

# **Doing Business in Fragile Settings: Evidence from Small and Medium Enterprises**

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# Background

- Growing attention for SMEs in the international policy discourse on conflict and development
- Most fragile states are “SME economies” (Hellman, 2012)
- Research on SMEs in fragile settings still relatively new
- Limited understanding of how SMEs operate in conditions of conflict and fragility

# Research focus

- Research project aims to strengthen our understanding of SMEs in fragile settings
- How are SMEs affected by conflict, insecurity, and weak governance and how do they cope with fragility?
- Evidence is critical for the success of SME-focused interventions in fragile settings

# Blind spot

- Challenges for SMEs primarily framed in terms of business constraints and weak governance
- SME support strategies generally focus on removing barriers and providing financial/technical assistance
- In fragile settings the “rules of the game” are defined by power relations, social networks and non-state actors
- Conventional surveys fall short of capturing this dimension

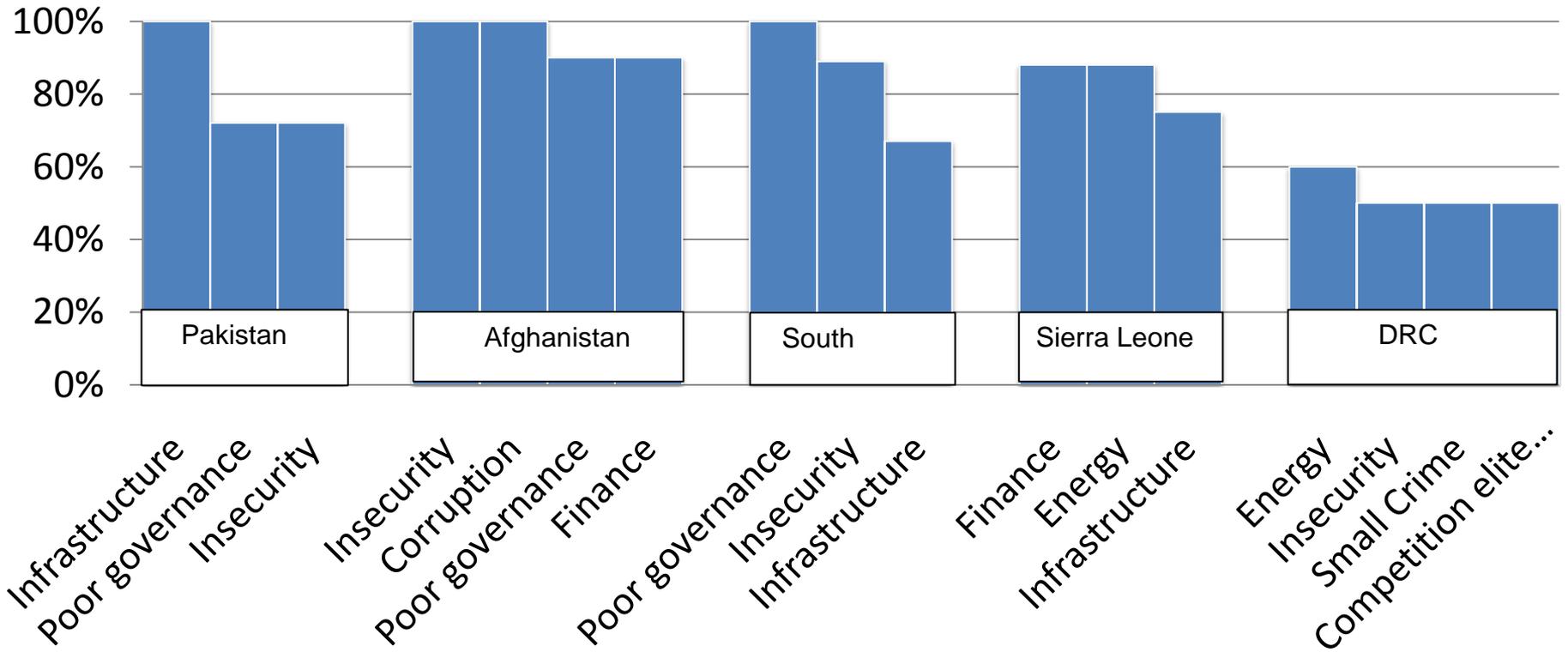
# Research strategy

- Small survey of SMEs in 5 countries: Afghanistan, Pakistan, South Sudan, DRC and Sierra Leone
- Survey covered 50 SMEs and 10 local experts
- Collaboration with Netherlands Enterprise Agency (RVO)
- RVO security risk assessments and workshop
- Research findings based on responses of entrepreneurs

