

FIRM BEHAVIOR in FRAGILE STATES

The Cases Of Somaliland, South Sudan, and Eastern
Democratic Republic of Congo

Victor Odundo Owuor



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EXECUTIVE SUMMARY

Fragile states continue to garner international attention. The urgent need to address problems and dangers arising from state fragility is driven by a concern for two main imperatives. First, there is global pressure to alleviate the suffering of people living in fragile states—the overwhelming majority of whom remain exceedingly poor and subject to unbearably unequal and poor service delivery. Second, fragile states, by acts of commission, transmit external shocks such as terrorism, maritime piracy, human trafficking, and other dark network activity to the rest of the world. Therefore, the need to overcome state fragility cannot be ignored, especially by international development agencies, central governments in fragile states, and international businesses interested in enterprise with these jurisdictions. One way in which state fragility can be addressed is through understanding how the business sector conducts its activities in fragile states.

This paper, based on field research, documents which features of the institution of business work and how they operate in regard to business strategy, contract enforcement, and other aspects of firms' behavior. The study was conducted in three fragile jurisdictions: the eastern Democratic Republic of Congo (DRC), an arena of long-simmering conflict; Somaliland, nominally part of a federation coming out of three decades of almost continuous conflict; and South Sudan, a new country that at the time of writing is still struggling with protracted civil war. While there is considerable literature, especially by the World Bank, on "The Ease of Doing Business" as well as "Enterprise Surveys" for territories including the mentioned jurisdictions, the literature on the behavior of firms in fragile and conflict-affected states remains scanty. This paper will

provide some clarity on emerging issues in this field. The nature and form of business institutions as accepted in the Western world largely does not exist in the eastern DRC, the Somali peninsula, or South Sudan.

The case study therefore seeks to answer two primary questions: What strategies do companies use to conduct business in the eastern DRC, Somaliland, and South Sudan? And what are the implications of firm behavior in these three jurisdictions? The specific study findings about how firms have structured themselves and how they negotiate challenges in the prevailing environments in these jurisdictions are captured by seven broad strategies:

- the use of family savings and internally generated funds for firm growth;
- where and how foreign workers are deployed;
- the role of local partners;
- the place of religion;
- the choice of products and services on offer;
- how payments are received and handled; and
- dealing with state agencies.

The findings, analyses, and implications of this study should be useful to international businesses and multi-lateral organizations planning to be engaged in or currently in such an arena, and to regional governments interested in overcoming state fragility.

A child holds bullets after clashes. UN Photo/Albert Gonzalez Farran



CHAPTER 1: INTRODUCTION AND PROJECT OBJECTIVE

Introduction

Fragile states have attracted considerable global attention in recent years,¹ and not without cause; many problems and dangers arising from state fragility continue to dog the global community. Most failed states are poor, and subject their residents to poor service delivery and unequal distribution as well as weak governance.² Fragile states suffer from several constraints, including “weak institutions, lack of trust in government, and legacies of abuse by economic actors or rebel leaders content to use or at least tolerate conflict and violence to meet narrowly defined goals.”³ The people in fragile states live in territories that lack authority, legitimacy, and the capacity that those in modern states almost take for granted. The lack of capacity to advance development in various fragile states presents grave challenges to the international world order.

Fragile states can also by acts of commission transmit external shocks to the rest of the world. One such external shock is the phenomenon of maritime piracy off the coast of Somalia that has until just recently led to massive losses in the global shipping industry.⁴ The need to overcome state fragility is clearly a crucial issue that the global community, especially international developmental agencies, central governments in fragile states, and international businesses interested in enterprise within these jurisdictions, can no longer ignore. This paper is an effort to provide some clarity to these players.

There is no clear dividing line between institutions that are strictly ‘formal’ on one side and entirely ‘informal’ on the other, because formal institutions always depend on non-legal rules and inexplicit norms in order to operate.

An ongoing challenge for actors in countries coming out of lengthy periods of conflict and instability is creating institutions that function well.⁵ For the term “institutions,” reference is made to Geoffrey Hodgson’s 2006 definition, “the systems of established and embedded social norms that structure social interactions.”⁶ The norms include rules, which in this context are understood to be socially transmitted and customary normative injunctions to “in circumstance A, do B.” This definition recognizes that there is no clear dividing line between institutions that are strictly “formal” on one side and entirely “informal” on the other, because formal institutions always depend on non-legal rules and inexplicit norms in order to operate.

The creation of institutions should be followed by the process of improving them to a point where they meet the expectations of the international community. This is particularly necessary

in the economic institution of the marketplace, or the arena where business conducts its activities. The economic institution of the marketplace encourages and regulates production and distribution of goods and services. Policymakers and foreign investors recognize that market-oriented reforms and privatization can go a long way towards helping fragile states move towards meaningful engagement with the global community.⁷ The conventional view is that these reforms typically only work in these fragile economies if they are supported by well-established governance institutions.⁸ It is not in doubt that institutions that provide dependable property rights, manage conflict, maintain law and order, and align economic incentives with social costs and benefits are the foundation of long-term growth.⁹ It has therefore not been lost on policymakers that growing sustainable business in fragile states is a very promising pathway to overcoming the ills of fragility.¹⁰ The institution of business is essential to lifting people out of poverty more rapidly and with longer investment horizons than aid agencies can. Business does this through improving employment opportunities, education programs, infrastructure development, health programs, supply chain practices, and payment of taxes.¹¹ In fragile states, the myriad problems encountered in building effective institutions are felt in all aspects of everyday existence, including those that define business. A business entity, at its core, is basically an arena where the exchange of goods and services (and the preparation thereof) occurs between willing buyers and sellers, under mutually acceptable terms. In the Western world, these transactions are invariably supported by legal institutions.

It has not been lost on policymakers that growing sustainable business in fragile states is a very promising pathway to overcoming the ills of fragility.

However, for countries coming out of periods of prolonged conflict, it is not always necessary to replicate Western-style state institutions from scratch. In the case of the Somali peninsula, for instance, though the prolonged turmoil and conflict have made the country a threat to itself, its neighbors, and the wider international community, alternative forms of justice, business, education, and local politics have endured and even burgeoned.¹² For the Western world, well-functioning market systems mean that information flows smoothly in any transaction, side-effects for the mentioned transactions through third parties are minimized, and competition that enables the same is fostered. In fragile countries, it may be possible to work with such alternative institutions as may be available and build on them to suit given needs. To do so, policymakers and investors must have a good understanding of how various institutions of governance work in fragile states and how they interact with each other and the state (however imperfect the state’s systems are). This project is an effort to advance the aforementioned cause within the business realm. The settings for this study are Somaliland,

the eastern Democratic Republic of Congo (DRC), and South Sudan, all three of which are components of jurisdictions that are consistently labeled as extremes in multiple indices of state fragility.

Project Objective

This paper is an effort to document which features of the institution of business work and how they operate in regard to business strategy, contract enforcement, and other aspects of firm behavior for several areas: the eastern Democratic Republic of Congo, an arena of long-simmering conflict made worse by the effects of the fierce Mount Nyiragongo volcano eruption of 2002¹³ that leveled one-fifth of the city of Goma; Somaliland, nominally part of a federation coming out of three decades of almost continuous conflict; and South Sudan, a new country that at the time of writing is still struggling with protracted civil war. The nature and form of business institutions as accepted in the Western world largely does not exist in any of these three jurisdictions. Therefore, the project seeks to answer two primary questions:

What strategies do companies use to carry out business in the eastern DRC, Somaliland, and South Sudan?

What are the implications of firm behavior in these three jurisdictions?

A casual reader of this report may, however, ask how this particular work differs from two initiatives of the World Bank: the “Doing Business”¹⁴ report and the country “Enterprise Surveys.”¹⁵ This paper and its questions attempt to address issues not directly tackled by either project. The Doing Business reports from the World Bank assess eleven elements of each country’s policies that relate to non-state-owned firms, including starting a business, trading across borders, dealing with construction permits, enforcing a contract, and paying taxes. The measures for each of the eleven elements are created by experts (invariably lawyers or accountants) rather than firm representatives in each country. These experts are asked to estimate the typical time and cost it would take a hypothetical domestic non-state-owned firm with between one and fifty employees operating in the largest urban center to comply, based on the assessment of the respective country’s formal regulations. The Doing Business report therefore provides raw data for each country as well as rankings across countries to create an overall “Ease of Doing Business” ranking. The Enterprise Surveys, on the other hand, do not try to measure what should happen as a result of the given policies and regulations, but rather what happens in practice. The World Bank’s Enterprise Surveys gather responses using random samples from registered large businesses in the country’s main urban centers that are either domestic, foreign-owned, or state-owned enterprises. The interviews ask owners and senior managers of these firms how long it takes to get various regulatory procedures done and how much they cost.

This particular report differs from the two just-mentioned World Bank initiatives in that it focuses on what strategies businesses employ to tackle the challenges firms face in the three jurisdictions that were the focus of this study. The behavior is studied through the institution-based view of the firm.¹⁶ The institution-based model of the firm captures the complex and rapidly changing relationships between organizations and the environments in which they operate. In this perspective, institutions are independent variables for which the dynamic interaction between the institutions and organizations produce outcomes as a result of strategic choice. Specifically, strategic choices are not only driven by industry conditions and firm capabilities or characteristics, but are also a reflection of the formal and informal constraints of a particular institutional framework that business managers confront. In other words, “institutions directly determine what arrows a firm has in its quiver as it struggles to formulate and implement strategy and to create competitive advantage.”¹⁷ The ability of the respective countries’ firms to work with these formal and informal institutions, aptly described by the metaphor “the rules of the game,” enhances their ability to adapt to the changing environment in each of the three jurisdictions. This report is thus an effort to document what these rules are and how firms in the three jurisdictions interact with these rules, which because of their differences in form are for the most part considered to be a given—and therefore “invisible”—in the West.

“***institutions directly determine what arrows a firm has in its quiver as it struggles to formulate and implement strategy and to create competitive advantage.***”

This report adds valuable knowledge to an area still very much suffering from a dearth of information. While the role of the private sector in promoting growth and poverty reduction is a vast, complicated, and important topic, the extant literature is largely silent on the specifics of business behavior in fragile states. The World Bank is notable for the two studies mentioned, but there is clearly a missing link in the overall body of literature regarding firm behavior in these jurisdictions. A typical inquiry in this space is exemplified by the work of Tairu Bello dealing with combating unemployment hurdles in fragile sub-Saharan African economies using the experience of Nigeria.¹⁸ The Bello paper unpacks the factors leading to unemployment and offers policy recommendations for addressing high unemployment levels in fragile sub-Saharan African economies. The policy recommendations include institutionalization of federalism and resource ownership, the restructuring of the educational system, and the establishment of an enabling business environment in Nigerian ecosystems. Other papers, like the works of Tilman Bruck et al.,¹⁹ tackle when the private sector is beneficial to country growth as an alternative to official donor assistance.

One of the more comprehensive studies on the role of the private sector in achieving donors' desired development outcomes within least-developed countries is the inquiry by Canada's Standing Committee on Foreign Affairs and International Development, a committee of the House of Commons.²⁰ The report focuses on conditions necessary for achieving desired outcomes in poverty reduction in low-income countries rather than just fragile states.²¹ The Canadian study found that alongside high rates of private investment, key ingredients for sustaining high growth in these countries include openness to trade, labor mobility, technology transfer, and high rates of public investment in infrastructure, education, and health. The report also surmises that some business sectors (e.g., agribusiness and light manufacturing) are more likely than capital-intensive industries (e.g., mining) to reduce poverty.

A slightly closer inquiry on the behavior angle is the Save the Children survey done in 2014.²² The survey found that to harness the power of the private sector in least-developed Indo-Pacific countries, business maximizes its development impact through three principles: do no harm by complying with legal and social obligations; reorient strategies towards creating products, services, and inclusive value chains that improve the lives of the poorest; and advocate by championing new practices and public policies that support development. In the Save the Children study, the list of countries that comprised low-income Indo-Pacific nations included Afghanistan, Bangladesh, Cambodia, North Korea, Myanmar, and Nepal. Other than Afghanistan, none of the listed countries are in the immediate band of ranking for state fragility shared by the three jurisdictions of Somaliland, South Sudan, and the eastern DRC. Again, while not restricted to the most fragile states, the Save the Children study is largely normative in its overview of business conduct in least-developed countries. Its primary purpose was to identify areas that government, civil society, and business need to pursue in order to make a valued contribution to development. The findings of the Save the Children report, though not directly tied to the present study, are relevant to this firm behavior in fragile states project. This firm behavior project builds on these previous inquiries and tackles the angle of the "what" and the "how" of business conduct—neither of which are adequately dealt with in the mentioned studies. It is expected that the study findings will be of interest to business, academia, developmental bodies, governments, and other policymakers tasked with coming up with private-sector-led strategies that promote post-conflict reconstruction in fragile states.

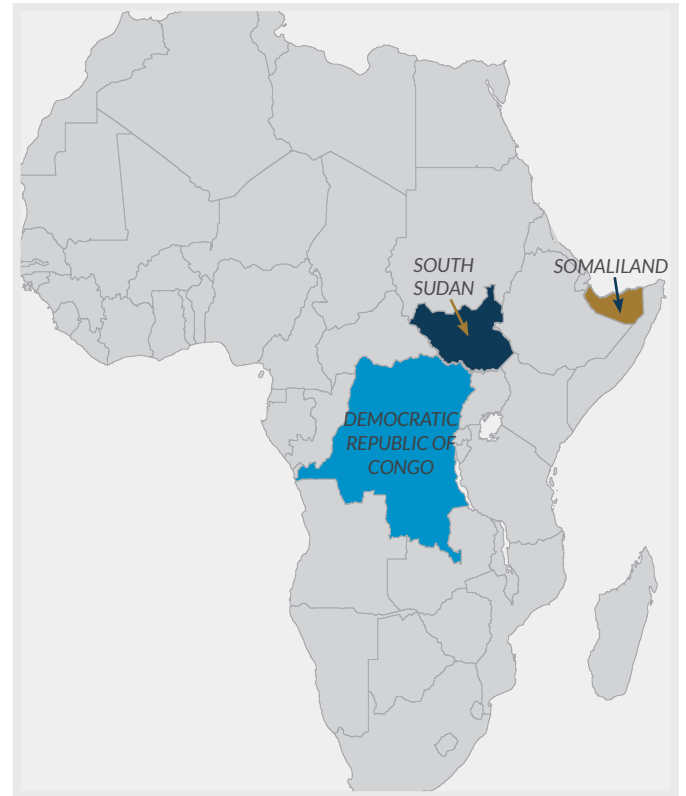
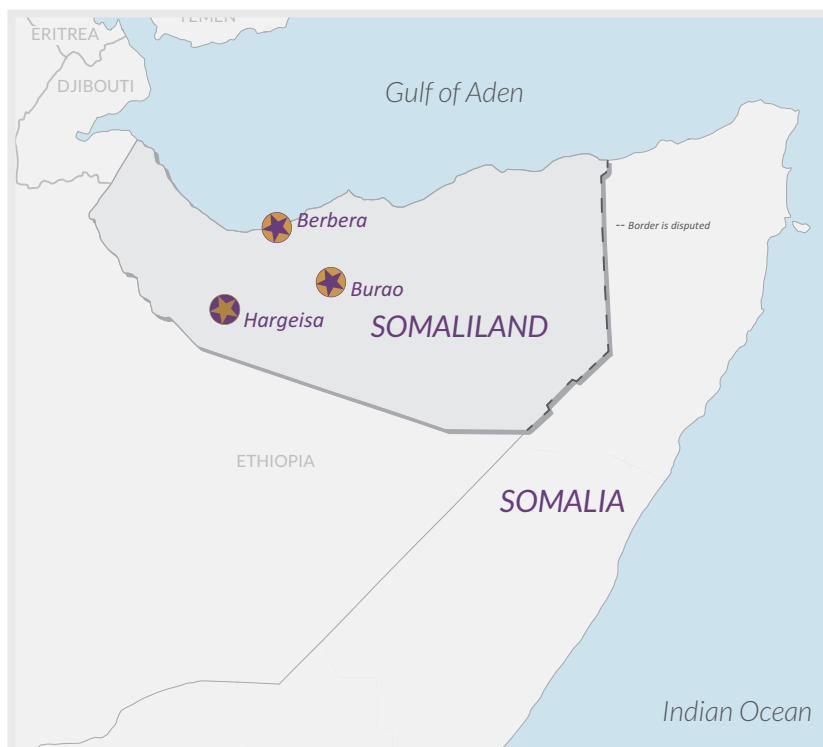
CHAPTER 2: RESEARCH CONTEXT

Somaliland, South Sudan, and the eastern DRC share some noticeable similarities. Because of their fragile state, each of the three jurisdictions is “particularly susceptible to crisis associated with government failure to provide security and economic opportunity to a significant proportion of its citizens.”²³ For all three, while the governing authorities have some presence in the major urban areas such as Hargeisa and Garowe in Somaliland, Juba and Nimule in South Sudan, and Goma and Bukavu in the eastern DRC, large tracts of the respective jurisdictions remain lawless. The three also neighbor relatively stable countries: Djibouti and Ethiopia for Somaliland, Uganda and Kenya for South Sudan, and Rwanda and Tanzania for the eastern DRC. The three different cities from which research information was obtained are also in close proximity to the border crossings into the more stable neighboring countries, but because they are also major focal points for economic activity in the respective jurisdictions they provide a good representation of business conduct in the three fragile states.

Overview of Somaliland

History

Following a sustained period of violent conflict, Somaliland (see map below) declared its independence from Somalia in 1991.²⁴ Somaliland, with its advantageous location on the Gulf of Aden, acts as a gateway to Ethiopia and the Horn of Africa. The establishment of the region now called Somaliland goes back to the latter days of the nineteenth century, when



an 1897 treaty between the British, Italians, and French announced the creation of a British protectorate known as British Somaliland, while the French got Djibouti and the Italians claimed what is now Somalia (then known as Italian Somaliland).²⁵ The British ruled the protectorate until 1960, when the Horn of Africa, like much of the African continent, was swept by the independence movement.²⁶

The establishment of a single, united Somalia then became the focus for leading Somali politicians. This unitary state was to incorporate all five historically Somali areas; namely Djibouti, Somaliland, Somalia, the Ogaden region in Ethiopia, and Kenya’s North Eastern Province. To date, this union is still represented by the five-pointed star on the national flag of Somalia. Cracks quickly emerged in this union that could not rope in two jurisdictions—Ogaden and Kenya’s North Eastern Province. Feelings of marginalization and discontent, especially after former president Mohamed Siad Barre took power in 1969, drove the formation of the Somali National Movement (SNM) that began as an initiative to reform the national government but later morphed into a separatist movement seeking secession for the northwest region (present-day Somaliland). The movement was formed in April 1981 by a group of Isaaq emigres living in Saudi Arabia, and among its first declarations was an announcement in



A clerk displays shoes for sale at Tayo Uniforms in Hargeisa. Photo by Jean-Pierre Larroque-One Earth Future (OEF)

Private Sector Activity

Somaliland's frontier economy boasts an active and relatively successful business segment that demonstrates the entrepreneurial spirit for which Somalis are well-known. Its main cities are Hargeisa, a dusty and sprawling community of some 800,000 which also serves as the financial capital and main seat of government; Berbera, the port city on the Gulf of Aden; and Burao, a central city that is fairly flat with a semi-desert landscape traversed by the seasonal Togdheer River. All three cities have been built with limited outside aid since the fall of Siad Barre, and have grown considerably due to diaspora investment flows and people moving in from rural areas. While Somaliland remains probably the least-recognized self-declared independent state in the world, a lot of economic activity takes place there.

London, at the end of the same year, that the rebels wanted to overthrow Siad Barre's dictatorship. It subsequently began a series of operations against the government forces in northern Somalia, none of which, however, significantly weakened the government's control of the region. The sustained rebel activity did, however, bring world attention to the plight of residents of northern Somalia and the harsh security measures under which they lived.

The SNM launched an offensive in May 1988 that led to the deaths of some 50,000 civilians at the hands of Siad Barre's forces. The deep feeling of collective punishment and grief was a major factor in positioning the SNM to later overrun the national army and take charge of Somaliland as Siad Barre's regime fell. Soon after, a Grand Conference of Northern Peoples composed of religious figures, clan elders, rebel leaders, business leaders, and other representatives of society convened in Burao and issued a May 1991 declaration of independence from Somalia and the creation of the Republic of Somaliland. The jurisdiction of Somaliland is now a model of relative peace and stability in a region largely devoid of both. There is, however, some tension and uncertainty surrounding Somaliland's relationship with the federal government that sits in Mogadishu. The federal government of Somalia continues to assert its theoretical sovereignty over the whole of Somalia, a position largely ignored by Somaliland.

This is especially the case when compared to regions in the Somalia federation. Somaliland enjoys strong cultural and trade links with the Persian Gulf nations, and exports live camels, sheep, and goats to the Gulf states as well as all over East Africa. In return, Somaliland receives all manner of goods and services, from logistics to automobiles, bottled drinks, apparel, construction items, electronic goods, and processed foods—some of which come as food aid.

Somaliland also hosts an array of widespread, fairly reliable, and among the world's cheapest mobile telephone networks that enhance economic opportunity. With the presence and facilitation of *Dahabshil*²⁷—the Hargeisa-based money-transfer service provider that employs the "Hawala" system—Somaliland absorbs nearly \$1 billion in annual diaspora remittances. These remittances feed a predominantly consumer economy and further boost domestic investment. The number of foreign investors remains very small, but it is growing. Perhaps the largest single foreign investment since 1991 came from the Djibouti-based conglomerate the Osman Guelle Farah group, which in early 2012 invested \$17 million to establish a Coca-Cola franchise and bottling plant an hour's drive from Hargeisa. The plant is located in an area with substantial underground water. The business is called Somaliland Beverage Industries,²⁸ and it relies on Coca-Cola's marketing clout to push its sales of soft drinks and beverages in Somaliland, Puntland, and Galmudug.

Overview of South Sudan

History

The country that is now called South Sudan (see map on following page), is the outcome of a 2005 agreement that ended Africa's longest-running civil war.²⁹ The two-decade-long war claimed the lives of 1.5 million people and displaced more than 4 million. The 2005 agreement was signed by the then-leader of the Sudan People's Liberation Army (SPLA), John Garang de Mabior, who died in a helicopter accident while visiting Uganda shortly after that. John Garang remains a revered figure in the nation and is universally acclaimed as being the father of South Sudan. Following a referendum on the desire to secede, South Sudan gained independence from Sudan on July 9, 2011. At the time of writing this report, South Sudan was made up of the ten most southern states of the former territory of the Republic of Sudan. South Sudan is bordered by Ethiopia to the east, Kenya to the southeast, Uganda to the south, the Democratic Republic of Congo to the southwest, the Central African Republic to the west, and the Republic of Sudan to the north. The population of South Sudan comprises some 60 different ethnic groups. Unlike its now northern neighbor, South Sudan has citizenry who mainly follow traditional African religions and the Christian faith instead of being exclusively Muslim. The country of approximately 12 million people spread over 239,000 square miles has English and Arabic as its official languages. Juba Arabic, Dinka, Luo, Murle, Nuer, and Zande are also widely spoken. The main urban centers are Juba, the capital and largest city; Bor; Bentiu; Malakal; Wau; Rumbek; Yambio; Akobo; and Nimule. The main geographic feature is the White Nile, which crisscrosses the country. It flows in from Uganda at Nimule and out into Sudan a little after Kodok while also traversing Juba, Bor, and Malakal. Though South Sudan is blessed with abundant natural resources, the country is poverty-stricken and has little infrastructure development. Electrical power is provided mostly through diesel generation, and the country's paved road network barely approaches 160 miles.³⁰ Subsistence agriculture provides a living for the vast majority of its population.

The country's 2011 independence was followed by a short period of relative calm. After a year of independence, border skirmishes and disagreements with Sudan over the oil-rich region (the Heglig Crisis)³¹ were only resolved when a peace deal was reached in June of the same year stipulating how the oil exports would be handled. In December 2013, the new



country became engulfed by a civil war that has since displaced at least 2.2 million people and killed many thousands. Overnight, the country that was brimming with promise became a tragic story of what can go wrong in young and poorly governed multi-ethnic jurisdictions. The civil war broke out after the president, Salva Kiir Mayardit, sacked his cabinet and accused Vice President Riek Machar of planning a coup to take over. This turn of events set off a cycle of retaliatory killings splitting the landlocked country along ethnic lines. The civil war morphed into a chaotic melee between splintering militias whose allegiances to any of the original protagonists shifted constantly. Disputes took different undertones, with land and cattle also being major sources of strife apart from the initial political conflict. The worst days of the civil war were marked by reported rights violations by both sides in the conflict. Reports also acknowledge that at the height of the conflict, children were murdered or recruited into militias and women and girls were abducted and used as sex slaves, in addition to the multiple ethnic massacres and attacks on aid workers. Following a series of failed meetings, the warring sides signed a peace deal in August 2015 to end the civil war—under the threat of United Nations sanctions for both sides. A key feature of the peace deal was that Kiir would remain president while a representative of the Sudan People's Liberation Movement-in-Opposition (SPLM-IO), initially assumed to be Riek Machar, would take up the deputy presidency.³²



Motorcycles and cars line up for hours to get fuel in Juba. Photo by Paula Bronstein/Getty Images

Private Sector Activity

The effect of all this turmoil so soon after independence is that apart from the tragic loss of tens of thousands of lives and a high number of internally displaced people, up to 6 million people (half of the country's population) have a critical need for food aid while 1.8 million children and adolescents are out of school in a country that has almost come to a standstill. Because of the turmoil, private sector activity during the time of the interviews was at its lowest level since the young country got independence, and a lot of the optimism from the first five years of this young nation had substantially eroded. The bleak business environment restricts individual firm activities through several channels. In particular, the indirect costs of poor infrastructure, regulatory challenges, foreign exchange shortages, heightened insecurity, and low productivity have reduced incentives for business owners and prospective entrepreneurs to continue to engage in economic activity. The situation has been further worsened by the fact that key South Sudanese institutions including the ruling party (the Sudan People's Liberation Movement), the legislature, the judiciary, the police, and civil society, faith groups, and business interests are deemed inadequate to face the challenge of maintaining an environment that allows the 2015 peace agreement to take hold. Fighting has continued despite an August 2015 peace deal, with at least 19 having been killed in an early 2016 incident in Malakal when

government soldiers were reported to have participated in the attack on a UN-protected camp that houses more than 50,000 internally displaced people.

While it is mostly the northeastern states that have seen the worst of the brutality during the civil war, states in the southwest of the country, such as Western Equatoria, had also just descended into lawlessness around the time the interviews with business firms took place. At the time of compiling this report, there were press reports of tangible rapprochement by the leading representatives of the two factions in the conflict. On paper, the war is supposed to be over between warring factions SPLA and SPLM-IO. However, there is still lingering bitterness and political animosity from supporters of President Kiir and the now-replaced former Vice President Machar. The peace expected after the signing of the August 2015 agreement is still tenuous, and therefore it has been proposed that the best way forward for South Sudan is the establishment of an international protectorate in the form of an "internationally managed transitional authority" to bring renewed stability to the young country.³³

Private sector activity during the time of the interviews was at its lowest level since the young country got independence.

Overview of the Democratic Republic of Congo

History

The focus for this project was on the eastern Democratic Republic of Congo comprising the two provinces of North Kivu and South Kivu, but the history of this region cannot be separated from that of the entire country. The DRC (see map below), formerly known at different periods of its history as the Congo Free State, the Belgian Congo, Congo-Kinshasa, Zaire, or simply the Congo, is a vast country with immense natural resources that has had a long and tortured past.³⁴ This nation is approximately one-quarter the size of the US and is bordered by Angola, Burundi, the Central African Republic, the Republic of Congo (Congo-Brazzaville), Rwanda, South Sudan, Tanzania, Uganda, Zambia, and a small sliver of the South Atlantic Ocean.³⁵ The country traces its history to the thirteenth-century rise of the Congo Empire, a territory that encompassed parts of modern-day Angola, western Congo, and the regions around lakes Upemba and Kisale in Shaba. The Dutch, British, Portuguese, and French merchants in the sixteenth and seventeenth centuries used Congo intermediaries to engage in a lucrative slave trade.³⁶ In the late nineteenth century, Belgium's King Leopold II set up a private venture to colonize the Congo, a choice that led the Belgian government to take control of the Congo Free State because of the inhuman treatment that many Congolese were subjected to. With the winds of the independence

movement blowing across much of Africa, the Congo attained independence in 1960 when Patrice Lumumba, the leader of the left-leaning Mouvement National Congolais party, won the parliamentary elections and became the first prime minister of the Democratic Republic of Congo. Civil war broke out soon after, and amid the violence and political unrest, Lumumba was arrested by forces loyal to his then-chief of staff Joseph Mobutu and subsequently executed by Belgian-led Katangese troops in 1961.

