The Small Entrepreneur in Fragile and Conflict-Affected Situations

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Contents

Acknowledgments ix
About the Authors xi
Abbreviations xiii

Introduction 1
Small Entrepreneurs in Fragile and Conflict-Affected Situations 1
Observations of FCS Firms, Sectors, and Business Environments 1
Implications of Findings and Recommendations 2
Notes 4
Reference 4

Chapter 1 Overview of the Entrepreneur’s Challenges in FCS 5
Overview 5
Notes 7
Reference 7

Chapter 2 Observations of FCS Firms, Sectors, and Business Environments 9
FCS Firm-Level Characteristics 9
FCS Sector-Level Characteristics 15
FCS General Business Environment 21
Notes 33
References 33

Chapter 3 Implications of Findings 35
Program Design 35
World Bank Group Interventions 47
Note 49
References 49

Chapter 4 Conclusions and Recommendations 51
Conclusions 51
## Contents

| Section                                                                 | Page |
|-------------------------------------------------------------------------|------|
| Recommendations                                                          | 51   |
| Bibliography                                                             | 54   |
| Appendix A User’s Guide to Data                                          | 55   |
| Appendix B Additional World Bank Studies and Field Observations          | 59   |
| Appendix C Innovation (Correlation Tables)                               | 65   |
| Appendix D Survey Sample Statistics, ECA Region                          | 67   |
| Appendix E Survey Sample Statistics, Sub-Saharan Africa Region           | 71   |
| Appendix F Basic Quantitative Indicators, ECA Region                     | 73   |
| Appendix G STATA Output Underlying Graphical Presentation               | 77   |

### Boxes

| Box Number | Title                                                                 | Page |
|------------|-----------------------------------------------------------------------|------|
| 2.1        | Trading in Niger                                                      | 17   |
| 2.2        | Challenge of Rebuilding a Sector: Carpet Weaving in Afghanistan       | 20   |
| 3.1        | Afghanistan Road Map for Improving the Business Enabling Environment  | 36   |
| 3.2        | Public-Private Dialogue in Investment Climate Interventions           | 37   |
| 3.3        | Bulldozer Initiative in Bosnia and Herzegovina                       | 38   |
| 3.4        | Reforming Rwanda’s Tea Sector                                         | 39   |
| 3.5        | West Bank and Gaza Facility for New Market Development and Gaza Back-to-Work Programs | 40   |
| 3.6        | Lebanon Innovation and SME Growth Project                            | 41   |
| 3.7        | ILO’s TREE Program                                                    | 42   |
| 3.8        | Public-Private Partnerships in Somalia                                | 43   |
| 3.9        | Supporting Predictability: Examples from World Bank Projects          | 44   |
| 3.10       | EU’s Trade Preferences to Western Balkans                             | 45   |
| 3.11       | Guinea-Bissau Cashew Nuts                                             | 45   |
| 3.12       | Capacity Building for Employment in the Construction Sector           | 47   |
| 3.13       | Timor-Leste: A Reflection                                             | 49   |
| 4.1        | How Much Growth Does It Take to Generate Jobs?                       | 52   |
| B.1        | Hayel Saeed Anam Group: First Commercial Group in the Republic of Yemen | 59   |
| B.2        | Success Story of Entrepreneurship in the Republic of South Sudan: Importance of Business Competition | 59 |
| B.3        | Cisco and the Importance of Corporate Social Responsibility in the West Bank and Gaza | 61 |
| B.4        | Importance of Household Enterprises (HE) in Rwanda                    | 61   |
B.5 Egypt’s First Revolution: A Cold for Large Businesses and Pneumonia for Small and Medium-Size Enterprises (Importance of Clear Strategy Reform) 62

Figures
1.1 Universe of Private Enterprises in FCS Countries in Which Size of Shadow Economy Reaches 50 Percent of GDP 6
2.1 Appetite for Risk and Willingness to Innovate in FCS, 2011 10
2.2 Enterprise Capacity Utilization Lower in FCS Countries than in Non-FCS Countries 12
2.3 Willingness to Take Up Risk Less in FCS than in Non-FCS Countries 13
2.4 Introduction of New Products Hindered by Long Power Outages in ECA FCS 14
2.5 FCS Enterprises Start Smaller, Grow More Slowly, or Shrink over Time Compared to Non-FCS Enterprises 14
2.6 Annual Export Revenue of FCS Firms in Sub-Saharan Africa Trade Primarily with Neighboring Countries 16
2.7 Conflicts in Sub-Saharan Africa Result in Sudden Drops in Manufactures’ Exports 18
2.8 Mobile Telecommunications Thrive in Even the Most Difficult FCS Environments 20
2.9 Unpredictability in Private Markets and Public Governance Commonplace in FCS Countries 22
2.10 Rent-Seeking More Common in FCS Countries than in Non-FCS Countries 23
2.11 Biggest Obstacle to Business Environment by Fragility 24
2.12 Access to Formal Financial Services Appear More Limited in FCS Countries 25
2.13 Why FCS Firms Should Not Apply for Loans 27
2.14 Credit Transactions Less Common in FCS Countries than in Non-FCS Countries in Sub-Saharan Africa 28
2.15 Longer or More Frequent Power/Water Shortages Common in FCS Countries (% of Firms that Experienced Power/Water Shortage the Past Year) 28
2.16 Power Supply Lacking or Very Expensive in FCS Countries 29
2.17 Access to General Purpose Technology Worse in FCS than in Non-FCS Countries 29
2.18 FCS Enterprises in SSA and ECA Face High Losses due to Crime, Theft, and Disorder 30
2.19 FCS Firms in Four Countries Experience Disruptions in Their Product Markets with Uneven Recoveries 30
2.20 Female Employment by Fragility 31
BB.5.1 Firm Sales Experience and Expectation, Weighted by Sales Value 63
Tables

2.1 Probability to Innovate in FCS Lower than in Non-FCS Countries 11
2.2 Total Formal Trade as a Percentage of GDP (“Openness”) Notably Lower for FCS Countries than for Non-FCS Countries 15
2.3 Weak Regulatory Systems in FCS Countries 22
2.4 Temporary Disruptions in Sales in Sub-Saharan Africa due to Fragility 26
4.1 Strategy Matrix for Analysis and Intervention in FCS Areas 52
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### Abbreviations

| Abbreviation | Description |
|--------------|-------------|
| ADR          | Alternative Dispute Resolution |
| BEEPS        | Business Environment and Enterprise Performance Survey |
| CCSD         | Center on Conflict, Security and Development |
| CPIA         | Country Policy and Institutional Assessment |
| CSO          | civil society organization |
| DFID         | Department for International Development (UK) |
| ECA          | Europe and Central Asia |
| ES           | Enterprise Survey (World Bank) |
| EU           | European Union |
| FAO          | Food and Agriculture Organization of the United Nations |
| FATA         | Federally Administered Tribal Areas |
| FCS          | fragile and conflict-affected situations |
| FDI          | foreign direct investment |
| FNMD         | facility for new market development |
| FPD          | finance and private sector development |
| GDP          | gross domestic product |
| ha           | hectare |
| HE           | household enterprise |
| ICR          | implementation completion report |
| ICT          | information and communication technologies |
| IDA          | International Development Agency |
| IEG          | Independent Evaluation Group (World Bank) |
| IFC          | International Finance Corporation |
| ILO          | International Labour Organization (UN) |
| kg           | kilogram |
| M&E          | monitoring and evaluation |
| MCII         | Ministry of Commerce, Industry, and Investment (Republic of South Sudan) |
| MDTF         | Multi-Donor Trust Fund |
| Abbreviation | Full Form |
|--------------|-----------|
| MENA         | Middle East and North Africa |
| NAEB         | National Agricultural Export Development Board (Rwanda) |
| NBF          | Nepal Business Forum Phase I |
| NGO          | nongovernmental organization |
| OECD         | Organisation for Economic Co-operation and Development |
| OLS          | ordinary least squares |
| PCNA         | Post-Crisis Needs Assessment |
| PPD          | public-private dialogue |
| PPP          | public-private partnership |
| PSD          | private sector development |
| SDG          | South Sudanese Pound |
| SEED         | Sustainable Employment and Economic Development (UKAID) |
| SEZ          | special economic zone |
| SME          | small and medium-size enterprise |
| SSA          | Sub-Saharan Africa |
| TREE         | Training for Rural Economic Empowerment (ILO) |
| UN           | United Nations |
| UNDP         | United Nations Development Programme |
| VC           | venture capitalist |
| WBG          | World Bank Group |
| WDI          | World Development Indicators |
| WDR          | World Development Report |
| WTO          | World Trade Organization |
Introduction

Small Entrepreneurs in Fragile and Conflict-Affected Situations

This report is part of a broader effort by the World Bank Group to understand the motives and challenges of small entrepreneurs in fragile and conflict-affected situations (FCS). The report’s key finding is that, compared to entrepreneurs elsewhere, entrepreneurs in FCS have different characteristics, face significantly different challenges, and thus may be subject to different incentives and have different motives. Therefore, it is recommended that both the current analytical approach and the operational strategy of the World Bank be informed by the findings that follow.

Observations of FCS Firms, Sectors, and Business Environments

FCS Firm Characteristics
The report summarizes findings of recent World Bank Enterprise Surveys (ES) conducted across Sub-Saharan Africa (SSA), Asia, and the Europe and Central Asia (ECA) Region as well as Doing Business indicators and additional World Bank Group studies and field observations. The report finds that the majority of entrepreneurs in FCS countries are small, informal, and concentrated in the trade/services sectors. According to the ES, and after controlling for the level of development (that is, gross domestic product [GDP] per capita),

1. The average FCS firm in SSA and the ECA Region produces less output than non-FCS firms.
2. The average FCS firm in ECA is 20 percent less likely to innovate (that is, to introduce/upgrade new products and services) than its non-FCS counterpart.
3. FCS firms start smaller and grow significantly more slowly, or even shrink (in the number of employees) over time, compared to non-FCS firms in the Regions analyzed.
**FCS Sector Characteristics**
The report also highlights the differences in sector characteristics between FCS and non-FCS business environments. Entrepreneurs in FCS are concentrated in the trade/services sector (and not manufacturing). However, the average FCS country is less open to formal trade across all the three Regions analyzed and trades mainly with its neighboring countries. Compared to the average non-FCS countries in the Region, the average FCS country also is subject to severe and immediate sales (exports) and production factor disruptions with uneven recovery. Despite these obstacles, new entrepreneurial opportunities can arise even in the most difficult FCS environments, such as mobile telephony industry that has been thriving in Afghanistan, Guinea-Bissau, Iraq, and Somalia.

**FCS Business Environment Characteristics**
In the majority of the FCS environments, to start a business is very difficult. The regulatory systems (particularly regarding construction permits, property registration, investors’ protection, and contracts enforcement) are very weak. Furthermore, the key trust-based relationships for public-private dialogue (PPD) and commerce may have broken down or even dissipated owing to heavy and widespread rent-seeking, severe political instability, inefficient courts, and lack of state-provided security. Moreover, the general business environment is suffering from political instability and very poor access to formal finance (Asia and SSA), as well as burdensome tax rates (ECA). In particular, formal financial services, such as the provision of loans or lines of credit, are very limited for FCS firms in ECA and SSA. Part of the reason is the high collateral requirements or complex loan application procedures. As a consequence, credit transactions are very limited. Last, serious basic infrastructure shortages (such as of power or water supply) elevate costs of doing business in FCS countries (especially in Kosovo, in which 97 percent of the respondent firms lack quality access to electricity). In addition, poor access to general purpose technology (that is, high-speed Internet) makes business facilitation slower and even more costly.

**Implications of Findings and Recommendations**

**Analytics**

- **Invest in data to be able to constantly evaluate FCS business environments.** Enhance existing sources such as the ES in terms of data availability (make more frequent in all Regions), and data consistency (inflate all the relevant questionnaires with questions focused on the uniqueness of the FCS business environment and questions related to innovative activity). Improve local capacity in data analysis.
- **Encourage information sharing and flows.** Encourage (public-private) dialogues, ensure information sharing through Internet wherever possible, and improve local capacity in knowledge management.
Program Design

A typical private sector development (PSD) program in FCS countries would involve interventions aimed at encouraging investment and getting markets to work better and more competitively. Typical interventions would:

- **Address public-private coordination failures.** Launch effective PPDs at the overall economy level and at the sector level. Formal PPDs can help improve coordination and lead to encouragement of competitive industries, development corridors or economic zones, as well as local economic development. Furthermore, specific to FCS, PPDs can be particularly useful in building trust in such low-trust fragile environments and can avoid policy capture by established businesses with close political ties.

- **Encourage innovation and entrepreneurship.** Support business development services (professional training, high quality standards, or sound market connectivity); provide key factor markets such as access to finance; and target key groups including women, youth, and excombatants.

- **Resolve market failures in the provision of public goods.** Enhance regulatory systems that support rather than obstruct markets, provide critical public goods (infrastructure, security), and ensure availability of serviced industrial land for purchase or lease.

- **Provide a generally predictable business environment.** Manage perceptions of political uncertainty, limit corruption, and ensure reliable judicial systems.

- **Encourage demand and investment.** Allow for trade preferences, encourage competitive industries, develop linkages with commodities and local sourcing of aid (construction, logistics, facilities management), and encourage and support remittance flows. In addition to the traditional foreign direct investment (FDI), allow for measures that can support diaspora-based and collective investment.

Bank Group Interventions

Any FCS government is unlikely to have the capacity to manage and resource a program of this complexity and magnitude. Therefore, focus is required on:

- **Ways that programs should be designed.** Based on an assessment of past World Bank projects, the key success factors aligned with the Bank interventions are to (a) address the most severe growth constraints identified by businesses, (b) match the constraints with government priorities, and (c) target areas that have proven track records of the Bank’s success (based on the International Development Agency [IDA] rating) (Leo, Ramachandran, and Thuotte 2012). In addition, review past projects to acquire additional sets of lessons in project design.

- **Close coordination throughout the World Bank Group.** Ensure small, on-the-ground presence; and deliver services through a joint strategy, leveraging one another’s comparative advantage (that is, make the Bank’s execution more flexible through partnering with International Finance Corporation’s [IFC] on-the-ground presence).
• *Design flexibility.* To take into account the highly uneven recovery pattern and possible cycles of recurrent violence in FCS areas, at the beginning, start small; assess the response to the package; extend it in case of success; cut it otherwise.

• *Rapid tactical intervention at moments of reduced violence and heightened political commitment to reform.* At such moments, the Bank Group should be ready to immediately introduce a PSD response package. This package could include (a) a small matching grant component with a very flexible operational menu, (b) a challenge fund that can harness the delivery capabilities of nongovernmental organizations (NGOs), and (c) immediate institutional support for regulatory reform and developing a coordinating capability. The package would be executed by a pre-procured firm.

**Notes**

1. This report is part of a series on finance and private sector development (PSD) in fragile and conflict-affected situations (FCS) prepared in a partnership of the World Bank Finance and Private Sector Development (FPD) Network, the International Finance Corporation, and the Center on Conflict, Security and Development (CCSD). The series comes under the auspices of the Bank’s Knowledge Project, “Private Sector Development (PSD) in FCS” (P125752), managed and facilitated by CCSD. The project’s objectives are, first, to examine the World Bank Group’s PSD practice in FCS in light of World Development Report 2011: Conflict, Security and Development. Second, the project will explore implications for future operations, analytics, and research with a focus on the process of inquiry, dialogue, and discussion to promote a community of practice around this nexus of FCS. The report’s primary aim is Bank Group learning; however, the report also is available for the benefit of development partners and clients. Other topics explored in the series include how firms cope with crime and violence, foreign direct investment (FDI), and investment climate reforms in FCS, as well as the potential contribution of financial institutions to resilience against violence and conflict.

2. Asia is not included in this finding because the surveys in these Regions either do not contain the same questions regarding innovation, or the number of firms that actually replied to the question was not enough to draw a general conclusion.

**Reference**

Leo, B., V. Ramachandran, and R. Thuotte. 2012. “Supporting Private Business Growth in African Fragile States.” Center for Global Development, Washington, DC. http://www.cgdev.org/files/1426061_file_Leo_Ramachandran_Thuotte_fragile_states_FINAL.pdf.
Overview of the Entrepreneur’s Challenges in FCS

Overview

This investigation explores enterprises’ willingness to invest in fragile and conflict-affected situations (FCS), and how this investment can help economic recovery and employment creation. There is a specific focus on enterprises that have limited mobility and choices, that is, those that do not have the opportunity to operate and invest in other countries. In most cases, enterprises in FCS have lived through violent conflicts. Typically, these enterprises are small, not part of established business elites, more often than not informal, and sector biased. These businesses can range from household enterprises to small and medium-size enterprises (SMEs). They are the vast majority of enterprises in FCS—they are the “99 percent.”

