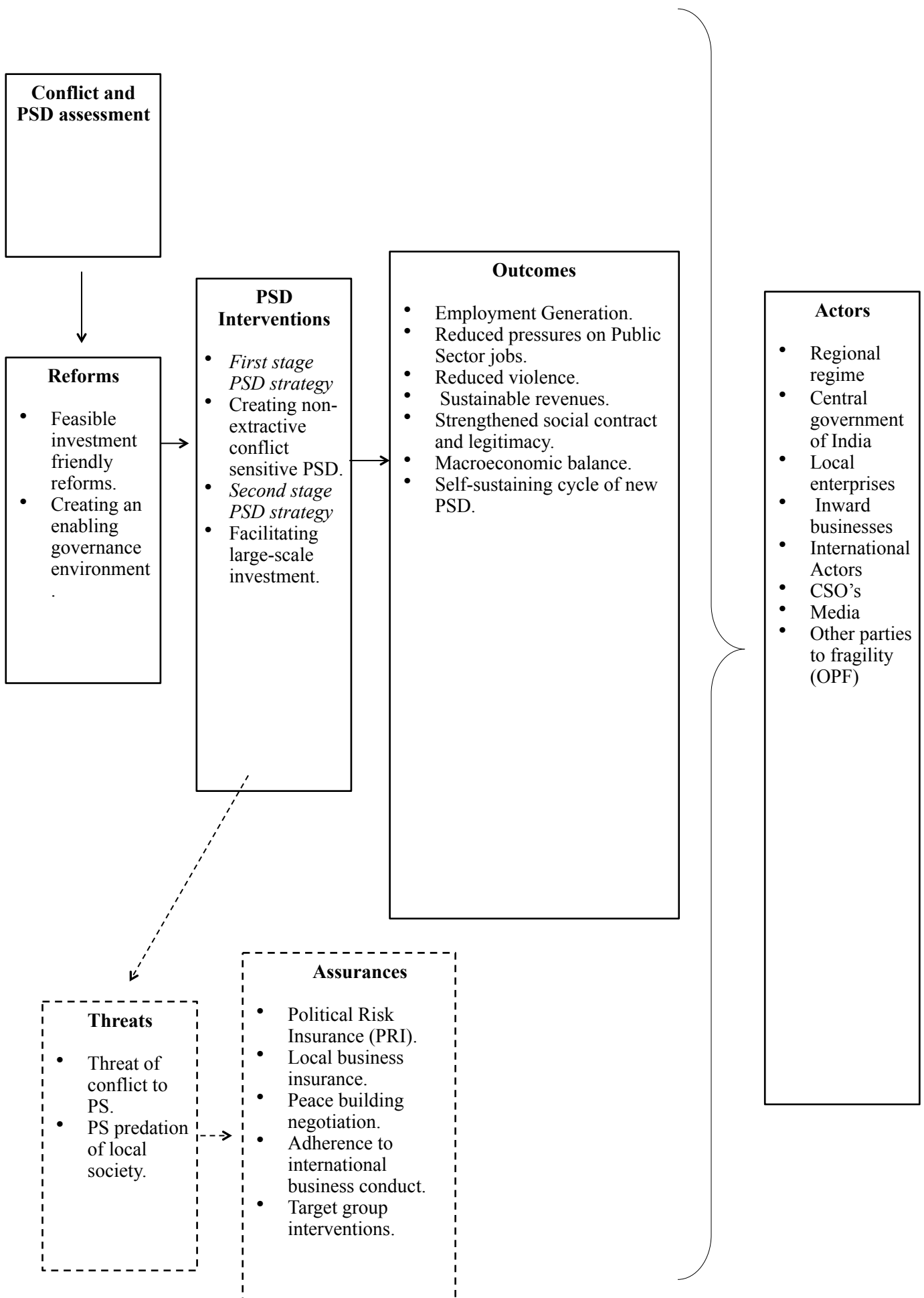
In case of ICK, lack of an investment friendly economic policy and enabling governance environment are among the predominant reasons for under-nurtured PSD. A detailed analysis of these challenges and way out is discussed in chapter-3.3, and 3.4.