The fragmentation of the country was brought to an end when Mobutu Sese Seko (formerly called Joseph Mobutu) seized power in 1965 with financial support from leading Western powers that were averse to the leftist ideology pursued by Patrice Lumumba and others among Mobutu's opponents. Mobutu's three decades of exceedingly corrupt dictatorship lasted through 1997, when rebels ousted his regime and Laurent Kabila became president. In 2001, Kabila was also assassinated.³⁷ The country degenerated into further turmoil, leading to the 1997–2003 civil wars that drew in nine neighboring countries, twenty armed groups, and many UN peacekeepers. By some measures, the country's web of intermingled conflicts has been responsible for the deadliest humanitarian crisis since World War II. According to one study by the International Rescue Committee, an estimated 5.4 million people died as a result of the conflict and the related humanitarian crisis between 1998 and 2007 alone, mostly due to nonviolent causes like diarrhea, pneumonia, malaria, and malnutrition.³⁸



In 2006, the country held its first free elections, and Joseph Kabila, the son of Laurent Kabila, was declared the winner of the run-off vote. Joseph Kabila secured a second term in 2011 and continues to enjoy the support of Western governments (that are not, however, happy with him seeking a third term) along with the support of neighboring governments, such as those of Angola and South Africa, and multinational mining interests that have signed lucrative mining deals under his regime. The country has not known a sustained period of peace since its independence. Corruption has also continued to be widespread and poverty levels remain exceedingly high in spite of the vast natural resources. Pockets of the jurisdiction are still subject to the actions of marauding armed groups. The situation is particularly dire in the east, where there are active militia groups of various persuasions, of which the Democratic Forces for the Liberation of Rwanda (FDLR)—a primary remnant of

the Rwanda Hutu rebel grouping—and sympathizers of the M23 Movement (Congolese Revolutionary Army) are probably the most well-known.³⁹ The leaders of the M23 Movement officially signed a peace declaration with the DRC government on December 12, 2013, though issues of legal accountability for their rebellion against the DRC administration remain. As a consequence of all these conflicts, the DRC's eastern region is the base of the largest UN peace-keeping force in Africa. MONUSCO (the UN Mission to the Congo), based in Goma, is unique in that it is the first offensive UN peacekeeping force authorized by the UN Security Council to neutralize armed groups, and is officially known as the UN Force Intervention Brigade.⁴⁰

As a result of its location, the DRC, which is traversed by the equator, experiences high amounts of precipitation which sustains the vast Congo rainforest, which is second only to the Amazon in size. The tropical climate has produced the Congo River system that dominates the economy and provides means of transportation. The country's terrain is composed of a vast central basin in a low-lying plateau and higher ground in the southern and eastern areas, of which Pic Marguerite on Mont Ngaliema (Mount Stanley), at 16,899 feet, is the highest point.⁴¹ A little over 10% of the country's landmass is used for agriculture.

The DRC continues to face environmental problems, including extensive wildlife poaching, water pollution, deforestation, soil erosion, and unplanned mineral extraction. The poaching menace, especially the poaching of elephants from the vast Garamba National Park in the northeastern DRC, has reached unenviable proportions and is reportedly conducted by rebel groups, renegade soldiers, armed cattle herders, Sudanese Janjaweed members on horseback, and even helicopter gunmen reportedly affiliated with regional military forces.⁴² A lot of the environmental damage is also attributed to the activities of the large refugee population engaged in some form of agriculture but also in deforestation and the mining of

minerals. As mentioned, the DRC is endowed with substantial quantities of precious stone, industrial minerals, rare earth, petroleum products, and vast reserves of exotic forests. Even though the DRC is blessed with vast natural resource wealth, estimated at upwards of \$24 trillion, systemic corruption and lack of infrastructure from as far back as the first year of independence combined with the instability and conflict over much of its post-independence history have denied the citizenry the benefits of this wealth. The eastern part of the country has been and continues to be particularly badly affected by this conflict.

Private Sector Activity

To understand business in the eastern DRC, one has to appreciate the threats that prevail in the region, especially in Goma. The largest urban center in the eastern DRC, Goma—which derives its name from the Swahili word for “drum,” due to the rumbling of the volcano—was until the early 1990s a pleasant lakeside border town and hub for small-scale trade with neighboring Rwanda. Yet following the 1994 Rwandan genocide, when more than one million refugees crossed into the DRC in less than a week, security began to deteriorate. Interspersed among the many arriving Rwandan women, children, and elderly were thousands of armed militiamen and members of the defeated Rwandan army. In an effort to feed their families, many turned to banditry, stealing livestock, uprooting farmers' crops, and killing anyone who tried to stop them. Although the war officially ended in 2003, scores of rebel outfits are still active today, and large swaths of Congo's east remain beyond the complete control of state authority. Goma, which was occupied by Rwanda-backed Rally for Congolese Democracy rebels between 1998 and 2003, when a peace agreement integrated them into the national government, has seldom been the epicenter of violence, frequently serving instead as a place of refuge for residents of the region's more embattled towns and rural areas. Still, awash with weapons and patrolled by corrupt, underpaid,

DRC displaced seek refuge near UN Mission base. The DRC's eastern region is the base of the largest peacekeeping force in Africa. UN Photo/Sylvain Liechti





Nyiragongo silhouette. The presence of the volcano has led some to call Goma an “African Pompeii” in the making. Photo by Nick Hobgood, Flickr

and often predatory security forces, the city of one million is anything but safe. Security has reportedly gotten worse since late 2012, when another Rwanda-backed rebellion, the M23 Movement, occupied and then abandoned the city.⁴³ A major source of security problems are the more than one thousand former inmates who escaped from Goma’s squalid Muzenze Prison when the prison guards, fleeing the rebels, abandoned their posts. Many of these prisoners are reported to have reverted to their previous banditry and rule large swathes of the area.⁴⁴

Although the war officially ended in 2003, scores of rebel outfits are still active today, and large swaths of Congo’s east remain beyond the complete control of the state.

Then there are Goma’s threats from nature. The presence of Nyiragongo, which is characterized by unusually fluid magma and fissures that extend directly beneath the city, has led some to call Goma an “African Pompeii”⁴⁵ in the making—a place that one day may well be wiped out entirely. According to the chief geochemist at the Goma Volcano Observatory,⁴⁶ Goma has grown far too big to be destroyed by a single eruption. Still, he says, much of the city remains highly vulnerable—not only to future lava flows, but to the effect that an eruption could have on the large quantities of methane and carbon dioxide gases present in the waters of Lake Kivu. Since 1986, when Cameroon’s small, gas-rich Lake Nyos⁴⁷ experienced a sudden release of carbon dioxide asphyxiating more than 1,700 people, scientists from around the world have closely monitored the unique biochemistry of Lake Kivu.⁴⁸ Although most believe it will take at least a century for gas quantities in the main body of the lake to reach a point of saturation—and therefore imminent risk of catastrophic release—there are fears that lava flow interacting with the lake’s gas-rich deep waters could trigger such an event much sooner. These concerns are especially elevated in the Gulf of Kabuno, a shallower, semi-detached embayment at the lake’s northwest area, just 15 miles from Goma.

Such threats of geography notwithstanding, Goma today is in many ways undergoing revival. The author of this report took an extended tour of the city of Goma accompanied by knowledgeable local guides. Goma’s main boulevards, which were reportedly littered with trash and barely passable just a few years ago, are now smoothly paved and are bisected by neatly manicured and pedestrian-friendly roundabouts. The runway of Goma’s airport, which was partially destroyed by volcanic lava in 2002, was in the final stages of renovation during the 2015 visit. In the third quarter of 2015, Goma airport became an international gateway, accommodating the city’s first international commercial flights to Addis Ababa, Ethiopia, via Entebbe, Uganda, on the Ethiopian Airlines carrier. In recent months, the city has also hosted multiple cultural festivals organized to promote peace in the region, featuring internationally renowned artists and other maestros from across the African continent.⁴⁹ Driven by demand from the town’s large number of foreign-aid workers and the presence of MONUSCO, the United Nations’ 15-year-old, \$1.4 billion-a-year DRC peacekeeping mission, a host of new upscale hotels, restaurants, and cafés have sprouted in the past year, including the town’s first boutique bakery and pastry shop.

CHAPTER 3: METHODOLOGY

Methods

The writer was the principal researcher and author of this case study.⁵⁰ As discussed in the introduction, the topic dealt with by the research questions has not been adequately covered in the extant literature. The case study is just one of many ways of conducting social science research. It is, however, particularly apt for this project because of the arena under examination and the questions under investigation. Typically, case studies are the preferred method when 1) the “how” and “why” questions are the ones being investigated; 2) the investigator has little control over events; and 3) the focus is a contemporary phenomenon within a real-life context, such as firm behavior.⁵¹ In this method of social science inquiry, the richness of the “behavior of firms” and the extensiveness of the real-life context require the investigator to cope with a technically distinctive situation. The case study research method works around the problem of having more variables of interest than data points. To address this challenge, the most accepted case study tactic and the one deployed in this project is to use multiple sources of evidence in a manner that encourages convergent lines of inquiry and triangulates the data for an informed analysis.

The case study protocol’s multiple sources of evidence for this project included interviews, direct observations, documents, and archival records. For the project, the most important use of documents and archival records was to corroborate interview responses. The list of documents included websites of organizations being studied (when available), YouTube links, published annual company statements of accounts, media briefings, and other documents that may have been otherwise “put in cold storage.” The project is a three-case (country) study. There were four main criteria for selecting the cases. First, access to the three countries’ businesses was possible using local contacts. Second, the geographic proximity of the three jurisdictions played a role. Third, the cases were deliberately selected because though they represent extreme fragility, they also offer contrasting situations which may or may not result in direct replication, subject to the findings. Fourth, they were chosen in the belief that all other things being equal, they were likely to yield the best information for settings similar in context. It was expected that for this design, if the subsequent findings supported the projected contrasts, the results would represent strong study findings that could inform policy for fragile states such as the three chosen territories.

Throughout this project, the objective was to collect data about actual firm behavior in the three jurisdictions. This objective differed from the typical survey objective of capturing only perceptions, attitudes, and verbal reports about events and behavior (rather than direct evidence about behavior). This

report was therefore a result of face-to-face interviews that included four broad, semi-structured questions. The focused interviews were open-ended and assumed a conversational manner. The resulting data collection was not routinized. In addition to data obtained from the interviews and available documents, the opportunity for direct observation was also pursued. This was germane to the project because observational evidence could be useful in providing additional information about the subject of firm behavior. Given that the areas of interest were not purely historical, some relevant behaviors were available for observation. Observations ranged from firm set-up, office meeting proceedings, staff conduct, business transactions, adjacent sidewalk activities, factory/shop floor layouts, and condition of buildings and work spaces, to mention but a few. At a minimum, these observations added new dimensions for understanding the context of the behavior being studied. In summary, the use of multiple sources of evidence represented by interviews, documents, and direct observations established concurring thought, and hence study findings that were more convincing than those derived from interview responses alone. The triangulation of data sources enhances the trustworthiness of the author’s generation of meaning through patterns and themes.⁵²

The approach to the analysis of all this information allows for the identification of patterns in respective jurisdictions and the pulling out of differences from all the qualitative responses that can inform policy.

The report represents findings from the interactions with area businesses between June and September of 2015. Initial access to respondents came from three prearranged contacts in Somaliland, two in South Sudan, and one in the eastern DRC. Subsequent interviews were either the result of these contacts and the author’s direct efforts or a snowball effect resulting in the combined interviews detailed in the appendices. The businesses that were targeted were registered and primarily domestic non-state-owned enterprises. For ease of grouping, the businesses were loosely categorized along the industry groupings used by the US Small Business Administration.⁵³ The first question dealt with the firm, its size, history, and operations. The second sought a list of challenges or obstacles the firm faced in its operations. The third asked for a detailed description of how it tackled the challenges and obstacles mentioned. Finally, the fourth question presented to the business owner or senior manager asked for the respondent to project how the firm would be three years down the road. The database of formal responses for each jurisdiction is captured in sufficient detail in the appendices for the reader and other investigators to review the evidence directly and not be limited by the author’s findings and conclusions. The approach to the analysis of all this information allows for the identification of patterns in respective jurisdictions and the pulling out of differences from all the qualitative

responses that can inform policy. In some ways, this project has an element of the World Bank Enterprise Surveys in that it involved face-to-face interviews, but unlike the Enterprise Surveys, it did not discriminate against type or size of business. The Enterprise Surveys are only directed at “large” businesses (those with at least 10 employees). To recapitulate the project focus and methodology: while the Doing Business report approach to assessing business climate spotlights the *de jure* processes that form part of firm operations, and the Enterprise Surveys address the *de facto* practice, this study goes further to tackle a gap in the literature and brings to light the strategic decisions, tactics, and rules of the game behind business practice in the jurisdictions.

the author of this report and his area contacts to a few hairy moments. These moments were eventually resolved and questions arising from the suspicions were answered to the best of the author’s ability. In spite of this security challenge, a concerted effort was made to reassure the respondents of the integrity and utility of the research project.

Limitations

One major challenge faced in collecting information was the time constraints of owner-managers. This was especially limiting due to the almost complete involvement of these individuals in the daily operations of their firms. With interviews mainly taking place during working hours, interruptions made the sessions stretch much longer than they otherwise would have. One can, however, argue that conducting interviews in such settings allowed for a more objective view of firm behavior. The lengthy interviews did create a situation where there was little opportunity to achieve even greater numbers of respondents.

A second challenge arose from language barriers. While the majority of respondents in Somaliland were fluent English speakers, this was not always the case in South Sudan and the eastern DRC. Wherever possible, the author used the services of translators who were fluent in Somali, Juba Arabic, French, and Lingala. There were also a number of moments in the eastern DRC when the interviews occurred in Kiswahili, a language in which the lead researcher and author of this report is also fluent. This study recognizes that the use of translators may be limiting in that some of the information obtained might be incomplete. It is also possible that sensitive topics could force respondents to withhold relevant details in the presence of fellow countrymen. Every effort was made to truthfully capture the views of the respondents in spite of these language challenges.

A third challenge was security. While movement with area-based persons allowed for vetting of the business owners and enabled initial access to firm representatives, the interviews were not always well-received. This can be explained by the fluid and delicate security situations in South Sudan (and the eastern DRC, to a lesser extent). There were many business representatives who were approached who declined to talk, fearing that information given may ultimately become available in some form to the area’s security apparatus. It should also be noted that a few suspicious and aggressive security personnel from one of the jurisdictions subjected

CHAPTER 4: RESULTS AND DISCUSSION OF INTERVIEWS

Having examined the background to and objective of the case study in the introductory chapter, the research contexts in chapter two, and methodology in the third chapter, this fourth chapter presents the preliminary findings, which address firm behavior in the three jurisdictions. This chapter addresses the first of the two primary questions: What strategies do companies use to carry out business in the eastern DRC, Somaliland, and South Sudan?

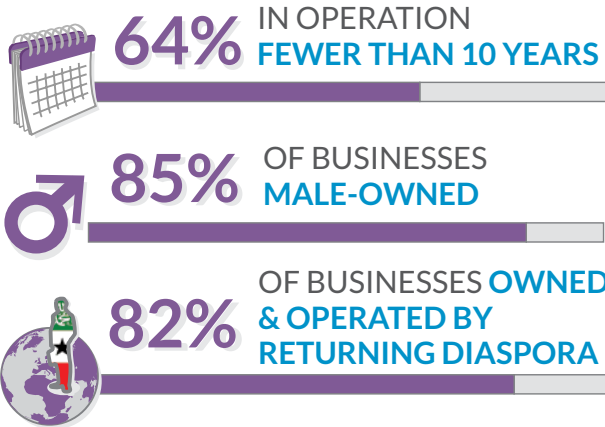
While the subsequent chapter addresses the dominant qualitative findings of this research which answer the “why” question, this chapter provides a foundation for those discussions by presenting a comprehensive review and analysis of the responses obtained, documents read, and observations made during the case study. This chapter answers the “what” and the “how” questions as they relate to firm strategy and business behavior.

Somaliland

SOMAILAND BUSINESSES

in the sample are primarily:

Early- to middle-stage developing, small businesses, owned and operated by returning male diaspora

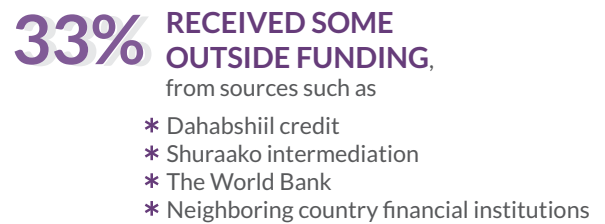


Out of the 50 businesses approached, 33 (66%) were willing to talk and to share their strategies and experiences. Their responses are documented in Appendix A. The responses were mainly from owner-managers, except for 6 who were represented by senior personnel. The responses included those of representatives from business collectives, educational institutions, and security organizations. The targeting of owner-managers reflected a conscious decision to record more autonomous decision-making and true representation of firm behavior. The firms varied in size, complexity, and length of operations. Of the 33 businesses,

only 12 had been in existence for more than 10 years. The rest started operations in the last decade, some as recently as 2014. Firm size varied from fewer than 15 employees (42.4 %) to as many as 400, for the two largest firms in the interviews (Mansoor and Telesom). Only 2 of the 33 organizations (6%) were headquartered outside of Somaliland. All but 6 of the interviewees (81.8%) were returning diaspora who had undertaken different ventures abroad. The businesses were male-owned and operated except for 5 (15.2%) that were run by women. The firms can therefore be characterized as mainly early- to middle-stage developing (rather than mature) small Somaliland businesses operated by returning male diaspora.

Overall, this analysis found a number of specific key findings about how firms structured themselves and negotiated around business challenges.

Internally Generated Funds



Firms rely on informal investments from family members and internally generated funds for development rather than on loans. Of the firms talked to, 22 of the 33 (66.7%) indicated that their starting-up process and all continued growth since have been the result of internally generated funds. Funds generated and retained within the business are used to finance ongoing development and expansion. For those few firms that had received outside funding in the form of grants, the sources included the Somaliland government (1), Dahabshiil credit⁵⁴ (1), Shuraako intermediation efforts (6), the World Bank (1), and financial institutions of a neighboring country (2). Because of the use of internally generated funds, establishments such as Summertime Restaurant, the Royal Mount Hotel, and Mansoor Hotels were in operation in spite of the unfinished structures on their respective premises. Somaliland businesses’ using predominantly organic development has a logical basis: the use of internally generated funds for operations should not be a surprise in

light of the challenges that Somaliland continues to face in developing a fully operational banking system.

Shari'a Compliant Operations

Firms base their business operations on Islamic principles. All 33 organizations stated that their transactions were based on conservative Islamic thought, and their approaches to pricing, credit, and hours and days of operation were tied to the faith. As the proprietor of refuse-management firm KEEPS asserted, the Somalis are primarily Sunni Muslims of the Shafi'i and Sufism jurisprudence. According to their tradition, their ultimate ancestors were of the Qurayshitic lineage of the Prophet Muhammad. Except for a small number of urbanites influenced by higher education, all citizens of Somaliland belong to one of the following four brotherhoods or clans: Qadiriyyah, Salihyyah, Ahmadiyyah, and Rifaiyyah.⁵⁵ As Muslims, they adhere to Shari'a law whenever it does not conflict with local customary law. During Ramadan, which occurred during a large part of the interviews, the author observed that all businesses were closed at significant prayer times. Food service, for instance, was provided after "break of fast" in the restaurants such as Summertime and Royal Restaurant and Lodge, while the Mansoor Hotels left a very skeletal staff to provide meals to non-Muslim patrons. However, no food of any kind was served during key moments of the religious obligations.

Prominence of Trust in Business Transactions

With a high level of interpersonal trust, Somaliland businesses are less inclined to rely on elaborate safeguards for specifying, monitoring, and enforcing agreements.

Firms acknowledge the prominent role of trust in business transactions. All 33 entities explicitly stated or alluded to the significant place of handshakes and gentlemen's agreements in their transactions. For the Mansoor Hotels, the second-largest private employer in Hargeisa and the other cities in Somaliland, the proprietor mentioned that as a large cash-handling establishment, it uses gentlemen's agreements to meet most guest obligations, supplier dues, and government requirements. This is surprising in light of the complexity of some of the agreements. For example, Mansoor contracts may detail rules and responsibilities to be performed, specify the quality of products to be delivered, negotiate the delivery place and time, decide on procedures for monitoring and evaluation, and, most importantly, agree on outcomes. With this high level of interpersonal trust, Somaliland businesses are less inclined to rely on elaborate safeguards for specifying, monitoring, and enforcing agreements. The businesses affirmed that when there is a high level of interpersonal trust in business transactions, it is most likely that parties to the transactions will obey the terms of agreement. For these Somaliland firms, infrequent breaches of the agreements are



A technician in Somaliland stands between generators. 37% of firms interviewed had their own generators and solar panels to meet energy needs. Photo: Jean-Pierre Larroque, OEF

dealt with by brotherhood set-ups, if and only if no settlement was reached prior to clan involvement.

Internally Generated Energy

Firms pursue their own options for energy generation in order to confront the significant electrical power deficits. While the majority of the businesses, comprising mainly the smaller firms, relied on the independent power producers like Mansoor Power for their energy needs, the 12 more-established firms (36.6%) had their own generators and solar panels to meet their energy requirements. These firms view the high costs and unavailability of electricity as a major bottleneck. Somaliland has what are among the highest electricity charges in the world. Independent power producers (IPPs) like Mansoor Power who also generate their own power using diesel generators levy \$1 for one kilowatt-hour of electricity. The supply from these IPPs, according to the firms interviewed, can be erratic. It therefore makes sense for firms that can afford the initial investment to have their own power sources. The installed capacity of the generators seen during the interviews ranged from 1 MW to 50 MW (for the Toyota auto dealership and AADCO Printing respectively). As mentioned by the executive of PKF, an advisory and accounting firm, there is a distinct negative to Somaliland firms generating their own power. Even though in-house generation meets an immediate need, it adds to the capital and operating expenses of the firms and blocks the benefits of the economies of scale that Somaliland businesses would like to obtain.⁵⁶

Strategic Alliances

Firms in the jurisdiction use strategic alliances with firms and organizations out of Somaliland. The use of these alliances is reportedly driven in part by the lack of international recognition that Somaliland continues to face and the ensuing challenges this situation brings to business operations. The alliances were defined in terms of the firms voluntarily partnering



42%
of interviewed Somaliland firms
**FORM STRATEGIC
OUTSIDE ALLIANCES**

with external entities to combine value chain activities, architecture, and supply chain strengths for the purpose of increasing individual and collective firm value-addition. Of the 33 firms, 14 (42.4%) indicated that they formed strategic alliances with larger foreign organizations in order to achieve their objectives. These ranged from guarantees of quality products to access to new markets to knowledge transfer and capacity development. The firms with these strategic alliances included businesses in agro-processing (Rahiq Gums and Resins), retail (Sacadadiin), education (Admas and Hargeisa universities), professional firms (PKF and Sagal Jet), auto trade (the Toyota dealership), manufacturing (AADCO), and energy (Golis). The nature of alliances ranged from a variety of arm's-length contracts for the majority of cases to joint ventures for three firms (PRS, PKF, and the Toyota dealership).

Employment of Foreign Workers



70%
of interviewed Somaliland firms
**RELY ON FOREIGN
WORKERS**

Firms extensively use foreign workers to counter significant manpower deficits. Of the 33 firms, 23 (69.7%) stated that they employed multiple foreign staff members for critical duties, including chefs, bakers, accountants, lecturers, engineers, mechanics, administrators, machine operators, tailors, telecommunication experts, skilled construction workers, and IT professionals. For some, such as AADCO, PRS Security, the Toyota dealership, Sagal Jet, PKF Consulting, Dil Bakery, and Tayo Uniforms, the foreign workers occupied strategically vital positions and were also spoken with for this report. As a result of a lack of skilled and trained personnel, businesses in the area reported that they are forced to hire expatriate staff, especially from Kenya, Ethiopia, South Africa, and Bangladesh. The PKF and PRS executives explained that a big reason for this state of affairs is that the region's education and training institutions do not meet industry requirements. The education institutions still need to do a better job helping people acquire the proper skills. The few training institutions that do exist lack the resources to keep up with demand. To compound the problem, while Somaliland has a handful of university-level colleges, there is a dearth of middle-level institutions. In addition, the programs available in the university colleges,

as Dr. Gass of Hargeisa University asserted, do not offer much by way of practical experience. This challenge is one that the two university colleges interviewed are trying to address with the just-started efforts towards establishing industry linkages.

Cash Transactions

All 33 organizations indicated that they primarily use the mobile telephone money transfer platform Zaad to recharge airtime and pay salaries, bills and other small transfer obligations when cash is not utilized.

Firms transact in cash, in light of the absence of formal banks as they are known in the West. All 33 organizations indicated that they primarily use the mobile telephone money transfer platform Zaad to recharge airtime and pay salaries, bills, and other small transfer obligations when cash is not utilized.⁵⁷ Zaad is a proprietary service of Somaliland Telesom, and in many ways, mirrors the more widely used M-Pesa of Safaricom in Kenya. To register a Zaad account, the declared mobile phone user must visit an official Zaad office and submit four passport-size pictures and other identification in order to be given a unique four-digit number that activates the account. All 33 firms interviewed also stated that they maintain deposit accounts with the leading Hawala institution, Dahabshiil.

A Developing Taxation System

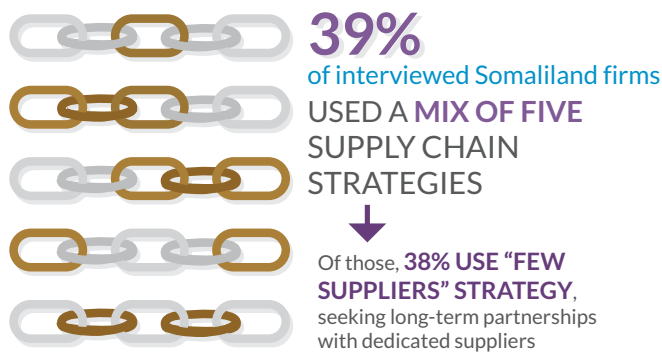
The payment of taxes by Somaliland firms is still a "work in progress." Because of challenges with staffing, government agencies are ill-equipped to carry out audits, so tax obligations are the result of self-declarations and flat fees. The adoption of this taxation model by business and government means that not all business entities are covered and many smaller firms have no reason to pay more than the regular registration fees. The current taxation system only came into being in 1999, after a lengthy period of ineffectual tax administration amidst the turmoil.⁵⁸ The tax revenues are still relatively low, even by sub-Saharan African standards. According to official Somaliland data and a recent World Bank study, tax collection barely exceeds 8% of GDP.⁵⁹

Low Web Presence

Firms do not transact online. While 5 of the firms (15.2%) have some form of online presence (Facebook, and web pages in various stage of development), it was noticeable that none of the businesses carry out transactions online. Orders are either made in person or over the phone. Even relatively bigger firms like Mansoor Hotels take bookings on the phone or through local contacts who visit the establishment when services are required. Many of the author's interviews were interrupted by order-taking, especially over the phone. Upon the author inquiring of the proprietor of the ladies' lingerie shop why there is so little web presence, she mentioned that cost is a motivating factor. Given that the businesses are mostly

young, they intend to remain lean until they have generated enough resources to drive online business. Besides, internet connectivity is not as advanced as it is in neighboring Kenya, nor are financial institutions set up for online business. She also mentioned that Somaliland's Telesom charges are among the lowest on the African continent, making mobile telephone usage so prevalent.

A Mix of Supply Chain Strategies



Firms use a mix of supply chain strategies. The 13 more-established firms (39.4%) had a mix of five approaches: negotiating with many suppliers (educational institutions), partnering with a few suppliers (Dil Bakery, AADCO, Telesom, PRS, and Tayo Uniforms), vertical integration (the Toyota dealership, Warsame Construction), a combination of a few suppliers and vertical integration (AADCO, Mansoor Hotels), and the use of suppliers on an as-needed basis (PKF). It is instructive to note the prevalence (at 38.5%) of the "few suppliers" strategy among the established companies. These firms sought long-term partnerships with dedicated suppliers who were expected to understand the broad objectives of the procuring firms. The use of vertical integration (developing the ability to produce goods or services previously purchased) is most noticeable in how Sagal Jet and Mansoor Hotels operate. The owner of the Mansoor Hotels said he believes that by taking charge of the provision of many of their goods through the development of company farms and other related subsidiaries, the group has a better handle on company costs, quality standards, and delivery needs.

Locals in Senior Positions

Finally, the 3 foreign-owned firms interviewed and operating in the jurisdiction all mentioned that a key strategy they employ is to have locals in senior positions to help them navigate the challenges of Somaliland's bureaucracy. Unlike "fixers," who are typically employed on an ad-hoc basis, these local contacts have a sense of permanency and may even be shareholders. This was especially apparent for PRS Security, where the local partner took up all corporate affairs duties. He dealt with licenses, permits, fees, and any requisition from

the government. The local contact person is also expected to help resolve potential government complaints and violations that occur in the course of PRS Security's work. He is also tasked with business development tied to government and local agencies. The PRS local person met by the author not only had a prominent role, but he reportedly had a stake in the revenue generated through his efforts.

South Sudan

SOUTH SUDAN BUSINESSES

in the sample are primarily:

Young businesses that are foreign- and male-owned



Of the 48 businesses approached, 28 (58.3%) willingly shared their experiences and strategies. The reluctance to speak to the author was possibly explained by the tense environment that Juba was in and continues to face even at the time of the writing of this report. As mentioned in the country overviews, South Sudan's latest conflict was still simmering and a fragile peace agreement was seen as tenuous during the time of the interviews. Many of the firms were initially suspicious of the researcher's intention and it took a lot of explaining to allay their fears that information given was not going to adversely affect them later on. The firms interviewed included those in food service and accommodations, professional services, the auto trade, finance, grooming services, health, retail, manufacturing, and construction. All the firms interviewed had been in operation in South Sudan for less than 10 years. Unlike in Somaliland, the majority of the firms (85.7%) were owned by foreigners. The firms were overwhelmingly male-owned, with female ownership at 17.8% of the businesses interviewed (5 firms). Three of the firms (10.7%) were principally owned by returning diaspora. The firms can be best characterized as predominantly young, mainly foreign-owned, and male-run.

Specific findings about how firms have structured themselves and negotiated challenges in the prevailing environment are below.

