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Using Entrepreneurship to Promote Stability in Fragile Regions

Summary

- Described as the productive combination of innovation, initiative, risk and capital, entrepreneurship could provide a crucial underpinning for stability in conflict-affected regions via job creation and improved human security.
- State building initiatives regularly tout entrepreneurship as an integral part of broader economic development, political or security strategies but seldom explain the thinking behind purported causal linkages.
- The Six + Six model offers a targeted and comprehensive strategy to promote entrepreneurship in conflict-affected states. It provides a dynamic alternative to aid-based strategies.
- Given the growing success of impact investing, it is imperative for bilateral and multilateral development agencies to help facilitate such investment by co-investing and seeding further impact investing.
- Entrepreneurs in fragile regions urgently need support in the form of enabling environments and innovative approaches that reward their creativity and risk-taking. To bolster entrepreneurs' chances for success, policymakers should consider: redirecting foreign assistance; re-focusing private sector development interventions; re-conceptualizing state building; and re-valuing individuals.

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Introduction

Entrepreneurship is the productive combination of innovation, initiative, risk and capital.¹ In conflict-affected regions, entrepreneurship could provide a crucial underpinning for stability by creating jobs, reducing aid dependency and improving prospects for economic development. The importance of entrepreneurship in foreign policy is only slowly being understood. State building initiatives by a wide range of stakeholders regularly tout entrepreneurship as an integral part of broader economic development, political or security strategies but seldom explain the thinking behind purported causal linkages. This is largely because in most cases entrepreneurship is often viewed, and implemented as an ad hoc policy instrument and not as an integral part of a rebuilding strategy.

Israel and Rwanda are examples of the role entrepreneurship could play in rebuilding states. Confronted with severe and potentially devastating economic stagnation between the mid-1970s and early 1980s, the Israeli government created the Yozma venture capital program that focused on strengthening its role in facilitating financing for budding entrepreneurs. This program revived

Israel's economic fortunes and today Israel leads the world in venture financing. In 2010, Israel attracted \$170 of venture capital per person, well over twice America's \$75 per person. Rwanda's post-genocide National Innovation and Competitiveness (RNIC) Program anchored the country's economic fortunes on entrepreneurship by revising laws and regulations, reducing red-tape and reforming access to credit. Consequently, Rwanda improved from 143rd out of 183 countries in the World Bank's Ease of Doing Business Dataset in 2009 to 45th in 2012.

Most people find it difficult to envisage prospects for entrepreneurship in fragile states. Investors must contend with a persistent war economy, a perverse political economy, weak regulatory and institutional frameworks, a deficient labor force and endemic corruption. However, the resilience of the survival economy in most fragile regions suggests that the learning curve might not be as steep if appropriate policies and programs were put in place. Entrepreneurship rewards innovation, helps build local capacity, and bodes well for sustainability and stability.

This paper examines the underestimated, frequently misunderstood and often-neglected potential of entrepreneurship to underpin the establishment of capable, sustainable, representative and accountable states. The following sections provide an overview of ways entrepreneurship could promote stability in regions that have been affected by conflict, analyze the applicability of the Six + Six model and present a set of practical recommendations.

Four Ways Entrepreneurship Could Promote Stability in Conflict-Prone Regions

- *Kick start sustainable economic development.* Entrepreneurship helps trigger economic progress by creating jobs when they are needed the most. It contrasts with the aid-fueled economic growth common in most conflict-affected regions because it makes more use of domestic resources and could be more effective at spurring economic diversification. Successful approaches that could encourage meaningful linkages between the local economy and the value chain of core economic activity would include reconstruction zones² and resource corridors³.
- *Reduce aid dependency.* Entrepreneurship reduces aid dependency in two important ways. First, it provides an alternative to employment and contracting directly tied to donor aid and projects (typical of many post-conflict regions.) Second, entrepreneurship helps lay the foundation for sustained and diversified economic growth. Progressively, tax receipts and export earnings from such growth would eventually reduce fiscal dependence on budgetary and program assistance.
- *Develop capital and skills.* Most conflict-affected or post-crisis states suffer from a dearth of technical skills and administrative capacity. Promoting entrepreneurship could help spur job growth and increase the demand for skilled workers. Although the labor market might be slow to respond in the initial months, longer-term benefits will accrue. This is why it is important to train 'entrepreneur enablers' like teachers, consultants, advisors, and informal investors, who can identify and support entrepreneurs because many entrepreneurs are often unlikely to self-identify.⁴
- *Reduce poverty.* A significant proportion of existing and potential entrepreneurs in conflict-affected regions are both income- and asset-poor. In addition to losing their means of livelihood as a result of war, they have usually liquidated (or lost) their assets (e.g. homes, tools, livestock, equipment) making them particularly vulnerable and severely disadvantaged. Support for entrepreneurship is neither a quick-fix nor a handout. It is an investment in