Not only do FCS enterprises tend to be small. They also tend to be informal and engaged in sectors that are trade and service oriented with high returns on investment (figure 1.1). In addition to being small and informal, FCS enterprises tend to be dominated by household enterprises, especially in Sub-Saharan Africa (SSA). The average size of the shadow economy relative to gross domestic product (GDP) in the FCS states included in our analysis is 46 percent, with some over 60 percent. This size can be contrasted with the non-FCS states included in our analysis whose shadow economies relative to GDP average 36 percent. What also is typical for the informal (and, to a lesser degree, the formal) FCS enterprises are the kinds of businesses. There are many trading/service enterprises, and any large manufacturing tends to be agribusiness related. In most FCS, the kind of institutional framework that would allow for large-scale, job-intensive manufacturing simply does not exist.

These entrepreneurs face very specific challenges that are different and more extreme than challenges in non-FCS countries. To determine these challenges, the on-the-ground observations of finance and private sector development (FPD) experts working in FCS were collected. These observations include comments on the types of enterprises that are found, the sectors in
which they are engaged, the challenges that they face, and the opportunities from which they can benefit. The data (appendix A, User’s Guide to Data) and evidence from the projects that support these more anecdotal observations are presented in our analysis.6

What can then be done by policy makers with the support of donors to help? The implications of these findings are reviewed using three lenses: (a) how can countries develop effective private sector development programs? (b) under current operating guidelines, how can the Bank Group best support private sector development? and (c) are there opportunities to improve operational processes and collaboration among the agencies across the Bank Group? A menu of typical program responses that could help FCS countries is discussed.

Finally, a consideration of what these challenges mean for the overall recovery prospects of FCS is discussed. It is clear that generation of good jobs through the private sector is a key element of any recovery strategy. It is less clear that these jobs can be generated at the pace necessary. Therefore, it often is necessary to dovetail the private sector strategy with additional measures such as a public works program and agricultural revitalization.

Chapter 2 explores (a) the key characteristics of the FCS firms, (b) the FCS sector characteristics, and (c) the contrast between the FCS and non-FCS general business environment. Chapter 3 focuses on the findings of the analysis and their implications for program design and World Bank Group interventions. Chapter 4 draws conclusions and makes recommendations.

**Figure 1.1 Universe of Private Enterprises in FCS Countries in Which Size of Shadow Economy Reaches 50 Percent of GDP**

Source: Data from Schneider 2007.
Note: FCS = fragile and conflict-affected situations; GDP = gross domestic product.
Notes

1. A parallel investigation looks at investors who have choices—typically, the foreign investors.

2. Authors’ calculations based on Schneider 2007. Schneider defines a shadow economy as that which “includes all market-based legal production of goods and services that are deliberately concealed from public authorities for the following reasons: (a) to avoid payment of income, value added or other taxes, (b) to avoid payment of social security contributions, (c) to avoid having to meet certain legal labor market standards, such as minimum wages, maximum working hours, safety standards, etc., and (d) to avoid complying with certain administrative procedures, such as completing statistical questionnaires or other forms.” Schneider excludes the informal household economies from his calculation and does not focus on tax evasion or tax compliance.

3. According to Schneider, for OECD countries, the average size of the shadow economy relative to GDP is 15 percent.

4. According to the World Development Indicators (WDI) 2012, the average share of manufacturing in GDP of FCS states is 12 percent, whereas for the non-FCS states, the share reaches almost 17 percent.

5. As a knowledge product, surveys were conducted informally, and FCS practitioners (approximately 40 staff) in the FPD Network reported their core observations regarding FCS.

6. As with most areas of FCS, data describing initial conditions are hard to come by. It is only after some time that a reliable data set emerges. The main data sources are the World Bank’s Enterprise Surveys (appendix A).

Reference

Schneider, F. 2007. “Shadow Economies and Corruption All over the World: New Estimates for 145 Countries.” Economics e-journal 2007–9. http://www.economics-ejournal.org/.
CHAPTER 2

Observations of FCS Firms, Sectors, and Business Environments

Through a consultative process with World Bank Finance and Private Sector Development (FPD) experts engaged in fragile and conflict-affected situations (FCS), a number of common themes emerged. These features exist in most FCS countries to varying degrees depending on endowments, demographics, and governance. In all cases, there is some degree of resilience of entrepreneurship in FCS environments, and observations in this regard conclude this section. These observations have been tested primarily by reviewing the World Bank’s Enterprise Survey for three Regions: Sub-Saharan Africa (SSA), Europe and Central Asia (ECA), and Asia (see appendix A for guide to data). Consequently, unless stated otherwise, the primary sources of data presented in this report are the World Bank’s Enterprise Surveys, which compare FCS with non-FCS countries within each of these three Regions.

FCS Firm-Level Characteristics

Entrepreneurship itself—enterprises’ appetite for risk and willingness to innovate—often is suppressed (figure 2.1). An average FCS firm in the ECA Region is 20 percent less likely to innovate, either by introducing new products or by upgrading existing product lines (table 2.1), than an average non-FCS firm in the same Region. The appetite for taking risk to expand operations is suppressed in more fragile countries (figure 2.1a). However, once FCS firms decide to spend on new equipment, they tend to spend, on average, slightly more as a proportion of their sales compared to firms in less fragile countries (figure 2.1b).

Operating in an FCS country of the ECA Region results in an average of 21 percent less innovative activity than operating in a non-FCS ECA country.

Furthermore, the production capacity of the firms operating in the FCS countries of Asia, the ECA Region, and the SSA Region is slightly more underutilized that those of non-FCS countries. In other words, firms operating in FCS countries seem to produce, on average, less of their potential output compared to non-FCS firms (figure 2.2). Therefore, not surprisingly, there is less investment
Observations of FCS Firms, Sectors, and Business Environments

in production capacity and innovation in FCS countries than in non-FCS countries (figure 2.3).

Moreover, FCS countries evidence very low levels of information and communication technologies (ICT) penetration, notably high-speed Internet (subsection C), and poor access to basic production inputs such as electricity. The lack of new technologies and poor access to electric power that would enhance productivity suppresses the willingness to innovate (figure 2.4).

FCS enterprises tend to be small. The average size (in number of full-time permanent employees) of an enterprise in an FCS country is half the average size...
of an enterprise in a non-FCS country of SSA or the ECA Region. Even more dramatically, in the ECA Region, the average size of an FCS enterprise shrinks over time (figure 2.5). Therefore, FCS enterprises tend to be small, either by choice or as a result of the main characteristics of the usual FCS business environment. It is characterized by poor access to finance and infrastructure; and direct or indirect government-imposed barriers in the form of corruption, weak security, and/or policy biases toward large and politically connected firms (subsection C).

### Table 2.1 Probability to Innovate in FCS Lower than in Non-FCS Countries

|                                      | (1) Introduced new products | (2) Upgraded existing product line | (3) Introduced new products (marginal effects) | (4) Upgraded existing product line (marginal effects) |
|--------------------------------------|----------------------------|-----------------------------------|-----------------------------------------------|-----------------------------------------------------|
| Being fragile (d)                    | −0.5324***                 | −0.5131***                        | −0.2073***                                    | −0.1868***                                          |
|                                      | (0.089)                    | (0.165)                           | (0.033)                                       | (0.062)                                             |
| Industry (c)                         | −0.0046                    | −0.0015                           | −0.0018                                       | −0.0005                                             |
|                                      | (0.004)                    | (0.002)                           | (0.099)                                       | (0.006)                                             |
| Country (c)                          | −0.0123                    | 0.0014                            | −0.0049                                       | 0.0005                                              |
|                                      | (0.011)                    | (0.009)                           | (0.004)                                       | (0.003)                                             |
| Micro-size (d)                       | 0.0846                     | −0.1463                           | 0.0338                                        | −0.0528                                             |
|                                      | (0.115)                    | (0.148)                           | (0.046)                                       | (0.055)                                             |
| Having more than 50% domestic       | −0.1505                    | (0.107)                           | −0.0599                                       | 0.0445                                              |
| ownership (d)                        | (0.133)                    | 0.1241                            | (0.053)                                       | (0.038)                                             |
| Size of locality – city (250,000–1mil| −0.2666**                  | −0.1834                           | −0.1052**                                     | −0.0658                                             |
| population) (d)                      | (0.128)                    | (0.203)                           | (0.049)                                       | (0.076)                                             |
| Total annual sales (ln)              | −0.3075***                 | −0.0238**                         | −0.0123***                                    | −0.0111**                                           |
|                                      | (0.012)                    | (0.015)                           | (0.005)                                       | (0.005)                                             |
| Having spent on R&D (d)              | 1.0931***                  | 1.1427***                         | 0.3964***                                     | 0.3002***                                            |
|                                      | (0.129)                    | (0.170)                           | (0.035)                                       | (0.022)                                             |
| Having received government subsidy (d)| 0.12866                    | 0.1051                            | 0.0513                                        | 0.0358                                              |
|                                      | (0.2198)                   | (0.233)                           | (0.087)                                       | (0.076)                                             |
| Using own website to communicate with| 0.4002***                  | 0.2336*                           | 0.1586***                                     | 0.0799*                                             |
| clients/suppliers (d)                | (0.096)                    | (0.133)                           | (0.038)                                       | (0.046)                                             |
| Having paid for security (d)         | 0.2445***                  | 0.1894***                         | 0.0972***                                     | 0.0662***                                            |
|                                      | (0.066)                    | (0.064)                           | (0.026)                                       | (0.0206)                                            |
| Dispose checking/savings account (d) | 0.1866**                   | 0.2984*                           | 0.0737***                                     | 0.1101*                                             |
|                                      | (0.082)                    | (0.182)                           | (0.032)                                       | (0.069)                                             |
| Dispose line of credit/loan (d)      | 0.1624                     | 0.0835                            | 0.0647                                        | 0.0290                                              |
|                                      | (0.123)                    | (0.070)                           | (0.049)                                       | (0.024)                                             |
| Dispose internationally recognized   | 0.0065                     | 0.0543                            | 0.0026                                        | 0.0188                                              |
| quality certification (d)            | (0.078)                    | (0.115)                           | (0.031)                                       | (0.039)                                             |
| Compulsory to have certification to  | 0.0955                     | 0.1367*                           | 0.0380                                        | 0.0476*                                             |
| produce/sell (d)                     | (0.070)                    | (0.077)                           | (0.028)                                       | (0.027)                                             |
| % of senior management’s time spent   | −0.0012                    | −0.0017                           | −0.0005                                       | −0.0006                                             |
| on gov. regulations                  | (0.0017)                   | (0.004)                           | (0.001)                                       | (0.001)                                             |
| Years of experience in the sector of  | 0.0015                     | 0.0020                            | 0.0006                                        | 0.0007                                              |
| Top Manager                          | (0.005)                    | (0.006)                           | (0.002)                                       | (0.002)                                             |

Table continues next page
Table 2.1 Probability to Innovate in FCS Lower than in Non-FCS Countries (continued)

|                  | (1) Introduced new products | (2) Upgraded existing product line | (3) Introduced new products (marginal effects) | (4) Upgraded existing product line (marginal effects) |
|------------------|-----------------------------|-----------------------------------|-----------------------------------------------|--------------------------------------------------------|
| Constant         | 0.9613* (0.547)             | 0.3227 (0.556)                    |                                               |                                                        |
| Pseudo R-squared | 0.1709                      | 0.1317                            |                                               |                                                        |
| Number of observations | 3,321                       | 3,301                             | 3,321                                         | 3,301                                                   |

Source: World Bank Enterprise Surveys 2009–11, http://datacatalog.worldbank.org/datacatalog-offline.aspx.
Note: FCS = fragile and conflict-affected situations; R&D = research and development. 1. Standard errors in parentheses. 2. Table outlines results of two probit regressions based on the WB’s Enterprise Surveys for the ECA Region (BEEPS). (A probit is a type of regression estimation with a binary outcome.) The svyset command was used in STATA to ensure that standard errors are calculated correctly. The dependent variable for models (1) and (3) is a binary variable equal to 1 if the establishment (explained farther down) introduced new products in the last three years. The dependent variable for models (2) and (4) is a binary variable equal to 1 if the establishment upgraded an existing line of products. The explanatory variables are sociodemographic characteristics of the establishments (country, industry, size, size of location, ownership, experience of top manager), economic indicators (total annual sales, government subsidy, security costs), indicators of innovative activity (expenditure on R&D), infrastructure indicators (access to finance, access to ICT), and regulatory indicators (time spent on dealing with regulations, compulsory certificates, quality certifications). For models (3) and (4), only marginal effects are shown. To control for possible income differences, the average gross domestic product (GDP) per capita (in 2000 constant US$ prices, per World Development Indicators 2012) of the group of fragile states included in the analysis (that is, US$1,523) is similar to the average GDP per capita of the group of non-fragile states included in the analysis (that is, US$1,505). Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1.

Figure 2.2 Enterprise Capacity Utilization Lower in FCS Countries than in Non-FCS Countries

Percent

Source: World Bank Enterprise Surveys 2009–11, http://datacatalog.worldbank.org/datacatalog-offline.aspx.
Note: ECA = Europe and Central Asia; FCS = fragile and conflict-affected situations. Capacity utilization is defined as the ratio of output produced to maximum output. Results controlled for GDP per capita levels; p-value (ECA) = 0.558, p-value (Sub-Saharan Africa) = 0.947, p-value (Asia) = 0.001 (appendix G).
Figure 2.3 Willingness to Take Up Risk Less in FCS than in Non-FCS Countries

a. Comparison of firms’ purchases of fixed assets in FCS and non-FCS countries

![Bar chart showing comparison of firms' purchases of fixed assets in FCS and non-FCS countries]

Source: World Bank Enterprise Surveys 2009–11, http://datacatalog.worldbank.org/datacatalog-offline.aspx.
Note: ECA = Europe and Central Asia; FCS = fragile and conflict-affected situations. Results controlled for GDP per capita levels, \( p \)-value (ECA) = 0.176, \( p \)-value (Sub-Saharan Africa) = 0.282, \( p \)-value (Asia) = 0.755 (appendix G).

b. Firm innovation in ECA greater in FCS than in non-FCS countries

![Bar chart showing firm innovation in ECA]

Source: World Bank Enterprise Surveys 2009–11, http://datacatalog.worldbank.org/datacatalog-offline.aspx.
Note: ECA = Europe and Central Asia; FCS = fragile and conflict-affected situations; R&D = research and development. Results controlled for GDP per capita levels (appendix G). \( p \)-value (new products) = 0.041, \( p \)-value (R&D) = 0.404, \( p \)-value (upgrade) = 0.275 (appendix G).
Observations of FCS Firms, Sectors, and Business Environments

Figure 2.4 Introduction of New Products Hindered by Long Power Outages in ECA FCS

Source: World Bank Enterprise Surveys 2009–11, http://datacatalog.worldbank.org/datacatalog-offline.aspx.
Note: ECA = Europe and Central Asia; FCS = fragile and conflict-affected situations; R&D = research and development. Other Regions are not included in figure 2.4 due to the lack of specific questions on innovative activity in their questionnaires. Y-axis represents the correlation coefficient based on a correlation table (appendix C). Graph depicts top four aspects significantly (at 10% significance level) correlated with introduction of new products.

Figure 2.5 FCS Enterprises Start Smaller, Grow More Slowly, or Shrink over Time Compared to Non-FCS Enterprises

Source: World Bank Enterprise Surveys 2009–11, http://datacatalog.worldbank.org/datacatalog-offline.aspx.
Note: ECA = Europe and Central Asia; FCS = fragile and conflict-affected situations. Growth in employment = (no. of current employees – no. of employees at start-up)/firm age. Results controlled for GDP per capita levels. p-value (ECA) = 0.178, p-value (Sub-Saharan Africa) = 0.153, p-value (Asia) = 0.465 (appendix G).
FCS enterprises tend to be informal. Work done as part of the Post-Crisis Needs Assessment (PCNA) for Federally Administered Tribal Areas (FATA) and crisis-affected areas of Khyber Pashtunkhwa (12 million people) found that only 1 firm with more than 200 employees was formally registered. All of the other firms (especially smaller ones) were informal. Khyber Pashtunkhwa is an extreme case because no large urban areas were included in the area under investigation. Nevertheless, the story of a few large and medium-size registered firms and many very small unregistered firms is repeated across almost all FCS areas.

