COUNCIL *on* FOREIGN RELATIONS

WORKING PAPER

Entrepreneurship in Postconflict Zones

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May 2012

This Working Paper is made possible thanks to the generous support of the Ewing Marion Kauffman Foundation, and is part of CFR's Civil Society, Markets, and Democracy initiative.

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Printed in the United States of America.

Acknowledgments

This Working Paper is part of a Council on Foreign Relations project on entrepreneurs and market linkages made possible by funding from the Ewing Marion Kauffman Foundation, and is part of CFR's Civil Society, Markets, and Democracy initiative. The contents of this publication are solely the responsibility of the grantee. The objective of the project is to investigate best practices to support entrepreneurs in countries enduring or recovering from conflict.

This paper benefited from several consultations with a group of experts on economic growth, international development, global finance, and entrepreneurship. Study group members include Daniella Ballou-Aares, Elmira Bayrasli, Jennifer Holt, Elissa McCarter, John McKinley, Eileen Miamidian, Rebecca Patterson, Jonathan Robinson, and Yana Watson. I thank them for all the ideas and insights they each contributed over the past eight months.

A special acknowledgment is also extended to both Ashley Harden and Stephanie Oula for their invaluable assistance with research and coordination efforts throughout the project. Their endurance, insight, and hard work are most appreciated.

Gayle Tzemach Lemmon

Introduction

Economic development is a critical component of promoting stability and U.S. security interests, particularly in conflict and postconflict zones. Reviving institutions and rebuilding an economic base are among the first priorities after fighting ends and reconstruction begins.[1] According to the Center for International Private Enterprise (CIPE), negative economic shocks of just 5 percent can increase the risk of a civil war by as much as 50 percent in fragile environments.[2] Additionally, donor assistance, which can account for 20 percent to as much as 97 percent of a country's GDP, is unsustainable in the long term.[3] Building local business capacity and supporting homegrown entrepreneurs can help curb this risk.[4] Research from Iraq has found that labor-generating reconstruction programs can reduce violence during insurgencies, with a 10 percent increase in labor-related spending associated with a 10 percent decrease in violence.[5] And as Shari Berenbach, director of the Office of Microenterprise Development at USAID, argues, the development of "private enterprise is an important stabilizing force," particularly for countries suffering from the political uncertainty and civil unrest that often characterizes the postconflict period.[6]

GROWING THE "MISSING MIDDLE"

Around the world, entrepreneurs who own small and medium-sized enterprises (SMEs) drive economic growth.[7] The Global Entrepreneurship Monitor estimates that 140 million entrepreneurs are expected to create at least five new jobs each in the next five years.[8] The International Finance Corporation (IFC) reports that SMEs in developing countries supply 45 percent of formal employment in the manufacturing sector and SMEs contribute, on average, to 29 percent of formal GDP in low-income countries.[9] (In developed countries, these figures rise to 67 percent and 49 percent, respectively.[10]) SMEs can also reduce a country's economic vulnerability. Evidence from the international development consultancy firm Dalberg suggests that SMEs broaden and diversify domestic economies, decreasing susceptibility to "sector-specific shocks and fluctuations in international private capital flows."[11]

Despite the multiple benefits of SME growth in fragile states, aid programs frequently focus on microenterprise development exclusively. SMEs, meanwhile, are unable to compete with larger firms for contracts and clients because they lack the capacity, skills, and capital of bigger businesses, including the international firms that often arrive to compete for lucrative local contracts. On the capital point in particular, small and growing firms often are among the last groups to which commercial banks, once revived and lending again, wish to lend. Risk capital is precious and pricey in tough economies, and that makes small business lending time consuming and expensive, especially when compared with lending to multinational companies or large, locally owned firms with revenues in the millions of dollars.

As a result, small and medium-sized businesses fighting to grow—or at the very least, survive—frequently remain outside formal channels of private sector development to the detriment of a country's long-term economic growth. This phenomenon is known as the missing middle.

In order for fragile states to achieve sustainable and scalable growth, the missing middle should be developed, and several obstacles faced by SMEs should be tackled—including access to markets, access to finance, and access to networks and skills. These obstacles are faced by male and female entrepreneurs alike, but the challenges facing women entrepreneurs often are exacerbated by unique social and financial barriers and greater distances from relevant business networks.

THE POWER OF WOMEN ENTREPRENEURS

Although both men and women face barriers in access to markets, finance, networks, and business skills, women suffer from these limitations more acutely. Women rarely hold land in their own names, tend to work in the informal economy, are frequently restricted in their mobility, and often have a shorter history in business than men—all of which makes them "riskier clients" in the eyes of banks, despite the fact that there is no notable gap between men's and women's productivity when all other factors are equal.[12] As the World Bank noted, women, regardless of vocation, are stuck in a "productivity trap," adding that "despite lower earnings and productivity, women are not worse farmers, entrepreneurs, and workers than men."[13] Competing on an uneven playing field, it is harder for women to earn higher incomes and move out of poverty, which also discourages the private sector from investing in women-owned businesses because women's enterprises appear to be less profitable. This "productivity trap" perpetuates a cycle of poverty for women from which is difficult to escape.