#### **2.4 Conceptual framework (Inclusive approach to PSD).**

The complexities reflected in all three debates above have created diverse ways to dealing with PSD in FSs, and disagreements within various schools of thought. The first generation PSD belief; *contemporary school* of thought, is promising compared to the *traditional viewpoint*. While the *interventionist approach* is more localized, it considers state role as secondary and relies much on donor intervention. Contrary to it *investment climate approach* is much suited for both local and large scale PSD with the state as an important actor. Notwithstanding, all these schools lack a comprehensive framework which could bring together various issues of ‘when’, ‘how’, and ‘who’ to include in sustainable PSD. Beyond these schools substantial amount of literature believes that collaborative approach should be adopted but their focus is also divergent. To mention a few; ‘Whole of Governance Approach’ (OECD, 2006) aims to highlight the nexus between political, security and development by involving a mix of actors, instruments and interventions. However, it predominantly focuses on key government ministries’ capacity building and cooperation through donor interventions. The ‘Enabling Environment Approach’ (Mills and Fam, 2006) sees security and stability, finance and infrastructure, workers and labor markets, regulatory framework and taxation as pillars of investment climate. But it focuses only on *reforms* and *interventions* with little emphasis on multiple stakeholder’s role and assurances against threats.

Considering these limitations, and borrowing from overall FSs literature, the below proposed conceptual framework brings together an inclusive policy process to deal with

the overall challenges of PSD in ICK. This framework is analyzed in detail in chapter 3.4.



## **Chapter: 3**

### **Facilitating Private Sector Development in Indian Controlled Kashmir as a Fragile Region**

#### **3.0 Context.**

Prior to the partition in 1947, the PS was booming in Kashmir, having its regular trade caravans across central Asia, China and Turkey (Ashraf, 2009, Habibullah, 2004). The partition was the beginning of a confrontation and manipulation of regional society by the CGI and regional regimes, which even led a discontent over the political economy of the region (Chandhoke, 2005). The severed connections of Kashmir with the outside world led to the closing of trade, restricted movement, and increased fragility (Ashraf, 2009). After 1989, with the uprising of insurgency, the PS came to a complete halt. It crushed infrastructure, discouraged private investment, increased unemployment and poverty, adversely impacting important sources of livelihood and pushed Kashmir towards economic stagnation (Hussain, 2012, Seema, 2009). While the PS got obstructed, the government took little efforts to re-establish it, this made the economy highly depended on the government funds and the public sector became the employer of first preference as a last resort (Hussain, 2012, Habibullah, 2004, Schaffer, 2005).

Besides the complete set back of PSD, there are some other factors that intensified during the 1990's and exacerbated the unemployment. The demographic change with annual growth rate of 2.55 percent compared with an all-India rate of 1.9 percent between 1991 and 2001, fall of agrarian economy as percentage of the economy, small land size of 0.5 hectares for 52 % of the population and its further factorization due to increased population (Schaffer, 2005). The climate change led to wetland reduction and chemical pesticides led to less farm output, forcing people for alternative formal

employment. Educated unemployed increased by 48 percent and decrease in illiterate unemployment 28 percent, with bleak opportunities for productive employment (Ibid, 2005, Mercy Corps, 2011). An increased public sector job dependency embedded in the history of conflict, where public employees continued to get salaries even without work, whereas those outside this sector suffered due to loss of livelihoods.

In the past two decades, while India has enjoyed unprecedented growth, the region was left behind. In 2006-2007 the region's annual growth rate was just 6.25 percent compared to 9.62 percent of India (GoJK, 2009). The regional workforce constitutes 44 percent of its population. The agricultural (and its allied sectors) and public sector are dominant once respectively employing 70, and 20 percent of the workforce, followed by meager percentage of manufacturing, handicraft, construction and trade (Schaffer, 2005).

Over time, and especially from last few years, though the inner game of political motivations and manipulations and people's agitation against it continue, there has been substantial improvement on the socioeconomic and political fronts. For instance, using DFID (2008, p.22) terminology, it can be argued that the region is moving towards meeting the 'basic survival functions' but is extremely behind in meeting the 'expecting functions', 'with unemployment and underemployment among the pressing issues' (Schaffer, 2005, p.47).