**FCS Sector-Level Characteristics**

FCS enterprises specialize primarily in regional retail and services, rather than in manufacturing. In most FCS, the kind of institutional framework that would enable large-scale, job-intensive manufacturing simply does not exist. Any large manufacturing tends to be agribusiness related. Indeed, one often finds derelict factories that are the direct results of misguided industrial policies of prior years. According to the World Development Indicators (WDI) 2012, the average share of manufacturing in gross domestic product (GDP), including commodities, is 17 percent for non-FCS countries, compared to 12 percent for FCS countries. The extreme contrasts are Mauritius with almost 21 percent compared to Angola with 5 percent in Sub-Saharan Africa; and Belarus with over 33 percent compared to Georgia with 11 percent in ECA.²

In addition, compared to non-FCS countries, FCS countries overall remain less open to international trade. In other words, the average net exports share of GDP is significantly smaller for FCS countries, compared to non-FCS countries (table 2.2),

### Table 2.2 Total Formal Trade as a Percentage of GDP (“Openness”) Notably Lower for FCS Countries than for Non-FCS Countries

| Year | Region          | Current prices | Constant prices |
|------|-----------------|----------------|-----------------|
|      |                 | Fragile        | Non-fragile     | Fragile        | Non-fragile     |
| 2005 | Sub-Saharan Africa | 64             | 79              | 65             | 83              |
|      | ECA             | 99             | 105             | 93             | 102             |
| 2006 | Sub-Saharan Africa | 61             | 78              | 63             | 82              |
|      | ECA             | 105            | 111             | 103            | 109             |
| 2007 | Sub-Saharan Africa | 69             | 78              | 61             | 84              |
|      | ECA             | 106            | 112             | 108            | 114             |
| 2008 | Sub-Saharan Africa | 72             | 78              | 61             | 84              |
|      | ECA             | 100            | 112             | 99             | 115             |
| 2009 | Sub-Saharan Africa | 64             | 74              | 59             | 83              |
|      | ECA             | 75             | 97              | 96             | 100             |

*Source:* Heston, Summers, and Aten 2011; Penn World Table.

*Note:* ECA = Europe and Central Asia; FCS = fragile and conflict-affected situations; GDP = gross domestic product.

*Openness = Total trade as % of GDP, i.e., Openness = (Exports+Imports)/real GDP per capita; for constant prices at 2005; simple average.
Observations of FCS Firms, Sectors, and Business Environments

The Small Entrepreneur in Fragile and Conflict-Affected Situations

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and formal trade is facilitated primarily among neighbors (figure 2.6). Thus, for international markets to function in FCS, trade relationships with neighbors play an important role (box 2.1). However, since conflicts or violent events often cause relationships with neighbors to deteriorate, FCS countries often reach the point at which trading becomes difficult and international markets disappear (figure 2.7).³

The following sector motivations can be identified for FCS entrepreneurs:

- **The opportunity to make high returns on investment through trading and provision of needed services.** For example, working in a low-investment, high-return sector, telecommunications providers have succeeded in even the most difficult environments (figure 2.8). According to the Enterprise Surveys, 93 percent of FCS entrepreneurs in Sub-Saharan Africa use mainly mobile phones for their operations, compared to only 12 percent of the non-FCS entrepreneurs in the Region. In addition, entrepreneurs often emerge to take advantage of new opportunities (boxes B.1 and B.2, examples of the Republic of South Sudan and the Republic of Yemen). Last, trading, easily transportable extractive industries, and basic food/agroindustry (such as soft drink manufactures) are typical sectors that thrive. Corporate social responsibility investments, although rarely significant, also can help. For example, Cisco’s investments in West Bank and Gaza began as part of its corporate social responsibility activities, but evolved on a low-key basis to a self-sustaining

Figure 2.6 Annual Export Revenue of FCS Firms in Sub-Saharan Africa Trade Primarily with Neighboring Countries

Percent

Source: World Bank Enterprise Surveys 2009–11, http://datacatalog.worldbank.org/datacatalog-offline.aspx. Note: FCS = fragile and conflict-affected situations. Results controlled for GDP per capita levels (appendix G). p-value (neighbors) = 0.237, p-value (developed) = 0.129, p-value (other) = 0.217 (appendix G).
Box 2.1 Trading in Niger

Maradi is the trading and agricultural hub of Niger’s Hausa region. This large Sahelian country is one of the poorest in the world, and Maradi is home to a large malnourished population. Maradi also is a major livestock center and hosts 1 of the 4 abattoirs in the country. Breeding in Maradi generates 20 percent of the wealth of the local population.

Hassane Bola is a butcher who operates on the outskirts of Maradi. His business is twofold. Primarily, he sells meat, offal, and hides to local consumers and businesses. Occasionally, he also sells live animals to a nearby border market. These animals then make their way to Nigeria, which does not import cut meat from Niger. Hassane is justifiably proud of the quality of his meat. “Our [Niger’s] meat is famous in the region,” he says. “Everyone who tastes it says it is excellent.” Hassane, who operates a midsize business by Nigerian standards and employs two other men, is considered a reasonably successful butcher. “In a good month, I earn enough to support my wife and daughter,” he says. Zeinab is his only daughter, and he is proud of her: she goes to school and can read. In a country in which the value of meat often is measured in bags of cereal grains, Hassane says, “I am not rich but, compared to my friends, fate has been kind to me. We have enough millet to eat.”

Hassane is a member of a butchers' association that works with Maradi’s abattoir. The association recently submitted a petition to the government requesting support for transporting their cattle across the border to Nigeria. “Right now, it takes so long, and the animals get tired. We use carts when we can, but the roads are not paved. Sometimes the authorities at the border also create problems,” explains Hassane. What is the solution? “Better roads, less red tape at the border. A nicer abattoir will also help convince Nigeria to buy our delicious cut meat. If we have proper veterinary services, our animals will be fatter and fall sick less often.”

Do local conflict and violence affect his business? By good fortune, not yet. “We are peace-loving people,” Hassane says, indicating his fellow butchers. “We ignore all the fighting that goes on. But one never knows when the tide will turn.” This uncertainty does not make him lose focus on what really matters to him: his livelihood. “My animals are my life. All I ask is a fair chance to keep my business running.”

Source: Author interview.

mainstream business (box 2.2). NGOs such as Fair Trade or Peace Dividend Trust support market connections.

• The vast majority of entrepreneurs stay in business because of a lack of alternatives. Business people often have no choice. At the household enterprise level, enterprises have little capital at risk and, at the same time, have kept their know-how, which easily can be re-established (box B.4 on Rwanda). Thus, there is simply no other way to earn a living. These circumstances often are reinforced by tradition—in which a particular tribe or caste has engaged in a particular trade for many generations (common in many agricultural value chains). In several war-affected countries, the role of household survival imperatives,
Figure 2.7 Conflicts in Sub-Saharan Africa Result in Sudden Drops in Manufactures’ Exports

a. Zimbabwe

- Mugabe’s repression and violence response to popular protests
- Growing land conflict
- “Operation murambatsvina”

b. Côte d’Ivoire

- France’s intervention to stop rebel groups
- Corrupt Bédié overthrown from his post
- Massive popular protests resulting from presidential elections

Figure continues next page
Figure 2.7 Conflicts in Sub-Saharan Africa Result in Sudden Drops in Manufactures’ Exports (continued)

c. Central African Republic

Coup attempt by former president Kolingba

Merchandise exports in Sub-Saharan Africa (% of total merchandise exports)

Manufacturers exports (% of merchandise exports)

1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009

Merchandise exports in Sub-Saharan Africa (% of total merchandise exports)

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010

d. Cameroon

Nigeria-Cameroon dispute over Bakassi Peninsula; nationwide transport strike at high fuel costs that turns into antigovernment demonstrations

Source: World Development Indicators, 1990–2010, World Bank.
Note: Blue = left-hand side axis; Orange = right-hand side axis.
Observations of FCS Firms, Sectors, and Business Environments

Figure 2.8 Mobile Telecommunications Thrive in Even the Most Difficult FCS Environments

Source: ITU Development Index.
Note: FCS = fragile and conflict-affected situations.

Box 2.2 Challenge of Rebuilding a Sector: Carpet Weaving in Afghanistan

The Afghan name is synonymous with hand-woven carpets. The tradition of carpet weaving dates back millennia. It is in part a function of the country’s location on one of the main “Silk Road” routes from China to the West (demand side). The tradition also is due to agricultural conditions well suited to the production of good-quality animal fibers and unique dyes from the orchard industry (supply side). At its peak, this industry employed as many as 6 million people. The carpets typically are woven at home, and 1 carpet trader could have as many as 10,000 “part-time” household-level suppliers.

Afghanistan’s sustained fragility and many events over many decades have severely disrupted its connection with markets for inputs and supplies. The result has been that some Afghan manufacturers have relocated to Pakistan, and some Pakistan entrepreneurs have established “Afghan” manufacturing businesses in Pakistan. This relocation has led to a breakdown in the Afghan brand. There are now three types of carpets on the market: Afghan carpets manufactured in Afghanistan (with Afghan and non-Afghan fibers), Afghan carpets manufactured in Pakistan using Afghan-sourced fibers, and Afghan carpets manufactured in Pakistan (and the Islamic Republic of Iran) using non-Afghan fibers. The Afghan carpets manufactured in Afghanistan often are traded by Pakistanis. To add “salt to the wound,” in Afghanistan itself, less expensive Iranian machine-made carpets are displacing hand-woven carpets. Therefore, it is estimated that today only 1 million Afghans work in the carpet-weaving industry.

box continues next page
Not surprisingly, within Afghanistan, there have been strong calls to reestablish the Afghan brand and thereby retain the significant value added being lost ($200–300 million per annum). However, these are not easy tasks. Key aspects of the technology (such as know-how and designs), manufacturing capabilities (washing and scissoring), and connections to the market no longer are in Afghanistan, and there is little incentive for them to return.

Rebuilding these capabilities will require sustained coordination between the public and private sectors and significant investment to rebuild the brand. Despite many good intentions, these actions have not yet been taken.

Source: Partly based on McCord (2007).

financial constraints, remittances (and their possible “disincentive effects”), and informal and criminal economies have been identified as important factors in determining entrepreneurship. However, exactly how these factors influence entrepreneurs remains inconclusive. For example, silk weavers or furniture manufacturers in the Swat Valley in Pakistan will continue to try to work in their profession no matter what happens (KP-FATA and others 2010).

**FCS General Business Environment**

The weakness of the institutional environment for enterprises in FCS has a major impact on the predictability of interactions with the government and other firms. Because their regulatory systems may have dissipated, FCS countries are characterized by having no effective regulatory systems. The Doing Business indicators show FCS countries scoring poorly on almost all the regulatory measure rankings (table 2.3).

Key “trust”-based relationships essential for public-private dialogue and commerce may have broken down. In general, social arrangements in FCS countries such as trust and clean government are absent. If a firm chose to move its operations from a non-FCS to an FCS area of Sub-Saharan Africa, corruption and/or political instability would become among its most severe obstacles (figure 2.9). By the same token, if a firm decided to start operations in an FCS country in Asia, informal competition would be a major obstacle to business. Finally extortive rent-seeking is the norm in FCS countries generally (figure 2.10). Informal payments/gifts frequently are required by officials for citizens to access basic infrastructure or to acquire essential business permits and licensing.

Despite widespread rent-seeking, entrepreneurs in FCS countries in SSA still do not perceive corruption as a primary obstacle to the general business environment. Instead, the primary obstacle reported is poor access to finance (figures 2.11 and 2.12). Specifically, formal financial services (such as the provision of loans or lines of credit, figure 2.11 and figure 2.12) may have become limited or even ceased; and strong informal systems (such as the Hawala system)
### Table 2.3 Weak Regulatory Systems in FCS Countries

| Fragile states                  | Ease of doing business | Starting a business | Dealing with construction permits | Registering property | Protecting investors | Enforcing contracts |
|--------------------------------|------------------------|---------------------|-----------------------------------|-----------------------|----------------------|---------------------|
| Afghanistan                    | 160                    | 30                  | 162                               | 172                   | 183                  | 161                 |
| Angola                         | 172                    | 167                 | 115                               | 129                   | 65                   | 181                 |
| Bosnia and Herzegovina         | 125                    | 162                 | 163                               | 100                   | 97                   | 125                 |
| Congo, Rep.                    | 181                    | 175                 | 103                               | 156                   | 155                  | 159                 |
| Eritrea                        | 180                    | 182                 | 138                               | 178                   | 111                  | 47                  |
| Kosovo                         | 117                    | 168                 | 171                               | 173                   | 174                  | 157                 |
| Sierra Leone                   | 141                    | 22                  | 167                               | 169                   | 29                   | 141                 |
| Timor-Leste                    | 168                    | 157                 | 114                               | 183                   | 133                  | 183                 |

| Non-fragile states             |                        |                     |                                   |                       |                      |                     |
|--------------------------------|------------------------|---------------------|-----------------------------------|-----------------------|----------------------|---------------------|
| Armenia                        | 55                     | 10                  | 57                                | 5                     | 97                   | 91                  |
| Belarus                        | 69                     | 9                   | 44                                | 4                     | 79                   | 14                  |
| Botswana                       | 54                     | 90                  | 132                               | 50                    | 46                   | 65                  |
| Estonia                        | 24                     | 44                  | 89                                | 13                    | 65                   | 29                  |
| Macedonia, FYR                 | 22                     | 6                   | 61                                | 49                    | 17                   | 60                  |
| Mauritius                      | 23                     | 15                  | 53                                | 67                    | 13                   | 61                  |
| Kyrgyz Republic                | 70                     | 17                  | 62                                | 17                    | 13                   | 48                  |
| Mongolia                       | 86                     | 97                  | 119                               | 26                    | 29                   | 33                  |

Source: World Bank Doing Business, http://www.doingbusiness.org/reports/global-reports/doing-business-2014 (accessed in April 2012).

Note: FCS = fragile and conflict-affected situations. Rankings of 183 economies (1=most business-friendly regulation).

![Figure 2.9 Unpredictability in Private Markets and Public Governance Commonplace in FCS Countries](image)

**Source:** World Bank Enterprise Surveys 2009–11.

**Note:** ECA = Europe and Central Asia; FCS = fragile conflict-affected states. See appendix G for technical details. Percentage of firms reporting “yes” on the biggest obstacle to business. Aspects in the figures (political instability, informal competition, corruption, and crime) used as proxies to unpredictability.
Enterprise Surveys show that complex application procedures and high collateral requirements share the responsibility for the inability of small entrepreneurs to acquire formal financing in the FCS countries of Sub-Saharan Africa and the ECA Region (figures 2.13 and 2.14). The cost of finance also can increase. The Arab Republic of Egypt provides a dramatic example: 50 percent of firms report increased financial costs after the revolution (World Bank 2011). Some sectors, such as tourism, can be hit particularly hard by violent conflict. For example, in Egypt, Pakistan, and Sri Lanka, the number of tourist arrivals declined substantially after conflict (UNWTO 2011).

Poor infrastructure elevates the cost of doing business in FCS countries. Frequent and/or long power outages and shortages in water supply are more common in FCS countries than in non-FCS countries (figure 2.15). Power services provided by the state prior to a violent conflict may have been destroyed and are no longer available. Kosovo is an extreme example in which a remarkable 97 percent of firms report experiencing power outages (figure 2.16). Moreover, 49 percent of FCS firms in Sub-Saharan Africa must rely on private, thus more
Observations of FCS Firms, Sectors, and Business Environments

The Small Entrepreneur in Fragile and Conflict-Affected Situations

expensive, power supply (figure 2.16). Finally, access to general-purpose technology, such as high-speed Internet connection, own website, or email, remains very limited in FCS countries. This fact also can explain the limited innovative activity and elevated costs of doing business in these countries (figure 2.17).

Security in FCS countries often has deteriorated to the point that, although enterprises survive, they must take extraordinary and sometimes informal measures. Losses in annual sales due to crime, theft, and disorder are commonplace in the FCS countries of Sub-Saharan Africa and the ECA Region (figure 2.18). Moreover, the state cannot uphold security; thus, every second entrepreneur must self-provide security.

Figure 2.11 Biggest Obstacle to Business Environment by Fragility

- a. Biggest obstacle to non-FCS firms
- b. Biggest obstacle to FCS firms

Source: World Bank Enterprise Surveys 2009–11.
Note: ECA = Europe and Central Asia; FCS = fragile and conflict-affected situations.
FCS enterprises face disruptions (permanent or temporary) in their product and factor markets. Demand in internal markets may have collapsed as a result of an abrupt disruption. In Sub-Saharan Africa, being fragile has had no statistically significant impact on sales either last year or three years ago (table 2.4). Nevertheless, firms in Egypt, especially small and medium size, reported significant temporary setbacks in sales and exports due to the recent revolution, which initially imposed a substantial shock to the economy (see box B.5 in appendix B).

Figure 2.19 shows 4 different scenarios of GDP growth recovery in FCS countries: before, during, and after a violent event (dashed line).

- During the Rwandan genocide in 1994, the country’s GDP growth collapsed by 32 percent but bounced back to higher than pre-conflict levels and has remained (on average) positive ever since (trend line).
- In Iraq, after the 2003 combat, GDP growth collapsed by 34 percent, bounced back to higher than pre-conflict levels, but then dropped again to even lower than pre-conflict levels. Since 2012, Iraq has not been able to reach its pre-invasion GDP growth levels.
- Similarly, the 2008 military conflict in Georgia sharply decreased the country’s GDP growth (by 10 percent), and the country has never regained its pre-conflict GDP growth levels. Instead, it has been steadily declining.
- Eritrea’s GDP growth simply oscillates due to repeated cycles of violence. On average, Eritrea’s GDP growth is steady over time (note the almost horizontal dashed trend line in figure 2.19).
Overall, disruptions in product markets caused by violent events may be either temporary or more permanent, depending on a country’s ability to recover. Across all FCS countries, recovery is uneven. Similarly, disruptions in factor markets in which workers or firms have been displaced are commonplace in FCS Regions (box 2.2).