Despite these barriers, women's economic participation is critical for economies rebuilding after violent conflict. Women are often the only survivors left to support their families when male relatives are killed or injured in battle, and they are also frequently among the most trusted members in a community given their lack of participation in violent acts during war. Women who have money coming into the home use their funds to support children and to pay school fees for both boys and girls to attend school.[14] Female entrepreneurship also promotes women's political and economic empowerment and participation. When women contribute to family income, social norms in even the most traditional societies begin to evolve, with husbands and brothers often becoming champions for the new breadwinners among them.

ACCESS TO MARKETS

In recent years there have been several efforts under way from the development community, multilaterals, and the private sector to address these barriers for both men and women. The challenge is that these obstacles are frequently dealt with in silos; a comprehensive view of value chains and linkages to markets is often lacking.

As Berenbach argues, when planning economic development strategies, the global development community should take "a systems approach that focuses on market linkages" because "it is irresponsible to prepare entrepreneurs to become producers without consideration for what their markets will be."[15]

Some organizations are working to change this lack of focus on markets. Nonprofits, such as Building Markets (formerly Peace Dividend Trust) and the Business Council for Peace (Bpeace), operate in fragile states, including Afghanistan, Liberia, Haiti, El Salvador, and Rwanda. Building Markets provides business matchmaking services between buyers and Afghan-owned SME suppliers. Since 2006, it has facilitated roughly 1,300 contracts, redirecting about $1.1 billion into Afghanistan's economy, which has created or sustained over 130,000 local jobs.[16] Building Markets has a strong focus on local sourcing, helping to promote the U.S. government's "Afghan First" policy that "encourages local procurement of Afghan products made by Afghans."[17]

Bpeace, focused on both local markets and foreign customers, helps entrepreneurs find domestic markets to sell their goods while working to improve their products to meet international standards. Bpeace has contributed to SME development in conflict-affected areas, generating 1,570 jobs and $2.1 million in revenue for local economies in Rwanda and Afghanistan. (For further details regarding Bpeace's work, see case study two, Skills Building.[18])

ACCESS TO FINANCE

Access to finance is another obstacle to SME growth, one that the White House has described as a "market failure" and "a serious constraint on efforts to promote strong and sustainable global recovery."[19] Entrepreneurs often lack the collateral needed to obtain more than microfinance loans, and banks and lending facilities may have unrealistic expectations for the types of clients they hope to serve. Generally, in conflict environments, a lack of long-term business track records, dearth of formal credit histories, high (and sometimes insurmountable) collateral requirements, and insufficient—or nonexistent—financial records, all beneath the umbrella of political uncertainty, make the business environment exceedingly difficult for SMEs to navigate. Weak governance systems and a lack of formal mechanisms to force repayment in the event of default also boost the price of risk capital in these areas.

Banking systems in fragile states take time to revive after conflict, and it is more profitable (and less risky) for banks to make larger loans to larger companies than to support SME growth. Interest rates can often top 15 to 18 percent.[20] Short time horizons for loans that are given mean that entrepreneurs—particularly in capital-intensive industries—frequently need to complete payments to the bank within a year, often before enough time has gone by for their investment to turn the profit needed for repayment.

Currently, creative solutions are being explored to reduce these financing gaps. The Entrepreneurial Finance Lab at Harvard's Kennedy School of Government is developing psychometric screening tools that could judge for "entrepreneurial ability" and "honesty." This innovation could, when paired with sales contracts and statements of current or future cash flow, convince more banks to lend to entrepreneurs.[21] Lending facilities are also working to provide more capital for entrepreneurs in fragile states. The Liberian Enterprise Development Finance Corporation (LEDFC) offers Liberian-owned firms small business loans, funded by a $20 million facility from the Overseas Private Investment Corporation (OPIC). LEDFC loans also frequently have longer repayment periods (measured in years rather than months).[22]

USAID is also helping to close this gap with its Development Credit Authority. By working with the private sector in developing countries, USAID's loan-guarantee programs cover up to 50 percent of the risk in lending to new sectors or new borrowers. Through covering "first-buyer risk," the loan-guarantee program stimulates private investment and increases access to credit and capital in local economies.[23] The program has been implemented in several conflict-affected and postconflict countries, including Liberia, Bosnia and Herzegovina, and El Salvador.

Larger nonprofits are also moving into the SME space. Oxfam has announced a three-year partnership with the Small Enterprise Impact Investment Fund (SEIIF) to raise $100 million from development banks and high-net-worth individuals, among others, to stimulate SME lending in Africa, Asia, and Latin America. And the nonprofit Kiva plans to crowdsource SME loans up to $50,000 in value beginning in spring 2012, with the potential for loans to reach upward of $200,000.

However, even with more lenders entering the arena and an increasing number of innovative solutions, fragile legal frameworks burden already-strained loan processes in postconflict states. Contracts are difficult to enforce and governmental regulations concerning repayment requirements often are weak and unclear. According to the World Bank, “rule of law is essential to economic development” and poor enforcement of business contracts is damaging for countries rebuilding from conflict.[24] Evidence shows that developing economies with better business regulations achieve faster annual economic growth rates, particularly because predictable enforcement of contracts encourages foreign investment.[25] Evidence also suggests that when designing economic growth policies, governments should prioritize reform of business regulations.[26] Government buy-in is necessary for entrepreneurial programs to be effective in conflict and postconflict areas because weak rule of law inhibits economic development, poverty reduction, and peacebuilding.[27]

ACCESS TO NETWORKS AND SKILLS

Entrepreneurs in fragile states often lack the formal skills needed to access loans and grow their businesses. Entrepreneurs often lack formal training to prepare the business records needed to secure LEDFC loans, a challenge that points to one of the major obstacles SMEs face: access to networks and skills.