risk-taking individuals who will be able to overcome poverty by creating jobs and acquiring assets like equipment, services and property.

The 'Six + Six Model' for Conflict-Sensitive Entrepreneurship⁵

The conditions under which entrepreneurs can thrive in conflict-affected regions are beginning to be understood by social and political scientists. While designing successful strategies has proved challenging, it is clear that an effective approach must be targeted and comprehensive. This is what the 'Six + Six model' offers. It entails an entrepreneurship ecosystem based on the following six inter-related parameters: *Identify, Train, Connect & Sustain, Fund, Enable, and Celebrate* and the active involvement of six partners: *government, corporations, foundations, universities, NGOs, and investors*.

Identifying entrepreneurs is the first step towards their eventual success, however, many potential entrepreneurs do not have the training and skills needed to open and operate a business. Thus, a successful entrepreneurial ecosystem requires an educational framework that transfers knowledge and builds human capital. Entrepreneurs also need to be connected both to other entrepreneurs and to veteran business leaders in order to continually develop their business acumen. Funding, of course, is the lifeblood of any successful business, insuring that entrepreneurs have the financial means to build upon business ideas. Entrepreneurs must also be enabled by an economic, legal and cultural environment which is friendly to starting a business. Finally, entrepreneurship must be celebrated within the culture as a desirable and socially valuable career path.

Promoting entrepreneurship is complex. A viable entrepreneurial ecosystem must rely on six partners: *Government, corporations, foundations, universities, NGOs, and investors*. The relationship between each of these entities and the six parameters resembles something like an inter-related web. Investors, for example, are crucial for funding entrepreneurs, but often also serve as mentors to the businesses they are financing. Similarly, business plan competitions are a great way to identify and celebrate entrepreneurs, but also present a unique networking opportunity for the participants. Governments not only enable entrepreneurship through good policy, but can help to fund entrepreneurs as well.

Using the Six + Six Model to Support Entrepreneurship

Progress with entrepreneurship is likely to be slow and initial gains few and far between in fragile environments. The Six + Six model outlines how a combination of strategic investments and patience could help lay the foundation for success, particularly in the areas of financing, training and mentorship.

Financing

Investors tend to shy away from investments in conflict-affected states because information asymmetries make it difficult to price risk, traditional banking institutions are poorly equipped to service this sector and judicial/regulatory arrangements are weak. Alternative financing options include angel investors and the creative use of remittance flows. Angel investors facilitate entrepreneurship by providing capital for start-ups in high-risk sectors or regions. They are typically wealthy individuals who invest in start-ups in exchange for stocks or convertible debt. Angel investor networks work best when they are paired with other pillars of the ecosystem⁶. Remittances to developing countries have reached \$372 billion in 2011, with annual increases expected to be

around 7-8 percent in the coming years.⁷ Currently, these funds are mainly used for consumption and debt repayment. However, many countries and members of the diaspora are now recognizing the possibility of using remittance flows for investment purposes through such instruments as 'diaspora bonds.'⁸