Table 2.4 Temporary Disruptions in Sales in Sub-Saharan Africa due to Fragility

|                         | Dependent variable (log) | Clustered at country level |
|-------------------------|--------------------------|---------------------------|
|                         | (1)                      | (2)           | (3)                      | (4)                      |
|                         | Total sales (last year)  | Total sales (3 years ago)| Total sales (last year)  | Total sales (3 years ago)|
| Being fragile (d)       | −0.2515***               | −0.2429**     | −0.2515                  | −0.2429                  |
|                         | (0.102)                  | (0.129)       | (1.056)                  | (0.211)                  |
| Having more than 50% domestic ownership (d) | −0.7123***               | −0.7420***    | −0.7123                  | −0.7420***               |
|                         | (0.119)                  | (0.151)       | (0.446)                  | (0.312)                  |
| Small size (d)          | −1.1354***               | −1.0584***    | −1.1354                  | −1.0584***               |
|                         | (0.113)                  | (0.146)       | (0.489)                  | (0.327)                  |
| Size of locality−city (250,000−1mil population) (d) | 0.5934***               | −0.0063       | 0.5934                   | −0.0063                  |
|                         | (0.173)                  | (0.236)       | (0.497)                  | (0.723)                  |
| Using own website to communicate with clients/suppliers (d) | 0.7464***               | 0.9272***     | 0.7464**                 | 0.9272***                |
|                         | (0.137)                  | (0.177)       | (0.316)                  | (0.302)                  |
| Having paid for security (d) | −0.2438***               | −0.1471       | −0.2438                  | −0.1471                  |
|                         | (0.100)                  | (0.131)       | (0.500)                  | (0.408)                  |
| Dispose checking/savings account (d) | 0.6026***               | 0.5654***     | 0.6026                   | 0.5654                   |
|                         | (0.129)                  | (0.180)       | (0.429)                  | (0.548)                  |
| Dispose overdraft facility (d) | 1.4578***               | 1.8441***     | 1.4578**                 | 1.8441***                |
|                         | (0.108)                  | (0.138)       | (0.333)                  | (0.466)                  |
| Dispose line of credit/loan (d) | 0.0640                  | −0.3703**     | 0.0640                   | −0.3703                  |
|                         | (0.116)                  | (0.146)       | (0.336)                  | (0.265)                  |
| Dispose internationally recognized quality certification (d) | 0.5246***               | 0.3868**      | 0.5246                   | 0.3868                   |
|                         | (0.157)                  | (0.194)       | (0.373)                  | (0.422)                  |
| % of senior management’s time spent on gov. regulations | 0.0339***               | 0.0276***     | 0.0339**                 | 0.0276***                |
|                         | (0.002)                  | (0.003)       | (0.006)                  | (0.006)                  |
| Years of experience of Top Manager in the sector | 0.0047                  | 0.0368*       | 0.0047                   | 0.0368*                  |
|                         | (0.005)                  | (0.007)       | (0.016)                  | (0.010)                  |
| **Constant**           | 16.631***                | 15.946***     | 16.631***                | 15.946***                |
|                         | (0.209)                  | (0.269)       | (1.285)                  | (1.439)                  |
| R-squared               | 0.2492                   | 0.2561        | 0.252                    | 0.2601                   |
| Number of observations  | 3,198                    | 2,204         | 3,198                    | 2,204                    |

Source: World Bank Enterprise Surveys 2009–11, http://datacatalog.worldbank.org/datacatalog-offline.aspx.

Note: 1. Table outlines the results of two ordinary least square (OLS) regressions based on the WB’s Enterprise Surveys for Sub-Saharan Africa. The median weights (aw) were used in STATA to ensure that standard errors are calculated correctly. The dependent variable for model (1) is the natural logarithm of a continuous variable that indicates total annual sales of the establishment last year. The dependent variable for model (2) is the natural logarithm of a continuous variable that indicates total annual sales of the establishment three years ago. The explanatory variables are socio-demographic characteristics of the establishments (size, size of location, ownership, experience of top manager), economic indicators (cost of security), infrastructure indicators (access to finance, access to ICT), and regulatory indicators (time spent on dealing with regulations and quality certifications). To control for possible income differences, the average GDP per capita of the group of fragile states (US$517) included in the analysis is similar to the average GDP per capita of the group of non-fragile states (US$528) included in the analysis. GDP per capita is in 2000 constant USS prices (World Bank 2012). 2. Standard errors in parentheses. ***p < 0.01, **p < 0.05, *p < 0.1.
Observations of FCS Firms, Sectors, and Business Environments

Figure 2.13 Why FCS Firms Should Not Apply for Loans

a. FCS firms in ECA have no need for loans

b. FCS firms in SSA find interest rates unfavorable

c. FCS firms in Asia have no need for loans

Existing biases toward disadvantaged groups are exacerbated; as a result, these groups are affected disproportionately. Groups who already are struggling find it even more difficult to thrive in FCS situations. For example, women’s participation in production or business management processes in the FCS countries is more limited than in non-FCS countries (figure 2.20).

In a nutshell, despite all the aforementioned entrepreneurial challenges—changes in institutions, security, and product and factor markets—in many cases,
Figure 2.14  Credit Transactions Less Common in FCS Countries than in Non-FCS Countries in Sub-Saharan Africa

Source: World Bank Enterprise Surveys 2009–11.
Note: FCS = fragile and conflict-affected situations. Purchases of material inputs or services: p-value (before delivery) = 0.313, p-value (on delivery) = 0.021, p-value (after delivery) = 0.676. Sales of goods and services: p-value (before delivery) = 0.749, p-value (on delivery) = 0.078, p-value (after delivery) = 0.099 (for technical details see appendix G).

Figure 2.15  Longer or More Frequent Power/Water Shortages Common in FCS Countries (% of Firms that Experienced Power/Water Shortage the Past Year)

Source: Authors. World Bank Enterprise Surveys 2009–11, http://datacatalog.worldbank.org/datacatalog-offline.aspx.
Note: ECA = Europe and Central Asia; FCS = fragile and conflict-affected situations. Data points refer to average duration/length of the shortage (in hours). Power outages: p-value (Sub-Saharan Africa) = 0.921, p-value (ECA) = 0.044, p-value (Asia) = 0.056. Water shortages: p-value (Sub-Saharan Africa) = 0.496, p-value (ECA) = 0.000, p-value (Asia) = 0.000 (appendix G).
Figure 2.16  Power Supply Lacking or Very Expensive in FCS Countries

a. 97 percent of firms in Kosovo lack quality access to electricity

b. 73 percent of firms in FCS SSA rely on private power supply

Source: World Bank Enterprise Surveys 2009–11. Note: FCS = fragile and conflict-affected situations; SSA = Sub-Saharan Africa. p-value (sharing generators) = 0.011 (see appendix G for technical details).

Figure 2.17  Access to General Purpose Technology Worse in FCS than in Non-FCS Countries

Percent

Source: World Bank Enterprise Surveys 2009–11, http://datacatalog.worldbank.org/datacatalog-offline.aspx. Note: ECA = Europe and Central Asia; FCS = fragile and conflict-affected situations. For technical details, see appendix G.
Figure 2.18 FCS Enterprises in SSA and ECA Face High Losses due to Crime, Theft, and Disorder

Source: World Bank Enterprise Surveys 2009–11, http://datacatalog.worldbank.org/datacatalog-offline.aspx.

Note: ECA = Europe and Central Asia; FCS = fragile and conflict-affected situations. Annual sales paid for security: \( p \)-value (ECA) = 0.383, \( p \)-value Sub-Saharan Africa = 0.830, \( p \)-value (Asia) = 0.010. Annual sales lost due to crime: \( p \)-value (ECA) = 0.010, \( p \)-value (Sub-Saharan Africa) = 0.254, \( p \)-value (Asia) = 0.008 (appendix G).

Figure 2.19 FCS Firms in Four Countries Experience Disruptions in Their Product Markets with Uneven Recoveries

Source: The Small Entrepreneur in Fragile and Conflict-Affected Situations
http://dx.doi.org/10.1596/978-1-4648-0018-4
Observations of FCS Firms, Sectors, and Business Environments

Figure 2.19  FCS Firms in Four Countries Experience Disruptions in Their Product Markets with Uneven Recoveries (continued)

c. Georgia

[Graph showing percentage change in GDP (constant prices) over the years from 2002 to 2012 for Georgia.]

Source: IMF 2012.
Note: FCS = fragile and conflict-affected situations; GDP = gross domestic product. % change in GDP, constant prices; Dot = periods of disruptions; black = trend line.

d. Eritrea

[Graph showing percentage change in GDP (constant prices) over the years from 1997 to 2012 for Eritrea.]

Figure 2.20  Female Employment by Fragility

a. In FCS firms in ECA, women less likely to participate in production and management

[Bar chart showing average number of female employees for different roles in FCS and non-FCS firms.]

Source: World Bank Enterprise Surveys 2009–11.
Note: ECA = Europe and Central Asia; FCS = fragile and conflict-affected situations. p-value (other sectors) = 0.074, p-value (manufacturing-production) = 0.036, p-value (manufacturing-non-production) = 0.058, p-value (top manager) = 0.000, p-value (owner) = 0.340 (appendix G).
Observations of FCS Firms, Sectors, and Business Environments

The Small Entrepreneur in Fragile and Conflict-Affected Situations

existing enterprises have proved resilient, and new enterprises have emerged. These enterprises are either well-established *larger firms* with strong financial services (often partly offshore) that have secured highly attractive market positions (key agro-industries, trading, and services roles); or entrepreneurs who effectively *have no choice* in an environment in which household survival imperatives, financial constraints, remittances (and their possible “disincentive effects”), and informal and criminal economies have been important in determining their behavior.

**Figure 2.20 Female Employment by Fragility (continued)**

b. In FCS firms of Sub-Saharan Africa, women more likely to be principal owners

c. In Asian FCS firms, women less likely to be top managers or principal owners

Source: World Bank Enterprise Surveys 2009–11.

Note: FCS = fragile and conflict-affected situations. p-value (other sectors) = 0.132, p-value (manufacturing-production) = 0.079, p-value (manufacturing-non-production) = 0.277, p-value (top manager) = 0.091, p-value (owner) = 0.000 (appendix G).
Notes

1. Other Regions were excluded due to data limitations or inconsistency. In particular, regarding Enterprise Surveys (“surveys” hereafter) of countries in Central and Latin America as well as in the Middle East and North Africa, the team either was unable to match the time periods of the surveys conducted in FCS and non-FCS countries, or surveys for specific countries of interest were nonexistent. Therefore, any analysis of these surveys conducted for this report would not be accurate due to data-time inconsistency. Furthermore, many surveys of the countries in Asia selected for the analysis do not have exactly the same questions on topics such as innovation as the questions in the surveys of Sub-Saharan Africa and the ECA Region. Finally, the majority of firms in Asia selected for the analysis often chose not to reply to specific questions such as the frequency of informal payments to “get things done.” Thus, the results for the Region frequently are missing from the visual presentations in this report. Drawing overall conclusions would be difficult due to the large number of missing values.

2. Comparisons are made within the pool of countries created specifically for our analysis, not the entire universe.

3. In some countries, such as Zimbabwe, during or after a violent event, the merchandise exports to neighbors move in tandem with declining manufacturing exports. In other countries, including Cameroon, the Central African Republic, and Côte d’Ivoire, the decline in merchandise exports to neighbors usually follows a sharp contraction in manufacturers’ exports.

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CHAPTER 3

Implications of Findings

The findings have implications for (a) program design of private sector development (PSD) interventions in fragile and conflict-affected situations (FCS), and (b) Bank Group interventions in particular. The findings also uncover opportunities to improve operational processes and collaboration.

Program Design

Not surprisingly, a typical private sector program in FCS countries generally contains interventions similar to those in non-FCS countries that aim at encouraging investment and getting markets to work better and more competitively. Typically, the program includes interventions that (a) address public-private coordination failures, (b) encourage innovation and entrepreneurship, (c) resolve market failures in the provision of public goods, (d) provide a generally predictable business environment, and (e) encourage demand. The Afghanistan Road Map is illustrative (box 3.1). It has most of these interventions with the exception of efforts to encourage demand, in a context in which donors already had made strong efforts to involve local contractors in providing construction and facilities management services.

However, based on our empirical findings, the intervention in FCS to develop further the private sector and support entrepreneurship in cycles of violence needs to be tailored.

Interventions that Address Public-Private Coordination Failures

Successful interventions in public-private coordination are predicated on an effective public-private dialogue (PPD) at both the overall economy and sector levels (box 3.2). Although formal PPD mechanisms can improve coordination, for these systems to be fully effective, there are certain important requirements. They include (a) the existence of a strong public sector combined with political will and leadership; (b) a well-organized and -led private sector that does not fear governmental retribution for speaking out; (c) a “highly visible” champion that can attract the attention of participants and media; and (d) instruments to make...
Box 3.1 Afghanistan Road Map for Improving the Business Enabling Environment

Addressing Public-Private Coordination Failures

• Instill an active practice of social responsibility and philanthropy that leads to the institutionalization of private (business and individual) support for economic and social development through civil society.

• Establish a framework to strengthen the governance and operations of civil society organizations (CSOs) to enhance their contributions to social and economic development in Afghanistan through, among other measures, revising and clarifying laws governing civil society as well as establishing independent certification bodies for CSOs.

• Establish mechanisms to oversee the implementation of measures to create an enabling environment, initially focusing on the 2007 Enabling Environment Conference recommendations.

• Establish programs (both private- and public-led) to build capacity to alleviate the binding capacity constraints facing the private and public sectors.

Encouraging Innovation and Entrepreneurship

• Strengthen the financial sector to increase access to credit and financial services, paying special attention to alleviating capacity constraints.

Resolve Market Failures in the Provision of Public Goods

• Implement measures to facilitate access to land by clarifying property rights, simplifying procedures for the transfer of titles, and allowing for longer term leases.

• Involve the private sector in the provision of public services through public-private partnerships (PPPs) and other modalities in areas such as power generation and distribution, water supply, transportation infrastructure, and social development.

Provide a Generally Predictable Business Environment

• Build the structures, systems, and capacity of mediation and arbitration tribunals to ensure the efficient, effective, and impartial resolution of disputes.

• Enact and implement key laws and amendments to establish the basic legal and regulatory framework that will encourage private sector involvement in social and economic development in Afghanistan. The laws and regulations should (a) be clearly specified and transparent; (b) be further streamlined to include only the minimum necessary steps, bureaucratic processes, and institutions; (c) reduce discretionary decisionmaking; and (d) be predictably, consistently, competently, and impartially applied.

Source: Private Sector Enabling Council 2007.

Note: Effective Private Sector Contribution to Development in Afghanistan Conference Statement and Road Map. Kabul, Afghanistan, June 5, 2007 (Private Sector Enabling Council 2007).
Implications of Findings

37

The Small Entrepreneur in Fragile and Conflict-Affected Situations

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coordination happen: seed funding, and logistical and personnel support. Meeting these conditions in fragile countries will be very difficult and will require extraordinary leadership and support (box 3.3). Nevertheless, there are critical success factors for two specific interventions that can make meaningful differences to fragile states:

1. Encouragement of competitive industries.
2. Establishment of development corridors and/or economic zones, and last, the facilitation of local economic development.

Box 3.2 Public-Private Dialogue in Investment Climate Interventions

Public-private dialogue (PPD) has proven an important mechanism in World Bank interventions to improve national and Regional investment climates in client countries. In particular, PPD provides a mechanism between the private sector and political parties in government to encourage a national discussion focused on the reforms needed to generate new investments and jobs.

In 2009 the monitoring and evaluation (M&E) review of 30 World Bank Group (WBG)-sponsored PPDs found that they had been an effective instrument of choice to prioritize and promote reforms in International Development Agency (IDA) and post-conflict countries, both top WBG priorities.

In 2011 an additional review of investment climate programs in 16 countries was undertaken to catalog and assess alternative approaches to investment climate and private sector development (PSD) in fragile and conflicted-affected states. The review found that interventions were successful in implementing its investment climate projects, based on the necessity for “quick wins” and reaching important results established at the project design stage. According to lessons learned and staff interviews, quick wins with regulatory reforms are important both for the client government to restore confidence to country constituents and for the WBG team to establish credibility and win support for follow-on work in future. Across all country groups, PPDs have worked well as entry strategy programs to discuss regulatory reforms in progress and to create dialogue on additional reforms. In fact, the PPDs have been essential to the reforms’ success.