Organizations such as Goldman Sachs and the International Finance Corporation are working to improve entrepreneurs’ business skills and increase their access to networks. Goldman Sachs’ 10,000 Women initiative trains women entrepreneurs in forty-two countries in business and management skills and later assists them with access to capital, networks, and mentors.[28] Among the countries in which 10,000 Women operates are Rwanda, Liberia, and Afghanistan.

The Dutch nongovernmental organization (NGO) Spark and its Enterprise Development program operate in Kosovo, Liberia, the Palestinian territories, Burundi, and Rwanda to support the creation of jobs by SMEs in former war zones. In Liberia, Spark, along with the Association of Liberian Universities, established the Business Start-up Centre (BSC). BSC develops educational programs for entrepreneurs and hosts business plan competitions combined with business skills training. Winners receive a “soft loan of $10,000,” and are provided with mentoring and coaching while they start their businesses.[29] In addition, the Cherie Blair Foundation for Women also works to increase women’s access to business networks and skills in Africa, South Asia, and the Middle East. In Ramallah, the organization established a business development center in partnership with the Business Women Forum-Palestine to work with established Palestinian women entrepreneurs to help them expand and grow their enterprises by providing comprehensive business support services, such as legal advice, technical assistance, and coaching.[30] The foundation also operates “business incubation projects" in Nablus and Lebanon to provide women business owners with mentoring, business development support, and access to finance and technology.[31]

Also operating in this field is the IFC, which uses the training tool Business Edge to provide skills building services in human resources, marketing, finance, operations, and personal productivity for SMEs in Afghanistan, Egypt, the Palestinian territories, Iraq, Yemen, and Pakistan, among others.[32] Additionally, there are several incubators operating in fragile states to provide Internet access, office space, and coaching services to entrepreneurs. Examples include the Soros Economic Development Foundation's incubator in Liberia and the Herat Economic Development Platform in western Afghanistan—run in partnership with the U.S. Department of Defense's Task Force for Business and Stability Operations.

Though investment in entrepreneurs is not a silver bullet for development, economic growth and job creation stimulated by SMEs can foster stability and help curb conflict in fragile states. All of the initiatives mentioned above work toward achieving these goals.

RECOMMENDATIONS AND LESSONS LEARNED

- Programs working with entrepreneurs and SMEs should adopt a comprehensive approach, focusing on business training, access to finance, and access to markets as part of a suite of programs to promote entrepreneurship.
- Governments and development organizations, working together with the private sector, should create and sponsor financial products targeted at entrepreneurs in states where risk capital is lacking, with a focus on women-owned SMEs. Examples include cash-flow loans, loan guarantees, and loans based on customer contracts.
- Efforts should be made to scale solutions that appear to be working, such as business matchmaking services and financial products now in pilot stages (i.e., funds specifically reserved for SME lending).
- More information sharing among actors regarding best practices and lessons learned would benefit all parties engaged in SME development in fragile states. Information could be shared with the aid of technology platforms or semi-regular global meetings convened by international financial and/or development institutions.

Access to Finance: The Liberian Enterprise Development Finance Company

In August 2003, rebel groups and the Liberian government signed a peace agreement ending the civil war that ravaged Liberia's infrastructure and economy for more than fourteen years. Between 1987 and 1995, it is estimated that Liberia's GDP per capita fell more than 90 percent—one of the greatest economic declines since World War II, outstripping downfalls experienced in Afghanistan, Rwanda, Sierra Leone, and the Democratic Republic of the Congo.[33] With an estimated two hundred thousand to four hundred thousand dead and 60 to 75 percent of the population projected to be living below the poverty line of one dollar per day, war left Liberia with weakened financial systems, diminished pools of economic and human capital, and a fragile business environment.[34]

Despite these challenges, opportunity for recovery and growth is great in Liberia: if prewar production levels for rubber, rice, timber, and iron ore were met, national GDP could increase by more than 60 percent.[35] Inclusive and sustainable economic growth has been encouraged by the current Liberian government and various nonprofits and international institutions operating in the country. In 2009, the International Monetary Fund named Liberia one of the fastest-growing African economies, with an annual GDP growth rate of 12.8 percent.[36]

At the heart of this recovery are Liberian entrepreneurs. More than 70 percent of postwar Liberian businesses are less than five years old, and out of the 183 economies surveyed by the International Finance Corporation in 2012, Liberia ranked in the top 20 percent (number thirty-five) in the ease of starting a business.[37] In recognition of entrepreneurs' "significant contribution to poverty alleviation and wealth creation," the government of Liberia created a division within the Liberian Ministry of Commerce and Industry focused on micro and small and medium-sized enterprises. The government issued the country's first national policy on SMEs in September 2011.[38]

SUPPORTING ENTREPRENUERIAL GROWTH

Globally, one of the greatest challenges for SME growth is access to finance and, in particular, obtaining significant capital to help entrepreneurs grow their businesses and compete for larger contracts. According to World Bank data cited in a recent report by the consultancy firm Dalberg, in low-income countries, 43 percent of businesses with twenty to ninety-nine employees say that access to finance is a major constraint.[39] In Liberia, entrepreneurs face this challenge as well; the country ranks 98 out of 183 economies with regard to ease of accessing credit.[40]