Suspension of Operations

Firms readily suspend business operations as a coping strategy. This strategy was mentioned by interviewees from all but 8 of the representative firms in this jurisdiction (20 firms). For these firms, the “suspension of operations” because the business environment was no longer tenable was a survival tactic. While only 3 (10.7%) of the documented firms suspended operations on or around the time of the interviews, this strategy dominated the discussions, and many business owners (50% of those interviewed, or 14 firms) believed they were approaching a tipping point when they would have no choice but to suspend operations.

It is instructive to note that the 3 that suspended their operations included the young country’s only large manufacturing entity, South Sudan Beverages Limited (SSBL), a joint venture between the government of Sudan and SABMiller PLC. The brewer held pride of place because it signified a big break with the past when the jurisdiction was controlled by its northern Muslim neighbor and alcohol consumption was prohibited by the strict Shari’a laws. On attainment of independence, the interests of the majority non-Muslim population of South Sudan permitted the pursuit of a more secular path. A second company, SITICO Petroleum, also suspended operations in spite of its strong South Sudanese roots. While the firm is based in Kenya and has operations in four regional countries, the principal shareholder of the firm is South Sudanese but has spent most of his life out of the country.

Employment of Foreign Workers



Firms use foreign workers at almost all levels. Foreign workers in South Sudan come from Kenya, Uganda, and Eritrea, and to a lesser extent, India and the DRC. The majority of these countries shares a border with South Sudan or is one country removed (such as Eritrea). Unlike Somaliland, where the foreign employees were largely restricted to skilled positions, all the interviewed firms in South Sudan had workers in entry-level low-skilled positions through middle management and all the way to executives. The restaurants employed foreign workers to manage the establishments, bus tables, cook, clean, and provide entertainment. The multiple hotels visited were staffed with foreign workers at all levels. The supermarkets employed them as stockers, cashiers, and drivers. The construction companies had artisans, foremen, and engineers from neighboring countries. It was the same in the financial

services firms, with banks and insurance companies bringing in staff members from their home countries for the skilled positions. At the time of the interviews, there was a governmental push to limit foreign employees to 20% of the workforce, but none of the businesses interviewed had reached that benchmark.

Foreign Exchange Constraints

Firms encounter substantial foreign exchange constraints in the formal channels and routinely seek informal sources to meet import needs. For the extreme cases of the organizations solely dependent on foreign exchange for goods, the 3 firms (SITICO, SSBL, and East African Brewery Limited) suspended operations on or around the time of the interviews. The other 25 tried to work around this situation by buying foreign currency from unofficial sources or charging for services in hard currency, especially the US dollar. In spite of the presence of multiple banks, the setting of government price controls that were at as little as 33% of black market rates meant that the country’s banks could not justify trade in foreign exchange, hence businesses enjoyed no formal sources of hard currency. Company operations were as a result severely hampered in a country where almost all goods (including fresh fruits and vegetables) are imported.

These currency problems affected product and service development strategies, especially in the construction, energy, food service, and accommodations sectors, to varying degrees. During the interviews, building projects stalled and the city of Juba was dotted with many unfinished structures. The most prominent was the UAP Equatoria Tower. For hotels, which Juba had some 200 of built during the boom years prior to the civil war, bed occupancy rarely approached 40%, except in the leading establishments like the New Lion International Hotel (NLIH) which were in close proximity to and obtained business from major embassies, multilateral agencies, and International Non-Government Organizations (INGOs) engaged in providing humanitarian services. But even these choice hotels faced daunting challenges in meeting their product and service development objectives. Design of services is even in the best of times challenging, because their services often have unique characteristics—more so NLIH and the Paradise Hotel and Restaurant, which primarily offer high-end food service. Hotels such as Paradise and NLIH reported that they believe in focusing on a strategy that a highly placed manager at NLIH referred to as the “moment of truth”⁶⁰ when the relationship between the hotel and the customer is crucial. The moment-of-truth approach addresses customer satisfaction factors such as experience detractors, standard expectations, and experience enhancers. As mentioned by the general manager of NLIH, they have had to constantly review service decisions in light of ever-changing hard currency cash-flow changes and other negative market dynamics. They have little to no time for optimal testing of strategies that similar establishments employ in the more developed world.⁶¹

“Facilitation Fees” and Bribes

Firms routinely settle “facilitation fee” requests. All but 5 of the businesses mentioned that they have had to deal with requests for facilitation fees or bribery from government functionaries. The requests come either during inspections by the local government and tax collection agencies when seeking government-mandated permits or registration documents, or when bidding for government contracts. At 82.1% of firms reporting the practice, this is a significant issue. Payment of bribes and facilitation fees is not only an inefficient use of company resources, it also has other socio-economic impacts on the South Sudanese firms. Engaging in the payment of these fees creates a very unfavorable business environment by encouraging the gaining of unfair advantages and anti-competitive practices among South Sudanese businesses. In addition to allowing organized crime to flourish, the honoring of these payments is one of the primary obstacles to the economic development of a country; it undermines the rule of law, weakens trust in public institutions, and challenges democratic principles.⁶² For the South Sudanese and others served by these establishments, consumer prices for goods and services may well be inflated. This is particularly challenging in a price-sensitive environment like that of South Sudan.

In addition to allowing organized crime to flourish, the honoring of these payments is one of the primary obstacles to the economic development of a country; it undermines the rule of law, weakens trust in public institutions, and challenges democratic principles.

Provision of Social Services

To address infrastructure deficits, especially for water and electricity, firms have had to assume responsibilities that should otherwise be handled by the government. The situation

in South Sudan is a bit less developed than in Somaliland; there are no independent power producers. Because South Sudan is not on a power grid, firms employ their own diesel-fueled generators for electricity. All but 6 of the firms (78.6%) had their own power sources. The ones that did not either had power as part of the rental payments (4) or used lamps when it is dark. In terms of water, the majority (85.7%) said they receive water from tankers that source the product from wells just out of the Juba city boundaries. Three of the firms had their own boreholes. To its credit, the government of South Sudan has taken an interest in how these water needs are met and at the time of the interviews had just instituted price controls for the vendors of this precious commodity.

Locals as Silent Partners

Firms use a local person as a silent partner. The firms that were neither multinationals nor principally owned by South Sudanese nationals (42.8%) confided that in order to keep operating, they incorporated a South Sudanese person as a silent partner. This was done to ensure that firm operations continue even during the challenging times that the jurisdiction has been facing since the onset of the civil war. Unlike in Somaliland, this person usually has no visible presence in the business but plays a key background role in smoothing feathers when the need arises. This use of silent partners is also different from in the developed world, where the silent partner generally provides capital to the business. In the Western models, the silent partner works with a written agreement that includes an obligation by the active business owners to report decisions and progress towards meeting desired outcomes. The agreement also specifies a clearly defined and mutually acceptable exit strategy for both parties. The exit strategy details the complete financial terms and commitment back to the silent partner if a separation were to occur. In the South Sudan scenario, the silent partner remains associated with the respective firm until the business changes ownership or folds.

Girls collect water from a bore hole in South Sudan. To its credit, the government has taken an interest in how water needs are met. Photo by Arsenie Coseac, Flickr



Generic Brands

Firms prefer to use cheap substitutes instead of acknowledged brands. The 35.7% of firms specifically targeting customers at the lower end of the economy (which also comprises the bulk of customers in present-day South Sudan) reported the exclusive use of generics and other substitutes for brand-name products. The use of such products reportedly enabled them to deliver services and goods with pocket-friendly prices to South Sudanese customers. These businesses included Nellum Autospares, which supplied equivalent products from Vietnam, India, and China rather than brand names like Bosch and Goodyear to Peugeot, Honda, Toyota, and Nissan vehicles on South Sudanese roads. This behavior was also dominant in Life Start Clinic and Drugstore. The health establishment's customer base is mainly composed of hard-pressed South Sudanese nationals barely able to pay for the pocket-friendly services offered by the clinic. The clinic's owners also remarked that they assume a role beyond that of the typical health-service provider by promoting better hygiene standards among the populace as a way to control the easily preventable diseases that are so common in the jurisdiction.

Low Use of Professional Financial Services



43%

of interviewed South Sudanese firms

have not had an
EXTERNAL AUDIT

Finally, the typical South Sudanese business, unless mandated by its country of domicile, shareholders, INGOs, or multilateral bodies from which it seeks business interactions, has been averse to using professional services like those offered by accountants, auditors, and financial advisors. In the course of the interviews, 12 firms comprising 42.8% of the businesses indicated that they had not contracted external auditors. This was surprising given the number of registered accounting firms in Juba. The registered accounting firms interviewed, like Bailey Consulting Group (BCG) and Kamau and Associates, did indicate that their business was largely conducted with the humanitarian agencies and firms seeking contracts for which multiple years of audited accounts were a prerequisite before submitting bids. This request for audited accounts would also, at a minimum, be a corporate requirement for credit facilities in the multiple banks in the jurisdiction. The low use of professional financial services was echoed by Matku Engineering, UAP, and Tango Consult representatives. This state of affairs is also manifest in the very low uptake of insurance services at this point in the nation's history.⁶³

Eastern Democratic Republic of Congo

DRC BUSINESSES

in the sample are primarily:

Early- to middle-stage developing, micro-enterprises that are Congolese-owned



The vast majority
**IN OPERATION
FEWER THAN 10 YEARS**



OVER 90% are
MICRO-ENTERPRISES



The majority are
CONGOLESE-OWNED

Of the 39 businesses approached, only 13 (33%) willingly agreed to share their experiences and strategies. Another 10 did agree to talk on the condition of anonymity, but only to give generalities (from which the author of this report did derive useful information). In light of the recent conflict that had occurred in the region around the time of the interview and the suspicion that information gleaned from these interviews, especially those of a financial nature, could end up with government functionaries, this should not be surprising. The businesses spoken with included those run by Congolese citizens, multinationals domiciled elsewhere, and businesses operated by foreign citizens living in Goma.

The findings of the specific ways businesses structure themselves to negotiate around business challenges are below.

Security

Firms pay particular and visible attention to security. All the firms interviewed mentioned that security was a primary concern, hence the presence of 14 security companies, including ones from as far afield as Great Britain, Belgium, Lebanon, and Kenya. Guns were openly on display, not only by members of the huge UN peacekeeping force but also by the large DRC armed forces contingent that has a base in Goma. Companies in the jurisdiction operate with security guards who control access to premises, especially in the more upscale establishments. At dusk, the city changes drastically: mobility is severely limited, and business owners move into their walled compounds. The business owners also mentioned

that they rarely venture outside of Goma's city limits without an armed escort because of the militia groups that operate in the countryside.

"Facilitation Fees" and Bribes

Firms expect to face and routinely settle requests for facilitation fees and graft demands from government functionaries. All the businesses talked to stated that they invariably face these requests, often in the form of multiple inspections, unexpected license charges, or just plain cash pleas. In practice, bribe payments are expected—all the firms interviewed stated that they know in advance about the bribes they need to pay to sustain operations, indicating that these additional costs are already factored into their cost structures. The business owners also reported that the judicial system is ineffective and has limited capacity for contract enforcement and conflict resolution. Business owners have little faith in this system, and believe that the court system is not fair, impartial, or uncorrupted. While the prevalence and scope of these requests for facilitation fees and bribes may seem alarming to readers, they are not surprising in light of the low and often delayed government salaries.

Informal Status

Firms reduce their tax burdens by maintaining an informal status. Eastern DRC businesses that would otherwise be seeking to transition from being micro-enterprises often consciously maintain their informal status. Other than multinationals, banks, security companies, a high-end restaurant, and a premier hotel, the bulk of the eastern DRC companies in this report are micro-enterprises. Unlike in South Sudan, these firms are owned and operated by Congolese citizens. While most micro-enterprises have authority licenses, not all of them comply with all of the tax and licensing laws. These business owners reported that they choose to remain informal not necessarily because of their inability to sort through the paperwork required to

formalize, or due to the time or cost involved in registering, but because informality allows them to circumvent higher taxes and payment-seeking from inspectors and tax officials. In effect, they maintain their informality as a way to go around the perceived higher burdens that come with tax obligations. Conversations with Virunga Market merchants, two taxi operators, and the proprietor of a leading ethnic food outlet emphasized this behavior strategy. The visit also showed that most micro-enterprises in the eastern DRC are not "survival enterprises" managed by necessity-driven entrepreneurs, but rather are based in permanent structures with electricity and water hookups.

Cash Transactions

The sight of small Goma traders holding huge bundles of currency is not uncommon, but mobile money transfers through the three leading telecom providers will in time probably reduce the need for handling such bundles.

For eastern DRC firms, cash is still king. Business transactions are conducted in US dollars for establishments targeting the INGO sector and foreign nationals. For the typical Congolese person, merchant business is done using the Congolese franc, which at the time of compiling this report was trading at 985 francs to the US dollar. The sight of small Goma traders holding huge bundles of local currency is not uncommon, but mobile money transfers through the three leading telecom providers, Airtel Congo, Azur, and MTN Congo, will in time probably reduce the need for handling such bundles of local currency. At the time of the interviews, two of these three mobile telephone money operators (Airtel Congo and MTN Congo) had been levied with substantial fines for poor service by the DRC Regulatory Authority for Post and Electronic Communications.⁶⁴ None of the establishments interviewed had a provision for working with credit card payments, in spite of the presence of several banks in Goma.

Goma is the largest urban center in the eastern DRC. Photo by Abel Kavanagh



Immediate Payment of Goods and Services

Eastern DRC firms, unlike those in Somaliland, rarely grant credit. The business owners expect cash on delivery of services or goods. The only exception was the security firms that invoiced their clients, all of whom were INGOs, UN agencies, or reputable foreign bodies. Where, and if, credit is granted, as the representative of Magali Restaurant stated, it is on a case-by-case basis. All other merchants, such as traders in the Virunga Market, hardware shops, fuel depots, transport operators, hotels, supermarkets, butchers, and grooming outlets, demand immediate payment on receipt of goods and services.

Foreign-Owned Businesses

Unlike in Somaliland and South Sudan, a foreign investor can officially establish a business without a local individual partner, though a small stake is designated for the government. The four security companies with foreign home-bases indicated that foreign investors can operate in the DRC either through establishing a branch or a local subsidiary. The individual business may be designated either a “Société en Commandite Simple” (SCS), a “Société Privée à Responsabilité Limitée (SPRL), a “Société par Actions à Responsabilité Limitée” (SARL), or a “Société Cooperative,” the first two being limited liability companies.⁶⁵ For the SPRL category, shares are not freely negotiable, while SARL shares are, in principle, freely negotiable. Incorporation of an SARL requires a minimum of seven shareholders. Furthermore, incorporation of an SARL requires authorization from the Office of the President of the DRC. The Ministry of Justice is entitled to receive 1% of the original stock invested in the business by its founders. Some sectors, including mining, insurance, and banking, have different procedures for creating a company. The representatives of these sectors were not as comfortable as the security firms were with sharing their respective procedures for incorporation. The reader should note that the government has restricted one category of small businesses to Congolese nationals. This covers artisanal production sector activities, small retail commerce, small public transport firms, small restaurants, and hotels with fewer than ten beds. Despite the government’s restrictions, some foreign-owned small retailers, particularly Chinese, Lebanese, and Indian-owned stores, were visibly operating in Goma during the visit, implying that the restrictions may not be strictly enforced.

A Mix of Supply Chain Strategies

Eastern DRC firms use a mix of supply chain strategies. The interviewed businesses employed all five available approaches: 1) negotiating with many suppliers, hence playing one supplier against another (utilized especially by micro-enterprises in Virunga Market); 2) long-term partnering relationships with a few suppliers, as exhibited by restaurants such as Magali and the 14 security companies; 3) vertical



integration, as demonstrated by the kombucha business and the boat transporter that made its own vessels; 4) *keiretsu*—a combination of vertical integration and having only a few suppliers, as employed by firms such as Au Bon Pain (which found that because items were being purchased from as far afield as Belgium, this model yields significant cost reductions, hence the bakery has started using goods from its own farm just outside Goma); and 5) the use of local suppliers on an as-needed basis, as exemplified by the supermarkets that stock almost only foreign products. The choice of supply chain strategy used in the eastern DRC depends on the industry sector, business size, and target markets. Micro-enterprises predominantly use many suppliers, with orders going to the lowest bidder, while the larger firms such as Luc Kivu Hotel are a bit more selective and frequently pursue vertical integration in order to handle their inventory and desired service standards. The business owners talked to indicated that breaches of supply agreements are not settled in the weak court processes, but mainly result in losses that have to be assumed by the procuring firm even as the supplier is blacklisted by the buying entity.

Land Tenure

According to all the business owners talked to, land disputes remain a key driver of conflict in eastern DRC and hinder development across the jurisdiction.

Finally, firms refrain from investing in land outside of the Goma city limits. Land tenure is still a problem in the eastern DRC. The situation within the Goma city boundaries is being reviewed with government attention and ownership of parcels of land on which the businesses operate within the city being known. But outside of the city limits, there is an urgent need for reform. Among the businesses interacted with, only two had interests in farmland outside of Goma city limits, and in both cases these were plots of family ancestral land going back multiple generations. The business owners all stated that one of the big challenges for those seeking to use or otherwise invest in farmland is determining who rightfully owns the land, and even who is permitted to own the land.

The government machinery still does not have the capacity to issue certificates of land ownership, even as it sets new regulations. The most recent agricultural code, for example, limits foreigners' share of DRC farmland investments to 49%.⁶⁶ According to all the business owners talked to, land disputes remain a key driver of conflict in eastern DRC and hinder development across the jurisdiction. Disputes arise because of land grabs, particularly from the many displaced communities in the eastern DRC. These disputes have continued amid the wars of the past two decades. The business owners therefore have adopted a "wait-and-see" attitude, even as some of the more influential ones pressure the provincial government to secure, survey, demarcate, and provide land rights for areas no longer subject to rebel activity.

Comparisons Across the Three Jurisdictions

In reading about the strategies businesses employ, the reader will note that some findings apply across all three territories. The exercise of compiling that list offered much in support of this project's initial objectives. The list captures valuable analyses and is important because it is only by comparing how firms tackle their challenges in the three jurisdictions that the reader can discern how firms behave in fragile states such as those depicted in the report. The analysis shows that the prototypical strategies firms employ in fragile states include the following.

Internally Generated Funds

Start-up and continued growth of firms across the three jurisdictions are predominantly the result of family savings and internally generated funds. This was especially the case for all women-owned businesses interviewed. The predominant use of internally generated funds for continued growth occurs in Somaliland, with no formal banking structures, and more surprisingly in the eastern DRC and South Sudan, where financial institutions do exist. While the entrepreneurs using savings to start their respective ventures should not be a surprise, the low penetration of banks (where they exist) to power the growth of interviewed businesses implies that the banks do not serve the same function they do in more developed jurisdictions. Banks are expected to act as financial intermediaries between entities with surplus capital and those with capital deficits. In the more developed territories, banks use the majority of customer deposits to lend to individuals and businesses in need of loans. When these loans are issued to businesses, they offer a well-acknowledged path to new investments, immediate expansion, and further growth. By relying on family savings and internally generated funds for development, firms in these fragile states have a much more challenged growth trajectory.

Employment of Foreign Workers

Firms in fragile states use foreign workers for skilled positions extensively. While the South Sudan business entities engage foreign workers at all levels, the eastern DRC and Somaliland ventures largely restrict these employees to skilled positions. These differences are probably the result of the development of legacy institutions. In the case of South Sudan, educational institutions were not operational during the 25 years of war prior to its 2011 independence. In the current environment—a just-ending civil war occurring so soon after independence—the country's educational institutions remain severely challenged. The situations in Somaliland and the eastern DRC are somewhat different. The pursuit of education is a major plank of Somaliland's development plans,⁶⁷ and rudimentary schools, colleges, and universities are now found in large urban centers. For the eastern DRC, rudimentary schooling in main urban centers persisted even during the protracted conflict in the region.

Cash Transactions

The firms in these fragile states without exception still tie their business transactions to cash. Credit is rarely granted. Many, because of their apprehension regarding the fluctuating values of area currencies, prefer to trade using major foreign currencies, of which the United States dollar is the most prominent. While the South Sudanese government was at the time of the interviews trying to implement a government directive for firms to desist from pricing in foreign currencies, this regulation was still not widely adhered to. In Somaliland and the eastern DRC, major foreign currencies provided an important medium of exchange in formal establishments such as high-end hotels. Change for services rendered would frequently be given in local currency, especially in situations where the change was of modest value. The Somaliland firms were equally willing to price in dollars in the more prominent businesses. With this pricing approach, charges were also equated with the prevailing rates of the Somaliland shilling.

Mobile Financial Services

Closely related to the preference for cash transactions in these fragile states is the reach of mobile financial services. All three territories use mobile payments to settle major payment categories. Somaliland makes the most extensive use of mobile telephone transactions. These include person-to-person payments, wages, government-to-public payments, bill and formal obligation payments, and payment for goods and services. South Sudan was also at the time of the interviews incorporating M-Pesa and Airtel Money systems in settlement of bills. The same applied to the eastern DRC, though not with the deep penetration and reliability of Zaad in Somaliland. In the eastern DRC, the main mobile money systems are Airtel Congo, Azur, and MTN Congo.

COMMON CHARACTERISTICS

of Firm Behavior in Fragile States

Start-up and growth is mostly due to



INTERNALLY GENERATED FUNDS

even where financial institutions exist

Businesses widely prefer to



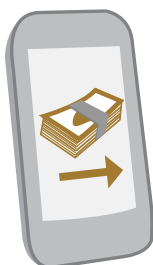
TRANSACTION IN CASH

Credit is rarely granted.



Major foreign currencies are an important medium of exchange when there are fluctuating local currencies

Many transactions are settled by



MOBILE PAYMENTS

- * person-to-person payments
- * wages
- * government-to-public payments
- * bill and formal obligation payments
- * payment for goods and services

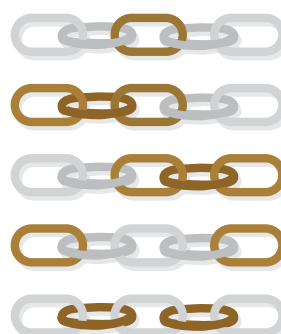
Most business entities



RELY ON FOREIGN WORKERS

for skilled positions

To control stages of production, firms



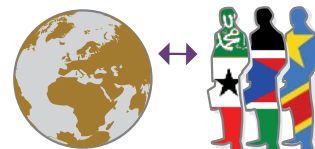
USE A MIX OF SUPPLY CHAIN STRATEGIES

in pursuit of production independence, rather than outsourcing

Foreign business owners

PARTNER WITH LOCALS

whether they are silent partners or have official corporate responsibilities



A Mix of Supply Chain Strategies

Firms in fragile states aspire to control all facets of production and work towards this goal. Supply chain strategies used are a mix of the five acknowledged categories. For the more established businesses, pursuit of vertical integration appears to be an overriding objective. This should not come as a surprise, given the absence of structures and incentives to standardize services and products in fragile states. Not only is there not much of a manufacturing sector, but even for services, quality of product varies substantially across and within jurisdictions. This pursuit of independence in

production is at variance with the developed world, where the outsourcing of goods and services has been standard practice for quite some time.

Local Partners for Foreign-Owned Businesses

The role of foreign nationals who paired with local partners came up repeatedly. As a survival tactic, businesses with foreign ownership employ the strategy of having an influential local person either as a silent partner or an individual having official responsibilities that include corporate affairs. The former was evident in South Sudan, while the latter strategy

was a feature of foreign-owned businesses in Somaliland. In both cases, these individuals shared in the profits generated by the businesses. The eastern DRC takes a slightly different approach: foreign businesses incorporated as SARLs have a designated percentage reserved for the government. Though not mandated by law, many eastern DRC firms work with influential local persons, even if not as widely as in South Sudan and Somaliland.

Religion and Business Conduct

All conduct in Somaliland, including in the business realm, is guided by the religious faith and tradition.

It is also important to note a significant difference among the three jurisdictions mainly revolving around how religion shapes business conduct in Somaliland. As a conservative Muslim jurisdiction, all conduct in Somaliland, including in the business realm, is guided by the religious faith and tradition. While business credit is widely granted, as explained, by vendors such as Mansoor Hotels, KEEPS, the Sacadadiin Group, and the Toyota dealership, the most obvious distinguishing feature of these transactions is the place of trust and the central importance of Islamic certification (Shari'a⁶⁸ compliance) for contracts between the vendors and their customers. Unlike in the Western world, these contracts (sales, leases, and simple partnerships) are designed by individuals who make Islamic products that cater to the Somali market. They are guided by jurists or religious scholars who are familiar with medieval juristic texts (predominantly in Arabic) that determine the conformity to Islamic tenets of the contract terms. It is important to recognize that religion and custom in Somaliland are demonstrated by adherence to form and equality in the areas of ritual and transactions. Time and time again, the vendors stressed that they are guided by tradition in how they deal with their customers.

As the leadership of the PKF group explained, business transactions in Somaliland are not just driven by economic efficiency but also by prohibition. Prohibition relates to certain types of financial transactions, such as those that bear interest (*Riba*), promote gambling (*Gharar*), or exhibit price gouging. The prohibitions relate to trade in unbundled credit and unbundled risk, in that they leave customers vulnerable to excessive borrowing and exposure to excessive payment of misplaced premiums. The transactions must also be conducted in an environment where both parties in the transactions consent to the business engagements. It is important to note that mutual consent in business is derived directly from the Islamic holy book of the Quran, which states, "let there be among you trade by mutual consent."⁶⁹ The conservative Islamic faith practiced in Somaliland, and its contemporary jurist prohibition features with regard to arbitrage, could be part of the explanation (together with the lack of an identification system and other supporting structures) as to why the insurance industry has not taken

root in the jurisdiction. Conventional insurance is essentially trading in some form of the unbundled risk (of which gambling is the extreme end of the spectrum) that is prohibited under *Gharar*.

For the minority-Muslim South Sudan and the eastern DRC, the Islamic faith, while an important facet of the two societies, does not carry as much weight as it does in Somaliland. Other faiths, mainly Christianity, as well as African traditional religions and atheism, also guide how people relate. Though all four categories of faith are important, on their own they do not provide a strict roadmap for how businesses should operate in either South Sudan or the eastern DRC. What is clear, however, is that businesses in the two jurisdictions are pragmatic in how they tackle challenges to their operations and create value for shareholders. Pragmatism dictates that if need be, government officials are included in company shareholding; dollars are sourced from the black market; patents are overlooked; zoning laws are disregarded; clinics and pharmacies store only generics; and incentives are paid to government functionaries to speed up processes. While trust is often present among regular customers, as a strategy it is rarely possible in South Sudan, where the expected recovery from the civil war is still a long way off. It is also evident that because of the slow recovery from conflict, the base of the private sector in South Sudan is very small. Most businesses are barely getting by, if at all. The situation in the eastern DRC is a bit better. However, businesses in the jurisdiction, while relatively vibrant, also have to overcome many challenges. The area businesses such as KK Security Services, KAMI Humanitarian and Security Services (HSS), G4S Security, GSA Security, FIN bank, TMB Bank, Ecobank, Standard Bank, RAO Bank, BIAC Bank, SMICO Bank, Access Bank, Au Bon Pain bakery, and Luc Kivu Hotel are largely dependent on the humanitarian organizations such as MONUSCO and those engaged in resource extraction, evident in the large number of banks that seemingly operate mainly as deposit-receiving institutions.

CHAPTER 5: IMPLICATIONS OF FIRM BEHAVIOR

In reviewing the strategies employed by firms in Somaliland, South Sudan, and the eastern DRC, it is abundantly clear and unsurprisingly so, that fragility, conflict, and violence are expensive—generating tremendous immediate, medium-term, and long-term costs relating to both human and financial resources. There are also less tangible, but equally critical, implications in relation to the weakness of the rule of law, increased transaction costs for businesses, and depleted human capital—all of which have substantial negative effects on the prosperity, equality, and achievement of sustainable development in the three jurisdictions. This is probably most evident in South Sudan and the eastern DRC, where because of ongoing or recent conflict, the instability and surge of internally displaced people has pushed INGOs to deal with unplanned and extensive human settlements. The research also provides insights into areas in which the condition of businesses in these fragile societies and how they operate can be improved, and where systems can be improved in the three jurisdictions. These insights are grouped for the three main target audiences of this report (as discussed in the introduction): international business, central governments, and international development agencies.

International Business

Working with Local Partners

As the cases of Physical Risk Solutions (PRS), Coca-Cola, and Toyota in Somaliland and South Sudan Beverages Limited, East African Breweries, and SITICO Petroleum in South Sudan show, foreign businesses investing in these fragile jurisdictions are advised to prepare carefully and work with good local partners. The same applies to the eastern DRC, where a host of “fixers” comprising individuals from local business, government, and media (journalists) help smoothen the tortuous paths. It is worth noting that the three businesses in Somaliland documented as using local partners report that this has led to successful investments by the mentioned multinationals. Like respondents such as the leaders of PRS indicated, in these fragile jurisdictions getting permits is hardly ever just a matter of producing the right paperwork. Even

without inducements, it can involve haggling with government functionaries and politicians over lengthy periods of time. Foreign firms pursuing this alone would then be at a big disadvantage relative to local firms that have the connections to “navigate” the game and its rules. This is especially so given that submitting to shakedowns would expose Western firms to the risks of prosecution and hefty fines in their home countries following the passage of legislation that prohibits the payment of bribes in their countries of domicile.