A post-completion evaluation of the Nepal Business Forum Phase I (NBF) undertaken by the Independent Evaluation Group (IEG) further confirms the usefulness of a PPD in a conflict-affected state. IEG found appropriate the objective to promote PPD around private sector reforms in the context of a country’s struggle to establish democracy. Under this project, the PPD objectives have been broadly met. In addition, by August 2012, during the second phase of this project, over 41 recommendations of 120 coming from the PPD had been implemented. Two of these reforms have delivered US$5.67 m in private sector cost savings, notably in an environment of significant political turmoil and formerly little public-private or even private-private dialogue.

Source: Excerpted and edited from Goldberg 2011.
At the sector level, in most FCS countries, opportunities for engagement exist in the extractive sectors and sectors in which the country already has existing capabilities. Therefore, the industries in FCS countries often are resource based, including agriculture, fishing, forestry, and mining. A quick tour of FCS countries in Sub-Saharan Africa shows that Cameroon has strong forestry potential; Guinea has huge mineral deposits; Guinea-Bissau grows some of the best cashew nuts in the world; Rwanda has tea (box 3.4); and Somalia has underdeveloped fisheries. Sometimes, the industries are service based, such as tourism. If peace is established, construction and logistics are additional typical examples. However, industries also can be labor cost based, as in Haiti. Therefore, cross-sectoral projects between finance and PSD and rural development or human development (especially for education and health services) would be an effective approach to PSD in FCS countries.

A sharp focus on these sectors that have underlying competitive advantages can provide quick returns. In Haiti in 2011, providing just-in-time production of ready-made garments using the low-cost labor advantage was identified as a market niche. After the earthquake, the government immediately focused—with the support of the donor community—on rehabilitating and developing industrial
Box 3.4 Reforming Rwanda’s Tea Sector

Tea was 1 of the 2 main export crops in Rwanda, contributing 30–40 percent of total exports at the turn of the millennium, when the country was classified as a fragile state. Tea also was one of the few crops that provided regular cash income to farmers. There were 10 tea factories in Rwanda, 9 of which were owned and managed by the state through OCIR-Thé. At that time, yields of the tea estates were low and costs high; the price levels were too low to attract growers to increase production; and the industry lacked factory capacity to process increases in tea production. The government was committed to the liberalization of the industry and privatization of state-owned assets. To these ends, the government prepared and adopted a strategy that addressed three main actions. They were (1) the participation of nationals and key stakeholders (cooperatives, small-holders, factory employees) in the ownership of tea factories and estates through privatization; (2) accompanying measures, including the empowerment of farmers to take over management of all commercial and technical activities that were under the responsibility of the government-owned tea body; and (3) the establishment of an independent Tea Board.

The twin foci of the reforms were to complete the privatization of the tea factories and to establish the independent Tea Board. These reforms succeeded. The Tea Board was created. It later was incorporated under the National Agricultural Export Development Board (NAEB), and 7 of the 9 tea factories and estates were privatized. The selling price of tea per kg increased from US$1.49 in 2001 to US$2.59 in 2010—a 70 percent increase. The earnings from tea exports increased from US$22.71 million in 2001 to US$44.95 million in 2008, and to US$55.71 million in 2010—an overall increase of 250 percent in 9 years.

Source: World Bank 2012b.

[Box 3.4 Reforming Rwanda’s Tea Sector]

space to maintain and expand this opportunity. However, some industries, particularly large-scale mining, may take longer to develop. The time lapse from the initial geophysical survey to production could be a decade. The detailed geological analyses, building the necessary transportation (often rail), and developing a mine all are time-consuming activities. It is in this area of efficient use of time that the notion of competitive industries and development corridors can be combined by using a cross-sectoral approach to design an effective intervention that provides quick returns.

Moreover, strengthening competitive industries typically begins with the identification of the constraints to development. As suggested, strengthening is best done in a consultative mode. There must be buy-in from both the public and the private sectors. Typically, the consultation process will identify three broad groups of sector-specific constraints that are over and above general enabling environment concerns. These sector-specific constraints can be regulatory, technology, or capacity related, such as a public market or a cool store.

Spatial approaches, such as enclave economies created through foreign investment or development corridors, are a common intervention in FCS states.
Implications of Findings

The Small Entrepreneur in Fragile and Conflict-Affected Situations

In Sub-Saharan Africa, virtually every FCS has looked at encouraging some kind of spatial development such as a growth pole, development corridor, or special economic zone (SEZ) to reap the benefits of agglomeration and clustering. These advantages are common infrastructure and accessibility to transportation systems, chain suppliers, knowledge and technology, and production inputs. The idea is that, in limited-capacity contexts, a management and investment focus has the best prospects for meaningful results.

**Interventions that Encourage Entrepreneurship and Innovation at the Firm Level**

As was shown above, **FCS firms tend not to be particularly innovative and competitive**. Thus, many PSD interventions aim to address this weakness. In many FCS, a common intervention is to support business development services. This support typically involves upgrading firms’ managerial capabilities (such as accounting and governance), production skills (on-the-job training), systems (quality standards), and market connectivity (market development support). When this support works, the pay-offs can be very high (box 3.5).

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**Box 3.5 West Bank and Gaza Facility for New Market Development and Gaza Back-to-Work Programs**

The West Bank and Gaza Facility for New Market Development (FNMD) ($2.5 million) is a combined matching grant and challenge fund program that supports business development services for established funds and start-ups. Initiated in 2008 this program is jointly coordinated by the World Bank and Department for International Development (DFID). It was modeled on successful programs implemented in Mauritius and Tunisia.

Results in the West Bank and Gaza to date are impressive. A total of 560 firms was planned to be supported; 603 actually were. An increase of exports of 40 percent was planned; exporters actually recorded an increase of 52 percent, creating remarkable success stories of new market entry. The volume of incremental sales reached US$100 million, exceeding the target of US$75 million. These sales figures do not take account of the 132 firms that could not yet report sales figures attributable to FNMD support due to the lag between the delivery of support and effects taking place. These firms improved products, obtained quality certification, and developed new products. In a recent initiative, the facility also operates a challenge fund for start-ups and has supported 11 firms so far.

The Gaza Back-to-Work Program ($7.5 million) was designed by DFID and initiated in 2010 as an emergency response to assist firms whose operations had been severely disrupted. This matching grant program provides working capital for firms to rehire staff and repair equipment. The program has supported 219 firms, and an additional 1,700 staff have been hired (directly and indirectly). To date, 183 of the supported firms have reported increased sales and total new investment in excess of $10 m.

*Source*: TripleLine Consulting (Siegfried Jenders) 2012.
Many firms struggle to start up due to key factor markets such as finance—oftentimes due to banks’ reservations about providing loans or lines of credit to clients with a high perceived risk. Again, whether support to microfinance institutions or small and medium-size enterprise (SME) financing, these are common areas of intervention. What is less common but, in some cases, more critical is the provision of equity. A recent project in Lebanon illustrates one approach (box 3.6).

### Box 3.6 Lebanon Innovation and SME Growth Project

The Government of Lebanon has requested support from the World Bank to develop a project to promote innovation, competitiveness, and growth of private sector firms. The proposed project will consist of a funding facility that will provide two types of funding. The process will engage private sector investors, including national, regional, and international venture capital funds; and industry experts and entrepreneurs from among the diaspora. The activities are detailed below.

1. **Development Grant** (approximately US$15,000 each)
   Potential entrepreneurs with new business ideas will be invited to apply for a small grant to help them develop their innovative concepts. The grants will fund collecting evidence and building a case for external investment in their businesses, along with assessing the key areas of risk. The outcomes will be an improvement in the ability of potential entrepreneurs to demonstrate the value of their proposed business ideas, and to convert the idea into businesses ready for investment. The grants will be provided in 2 phases: (a) a small grant of up to $5,000 during the first phase will enable the entrepreneur to begin working on a proof of concept; and (b) a larger second phase grant of up to $10,000 will enable the entrepreneur to work closely with venture capitalists (VCs) to prepare the enterprise for possible early stage.

2. **Equity Investment** (up to US$1,500,000)
   Potential entrepreneurs, both those who are in the stages covered by the development grant above and others who seek growth financing, will be encouraged to meet with VCs. These meetings will ensure that the evidence that the entrepreneurs have assembled, or their business plans, will address the investors’ information needs and will truly demonstrate that the entrepreneur is investment ready. To qualify for the equity investment financing, the entrepreneur first must have approached a potential investor with the completed business plan and received from the investor a commitment to invest in the new venture. Having acquired this commitment, the venture investor or the entrepreneur then can approach the project funding facility to seek a matching investment that will share the initial venture fund’s risk, and add to the capital available to the new business.

The scheme relies on the efforts of partner VC funds both to identify and promote new business projects and to provide the active mentoring and professional inputs that characterize truly effective VC participation in successful investments. For these reasons, VCs will be screened in advance to ensure that they enjoy a reputation of active participation and have a proven track record of mentoring and support.

*Source:* [http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Investment_Funds_SME_Innovation_in_Lebanon.pdf](http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Investment_Funds_SME_Innovation_in_Lebanon.pdf)
Implications of Findings

The Small Entrepreneur in Fragile and Conflict-Affected Situations

Special measures sometimes are required to target key groups such as women, youth, and ex-combatants. When compared with the overall private sector, disadvantaged groups often suffer disproportionately regarding employment and employment benefits. Thus, extraordinary measures often are required. These can be a mix of (a) targeting with strong monitoring and evaluation (M&E) within overall PSD programs, or (b) specific programs targeted at these groups for which they are the sole beneficiaries. These programs can be implemented through government agencies, donors, or nongovernmental organizations (NGOs). A typical example is the ILO’s Training for Rural Economic Empowerment (TREE) program (box 3.7), which easily can be focused on any particular target.

Interventions that Resolve Market Failures

PPPs can mitigate inefficient markets in FCS countries. The inefficiency of FCS markets typically results from (a) regulatory systems that obstruct rather than support market efficiency; (b) lack of critical public goods, such as roads; and (c) limited availability of serviced industrial land for purchase or lease. There can be too much regulation, not enough, and/or a failure to implement. In such situations, the public-private partnership (PPP) serves as the short-term vehicle to deliver essential infrastructure and services, rehabilitate hard-hit industries and businesses, and mitigate entrepreneurs’ lack of trust and risk-aversion (box 3.8, example on PPPs in Somalia).

Box 3.7 ILO’s TREE Program

The International Labour Organization’s (ILO’s) Training for Rural Economic Empowerment (TREE) Program is a proven platform that assists workers in largely informal economies to build the skills and abilities they need to generate additional income. Tested under recent technical cooperation projects in Bangladesh, Burkina Faso, Madagascar, Niger, Pakistan, the Philippines, and Sri Lanka, TREE builds on ILO’s long experience in promoting community-based training worldwide.

A TREE program starts with institutional arrangements and planning among partner organizations at the national and local levels. The program aims to systematically identify employment- and income-generating opportunities at the community level; design and deliver appropriate training programs employing local public and private training providers; and provide the necessary post-training support, for example, facilitating access to markets and credit.

By linking training directly to community-determined economic opportunities, TREE programs ensure that the skills delivered are relevant. In communities in which formal training institutions do not exist, for example, remote rural locations, arrangements for mobile training may bring in teachers and equipment to identify the appropriate levels of training, design curricula, and deliver training locally. Programs such as TREE’s can strengthen training delivery by formal institutions through developing new training programs that meet local demands.

Source: www.ilo.org/skills/projects/WCMS_103528/lang–en/index.htm.
Interventions that Support the General Predictability of the Business Environment

Survey after survey identifies predictability factors as the biggest constraints to doing business in FCS. These factors include (a) managers’ perceptions of political uncertainty; (b) general governance environment, particularly regarding corruption; (c) randomness of implementing rules and unreliability of judicial systems; (d) security; (e) ensuring basic macroeconomic stability for trade and fiscal and monetary parameters; and (f) access to electricity. These matters largely are beyond the scope of typical PSD interventions. Nevertheless, a private-sector-focused intervention is possible in three of these areas: (a) providing investor guarantees, (b) developing alternate dispute resolution (ADR) systems, and (c) using public-private dialogue (PPD) mechanisms to manage predictability and other issues (box 3.9).

As in the case of the Arab Republic of Egypt (box B.5), demand often can be a constraining factor. If the demand for products is not there, businesses simply will not invest. Five areas of intervention can address demand challenges: (a) trade preferences, (b) encouragement of competitive industries, (c) development of linkages of local demand with commodities and

Box 3.8 Public-Private Partnerships in Somalia

The Sustainable Employment and Economic Development (SEED) program was inaugurated in late 2010 as a flagship project to improve economic and employment prospects for youth and women in Somalia. The UKAID-funded program brings together FAO-Somalia, UNDP-Somalia, ILO-Somalia, and Save the Children as implementing partners. The goal of the program is to improve stability in Somalia through economic growth and sustainable employment. All of these are to be achieved by developing markets and creating employment with accompanying skills training focusing on agriculture, livestock, fisheries, and fodder and honey production in Somaliland, Puntland, and south-central regions of Somalia. The program also works toward improving the investment climate and supporting strengthening the regulatory framework to enhance economic growth in the three regions (DFID 2010).

Program interventions entailed infrastructure development along the livestock and fisheries value chain. This included the rehabilitation of the meat market in Borama, Somaliland; rehabilitation of the livestock market in Hargeisa, Somaliland; construction of a slaughterhouse in Burco, Somaliland; and rehabilitation of a fish market in Garowe, Puntland. Stakeholders including regional administrations, local authorities, and associations within the value chain show concern for the fact that there are challenges related to governance by stakeholders. It is generally agreed that the said infrastructure projects should be managed through public-private partnership (PPP). A PPP is viewed as a means through which local authorities can improve revenue collection and the private sector can realize profitability, while ensuring effective delivery of services to value chain actors and the general public.

Sources: DFID 2010; Mangéni and Nyawira 2012.
local sourcing of aid (construction, logistics, facilities management), and (d) encouraging and supporting remittance flows.

**Trade preferences often are offered to FCS by donor countries.** These preferences can take many forms (box 3.10). Some decades ago, as part of a peace process, the United States created a Qualified Industrial Zone program in which new investments in the textile sector in the Arab Republic of Egypt and Jordan that had Israeli partners qualified for preferential entry of goods into the United States. Encouraging industries that are truly competitive can help both through substituting for imported products that, in non-FCS circumstances, would be produced locally; and through increasing exports. As a result of high transport costs relative to its value, cement is a typical example of import substitution. To quote from a USAID report on the Iraq cement industry: “The domestic demand for cement has risen with the rehabilitation of the country. However, the domestic supply has not kept pace with the increases in demand and the price of cement has therefore been elastic with prices in 2003 quoted at US$20 per ton and reportedly rising to US$120.00 per ton in 2005” (USAID 2007).

Encouraging export industries is more challenging. Trying to identify industries that can export occupies much of policy makers’ time. A good example is Guinea-Bissau’s cashew nut sector, which has tremendous potential to increase export sales by increasing value added in the country (box 3.11).
Box 3.10 EU’s Trade Preferences to Western Balkans

In 2000 the European Union (EU) granted autonomous trade preferences to all the Western Balkans. Renewed in 2005, and subsequently in 2011 through 2015, these preferences allow nearly all of the region’s exports to enter the EU without customs duties or limits on quantities. Only wine, baby beef, and certain fisheries products enter the EU under preferential tariff quotas.

This preferential regime has contributed to an increase in the Western Balkans’ exports to the EU. In 2010 the EU was the region’s largest trading partner for both imports (61 percent) and exports (65 percent).

The EU strongly supports the Western Balkans’ membership in the World Trade Organization (WTO). Albania (2000), Croatia (2000), the former Yugoslav Republic of Macedonia (2003), and Montenegro (2011) already are members. The WTO accession negotiations with Bosnia and Herzegovina and Serbia are ongoing.

Source: European Commission 2013.

Box 3.11 Guinea-Bissau Cashew Nuts

The cashew sector is critical to Guinea-Bissau’s economic growth and poverty alleviation. Agriculture is the dominant sector of the economy (contributing approximately 50 percent of total GDP), and cashew is the country’s most important agricultural product. It is grown by close to 55 percent of all agricultural households (mostly smallholders) and equals approximately one-third of the sector’s total output. Cashew is responsible for more than 90 percent of the country’s exports and offers employment, directly or indirectly, to more than two-thirds of the population. Cashew is by far the main source of revenue for agricultural households, which are the poorest in the country. The rural poverty level is close to 80 percent. Therefore, the development of the cashew sector directly benefits the majority of the population. Achieving economic and social development in Guinea-Bissau would be very difficult without a flourishing cashew sector.