# Perceptions of fragility

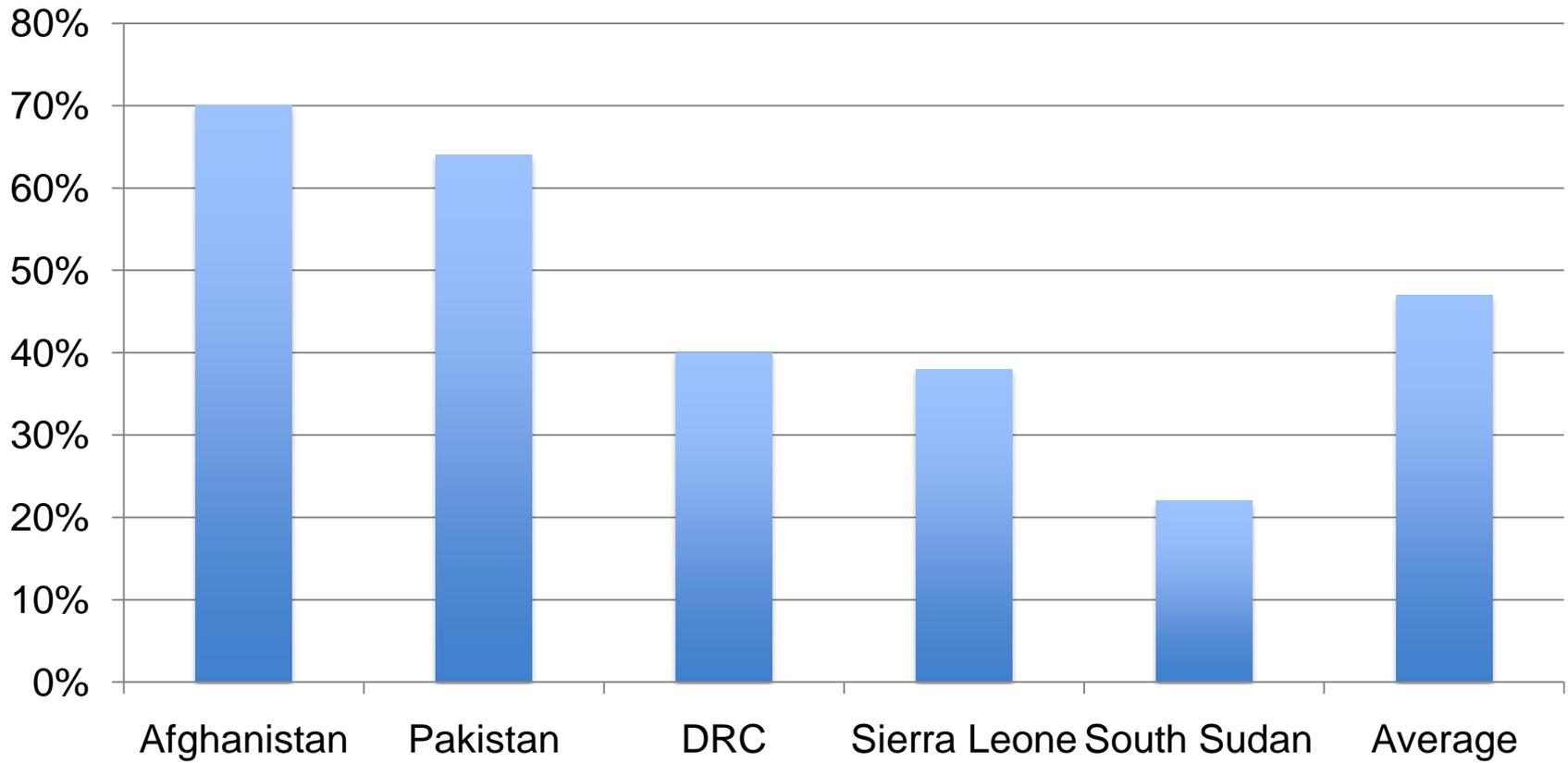
- Concept of fragility does not resonate with entrepreneurs
- Fragility is the norm rather than a state of exception
- Most entrepreneurs regard conflict in terms of direct physical threat to personnel/assets and climate of general uncertainty
- Three issues that define fragile contexts:
  1. High level of political instability and uncertainty
  2. Lack of security and/or quickly changing levels of security
  3. Personal connections matter more than formal regulations