### **3.1: Reduced conflict threat and progressive first generation investment.**

The threat of conflict to PSD in ICK has been overly emphasized. It is not that conflict does not matter, but that, as referred to in chapter-2.1, its threat has considerably reduced. This is evident from some progressive 'first generation investment' (Peschka, 2011, p.26) over the last few years. There have been signs of increasing stabilization in state regimes. The single party rule of National Conference (NC) broke for the first time



in 2002. Thereafter, the coalition of Peoples Democratic Party and Congress, and now another coalition of NC and Congress have been running the region. The 2003 Indo-Pak ceasefire brought significant improvements in security and livelihoods of people, especially those living near line of control (Schaffer, 2005). There has also been a considerable decline of insurgency within the region; as the South Asian Terrorist Portal (2012) mentions that from 2001-2012 the conflict related fatalities have reduced from 4507 to 55 persons including civilian, terrorists, and security forces. This decline is not sudden but over time which gives a positive sign of reduced threat to PSD.

From 1999-2000 to 2007-08 all economic sectors experienced an upward progress as the primary sector grow by 7.1%, secondary by 12.7% and tertiary by 8.7% (IBEF, 2010). With decreasing insurgency, there is a proportional increase in PSD. The telecommunication liberalization started in 2002 with Bharat Sanchar Nigam Limited, a public company (Schaffer, 2005) which further extended to few private telecom investors. This contributed to employment generation and created platforms for PSD, with increased communication. A small scale Software technology park was established in 2001, with central government's assistance joined by a non-resident Kashmiri and an American entrepreneur in 2004 (Ibid, 2005, p.23). Also, minor progress in the financial sector was realised with the reopening of old banks and some new investment; like Housing Development Finance Corporation Limited (HDFC). Moreover, the first five-star hotel is being built on a partnership basis between a U.S and Kashmiri enterprise, to be open in October 2012, with MacAskill and Pradhanm (2012) arguing that investing in Kashmir is no longer a roll of the dice.

This first generation investment coincidences with Bray's (2009) argument in chapter 2.1, that PSD in FSs follows a sequential system of cost-benefit analysis with telecom and hotel entering first, and large scale investment later with greater security. This stability and opening of new investment is a good sign of a reduced security threat to PSD. However, considering the prolonged crises, the basic security is going to be an

issue until a political understanding is reached (Schaffer, 2005) and also the legal systems are weak and slow to assure dispute resolution and business security. Addressing these challenges needs a system of 'Political Risk Insurance' (Peschka, 2011, p.16) and a comprehensive business friendly legal framework, whose operationalization is analyzed in chapter 3.4.

### **3.2: Exploring the possibilities of PS predation.**

The ICK has resource richness for both non-extractive and extractive PS like: unharnessed 15000 MW hydro, and 188 MW thermal power capacity, horticulture with estimated value of 31452 million, floriculture, tourism, agriculture, handicraft, textiles, IT and communication, automobile, precision engineering, and pharmaceuticals, minerals, petroleum and forest (Schaffer, 2005, Habibullah, 2004, Rangarajan, *et. al.*, 2011). The combination of rich resources, fragility and desperate need for PS employment creates similar possibilities of PS threats as explored in chapter 2.2 with relation to some FSs. In fact there are already doubts that some 'businesses provide cover to illegal financial transactions in ICK' (Schaffer, 2005).

It is worth mentioning here, though companies can hardly be expected to be neutral in conflict situations (Anderson, 1999), 'there is no economic ideology other than one rooted in the movement of capital and competition which has succeeded in getting the greater number of people out of poverty, in the fastest time' (Dambisa, 2010, p.154). Hence, the choice is not between 'Yes or No?' of PSD, but PSD with minimized costs and maximized benefits. Barbara (2006) argues that PSD is needed; however, its containment might be necessary for peace. Anderson (1999) suggests for adopting principles of conflict sensitivity, in both local and inward PSD, and identifying the projects that will bring people together rather than divide them. In ICK considering the extractive and non-extractive PSD potential and possibility of threats attached to it, a

non-extractive conflict sensitive strategy is a suitable option. With the ambit of an '*inclusive approach to PSD*', it will minimise the possibilities of those costs that undermine regional legitimacy and local businesses, create war economies and uneven distribution.