Despite negligible state support, the development of Guinea-Bissau’s cashew sector has been remarkable. Cashew production increased from 30,000 tons in the early 1990s to 180,000 tons in 2011. Guinea-Bissau is the world’s fifth largest producer of cashew, following India, Côte d’Ivoire, Vietnam, and Brazil. Guinea-Bissau’s nuts are considered of relatively high quality. This quality has been achieved despite minimal government support and severe constraints in the institutional and business environment. Approximately 50 percent of the trees are fewer than 10 years old, so have not yet reached their peak production period. Thus, output will continue to expand and be a major source of growth for the foreseeable future.

On the other hand, the sector also faces serious challenges that should be addressed immediately. Plantations are established primarily with low-productivity planting material. Moreover, due to the absence of research programs and appropriate extension services since

The Small Entrepreneur in Fragile and Conflict-Affected Situations
http://dx.doi.org/10.1596/978-1-4648-0018-4
Box 3.11 Guinea-Bissau Cashew Nuts (continued)

the mid-1990s, agricultural practices are poor. There is little or no thinning or pruning of trees and no treatment against pests and diseases. Although yields appear relatively acceptable at 500–600 kg/ha, comparable to yields in India and Brazil, Guinea-Bissau yields can be significantly improved, thus freeing both land and labor and allowing for diversification of the country’s agricultural base. Harvest and post-harvest techniques also are inadequate. They are characterized by premature harvesting and inadequate drying, handling, and storing, which cause losses in quantity and quality of nuts.

Promoting processing of cashew can have major economic and social impacts. Currently, almost all of Guinea-Bissau’s cashew crop is exported as raw nuts, mainly to India and Vietnam. There is a small installed processing capacity for the production of cashew kernel (some 25,000 tons, or approximately 13 percent of total production). However, due to the low competitiveness of the domestic processing industry, all facilities currently are idle (a mere 60 tons were exported as kernel in 2010). By exporting only raw nuts, Guinea-Bissau (a) is putting itself in a position of dependence vis-à-vis its two main buyers, India and Vietnam and (b) is depriving itself of the value added and jobs created by the processing industry. Processing creates approximately 1 fulltime job for every 3 tons of processed raw nuts. Thus, processing 60,000 tons of nuts would create approximately 20,000 jobs, primarily in rural areas. Breaking this dependence will require the development of local processing and direct access to consumer countries.

Source: World Bank 2012a.

Encouraging SME linkages to donor aid and FCS exports of agricultural or mineral commodities is another area of opportunity. For both commodity exports and donor procurement, certain inputs could be provided locally but, largely for reasons of local capacity, are not. FCS programs need to work with both the demand and the supply sides. The programs could include demand-side efforts such as encouraging donors and firms to design procurements to enable local firms to participate on their own or in partnership. On the supply side, the programs could emphasize building capacities to enable local firms to participate (box 3.12).

Finally, in many FCS countries, remittances are the main source of income and therefore play an important role in domestic demand. Policies that encourage and support remittances flows, such as more efficient payments systems and assisting emigrant workers with visas and marketable skills, can significantly increase the otherwise suppressed local demand and, thus, the willingness of investors to do business.

Interventions that Encourage Investment

Although the question of investment promotion is the topic of a separate investigation, two areas of investment in the FCS countries require comment: diaspora and collective investment. In addition to traditional FDI, diaspora-based
Box 3.12 Capacity Building for Employment in the Construction Sector

Well-designed and well-implemented, labor-based infrastructure programs offer specific advantages to the social partners (governments, employers, and workers) in developing countries: access to public markets, increased employment, and better returns to investment. Moreover, these programs provide a good opportunity to each of these partners to incorporate social policy objectives in infrastructure investment policies. Such programs also offer better prospects for small entrepreneurs to establish themselves in the domestic market for civil works. In most developing countries, this market so far has been dominated by large-scale and non-local firms. Finally, such programs are attractive to donors and governments alike because they respond to employment and poverty objectives, increase incomes and standards of living in rural and urban areas, reduce foreign exchange requirements, and strengthen the domestic construction sector.

Source: http://www.ilo.org/public/english/employment/recon/eiip/download/green_guide.pdf.

Investment is common to encourage investment activity in FCS countries. This investment can be either fully foreign, or, more commonly, in partnership with local friends and family. Enabling measures that can support these types of investments are an important consideration in the program design. Collective investment in the form of investment funds remains rare. Nevertheless, the prospects for such investment should form part of the development of any PSD program.

World Bank Group Interventions

Any FCS government is unlikely to have the capacity to manage and resource a program of this complexity and magnitude. Therefore, focus from the World Bank Group is required. Focus will be a function of a number of variables including the government’s capacity; quality of governance; business environment; general capabilities, of which labor is the most important; and specific opportunities that exist for growth.

- Regarding how programs should be designed, a 2012 detailed study of the Bank’s investment climate interventions in FCS countries in Sub-Saharan Africa identified three key success factors for a Bank Group intervention (Leo, Ramachandran, and Thuotte 2012). The study found that when these three factors were aligned, the Bank’s interventions tended to achieve their purposes. These success factors (a) address the most severe growth constraints identified by businesses, (b) match government priorities, and (c) target areas in which the Bank has proven track records. These findings are applicable in all FCS situations.
A review of World Bank Group (WBG) projects reveals an additional set of six lessons regarding design. These lessons include the necessity for stronger Bank Group coordination, flexibility, the necessity to augment government capacity through strong supervision, use of third parties (NGOs and UN agencies), Bank Group execution, and the need to finance unconventional programs.

FCS projects in particular experience strong benefits from close coordination across the World Bank Group. These benefits range from the operational realities of a small on-the-ground presence to the differing modalities of how the agencies within the World Bank Group function. International Finance Corporation (IFC) advisory staff themselves tend to execute the work, whereas the Bank's projects are, with the odd exception, executed by the recipients. These varying modalities allow for strong IFC technical assistance in partnership with Bank operations, which also can finance hard assets, such as information systems, that IFC cannot finance easily.

Flexibility in design is important. Recovery is very difficult to predict. The recovery pattern is very uneven (figure 2.19 in chapter 2). The realities of on-the-ground security are ever changing. The willingness of market participants to provide services is variable, and counterparts can change quickly.

Uniformly weak FCS government capacity makes the traditional project cycle very difficult to implement. This problem is common whether the project involves infrastructure or social service delivery. However, there is a particular problem with the private sector for three reasons. First, counterparts often are not clearly defined, and multiple agencies are involved. Second, much of the work is technical assistance (TA) and therefore differs from the more standard works-type contracts with which most counterparts are familiar. Third, in many cases, the notion of private sector support is neither clear nor well understood, so there is a lack of trust between the public and private sectors.

Project implementation models that allow for more WBG execution of projects can help. Simple and straightforward components can be executed by the government while the Bank executes the more complex areas. In this regard, the Bank can use NGOs and UN agencies to help implement.

Necessary interventions often take the Bank outside its comfort zone. This point is well established by the comment on Timor-Leste (box 3.13). Examples of such necessary, but somewhat controversial, interventions include matching grants that support rehabilitation of destroyed assets in Gaza, grant programs that provide subsidized equity as in Lebanon or the provision of generators to the private sector in Kosovo.
Box 3.13 Timor-Leste: A Reflection

At the outset of the engagement in 2000, the World Bank Group (WBG) recognized that, in the short term, the public sector had the larger role to play in generating growth and creating jobs. However, in the longer term, the WBG saw the private sector as the engine for growth and employment. This latter assumption, which is reasonable for many economies, should have called for going beyond the standard Doing Business approach to identify and address what really was needed to create a flourishing private sector in an FCS country such as Timor-Leste. Given the absence of an entrepreneurial tradition and skills, the lack of any obvious areas of comparative advantage, the small agriculture-based subsistence economy, and the total destruction of all nonagricultural production facilities in 1999 during the conflict, much more than the right legal environment was necessary to bolster the meager private sector to become the engine of growth. Moreover, it was not clear from the WBG’s documents from whence nor how fast the private sector growth would come. Also not clear was how important the nonpetroleum private sector activity ever could be relative to the public sector, which over time would benefit from huge petroleum revenues.

The Bank’s private sector strategy might have been more realistic and more credible if, instead of looking solely at overall business regulatory reforms, it had addressed the above questions upfront and focused on identifying and removing binding constraints in specific areas in which the private sector could have a future, such as agribusiness and tourism.

Source: World Bank 2011.

Note

1. An example is Sri Lanka’s tourism sector, which has doubled in a few years. Given the country’s remarkable touristic endowments, there is no reason that this growth would not continue (Sri Lanka Tourism Development Authority http://www.sltda.gov.lk/index.html).

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Conclusions and Recommendations

Conclusions
In the course of this investigation, the following key points emerged:

• From a private sector perspective, the list of challenges and constraints at first often is overwhelming.
• Unexploited private sector opportunities often coexist with even the direst circumstance.
• Unfortunately, in most fragile and conflict-affected situations (FCS), the private sector is too small to make an immediate difference (box 4.1). Therefore, in most FCS, a private sector program needs to work in close harmony with public sector solutions.

Recommendations
The Bank has substantial room to improve its private sector performance to support of FCS through better designed operations, stronger coordination, and more pragmatic implementation (table 4.1). These would take into account:

• The difference in timing of the conflict cycle (that is, continued fragility vs. periods immediately after political settlement, peace agreement, or other action that reduces violence). The heightened weakness and urgency of post-crisis areas call for immediate, small-scale, and more flexible interventions versus the more traditional approach applied throughout the cycle following the post-conflict period.
• The link between constant data review and continuous information flow (analytics) and innovative intervention (operations).
Box 4.1 How Much Growth Does It Take to Generate Jobs?

Even with the most supportive and favorable of policy environments, it can take a decade or more of stellar growth (10 percent + per annum) before the private sector will be of sufficient size to generate the needed jobs. The Khyber Pashtunkhwa and Federally Administered Territories Post-Crisis Needs Assessment (KP-FATA PCNA) determined the resources required to generate a sufficient number of private sector jobs to bring employment to a level at which peace could be sustained. This annual level of growth was calculated at 15 percent. However, no other country in the history of the world had achieved these heady heights in 10 years.

Source: World Bank 2010.

Table 4.1 Strategy Matrix for Analysis and Intervention in FCS Areas

| Analytic strategy | Operational strategy |
|-------------------|----------------------|
| **All FCS areas** | **Common approach** |
| (a) Invest in data to constantly evaluate business environment in FCS through frequent surveys. Enterprise Surveys (ES) can be sporadic in terms of periods and FCS areas (especially regarding Iraq, West Bank and Gaza, and Yemen, Rep.). ES also lack the flexibility to analyze crucial topics (such as innovative activity) across Regions. Moreover, in general, ES contain very few questions that can serve as proxies to evaluate the uniqueness of the FCS business environments. For example, to rigorously assess the impact of fragility on innovative behavior using the ES was possible only for the Europe and Central Asia (ECA) Region. Questions relevant to innovation were included in only a few questionnaires for countries, for instance, in Sub-Saharan Africa (Central African Republic, Mauritius, and Zimbabwe). Thus, the availability of data specific to the topic in other Regions was very limited. ES also lack the ability to focus in detail on issues unique to FCS areas. These include security, disruptions in product and factor markets, chances for survival and factors that affect these chances, unique factors that influence the ability to grow and create profits and jobs despite severe essential constraints, and, most importantly, widespread informality. Moreover, surveys are perception based. Therefore, to capture formal aspects of institutional and entrepreneurial settings in FCS, it also is crucial to |
| (b) Design other tools that can provide a detailed analysis of the longer term issues related to sustainability and risk. |
| (c) Encourage (public-private) dialogues and information flows (web space) to set measurable targets and reform in a coordinated manner. Data and dialogues are vital to define priorities, decide on concrete directions, and track results (M&E). Taken together, all of these actions can build trust and confidence among all stakeholders. |

| (a) Pursue a joint World Bank Group (WBG) strategy to ensure accountability. |
| (b) Adopt a joint Bank-client project implementation approach (see, for example, project implementation in West Bank and Gaza as well as in Somalia). Move from recipient-executed mode to joint Bank-client project implementation whereby straightforward components can be executed by government, and the Bank can execute more complex areas. |
| (c) Fine-tune project design. Review project design. Address the most severe growth constraints identified by the business environment. Match government priorities with target areas for which the Bank has a proven track record of success. |

*table continues next page*
### Table 4.1 Strategy Matrix for Analysis and Intervention in FCS Areas (continued)

| Post-crisis areas | Analytic strategy | Operational strategy |
|-------------------|-------------------|----------------------|
| **Innovative/highly flexible approach** | Due to weak capacity and urgency of post-crisis situations, (a) deliver services through a joint strategy. Make the Bank’s execution more flexible through partnering with the International Finance Corporation (IFC) in on-the-ground presence as well as in general modalities of how WBG works. This close coordination would enable strong IFC TA in partnership with the Bank’s operations that finance/procure hardware or provide services such as cutting-edge business/corporate governance products (such as project execution in Pakistan). The joint strategy also would enable leveraging Bank staff, since the Bank is rigid regarding providing staff assistance. Joint strategy also would address IFC’s rigidity regarding purchasing hardware. | (a) Conduct updated surveys in the immediate aftermath of the conflict/violent event to diagnose immediate shocks to the business and economic environment and prioritize short-term policy interventions (Arab Republic of Egypt 2011). |
| **(b)** Take into account cycles of violence and introduce a very flexible package. In repeating cycles of violence and in post-crisis situations it is very difficult to predict the recovery. First, wait for the moment of reduced violence and heightened political commitment to reform. Then introduce a small matching grant with a very flexible operational menu. The grant will be executed by, for instance, a preprocured firm and will aim at business membership organizations (see Afghanistan), challenge funds for NGOs (since, in FCS areas, government-run projects are not feasible), business plan competitions for firms (see Nigeria), microfinance to provide quick (urgent) capital to stabilize and smooth firms’ operations, or programs that provide subsidized equity (see Lebanon), support rehabilitations of destroyed assets (see Gaza), and enhance access to electricity (such as provision of generators in Kosovo). Last, re-engage to assess the response to the package. If successful, expand it; if not, reduce/cut it. |

| Fragile areas | More traditional approach |
|---------------|--------------------------|
| Most FCS firms are small and informal. (a) Choose specific analytic tools that can reach these small and informal enterprises systematically over time. (b) Aim to improve local capacity in data analysis and information provision directly to business environment to restore confidence in the markets, (Re)build public sector institutions responsible for private sector development (PSD) (such as Government Services for Business Development project in West Bank and Gaza); or improve the information flow through enhanced general purpose technology such as access to high-speed Internet, own website, or email. | In fragile situations, the urgency is limited, so adopt a more traditional approach. (a) If the public sector is strong enough, launch private-public dialogues (PPDs). Otherwise, (re)build the public sector institutions that have the primary responsibility for PSD and business reforms (see West Bank and Gaza “Government Services for Business Development” project). (b) Intervene to encourage entrepreneurship and innovative activity at a firm level through, for example, business development services. Examples are training in SME loan applications, accumulation of managerial and production capabilities, and enhancement of market connectivity. (c) Intervene to support general predictability of business environment through managing perceptions of political uncertainty (see Bosnia Emergency Industrial Re-Start Project), security (see Africa Regional Trade Facilitations Project), access to electricity, reliable judicial systems, and reduced corruption. |

*table continues next page*
Table 4.1  Strategy Matrix for Analysis and Intervention in FCS Areas (continued)

| Analytic strategy | Operational strategy                                                                 |
|-------------------|----------------------------------------------------------------------------------------|
|                   | (d) Intervene to increase demand through encouraging competitive industries, developing linkages with commodities and local sourcing of aid, and supporting remittance flows or trade preferences. |
|                   | (e) Intervene to attract nonconventional investment such as diaspora-based or collective investment. |

Note: ECA = Europe and Central Asia; FCS = Fragile and Conflict-Affected Situations; IFC = International Finance Corporation; M&E = monitoring and evaluation; NGO = nongovernmental organization; SME = small and medium-size enterprise.

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The assessment of the impact of fragility on entrepreneurship is based primarily on World Bank’s Enterprise Surveys (ES), which enable both perceptive and objective analyses of business environment using indicators standardized across different Regions and time. The following data sources also were used:

- Penn World Table 7.0 (2011). Provides purchasing power parity and national income accounts converted to international prices for 189 countries/territories for the years 1950–2010. In the current analysis, the Penn World Table is used to quantitatively assess the openness of an economy by fragility for selected countries of the Europe and Central Asia Region, Sub-Saharan Africa, South Asia, and East Asia and the Pacific.
- World Bank World Development Indicators 2012.
- International Monetary Fund (IMF) World Economic Outlook 2012.

For each Region, the following approach to data analysis was adopted. First, within each Region, country-specific ES data were pooled and weighted using median weights. Next, based on the World Bank’s official Fragile and Conflict-Affected Situations (FCS) list, countries within each Region were divided in two groups: fragile and non-fragile. Last, to ensure data consistency, the analysis presented in this report was conducted separately for each Region within the same (or close) time period and, wherever relevant, controlled for GDP per capital levels.