Mobile Telephony

The positive role of mobile telephony in promoting business in the three jurisdictions is remarkable. The technology usage is increasing rapidly and has spread to the most remote areas, including those where gums and resins are now being procured in the isolated highlands of Somaliland. However, it should be noted that the positive gains from the mobile telephone revolution are probably more skewed towards the more underprivileged in all three societies. Before the onset of the mobile telephone revolution, the underprivileged were more vulnerable to risks resulting from the lack of access to information. One such risk was the loss of catch by fishermen. With mobile phones, fishermen such as those who belong to Somaliland’s Abu Najib Fishing Company and the Barwaaqo Fishing Cooperative reported they can better find buyers and thus cut the time for bringing the fish to consumers, which in

A resident in Mogadishu, Somalila uses his phone. Mobile telephony is increasing rapidly and has spread to the most remote areas. Photo courtesy of AMISOM, Flickr.





Hargeisa residents at a convenience store with money exchange services. Photo by Jean-Pierre Larroque, OEF.

turn leads to better quality products and reduces the damage to the catch. In addition to the ease of doing business exemplified by Zaad services in Somaliland, mobile phone penetration has generated a plethora of other inclusive benefits. The way PRS, Tayo Uniforms, KEEPS, Rahiq Gums and Resins, Dalyit Dairy, Summertime restaurant, the Idris Ladies' Lingerie shop, Golis Energy, and PKF in Somaliland; Dalbit Petroleum, Nelson's Restaurant, Olive Restaurant, Matku Engineering, and other business in South Sudan; and the likes of KAMI HSS, KK Security, Global Guardian, Warrior Security, and Luc Kivu Hotel in Goma use mobile telephony indicates that the mobile phone revolution has touched almost every aspect of society in these three jurisdictions. Beyond improvements at the household level, the cellular telephone is a major tool for consolidating networks of interaction between businesses. It does this through improved payment facilities (via platforms like M-Pesa, Zaad, MTN Money, and Airtel Money) for small and medium-sized enterprises; enhanced business-to-business interactions; delivery of services to meet health and financial needs, and the resolution of market failures, as alluded to by Rahiq Gums and Resins (see Appendix A). Indeed, in all three jurisdictions mobile phones are being employed to tackle the challenges of financial inclusivity, employment, and production and distribution of supplies. For all intents and purposes, the Zaad platform in Somaliland as well as MTN Money and Airtel Money in the eastern DRC are serving as mobile banking services (albeit only as a deposit-receiving mechanism) in that they permit the payment of salaries for a large group of enterprises.

Mobile phones are being employed to tackle the challenges of financial inclusivity, employment, and production and distribution of supplies.

Cash Transactions

The central place of cash transactions in the three jurisdictions cannot escape mention. While electronic payment systems are

increasingly becoming commonplace in the more advanced sub-Saharan African countries, this is not the case in the eastern DRC, South Sudan, and Somaliland. In all three, one would be hard-pressed to find merchants willing to take credit cards. In Somaliland, there are no systems to support the use of credit cards. The other two are only marginally better. Though the cases in the three jurisdictions are extreme, it should not be lost on the reader that credit card use in the other African countries is still significantly below the level on other continents mostly because of the rural nature of most of the continent's population. A February 2014 McKinsey study estimated the number of credit card transactions on the continent as a whole to be barely 2 in 10, though growing.⁷⁰ For the DRC, South Sudan, and Somaliland, cash is still king and major foreign currencies, especially US dollars, have pride of place. One can make the argument that Zaad in Somaliland and Airtel Money, MTN Money, and M-Pesa in the eastern DRC and South Sudan have become a way of life there. These payment systems, while transformative, continue to grapple with significant challenges within the three jurisdictions.⁷¹ The challenges include battling banks (where they exist) and other financial institutions for customers, problems around the lack of interchangeability and functionality of mobile payment systems, and inadequate regulation and standards that in themselves may enable fraud and illicit financial flows.

Limited Role of Financial Institutions

Financial institutions do not serve the same role they do in the developed world. As known in the West, banks and other financial institutions play two indispensable roles in the financial systems.⁷² The first is providing support for financial markets, such as setting the rules of trading and providing clearinghouse and margin logistical support between the banks themselves. These services alleviate many of the information asymmetries between buyers and sellers that might lead to market failures. The second role that these banks are expected to perform is providing financial solutions

where market failure occurs despite the presence of market-supporting institutions. Therefore, in theory, any eastern DRC company should be able to access credit in the form of bonds, commercial paper, letters of credit, and structured loans. But the various Goma-based vendors declared that the regional banks are reluctant to issue structured loans to businesses in the jurisdiction. The banks do not adequately serve the second role, and by largely operating as deposit-receiving institutions they do not fulfill the function of serving as an intermediary between surplus capital and capital-deficient entities that is expected of financial institutions. For these eastern DRC vendors, high interest and predatory lending practices make borrowing from regional banks untenable. The business owners finance their business operations from organic growth. This scenario is very majorly different from the one in Somaliland, where banking law is just now being set up and a Central Bank is planning to begin operations. For South Sudan, while the institutions exist, they remain barely operational due to severe liquidity constraints as a result of the ongoing conflict.

Regulatory Environment

While the three jurisdictions have significant regional and country differences, they all have economies in which business models are run on price–value trade-offs that primarily target the bottom of the pyramid rather than the top of the pyramid sought in developed economies. As a result, it is no surprise that almost all of the businesses are locally owned in Somaliland and the eastern DRC. However, unlike in the developed world, where governments impose few procedures for the setting up of business, entrepreneurs in Somaliland, South Sudan, and the eastern DRC confront harsh regulatory burdens. As expected, the more entrepreneur-friendly these formal and informal requirements are, the more opportunity-driven entrepreneurship flourishes. In this research, Somaliland, with its relative stability and regional cohesion, stands out as the most business-friendly environment of the three jurisdictions. This observation is ironically supported by multiple responses noting the ease with which detrimental copycat businesses can be set up in Hargeisa.

Central Governments

Revenues from Natural Resource Extraction

The eastern DRC and South Sudan cases show business can contribute to the transparent and effective management of revenues from the export of natural resources. In the case of South Sudan, the export of crude petroleum is largely a government affair and it has ground to a near-halt during the course of the civil war. With little input from local communities, the exports have not been accompanied by needed investments in human, physical, and institutional capabilities to encourage a diversified economy—a situation

also replicated in the eastern DRC. For Somaliland, the export of gums and resins by Rahiq is now taking place within a framework where the local community is involved and expectations for responsible business activity include the development of schools and other forms of infrastructure from those from whom the gums and resins are being sourced. While this is nascent, it does point to a direction for what the private sector can do in harnessing the benefits from extractive activities.

With little input from local communities, natural resources exports have not been accompanied by needed investments in human, physical, and institutional capabilities.

Presence of An Adequately Enabling Business Environment

The research shows that there must be a threshold of an adequately enabling environment for businesses to continue to direct investments into the country. Companies must believe there is a positive business case for successfully investing in an otherwise fragile and conflict-affected environment. The research shows that investors representing PKF, Toyota, and Coca-Cola are keen on developing their enterprises in Somaliland, just like the owners of Golis Energy, Sacadadiin Group, Warsame Contractors, AADCO Printing, Summertime, Sagal Jet, Tayo Uniforms, Mansoor Hotels, KEEPS, Rahiq Gums and Resins, Dil Bakery, Dalyit Dairy, Royal Restaurant and Lounge, and Qalah Beekeeping. This is in marked contrast to the owners of the South Sudan enterprises such as SITICO, the South Sudan brewery subsidiary of SABMiller, and EABL's depot operations that closed due to the prevailing environment in Juba. While the other firms interviewed in South Sudan had not closed, they were—with the exception of UAP Sudan, Matku Engineering, Tango Consult, Dalbit Petroleum, Equator Broadcasting Corporation, Paradise Hotel and Restaurant, CFC-Stanbic Bank, Cooperative Bank, Equity, and Kenya Commercial Bank—contemplating doing so or scaling down until the business environment became more amenable to their respective business models. This was most apparent for Life Start Clinic, Afri-Africa, Olive Restaurant, Nellum Autospares, SITICO Petroleum, and Bridge Tours and Travel, which had all made significant adjustments to their South Sudan operations.

Public-Private Partnerships

The private sector can work hand in hand with the other sectors to jump-start important institutional set-ups and rapid growth in the respective economies. In so doing, the private sector co-evolves with the environment and strategically responds to the opportunities and constraints of the institutional frameworks. In other words, public-private partnerships are excellent ways to drive positive development within the limitations of the institutional frameworks existing in the three jurisdictions. The cases of Alphamin Resources in

IMPLICATIONS for Business in Fragile Economies

FOR:

International Business



Opportunity-driven entrepreneurs face a **HARSH REGULATORY ENVIRONMENT**.



LOCAL PARTNERS can help navigate the local business environment.



FINANCIAL INSTITUTIONS are largely embryonic.



CASH TRANSACTIONS are still the more widely preferred method for goods and services.



The role of **MOBILE TELEPHONY** can be remarkable for promoting business transactions.



Firms should work to put **SUPPORT INSTITUTIONS** such as strong business collectives in place.

Central Governments

Companies must believe in an **ADEQUATELY ENABLING BUSINESS ENVIRONMENT** to invest in a fragile, conflict-affected jurisdiction.



Local governments can harness local power and reach of **DIASPORA NETWORKS**.



PUBLIC-PRIVATE PARTNERSHIPS can jump-start institutional set-ups and growth within the limitations of existing frameworks.



WOMEN-OWNED ENTERPRISES in fragile states play an important role in employment.



The local business community can contribute to transparent, effective **MANAGEMENT OF REVENUES FROM NATURAL RESOURCE EXTRACTION**.



The integrity of business transactions is greatly enhanced if the jurisdiction's **CITIZENS SHARE COMMON VALUES**.



International Development Agencies



The local **PRIVATE SECTOR CAN CONTRIBUTE TO STABILITY** and the improvement of economic and social conditions.



The private sector has the skillset and experience to support fragile governments in **DELIVERY OF BASIC SERVICES**.



THE PRESENCE OF INGOS supports services, but can also create additional conflicts and contrasts that add to state fragility.



The **EMERGENCE OF STRONG INSTITUTIONS** is critical, but takes time; agencies have the opportunity to work with other sectors to strengthen institutions.

the eastern DRC, Equator Broadcasting Corporation in South Sudan, or even the approach taken by UAP South Sudan to work with government to realize its objectives aptly demonstrate this point. In Somaliland, a clear need for waste management is being met by KEEPS, an entity that has included the local government of Hargeisa as a minority shareholder. For these partnerships to work, a high degree of flexibility and agility is required of all partners. While businesses must approach these arrangements with an open mind, as UAP South Sudan and KEEPS have done, the respective governments, too, must demonstrate a commitment to creating the appropriate enabling environment. These include a transparent and legal framework for spurring investment in infrastructure. And as the Somaliland Chamber of Commerce, Industry and Agriculture (SLCCIA) shows, local civil society groups and INGOs with which it partners can help make valuable connections among businesses, government, and local communities.

Women-Owned Enterprises

The importance of women-owned enterprises in providing employment in fragile states cannot be overemphasized. The role of gender is significant, as women did account for many of the small-business owners interviewed in Somaliland, South Sudan, and the eastern DRC. The cases of Olive Restaurant and Bridge Tours and Travel in South Sudan or the Idris Ladies' Lingerie shop, the Royal Lounge and Restaurant, Tayo Uniforms, and Kaaba microfinance in Somaliland illustrate that women entrepreneurs use social networks for the advancement of economic activities. These social networks—particularly family relationships—play a crucial role in the formation and operation of these women-run enterprises. Unlike in the West, where corporations are underpinned by dispersed ownership, the overwhelming majority of local businesses in these geographies are characterized by concentrated ownership. This is especially true for the women-owned firms interviewed, where family considerations were integral to the running of the businesses. For instance, the many female vendors in the expansive Virunga Market in Goma, DRC, and the proprietors of Bridge Tours and Travel and Olive Restaurant (both in Juba) and of the Royal Lounge and Tayo Uniforms in Hargeisa derived much value from family relationships and informal social networks in the establishment of their businesses. This is probably partly due to the professed lack of access to formal business networks, especially in Somaliland. The strong family bonds and norms of reciprocity evident in the running of these women-owned businesses allow family members to help these enterprises, often without monetary compensation. The strong family involvement is especially present in the smaller women-run firms regardless of the jurisdiction.

Diaspora Networks

Area governments should harness the power and reach of diaspora networks in order to benefit country economies.

While the importance of diaspora remittances in country stabilization is widely acknowledged, perhaps not as much has been made of the skills and knowledge transfer that these migrant communities abroad bring. In addition to their financial engagement, members of the diaspora can help foster innovation and learning processes and even contribute to political change in their home jurisdictions.⁷³ The fostering of innovation in this study is most aptly demonstrated by Somaliland's Zaad service. The novel service and the set-up of Telesom has been and continues to be driven by diaspora networks. For Telesom, the parent company of the Zaad service, close contacts and close coordination with the diaspora have also helped Somaliland benefit from the non-financial resources that the diaspora may bring. Apart from Telesom, many other Somaliland firms such as Dil Bakery, Dalyit Dairy, Idris Ladies' Lingerie, the Royal Restaurant and Lounge, Kaaba Microfinance, Tayo Uniforms, the Toyota dealership, Sagal Jet, and Rahiq Gums and Resins are owned by diaspora returnees. The same applies to the Olive Restaurant, Tango Consult, and Matku Engineering in South Sudan and Au Bon Pain bakery in the eastern DRC—all of which are leading firms in their respective jurisdictions. In the cases of Sagal Jet, Tayo Uniforms, Au Bon Pain bakery, Rahiq Gums and Resins, Dalyit Dairy, and Matku Engineering, the firms are bringing in new processes for undertaking the production of goods and services that the jurisdictions have not previously been exposed to. It is noteworthy that many of these establishments are women-owned. All three jurisdictions have female-owned firms that demonstrate the possibilities local women can aspire to emulate, as referenced above. The diaspora-led firms have also imported Western-style business practices and values that work in these fragile territories. The establishment of diaspora-led businesses has a spillover effect: the development and integration of local businesses to world-class standards and, ultimately, global acceptance.

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International Development Agencies

The Private Sector and Service Delivery

The private sector lends a specific skillset and an assortment of experiences that can support fragile governments and societies. For example, as the cases of the independent power producer Mansoor Power Company and the refuse management firm KEEPS in Somaliland show, business has developed means of improving the delivery of basic services in hard-to-reach communities. Another example is provided by the private security industry. In all three jurisdictions, the



A service station in Nimule, South Sudan. Photo by Ron Savage, Flickr.

large private security industry presence represents shrinkage of the state's official security obligations, and a failure by the state to provide a service it has traditionally and conventionally assumed. A third example of the private sector filling a gap in service delivery is Somalia's telecommunication provider, Telesom, which illustrates that business can contribute to supporting fragile governments and societies. The model of the money transfer service Zaad, which does not charge transaction fees, encourages financial inclusion for vulnerable members of society.

Adequate Institutions

The evidence from the research indicates that even for the three fragile jurisdictions chosen, in order for business to thrive, some supporting institutions must be in place. Adequate institutions guarantee long-term sustainability of the businesses. Adequacy is present in Somaliland. In the words of the leaders of KEEPS and PKF in Hargeisa, the traditional Islamic institutions that promote arbitrage and transactions in Somaliland, while not familiar to the West, do provide an environment for the growth of Hargeisa-based firms. Cultivating further private-sector development can be part of the solution in the building of frameworks and initiatives that improve the capacity of local institutions. Examples are the traditional clan-elder arrangements that arbitrate disputes, and the nascent government agencies which are slowly gaining legitimacy. Somaliland is working towards the growth of business collectives that improve professionalism in the private sector while advocating for the interests of their membership. Institutions such as Somaliland's SLCCIA, the Barwaaqo Farmers' Cooperative, and the proposed

Barwaaqo Fishing Cooperative have important roles to play in the development of business. During the interviews, it was apparent that South Sudan—and the eastern DRC, to a lesser extent—do not have significant business collectives in place. It is imperative that these business collectives be operational because, as the extant literature demonstrates, they lead to a win-win situation for both government and the private sector.⁷⁴ The networks arising from these collectives help enlarge the repertoire of policy alternatives and comparative institutional advantages that lead to new products and services and innovative firm strategies. Through their partnership efforts, business collectives improve competitiveness, which in turn helps the growth of the private sector and the economy as a whole.

The Private Sector and Stability

The local private sector can contribute to stability and improving economic and social conditions in fragile jurisdictions. Engagement with the local private sector, while not a panacea to the ills of fragility, forms a major part of any solution that stimulates economic growth. In Somaliland, where the private sector is thriving, all but four of the firms interrogated were primarily locally owned. In this jurisdiction, the four firms with substantial foreign interests are Ethiopian Airlines, Fly Dubai, the Coca-Cola franchise, and the Toyota dealership. Apart from the first two, which are foreign airlines, the other two are majority-Somali-owned.⁷⁵ In contrast, many of the leading firms in South Sudan that have remained during the trying times, including UAP Sudan, CFC-Stanbic Bank, Bailey Consulting Group, Equity Bank, Cooperative Bank, Kenya Commercial Bank, Afri-Africa Restaurant, Dalbit

Petroleum, and Paradise Hotel and Restaurant, are either subsidiaries of multinational corporations or are majority-owned by non-locals. With most of the jobs in Somaliland generated by local small and medium-sized enterprises, it is evident that these local firms are not only resilient in spite of the challenges of fragility, but actually exhibit growth. While South Sudan also illustrates resilience among the mentioned foreign interests that are still in operation, these firms are not growing at this time. Eastern DRC is somewhat of a mixed bag. Again, the overwhelming majority of the opportunity-driven enterprises are foreign-owned or subsidiaries of foreign interests, as demonstrated by the multitude of security firms serving the large UN presence. A few local firms, such as those in the hospitality industry, hardware merchants, and local travel businesses, continue to thrive, but even they are closely linked to the UN presence rather than the local DRC society. It follows that where growth is exhibited by local firms, additional development can be achieved by large businesses, which are invariably foreign-owned, and it is good to explore ways of connecting the local enterprises with global chains. Given that these local businesses have invaluable knowledge of local conditions and actors, these firms can, through last-mile models, provide job opportunities for women, youth, and other marginalized groups. Besides, it does appear that in the near future, firms such as Matku Engineering in South Sudan and Telesom, Rahiq Gums and Resins, Golis Energy, Sagal Jet, and the Toyota dealership in Somaliland may embark upon their own internationalization, being strongly influenced by prevailing domestic and international institutions.

Engagement with the local private sector, while not a panacea to the ills of fragility, forms a major part of any solution that stimulates economic growth.

INGO's: A Double-Edged Sword

The presence of INGOs creates a strong stimulus in the three cities of Hargeisa (Somaliland), Juba (South Sudan), and Goma (eastern DRC). But the presence of INGOs also comes with a significant cost. The double-edged sword of the aid workers' presence also extends to the sphere of social services: in the relative absence of the state, it is UN agencies and NGOs that provide or at least support much of the region's education, health, and water and sanitation services. In the eastern DRC in 2014 alone, the international medical charity Médecins Sans Frontières (MSF) ran forty health centers, nine health posts, and four referral clinics and supported eleven government-owned health clinics.⁷⁶ However, the concentration of international humanitarian organizations and their expatriate staff has also resulted in additional conflicts and contrasts. In the particular context of a weak institutional framework, informal urbanization, and a highly contested economic, social, and political urban arena, the international humanitarian presence has become a significant factor in reinforcing patterns of conflict and competition across the urban political and socioeconomic spaces. The inflation of

rents, increasing prices of houses and land, and the profound dollarization of local markets in the three cities further sharpen the socio-geographic urban fault lines they added.

It is a sentiment echoed by one Congolese employee of an NGO, who asked not to be identified: he is of the opinion that the real beneficiaries of economic prosperity brought about by aid organizations are the same people who have benefited from the extraction of minerals. He asserts they are the people with access to aid funds and who therefore can build hotels and expensive restaurants. Housing and office rentals have become very expensive because NGO staffs pay high rents for decent housing, and the landlords know this. Some have removed people from their rentals because they want to refurbish them and lease them out to those who can pay more. Others engage in the practice of cutting power that condemned BCG and Bridge Tours and Travel in Juba to occupying offices without access to power during the time of the interviews. The problem is not unique to Juba; it is also seen in Goma, where roads in the central business district and the gentrified east of the city are largely paved and well-lit, while those in most outlying shanty-town areas of the city are barely passable.

The Emergence of Effective Institutions

Strong institutions are critical, but take time to emerge. Even with the best technical advice and other donor support, as in Somaliland, South Sudan, and the eastern DRC—all three of which are acknowledged as being among the most fragile and conflict-affected jurisdictions—effective institutions will take a long time to emerge. The situation in South Sudan is particularly dire. The conflict has dramatically eroded gains that were initially made in the establishment of institutions following the country's independence from its northern neighbor. But even for Somaliland, where there is no major conflict, the emergence of institutions is a slow and tortuous process. Take the case of the financial institutions: while a law establishing the Somaliland Central Bank has been passed, independent financial institutions that are able to carry out the full gambit of banking activities are still a long way off.⁷⁷ Telesom's services are indeed an encouraging sign, but the lack of international recognition for Somaliland hampers the progress towards the establishment of a formal banking institution as known in the West. In terms of human capital, the



CHAPTER 6: CONCLUDING THOUGHTS

While no single report can be exhaustive in capturing all that is practiced in the three jurisdictions, this analysis of how the institution of business operates in these areas provides a good representation of the manner in which business entities tackle their everyday challenges and create value, and should add to an area of study where little has been documented previously. There are many shared strategies as well as a few distinct differences. Differences aside, the analyses of the business behavior in the three geographies indicate possible entry points for interventions that can lead to stabilization and development away from state fragility. This is important because the institution of business serves critical functions in the development of any country. One of these functions is the creation of employment opportunities. Central governments in these

territories and international development agencies would, as a matter of policy, be interested in this employment creation as an avenue toward attaining growth. Beyond growth, the creation of employment serves another key purpose that international businesses that subscribe to the UN guiding principles should want to promote: the work created by business is one of society's most important institutions.⁷⁸ It is the main mechanism through which spending power is allocated and the plight of citizens can be improved. Work provides citizens with meaning, structure, and identity—all essential additions to what is undoubtedly a portfolio of institutions necessary to counter the forces that promote state fragility.



A girl buys bread at Hodan Bakery in Somaliland. Photo by Jean-Pierre Larroque, OEF.

three jurisdictions suffer from human resource deficiencies, and the educational institutions have not met and do not appear ready to meet the needs of the jurisdictions. Many of the skilled positions in the three jurisdictions are held by foreigners, especially those from the relatively more stable neighboring countries of Kenya, Ethiopia, and Uganda. South Sudan scores particularly low on this point.

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APPENDICES

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APPENDIX A: BUSINESS IN SOMALILAND

The following describes the observations and interview responses for the Somaliland businesses that were part of the study. The observations and responses are organized by segment.

Accommodations and Food Service

Businesses in this category were among the most prevalent. The firms interviewed ranged in type and size from small eateries, casual dining, and relatively high-end dining to premier hotels in Hargeisa. Encounters with owners and senior managers are described below.

First, Summertime, a lively eatery that in many ways serves as the soul of Hargeisa's youth. The proprietor of Summertime lived and worked in Saudi Arabia before returning to Somaliland. He related that in 1999, he bought some family land while selling used cars and working as a driver for the Bollio Group, who were subcontracted by the World Health Organization (WHO). During the course of this work, it dawned on him that there was an urgent need to supply fellow workers with tea and other light refreshment in the late afternoon and early evening hours. He issued a down payment of \$150 on some modest premises to prepare tea, and progressively incorporated more African food. The place became a big hit and quickly built a brand driven by word of mouth. Because of high demand, he left his paid employment as a WHO contractor. Revenues from Summertime have enabled him to branch out to related ventures that now include a 4-star hotel and Summertime Apartments.

His journey has given him a litany of challenges that he documented in the interview: the difficulty of starting from scratch without much support from any financial institution; the prevalence of copycats "who reap where they have not sowed"; the challenges of having costly and unreliable power for an energy-demanding business; ever-changing rent; and the challenge of meeting the costs for foodstuffs, especially the imported kind. The business cycle has allowed him to build some resilience and save and grow organically, since financial institutions are not yet well-established in Somaliland. He added that while there is now the new challenge of a large influx of people from Yemen escaping the ongoing civil war and therefore dampening disposable incomes, he still hopes to proceed with establishing and finishing a hotel. The hotel is projected to have 92 rooms, four meeting halls, and four restaurants. The hope is that this hotel will be his new flagship business.

A second business in this segment is the Royal Mount Hotel, a relatively high-end hotel. The mid-sized establishment is under construction, though already operating in some functional sections. The areas in operation include the restaurant, the air-conditioned events hall, and a small mosque on the grounds.



Royal Restaurant and Lounge. Photo by Jean-Pierre Larroque, OEF.

At the time of the interview, this particular facility was one of a kind in Hargeisa as the only air-conditioned hall (not to mention its capacity of 500 guests, comfortably seated). According to the owner, the Royal Mount Hotel faces several challenges; first, the issue of unfair trade practices. There is little recourse for the frequently unscrupulous behavior of other merchants: "One such individual will comfortably open an establishment next to yours with a close naming match to yours and not suffer for it." Second, the lack of financing options is a real hindrance to the creation and growth of a business opportunity. Third, the market is still quite small. Fourth, Somaliland does not have fully functioning insurance options to protect his businesses in the event of unforeseen occurrences. At the time of writing, there was still a general lack of an insurance concept in the jurisdiction. Somaliland's financial and insurance systems are still rather rudimentary and the citizenry depend on clan-based contingency systems. Fifth, he reported that the just-mentioned challenge is a problem that is partly the result of the major obstacle of Somaliland not being an internationally recognized jurisdiction. Finally, the issue of security remains a cloud hanging over Somaliland. Beyond the real threat of terrorist attacks, as in South Central Somalia, the owner asserts, "we have the issue of perception even by those in neighboring states, who otherwise would be welcome tourists to this establishment."

How does the owner of the Royal Mount Hotel deal with similar challenges? According to the hotel proprietor, even though the environment is challenging to the faint-hearted, he and others of his ilk are resilient and cope primarily by using clan-based support for financing where possible. Other financing resources he has used include leveraging the organic growth of his business, as exemplified by his running operations even as construction continues. The owner also mentioned that he had put financing requests in to the few



Royal Restaurant and Lounge. Photo by Jean-Pierre Larroque, OEF.

funds that are now operating in the jurisdiction. One such fund is that managed by Shuraako:¹ “I have put across a financing request to Shuraako through Abdi, and remain hopeful for a favorable response to help facilitate the balance of our immediate construction needs.” As for security concerns, he mentioned that security is largely addressed by community policing (“know thy neighbor”). One positive element of their operations is the low tax rates levied on Somaliland business. He said he considers business owners such as himself to be fortunate to have tax burdens that remain relatively low.

A third firm in this segment is the Royal Restaurant and Lounge, which was established in 2012 in its current premises (on a main thoroughfare in Hargeisa) but actually began operations in 2014. It reportedly fits a niche that the discerning diner appreciates and is organized around the theme of a Moroccan-style eatery and lounge. The uptake of its services led to the opening of a second outlet, the Ambassador Hotel, which is arguably the premier hotel in the city of Hargeisa and is much farther afield, in an upscale neighborhood of Hargeisa that has the homes of many of the city’s elite. The Hargeisa International Airport is also a short taxi-ride away from this second outlet. The Royal Restaurant and Lounge also offers catering and conference services in addition to sit-down meals. Its staff is a contingent of 16 “young but mature adults.” It is notable that the staff is comprised of individuals from five different jurisdictions, including Kenya, Ethiopia, Yemen, Somalia-Mogadishu, and Somaliland, who assist the owner/manager in preparing several different offerings including exotic meals.

According to the owner of the Royal Restaurant and Lounge, the business faces many challenges. Among them is the fact that the owner is female. According to her, it is difficult for a woman to operate a prominent business in Somaliland’s male-dominated society. Second, regulations—or the absence thereof—leave room for all manner of unfair trade practices. The owner mentioned that in Hargeisa, one can establish a similar business also named “Royal” without any consequences. It is also not unusual for employees to unexpectedly leave for the competition—which may entice them with significantly better terms—without the courtesy of giving notice. She noted, “You can imagine how disrupting that is when you have invested in

bringing foreign workers and [you] provide them with room and board. There are no consequences to these unethical practices.” Other impediments to the health of a business like hers are the lack of banks, insurances services, and allied services to help nurture growth. Everything is “cash on delivery,” putting great pressure on one’s cash flow. The owner also mentioned that she pays too much for water and energy. With her specialty offerings, energy is critical to preparing good products that many of the expatriate community and returning diaspora have learned to expect and appreciate. Lately this firm has introduced Western pancakes, pizza, and grilled dishes to the main branch (they were only offered at the other outlet in the elite neighborhood previously). It also does not help that Somaliland does not have adequate hospitality training institutions to prepare workers for the sector. She stressed that the industry segment needs to nurture talent, inculcate trust, and teach skills to locals who can then take over from foreign nationals. While she provides above-market wages, the owner said she believes it is difficult for a single female owner to command the respect of all employees, especially in the male-dominated society of Somaliland.

The owner of this restaurant contended that she has become battle-hardened because of the challenges she has faced since opening the firm. She says she overcame a lot of the first-year hiccups by being strict and hands-on. The owner could many times be found doing the tasks that her employees thought were reserved for others. She therefore does not tolerate staff members who do not show respect to their work through missing duty without justifiable reasons, or those who are

otherwise not fully engaged in the premier level of service she is trying to offer. On the financial side, she has so far avoided debts and considers herself very fortunate to have the support of strong relatives including her brother, without whom much of this success would probably not have been realized. She reported that she continues to be prudent in her cash management and recognizes the need to put aside something for a rainy day, however difficult that may be. The proprietor said she is encouraged by the many repeat customers who keep her going by providing support and recognition that are invaluable. She was adamant that it is time for a business association for the sector to be established so that deserving businesses within her segment receive their just kudos. The proposed association would ideally have annual awards to promote high standards in the industry. Finally, according to the owner, the government could do much more to support those like her who actively contribute to the country's development.