Though a lack of financial security is a threat to overall PSD, 'local businesses are currently most constrained by it' (Habibullah, 2004, p.9) caught in a system of informality and clientelism. No doubt formal financial institutions have started investing in the region, but FSs' experiences show that small businesses find it hard to obtain loans from such institutions and suffer more compared to larger companies (WB, 2004). Such risks of local businesses getting undermined can be dealt with by widening of micro-finance institutions along large scale banking, and facilitating business insurance. The operationalization of all these strategies is analyzed further in chapter 3.4.

### **3.3: Gaps in governance and economic policy, and way-out.**

Both the system of governance and economic policy, as mentioned in chapter 2.3, are weak in ICK, which have been destabilizing any initiative towards a sustainable PSD. In the arena of economic policy, the region has low quality of infrastructure in all economic sectors. The demolished infrastructure of 1990's has not been completely rebuilt as there are still 3151 sick units in the region (Ali, 2010), and fewer efforts are taken in creating new ones. This deficiency has created import dependency of basic commodities, as well non-existence of large scale industries (Chandhoke, 2005, Hussain, 2012). Owing to the industrial losses, the regional industrial policy of 2004 put in place various incentives like credit subsidy, tax benefits and [also dealt with issue of Article 370 which disqualifies non-state subjects from buying any property in the region] by ordering a lease of 90 years for setting up a business (Singh, 2004, Schaffer, 2005). However, being a unilateral policy, 'these incentives didn't make much

difference because investors are not reassured about their basic business prospects and the security' (Schaffer, 2005, p.22). Limited attention is also given to the involvement of foreign businesses and international actors. Further, having a provident fund (PF) threshold limit of four keeps small enterprises below this limit even when they need more employees, just to escape this liability (Rangarajan, *et. al.*, 2011). Overall, to facilitate both local and inward PSD, the economic policy lacks; proper incentives and investment subsidies, physical and social infrastructure, a comprehensive regulatory framework and proper resource input (IBEF, 2010).

Among the most prevalent governance gaps are corruption, nepotism, and hierarchy of administrative, political and economic rules and interests. In her study in ICK Chandhoke (2005) found that throughout history both regional and national regimes have been corrupt and have manipulated the conflict and people of the region to meet their political and economic interests. The NC single rule from 1947 until 2002, in particular, has rooted large scale corruption and nepotism (Ibid, 2005), creating winners and losers of conflict. The losers have always been the people who lost their lives and young generation looking for stable and legitimate careers. The biggest winners are illegal, outside the boundary of socially accepted economic behaviour, such as political parties, insurgents paid by parties on sides, government officials, civilians, and military who extorted money from local citizens and extracted forest resources (Schaffer, 2005). With the eruption of large-scale unemployment and public employment dependencies (Ibid, 2005), filling of limited available jobs became a practice of elite connections and nepotistic measures (Hussain, 2012). This sustained and increased tolerance of corruption was reflected in recent surveys, whereby respectively 87 and 68 percent of respondents said that unemployment and government corruption are mounting problem (Bradnock, 2010). Similarly, a corruption ranking of Amnesty International placed the region second after the Bihar state of India (Schaffer, 2005).

The combination of corruption, nepotism, and hierarchy of rules and interests has created more dependencies, led to misguided policies, exploitation and kept the region deprived of international investment. Since 1989, the insurgency exacerbated the state's financial problems and 100 percent of the regions budget has been financed by the CGI, with only 20 percent pay back (Habibullah, 2004). With decreased insurgency such budgetary support could have been reduced by excelling towards PSD. However, due to misguided planning, it has increased the financial dependency and financial debt, as by the end of year 2010-11 region had an outstanding debt of Rs. 31272 crore (Tak, 2012), and also bypassing effort for PSD. This approach is criticized for being unsustainable unless the regional regime stops reliance on CGI funds and develops its local market (Hussain, 2012). Such misguided policies have been maintained since the 1947 Partition dissuading major business from investing and tapping the human capital of region (Habibullah, 2004). It seems that in 'practice political rhetoric is unwilling to translate ICK in an economically vibrant region' (Hussain, 2012), for which revival of the centre-state power-economic relationship is critical (Ali, 2010).