The Regions, countries, and periods covered in the report are:

**Europe and Central Asia (ECA) Region**

The Business Environment and Enterprise Performance Surveys (BEEPS) of formal enterprises for 2008 or 2009 were pooled for this series of countries:

- **Fragile states**: Bosnia and Herzegovina (2009), Georgia (2008), Kosovo (2009), Tajikistan (2008), and Uzbekistan (2008).
• **Non-fragile states:** Armenia (2009), Azerbaijan (2009), Belarus (2008), Bulgaria (2009), Croatia (2009), the Czech Republic (2009), Estonia (2009), the former Yugoslav Republic of Macedonia (2009), Hungary (2009), Kazakhstan (2009), the Kyrgyz Republic (2009), Latvia (2009), Lithuania (2009), Moldova (2009), Montenegro (2009), Poland (2009), Romania (2009), the Russian Federation (2009), Serbia (2009), the Slovak Republic (2009), Slovenia (2009), Turkey (2008), and Ukraine (2008). Although the Albania 2009 Enterprise Survey is available, the country is excluded from the analysis due to inconsistent data weights compared to the rest of the countries.

**Sub-Saharan Africa**

The Enterprise Surveys of formal enterprises for 2009, 2010, or 2011 were pooled for the following countries:

• **Fragile states:** Angola (2010), Cameroon (2009), the Central African Republic (2011), Chad (2009), the Republic of Congo (2009), the Democratic Republic of Congo (2009), Eritrea (2009), Côte d’Ivoire (2009), Liberia (2009), Niger (2009), Sierra Leone (2009), Togo (2009), Tonga (2009), and Zimbabwe (2011). Although the Nigeria 2010 Enterprise Survey is available, the country is excluded from the analysis due to inconsistent data weights compared to the rest of the countries.

• **Non-fragile states:** Benin (2009), Botswana (2010), Burkina Faso (2009), Cape Verde (2009), Gabon (2009), Lesotho (2009), Madagascar (2009), Malawi (2009), Mali (2010), and Mauritius (2009).

**South Asia and East Asia and the Pacific**

The Enterprise Surveys of formal enterprises for 2009 or 2011 were pooled for the following countries:

• **Fragile states:** the Lao People’s Democratic Republic (2009), Nepal (2009), Sri Lanka (2011), and Timor-Leste (2009).

• **Non-fragile states:** Bhutan (2009), Indonesia (2009), Mongolia (2009), the Philippines (2009), and Vietnam (2009).

**Issues and Constraints to Data Analysis**

Enterprise Surveys of other Regions, such as the Middle East and North Africa (MENA) or Central and South America, are not included in the current analysis due to either limited data or data inconsistency. For example, for the fragile and conflict states of the MENA Region (Iraq, West Bank and Gaza, and the Republic of Yemen), the surveys available do not match the specific periods chosen for this analysis. Thus, including them would have compromised the consistency of the analysis. The probit model presented in the analysis to assess innovative behavior was not applicable to the group of countries of
Sub-Saharan Africa (SSA) due to a significant portion of missing data. In addition, the relevant-to-innovation survey questions are not standardized across all, or at least most, of the Sub-Saharan countries included in this analysis.

Additional limitations of using the Enterprise Surveys as a tool to broadly analyze the impact of fragility on entrepreneurship were:

1. Since the ambition of the current approach was to compare general issues of fragility and conflict across Regions, the focus was on the core questionnaires. This focus reduced the flexibility to analyze in detail specific topics within specific countries. For example, the results presented in the report referring to the primary use of mobile phones for operations in fragile countries of SSA are based on specific questions available for Sub-Saharan African countries only.

2. Can the findings be trusted? Most of the descriptive findings are statistically significant. However, obtaining accurate results when aiming for a causal analysis requires care to ensure external validity, which would enable generalizing the results to population. In addition, internal validity (the degree to which a study produces a single, unambiguous explanation for the results) is difficult to achieve when analyzing perceptive surveys in general.

3. The Enterprise Surveys contain very little information on fragile environments. This lack sometimes makes it difficult to even descriptively assess what determines successful entrepreneurship or failure in these violent and conflict-affected situations.

4. Moreover, the indices used in the report that measure institutional quality capture respondents’ perceptions, rather than any of the formal aspects of the institutional setting. An example of such indices would be one in which firms are asked whether they consider courts, access to land, business inspections, and other as the biggest obstacle to their operations. Rather, such indices measure how these factors are perceived to operate and whether they positively or negatively contribute to the business environment at a given moment, but not what those institutional rules are (Rodrik 2007). Consequently, even though these indices are useful in discovering specific trends at the time, it would be misleading to generalize the respondents’ perceptions, especially across time.

5. Finally, most of the analysis presented in the report determines predictive, not causal, relationships. For example, significant correlations are found between innovative behavior and the fact of being fragile. However, one aspect might not necessarily cause the other. The approach of this report is mainly descriptive (with the exception of the two probit regressions that test the impact of fragility on innovative behavior and sales disruptions) and aims to compare two types of business environments: firms that operate in a fragile environment and those that do not. Appendices D, E, and F present underlying statistical analysis.

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APPENDIX B

Additional World Bank Studies and Field Observations

Some of the outstanding entrepreneurship success stories from FCS countries are highlighted below.

Box B.1 Hayel Saeed Anam Group: First Commercial Group in the Republic of Yemen

Hayel Saeed Anam Group of companies is a commercial entity established in the Republic of Yemen in 1938. Its activities include various investment fields (industrial, trading, and services) located in many countries. The important countries that the company has a significant presence in are the Arab Republic of Egypt, Indonesia, Malaysia, and Saudi Arabia. By reputation, Hayel Saeed Anam Group is considered the first commercial group in the Republic of Yemen. The reasons are the volume of its investment and its competitive position in the market; its internal structures; and its administrative, technical, and technological rules and regulations.

The company comprises six main trading divisions: Group Products, Consumer Products, Unilever Products, Kraft Products, Cigarettes, and Raw Materials.

Source: Wikipedia.

Box B.2 Success Story of Entrepreneurship in the Republic of South Sudan: Importance of Business Competition

The decades of war that culminated in the independence of the Republic of South Sudan on July 9, 2011, suppressed the development of the private sector to the extent that South Sudanese were resigned to think that the government was the only employer. Reminiscent of this mindset, on attaining a secondary school certificate, Manjok Elijah Dut took up a job as an assistant clerk with the Ministry of Finance, Economic Planning, Trade and Supply in

box continues next page
the Government of Jonglei State. However, his skills in computer operations caused him to believe that there were other opportunities outside government offices. Through a Business Plan Competition run by the World Bank’s Multi-Donor Trust Fund (MDTF) Private Sector Development Project, Manjok obtained the capital to set up a printing and computer shop called Computer Supply, Ltd. in the new business area, Bor town. Within months, Manjok was registering monthly profits.

Exposure to computing provided an opportunity for Elijah to respond to an online call for proposals to participate in an innovative initiative by the World Bank and Ministry of Commerce, Industry, and Investment (MCII). At 27 years of age, he was 1 of the 1,600 South Sudanese entrepreneurs who took part in the Business Plan Competition and business training designed by MCII to promote entrepreneurship. This competition was sponsored by the MDTF for South Sudan (MDTF-SS). Manjok was awarded a grant of US$20,000 that he accessed in March 2010 through KCB Sudan, Ltd. One year after setting up his business, the young entrepreneur applied the knowledge he acquired during business training to recordkeeping, customer care, cash flow, and the financial management of his business.

Manjok’s business received a boost when he won contracts to supply computers to the Government of the Republic of South Sudan and to the Government of Jonglei State, and to train government employees in computer skills. With the expansion of his business, he abandoned his “zinc building” and rented a bigger and better building partitioned into rooms used for an Internet café and storage for desktops, laptops, and computer accessories. His business also offers secretarial services including typing, printing, scanning, and photocopying. Earning a daily net profit of SDG 195 (US$70) from Internet and secretarial services and a monthly net profit of SDG 4,800 (US$1,700), Manjok is contributing to the development of Jonglei State by employing 6 people.

Manjok was the first beneficiary of the business competition awards to repay his loan and has since taken another loan with KCB Sudan, Ltd. This entrepreneur has embraced the computer age with enthusiasm, as reflected in his business slogan: “We are your partner in the world of technology. We believe that ‘technology makes life better.’” He is pleased with his business growth and is confident that online courses are now possible in Jonglei State. His confidence is evident in his plans to expand through acquisition of land to construct permanent structures and the establishment of a Business Center.

As the Managing Director of Computer Supply, Ltd., Manjok is not distanced from what goes around the world and affects his business. He does not hide the excitement of witnessing the birth of a new nation. He calls on entrepreneurs in the Republic of South Sudan to seize the opportunity and turn their dreams into realities because the political atmosphere is now favorable for investment. His message to the youth is that business can thrive in a peaceful and corruption-free environment!

Sources: Andres Garcia, AFTEE, World Bank.
Box B.3  Cisco and the Importance of Corporate Social Responsibility in the West Bank and Gaza

In September 2009, Cisco announced an investment of $10 million to seed a sustainable model of job-creation and economic development in the West Bank and Gaza. Made in cooperation with the president of the Palestinian Authority, Mahmoud Abbas, the three-year investment demonstrates Cisco’s continued commitment to build stronger and healthier global communities through strategic social investments.

“Education and the Internet are the great equalizers and vital to a sustainable, productive economy that increases the standard of living for all,” commented Cisco Chairman and CEO John Chambers. “It’s a core part of our culture to give back, but it’s also a core strategy of what drives our success in the regions of the world where we do business. We make all our business decisions with three to five years in mind and, given our strong business momentum in the region, it’s only appropriate to make this investment in its economy and its people.”

Palestinian Authority President Abbas stated, “One of our key priorities is to build a market economy in close cooperation with the private sector. We commend Cisco for its commitment to help us accomplish this goal, and look forward to working together toward enhancing the social, economic and education opportunities for the people of Palestine. This contribution, we hope, will help prosperity and peace in the region.”

Key aspects of the commitment include a multimillion dollar venture capital investment targeted at high-potential small businesses throughout the region, as well as the development of training programs for critical information and communications technology (ICT) skills. In the future, Cisco’s intention is to engage in a multistakeholder collaboration to encourage additional investment in the Palestinian economy from local, regional, and global organizations.

Cisco Chairman Chambers added, “As we execute against this commitment over the coming years, our hope also is to create a catalyst of active engagement and a call to action for others across the public and private sector to contribute toward a diverse and sustainable economic model for the region.”

Note: For more information on Cisco’s global development and corporate social responsibility initiatives, see http://www.cisco.com/web/about/citizenship.

Box B.4  Importance of Household Enterprises (HE) in Rwanda

Rwanda no longer is classified as fragile and conflict-affected situations (FCS). It was FCS in the 1990s, but today it is a success story of recovery from FCS. There are many reasons for Rwanda’s recovery, including remarkable leadership, but the resilience of the household enterprise (HE) is part of the story.

HEs are enterprises that engage in nonfarm activities, often operated by an individual with the support of family members. HEs do not hire labor. In Rwanda, 30 percent of households
Box B.4  Importance of Household Enterprises (HE) in Rwanda (continued)

have HEs. The majority (86 percent) of these HEs labor in the service sector (trading and transport), with some artisanal-type manufacturing (crafts, food).

HEs are driven by pull and push factors. The pull factors are the perceived opportunity to earn a better living, the ease of entry, and the desire to be one’s own boss. Push factors include the inability to find another job, lack of land, and lack of education/skills. The constraints to establish HEs are preliminary access to a working space and finance. The big constraints to operations are access to finance, markets, and infrastructure.

Policy makers can support HEs with a variety of measures. These include ensuring that there are public market spaces, ensuring that microfinance reaches and targets HEs, making available very simple basic financial and management training, and encouraging collective action through the formation of associations.

Source: World Bank 2011.

Box B.5  Egypt’s First Revolution: A Cold for Large Businesses and Pneumonia for Small and Medium-Size Enterprises (Importance of Clear Strategy Reform)

Initially, the events of the 2011 Egyptian revolution and its aftermath imposed a substantial shock on the economy. Private firms reported significant setbacks in sales and exports. Firms’ own identification of constraints placed uncertainty at the top: uncertainty about the macroeconomic situation, including aggregate demand and prices; uncertainty about the unstable political situation; and uncertainty about the regulatory policies they face—including potential changes and arbitrary administration. By 2012, concern about corruption had risen to the top 3 constraints; and, for the first time, concern with crime and theft rose to the top 5, suggesting an overall decline in rule of law. Transport, which had not been a leading constraint before 2011, rose to the seventh most commonly identified serious constraint.

The “bad news” of the aftermath of the first revolution was a period of economic disruption in which private demand sharply contracted, causing the output of firms to fall substantially. Most firms tried to maintain their levels of capital and labor, resulting in a sharp decline in productivity. By 2012, sales and productivity had recovered part of the way to their former levels, but firms clearly had made labor force reductions and continued to confront lower demand. The decline in growth expectations and pervasive sense of uncertainty suggested a strong need for a new government to establish a clear reform strategy to encourage private-led growth and to take a few key actions to signal credible commitment to this strategy.

box continues next page
Box B.5 Egypt’s First Revolution: A Cold for Large Businesses and Pneumonia for SMEs (Importance of Clear Strategy Reform) (continued)

Figure BB.5.1 Firm Sales Experience and Expectation, Weighted by Sales Value

Source: Stone, Dabidian, and Badawy 2012.
Note: SME = small and medium-size enterprises.

References

Stone, A., H. Dabidian, and L. Badawy. 2012. “Egyptian Private Enterprises in the Aftermath of the Revolution: An Investment Climate Update.” No. 73009. World Bank, Washington, DC.

World Bank. 2011. “Resilience in the Face of Economic Diversity: Policies for Growth with a Focus on Household Enterprises.” Rwanda Economic Update 2011. Washington, DC.
APPENDIX C

Innovation (Correlation Tables)

This appendix can be found online at http://documents.worldbank.org/curated/en/docsearch?query=89856.
### Survey Sample Statistics, ECA Region

![Table continues next page](image-url)
### Appendix D (continued)

| Industry                        | Non-fragile | Fragile | Total |
|---------------------------------|-------------|---------|-------|
|                                 | \(n = 9,401\) (%) | \(n = 1,730\) (%) | \(n = 11,131\) (%) |
| Textiles                        | 0.3         | 0       | 0.3   |
| Garments                        | 0.8         | 1.7     | 0.8   |
| Chemicals                       | 0.3         | 0       | 0.3   |
| Plastics & rubber               | 0           | 0       | 0     |
| Nonmetallic mineral products    | 0           | 0       | 0     |
| Basic metals                    | 0           | 0       | 0     |
| Fabricate metal products        | 4           | 8       | 4.1   |
| Machinery and equipment         | 1.1         | 2.6     | 1.1   |
| Electronics                     | 0.3         | 0       | 0.3   |
| Construction section            | 12.1        | 0       | 12    |
| Other services                  | 8.9         | 16.1    | 9     |
| Wholesale                       | 19.2        | 21.6    | 19.2  |
| Retail                          | 20.8        | 42.5    | 21.1  |
| Hotel and restaurants           | 11          | 2.3     | 10.9  |
| Transport section               | 15          | 0       | 14.8  |
| IT                              | 1.9         | 0       | 1.9   |

#### Small

| Industry                        | Non-fragile | Fragile | Total |
|---------------------------------|-------------|---------|-------|
| Other manufacturing             | 9           | 7       | 8.9   |
| Food                            | 3.6         | 5.9     | 3.7   |
| Textiles                        | 1.1         | 0.3     | 1.1   |
| Garments                        | 2.2         | 1.5     | 2.1   |
| Chemicals                       | 0.9         | 1.5     | 0.9   |
| Plastics & rubber               | 1.8         | 1.8     | 1.8   |
| Nonmetallic mineral products    | 0.9         | 3.1     | 1     |
| Basic metals                    | 0.3         | 0.3     | 0.3   |
| Fabricate metal products        | 4.1         | 1.7     | 4     |
| Machinery and equipment         | 2.1         | 0.9     | 2     |
| Electronics                     | 0.6         | 2.2     | 0.7   |
| Construction section            | 8.6         | 13.0    | 8.9   |
| Other services                  | 7.9         | 3.8     | 7.6   |
| Wholesale                       | 15.3        | 11.8    | 15.1  |
| Retail                          | 26.8        | 29.2    | 27    |
| Hotel and restaurants           | 6.1         | 9.1     | 6.3   |
| Transport section               | 6.3         | 6.8     | 6.3   |
| IT                              | 2.4         | 0.1     | 2.3   |