# Business constraints



# Business constraints: insecurity

*Businesses "often or severely affected by insecurity"*

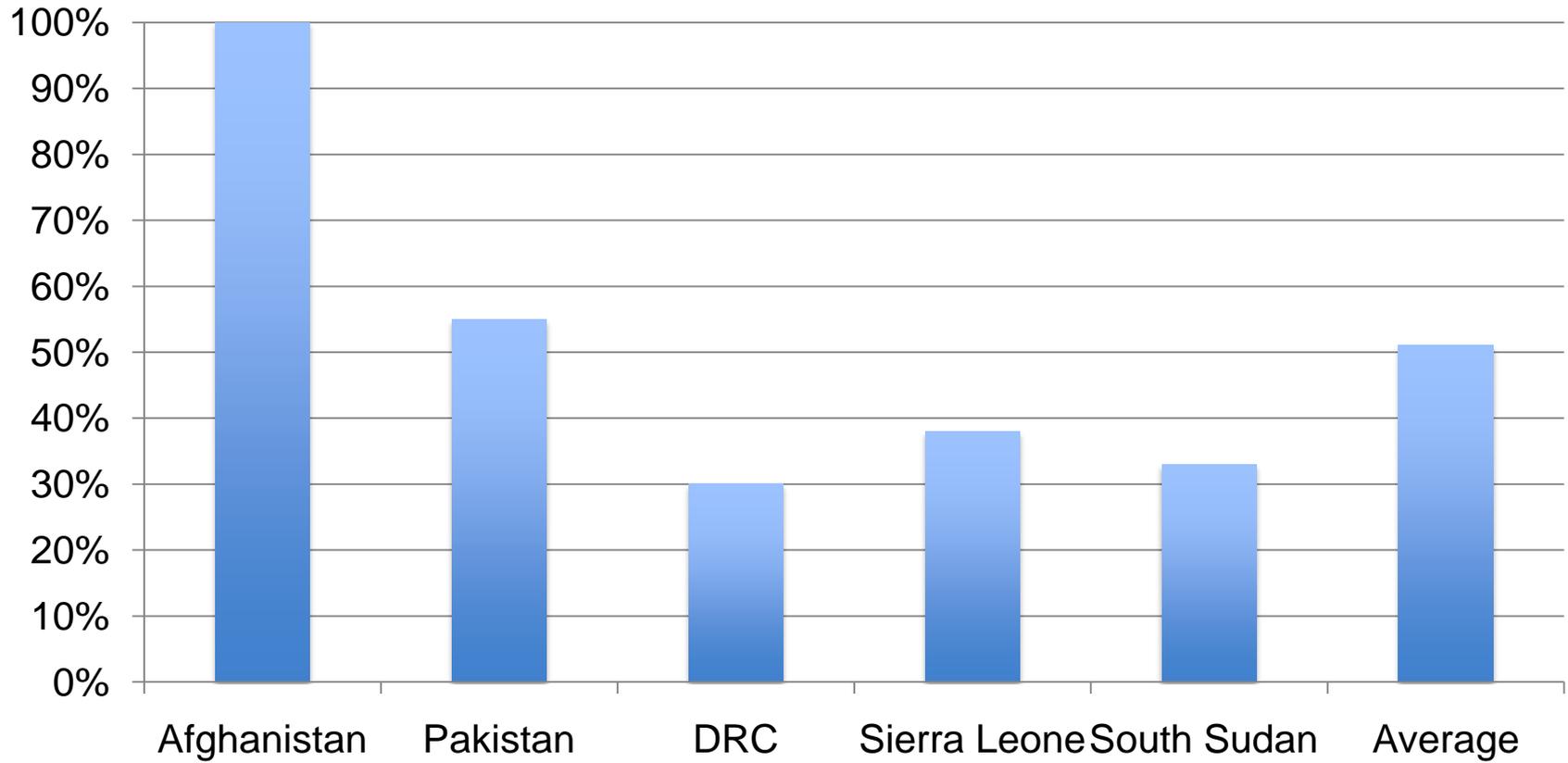


# Business constraints: insecurity

- Insecurity stems from combination of government incapacity, competing security providers and crime
- State authorities not only fail to provide security but actively contribute to persistent insecurity
- Entrepreneurs rely on informal arrangements and social networks to deal with security threats

# Business constraints: corruption

*Businesses "often or severely affected by corruption"*



# Business constraints: corruption

- Even in countries with an optimistic business outlook, respondents were pessimistic about trends in corruption
- Entrepreneurs in DRC and South Sudan do not perceive corruption as a major obstacle to their business
- SMEs in Afghanistan and Sierra Leone highlight government's collusion with elite monopolies

# Other business constraints

- Energy supply: the politics of energy supply
- Infrastructure: either in poor condition and/or source of informal taxation

# Business strategies

- Insecurity and long-term uncertainty are the key factors
- Mitigating risk: focus on resilience rather than growth
- Community relations and social network critical for survival
- Informal taxes, fees and bribes: not a matter of choice

# Concluding observations

- Institutional context matters for private enterprise development
- Look beyond formal regulations and technical constraints
- Mind the gap: non-state actors and social networks fill the gap of missing institutions
- Business behaviour is shaped by informal institutions
- What is business success: resilience or growth

# Concluding observations

- The risk of pushing entrepreneurs into growth strategies that may undermine their resilience
- Fixing formal institutions may not automatically translate into improved business climate for SMEs
- Understand the constrained choices and options of SMEs in fragile settings
- Security needs may reproduce fragility and uncertainty



Thank you