The owner was adamant that it is time for a business association for the sector to be established so that deserving businesses within her segment receive their just kudos.

A somewhat different view was offered by the owners of Mansoor Hotels,² one of the top two hotels in Hargeisa (the other being the Ambassador Hotel). While the Ambassador Hotel³ is located near the city's airport, Mansoor is in a residential neighborhood near downtown Hargeisa, just a few meters from the local Shuraako office. Mansoor is also the largest hotel chain in Somaliland, with branches in Hargeisa, Berbera, and Burao. The Hargeisa hotel currently has 117 rooms split into deluxe rooms, superior rooms, cottages, and presidential suites. Like all major Somaliland establishments, the hotels are run on Islamic principles with the behavior of guests expected to respect the faith at all times. The hotel started small in the period after the fall of Siad Barre (in 1993) and has grown organically since. It is evident just by studying the different phases of buildings comprising the current Hargeisa establishment how the extent of this growth has proceeded. At its start, the hotel's materials for the Berbera and Hargeisa locations were sourced with great difficulty. Most of the non-locally procured materials came by boat (dhows). Transactions were and are still done largely on "gentlemen's agreement" terms. Trust held and still holds a significant place in how guest obligations, supplier dues, and government requirements are dealt with. Payments are in cash or US dollars. The hotel chain and its associated companies form one of the larger employers in the country, trailing only the telecom providers. The hotel is a favorite meeting point for senior government officials, business leaders, INGO staff, and other elites. It is evident that it has good relationships with the current government; in fact, it has on many occasions bailed out the government with discounted services, especially in the early years. The Hargeisa hotel, like the other three hotels, has tight security and the body searches, body scanners, and vehicle barriers typical of hotels in the more advanced neighboring countries that have been subject to

terrorist attacks. The owner of the hotel chain listed several challenges in its daily operations. These included the high cost of energy, security concerns, the local unavailability of many materials, poor infrastructure, a resource-constrained government, problems with local financial institutions, and the lack of international recognition of the government.

In spite of these challenges, the hotel is clearly a thriving establishment and was heavily patronized during the writer's visit to the Hargeisa outlet. The owner stays in an adjoining property. Power is provided by the hotel's own diesel generator. Incidentally, the hotel principal also runs the Mansoor Power Company, an independent provider of power to a sector of the city of Hargeisa, out of neighboring premises. Water for the Hargeisa hotel is sourced from the establishment's own borehole. With regard to finance, the hotel owner said he does not believe in loans and has grown the venture organically from the judicious use of proceeds from guest cash payments that are based heavily on trust and references for the paying party. The seed capital was obtained from personal savings, especially from during the time the ownership was based in Yemen. Building designs are the work of the prominent late architect who also served as mayor of Hargeisa in the post-Siad Barre era. A lot of the fresh supplies for the hotel come from company-owned farms. Items used in the hotel include many imported from the Gulf countries, including Ethiopia, Djibouti, and South Central Somalia.

In the recent past (and increasingly so), the ownership has embarked on significant corporate responsibility ventures, especially on its expansive farm (located approximately 30 kilometers from Hargeisa) that provides some of the fresh fruits and vegetables to the Hargeisa establishment. There is an active effort to introduce neighboring land-owners to the benefits of proper agricultural activities. Most of these people have been largely nomadic and not as well-exposed to proper crop husbandry and its economic benefits. According to the owners, this starts with proper care of the environment and movement away from the wanton felling of trees for charcoal. Aggressive efforts are also being extended to help holders of parcels (communal or otherwise) grow appropriate crops such as sesame, sorghum, and other hardy crops. It is intended that the recipients of these efforts become better farmers (Abdulkader H. Elmi referred to this as introducing "self-help"). The same is also being done with fishermen in Berbera who have mostly been accustomed to deploying rudimentary equipment and tools in their ventures. Initiatives that encourage better return on their activities (e.g., better boats, cooling facilities, etc.) are now part of the Mansoor Group. These efforts and others are done not only to encourage good business practices but also to minimize importation where possible. Other measures that have become normal for Mansoor as they embark on minimizing costs arising from imports include using re-tread tires for its fleet of vehicles. The Mansoor Hotels, just like the other parts of this group (such as Mansoor Power Company and the farms), are clearly "looking inward" for coping solutions.

Agriculture

A representative of this category is the Qalah Beekeeping Farm, owned by Omar Bire, which was initially established in 2011 one hour's drive from Hargeisa on a dusty road with five box hives on a semi-arid spread of four square kilometers that also has other activities (primarily livestock). The number of boxes on the farm quickly grew to 80, and by the time Shuraako received a funding request in 2013, it had 650 hives. The hives were strategically introduced to take advantage of the Aloe Vera flower that is growing on the land, which also serves as the primary home of Omar Bire and his family. At the time of writing, Omar was seeking financing for another 650 hives that will cost a projected \$30,000. The farm reportedly operates under multiple challenges. Apart from the lack of financing options for its kind of operations, which led the owner to approach Shuraako, the farm's ownership has to worry about disease for the bees; the market perception that foreign honey, which is also more expensive than Qalah's, is superior to local alternatives; little support from the relevant ministries (agriculture and commerce); lack of water for the bee colonies; and problems with export of Qalah's "crop."

For some of its operational problems, such as water provision, the Qalah ownership reported working on appropriate solutions, including establishing water pans. The firm has also been a beneficiary of a World Bank/USAID initiative that promotes Somaliland products. This is perhaps most apparent with the poultry egg production division that is also now a significant contributor to the farm's revenue streams. The poultry division was established as a response to the unmet need for eggs; a substantial number of the eggs consumed in Hargeisa have been unavailable locally, and Somaliland often imports eggs that could be obtained from local sources

Bulale Farms. Photo and video by Jean-Pierre Larroque, OEF



Find this video on the YouTube channel "Shuraako"

such as Qalah Beekeeping Farm. A visit to a few of Hargeisa's leading supermarkets found that Qalah's processed honey is also stocked on the shelves. According to the ownership, this is a recent undertaking, but there is hope that in time Qalah's products will have visibility and pride of place in the market. The ownership reported that in spite of dealing with a severely handicapped Ministry of Commerce and Ministry of Agriculture, Qalah is currently exploring options for the export of honey in the near future.

Other members of this segment comprise the set of enterprises known as Bulale Farms and Evergreen Farms, which neighbor each other. Bulale was established in 1994 by a sole owner who still remains the only shareholder. It is approximately 30 kilometers from Hargeisa. Bulale Farms is a mixed enterprise that rears poultry, camels, goats, sheep, and cross-breed Somali/Dutch cattle and grows an array of cash crops including onions, tomatoes, cabbages, and lettuce along with approximately 2,000 guava, orange, mango, and paw-paw trees. The farm is fenced all around its eight-kilometer perimeter (four square kilometers). Bulale has attempted to address the water problems in the region by digging water pans. As an added venture, the farm has also moved into beekeeping for hive products. It plans to develop this segment up to export quality standards in order to take advantage of the Dubai market opportunity.

Evergreen Farms, on the other hand, was established in 2007. According to its female owner, it plans to take a more modern approach to farming by using greenhouses rather than rain-fed agriculture. Its proprietor, Ms. Farah, is a former executive of the Somalia Development Fund. She mentioned the fact that a lot of Somaliland's fresh and canned foods come from as far away as Yemen, Brazil, and China. With sustainable year-round irrigation, it is expected that this market opportunity can easily be exploited. Bulale and Evergreen farms are in the process of digging boreholes to counter the problem of water scarcity.

The two farm owners had a long list of common constraints: finance, energy, seed control, human resources, land ownership (titles), inadequate government support (extension officers, licensing etc.), and poor infrastructure. It is extremely difficult to get high-quality seeds. This problem is further exacerbated by little in the form of extension services being available, especially for help in dealing with disease control. For instance, a common problem on the Bulale farm is scales on the oranges. According to the principals, there is a great need for specialized knowledge not only among extension officers but also among farm workers. It was also noted that farms can rarely reach their potential without financing. This remains a constant

challenge. Financing would help the farms establish year-round water sources. The same can be said for energy. The principal also mentioned that they need cost-effective energy (solar or wind) rather than diesel-generated power, which has prohibitive costs. The Bulale ownership also has to deal with the indiscriminate felling of trees around the area adjacent to the farm. Trees are good for pollination and honey and this felling of trees affects the honey crop. According to Bulale's principal, this problem is partly a cultural issue in that the Somali people are largely nomadic and have always cut trees for firewood. This problem is also a result of the opaque land laws. Without clear titles, many things remain communal property.

Both farm owners had a long list of common constraints: finance, energy, seed control, human resources, land ownership, inadequate government support, and poor infrastructure.

On the market front, both farm owners mentioned that Somaliland has to compete with cheap products from neighboring countries (especially Ethiopia). Probably because of the lack of institutional memory, residents of Somaliland have little awareness of local products. This is a hurdle that the principals insisted must be overcome. It would also help if the country had supporting agro-processing industries to drive demand for local produce. Both enterprises said they expect that the funding procured through competitive terms such as those of Shuraako's program will help them tackle some of the financing challenges in the medium to short term. The operational challenges are to be dealt with using experience and through the lessons garnered from others in their network. The farm owners especially look at these obstacles as opportunities. They are trying, to varying degrees, to be systematic by introducing modern farming methods, e.g., soil testing, disease control, and other systems, to their work. The farms' owners have big dreams, which are realizable with the studied approach that is clearly evident in their current operations. Farah spoke on behalf of Evergreen and provided translation for the Bulale owner.

Agro-processing

The first representative of this segment is Rahiq Gums and Resins, which started in 1997 as a UK-based family business.⁴ The initial transactions were primarily conducted on eBay and Alibaba. These transactions involved the supply of small quantities of gums and resins shipped through the UK posts with which Rahiq had an arrangement. Rahiq has since moved its operations to Somaliland in order to get a sustainable supply and ensure constant production of gums and resins, which mostly come from the almost inaccessible forests in the highlands of Somaliland and Puntland. The business is very cash-intensive. Rahiq's primary products are *Boswellia Carteri* (Beyo) and *Boswellia Frereana* (Maydi) as well as Myrrh resins. The raw product is tapped off trees in extremely difficult terrain by dwellers of the Somaliland and Puntland

highlands familiar with the landscape. According to the owner of Rahiq, unscrupulous middlemen used to give the tappers food as their only advance payment, but this is no longer the case because the final buyers of the gums and resins (in the Western world) want a sustainable practice. Farmers are now given an initial advance payment in cash and the balance on receipt. While the system is not foolproof and has led to some farmers selling merchandise to the readiest buyer rather than those from whom the initial payments came, repeat business (and a concerted effort to maintain good relations) makes the tappers more reliable. It also helps to use local agents with credibility to maintain these relations.

There are many constraints on Rahiq's operations, including finance (i.e., cash in advance of receipt of product); the demand made by pharmaceutical firms in the West that tappers and their agents practice sustainable and responsible harvesting practices; the challenges of terrain, access, and transport problems to and from Hargeisa; high demand for resins in the global market (each region has distinct resins); and challenging payment and trading terms with Western buyers of resin containers—in spite of the absence of international recognition for Somaliland. In addition, the Rahiq ownership expressed a need for ways to address the unfair trade practices of not only locals (there are three main local players) but also of Chinese buyers who have moved into the business; the lack of formal agreements with tappers and farmers; better government export facilitation support; the challenge of security for Rahiq's personnel; conflict among family-held lands from which the tappers and farmers operate; and, increasingly, the high expectations of the tapper community, especially for schools and water supply.

To address some of the sustainability concerns, Rahiq is reportedly trying to give back where it operates by consciously uplifting the livelihoods of its tappers. According to the Rahiq ownership, the firm practices fair trade and issues competitive market prices to its tappers and makes contributions towards the partial building of area schools and clinics. This makes good business sense because its Western partners can then have more confidence in Rahiq's product and can share in the practice of good corporate social responsibility (CSR) principles. Recently, Rahiq established a small lab in Hargeisa (seen by the interviewer) to work on having consistent quality in the product in order to get better returns from the perfume and pharmaceutical companies that it primarily ships to.

According to Rahiq's ownership, it is also increasing employment among the more marginalized groups that have not previously fully engaged in this sector. These include women who are now doing Rahiq's sorting while the youth do the lifting (pictures were seen by the researcher). Earlier shipments were sent in bulk without conscientious sorting, denying Rahiq of just returns. According to the Rahiq ownership, the higher the quality and more distinct the gums and resins, the higher the sums paid to the firm. At the time of the interview, Rahiq had a challenging order for multiple 80-ton shipments, primarily to markets in Europe, America, and,



Injera bread being prepared at a restaurant in Hargeisa. Photo by Jean-Pierre Larroque, OEF

to a lesser extent, the Middle East. The total annual demand that Rahiq expects to serve is in the neighborhood of 700 to 800 tons. At the time of the interview, the Rahiq ownership was pondering ways to honor contracts within these different markets that justly compensate it for effort. To make things run more smoothly, Rahiq believed it may have no recourse but to open a bank account in Ethiopia or Djibouti to facilitate more favorable financing options.

A second representative of the agro-processing segment is Dil Bakery. The bakery was established in 2013 in response to the observed big gap in the making and supply of bakery products in Hargeisa. The two principals used to live in the neighboring countries of Uganda and Kenya. While it initially started a sole proprietorship, the second co-investor came on board soon after, and it now operates as a limited partnership. The bakery makes and distributes its products to supermarkets in the city and offers some retail out of the bakery premises. The bakery aspires to be the place for bread products of choice for the discerning returning diaspora even as it develops wholesale services to supermarkets and the like. The hope is to eventually have a coffee shop, “ala Java,” (in Kenya), to push its products. The most immediate challenges to the operations of the bakery include the dearth of materials, skilled staff, and capital. The growth of the establishment is constrained by these limitations, especially the lack of financing options—which according to the principals is the single biggest challenge. To date, all that is evident in the operations are the culmination of the personal savings of the principals. Competition is largely limited to two to three other players. Other challenges include the high cost of doing business (such as prohibitive energy charges for an energy-intensive business). It is also not lost on the principals that with few real players in this segment, the benefits that would accrue by having some forum (i.e., business association) to address common needs will remain a pipe dream.

According to the principals, Dahabshiil is the only visible source of funding at the moment, though not necessarily on attractive terms, especially since the bakery owners do not have local property as collateral. As regards importation of

inputs, almost all of them have to be sourced from foreign countries until a critical volume is reached in local consumption which in turn will allow bulk importation by some vendor. This will only occur when other players join the segment. At the moment, the bakery imports and transports its products via daily plane trips into Hargeisa, a process that is clearly not cost-effective. The bakery principals are encouraged by the increase in investments across almost all sectors of Somaliland and believe that before too long they will be getting needed inputs locally from bulk importers instead. Another pressing issue the principals have had to deal with was the sourcing of a skilled foreign (Kenyan) baker whom they have housed and accommodated as he goes about the business of creating products for the bakery and transferring skills to their local staff. According to the principals, this has been an expensive undertaking. With time, the bakery owners also expect the cost of business to come down as better power sources (including renewables) get into the grid. It is their intention to install supplementary renewable sources in due course.

Owners indicated that they believe the returning diaspora and growing middle class in Hargeisa will continue to shape tastes and demand for the bakery’s products. These market trends are evident in other sectors.

On a positive front, the Dil Bakery principals contended that the baked-goods market has huge potential, having few credible players and low taxation. Currently the other players in the market do not have good-quality products, a gap Dil intends to exploit by consistently producing superior offerings. The Dil owners also indicated that they believe the returning diaspora and growing middle class in Hargeisa will continue to shape tastes and demand for the bakery’s products. These market trends are evident in the construction sector and the other retail services seen in the mushrooming malls. As the principals mentioned, Hargeisa is really quite vibrant in spite of the mentioned limitations. While Dil has had good relationships with the supermarkets that it offers bulk purchases on short-term credit (two weeks’ credit), the principals look forward to a time when there will be strong law-based enforcement mechanisms to protect their investments.

Another representative of this segment is Dalyit Dairy and Processing Plant, whose principal, Osman Ahmed, gave information on the origins of the firm. Ahmed is a biological scientist with many years of experience in the field, locally and in the UK. He has a Master of Science degree in Entomology and an undergraduate diploma in Agriculture. The initial name of his firm was Dalyit Plant Protection, because this is an area he said he feels is not well-developed in Somaliland that will ultimately have to be exploited concurrently or at a later stage. At the time of the interview, Dalyit had just commenced preliminary production of yoghurt made using milk powder. Dalyit got its equipment from China and has started slowly while conducting research and pilot production.

Full commercial services were yet to begin as the principal sorted out kinks in the production and supply chain processes.

According to Ahmed, many of Dalyit's problems are a result of lack of appreciation for merit in present-day Somaliland. Things are still done on the basis of tribe (clan) rather than properly documented systems that encourage accountability, transparency, and efficient use of resources. For instance, Dalyit's use of milk powder to produce yoghurt is because Somaliland still does not have reliable sources of fresh milk. This, according to Ahmed, is baffling because Somaliland is a major livestock trading jurisdiction. The local milk supply is not consistent even when it is available, nor is the quality up to the standards acceptable for Dalyit's operations. This milk supply problem is a consequence of tradition holding the line on how things are done. Tradition also requires a balance of clan interests at all times in bodies that would otherwise be purely service-based. You can also see this in parliament, where Ahmed mentioned that Somaliland has a nominated upper house in addition to the elected lower house. Even national or local government elections reflect this balancing act, leading on many occasions to the wrong person holding a job for which he is not fully qualified. This way of thinking is believed to affect Dalyit's business model.

Ahmed contends that there is little government support in the enforcement of laws that would otherwise protect the dairy firm's operations. According to Ahmed, this is manifest in seven ways. First, almost all processed milk products are currently imported from as far afield as Saudi Arabia and Germany. Second, there is a lack of legal framework to prevent copycats who infringe on intellectual property and patent rights. Third, there are no laws that shepherd the health and safety aspect of the delicate sector. Fourth, Somaliland firms have yet to fully exploit the potential of intermediate groups such as business associations to further develop business interests (i.e., for crafting laws and advocating Dalyit's interests). Fifth, the ever-prevailing problem of lack of financing options is a major hindrance to those starting a venture like Dalyit. Ahmed noted that he had to use his personal savings as seed capital. To move on, Ahmed believes he will probably have to grow organically unless the likes of funding organizations like Shuraako come on board. This is especially difficult because he has to rely on trust for customer payments and debt collection (largely through Zaad).⁵ The Dalyit owner also mentioned the potential problems of getting new equipment, unlike in a normal market where he would have had the options of using letters of credit. Sixth, manpower needs are yet to be fully addressed; there are not enough people with the skill to operate the machines and equipment for Dalyit's type of enterprise. Seventh, the dairy industry is energy-intensive. Energy in Somaliland is exceedingly expensive and many times unreliable unless you operate your own generator.

According to Ahmed, to cope in this environment, an agency model of business is not ideal. The owner must therefore know everything about the business processes. If one does not know "everything" about the processes, the likelihood of

business failure is very high. By virtue of his background, he is probably much more knowledgeable about this business than any employee he currently has. Ahmed also mentioned that he has designed all of Dalyit's systems. In addition, one must build contingency into the system; for example, by bringing in a lot of spare parts. One must also be prepared to multitask in the event an employee no-show leads to production hitches. To counter the low educational standards in the area, Ahmed said he believes he will probably have to find ways to work with Hargeisa-based tertiary institutions to develop adequate skill levels.

Down the road, Dalyit intends to increase its product line and introduce cheese, drinking yoghurt, frozen yoghurt, and long-life milk in addition to the regular yoghurt currently on offer. The flavor variety and sizes of products will also get some refinement. Outside of the milk products, Dalyit expressed an intention to be the leading local source of jam, mayonnaise, and hummus. Dalyit will continue to address product quality and economies of scale and introduce equipment that allows it to compete with foreign imports. The firm's supply chain models and environmental protocols will be tweaked to allow full access to its products in supermarkets and hotels. According to Ahmed, Dalyit will have to operate from a purpose-built site and increase its financial resources by at least another 200–250% (possibly through inviting a moneyed partner). A fundraising goal of \$150,000 is Ahmed's target. At the time of the interview, he was mulling over the possibility of working with at least one financially well-endowed person who had expressed interest in his venture.

Apparel

This segment is represented by Tayo Uniforms,⁶ whose principal shareholder, Amina Aden, and chief executive provided answers to the interview questions. Tayo was established in 2012 after it became evident to Aden during her long stint with INGOs that there was no local source of high-quality uniforms for Somaliland schools. The firm was established by a group of four (three men and herself) using personal savings and some World Bank help. Tayo has an assortment of machines, including those for embroidery, and is the only local uniform-making company in Somaliland. The firm now supplies nine schools and many companies with their complete suite of uniforms. According to Aden, they are happy to be meeting a need and addressing the dearth of good-quality uniforms; all previous supplies of uniforms have come from foreign sources. This meant that schools had little say and there was no branding available for the respective institutions' items because only standardized embroidery was available. While Tayo has a clear niche, Aden said it also must grapple with many challenges. No banks exist to help it grow; government support is little, if it exists at all; all Tayo materials are foreign; the cost of doing business is prohibitive; and it is difficult to find highly skilled staff locally.



Tailors working on an order at Tayo Uniforms in Hargeisa. Photo by Jean-Pierre Larroque, OEF

In attempting to deal with these challenges, Tayo consciously seeks to train and employ female tailors like the ones seen during the interview. Staffing levels are otherwise somewhat determined by school cycles. At any one time, the firm may have at least one foreign staff member working to impart the best tailoring and embroidery skills to the local workers. (During the interview there was a South Asian mentor busy on the workshop floor.) Unfortunately, for the repair of machines, Aden noted that they have to import labor from as far afield as South Asia. To get over the financing issues, Tayo has worked with Shuraako. Aden said she believes that perhaps down the road, she may be forced to seek the facilities of institutions in Djibouti or even Kenya, where she has worked before. At the time of the interview, all Aden had available to her were the deposit-receiving institutions like Dahabshiil, which are slowly moving into commercial loans, but with unattractive terms. As to power, Tayo hopes to install solar as a long-term solution. Aden also mentioned that they are gratified by the firm's corporate social responsibility policy (and good business decision) of not throwing away waste material. These cast-offs are given to elderly women who work at home to make mats and carpets to sell (the researcher acquired a sample of two). Looking forward, Aden is optimistic that Tayo has better times ahead, including delving into the manufacture of school bags as a new product line (as all locally available school bags are currently imported). The plans for these bags are quite advanced, and at the time of the interview, it was projected that the new Shuraako-arranged facility would help with this line as well.

A second apparel enterprise is Idris Ladies' Lingerie, whose owner-manager, Idris, is a returning diaspora member who worked for a leading Canadian department store for 15 years. That experience gave her unique knowledge and instincts around the tastes of modern ladies. Within Hargeisa, a lot of the elite have had problems procuring good-quality

and well-priced inner-wear, especially for the plus-sized woman. According to Idris, the ladies' shop established in 2014 is the only dedicated lingerie shop in Hargeisa. Other clothing stores stock a variety of merchandise that happen to include womenswear, but this store stocks panties, bras, nightgowns, dressing gowns, special occasion wear (e.g., weddings, holidays) and seasonal gowns, jewelry, perfume, cosmetics, shoes, hats, handbags, and other accessories. It also has a fitting room. The establishment offers services to petite ladies all the way up to size 5X. It also includes in its merchandise items for breastfeeding mothers. The enterprise has two employees apart from the owner-manager. The store appears to have become quite a hit, based on the researcher's observance of the sales that took place during the interview. Idris mentioned that her initial stock was all taken up within a month of offer. She had since had four deliveries of stock within the one year that she had been operation.

Even with the marked interest, Idris faces many challenges. The most obvious was dealing with the potential problems of selling such merchandise in a conservative Islamic society. Mitigating the objections of the Muslim clerics and thought leaders has taken some creativity. She encourages these leaders to grant access to her products to their spouses. These overtures have resulted in some thought leaders accompanying their spouses to the shop but remaining outside while the ladies tried on the products. Perhaps the most challenging obstacle for Idris has been getting financing in a jurisdiction where no formal banking services as Westerners know them exist. Other problems include the lack of state protection from unfair trade practices. She reported that one can open a shop with a slightly corrupted version of the same name down the street and lure customers "who believe it's our store." Such copycats could even originate from a landlord who may have observed tenants getting a lot of business and so open a similar business. This could mean varying the rent

terms. All of this is not helped by the challenges of operating a business in a male-dominated society, Idris relayed.

To get things working, Idris has had to be closely involved in all aspects of the shop's operations. Her mother helps with most of the bookkeeping. Her outreach to religious thought leaders led to an early acceptance of the business model. To navigate the challenges of the state requirements, and for some financing, her brother (who also returned to Somaliland) has been very useful. As to potential problems with the landlord, she pays six months' rent at a time. Her merchandise is good quality and not too dear. She shops from consignment stores in the West and Thailand, and uses other unique sources. Her procurement model incorporates a combination of several weeks of windup to keep her regular shoppers yearning for new merchandise, and some "see now, buy now" for the walk-in clientele. Idris has refrained from going the Chinese or Kenyan route for supplies. Idris said she is looking into the possibility of expanding in the not-too-distant future and hopes the potential Shuraako-arranged funding will help towards this goal. She would like to have outlets as far afield as Mogadishu. According to Idris, the marketing of the shop's merchandise is largely a product of "word of mouth" from repeat customers. The shop has also drawn in many of the university students from Hargeisa and Admas universities who pass by on their way to and from their institutions.

Auto Sales, Repair, and Maintenance

This segment is represented by the Toyota Dealership of Hargeisa,⁷ whose general manager, Osman Abdi Osman, was the interviewee. The firm deals in vehicle sales, service, and spare parts of Toyotas. The dealership was initially established in 2012 as a certified workshop for the many Toyota vehicles in the jurisdiction. Incidentally, Toyota is the preferred vehicle model not only for regular citizens but also for the UN agencies and INGOs. In the vehicle sales division, the firm started with new vehicles and later included rental fleets, which have been a hit with the international bodies. For these multinational bodies, the need for a reliable partner to help manage new and running vehicle needs was apparent. The dealership also services vehicles that are not Toyota models for some of its leading clients. The Toyota dealership is part of a larger group of companies dealing with waste management, printing (Sagal Jet printing press), events management, logistics, and construction.

The purchase of brand-new vehicles is still a largely alien concept in the area.

Osman acknowledged that the dealership has many challenges. First and probably the most obvious: the purchase of brand-new vehicles is still a largely alien concept in the area. The ownership mentioned that it is taking some convincing to sell the benefits of new and acclimatized Toyota models in Hargeisa. Many residents have been more familiar with the used models from Dubai and Japan, some of which one sees

in the local used car lots. Second, the issue of payments and how best to deal with new vehicle purchases is an evolving narrative. The local "banks" (Dahabshiil and Salaam) have yet to get on board with workable financing models. Finance is indeed a problem all over Somaliland. Third, and not to be overlooked, is the need for skilled and experienced staff to man the firm's workshops and deal with all service needs. This need for training in this skillset is not yet fully met by Somaliland's tertiary institutions, nor are there many residents (returning or otherwise) who can serve this segment.

To address the financing challenges, the parent company of the business is in the midst of establishing its own Islamic finance facility for vehicle sales and lease options. The dealership is also talking with Kia and Ford auto companies to see how the firm can incorporate their models in its larger group of dealerships. At the customer level, owners of the dealership are grappling with what forms of security or collateral will best protect their investment. Deliberations on the possible use of vehicle tracking systems to protect against the loss of financed dealership vehicles are ongoing. As was evident during the interview, a few expatriate staff members from as far afield as South Africa and Kenya were engaged to man the vehicle service and spare parts divisions. The owners have also put plans in place to build a model establishment to be erected in three phases. Phase 1 is ongoing; phase 2 will deal with showrooms, and phase 3 with vehicle service. In the future, the dealership intends to expand outside Somaliland. At the time of the interview the firm had just registered in Puntland and intended to have a full-fledged outfit there too. The dealership was also working in South Ethiopia and planned to have a fully-fledged branch there within three months. The dealership's medium to long-term plans are to gradually become regional with Hargeisa as the hub.

Business Collectives

Somaliland still suffers from a dearth of self-supporting business collectives. One of the better-established collectives is the Somaliland Chamber of Commerce, Industry and Agriculture (SLCCIA),⁸ whose secretary general, Ibrahim Ismail Elmi, provided responses to the researcher's queries. The chamber was established on October 5, 1993, by an act of the Somaliland parliament (PL #35) as an independent entity. It is composed of a General Assembly (higher authority) that oversees a board of directors of 25 members, who in turn select an Executive Committee of seven members comprising, among others, a chairman, two vice chairmen, a secretary general, a treasurer, etc. The secretary general is tasked with the everyday running of the SLCCIA. The chamber represents members loosely divided into the segments Trade, Industry, Livestock, Agriculture, and Services. To qualify as a member organization or individual, the entity must have a principal who has been a resident in Somaliland for at least one year. For foreign companies, this residency is required of the local partner. All foreign businesses must have local partners. To register as a member, an individual must produce \$15 for a

one-year membership, along with two passport pictures. For companies, the equivalent sum is \$45 as well as the firm's by-laws and two pictures of the chairperson. Among the many services the chamber renders are the determining of sources of origin; business advisory services; safeguarding and defense of membership rights and interests; establishing trademarks; testing commercial invoices; conducting trade fairs; collecting business taxes (PAYE, income, and delivered duty); and the promotion and development of the overall economy. Elmi also asserted that it is important to note that Somaliland's GDP is a product of activities in livestock and byproducts (60%), agriculture (8%), services (28%), and gums and resins (4%). Exports mostly go to the Gulf states of Saudi Arabia, Yemen, Qatar, Egypt, and Oman.