#### Medium

| Industry                        | Non-fragile | Fragile | Total |
|---------------------------------|-------------|---------|-------|
| Other manufacturing             | 9.7         | 13.1    | 9.9   |
| Food                            | 5.2         | 5.8     | 5.3   |
| Textiles                        | 2.8         | 1.3     | 2.7   |
| Garments                        | 4.3         | 1.6     | 4.2   |
| Chemicals                       | 1.4         | 0.7     | 1.4   |
| Plastics & rubber               | 2.9         | 0.8     | 2.8   |

*table continues next page*
### Appendix D (continued)

| | Non-fragile | Fragile | Total |
|---|---|---|---|
| | n = 9,401 (%) | n = 1,730 (%) | n = 11,131 (%) |
| Nonmetallic mineral products | 1.3 | 3.1 | 1.4 |
| Basic metals | 0.4 | 1.2 | 0.5 |
| Fabricate metal products | 4.9 | 3.3 | 4.8 |
| Machinery and equipment | 2.6 | 0.3 | 2.5 |
| Electronics | 1.1 | 0.6 | 1.0 |
| Construction section | 14.4 | 9.7 | 14.2 |
| Other services | 4.2 | 2 | 4.1 |
| Wholesale | 13.2 | 19.1 | 13.5 |
| Retail | 15.4 | 23.2 | 15.8 |
| Hotel and restaurants | 5.9 | 8.8 | 6 |
| Transport section | 9 | 4.2 | 8.7 |
| IT | 1.3 | 1.2 | 1.3 |

**Large**

| | Non-fragile | Fragile | Total |
|---|---|---|---|
| | n = 9,401 (%) | n = 1,730 (%) | n = 11,131 (%) |
| Other manufacturing | 11.6 | 10.4 | 11.5 |
| Food | 8.6 | 6.9 | 8.5 |
| Textiles | 4.7 | 1.5 | 4.5 |
| Garments | 5.7 | 1.6 | 5.5 |
| Chemicals | 1.3 | 2.1 | 1.3 |
| Plastics & rubber | 2.9 | 0.8 | 2.8 |
| Nonmetallic mineral products | 3.8 | 2.2 | 3.7 |
| Basic metals | 1.6 | 1.1 | 1.5 |
| Fabricate metal products | 3.7 | 2 | 3.6 |
| Machinery and equipment | 3.8 | 3 | 3.7 |
| Electronics | 2.6 | 0.5 | 2.5 |
| Construction section | 11.7 | 19.2 | 12.1 |
| Other services | 4.3 | 1.2 | 4.2 |
| Wholesale | 6.1 | 10 | 6.3 |
| Retail | 9.9 | 19.3 | 10.4 |
| Hotel and restaurants | 3.4 | 4.9 | 3.5 |
| Transport section | 12.3 | 13.4 | 12.4 |
| IT | 2 | 0 | 1.9 |

**Size of locality**

| | Non-fragile | Fragile | Total |
|---|---|---|---|
| Capital city | 16.6 | 34 | 17.5 |
| City with population over 1 million | 14.2 | 4.1 | 13.7 |
| City with population 250,000 to 1 million | 18.7 | 16.6 | 18.6 |
| City with population 50,000 to 250,000 | 25 | 31.7 | 25.4 |
| City with less than 50,000 population | 25.4 | 13.7 | 24.8 |

**Parentship**

| | Non-fragile | Fragile | Total |
|---|---|---|---|
| Yes | 9.7 | 4.3 | 9.4 |
| No, a firm on its own | 90.3 | 95.7 | 90.6 |

*Table continues next page*
## Appendix D (continued)

|                        | Non-fragile  | Fragile     | Total       |
|------------------------|--------------|-------------|-------------|
|                        | \( n = 9,401 \) (%) | \( n = 1,730 \) (%) | \( n = 11,131 \) (%) |
| **Legal status**       |              |             |             |
| Publicly listed company| 7.3          | 8.7         | 7.3         |
| Privately held, limited liability company | 57.3 | 24.2 | 55.6 |
| Sole proprietorship   | 20.6         | 40.4        | 21.6        |
| Partnership           | 5.2          | 1.4         | 5           |
| Limited partnership   | 6.5          | 21.9        | 7.3         |
| Other                 | 3.1          | 3.3         | 3.2         |
| **Average share of ownership** |              |             |             |
| Domestic ownership share | 92.2       | 92.7        | 92.3        |
| Foreign ownership share | 5.2           | 4           | 5.2         |
| Government ownership share | 1.1         | 1.6         | 1.1         |
| Other ownership share  | 1.3          | 1.7         | 1.3         |
| **Age**                |              |             |             |
| **Percentiles:**       |              |             |             |
| 10                     | 4 years      | 4 years     | 4 years     |
| 25                     | 8 years      | 7 years     | 8 years     |
| 50 (median age)        | 13 years     | 11 years    | 12 years    |
| 75                     | 17 years     | 16 years    | 17 years    |
| 90                     | 30 years     | 38 years    | 32 years    |
| **Average age**        | 16 years     | 16 years    | 16 years    |
| **Minimum age**        | 0 years      | 0 years     | 0 years     |
| **Maximum age**        | 183 years    | 140 years   | 183 years   |
| **Percentage of establishments that:** |              |             |             |
| Started 2008           | 0.1          | 0.1         | 0.1         |
| Started 2007           | 1.2          | 1.2         | 1.2         |
| Started 2006           | 2.6          | 3.2         | 2.7         |
| Started before 2006    | 96.1         | 95.5        | 96          |
| **Average sales breakdown** |              |             |             |
| National sales         | 91.2         | 95.5        | 91.5        |
| Indirect exports       | 2            | 0.8         | 2           |
| Direct exports         | 6.7          | 3.7         | 6.6         |

**Source:** World Bank Enterprise Surveys 2009–11, http://www.enterprisesurveys.org (accessed April 2012).

**Note:** ECA = Europe and Central Asia; IT = information technology.
APPENDIX E

Survey Sample Statistics, Sub-Saharan Africa Region

This appendix can be found online at http://documents.worldbank.org/curated/en/docsearch?query=89856.
APPENDIX F

Basic Quantitative Indicators, ECA Region
| Non-fragile states         | Doing Business 2008 rankings (181 countries) | Doing Business 2009 rankings (181 countries) | Duration of power outages (hours) | Annual cost of security (% of sales) | % of contract value paid informally to secure contract | % of total annual sales paid informally to "get things done" | % of time spent by senior management on government regulations | % of new investment from private banks | % of new investment from state-owned banks | % of firms with internationally recognized quality certification | % of firms using technology license from foreign companies | % of firms using their own website |
|---------------------------|---------------------------------------------|---------------------------------------------|----------------------------------|--------------------------------------|--------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------|------------------------------------------|-------------------------------------------|-------------------------------------------------|----------------------------------------------------------------|------------------------------------------|-----------------|
| Belarus                   | 110                                        | 85                                         | 3                                | 3                                    | 1                                                      | 6                                                              | 15                                                             | 11                                                       | 10                                                       | 14                                                             | 18                                                      | 36                                                       |
| Turkey                    | 57                                         | 59                                         | 5                                | 3                                    | 4                                                      | 1                                                              | 27                                                             | 35                                                       | 3                                                        | 30                                                             | 16                                                      | 75                                                       |
| Ukraine                   | 139                                        | 145                                        | 6                                | 4                                    | 4                                                      | 7                                                              | 14                                                             | 17                                                       | 1                                                        | 13                                                             | 27                                                      | 36                                                       |
| Russian Federation        | 106                                        | 120                                        | 6                                | 4                                    | 5                                                      | 6                                                              | 22                                                             | 7                                                        | 5                                                        | 12                                                             | 25                                                      | 55                                                       |
| Poland                    | 74                                         | 76                                         | 4                                | 2                                    | 2                                                      | 4                                                              | 14                                                             | 16                                                       | 7                                                        | 17                                                             | 6                                                       | 64                                                       |
| Romania                   | 48                                         | 47                                         | 5                                | 4                                    | 3                                                      | 4                                                              | 11                                                             | 19                                                       | 2                                                        | 26                                                             | 16                                                      | 35                                                       |
| Serbia                    | 86                                         | 94                                         | 2                                | 4                                    | 2                                                      | 5                                                              | 14                                                             | 25                                                       | 4                                                        | 22                                                             | 15                                                      | 65                                                       |
| Kazakhstan                | 71                                         | 70                                         | 6                                | 5                                    | 6                                                      | 7                                                              | 6                                                              | 16                                                       | 2                                                        | 11                                                             | 15                                                      | 27                                                       |
| Moldova                   | 92                                         | 103                                        | 3                                | 4                                    | 2                                                      | 4                                                              | 8                                                              | 20                                                       | 1                                                        | 9                                                              | 15                                                      | 32                                                       |
| Azerbaijan                | 96                                         | 33                                         | 4                                | 4                                    | 2                                                      | 11                                                             | 3                                                              | 14                                                       | 0                                                        | 18                                                             | 24                                                      | 22                                                       |
| Macedonia, FYR            | 75                                         | 71                                         | 3                                | 10                                   | 0                                                      | 5                                                              | 17                                                             | 25                                                       | 4                                                        | 21                                                             | 41                                                      | 39                                                       |
| Armenia                   | 39                                         | 44                                         | 4                                | 3                                    | 1                                                      | 5                                                              | 13                                                             | 18                                                       | 4                                                        | 27                                                             | 40                                                      | 63                                                       |
| Kyrgyz Republic           | 94                                         | 68                                         | 7                                | 7                                    | 7                                                      | 5                                                              | 8                                                              | 6                                                        | 13                                                       | 1                                                             | 16                                                      | 19                                                      | 26                                                       |
| Estonia                   | 17                                         | 22                                         | 4                                | 3                                    | 0                                                      | 5                                                              | 7                                                              | 22                                                       | 1                                                        | 21                                                             | 26                                                      | 67                                                       |
| Czech Republic            | 56                                         | 75                                         | 4                                | 2                                    | 2                                                      | 3                                                              | 13                                                             | 11                                                       | 6                                                        | 43                                                             | 12                                                      | 81                                                       |
| Hungary                   | 45                                         | 41                                         | 3                                | 2                                    | 2                                                      | 0                                                              | 7                                                              | 16                                                       | 25                                                       | 7                                                              | 39                                                      | 13                                                      | 70                                                       |
| Latvia                    | 22                                         | 29                                         | 5                                | 7                                    | 5                                                      | 7                                                              | 11                                                             | 22                                                       | 6                                                        | 18                                                             | 28                                                      | 56                                                       |
| Lithuania                 | 26                                         | 28                                         | 2                                | 2                                    | 2                                                      | 1                                                              | 6                                                              | 11                                                       | 29                                                       | 3                                                              | 16                                                      | 25                                                      | 62                                                       |
| Slovak Republic           | 32                                         | 36                                         | 2                                | 6                                    | 5                                                      | 6                                                              | 9                                                              | 18                                                       | 3                                                        | 29                                                             | 30                                                      | 73                                                       |
| Slovenia                  | 55                                         | 54                                         | 2                                | 3                                    | 0                                                      | 4                                                              | 9                                                              | 11                                                       | 23                                                       | 28                                                             | 15                                                      | 80                                                       |
| Bulgaria                  | 46                                         | 45                                         | 2                                | 2                                    | 1                                                      | 5                                                              | 12                                                             | 24                                                       | 3                                                        | 20                                                             | 12                                                      | 48                                                       |
| Croatia                   | 97                                         | 106                                        | 4                                | 8                                    | 1                                                      | 19                                                             | 16                                                             | 25                                                       | 8                                                        | 19                                                             | 15                                                      | 63                                                       |
| Montenegro                | 81                                         | 90                                         | 3                                | 3                                    | 2                                                      | 3                                                              | 13                                                             | 40                                                       | 3                                                        | 13                                                             | 17                                                      | 30                                                       |

Total non-fragile states  | 4                                          | 4                                          | 3                                | 4                                    | 16                                                     | 18                                                             | 21                                                             | 17                                                       | 5                                                        | 21                                                             | 17                                                      | 56                                                       |
### Appendix F (continued)

| fragile states       | Doing Business 2008 rankings (181 countries) | Doing Business 2009 rankings (181 countries) | Duration of power outages (hours) | Annual cost of security (% of sales) | % of contract value paid informally to secure contract | % of total annual sales paid informally to “get things done” | % of time spent by senior management on government regulations | % of new investment from private banks | % of new investment from state-owned banks | % of firms with internationally recognized quality certification | % of firms using technology license from foreign companies | % of firms using their own website |
|----------------------|---------------------------------------------|---------------------------------------------|----------------------------------|--------------------------------------|------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------|------------------------------------------|-----------------------------------------------------------------|------------------------------------------|------------------------------------------|
| Georgia              | 18                                          | 15                                          | 8                                | 4                                    | 0                                                   | 3                                                             | 3                                                             | 26                                                    | 1                                                        | 16                                                               | 17                                                      | 31                                                     |
| Tajikistan           | 153                                         | 159                                         | 10                               | 4                                    | 3                                                   | 13                                                            | 14                                                            | 5                                                      | 6                                                        | 17                                                               | 25                                                      | 21                                                     |
| Uzbekistan           | 138                                         | 138                                         | 15                               | 3                                    | 4                                                   | 6                                                             | 13                                                            | 3                                                      | 5                                                        | 1                                                               | 11                                                      | 7                                                      |
| Bosnia and Herzegovina | 105                                     | 119                                         | 7                                | 4                                    | 0                                                   | 3                                                             | 13                                                            | 25                                                    | 2                                                        | 30                                                               | 25                                                      | 56                                                      |
| Kosovo               | n/a                                         | n/a                                         | 2                                | 10                                   | 1                                                   | 6                                                             | 10                                                            | 9                                                      | 0                                                        | 8                                                               | 20                                                      | 36                                                      |
| Total fragile states |                                             |                                              | 12                               | 5                                    | 2                                                   | 6                                                             | 12                                                            | 16                                                    | 3                                                        | 10                                                               | 16                                                      | 22                                                      |
| Non-fragile states   |                                             |                                              | 4                                | 4                                    | 3                                                   | 4                                                             | 16                                                            | 18                                                    | 5                                                        | 21                                                               | 17                                                      | 56                                                      |
| Fragile states       |                                             |                                              | 12                               | 5                                    | 2                                                   | 6                                                             | 12                                                            | 16                                                    | 3                                                        | 10                                                               | 16                                                      | 22                                                      |

Source: World Bank Enterprise Surveys 2009–11, http://www.enterprisesurveys.org (accessed April 2012).

Note: Orange (dark gray in grayscale) = the highest value within that column; green (light gray in grayscale) = the lowest value within that column.
APPENDIX G

STATA Output Underlying Graphical Presentation

This appendix can be found online at http://documents.worldbank.org/curated/en/docsearch?query=89856.
Environmental Benefits Statement

The World Bank Group is committed to reducing its environmental footprint. In support of this commitment, the Publishing and Knowledge Division leverages electronic publishing options and print-on-demand technology, which is located in regional hubs worldwide. Together, these initiatives enable print runs to be lowered and shipping distances decreased, resulting in reduced paper consumption, chemical use, greenhouse gas emissions, and waste.

The Publishing and Knowledge Division follows the recommended standards for paper use set by the Green Press Initiative. Whenever possible, books are printed on 50 percent to 100 percent postconsumer recycled paper, and at least 50 percent of the fiber in our book paper is either unbleached or bleached using Totally Chlorine Free (TCF), Processed Chlorine Free (PCF), or Enhanced Elemental Chlorine Free (EECF) processes.

More information about the Bank’s environmental philosophy can be found at http://crinfo.worldbank.org/wbcrinfo/node/4.
This book is part of a broader effort by the World Bank Group to understand the motives and challenges of small entrepreneurs in fragile and conflict-affected situations (FCS). The book’s key finding is that entrepreneurs in FCS differ from those elsewhere in their characteristics and the challenges they face, and consequently may have different motives and be subject to different incentives. Therefore the book recommends that both the current analytical approach and the operational strategy of the World Bank be informed by the findings that follow.

The Small Entrepreneur in Fragile and Conflict-Affected Situations summarizes the findings of recent World Bank Enterprise Surveys conducted across the World Bank Regions of Sub-Saharan Africa, South Asia, and Europe and Central Asia as well as those of the Doing Business Indicators and additional World Bank Group studies and field observations. The book finds that the majority of entrepreneurs in FCS countries head small, informal businesses, mostly concentrated in the trade or services sectors. According to the Enterprise Surveys and after controlling for the level of development (that is, gross domestic product per capita), the book finds that

- the average FCS firm in Sub-Saharan Africa and Europe and Central Asia produces less output than non-FCS firms
- the average FCS firm in Europe and Central Asia is 20 percent less likely to innovate (that is, to introduce or upgrade new products and services) than its non-FCS counterparts
- FCS firms start smaller and grow significantly more slowly, or even shrink (in terms of the number of employees) over time, compared with non-FCS firms in the Regions analyzed.

The Small Entrepreneur in Fragile and Conflict-Affected Situations also highlights the differences in sector and business environment characteristics between FCS and non-FCS business environments.