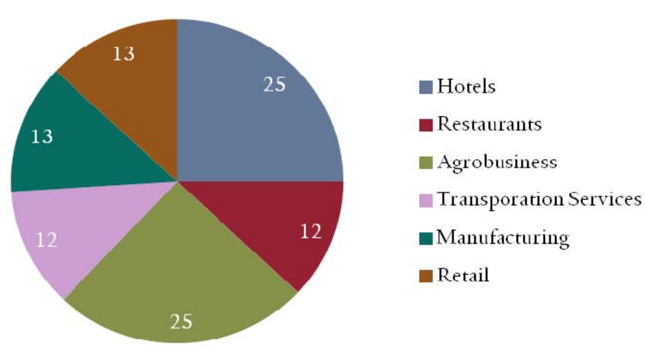
Several efforts have been made to improve the Liberian business climate and increase entrepreneurs' access to finance. Among the most well-known projects is the Liberian Enterprise Development Finance Company. As a Liberian-registered nonbank financial institution, LEDFC provides "medium and long-term credit to small and medium [Liberian] enterprises."[41] Established by CHF International in 2007 as the first Liberian SME lending company, OPIC has pledged $20 million over five years to finance LEDFC loans, with the Robert L. Johnson Foundation pledging $3 million in seed and operating capital.[42] LEDFC was created in the hopes that it would serve as a model to attract and increase commercial funding in the SME sector.[43]

SMEs must meet several criteria to be considered eligible for LEDFC loans: businesses must be registered, with no history of default; they must have "capable and experienced management"; "clear market opportunity"; and be at least 51 percent Liberian owned. LEDFC loans may range in amount from $10,000 to $1 million with interest rates between 12 and 15 percent. Since 2009, the average loan size has ranged from $100,000 to $300,000.[44] Repayment terms vary from three to five years. For LEDFC clients, this longer time horizon is a great improvement over the short-term loans commercial banks often offer. Loans may be used for "financing accounts receivable, inventory, and equipment."[45]

Limited financing exists for SMEs in Liberia, since many banks are wary of risk lending.[46] LEDFC was established to address this gap; however, what seemed like a welcome source of capital proved difficult to lend. At the outset, LEDFC struggled to find bankable clients and to make decisions regarding credit risk. Additionally, the Liberian public had the impression that LEDFC loans were government funds to be taken—a donation that did not require repayment.[47] There were also problems of capacity and competency among the entrepreneurs who applied for loans, as well as challenges identifying competent local staff within LEDFC to properly assess business plans and analyze loan applications given the country's protracted conflict. After experiencing issues with LEDFC's first loans, the program evolved to include increased training for and more hands-on contact with entrepreneurs. It also began to educate the Liberian public about its services.[48] Now, LEDFC works with clients on a regular basis and repayment rates have risen to somewhere between 85 and 95 percent.[49]

As of March 2012, LEDFC had distributed $6.76 million in loans to 126 Liberian SMEs, and had $2.4 million in outstanding loans to sixty-four SMEs.[50] The highest loan LEDFC has given is $675,000.[51] LEDFC has provided credit to hotels, small manufacturing, restaurants, agribusinesses, and retail firms, among others (see Figure 1). Roughly a quarter of LEDFC's loans go to women.[52] With these investments, CHF International predicts that SMEs in Liberia could create "900 permanent jobs and thousands more temporary jobs."[53]

Figure 1. Business Types Financed by LEDFC (as of April 2009)

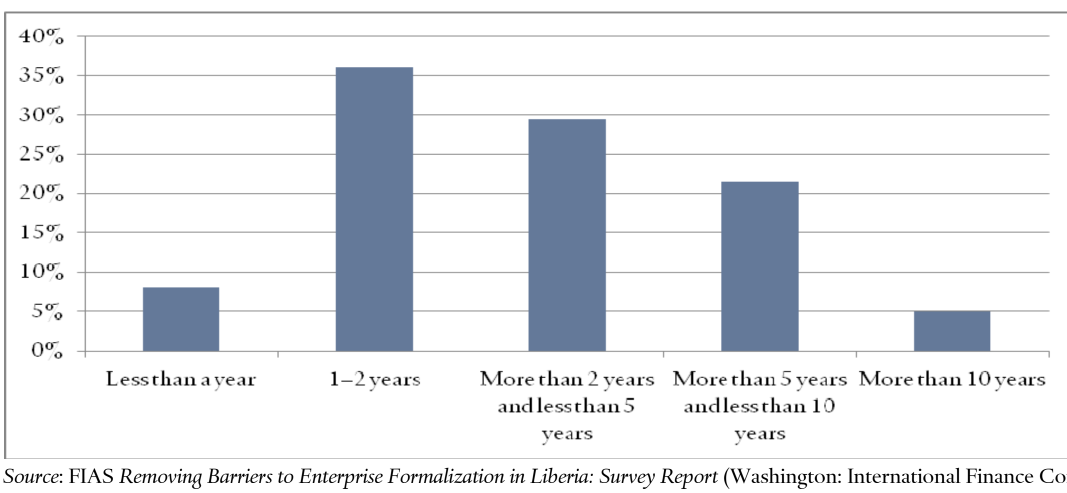


Source: John Gorlorwulu, "Constraints to Domestic Enterprise Financing in Post-Conflict Liberia," p. 10, as based on LEDFC-supplied data.