Though international actors have been very instrumental in facilitating PSD of FSs (Peschka, 2010), the political interests and regulation barriers, especially at CGI level, kept such actors out of the region. Furthermore, recent allowed small amount of foreign investment including through foreign aid agencies [and Asian Development Bank] still kept bilateral investment external to the region (schaffer, 2005). Lack of international exposure for the region has occasionally been justified by CGI through highlighting its own investment; however this appears to be exploitative rather than developmental. Evidence shows that in 1975, National Hydro Power Cooperation (NHPC) and the regional regime agreed on employing 50 percent of local people on projects. But this rightful share has been denied; as about 90 percent of engineers appointed during 1999-2010 are outsiders (Hussain, 2012).

To address these gaps both economic policy and institutional governance has to be seen as inclusive rather than an exclusive system: without a legitimate and enabling governance environment, even the best policy will come to naught (Mills and Fam, 2006). Similarly, without feasible ‘PSD friendly reforms’, a stabilized and extensive local, as well as inward investment, cannot be facilitated. The operationalization of both of these pillars of PSD is analyzed in the next section.

### **3.4. Operationalization of inclusive approach to PSD.**

As mentioned throughout the study that ICK as a FR is characterized by particular geopolitical, and socioeconomic features. The stages of conflict, livelihood, economic deterioration [and the level of regional governance] all have an impact on the PSD (Sweeney, 2008). Lack of policy attention in any one sector will undermine the potential growth of PSD and the quality and quantity of its employment generation. Hence, adopting an *inclusive policy process to PSD* will address these issues in a holistic way. The approach argues that doing *conflict and PS assessment* with feasible *economic and governance reforms* will create ground for conflict sensitive *PS interventions*. The sustainable *outcomes* of these interventions will increase through various *assurances* against *threat*, while the ownership and commitment of *multiple stakeholders* and PTF is very critical in overall functioning of the process.

#### *Conflict and PS assessment.*

The overall resource potential and sociopolitical, economic and administrative conditions give good assessments of the current situation. However, to make PS interventions more targeted with reduced level of assumptions and to establish timely assessment indicators, in-depth conflict and PS assessment is imperative. This includes understanding of local processes such as geographic, history and knowledge systems (Helling, 2009), the primary actor and acknowledgement of parties to the conflict (Blum

and LeBleu, 2010), political economy analysis of the market (Gerstel, *et al.*, 2006) and institutional assessment, to understand the relationships between formal and informal systems, with their respective capacities (McLoughlin, 2011).

### *Reforms.*

Ideally having good governance systems in place before-hand creates favorable ground for later adopted PSD reforms. However, as argued in chapter 3.3, that in ICK, both these systems have gaps. Therefore the strengthening measures have to go together. In creating *PSD friendly reforms*, the existing economic policy needs to go beyond narrow focus on local enterprises and government financial dependency towards incentives for both local, inward investors and other international actors. It needs a comprehensive and consistent regulatory and legal systems, governing commerce and consumer (Crane, *et al.*, 2009) like; clear entry and exit procedures, ease in marketing, import, export, and labour regulations, assured land lease rights, and quick and transparent mechanisms of customary and dispute resolution. Such comprehensive frameworks will strengthen the business communities' confidence (USAID, 2009, Bray, 2009), and create grounds whereby both investors can complement each other in employment generation and economic growth. At the local level, cooperative enterprises are found as effective in conflict-sensitive climates (UN, 2009), hence directing reforms towards widening cooperative friendly businesses like that of 'Amul Cooperative' (Singh, 2004); a viable solution. Such enterprises have strong incentives in activities conducive to sustainable employment generation (UNDP, 2008). Rejuvenating old, and creating new cooperatives, are challenged by financial insecurities as mentioned in chapter 3.1 and 3.2. The experiences from some FSs have shown that microfinance banks are more popular and rapid approaches in conflict areas. They efficiently deal with financial issues of small-holders by providing individual deposit accounts, small business cash management services, and extensions via mobile banking (Peschka, 2011, MaLeod and Davalos, 2008). Hence, to facilitate a secure and stabilized financial sector in ICK,

licensing of microfinance institutions - alongside large-scale commercial banks- needs to be encouraged. This will especially widen the access to the predominant rural informal sector (MaLeod and Davalos, 2008). Further reforming the PF bar above four employees is also important in enhancing the intake capacity in small businesses (Rangarajan, *et. al.*, 2011).