Several issues of direct impact to the members reportedly need urgent attention. According to Elmi, one is the taxation system, which remains easy to evade due to its self-assessment feature. Business registration is also still not as efficient as the membership would like. Fortunately, the World Bank Group is helping Somaliland with this matter. The country also needs international ports that function well and fully (both sea and air) to maximize revenue from customs in places such as Berbera and Hargeisa. Somaliland suffers from a lack of skilled labor, especially for the industrial sector, forcing many enterprises to import labor (including bakers, artisans, foremen, etc.). At the professional level, there are university lecturers from Kenya, Coca-Cola advisors from South Africa and Kenya, and construction workers from Bangladesh, to mention but a few. Because of the region's history, the vocational training programs remain weak, leaving members with the undesirable culture of importing labor.

Over and above all of these issues is the perception they have of a continued lack of recognition of Somaliland as an independent jurisdiction.

Other challenges of deep concern to members include the cost of doing business (especially for electricity, at \$1 per kilowatt), which according to Ibrahim is crippling the growth of jurisdiction's small enterprises. Somaliland is also over-reliant on primary livestock products for export rather than investing in value-addition which would change fortunes. In addition, the lack of insurance and banking services means business owners are always on the hook for all manner of risks and financing. Not to be overlooked is the lack of credible market data which can inform sustainable business activity. Over and above all these issues is the perception they have of a continued lack of recognition of Somaliland as an independent jurisdiction. There is some movement towards tackling some of the mentioned challenges. The stronger members in the collective operate bank accounts in Djibouti, where, for instance, they then have access to letters of credit and other banking facilities. Dahabshiil is also helping a few of the chamber's members with financing, but this is viewed as miniscule compared to all the actual needs. Transportation is getting better as government capacity is slowly improving and infrastructure is being worked on. The chamber membership



Barwaaqo Farmers' Cooperative trade show booth at Shuraako's Somaliland Investment Forum 2016. Photo: Jean-Pierre Larroque, OEF

is encouraged by the support of Turkey, Dubai, and Malaysia in the development of Somaliland ports. However, the conclusion was that much more must still be done.

Another player in this segment is Barwaaqo Farmers' Cooperative (BFC).⁹ BFC provided answers to the researcher's queries as a group of members from its governing board together with the cooperative's advisor. The cooperative is the largest agribusiness entity of its kind in the whole of Somaliland. According to the board members, BFC seeks to be a "wholly integrated agribusiness and significant player in the food value chain." It primarily facilitates business-driven development, local connections, and investment in value chains. BFC was established on October 25, 2015, in Hargeisa. It operates through all the regions in present-day Somaliland. The cooperative serves as an umbrella organization to 25 other groups. At the moment, BFC's main business is the provision of inputs for agricultural production and market access to its more than 1,000 small farmers, as well as the necessary financial, technical, and logistics support to its members. Because it had just been formed at the time of the interview, BFC is still a fledgling organization and is not self-sufficient. BFC's membership dues do not appear to fully sustain its activities. It does, however, aspire to have an assortment of small processing plants for value-addition for its members' products. Currently up to 60% of product is wasted because of short shelf life.

According to its governing board, BFC needs to invest in the marketing of its limited capacity, develop modern farming methods, better work with financial institutions, deal with corruption, become better at planning and priority setting, and figure out ways to work around the perceived lack of

recognition for Somaliland. In an effort to address some of these challenges, BFC has partnered with Dahabshiil to acquire small tools and equipment for its members. It seeks to have exchange programs with Kenya, where the cooperative movement is an advanced institution. BFC is also looking to incorporate other sectors, especially fishing, and plans are afoot to form Barwaaqo Fishing Cooperative soon because the jurisdiction's fishermen need boats and cooling facilities to get the most from their endeavors. A pilot study on feasibility undertaken with the help of development partners is ongoing.

Construction

The first representative of this segment is the construction firm run by Ismail Omar. Omar used to live in the UK, and after relocating to Somaliland worked for the local government over a five-year period. A motivation for his initial return to Somaliland was to run a hotel. He did so for a few years before branching out into the manufacture and laying of interlocking tiles. Omar and his two partners have executed many tile-laying contracts in multiple government ministry premises and several private concerns. He began by importing a tile-making machine from South Africa. The business has, however, been faced with many challenges. Perhaps the most prominent is the issue of labor; he mostly uses the skills of two or three Kenyans at any given time. Because it is a new idea, there are few Somalis with the requisite skills—though they are learning. Not too far behind in the list of concerns is the high cost of energy, a necessary ingredient in this business. Like many area businesses, Omar and his partners have been forced to get their own generator to meet their power needs. This problem with the cost of doing business is not helped by how hard it is to get government licenses. As Omar lamented, “for business growth, we need a functioning banking system. This is not the case at this time.” Dahabshiil and Telesom (Salaam Bank)¹⁰ occasionally give out loans, but with prohibitive conditions. According to Omar, you must have an insider (a person with shares in the institutions) as a guarantor. Ismail also mentioned that the financial health of enterprises such as his is affected by two other issues: corruption and the problems with getting prompt payment for services rendered. He surmises that it would really help if Somaliland had a well-established business association culture in the jurisdiction in order to advance many business interests. One other challenge is that you can set up your business, follow all the necessary protocols, and soon after a competitor can set up shop with some corrupt iteration of your name close by, all without any government penalty.

“
for business growth, we need a functioning
banking system.”

Omar did, however, contend that in attempting to address some of these challenges he has noticed that there have been some positive changes, even if small. Omar said that it was previously much harder to get licenses. The system still

has several obstacles, but it is getting a bit better. He also mentioned that there is an advantage to the length of stay for returning diaspora. Being there for extended periods rather than just getting into Somaliland helps with the navigation of the various bureaucratic challenges. There is also a growing realization that renewables offer Ismail and his partners a good workable solution for many of their energy needs. The financial institutions (Dahabshiil and Salaam) are also now amenable to a few financing options, but their terms still remain unfriendly to business operations. Little by little, a transfer of skills to a few who are native to Somaliland is being undergone, but the jurisdiction is still very human-resource deficient. According to Omar, agricultural production remains weak, industrial activity is almost non-existent, and many items continue to be imported (e.g., 90% of the eggs, garlic, etc.).

A second representative of this segment is Warsame Construction and Engineering Company, whose principal, Mr. Warsame, an engineer, provided the responses captured in this section. Warsame worked for a long time as a construction engineer in the Gulf countries after receiving his engineering degree in India. Following the fall of Siad Barre, he came back to Somaliland, and has successfully executed building and civil engineering contracts for the government, INGOs, and some private enterprises. Among the completed projects are roads, warehouses, slaughterhouses, and steel structures. The firm owns its own production yard stocked with equipment. Warsame did mention significant obstacles in present-day Somaliland. These mostly revolve around financing, skilled workforce, and equipment needs. With no proper banking facilities, it is difficult to get affordable credit. The firm is currently in need of an asphalt-mixing plant, a paver, rollers, and a cruncher, among other equipment. The firm is also challenged by the need to “break in” in fresh engineering graduates who have little of the on-field experience that is vital to a building and engineering construction company.

To cope, the civil engineering firm is aggressively seeking out promising local engineering university graduates to intern and eventually take on employment. As to financing, the principal has floated the idea that shareholders with financial backing are welcome on board. Warsame has also approached organizations such as Shuraako to facilitate affordable financing from its network. At the time of writing, Warsame was putting together a detailed proposal of what his financing needs would look like. He did mention that new capital was mostly needed for upgrading his plant and equipment. Warsame professed confidence and optimism that in the near-term the most glaring needs will be met.

Education

The University of Hargeisa¹¹ is the largest public university in Somaliland, and would at first appearance not seem to fit in the discussion of firm behavior. However, the University of Hargeisa is a state-owned enterprise and government funding

meets only a small part of its operating budget, according to Dr. Abdi H. Gass, the university president. Dr. Gass is a member of the group of returning diaspora who have come back after long and distinguished careers in the West, where he still maintains close links (including immediate family). It has been asserted that even the official government allocation of \$1,800,000 to the university is not regularly honored; in the last year, the university was only given \$20,000—which is only 1% of the university budget. According to Dr. Gass, the young Somaliland government has very few resources and the university administration understands that even its modest allocation is hard to meet for a student body numbering more than 4,000. Dr. Gass mentioned his understanding that the Somaliland government spends up to 70% of its revenue on security-related matters. The university therefore has to seek other funding sources and in all but name operates as a private entity.

With no appreciable consultancy revenue, or much donor help, the university remains almost entirely dependent on tuition payments to run the institution. The money is to pay faculty and other staff salaries, purchase rudimentary supplies, and deal with issues that arise in the course of running a university. With limited funds, the university is faced with the major challenges of recruitment, retention, and development of the necessary human capital that is critical to the overall health of a university. On a case-by-case basis, the university administration hires and negotiates terms with incoming faculty and staff rather than using established pay scales. This is far from ideal and the university is hard-pressed to get top talent. Occasionally the university is lucky to get members of academia in the diaspora who want to voluntarily contribute in a meaningful way to the development of this institution and by extension the growth of Somaliland. For these altruistic individuals, the university leadership remains very grateful.

Since the university cannot offer boarding facilities, it prevents the enrollment of students who cannot commute to Hargeisa.

A second notable challenge has to do with supplies. A lot of the teaching materials are available in local stores, including classroom projectors. The problem is that because of competing demands, the university administration rarely has enough to equip the classes. Perhaps the greatest challenge in the category of supplies has to do with power. Energy rates at \$1 per kilowatt are a prohibitive cost for the University of Hargeisa. According to Dr. Gass, the university has recently begun to explore solar energy options, but even that is constrained by the high initial investment exposure. As a university, the leadership is also bothered by the fact that they have no transportation of their own to facilitate meaningful activities such as field trips. Even more alarming is that a large university like this cannot offer boarding facilities to students from farther afield. This prevents the enrollment of students who cannot commute to Hargeisa. The problem of not being able to board students is partly the result of not having enough land to put up the residential buildings. Finally,

the lack of recognition of Somaliland as being an independent jurisdiction has an effect on many of the supporting institutions and structures around the university, especially the government and local finance houses.

In spite of the myriad challenges, Dr. Gass said he and his administration are proud of the work they are doing to make this a notable institution of learning. They are actively developing collaborative partnerships for the ophthalmology department in Lucerne, Switzerland; orthopedic studies in Pakistan; law school in South Africa; education with the University of Nairobi; education management with Kenyatta University in Nairobi; Islamic studies with Al-Anin University in Sudan; engineering in Addis Ababa; and midwifery and web-based learning in Dullen; and are making other connections with universities in Connecticut (e.g., New Haven College, where Dr. Gass used to work); Ahmud University (in Sudan); King's College (in the UK, for teaching and administration of exams); and are forming some links to Perth in Australia and the University of Ethiopia. Dr. Gass also mentioned that they have made progress on establishing links with Arab countries and the Turkish government for equipment and other resource support; the Swedish International Development Agency; the International Fund for Agricultural Development; consulting firms; and Australian doctors who recently built two academic rooms at the institution. Locally, the university leadership is considering ways to tap into the strengths of local business as well as the Ministry of Planning and National Development, where the chairman of the university board, Dr. Saad, holds a cabinet post.

With regard to supporting structures and institutions, the university leadership is in the final stages of producing a charter that will guide operations (the researcher saw the first stable draft). According to Dr. Gass, the proposed charter will shortly be forwarded to the Somaliland president for his perusal and necessary action (the president appoints the board of the University of Hargeisa). Other issues the university leadership is trying to address include increased employee demands (through staff rationalization and formalized compensation schemes); facilities improvement (renovation of halls and university pathways); food security; and the promotion of a program where those with available land that may be suitable for the university's expansion can donate the same in exchange for an annual award of ten scholarships.

Another member of this segment is the Admas University,¹² whose nonprofit operations in Somaliland began in 2006 after a formal registration in Ethiopia. According to the university president, Ihsan Omer Ismail, and the vice president for academic affairs, Ahmed Hassa Haji, Ethiopia provided structures for formalization of the institution that were not readily available in Somaliland following the breakdown in institutions as a result of the civil war. The institution started with 100 students and has since grown to at least thirty times that. Admas pioneered aspects of the study of information and communications technology and economics in Somaliland. It had its first graduation ceremony in 2009 and

has since become the institution of choice for working staff at Telesom, Dahabshiil, and Salaam Bank, to mention but a few.

This private institution reported facing many challenges. Perhaps the most glaring is that it operates in a jurisdiction without international recognition. Getting experienced faculty and administrative staff remains a challenge. According to Ismail and Haji, a second challenge that is the result of the lack of international recognition is the issue of accreditation. Without all the necessary accreditation, the university is unable to exploit all of its potential. Funding sources are also limited in a jurisdiction such as Somaliland. As a private entity, the Admas University does not get any government allocation, limiting it to tuition revenue. These problems are further compounded by a public sector that does not understand or fully appreciate the collection and sharing of research data for informed decisions—a potential revenue source that the leadership of Admas hopes the institution can one day benefit from. In spite of these challenges, the institution is growing. The Admas University continues to get faculty members from Ethiopia, India, Bangladesh, and Sri-Lanka for short to medium contracts, mainly through word of mouth. Returning staff members induce others to join the Admas University. According to the university president, they wish this knowledge transfer initiative would be a complete solution, but it is regrettably not so. As a way of getting more for its tuition buck, the university is also developing online courses and actively encouraging guest lectureship both within the country and out (even through Skype) from all those who share its vision and can contribute.

Energy

This segment is represented by Mansoor Power Company, as previously mentioned in the accommodations segment, and Golis Energy, a renewable energy firm. Golis deals in the assessment, design, sales, installation, and maintenance of solar equipment and has worked all over Somaliland.

Golis Energy personnel display their products. Photo and video by Jean-Pierre Larroque, OEF



Find this video on the YouTube channel "Shuraako"

According to the principal of the firm, Golis also has a presence in Djibouti and Puntland. It sources its equipment from South Africa, Dubai, India, China, Germany, and the US. Apart from the two members of the management team in the office at the time of the interview, Golis has 17 technicians. Its clients include INGOs, private individuals, and businesses. It installs anywhere from 1 to 5 kilowatts (KW) for households while typically providing 1 KW to 10 KW for businesses. However, the largest installation it has put up so far was 500 KW done for an independent power producer (IPP). Other work for these IPPs has ranged from 5 KW to 200 KW. The ratio between its clientele by region (urban to rural) is roughly 1 to 1.

The Golis principal stated that the firm has to deal with a multitude of challenges. These range from issues to do with importation, transportation, debt collection and cash flow, staff training, and the vast extent of its region of operation. The process of procuring importation licenses is not always transparent because of bureaucratic hurdles that unfortunately allow corruption to take hold. Shipping of items to Hargeisa also requires use of cash and contacts among the diaspora in source countries. Golis does not have any bank facility such as letters of credit to facilitate imports. Golis also does not have any insurance policies despite dealing in a high-value product. This puts real pressure on operating costs. Partly because of this and the firm's usual purchase scheme (items are bought through the Hawala money transfer systems using members of the diaspora), items are shipped without adequate insurance and the cost of the odd and rare loss or damage in transit is borne by Golis. The principle also stated that a major challenge they face is that it takes time to competently train staff to standards that fit company expectations. The capacity deficit is exacerbated by the dearth of middle-level colleges in Somaliland and Puntland. The lack of these institutions hampers the acquisition of necessary skills.

To cope, Golis uses the long-established principle of trust to buy through diaspora. These Somalis with roots in the region procure almost all of Golis's solar equipment and materials. Though the system is not perfect, it enables the firm to get what it wants into the country. The diaspora members are in all the countries Golis sources from, including Kenya, South Africa, Dubai, India, China, Germany, and the US. Purchases from these places have been consistently reliable, unlike the firm's experience with Spanish suppliers. According to the Golis principal, if a breach of trust—the foundation of the firm's transactions—occurs, the identified property held by the guilty party is used to compensate the aggrieved. In

the event this happens, the clan has to get involved. Breach of this trust is also generally avoided because of the friendship ties between many of the people the firm deals with. Last but not least, the kin ties guarantee the firm's transactions. No one wants to fail a guarantor of transactions.

According to the Golis principal, while the jurisdiction does not have insurance as such, clan, family, and friendship ties are really important in the lives of the people of Somaliland, both in and out of the country. Golis tries to leverage some of these in its terms for client payments: 50% down payment followed by two interim 20% payments and 10% on completion. In spite of the firm's best efforts, final settlements are slow to come in. Golis has now employed a dedicated debt collector in order to improve tight cash flow. Of course, this is not helped by the fact that the firm does not have a facility for its purchases. Golis always buys its supplies up front. The management of Golis hopes that in time, a fully functioning bank can exist in Somaliland so that the firm can receive project financing facilities on the strength of its expected relationships with banks and the confirmed local purchase orders from established clients. As for training and staff development, Golis is considering partnering with Kenyan firms where the human capital in the energy segment is much more developed. During a recent visit to Kenya, Golis management had the opportunity to visit some of these Kenyan establishments. The firm also hopes to use skills training packages from HOMA Energy and Huawei University (out of China).

Financial Services

The first member of the financial services segment is Kaaba,¹³ represented by Fadumo Alin. Kaaba started in 1999 as an institution that provided access to credit, training, and skill development to 150 women through its parent organization the Doses of Hope Foundation. Doses of Hope began as an idea Alin had while based in the Netherlands some 17 years ago. Kaaba primarily works with low-income youth and women. Somaliland has a big youth bulge problem, meaning that a disproportionate number of citizens are young (and approximately 85–90% of these youths are unemployed). In 2007, Kaaba transitioned from being a project within Doses of Hope to being a fully functioning independent entity with the objective of creating resilient livelihoods that are sustainable for its targeted groups (mostly women). Kaaba currently serves some 14,000 people. Doses of Hope continues to deal separately with schools and HIV/AIDS problems.

Until recently, Kaaba was the only micro-finance institution in Somaliland, and the demand for its services way outstrips the available capacity. It is also reportedly difficult to get money for “Somalilanders” because of the lack of recognition issue. Alin also mentioned that Somaliland does not have a recognized bank. According to Alin, Kaaba's portfolio is limited, therefore hampering potential growth and service for deserving clients. Kaaba is also limited by its focus on one target group and having only one other branch apart from

the Hargeisa operations. Even more troubling is the fact that it operates without a clearly defined regulation framework. Kaaba also does not have access to any industry statistics that would help inform decisions. This lack of supporting data cuts across all sectors in present-day Somaliland. Alin bemoaned the fact that because of the lack of accurate census data, they really do not know the number of people in the jurisdiction, for example. All these challenges are compounded by what the Kaaba leadership views to be a systemic problem that is tied to the approach of potential sources of funds; many of the donor initiatives are linked to funds restrictions that expect quick results—a feature that does not work well with micro-finance projects.

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Even though the Kaaba leadership does know the actual population of its target group, the microfinance institution operates using UN data as guidance. According to Alin, they are proud to report that for those who get Kaaba services, some 98% repay their obligations within the stipulated conditions. A primary requirement for Kaaba's clients, other than the viability of the project, is having a guarantor. Looking ahead, apart from getting stronger in terms of how Kaaba's funding is sourced, the microfinance institution is also exploring the establishment of a school for the blind under the Doses of Hope umbrella. Alin said that no such institution exists in Somaliland. Kaaba also plans to extend its services, resources permitting, to Djibouti. Above all, for its long-term future, Kaaba will continue to focus on areas where its leadership believes it can realize durable solutions.

In addition to Kaaba, the story of Telesom provides great insight to firm behavior among financial institutions in Somaliland. The Telesom interview was conducted with Public Engagement and CSR Division Manager Abdiwahab Maah Mohammed. Telesom is the biggest telecommunication provider in Somaliland, with some 90% of the market (Dahabshiil's E-Dahab has the rest). Telesom was founded in 2002 by diaspora shareholders with great foresight. It operates all over Somaliland and provides GSM, 3G, internet, and mobile money (Zaad) services. Zaad's emergence and use is a response to the vacuum of international assistance that Somaliland has had to endure. Even in this environment, it still manages to adopt international best design practices while delivering an impactful service that makes good use of the available infrastructure. Telesom has operations in Puntland under the name Golis and in South and Central Somalia as Hormuud. The Zaad service of Telesom was introduced in 2009. Telesom also has several sister companies, including those dealing with banking (Salaam), cooking gas to reduce use of charcoal (SOMGAS), and electricity generation (Telesom Electric Company). In many ways, these sister companies have significant corporate social responsibility implications in that they encourage better use of Somaliland's local resources.

According to Mohammed, Telesom grapples with several challenges. First is the lack of international recognition for the jurisdiction of Somaliland that continues to hold Telesom back. Second, this problem of recognition has also in many ways spilled over into the challenge of operating without formal banking structures. In fact, at the time of the interview, Somaliland had only licensed a bank operation but much still needed to be done to operationalize a fully tiered banking system in line with international protocols. Third, without formal banks, financing options are extremely limited. Fourth, as a telecom provider, calls to other jurisdictions are subject to the condition and quality of relations with the international community. This closed environment is a constant challenge to Telesom. Fifth, the jurisdiction has little institutional memory for telecommunications. Telesom literally started from scratch. Sixth, staff capability and training in this field has not been locally developed as well in the relevant institutions, though the situation is improving. Finally, private sector business is growing much faster than the public sector, hence the dearth of rules, regulations, and capacities of the relevant government bodies. The mobile money sector is meeting many financial inclusivity needs and dictating how people transact business in Somaliland.

Telesom is by far the largest corporation in Somaliland and is clearly a success story in spite of the challenges. In fact, the achievements of Telesom have been documented by several institutions including the World Bank and the Bill and Melinda Gates Foundation. A YouTube clip of this accolade is currently available in the internet.¹⁴ There is widespread adoption of the use of Zaad for transactions typically between \$2 and \$100 and occasionally for much larger sums. Those familiar with the better-known M-Pesa¹⁵ mobile money transfer system of Kenya will note that Zaad differs from the former in that it is deployed without agency fees. This absence of agency commissions is one of the attractive features that continue to drive the uptake of the service among the residents of Somaliland. Most Zaad accounts are personal and have a much less rigorous set of vetting requirements for the prospective user. Businesses, on the other hand, are expected to adopt the Merchant Zaad version, which is only issued to entities that are registered and have a certificate from the ministry under which the business falls or entities which have business referrals. The remarkable uptake of Zaad has resulted in most multi-person businesses using the service to pay their employees.

According to Mohammed, Telesom's success and continued viability is a result of its structure, among other features. The shareholders are mainly members of the diaspora who have taken note of what works elsewhere and guided their adoption within the Somaliland context. Their research input has been a valuable contribution to the growth of Telesom. Telesom is also a member of the Global Systems Mobile Association, an international body that not only gives the firm credibility but also helps it access other resources and the rest of the world. Technology within the telecom sector is growing very

rapidly, a fact that the company representative was quick to acknowledge. In the near to mid-term, Mohammed expects Telesom to further adapt its technology to pursue innovation and other revenue streams for its business. At the moment, the Zaad money transfer platform, which is Telesom's flagship division, contributes 10% of the national GDP. According to Mohammed, Telesom hopes to match or exceed the levels of M-Pesa, which is hovering around 30% of Kenya's GDP. Telesom also has plans to diversify its interests and develop ventures in malls and the oil business.

Fishing

According to Mr. Yusuf, the CPC's country director, fishery infrastructure collapsed over the last quarter-century. This has resulted in lack of equipment and lack of energy. The art and trade of fishing were forgotten during the period of conflict. CPC, an INGO, is now working to help improve the sector. The organization focuses on creating jobs in coastal areas, improving the jurisdiction's maritime administration, and rehabilitating Somaliland's prison services. It aims to address the gap in the initiatives of international partners which "focus on law enforcement rather than job creation." CPC is addressing systemic challenges such as low fishing catch, lack of equipment, people not being fond of fish, artificial barriers to coastal fishermen, young men not considering the fishing business, the preference for livestock-rearing as the primary livelihood, coastal pollution, and illegal fishing. The other above-mentioned challenges are compounded by the fighting in Yemen and its continued maritime security implications.

Yusuf did mention that the fish trade is increasing but that volumes remain quite low. The goal of Somaliland maritime experts is for the jurisdiction to reach 40,000 tons, a far cry from the current 2,300 tons. He is, however, encouraged to note that now most of the fish consumed in Somaliland comes from within the jurisdiction; previously most fish came from Mogadishu. Hargeisa now has cooling facilities put in place with the support of Fair Fishing Somaliland. Fishermen are getting assistance with marketing, such as access to the

Fish at Berbera port, Somaliland on their way to market. Photo by Jean-Pierre Larroque, OEF



Ethiopian market. Somaliland is receiving training in maritime administration and is now in the process of establishing a maritime agency. What would probably also help, according to Yusuf, would be the creation of a Ministry of Fisheries and Marine Resources and a separate fishing authority with adequate capacity. In short, fishing needs to be technical rather than political.

The fishing segment is represented by Abu Najib Fishing Company, which provided insights into strategies that a small firm employs to overcome some of the challenges mentioned by Yusuf. Abu Najib is named after its owner. It was established in 2002 as a sole proprietorship, and now has six full-time employees and six boats. The firm engages in ocean fishing and the cleaning and supplying of fish to local establishments. It also has a small-scale frying place in which to prepare street food mostly comprised of fish soup and small, wrapped pieces of fish. Among the places Abu Najib supplies are the Mansoor, Ambassador, and Safari hotels. The firm faces myriad challenges including poor infrastructure, corruption, high electricity costs, and the lack of financing. A proposal is with Shuraako that appears soon to be acted on. The firm expressed a need for its own building (it currently pays \$200 for 10' by 10' premises in Hargeisa) and to introduce cooling facilities for fish using solar power rather than the current diesel generator arrangement in all its locations (Hargeisa, Berbera, Burao, and Togachale).

With the lack of insurance, Najib recognizes the potential perils of the company's activities (especially fishing) that are not covered in the event of a calamity.

According to Najib, he needs to prepare for more discerning clients in Ethiopia and improve the skill level of his workforce. At the eatery, all the heating of fish is currently done using charcoal, which is not sustainable in the long run. With the lack of insurance, Najib recognizes the potential perils of the company's activities (especially fishing) that are not covered by appropriate policies in the event a calamity occurs. The firm appeared to still be far from unleashing its potential, but the initial capital obtained through Shuraako-arranged financing helped Najib get a decent jumpstart. According to Najib, the collaboration with Somali Fair Fishing will also make a difference to operations. It was not clear how the firm, which is a source of considerable waste, is handling its refuse at its only retail outlet in Hargeisa. Najib also has considerable need for water for cleaning and gets drums from water vendors for this task, rather than from the council. Najib also uses a lot of charcoal at its small retail outlet.

Manufacturing

AADCO Printing¹⁶ is one of the few industrial firms in Hargeisa (and by extension Somaliland). AADCO produces printing paper and school exercise books from its own four-acre production plant. The principal of the firm and main shareholder has been in business since 1973, mostly as a

major livestock trader exporting his animals to the Gulf states. AADCO's printing plant was established in 2102. It operates from its own purposefully designed premises with a factory building, warehouse sheds, and power generation facilities.

According to its principal and main shareholder, AADCO has a list of six main challenges. First, the firm has the problem of imports. A lot of what it produces can also be imported, and his perception is that the government does not do enough to encourage local substitutes. Second, AADCO faces the challenge of convincing customers reared on imports to use its products. Third, the dearth of technical skills to handle the machines in the production plant generally means AADCO has to look outside the borders for skilled employees. Fourth, various infrastructure constraints also have a bearing on the ease of getting raw materials from external suppliers. Fifth, and closely related, is the fact that financing options are severely limited in present-day Somaliland. Finally, the AADCO ownership considers the tax policies as currently scheduled to be unfavorable to local producers when compared to importers.

According to the principal, many of the challenges faced by the firm are beyond its immediate control, but there are others that the firm can control. For instance, the skill deficiency is met by sourcing personnel from more advanced neighboring countries such as Ethiopia. As was evident during the interview, the firm's technical head is Ethiopian. Issues such as infrastructure shortcomings were also being worked on during the time the interview took place. The firm had recently acquired its own generator setup (one active and the other standby) to allow uninterrupted production and water sourcing. In the near to medium term, AADCO was planning to recycle used paper and consequently reduce its reliance on wood pulp.

Professional Services

PKF is a business advisory and accounting firm and was represented by Abdifatah Rashid (Managing Director), Khalid Jama (Director), and Francis Mbuku (Resident Manager). The Somaliland operation is part of the global network of legally independent firms providing high-quality accounting and business services in 150 countries and 440 cities around the world. The Somaliland operation started as an offshoot of the Nairobi regional operations but has since assumed some level of autonomy.¹⁷ The Hargeisa staff count includes the three mentioned individuals and several other support staff. PKF also offers BITZ IT consulting on behalf of its Nairobi office. PKF seeks to be the one-stop shop for all matters business in Somaliland. Its clientele includes multilateral agencies, INGOs, the Somaliland government, and increasingly the Somaliland private sector.