Although LEDFC has revised its program with an increased focus on skills building, and despite the fact that its loans are making a difference for Liberian entrepreneurs, Liberian SMEs still face myriad challenges. According to John Gorlorwulu, assistant professor of economics at George Fox University in Portland, Oregon, many Liberian entrepreneurs struggle to find the minimum collateral needed to obtain LEDFC loans, which according to national regulations must be "1.4 times the value of the loan."[54] Due to a general lack of formal business skills among Liberian entrepreneurs, most applicants are unable to create sufficiently strong business plans for banks to lend on, and further skills-based training is needed. One LEDFC representative interviewed by Gorlorwulu estimated that approximately 90 percent of the initial applications LEDFC receives are incomplete.[55] Additionally, SMEs have lower loan repayment rates than larger businesses because many lack good record-keeping skills and are unfamiliar with formal systems of credit.

Liberia also has a harsh business environment for small and growing businesses. A great deal of business continues to be conducted informally, and the young age of Liberian businesses makes them more vulnerable to failure.[56] Despite government efforts to create a new commercial code and establish a commercial court, transporting products and inputs is costly to firms due to poor infrastructure. There also remains a limited "capacity … to enforce contract law and property rights."[57] In addition, there are many governance issues related to SME financing, and business development services are lacking. Though the Central Bank in Liberia has tried to encourage commercial banks to lend to SMEs by making more capital available for lending, legislative gaps within the commercial code and contract enforcement remain challenging and can inhibit private investment.[58] The Liberian legal system is overwhelmed with rebuilding postconflict, and terms of lending and methods of recourse still need to be clarified and are often difficult to enforce. Collection of collateral is difficult for LEDFC and other small business lenders. All these factors expose LEDFC to high financial risk. As a primary lender for SMEs, LEDFC is acutely vulnerable to the failure SMEs experience.[59]

Figure 2. Distribution of Liberian Businesses by Age



Source: FIAS *Removing Barriers to Enterprise Formalization in Liberia: Survey Report* (Washington: International Finance Corporation, 2007), as cited in John Gorlorwulu, "Constraints to Domestic Enterprise Financing in Post-Conflict Liberia."

RECOMMENDATIONS AND LESSONS LEARNED

Although SME owners in Liberia have greater potential to access credit through LEDFC than many other entrepreneurs in postconflict countries, business owners frequently say they still are unable to afford the cost of capital and therefore are unable to use it to grow their businesses given Liberia's challenging business environment. Innovation and collaboration are also needed among organizations that work with SMEs in Liberia to increase entrepreneurs' ability to access finance.[60]

From an examination of LEDFC's experience, several conclusions regarding SME growth in fragile states can be reached:

- Improved access to credit should be supplemented with more advanced business-skill training for entrepreneurs. Entrepreneurs who have survived conflict have often done so using techniques that may not be sufficient for attracting risk capital from the formal banking sector. In order to help entrepreneurs grow, training that helps entrepreneurs connect to and prepare for capital should be more widely offered.
- Given the high financial risk involved in establishing an SME-specialized lending company, particularly in states rebuilding from conflict, significant upfront investments of both time and financial resources for intensive staff training and capacity building is required. There is also a need to cover operating losses until a large enough pipeline of performing loans can be built to sustain operating costs. The business model is most successful if the company can also cross-sell other products to generate additional sources of revenue—for example, money transfers, insurance, and the like—and if products can be diversified to mitigate risks.
- A healthy amount of flexibility should be included in business models for loan facilities given the constant changes on the ground and the evolution of business environments in fragile states.

Skills Building: An Examination of Bpeace, the 10,000 Women Initiative, and Business Edge

Entrepreneurship can be a crucial tool in the reconstruction and stabilization of conflict-afflicted states. There is a discernible link between conflict and the economy: according to World Bank data, fifteen of the twenty poorest countries have experienced periods of conflict since the 1980s and within a decade, 40 percent of all postconflict countries return to violent conflict.[61] This risk can be mitigated by implementing economic growth programs, particularly for entrepreneurs, in the immediate aftermath of war, since such programs work to address the underlying economic causes of conflict.[62]

A crucial barrier to entrepreneurship lies in entrepreneurs' lack of business skills, such as the ability to assess markets, an understanding of customer service, quality standards, formal accounting, and best practices on matters such as record keeping. A lack of skills and knowledge compounds limited access to capital and markets, particularly for women-owned SMEs, and there is a high demand for business knowledge among entrepreneurs. Often skills building is the entry point for working with entrepreneurs, since it is only the start of providing support: SMEs also can require assistance with access to capital and networks, as well as market access throughout the life cycle of their businesses.

Several organizations are working in this space, among them the Business Council for Peace, Goldman Sachs' 10,000 Women initiative, and the IFC's Business Edge. Programs operating in conflict and postconflict zones face a number of challenges. Often, fighting has destroyed vital sectors and state structures necessary for economic growth. Conflict-affected areas tend to be capacity deficient or without a fully functional business ecosystem. Entrepreneurs lack essential business skills and there is an absence of entrepreneurial mentors who can lead by example. Skills-building programs, such as 10,000 Women and Business Edge, struggle to find mentors or trainers and should build local capacity before working directly with SMEs.