Reforming the institutions that regulate the business environment will inculcate honesty, transparency, professionalism and client service (USAID, 2009), and building the capacity of government at all levels will enhance the overall possibilities of PSD policy traction (Mills and Fam, 2006). Besides new steps like multi-stakeholder participation in policy process, regimes strictly adhering to the existing Right to Information Act and widening of 'recent E-governance initiative' (IBEF, 2010 p.44) will improve efficiency, transparency and reduce corruption. Further, the revival of centre-regional relations through CGI's effort towards delivering authority and ownership of investment decision to the regional regime, acting itself as a facilitative support. Also the regional regimes strive for ..., making practical improvements; providing infrastructure, basic services and transparent management of resources (Zoellick, 2008, p.72); are all critical in strengthening the *regional* governance and 'legitimacy, which in turn is strategic centre of gravity of PSD' (Ibid, 2008, p.72).

#### *PSD Interventions.*

Once the feasible policy reforms are in place, initiatives towards conflict-sensitive non-extractive PSD can be facilitated. Considering the pressing issue of lack of infrastructure like electricity, roads, communication, processing and marketing facilities (Schaffer, 2005, Chandhoke, 2005 ), it is a priority for government and donors to fund construction and reconstruction of essential infrastructure (Peschka, 2011). Simultaneously, the 'indigenous drivers' (UNDP, 2008, p.49) should be organizing in cooperative enterprises by providing subsidized capital investment and ongoing



business development trainings (Grossman *et al*, 2009). There is a tendency of focusing on just a few business practices that increases competitiveness, reduces profitability and sometimes leads to business closure. Adopting a market development and value chain approach is essential, which seeks to understand market trends, identifying market opportunities and missing inputs to create more demand for long-term jobs (GSDRC, 2009, Blum and LeBleu, 2010). Such an approach has been successful in FSs like Kosovo and Rwanda (Parker, 2008). Especially owing to ‘huge export potential’ (Habibullah, 2004, Singh, 2004), the diversification of cooperatives towards export orientation can remove the tendency of new entry driving down profit among traditional non-traded retail industrials ( MaLeod and Davalos, 2008). With assistance from international actors, such initiatives have been successful in Haiti under the KATA program (Blum and LeBleu, 2010).

The Rangarajan, *et. al.*, (2011) report focuses on some of these business development services: enterprise trainings, partnership between local educational institutions and external companies like Tata Group, scholarships for out of region business trainings and developing local enterprises. However, it does not see PSD as an inclusive process, and gives more emphasis on human resource development, without a strong PSD plan within the region. It might create a sense of more restlessness and brain drain. This needs intervention of inward businesses and other international actors, either by networking with local businesses through transferring technology and knowledge, or setting direct ventures in non-extractive sectors. To reduce the possibilities of such investors hijacking conflict opportunities, a PPP is more suitable model, with one such experimentation, currently going on between a US and Kashmir enterprise in the construction of first five star hotel (MacAskill and Pradhan, 2012). These partnerships can be extended to other sectors like horticulture, agriculture, manufacturing, insurance banking, and small power plants. Such partnerships are also found effective in FS like

Afghanistan, Iraq, Democratic Republic of Congo – those FSs which witness mediation of international actors (Bray, 2006).

In long-term this first generation local and small scale inward investment will create ground for larger scale FDI, which can be facilitated once well-functioning businesses and governance regulatory systems are in place. However, at any stage of PSD, it has to be acknowledged that risk is simply a factor in dealing with FS and we need to be prepared for some projects to fail if the larger effort is to have a chance (Zoellick, 2008).

#### *Threats and Assurances.*

Though the threat of conflict to PSD is reduced, as explored in chapter 3.1, the assurance of political risk insurance (PRI) will further enhance its confidence, minimize risks of breaching of agreements by regime and sustain its interventions. The PRI has been a major instrument sought for protection against such exotic threats in cases where conflict situation has improved; like Liberia and even in more threatening environments like Afghanistan. Similar to Liberia in Afghanistan, the World Bank's MIGA facilitated PRI that insured transactions of loans by foreign financial institution to local Afghan businesses. The objective was to foster a secure and complimenting commercial ecosystem (Bray 2009). While local PS do not fall with the scope of PRI (Peschka, 2011), facilitating investment in insurance banking and developing a culture of insured businesses will provide more jobs as well as increase the security of local PSs. Above all the peace building negotiations, especially a continuation of ceasefires, will enhance the stability in lives as well livelihoods.