Education and Training

Entrepreneurial education programs can run from weekend-long boot camps, to multi-year advanced degrees focusing specifically on entrepreneurship. Boot camps are usually short, 2-3 day intensive training sessions, which are focused on quickly acquiring knowledge in everything from creating innovative concepts and comprehensive business plans, to acquiring funding. Long-term, multi-year entrepreneurial education programs can be excellent vehicles for promoting entrepreneurship pedagogy. Babson Global, for example, attempts to compliment Babson College's research into entrepreneurship studies by jumpstarting international entrepreneurship programs and producing the Global Entrepreneurship Monitor.⁹

Mentorship and Celebration

Mentoring is an important pillar of the ecosystem because it imparts the experience necessary for young entrepreneurs to turn training and funding opportunities into a successful business. Business incubators and accelerators are organizations that provide entrepreneurs with a combination of mentoring, funding, and access to facilities. Celebrating entrepreneurship itself is crucial to building awareness of the positive role that entrepreneurs play in society, as well as attracting new people to the entrepreneurial lifestyle. One way to celebrate entrepreneurs is by increasing press coverage through training in 'entrepreneurship journalism.'

Invest, Don't Donate

Investment in entrepreneurship is a dynamic alternative to aid-based strategies in conflict-affected states. In conflict-affected countries, these investments are a hybrid of both social benefit and financial returns. Known variously as *double bottom line*, *social benefit* or *impact investments*, these investments are often more sustainable than their traditional counterparts and are therefore more advantageous to beneficiaries.¹⁰ The online system known as the Artha Platform provides some insight into how these investors operate.¹¹ Given the growing success of entrepreneurship, it is imperative for bilateral and multilateral development agencies to help facilitate such investment by co-investing and 'seeding' further impact investing.¹² Could recent progress with entrepreneurship have been achieved with grants? Perhaps. But could the relationship with the promoters, their sense of achievement and ownership, and their future prosperity have been recreated and secured today in the absence of such investment? Doubtful.

Recommendations

This paper has argued that entrepreneurship is a central pillar of job creation and economic development in post-conflict countries. Entrepreneurs already know how to mitigate many of the challenges they face but they need support in the form of enabling environments and innovative approaches that reward their creativity and risk-taking. The following policy recommendations could support a much-needed (and long overdue) transition to stability and sustainability in conflict-affected states:

ABOUT THIS BRIEF

USIP's Center for Sustainable Economies hosted a series of blogs on entrepreneurship in conflict-affected states on the International Network for Economics and Conflict (<http://inec.usip.org>) from March to July 2012. The lead contributor was Steven Koltai, an executive with 30 years of experience in entrepreneurship. This paper synthesizes the main conclusions and pertinent lessons for policymakers and practitioners.

ABOUT THE AUTHORS

As director of USIP's Center for Sustainable Economies, Raymond Gilpin co-chairs the Business and Peace Taskforce and manages the International Network on Economics and Conflict.

Steven Koltai is a multi-time successful entrepreneur, who created and ran the State Department's Global Entrepreneurship Program (GEP) from 2010 to 2012.

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- *Re-direct foreign assistance.* Measures should be taken to alter the overwhelming public sector orientation of foreign assistance and establish initiatives that promote entrepreneurship specifically. In order to achieve this, financing mechanisms should be reconfigured to improve the delivery, flexibility and sustainability of foreign assistance.
- *Re-focus private sector development interventions.* Private sector development has traditionally focused on foreign direct investment (usually revolving around large extractive firms) at the expense of entrepreneurship. The Six + Six model provides a comprehensive way forward that would progressively enhance identification, intermediation, regulations, country ownership and sustainability.
- *Re-conceptualize supportive state building.* To succeed, state building strategies in fragile regions should go beyond measures to stop violence and provide humanitarian assistance. Concomitant entrepreneurship initiatives would help rebuild communities, create employment and ensure stability. This is why entrepreneurship should be an integral part of any state building agenda.
- *Re-value individuals.* One of the greatest (but often overlooked) post-conflict challenges is providing an enabling environment that identifies and supports potential entrepreneurs (especially small- and medium-scale) and does not view them as helpless recipients of charity. By adopting the Six + Six model, all stakeholders will be able to recognize the potential of entrepreneurs and entrepreneurship to foster lasting results.

Notes

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