In addition, security issues hinder foreign investment and may hamper entrepreneurs' ability to grow and build their businesses. Infrastructure also remains a challenge: many conflict countries lack the legal frameworks and physical infrastructure, such as roads and markets, necessary to conduct business beyond the subsistence level. Given these obstacles, long-term time frames are important when working with SMEs in conflict countries. Sustainable economic development requires a comprehensive approach. Analysis of programs run by Bpeace, Business Edge, and the 10,000 Women initiative illustrates the successes and ongoing challenges faced by some of the leading programs in the field, and can help uncover best practices for training programs working in fragile states.

BPEACE

Bpeace operates on the principle that job creation leads to peace creation.[63] Its three-year Fast Runner program pairs promising entrepreneurs in Afghanistan, Rwanda, and El Salvador with Bpeace mentors based in the United States, who are volunteer business professionals. Fast Runner entrepreneurs receive pro bono business consulting and advice on financial issues, marketing strategies, technical assistance, customer service, and human resources.[64] Fast Runners also can access computer and English training, as well as classes covering exporting, business financing, and trends, among other relevant topics.[65]

Fast Runners complete American apprenticeships, and their Bpeace business mentors often work with them in their local environments. The program says that it is helping spark a multiplier effect, whereby jobs created by Bpeace-sponsored entrepreneurs affect thousands of families, boost local purchasing power, and grow local economies. Overall, Bpeace's Fast Runner entrepreneurs employ 2,136 workers and have contributed $6.4 million total into their local economies.[66] Fast Runners often find U.S. markets for their goods; as of 2008, one-fourth of Afghanistan's had. One example of a success story is that of Afghan-made DOSTI soccer balls. Begun by two female entrepreneurs, DOSTI's hand-stitched soccer balls are sold online and distributed in the United States. As of 2010, DOSTI employed 475 Afghans. Stitching one to two balls a day for twelve months offers workers enough income to support a family of six for a year, according to BPeace.[67]

Initially, Bpeace struggled to adapt its capacity-building business advisory services to varying entrepreneur skill levels. Owners of younger firms often lacked the most elemental understanding of business, such as pricing and financial bookkeeping, and needed more basic training. Bpeace also realized that it had to account for specific constraints of local business environments in conflict and postconflict settings, such as diminished infrastructure, corruption, lack of security, and capacity. In addition, organizers learned that public-private partnerships were vital to supporting SME growth, especially in fragile states. Buy-in from local governments and international organizations is important, as is investment from the private sector, because these public-private partnerships enable increased access to sustainable markets. Most importantly, Bpeace found that capacity building was most effective when given time to take root and when entrepreneurs had ongoing opportunities to access additional expert advice. Bpeace has worked to move beyond simple skills building to helping entrepreneurs understand where they fit in a product supply chain and sustainable markets.[68]

Quantitative data on entrepreneurs in conflict-afflicted societies tends to be difficult to find for a variety of reasons, including lack of funding for study and instability of conflict regions, among other obstacles. Despite these limitations, Bpeace's programs' deliverables can be measured through job growth.[69] The greatest growth has been seen in areas such as manufacturing in Afghanistan and beverage distribution in Rwanda.[70]

10,000 WOMEN

Goldman Sachs' 10,000 Women initiative is a $100 million, five-year program that seeks to empower female entrepreneurs in developing and emerging markets by giving them business and management education and providing access to capital, networks, and mentors.[71] This initiative works in forty-three countries, including Afghanistan, Brazil, China, Egypt, India, and Rwanda, and is now partnered with more than eighty academic and nonprofit institutions and organizations globally.[72] Like Bpeace, 10,000 Women focuses on greater shared economic growth in order to spur stronger health care, education, and prosperity in communities.[73] These entrepreneurs, known as scholars, often already run high-potential small and medium-sized enterprises, but frequently have little access to business or skills training and crucial entrepreneurial networks. The program invests in the "missing middle" by focusing on underserved, female-led SMEs.[74] It also seeks to be a convener to encourage others to similarly invest in SMEs.[75]

Globally more than 5,800 women have been trained in business skills and management through the 10,000 Women initiative. Of the program's graduates surveyed, 80 percent reported revenue growth, 63 percent have created employment opportunities, 70 percent have increased profitability, and nine of out of ten graduates are mentoring another woman.[76] The initiative is projected to reach 7,500 women by the end of 2012 and complete its goal of reaching ten thousand women by December 2013.[77]

The 10,000 Women initiative has tried to address the challenges of working with SMEs in fragile states in several ways. It adopted an integrated approach by partnering its scholars with local organizations as well as local banks to assist entrepreneurs in accessing capital. The specifics vary from country to country and involve questions of local capacity and funding, but 10,000 Women has strived to provide wraparound services for all its entrepreneurs. These services include continuing education, business support services for up to thirty months after graduation, and alumnae networks.[78]

Specifically, in Liberia, 10,000 Women has struggled to find local business advisers and partners with a track record of training entrepreneurs, as many local organizations' capacities were diminished as a result of conflict. For Liberian women, spotting opportunities has been an issue because of their lack of business skills and an underdeveloped business ecosystem. Part of 10,000 Women's training thus focuses on teaching women to recognize market openings as well as efficient product placement.[79] There has been interest in and encouragement of the program at the senior levels of the Liberian government, which is an important step in lobbying for a strengthened and improved economic infrastructure.