Measures like strengthening regional legitimacy to regulate PSD and prioritization of conflict sensitive non-extractive interventions with multi-stakeholder involvement, can reduce the predicted possibilities of PS predation of local society explained in chapter-3.2. However, assuring target groups' investment will 'expand opportunities to

the women and vulnerable groups and reduce horizontal and vertical inequalities'. (USAID, 2009). Moreover, assuring adherence to international business conducts like UN Global Compact and Equator Principles from investors will minimize their social and environmental costs and create a symbiotic PSD (UNDP, 2004). It is hard to argue that such assurances will completely eliminate the threats but with strong political will, they will make enormous contribution towards sustainable and equitable PSD.

#### *Outcomes.*

Adopting such a comprehensive approach of reforms, interventions, and assurance against threats will bring multiple dividends. It will create long-term wide-scale employment for existing as well as newly created human resources, eliminate the emerging unemployment related problems of migration especially brain drain, restlessness, and reduce the level of violence. By 'working on fragility' (Sweeney, 2004) with public sectors, it will decrease the pressure on public sector employment, and minimize corruption and nepotism. Additionally, the sustainable revenues from PS taxation (Zoellick, 2008) and corporate social responsibility initiatives can contribute in meeting the social development goals (UNDP, 2004) like education, health, and welfare benefits. This will contribute in overall human wellbeing to regions' people, strengthening the society-state social contract. Through monetary and trade flows, PSD will also address the macroeconomic imbalances like financial dependency and deficit, which are important for economic recovery (McLoughlin, 2011) of the region. In the long run, it will create [a self-sustaining cycle by opening] new investment opportunities, and enduring economic security (Gerson, 2001, p.103).

#### *Actors.*

The functioning of this whole framework is hazardous without identification and involvement of multiple-stakeholders like regional and central regimes, local and inward investors, civil society organizations (CSO's), media, international actors, and other parties to the fragility (OPF) e.g. Pakistan and Separatist groups. Such inclusive representation is needed to make policy process effective, transparent (Blum and LeBleu 2010) and reduce the level of assumptions in PSD. The key actors are *regional regimes and CGI* whose political will and commitment is instrumental in the overall success of this policy framework. As *International actors* have been very effective in facilitating PSD in FSs, widening their access to ICK will contribute mainly at three levels. First, providing direct investment support and business service to local cooperatives, and also providing infrastructural development support to region. Second, owing to the limited institutional capacity of regional regime, they can support in facilitating feasible reforms and sustained interventions by using their expertise of working in fragile environments. Third, work with inward investors either as advisor, facilitators or both to inform them about conflict background, ensuring conflict-sensitivity, have transparent employment policies, consider their full range of potential impact and facilitate their integration with local businesses and state ( Sweeney, 2008, p.36)

Besides International actors the 'regional CSOs are still underdeveloped in the region which has led to a lack of any social institute which could forge common voice...', (Yusuf, 2005, p.14). Like FSs, in ICK they can be active in campaigning and advocating for poor and vulnerable groups shared in the PSD, facilitating microfinance and developing market oriented enterprise skills. Also providing localized conflict-sensitive inputs and tracing the predatory side of PSD. A noteworthy CSO initiative is 'Publish What You Pay' which helps citizens of resource rich countries to hold their governments accountable for how revenues generated from the PS are managed and distributed (UNDP, 2004).

The Private sector itself: *local businesses and inward investors* have common, as well differential priorities and issues, some complimenting and some conflicting. Addressing these issues is possible by creating space for both of them in policy decisions, to have negotiations and build consensus. USAID (2009) considers such systems of representation in policy dialogue pivotal in promoting long term economic growth of FSs.

Though *OPFs* are not direct stakeholders in PSD policy processes they are politically significant in keeping it on-going, especially keeping the present boarder ceasefire standing and facilitating continuous peace negotiations (Schaffer, 2005). The *Media* as an actor in PSD is not reflected in FS literature. But in case of ICK it can be a potential contributor if it changes its attitude of portraying only the negative happenings of regions to the world, which scares investors, as well as tourists. It can reflect on the business prospects of the region and act as a watchdog by keeping eye on on-going progress and any harm created by such development.