The interviewed PKF leadership mentioned several challenges. First, while the World Bank and other donors are seeking a simpler business registration process (out of 40 procedures

taking 27 days), it does not appear there is complete commitment from the government's various organs. Not all the various stakeholders are cut from the same cloth. Parliament has not enacted business law or sufficient legal statutes to fully attract foreign direct investors. The problems with commitment seem to reflect divergent interests; there are those who thrive in this chaos (benefiting from kickbacks) and others who seek reform. Second, the jurisdiction suffers from lack of capacity with regard to professional accountants. There is no local accounting standards body just yet. This has bearing on the Hargeisa PKF practice. According to Rashid, strong private sectors the world over have professional associations that guide the ways professionals work. This is not the case in Somaliland. Besides, as an aid-dependent nation, business culture has remained almost purely small-scale trading. Third, PKF's type of services do not seem to have been fully embraced. Though there is a lot of demand from the UN, INGOs, and some government agencies, local NGOs and the private sector have yet to fully come on board. PKF-Somaliland is at a marketing stage. Many private-sector actors still need to establish proper accounting structures and financial manuals. The Hargeisa operation is trying to introduce these necessary systems and structures whenever it interacts with local businesses. Fourth, the relationship between business and the international community is not ideal. For instance, regional bodies like the Intergovernmental Authority on Drought and Development do not always invite business contributions to their deliberations, even when they have a direct bearing on the Somaliland business sector.

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Fifth, the issue of contract law remains a thorny one. Formal contract law is very weak. The law provides little investor protection nor avenues for addressing copyright breach or other proprietary disputes. The courts are not established to preside over such issues. One of the causes of this deficiency is that parliamentary representation is not necessarily based on merit. Selection is made mostly by negotiated representation and is made to appease clan-based concerns. Sixth, the high cost of doing business starts with electricity, the rate of which, incidentally, is among the highest in the world. Other high costs of doing business include the \$300 government fee for setting up business and the \$3,000 for registration; the difficulty of the process for external staff to receive visas/work permits (the government does not fully understand the value of international standards); and having little in the form of business collectives. According to the PKF leaders, all these cost-of-doing-business issues are further exacerbated by the lack of properly functioning financial institutions and the absence of international recognition for the jurisdiction of Somaliland. Finally, the country suffers from a perception problem. The stigma of violence makes it difficult to attract qualified foreign (or even returning diaspora) staff for this office. Somaliland needs good public relations to state the actual situation and improve this perception.

According to the PKF leadership, they have in the last few years seen positive change in a few sectors. As the locals get used to foreign goods, fish, and even chicken, tastes change; the PKF leadership is seeing quite a significant shift in business scope and complexity. Supermarkets are springing up, construction is booming, security has improved, and the likes of Toyota and Coca-Cola have established outlets in Somaliland. The government budget has in a few years moved from \$22 million to \$220 million. The need for the services of PKF and other like-minded vendors will only increase. At the Central Bank, PKF, through BITZ, is installing a core banking software. They are also building the capacity of their Somaliland staff and working on the tenets of business principles by inviting final-year university students to work with the business advisory firm and learn the PKF way. These interns are rotated among various departments. On a more micro level, the PKF leadership said they are slowly seeing the introduction of some professionalism in a few areas of the government. The Ministry of Planning and National Development, for example, has produced a workable planning document. Diplomatic relations with Malaysia, China, Djibouti, Rwanda, Tanzania, and the UK—though not fully at an ambassadorial level—have great substance. Fly Dubai and Ethiopian Airlines (and soon reportedly Turkish Airlines and Kenya Airways) are now part of the travel options out of Hargeisa.

A second representative of the professional services segment is Sagal Jet.¹⁸ At the interview, Sagal Jet was represented by Abdi Yusuf, the majority shareholder in this family business that is part of a larger group of companies. Sagal Jet was established in 2007 and currently has 150 employees spread over Somaliland's five outlets and the Djibouti and Ethiopia branches. Hargeisa serves as the main office. The firm operates out of its own premises in Hargeisa. According to Yusuf, Sagal Jet has striven to keep up with developments in the printing industry. Just seven years ago the field was devoid of 3D signboards, a situation that is now contrasted by the ubiquity of such signage in present-day Hargeisa. The field is very dynamic. Yusuf remarked that Sagal Jet, in spite of its rapid growth, has been and continues to be grappling with several challenges.

First, he reported that the lack of international recognition is really hurting the fortunes of the firm. It stops Sagal Jet from getting funding at competitive rates in a cash-driven business. Second, many potential clients still falsely believe that because of the lack of international recognition, they can be better served by firms in the more established neighboring countries such as Kenya. Third, technology is growing at an extremely fast rate. It is difficult to get local people with the expertise to optimally operate Sagal Jet's machines. Fourth, Sagal Jet has six production sites, and the logistics of managing their work is not easy. Fifth, the firm continually struggles with marketing its portfolio of services. Many people in Somaliland have little appreciation for Sagal Jet's complete array of services. Sixth, the human resource constraints are hampering the growth of the business. Though the labor situation is improving, it still cannot completely rely on local expertise. Seventh, the lack of formal insurance means the firm cannot fully protect

its merchandise or goods in transit. Eighth, the business is grappling with high receivables (approximately \$154,000) even when financing options are extremely limited.

The opening of branches in Djibouti was a strategic decision meant to allow the firm to address some of the challenges in Somaliland (e.g., lack of financing options). Sagal Jet can now get letters of credit in Djibouti banks that it could not obtain in Somaliland. According to Yusuf, the firm also recently bought out one of its competitors in order to grow market reach and share. An important part of the firm's covenant is the concrete agreement among its partners that has been signed and notarized. Sagal Jet continues to expand its portfolio of products. At the time of the interview, this list included signboards, stickers, T-Shirts, book publication, design creation, and media printing. Down the road, the firm is working towards positioning itself as the leading printing company not only in Somaliland, but also in the Horn of Africa. As Yusuf stated, the firm's leadership wants Sagal Jet to be the one everyone seeks for all superior printing needs. Their goal is to provide products differentiated not by price but by high quality and customer service.

Retail Trade

The retail trade is one area the Somali people have engaged in from time immemorial. One interviewed representative of this segment is the Sacadadiin Group, whose managing director, Abdul Rahim, provided responses to the researcher's queries. Rahim is one of four brothers driving the growth of this group. Established as a family business in 1993, the Sacadadiin Group has spread its tentacles into an array of divisions. The building that houses the group's operations is one of the architectural marvels of Hargeisa. The business started off as small cosmetic shops selling creams and the like until 1998, when foodstuffs were added to the mix. In 1999, apparel and electronics were introduced. In 2002, the current premises were acquired, and a small supermarket was built in 2003 and later morphed into a high-end furniture and home decor shop in 2004. This has since been their main focus, leading to the growth of the establishment and the building of the Sacadadiin complex that remains one of a kind in Hargeisa and the whole of Somaliland. The complex was completed in 2014, just after Ramadan. It is now the group's flagship, even though Sacadadiin's interests in supermarkets still remain.

Vendors display their wares along a Hargeisa road. Photo by Jean-Pierre Larroque, OEF

According to Rahim, the group operates in a challenging business environment. While it is rewarding for those with foresight, it is clearly not for the faint-hearted. Business can be exceedingly difficult. Rahim mentioned his perception that Somalis have a problem with payments for merchandise. In order to boost revenues, the business initially allowed credit payments, much to the management's chagrin. The portfolio of credit sales has now grown to unacceptable levels, while the firm still must buy all its goods on cash basis. There is no bank that offers letters of credit. Just as important is the lack of market research or firms that provide this service. Sacadadiin's various divisions also continue to face high and unreliable energy costs. Solar has not worked well for its needs. The firm has therefore installed its own generators (which the researcher had the opportunity to see while on the premises). As for banking, Rahim and his team are working around challenges in that arena by being prudent with the firm's resources. The procurement function is also held within the family. One of the four brothers is based abroad among the countries where most of Sacadadiin's goods come from and does the purchasing on their behalf. His relationships with the various vendors and financial houses that he engages with are helping Sacadadiin's operations. The group has plans to open seven new stores in the next two to three years.

A second representative of this segment is Hadiya Supermarket,¹⁹ whose principal, Muhudin Abdillahi, was the contact person for this research. The supermarket chain has branches in Hargeisa, Burao, and Jogo-chala. It was established in 2003 and mostly sells electronics, clothes, and cosmetics. According to Abdillahi, it needs to find ways and means to obtain affordable finance. The Yemeni civil war is also beginning to adversely affect business. Hadiya's sources of goods are not as direct as before; the chain often has to reroute supplies because of the war. Money is also being diverted by potential customers to deal with the influx of Yemeni residents of Somali extraction who are fleeing conflict. Abdillahi believes the politics of the Horn and the general lack of recognition for Somaliland are also not good for business. As a way of addressing potential supply problems, the firm views trust as a necessary requirement in all it does. Hadiya buys all its goods from China and Dubai using trusted partners (who are invariably people who trace their roots to Somaliland). These trusted buyers are tasked with sourcing and remitting payment for merchandise.



Security Services

In a country with a checkered history, one cannot help but notice the presence of several security firms that vary in size and sophistication. The leading firm in the jurisdiction is PRS (Physical Risk Solutions), which, as the name suggests, provides all manner of security services to a niche clientele.²⁰ The firm, which has operations around Africa, established the Somaliland branch in 2012. Two of the Hargeisa-based employees are South African citizens. The interview was conducted with Willen Griffioen, the operations manager, and Hussein, the local partner of PRS. The firm's staff number now stands at 500 for Somaliland and Puntland. The firm provides physical security, transport, and logistics support mainly to INGOs and multilateral agencies. PRS has little if any direct competition. Before establishing a foothold in Somaliland, Griffioen and his partners started by scouting for opportunities that subsequently led to registration with the relevant government departments. The PRS operations included a local partner (Hussein) from the get-go. According to Griffioen, without a local partner it is hard to negotiate the Somaliland bureaucracy and politics. The Gudda (House of Elders) and parliament must always agree on issues that require parliamentary approval, with the Gudda having a preemptive role over all matters. Gudda involvement is ubiquitous, even including grazing rights and water rights for a largely rural/nomadic people.

According to Griffioen and Hussein, the list of issues PRS has to deal with include corruption (a network of); poor infrastructure (lack of water, the toll of expensive short-hop air services combined with road travel); poor security, especially in Puntland; fluid local politics; the challenge of keeping staff members who invest in continuing education in order to seek better lives invariably leaving for foreign countries (the conflict of education and aspirations); and the unavailability of suppliers of supporting services (e.g., uniforms that meet PRS standards). The cost of doing business is also very high. Note that Somaliland power is mostly generator-derived and the independent power providers charge the firm \$1 per unit. Water from local authorities is almost non-existent.

While services are cash-based for the majority of its INGO clients, it does issue two-week settlement invoices. All payments for those invoices are in US dollars. The client list includes the Department for International Development, UN agencies, the EU, One Earth Future Foundation, USAID, CARE, and other international organizations. In order to avoid potential contract-breach problems, PRS has made a conscious decision to deal only with reputable INGOs with offices in Nairobi and/or parent offices in Western capitals. Because of these precautions, invoices for services rendered are normally quickly settled. Physical Risk Solutions in turn has only one local tax category to deal with—PAYE (a payroll tax).



Physical Risk Solutions personnel on assignment in Somaliland. Photo by Jean-Pierre Larroque, OEF

According to Griffioen and Hussein, PRS continues to work on staying above the fluid political situation. The firm also empowers its local partner to shepherd dialogue with government bureaucracies. PRS strives for excellence in service, an endeavor that is also backed by good market intelligence to ensure significant revenue streams. Griffioen and his colleagues are also seeking to address PRS's other related market gaps, including the provision of travel agency services tied to the local partner. In the couple of months following the interview, the firm intended to expand into the neighboring premises and have one secure compound for residence and another for its offices. Griffioen and Hussein said they are also hopeful that the announced plans to rehabilitate the ports and have reputable firms (e.g., Dubai Ports) run them will actually happen soon. The same goes for importation of electricity from Ethiopia. On a personal level, every quarter, Griffioen spends 10 weeks at a stretch in the region and takes two weeks to visit his family (a wife and two daughters) in South Africa. According to Griffioen, it would be extremely difficult for his family, especially his two daughters, to adjust to the conservative Muslim culture in Somaliland. At the time of the interview, his other South African colleague was away on his two-week leave in Dubai.

Another security organization that shared some of Griffioen's sentiments on the wisdom of using local contacts to wade through the dynamics of area politics was the Danish Refugee Council (DRC)/Danish Demining Group (DMG,) who were represented by Muse Deeq, a monitoring and evaluation officer at the organization. Both DRC and DMG are Danish entities active in Somaliland. DMG operates under the banner of DRC,²¹ with the latter being more focused on development issues while the former deals with the safety and security of the Somali people. The two organizations are working to make the environment safer, continue reconstruction of rural areas, remove perception problems that hinder progress, provide conflict-management education, and address weapons management awareness challenges, especially the presence of mines and other explosives in rural areas. Deeq's day-to-

day work is centered on the use of quantitative analysis to carry out his monitoring and evaluation of DMG activities.

Deeq remarked that carrying out a monitoring and evaluation exercise in Somaliland is not easy. The problems start with the challenge of travel. His organization travels to remote regions of the country and is faced with logistical challenges because infrastructure is still quite rudimentary. At times, they must travel up to 700 kilometers on very bad roads. Second, it does not help that the various districts they are expected to evaluate and monitor consist of approximately 50 villages while they, because of resource and time constraints, only work in five. Each village expects attention, and the dynamics of clan interests and biases are also in play. According to Deeq, they select villages to work in based on the presence of multiple clans and the magnitude of need for DMG services and presence. The actual process is a participatory needs assessment where the locals' input is sought. Third, as part of DMG's work, they have to give training to local partners. Typically, many organizations that interact with the rural population, like DMG, give out per diems. At DMG, however, they only offer refreshments and lunch! Fourth, DMG deals with dangerous remnants of previous conflict (explosive devices). To cope, DMG does not have one formula, per se, to address all issues. According to Deeq, their work requires tact, patience, and a great deal of resilience. They are also comforted in part by the fact that there has been a significant decrease in the number of mines and other explosive devices from their earlier work as well as that of others in the same space.

commercial customers, and 54 INGO/UN-type organizations and educational institutions in its area of operations. Bills range from \$3 to \$7 per week.

Ismail mentioned that KEEPS is faced with many challenges, the first of which revolves around equipment needs. Having efficient equipment is critical to the firm's operations. The most immediate need is for a wheel loader. Second, they are faced with the sad issue of illegal dumping on many of their routes. Instead of responsibly using designated containers, many customers indiscriminately dump their waste all over the neighborhoods, probably in an attempt to avoid payment. Third, the cost of fuel, which is a central element of KEEPS operations, is prohibitive. The firm uses diesel for its equipment. Power, which is also diesel-generated, is sold to KEEPS, like all of Hargeisa, at \$1 per unit. KEEPS is also severely constrained by lack of financing options. In addition, in spite of having progressive ideas, like recycling plastic for fuel, the firm is limited by the above-mentioned factors and even more by technical capacity and skills deficits. Closely related to the fifth challenge is the lack of research by other bodies to guide KEEPS operations, leaving the firm to work through a lot of trial and error. Competition is also becoming an issue KEEPS increasingly has to grapple with. Picking up garbage in many of the congested areas is a major challenge because the mobility of man and machine is heavily restricted. Most times, those locales are unplanned settlements with no formal roads; the problem of poor roads is a fact of life in all of Hargeisa (only 16 kilometers in the entire city are tarmacked). Very few of the

KEEPS staff. Photo by Jean-Pierre Larroque, OEF

Waste Management

A casual inspection of Hargeisa will no doubt observe the actions of those charged with waste management. One of these firms is the Kafir Enterprise for Environmental Protection and Sanitation (KEEPS), whose founder, Omer Ismail, took some time to show the researcher the business's operations. Ismail started by mentioning that KEEPS is an acronym settled on at the 2012 founding because it was deemed "easy on the tongue." KEEPS was organized as a social enterprise with the founder as majority shareholder with the Municipality of Hargeisa as junior partner. It started small, with minimal equipment (three compactors and two trucks). KEEPS has the responsibility to pick up and dispose of garbage in one of the five Hargeisa districts. Over time it has gotten support from the World Bank and the Somali Business Fund. At the time of the interview, KEEPS had just boosted its equipment base. The researcher had the opportunity to see the operations of the billing system; some of the equipment, comprising tippers, compactors, and tricycle wagons; and the well-established office with 78 staff members (38% female), including office managers, accountants, field cashiers, sweepers, and loaders. For keeping tabs on its clients, each household has a customer number attached to its location and the truck of the day. KEEPS serves 5,500 households, 1,500



roads are in good condition. This state of affairs means that operational costs for the vehicles are higher than they should be for a market where income levels are low. Heavy wear and tear and the need for constant replacement of vehicle spare tires is always the order of the day. Last, the adherence of many customers to the scheduled drop-off points remains quite problematic. This problem is compounded by slow payment for services rendered.

Ismail contends that even though the obstacles appear daunting, KEEPS is trying to overcome many of its challenges. It is, however, clearly an uphill task. For a start, to counter the low adherence to good waste management practices by potential and existing customers, the firm is lobbying for a waste management (operators') association. This could serve as a platform to influence and eventually help draft legislation in parliament. The firm is also directly seeking the assistance of religious leaders to spread the word on the benefits of sanitation and the need for folks to pay for services rendered. It is evident that introducing recycling would diminish waste spillage and other adverse behavioral tendencies. The management of KEEPS is trying to pursue ways to promote recycling. As Ismail suggested, with a light touch, "perhaps when circus troupes pull into the city we could use them to spread the idea." The firm also believes it is in its interest to change perceptions about waste management in general and change the lack of awareness of the opportunities in this sector, including using waste for power generation and fertilizer production. Ismail is passionate about the segment and surmises that garbage is a great resource allowing investors to make justifiable returns on investments. He contends that the fact they are operating continuously, and that KEEPS operations are backed by good research and scientific knowledge, augurs well for the industry. He looks forward to a time when government will support the sector through policy, legislation, and enforcement—in order to not hold the segment back.



APPENDIX B: BUSINESS IN SOUTH SUDAN

South Sudanese businesses demonstrated that they, too, have many unique strategies for operating in a very challenging environment. The list of responses below captures the gist of the interviews in the segments that the researcher had access to.

Accommodations and Food Service

As in Somaliland, this segment had many representatives. The first member of this segment is Nelson's Restaurant, named after Nelson Kilonzo, a Kenyan citizen. The business started as a small kiosk restaurant in 2010 and has since moved into slightly bigger premises negotiated with the same landlord. The proprietor began his work in South Sudan as a chef at the Juba Grand Hotel²² and had a stint with the Save the Children Foundation cooking, training, and serving the South Sudanese. All 14 employees are foreign: Ugandan, Kenyan, and Congolese. The restaurant serves very modestly priced African dishes, especially offerings common in East African cuisines, such as chapati, beans, "skuma wiki," "nduma," whole tilapia, beef stew, and "liver fry." Clientele is a mix of low-income South Sudanese people and East Africans (mostly Kenyans and Ugandans) plying their trades in the jurisdiction.

Fried steak, ugali, and sukuma wiki. Photo by Napendakukula.



Kilonzo mentioned that he is faced with multiple challenges in Juba. First, security is still a problem and he cannot operate the way he used to when he first started. He closes earlier

and opens a little later than he used to so that both he and his workers do not have to deal with the sporadic nighttime violence. Second, the poor quality of health and sanitation in the city means there is always a threat of cholera and other water-borne diseases; "you can imagine what an outbreak of these diseases can do the customer levels." Third, he also stated that the number of Muslims means that the Ramadan festivities and all the fasting that comes with them have a big impact on his revenues; during Ramadan his sales were very low. It does not help that the poor economic situation in the country affects the disposable income of many of his customers in spite of his offering very reasonable prices for his meals. Fourth, another challenge is the cost of energy, which he viewed to be prohibitive. Finally, the scarcity of hard currency was a major concern. The primary foreign currency that matters in South Sudan is the US dollar. At the time of the interview, while the government had issued directives to all financial institutions to trade at a fixed rate of 3.3 South Sudanese pounds to the US dollar, no such institution was willing to carry out such transactions, especially in light of the fact that black market rates were at least three times the government-sanctioned rate. US dollars were therefore heavily coveted and not available across the counter in all the banks operating in South Sudan. This affects how and where Kilonzo gets imported goods as well as the settlement of his rent payments. Rent payments are only collected in US dollars. In a reflective moment, he stated that, to be honest, the foreign currency problem and all the above-mentioned challenges had made the returns of his business rather unattractive. At the time of the interview, Kilonzo was seriously contemplating closing and relocating to Kenya because the situation had made it impossible for him to make ends meet. He did not believe he could last another three months under the same conditions.

A slightly different take is that offered by the owner of Paradise Hotel and Restaurant, Mr. Eyoub, an Eritrean national and the principal shareholder and general manager of the establishment. The hotel and restaurant was first opened in 2007.²³ It offers accommodations, relatively high-end food (Italian, Ethiopian, Eritrean, and other country dishes), and a sports bar. Eyoub has been running it full-time since 2012. His family remains in London, where he was previously based. The establishment is heavily patronized by members of the INGO community, humanitarian workers, and expatriates in South Sudan. Eyoub did, however, raise concerns about several issues he has to deal with fairly consistently. Eyoub mentioned that even before the civil war, which remains a tragic phenomenon, the establishment faced and continues to face challenges. His first challenge is the lack of regulation for the sector. He countered that the laws, when they are cited or implemented, are not always consistent.

These incidences therefore unfortunately end up being a source of endless bribes. Second, the problems with infrastructure (especially roads and power) affect the firm's operations and supply chains. Third, the continued restrictions

on foreign currency are also increasing the costs of doing business, since hardly any of his costs are denominated in local currency. Fourth, on a cultural front, he reported that the way the locals approach things takes a while to get used to. Issues are still very tribal, and conflicts including the civil war and steps towards resolving it have unfortunately taken a lot of that direction, too. According to Eyoub, the country clearly has a severe image problem and this affects hospitality businesses including Paradise. Eyoub said he believes that to overcome these challenges, one can only be vigilant and hands-on in controlling what one can while hoping for the best. It is also important to keep offering good service so that patrons who are already in Juba can spread the word to others who may consider visiting Paradise. Eyoub concluded that while the current scenario is extremely taxing, the country has better days ahead. According to him, South Sudan has everything; oil, gold, timber, land, good weather, and the Nile River passing right through it. Once stability is achieved, he and his partners foresee boom years.

Another representative of this segment is Afri-Africa, a riverfront restaurant and club (and part of a group that also includes apartments and courier services). Group Sales and Marketing Manager Joseph Njoroge spared time from a pressing humanitarian services tender-preparation session to talk to the researcher. The owners and senior management of the firm are Kenyans. The Afri-Africa complex started in 2006 during the period when the nation-to-be was in transition. At the time, the firm faced no major competition for the services it offered. Afri-Africa started with tented accommodations, wholesome food, and a bar as well as live music. The period between 2007 and 2009 were boom years. The proprietor could not meet the demand of Afri-Africa customers; the area that was soon to become South Sudan had no hotels to speak of. In spite of the tent accommodations and other rudimentary services, international companies scouting for opportunities in South Sudan made the establishment the place of choice. Out of these proceeds, the ownership of Afri-Africa invested in courier services, a new building, and apartments for rent.

Afri-Africa related being faced with several challenges. First, the civil war has brought operations almost to a standstill. The insecurity that has been experienced from December 2013 onwards has led to a drastic loss of business, since the hospitality sector is very sensitive to security issues. Second, even in the best of times the firm has been subject to an environment where the taxation regime is not clearly defined. Because there is no proper structure for collecting taxes, the owners of the firm believe that they have on many occasions been taxed twice. Third, and closely related to this, is the fact that the country's legal system is still largely "a work in progress." According to Njoroge, the South Sudanese legal system is very weak. Much remains to be done before those subject to the system can have full confidence in its operations and judgements. Fourth, the language barrier in the country is still an obstacle. Unlike in the rest of eastern Africa, Arabic is widely spoken by the locals. English is used but not as uniformly as the management would like. In Juba

and Central Equatoria, one can easily get by speaking English; this is not the case in the other nine states that during the interview formed South Sudan. Fifth, the infrastructure needs of the country are a major hindrance to Afri-Africa's business. According to Njoroge, the need for electrical power is only met through the use of expensive diesel generators. There is no grid, as such. While the road network has improved in the most recent years, especially in Juba, a lot of the country still has terrible roads. When it rains, vehicles, including those bringing goods to Afri-Africa from the north, remain immobile.

Nobody wants to make deliveries on roads where unexpected roadblocks exist.

Apart from the bad roads and bridges, businesses in South Sudan have to contend with poor security in those states where conflict has been most prevalent. This also severely affects Afri-Africa's associated firms, such as the courier business. Nobody wants to make deliveries on roads where unexpected roadblocks exist. Sixth, on the human capital side, a lot needs to be done; even before the civil war, the schools, hospitals, and colleges fell far short of meeting the country's needs. The country suffers from a significant manpower deficit; Njoroge noted, "as you can see, all the staff members here are from neighboring African countries." Njoroge also observed that the level of illiteracy is still very high, even for a developing country. Seventh, and closely related to that, is the fact that apart from the brewery there are no industries in South Sudan; everything is imported. Eighth, the issues with hard currency (shortage and fluctuation) continue to dog Afri-Africa's operations. It is difficult to plan for, procure, and supply necessary inputs without adequate foreign exchange reserves. Finally, the 2013 big investor conference brought to the fore the immense potential of the country. The reported finds of oil, minerals, and other natural resources have attracted all manner of people; Njoroge contended that not all have been genuine businesspeople. This problem is even more pronounced within the issue of land tenure. Land ownership is fraught with speculators and brokers who cannot guarantee that the land they may be offering does not have other claimants.

Njoroge said he believes that in spite of the mentioned challenges, the country has a lot of potential. The events that started in December 2013 stopped active and honest business. At the time of the interview, he asserted that what they were now mostly dealing with were humanitarian services for the warring communities, meaning that they would have to be resilient and not necessarily close shop. Second, he is also of the opinion that they as a business need to work on changing attitudes and better training the local staff the group has in any of its subsidiary companies. In summary, he observed that their vision for Afri-Africa has changed from what it was pre-2013 (noting that the apartments went up before 2013). In his opinion, the country is now at complete standstill. A lot of their projections and business developments are dependent on a quick resolution to the country's conflicts. In addition, if the proposed multi-nation LAPPSET (Lamu Port and Southern

Sudan-Ethiopia Transport) project is brought to fruition, there will be dramatic changes in South Sudan. This of course would also affect the business not only on the hospitality side, but also in the courier and real estate divisions.

Some of Afri-Africa's sentiments were shared by the manager of Devel Lodge, another tented camp by the Nile. Just like Afri-Africa, it is owned and managed by Kenyans. According to General Manager Aron Mwangi, it offers bar and restaurant facilities and is strategically located next to the UN compound. Even though at the time of the interview it had only been in operation for less than a year, it has faced many of the problems Afri-Africa has been grappling with for quite a while. One, according to Mwangi, is that the list of standards they are expected to adhere to seems to be growing daily. Another is that getting supplies for Devel Lodge is quite difficult. For instance, the local beer produced in Juba is not what is preferred by many of the firm's clients, who are mostly expatriates who prefer foreign brews. Third, the costs of operation are very high. This is compounded by the fact that all the firm's employees are from the neighboring countries. Fourth, the legacy of war has created a belief that the South Sudanese are difficult to deal with, whether as employees or as patrons. According to Mwangi, there seems to be a feeling of entitlement among the locals that is hard to overcome. To cope with the mentioned challenges, the management of Devel Lodge has made a conscious decision to increase the firm's offerings but balance the prices of services rendered to suit largely expatriate tastes, a business model Mwangi believes holds the greatest potential for Devel Lodge in the immediate to short term. He concluded by stating that in spite of the mentioned challenges, if a peaceful outcome can be reached soon the South Sudanese market will embrace their business model.

Even though most of the more prominent eateries are foreign-owned, there are a few run by South Sudanese citizens. One of these is Olive Restaurant, run and owned by a South Sudanese businesswoman who also engages in commodity trading through her other firm, Aroma Trade and Investment. The proprietor started her South Sudanese business by establishing Aroma Trade and Investment in 2008. She had previously set up shop in Kenya, where she dabbled in different ventures. Aroma Trade and Investment started off as a firm designing and making high-quality furniture, which lasted three or four years before things fell apart. According to her, the business model became untenable, and focus shifted in 2011 to wholesale trading dealing mostly with dry food items. She sourced wheat, rice, and sugar from Mumbai, India, and other sources. Things changed at the onset of the civil war, with importation becoming more difficult due to lack of hard currency. She then opened the restaurant side of the business in January 2015. Olive Restaurant is next to the premier nightclub in Juba. Initially, the restaurant offered a large variety of food, but has since scaled down to mostly serve local items that do not depend on hard currency. The restaurant serves buffet-style South Sudanese meals including beef stew, ugali, cassava leaf, and other assorted items.

According to the proprietor, the crisis of 2013 adversely affected business: "things have become very bad." She opened the restaurant in January 2015, then got stuck in April 2015, due to the lack of hard currency. She had to let go of very high-expertise employees including her chef, cook, and manager and replace the international fare previously served with South Sudanese food. The war and its consequences have clearly been the biggest challenge to her business and she finds it difficult to make projections until the war is completely resolved. She said she believes that one must be very resilient to cope, as amply demonstrated by her changes to her business models and her moving away from a wider selection of food and international offerings. She said she believes that in the immediate future, she will probably have to think beyond the South Sudanese borders and revive the trade division. As a start, she suggested that perhaps she needs to become even more proficient in Arabic, Kiswahili, and the many South Sudanese languages. She contended that she would even consider moving to Western Equatoria, where she thinks life is a lot more stable.