In Liberia, the 10,000 Women initiative is implemented through CHF International and Liberia's Cuttington University. The most popular sectors that Liberian women are seeking skills training in are restaurants, catering, retail, agrobusiness, and tailoring. [80] There have been more than 150 Liberian graduates in three years, and within the next two years, CHF International anticipates training 265 women.[81] 10,000 Women in Liberia is partnered with several organizations working in the SME space, most notably the Liberian Enterprise Development Finance Company (LEDFC). Thanks to the establishment of a pipeline between the 10,000 Women initiative and LEDFC, several scholars have been able to access LEDFC loans, though access to finance remains an issue for most.

In Afghanistan, the program is administered through the Thunderbird School of Global Management and the American University of Afghanistan (AUAF).[82] The most popular sectors among women entrepreneurs are construction, food production, and handicrafts (i.e., woodworking and silk).[83] The program in Afghanistan aims to train 300 women in five years.[84] So far, 150 women have graduated from the program in Afghanistan and a further 75 will graduate in May 2012.[85] Many of the challenges that the 10,000 Women initiative faces in Afghanistan are similar to those of its Liberian program. Working in a conflict-affected area entails problems of capacity, infrastructure, and a lack of a comprehensive business system, but Afghanistan also has the added issue of security that has limited classes and slowed the program at times. The 10,000 Women initiative works with several partners in Afghanistan, most notably the U.S. Afghan Women's Council, the Department of Defense, and the U.S. government's Afghan First program.

Initially, the concept of mentoring and sharing business information such as revenue was foreign to Afghan businesswomen. But, over time, graduates have created their own alumnae network with a governance structure and elected positions. They have lobbied the Afghan government to improve business policies, especially for women. They also created the first-ever male support group for women in business, made up of scholars' husbands, fathers, brothers, and other male family members.[86]

In Afghanistan, entrepreneurs have said that they have enjoyed the program and want more: more training and continued support with ongoing business challenges. The wraparound services help answer this need, but other organizations can also use this pipeline of entrepreneurs to find clients for financial services and more advanced and industry-tailored skills-building efforts.

BUSINESS EDGE

Business Edge is the IFC's international package for SME management training products and services. It offers thirty-seven self-study management workbooks on topics such as marketing, human resources, production and operations, finance, and accounting.[87] Business Edge provides training in the Middle East, Africa, South and East Asia, Latin America, and the Caribbean, and is available in conflict-affected states including Afghanistan, Iraq, Liberia, Democratic Republic of the Congo, South Sudan, and Central African Republic, among others.[88] Business Edge products can be mixed and matched to create individualized management training programs for SMEs so entrepreneurs can increase their profits through education tailored to their local business environments.[89] The program works through local training providers, who use Business Edge to design unique products for local SMEs. IFC's regional or country-specific body then certifies and monitors the training providers for quality standards.[90] Unlike Bpeace and 10,000 Women, which tend to focus on SME owners, Business Edge targets a large portion of its skills training at employees, middle managers, or first-line supervisors in formal and established SMEs of varying size and sectors.[91]

Similar to Goldman Sachs' 10,000 Women initiative, IFC's Business Edge has been able to work with entrepreneurs in fragile states to improve their knowledge of basic business skills. Since May 2010, Business Edge has sold more than 330,000 self-study books and trained more than 135,000 individuals through a network of 680 trainers, with an overall satisfaction rate of 89 percent.[92] Twenty-four percent of all Business Edge trainers are women, 59 percent of Business Edge countries are conflict afflicted, and 26 percent of all Business Edge trainers come from areas now recovering from strife.[93]

Business Edge's greatest advantages are its adaptability, scalability, and comprehensive approach to SME growth.[94] Products and training plans are tailored to the needs of individual enterprises. Business Edge providers work with entrepreneurs to help understand their businesses' broader needs beyond skills building, including needs for increased access to finance and markets. Currently, Business Edge is supporting the implementation of an SME ventures pilot program—specifically designed for conflict countries—that will work to provide entrepreneurs with access to capital and markets and offer skills-training services.[95]

In Iraq, Business Edge has partnered with the Iraqi American Chamber of Commerce and Industry, and a 2006 external independent evaluation of Business Edge found that the program was high quality, well-managed, effective, and generally compatible with international best practices.[96] The same evaluation also found that Business Edge has more potential for long-term sustainability since their SME clients cover some of the training costs and the program's delivery partners consist mainly of private businesses.[97] Business Edge's effect on local markets is most apparent in the program's ability to develop local training partners that clients are willing to hire.[98] This provides opportunities for local business development services firms in countries such as Afghanistan. The next steps for Business Edge include procurement of contracts for SMEs with local businesses.

In Liberia and Sierra Leone, Business Edge supports business plan competitions using a combination of courses for skills training and one-on-one coaching. Some of the most popular courses include writing a business plan, accounting, and customer care.[99] One competition winner used the capital to launch her business and today is receiving assistance to find export opportunities.

Business Edge's services face several challenges, however. Its services are not free, and unlike aid programs, Business Edge does not provide stipends to trainees. This means that sometimes a mindset change is required when recruiting program participants. Much like the 10,000 Women initiative, Business Edge also faces issues of capacity building in conflict and postconflict countries and invests in local trainer instruction. The program recognizes that a comprehensive approach to SME assistance includes far more than just skills building, such as expanding local capacity, improving business environments and infrastructure, and increasing access to capital and sustainable markets.