## **Chapter: 4**

### **Conclusion, Policy Implications and Recommendations**

By analysing ICK in its current situation, this study presented evidence that normatively ICK does fall within FS conceptualization, but applying these concepts to local geopolitical situations makes it as a FR rather than a FS. This definition goes beyond and incorporates the earlier inadequate conceptualization of region as a borderland issue, or breakdown of social-contract. Seeing ICK's under-nurtured PSD through the

lens of being a FR has helped to explore its underlying interlinked challenges. No doubt, the threat of conflict to PSD has reduced and threat of PSD to local society is not prominent, yet both of them have to be seen as part of that interplay, with lack of investment friendly economic policy and enabling governance environment. In addressing this interplay of challenges to PSD the study adds to scholarship by proposing a conceptual framework; an '*inclusive approach to PSD*'. The evidence validates that adopting unilateral and misguided PSD policies, and not targeting it through an *inclusive policy process*, has undermined its growth and development. The framework is a whole of subsystems which contends that feasible economic policy and enabling governance has to go together in order to create feasible PSD interventions. Once these interventions are assured against threats and the whole process is run with active involvement of the various stakeholders, the sustainable and equitable employment generation, reduced pressure on public sector and long-term social-economic sustainability of the region can be achieved.

### **Policy Implications**

The findings of this study and the application of conceptual frameworks have certain implications for PSD, specifically in ICK. As it borrows a lot from FS's literature, it can generally be a helpful normative guideline in understanding of PSD in other FR or FS. Starting with the definitional aspect, the way in which fragility is defined in a particular situation influences the thinking and direction of PSD. Hence, it is very important to move out from the fixed or limited categorization of FS, or FR, to more localized definition which is based on historical socio-economic and geo-political processes and current situations. *Second*, the adaptation of '*inclusive framework to PSD*' is helpful in identifying and understanding the various dimensions of PSD in FR. The portrayal of conflict being the main barrier to PSD, like in the case of ICK, can be misleading

sometimes. The PSD can remain crippled, even when threat of conflict is minimised because the gaps in economic policy and governance system are equally undermining. *Third*, facilitating a long term employment generating and symbiotic PSD in situations like ICK is not possible by adopting a unilateral policy approach where emphasis is either on economic policy, or governance, or reducing threats. It has to be seen as an inclusive policy process where *conflict assessment* adds to feasible economic and governance *reforms* in creating conflict sensitive *PS intervention* then *assurances* against *threats* contribute in creating sustainable *outcomes* with active participation of *multiple stakeholders* at all levels of policy process. *Fourth*, in fragile societies PSD can create possibilities of various socio-political and environmental costs. The assurances against threats with multi-stakeholder facilitation and monitoring of PSD will reduce such costs and bring sustainability and equitability in PSD and PS employment generation. Considering that the lack of proper representation of some stakeholders like local CSOs and businesses due to weak political and economic clout can be undermining, developing capacity of such constituents and removing obstacles to their participation are indispensable ( UN, 2009). *Fifth*, adopting such an '*inclusive framework to PSD*' will create immediate benefits of employment generation, reduced violence, reduced pressures on public sector jobs and job corruption. But in long-run it will also increase public investment on social development through PS tax based revenues; thereby increasing legitimacy and state-society social contract, contributing to macroeconomic balance.

*Finally*, the nerve of this whole development process depends on political will, especially of CGI and the regional regime. Some questions which are important not only for PSD, but also for overall human security of region are worth considering. To what extent does the CGI stop undermining the economic development of the region for its own political interests and deliver legitimacy of PSD decision making to the regional regime? Further how far will it show commitment to wider involvement of international

actors and businesses? Also how strongly will the regional regime address its own issues of nepotism, corruption and manipulation, reform institution and build their capacity so that PSD benefit distribution is based on equity.

### **Recommendations for future research**

As this study is based on secondary analysis, a more comprehensive primary research will be a good step to further understanding of PSD and validation of the conceptual framework in ICK and in other FR and FS. This study focused on broader policy challenges to PSD in ICK mainly bringing together the social, political, economic, and conflict subject matters. The proposed framework provides opportunities for some more specific research in areas like gender balanced PSD in FRs, or consequences of PSD in furthering or undermining social policy goals in FRs.



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