CONCLUSIONS AND RECOMMENDATIONS

– Given the needs of SMEs in fragile states, business-skills training should be tailored to the varied skill levels of entrepreneurs. Those lacking basic business knowledge should be taught business plan development, smart growth strategies, financial recordkeeping, and identification of market opportunities to increase their ability to access capital and markets. For more established SMEs, training should center on how to handle investment capital and prudent paths to expansion and growth.
– Training programs should be scalable and replicable. Rigorous monitoring and evaluation procedures should be established to analyze what is and is not working while programs are under way, and findings should also be publicly shared to encourage dialogue and potential investment in SME growth.
– Skills building cannot take place in a vacuum. Business skills building programs should be connected to financial and market access. As an official of Bpeace noted, in a conflict-affected society, it is crucial that economic development programs focus on transferable, marketable skills that can be funneled into the creation and improvement of products with sustainable local markets first, and export markets second.[100]
– Time and labor-intensive investment up front is required for success. In postconflict countries, sustained and hands-on investment at the outset is required to develop the local leaders and the needed capacity for entrepreneurial training. Otherwise, sustainability will be a challenge further down the road.
– Public-private partnerships are also encouraged, not only in expanding the assistance that entrepreneurs receive, but also in revitalizing the overall business ecosystem and helping program graduates access finance and identify market opportunities both at home and abroad.

Conclusion

Entrepreneurship is not a panacea for economic growth. However, initiatives working to support entrepreneurial growth—especially SME growth—can promote stability and development in countries enduring or recovering from conflict. Globally, SMEs foster job creation and economic development, yet entrepreneurs often struggle to find the necessary capital, markets, and networks to grow and expand their enterprises. Many SME owners also lack basic business skills, such as record keeping, marketing, and product placement. Women entrepreneurs, in particular, face these barriers more acutely as they tend to work informally, have limited mobility with smaller social networks, and rarely have land titles, making them "riskier" clients in the eyes of banks and potential investors.

Despite the obstacles, SME growth and women's economic participation are a crucial part of rebuilding economies in conflict-affected states. Actors in both the private and public sectors are working to increase access to finance, markets, networks, and business-skill education programs for SMEs. An analysis of current efforts suggests that initiatives should not be developed in silos. Comprehensive programs should be offered as part of a package of services to best leverage the efforts now under way to promote entrepreneurship.

Partnerships among governments, nonprofits, and corporations are critical. Long time frames are also important because sustainable SME growth is a long-term process that requires capacity building and the development of local business environments. There should also be greater information sharing of lessons learned and efforts to scale solutions that have been successful, such as business matchmaking services. Wraparound services post-training can help SME owners obtain capital, reach new markets, and sustain the growth of their businesses. For those promoting peace, stability, and prosperity, supporting entrepreneurship should be a vital component of any reconstruction effort.

Case Study

ENTREPRENEUR PROFILE: GEORGE HOWARD

George Howard stayed in Liberia during the country's civil war in order to protect his business. In the end, he barely protected his life.

By the time Charles Taylor went into exile in 2003 and the transitional government moved the country toward elections in 2005, Howard was left with just one piece of equipment: a Caterpillar front-end loader that he repaired by selling a piece of the property he had left. "Everything else was gone," he says.

Howard went back to work rebuilding his company. When he heard that the World Bank had arrived in Liberia as part of the reconstruction process, he gathered friends he had known from before the war who still had trucks and other equipment and he bid on a business lot—a contract to help clean Monrovia. He won two lots that day. While he worked on the contracts, he bought more equipment. And from there, his business grew.

"Business in Liberia with Liberians has changed," Howard says. "No more running a beer joint or running a small cab company; entrepreneurs are thinking bigger."

From his first World Bank contract, Howard has gone on to bid on other, bigger business. He is now working on a near-million-dollar World Bank contract to assist with waste management. He says that a lack of access to finance nearly hobbled his business, but that he found assistance from a unique lending authority called the Liberian Enterprise Development Finance Company. At a workshop for Liberian entrepreneurs in Ghana hosted by the nongovernmental organization CHF International, Howard learned about LEDFC and soon approached them for a loan.

"I talked to them, they listened to me and saw reasons to help me with a loan," Howard says. "While we were discussing the loan I got a new World Bank contract. I was hoping that with a million dollars under contract somebody would listen to me."

The challenge Howard faced until that point was that even banks who were willing to lend to him gave him only six months to repay his loan. In an industry in which it can take three to four months just to receive the imported equipment needed to do the work, this proved a deal killer. LEDFC offered a longer repayment term and worked with him throughout the process. The willingness to extend risk capital, the longer repayment period, and the willingness to work with entrepreneurs throughout their business cycle is what Howard says, in his experience, is the difference between LEDFC and other facilities.

Most recently, LEDFC has given Howard, now one of the facility's biggest clients, a $300,000 loan to invest in equipment. Howard says that access to finance remains one of the greatest problems for Liberian entrepreneurs, though for their part both LEDFC officials and other bankers in the country say that the funding is there for entrepreneurs who are able to absorb the investment dollars and to repay.

"For me, it has been a problem of finance until LEDFC," he says. "They have made me brave that I could tell you now, 'Yes, I can do this job.'"

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