The war and its consequences have clearly been the biggest challenge to her business and she finds it difficult to make projections until the war is completely resolved.

Many of the above sentiments were also shared by the representative of New Lion International Hotel. The hotel is conveniently situated next to the American Embassy. It is an almost four-star hotel owned and operated by Eritrean nationals. All the staff comes from foreign countries including Eritrea, Kenya, Uganda, and the DRC. The hotel serves some Italian dishes and a variety of African dishes commonly found in the regional capitals. The establishment also caters to the interests of the elite among the South Sudanese and expatriate community who may want to exercise in its gymnasium and swimming pool. All payments for the hotel are in cash (US dollars and South Sudanese pounds). However, at the time of the interviews the hotel was trying to work with its local bank to be able to accept some form of credit card payments, but the system was not yet operational. To tackle the infrastructure deficits that are a common thread among the discussed challenges to businesses, the hotel owns its own generator and borehole.

Auto Sales, Repair, and Maintenance

As in many sub-Saharan countries, one cannot help but notice when in South Sudan that a lot of the vehicles on the road have many miles on them. The need to keep these vehicles running has made spare parts shops almost as prevalent as eateries. One such spare parts shop is Nellum Autospare, a firm owned by a Kenyan, John Kariuki. Nellum was established four years ago as a single auto mobile spares and accessories shop, and has since grown into two shops with three employees (all of whom are foreign) plus the Kenyan proprietor. Its customer list is a mix between foreigners and local South Sudanese clients, especially those running the public service vehicles.



Motorcycles line up for fuel in Juba. Photo by Paula Bronstein/Getty Images

According to Kariuki, he operates in a very challenging environment and has to deal with several obstacles, the first of which is the language barrier. A lot of the South Sudanese speak Arabic rather than English. Second, cultural differences in how to relate and transact business also come into play, especially with the locals. He has been dismayed to notice that people will offer to shake hands even after they have just dealt with bodily fluids. Kariuki and his staff also have to be cognizant of the importance of Muslim holidays and other special occasions and adjust their schedules accordingly. Third, he said he believes that there is sometimes a feeling of hostility towards foreign business owners. These feelings have become more pronounced since the civil war started. Kariuki also noted that the Somali pound's depreciation and the related problem of hard currency shortages are wreaking havoc with his pricing. Nellum Autospare's customers are extremely sensitive to price movements. The proprietor also contended that relations with the various government agencies could be better. Every so often, Nellum Autospare is subjected to inspections for licenses and other taxes. These irregular levies make it hard to operate.

In order to survive in Juba, Kariuki believes that those in his trade must work on a few things; these include trying to learn the languages spoken in order to better serve local South Sudanese customers. He has also changed Nellum's working hours since the conflict started. They now close early and refrain from working after dark. In addition, he has modified Nellum's premises to make each of the outlets more secure. At the time of the interview, Kariuki had not bought an insurance policy to protect his investment. He believes the premiums on offer by the few insurance companies operating in the jurisdiction are prohibitive. Next, Kariuki noted that he continually introduces new items to attract customers in a very competitive segment. Finally, to keep costs down, he has reduced staff numbers, which entails the staff still with him working longer hours. Kariuki said he is of the opinion that it is very hard to make accurate projections of what levels his business will be operating at until the civil war ends. He contended that here are signs that this may happen in due

course, but differences between the parties still seem insurmountable. He remains hopeful that the country has seen its worst days.

Business Collectives

It is very noticeable that many of the small-scale businesses are run by either Kenyan or Ugandan traders. The Kenyan small-scale traders have a representative umbrella body, the Kenya Diaspora Association. Its chairman, Bishop Joel Mwendwa, is a member of the clergy running his own church. The interview with him took place in the presence of John, one of the officials of the association who also runs and owns the modest bar and restaurant called Blue Café.

Blue Café caters to those seeking traditional African meals such as fried liver, tripe, roast meat, cow peas, cassava leaves, kale, ugali, rice, and chapati, and during some weekends and national holidays, live bands perform for the patrons.

Mwendwa came to South Sudan in 2004, and he speaks Arabic, which allowed him to operate in the then-territory that was still under negotiations for its possible independence from the Arab-speaking north. After being a businessperson buying teak (for Kwale Sawmills) and then exporting it to India, he transitioned to ventures of the spiritual kind. Mwendwa joined the Sudanese Christian Ministry before eventually starting his own ministry at the border between Congo, South Sudan, and Uganda. In 2010 he came to Juba, and continues to spread his message while also representing the interests of the Kenyan diaspora traders and businesspeople.

As Bishop Mwendwa alluded to, he wears two hats as a leader of a church and the head of the association of Kenyan diaspora in South Sudan. From this vantage point, he has the benefit of observing a lot of what goes on. According to Mwendwa, "from my engagement with citizens of this country since I first came here, I can safely say that the South Sudanese do not know how to give, but know how to receive." He noted that the legacy of war has left the Sudanese with an extremely difficult environment. This legacy defines everything about the South Sudanese. Mwendwa also reported that during the ongoing civil war, 20 members of his church were killed. He mentioned that in spite of the work he has tried to do to provide some comfort to the South Sudanese people, it has not been easy to get government support for the efforts. He said he believes there is little accountability in the present-day South Sudanese environment, where there is hardly any economic activity. He lamented that the country does not recognize foreign pastors, and mentioned that he has been helping a 172-member leprosy group even without government support. He said he is of the belief that this marginalized group, like other vulnerable members of South Sudanese society, needs a lot. Mwendwa added that he has noticed that there is a lot of jealousy in the jurisdiction. As a man of God, he is convinced that the country can only overcome its challenges through

prayer. He concluded by stating that for businesspeople such as members of the Kenya Diaspora Association, it is important that they are able to speak the local language.

Construction

One of the representatives of the construction segment is Sammy Building Contractors, named after its Kenyan sole proprietor. Sammy has been in operation since 2013. Clients have included government agencies, individuals, and NGOs. The proprietor lamented that his business is faced with many challenges. First, the sourcing of materials is a major headache for him. South Sudan does not yet seriously produce its own building materials apart from timber, sand, and ballast. Cement, steel, and all other materials have to come from Sudan (i.e., Khartoum), Kenya, and Uganda. Second, skilled labor is mainly foreign and therefore quite expensive. Third, the previously accepted practice of “holding workers on standby and paying retainers for their services” while transitioning between jobs is no longer viable. Fourth, the currency restrictions make it difficult to operate since almost all costs incurred are in foreign currency. Fifth, payments and other accounts receivable from clients are no longer prompt. Sixth, the government’s requirement that companies have at least 30% South Sudanese employees on the payroll is not tenable; Sammy said he feels that besides lacking the skills and culture to operate in the construction trade, very few locals are fully committed to the building construction livelihood. Seventh, agreements with the locals are not always honored. This is particularly bad in the arena of agreements to lease land/premises. Sammy related that on two different occasions where he had come to terms with property owners, there was a complete reversal and the property was forcefully taken away from him. This was particularly sad because he had sunk considerable resources into each property. Even though he has not closed down yet, he has contemplated doing so. According to Sammy, he was at the time of the interview operating with very skeletal staff while hoping that the problems that brought on the civil war could quickly be resolved.

Very few locals are fully committed to the building construction livelihood.

Another member of this segment is Shiloh Investments, Ltd., whose principal shareholder is Charity Karimi. The firm was established in 2012, initially as a manufacturer and supplier of building blocks and related materials. Immediately after the civil war started, the block-making business became untenable and Karimi moved into supplying other materials not necessarily tied exclusively to construction projects. She reported that construction projects have come to a near standstill since the onset of the dispute. She narrated some of her experiences that bring the plight of construction business owners home. Karimi had earlier acquired land to establish her business. She then leveraged some of that property to get USAID contracts for training local youth on building

construction skills. This venture also collapsed. Shiloh has since changed focus to be a supplier of goods to the NGOs operating in the region. Among the goods it supplies are food and relief and non-relief items for the country’s burgeoning humanitarian efforts.

According to Karimi, enterprises like hers face a lot of challenges in South Sudan. With the hard currency restrictions, Shiloh has ended up in a very difficult position. Even before the conflict, South Sudanese currency was not always easily convertible in Kenya and Uganda, two of South Sudan’s main trading partners. Next, the country has no industry as such and everything is imported. The only factory in the country is the one for beer and water. This makes it hard to set up any manufacturing because there are no supporting industries. In addition, closely related to this is the issue of inflation in the pricing of goods Shiloh supplies. There is also the issue that there has been a great deal of hostility from the locals during the civil war period. There have been claims that foreigners, especially of the small-scale trader type, are out to steal from locals. Karimi asserted that perhaps in times of scarcity, people resort to these feelings to cope and view foreigners as a source of their problems.

For small-scale businesses like Karimi’s, there is much to complain about—the climate, environment, culture, lack of supporting institutions, and insecurity even in the best of times. In trying to overcome the challenges of the fluid South Sudan scenario, Karimi has made choices to close the more capital-intensive business, like the building blocks enterprise; venture into supplies and procurement for the humanitarian efforts currently in the country; shed assets, even though prices received are not very attractive; and keep on monitoring the situation to determine whether to completely exit the South Sudan market. Karimi did conclude by noting that she had given herself a target: “if the situation does not improve by January 2015, I will relocate to Kenya.”

Another representative of the construction segment is Matku Engineering Company, Ltd., which, unlike the other firms mentioned, is owned and operated by a South Sudanese national.²⁴ Matku’s Chairman and General Manager Michael Arop Deng received all of his university education through graduate school in Malaysia. Deng worked for Petronas in Abu Dhabi before starting Matku in 2010. Matku Engineering Company appears, even to the casual observer, to indeed be a well-run company operating from its own neat and modern built-to-suit premises just north of Juba’s international airport. The premises are in a sparsely built area close to a few military establishments. Matku is a progressive construction engineering company specializing in roads, high-elevation buildings, and construction materials, especially the manufacture and laying of block bricks and interlocking tiles. According to its website and Deng, Matku has worked for Schlumberger Oilfield Eastern Limited,²⁵ ASOC, SPOC,²⁶ GPOC, and DOC—all major players in the petroleum and allied industries within South Sudan prior to the civil war. Matku has positioned itself as the premier service provider to the

oil industry. In order to achieve such a position, the chairman said, he believes a firm must have a vision, develop an appropriate business plan, create systems, and build capacity to realize the company objectives.

According to Deng, the firm faces several challenges. The first has to do with the problems that have befallen the industry because of the conflict in the oil-producing states, especially Upper Nile and Unity State. Movement in these regions has remained quite limited during the conflict. Second, the mentality of the local populace is a challenge. This, according to Deng, is probably most notable in attitudes towards jobs. The culture of proper work conduct (skills, dedication, and approach) is still in need of improvement. Third, the government, just like in many low-income countries, is the biggest client for business. This has its perils; when the government is hard-pressed for funds, everything else comes to a standstill. He contended that ideally small to medium companies like his should be the engine for growth, not the central government, because companies take a lot of risks. Fourth, it is not easy to engage the government institutions—many things are fluid; policies change a lot. Finally, his business, like many others, faces the significant challenge of financing. The established financial institutions are reluctant to lend to firms like Matku for project financing even when the fundamentals support such transactions, which really hampers Matku's operations.

Deng said he bases his thoughts on how one can cope in South Sudan's environment by heeding the writings of philosophers such as Galileo.²⁷ He has put up several posters in the corridors of his offices to capture a selection of these thoughts (some Galileo's, some not). These include:

“ *Live on hope, but keep pushing.*

All truths are easy to understand once they are discovered; the point is to discover them.

We cannot teach people anything; we can only help them discover it within themselves.

The difference between someone who succeeds and someone who fails is determination. ”

To him, these sayings imply that he needs to devote resources to staff training and the development of work-related skills, regional integration, the pursuit of excellence, and bringing projects to a conclusion. As was evident during the interview, Deng does not only believe in these thoughts but he puts his words into practice. On the day of the interview, Matku had gathered senior staff comprising South Sudanese, Ugandans, and an Ethiopian in a session to familiarize them with necessary skills in project management through exposure to Microsoft Project. He said that as a South Sudanese entrepreneur, he remains optimistic that when the conflict is resolved his company can begin to exploit its potential. He did caution that a lot depends on what happens with the conflict in the oil-

producing states and how quickly the whole country's focus can be placed on national development.

Energy

The energy industry was the lifeblood of South Sudan before the civil war. And just like its sub-Saharan African oil-producing peers, which are led by Nigeria and Angola, South Sudan has struggled to handle prolonged low prices. Prior to the civil war, South Sudan produced 350,000 barrels a day. As newspapers reported, South Sudan was at the time of the interview barely producing 40% of the pre-war levels. Many oil fields have ceased operating since war broke out in December 2013. Oil wells and facilities have been badly damaged in the fighting. The Thar Jath oil treatment facility, for instance, which handled oil from surrounding wells operated by the consortium Sudd Petroleum Operating Company led by the Malaysian giant Petronas, was abandoned days after war broke out.

The energy industry was the lifeblood of South Sudan before the civil war.

The problems of reduced production and low global prices are also exacerbated by a complex oil pricing formula.²⁸ A total fixed fee of around \$25 per barrel must be paid to Khartoum (split between transit fees and a charge under the terms of the Transitional Financial Arrangement, another provision of the 2012 agreement). Roughly \$7 per barrel towards producers must also be parted with as part of the joint venture costs. Additionally, crude from Upper Nile is considered to be of lower quality than that from Brent, and sells at a discount of \$10 a barrel. This means the South Sudanese government could be taking home less than \$15 per barrel before deducting for debt payments tied to pre-collateralized future sales. At the time of writing this report, South Sudan was negotiating a new oil pipeline deal with its northern neighbor after slumps in global prices made Juba effectively pay to export crude.

While crude oil exports go through Khartoum, the refined products that South Sudan uses are sourced from the state-owned Kenya Pipeline Company. Trucks designed for South Sudan procure supplies from the Kenya Pipeline Company's depot at Eldoret and drive from the Northern Rift Valley city along treacherous roads to get to Juba. Even this imported fuel frequently runs out. When it is available, black market fuel sells for up to five times the official price at dry pumps. Plans are afoot for Kenya and neighbors Rwanda, Uganda, South Sudan, and Ethiopia to use the proposed multi-billion-dollar Lamu Port and Southern Sudan-Ethiopia Transport (LAPPSET) project to deliver refined oil to the mentioned countries, but this transport corridor is still a few years away from execution.²⁹ The LAPPSET corridor, when complete, will also be expected to provide an export route for those regional countries with crude (Kenya, Uganda, and South Sudan). It is in this environment that the two representative firms discussed below operate.



Oil pipeline that runs from Bentiu to Yida, South Sudan. Photo by Shannon Orcutt

The first is SITICO Petroleum Products. Group Managing Director Joseph N. Stamboulieh responded to the researcher's queries. SITICO was founded as an aviation fuel, petroleum, and oil services company.³⁰ The firm has had operations in Kenya, Uganda, South Sudan, and the DRC. The SITICO model is based on spot-buying fuel for supply and delivery to users (flight operators, petrol stations, etc.). While the firm is still active in Uganda and Kenya (where its headquarters are located), SITICO had just had to suspend operations in South Sudan which had previously been a major focus of its business. According to Stamboulieh, "to be honest, all we currently have on the ground is a skeletal team...our South Sudan operations came to a complete standstill because of lack of foreign currency" and problems procuring hard currencies, a challenge that had major bearing in the decision for SITICO to suspend its South Sudanese operations. As previously reported, the political instability in South Sudan has led to a severe shortage of hard currencies. Stamboulieh mentioned that the firms in his segment have had to grapple with wide discrepancies between official exchange rates and those offered on the black market. The local banks were not trading in foreign currency and any currency trading on the black market is deemed illegal by Sudanese government authorities. At the time of suspending active SITICO operations, substantial goods had been supplied and not paid for primarily because of foreign currency constraints. Suppliers who would otherwise want to pay in Sudanese pounds are of little benefit to SITICO. According to Stamboulieh, heavy bribery demands are made if you want to convert your pounds to dollars at rates not in line with the government's official rate.

Stamboulieh also asserted that the second obstacle, and possibly a consequence of the first challenge, is that production of oil in South Sudan has dropped drastically to as little as \$150,000 per day because of the ongoing civil conflict. The designated buyers from China, Malaysia, and India have little stock from South Sudan, where the bulk of the oil production is in territory marked by heavy rebel activity. Without oil proceeds, which comprise the bulk of government revenue, little business goes on in the country. All that is left functioning is humanitarian assistance. The third challenge for his firm and other businesses in the energy segment is the

fact that the South Sudanese conflict has brought many ills to the fore. The high levels of displaced person and atrocities reportedly committed by fighters in both camps continue to push away honest business. It is especially difficult for foreign direct investors who have the courage to do business in this environment. Fourth, with opportunities for honest business scarce, corruption has taken root. The traditional South Sudan feature of holding trust as

an important part of transactions has been largely discarded. This lack of ethics and the conflict have eroded the high hopes people had for this young nation. Fifth, Stamboulieh lamented that the private sector in general continues to suffer from unpredictable licensing procedures, cumbersome registration processes, and the whims of high-level decision makers. These problems are probably the result of weak institutions, many of which needed guidance well beyond the few years that South Sudan has been in existence. Finally, it does not help that many of the skilled positions are held by citizens of neighboring countries rather than native South Sudanese.

The local tertiary institutions still have a long way to go before they meet the manpower needs of South Sudan. However, Stamboulieh said he remains cautiously optimistic that once stability is attained in South Sudan, his firm will explore its options in the country. To him it is clear that while there are many ills, South Sudan has a lot of potential if things are done right. He contended that there is an urgent need to build institutions run on professional standards. Perhaps these could initially be under the guidance of expatriates answerable to multilateral bodies before responsibilities are transferred to competent locals who will run these bodies for the good of the country rather than pursuing self-interests. According to him, one possible model for SITICO's engagement with South Sudan and other markets in the region (including Kenya, Uganda, and Rwanda) would be to seek to rebrand all independent retailers of the firm's products, which he believes would promote the adoption of standards that they seek in the countries SITICO does business in. Stamboulieh projects that if this business model became an eventuality, SITICO would expect to be a major player in this segment.

An active and major player in the South Sudanese energy segment is Dalbit Petroleum. Country Manager John P. M. Ongondi, a Kenyan citizen, sat down with the researcher. Dalbit International is a regional oil company first incorporated in Kenya in 2002. It has since changed its primary country of incorporation. Dalbit Petroleum is now, according to its website, a privately owned total energy solutions provider incorporated and based in Mauritius.³¹ The company engages

in procurement, trading, transport, and management of fuel products. It has operations in several African countries including Kenya, Tanzania, Uganda, Rwanda, Burundi, South Sudan, the DRC, and Zambia. The South Sudan operations were registered in 2005 and execute term contracts to supply JET A1 and gas oil to the UN's World Food Programme (WFP), the government, INGOs, and the Kenya Airways operations in South Sudan. The South Sudan operations started in Rumbek with two projects for jet, diesel, petrol, and lubricants. Its core business strategy remains the supply of jet oil, especially to the WFP's fleet of aircraft for food drops and the United Nations Humanitarian Air Service (UNHAS) for food distribution. Out of the 10 South Sudanese states, Dalbit operates in 7 (i.e., not in Upper Nile, Unity, and eastern Malakal).

According to Ongondi, Dalbit faces enormous challenges in its South Sudan operations. The logistics are fraught with all manner of problems since the product comes from the Arab countries. The first of these problems is the significant challenge with inter-border customs as one approaches Juba. This is not helped by the poor state of the roads. Third, insecurity is a major problem for Dalbit. At the time of the interview, Dalbit had just lost four contracted Somali drivers who were attacked and killed by locals at a roadblock. Fourth, weather is a big challenge; during the rainy season, the roads are impassable.

Differences in culture and language proficiency between local workers and expatriate staff members have to be managed closely.

Ongondi also mentioned other issues that do not necessarily revolve around logistics. These included the fact that government regulations are not easy to implement. For instance, the requirement that Dalbit observe the 20/80 rule on the ratio of expatriates to local hires is difficult to adhere to. Ongondi alluded to the fact that the educational backgrounds, skill levels, and enhanced work habits of many local candidates are still a "work in progress." Second, differences in culture and language proficiency between local workers and expatriate staff members have to be managed closely. Some of the differences are not so obvious, such as the issue of greetings, for example: locals greet by touching shoulders rather than giving the firm handshake the Kenyan managers of the South Sudanese operations are used to. Misunderstandings about language and communications differences have also been observed; one group's signal of agreement has been deemed "offensive" by another, for example. Third, the lack of dollars in the marketplace brings its own challenges. Dalbit is also constantly faced with the challenge of government departments not coordinating in situations that have great bearing on its operations. For instance, Ongondi and his Dalbit management team have to file for exceptions for customs duties and commerce and industry duties with different agencies. This process of filing for exceptions continues to be unpredictable.

Ongondi said he believes that the only way one can cope with the current South Sudanese environment is by planning ahead. For instance, he said you must know your customer requirements early enough to plan for deliveries when the weather is more favorable. In regard to legislation and dealing with changes in government regulations, he noted that it helps to work closely with influential government functionaries, and based on this interaction strategically plan for how best Dalbit can work around the potential pitfalls. In terms of security, Ongondi and his team are trying to avoid incidents like the recent killings of Dalbit's tanker drivers by encouraging the firm's designated drivers to cooperate with those manning roadblocks even if they work for third parties, and he and the team are trying to address how and when the driving is done. The recommendation for the contracted drivers is that movement should be only during daylight hours and as part of a convoy. Ongondi was also proud to report that Dalbit offers negotiated pay rates well above the prevailing market charges. While trying to work around the workforce stipulations, Dalbit Sudan currently has a 40/60 split in the ratio of expatriates to locals. The expatriates are primarily from Kenya and India, and Ongondi and his team hope with time to transfer skills across the board. According to Ongondi, Dalbit's human resources department is proactive and is helping with issues that could otherwise become obstacles, such as cultural differences. For Ongondi, perhaps the single challenge that requires constant monitoring is the issue of foreign exchange scarcity. All quotes and payments to Dalbit are now only in dollars. Any customer the firm transacts with must work under these terms to continue getting petroleum products. Ongondi said he operates with a view that even with the ongoing crisis, business must keep on growing. Assuming no new adverse circumstances arise, he said he projects to have attained a 30% increase over the previous year's figures. He contended that demand for Dalbit's product is still very high and if the situation were to stabilize, there would be no reason why the South Sudanese operations should not grow, too—even with increased competition.

Financial Services

Just like some players in the energy segment, all the foreign banks which rushed to open subsidiaries in the South Sudan, attracted by its virgin financial services sector, seem to be rueing their decisions to enter the country. The civil war, together with the import dependence of South Sudan's economy and its exclusive reliance on oil as a source of foreign currency in a long period of wobbly oil earnings has resulted in a prolonged period of dollar illiquidity. This has not been good for the jurisdiction's financial institutions. Kenya's CFC-Stanbic Bank,³² Cooperative Bank,³³ Equity Bank,³⁴ and Kenya Commercial Bank³⁵ have all been affected by the currency shocks and have had to make increased provisions for significant loan losses. Even in the best of times, it is not easy for financial institutions in South Sudan to engage in making loans since there are still no proper structures to aid in collateralized lending. At the time of writing, there was no formal land registry to aid

lending against title deeds, nor did a national identification system for identifying and tracking borrowers exist. The land tenure situation and lack of a national identification system mirror that in Somaliland. In addition, just like Somaliland, there is currently also no credit referencing bureau to provide risk profiles for prospective borrowers. This situation is made even more challenging by the absence of robust financial dispute resolution mechanisms. The South Sudanese government has been a major borrower, but even it, too, has faced issues with honoring payments for Treasury bills. The company Allan Gray Africa,³⁶ a fund manager with interests in CFC-Stanbic Kenya, recently reported to investors that the equity fund's negative return for the quarter during which the interviews took place was partly due to the bank's business in South Sudan "basically shutting down."

One financial institution that has not shut down is the South Sudan operations of UAP, formally registered as UAP Sudan. The researcher had an opportunity to interview the financial controller for UAP Sudan, Chris Baya, who gave an overview of how the South Sudan subsidiary fits into the parent organization, UAP Holdings Group.³⁷ The UAP Holdings Group is an integrated pan-African financial services firm with operations in Kenya (the headquarters), Mauritius, Rwanda, the DRC, South Sudan, Tanzania, and Uganda. UAP's interests include insurance, financial services, and property investments. According to the vision of its chairman, Dr. Joe Wangui, it is set to be the premier organization of its kind south of the Sahara and north of the Limpopo. In early 2015, it merged with Old Mutual Kenya, bringing on board the latter's interests in Ecobank, Faulu Bank, and South Africa's Ned Bank. The merged entity is referred to as UAP-Old Mutual Group. Old Mutual's stake in UAP Holdings currently stands at 60.66%. Wangui was the former chairman of UAP Holdings and has assumed the same role for UAP-Old Mutual Group. The South Sudan operations are run under UAP Insurance South Sudan Limited, a 100% UAP shareholding firm primarily offering general and life insurance. As of 2013, UAP Sudan had been writing premiums worth \$15 million. It remains the only insurance company in all 10 states of South Sudan. Baya mentioned that due to the ongoing civil war, it had closed the Bor, Malakal, and Bentiu branches. The South Sudan operation currently has 65 staff members and gets a lot of support from the Nairobi headquarters.

Baya mentioned that the local operation has to work around several challenges. The most obvious is the lack of infrastructure. There is no power grid and all electricity is via diesel generators. With the periodic shortages of diesel, this is even more troubling. The issue of infrastructure does not stop with electric power; it also includes the road network and the water supply. The second challenge is related to the first, but deserves mention on its own. The cost of doing business in South Sudan is quite steep. The costs of setting up office and getting personnel with the requisite skills are high. For those employees of the South Sudan operation who are not locals, there are few options for their accommodations. This means that foreign staff members of UAP Sudan like Baya have to put

up in some form of guest house. He remarked that "as you may have noticed, there are at least 200 hotels in Juba alone." Third, the currency situation is a major challenge. The South Sudan pound only trades in South Sudan. At the same time, there is an official exchange control regime with fixed rates on hard currencies. At the time of the interviews, the official rate for the US dollar was 3 South Sudanese pounds while the black market offered the same at 12 South Sudanese pounds to the dollar. Before 2013, the black market traded at 4.5 South Sudanese pounds to the dollar. The conflict of 2013 and the reduction in global prices for oil have wrought havoc on the exchange rates. Fourth, the ripple effects of the conflict continue to impact UAP Sudan's business model. According to Baya, it is common knowledge that in 2013 the government operations were 98% financed by oil proceeds. With the conflict occurring in states where oil production is concentrated, there is a resultant lack of hard currency.

By the time of the interview, there had been 13 peace agreements—none of which had held.

For UAP, the cost of doing business has also gone up, and according to Baya, the civil war has really been bad for business. Even basic food prices have increased. This turn of events has a major bearing on insurance companies like UAP because of the ripple effect of increased inflation (at 38%). In addition, the uncertainty surrounding the potential end to the conflict has really caused firms like UAP Sudan a lot of pain. By the time of the interview, there had been 13 peace agreements—none of which had held. As a result, most, if not all, foreign direct investment had been put on hold. This also means that infrastructure development remains stagnant. For insurance, this is not conducive to premiums. It also does not help that the country is not ready for pastoralist insurance. Last, Baya noted that the human resource challenge is a major hindrance to addressing the needs of the country. After the Comprehensive Peace Agreement that brought about the formation of the country, the largest labor sector in South Sudan became the NGO sector. Baya observed that there is need for a change in the culture of NGOs not collaborating with other actors.

In addition, it is expensive to hire locals who meet skill requirements. Baya confirmed that to cope, most South Sudanese corporations have downsized. He added that they at UAP Sudan have bucked this trend and still retain their same service level. UAP was at the time of the interview putting up the UAP Equatoria Tower, a 15-storey office block with 8,000 square meters of lettable space in Juba's Hai Neem area. This is the second major property investment of the group. It had earlier put up UAP Heights Apartments in Juba. They also continue to engage with the government. As a firm, UAP plans to be in South Sudan for the long haul and tries to partner with the government, especially on land policies that promote security of tenure. While they have adopted a policy of "wait and see," the subsidiary also has crisis management plans that include introducing benefits for the same type of premiums. Baya stressed that UAP will not

just compete on basic products but will also develop products with more benefits that hopefully will signal that it is “safe to do business in Juba.” He did, however, caution that whatever projections UAP has can only depend on how the political situation is resolved. He asserted that if oil is not being pumped, government revenues from the taxes and royalties from the oil trade do not come in. On the other hand, if a sustainable peace agreement is reached, the country still has lots of goodwill and recovery will be very fast.

Grooming Services

In moving around Juba, one cannot help but notice the abundance of salons and barbershops. One such grooming establishment is Akazapoh Salon. Akazapoh Salon was established in 2014 as a partnership among six. At the time of the interview, two were in the salon, Henry Murema, a Ugandan barber, and a Kenyan woman who is a partner in the business. The business is divided into one room for male clients and another for females. According to Murema, the salon was a thriving enterprise before the civil war, but he said this was no longer the case and that customer arrivals are now much less frequent. While interviewing the principal, the researcher observed at least two customers come in, one for a haircut and the other for women’s salon services.

As Murema mentioned, the civil war and its aftermath have severely affected the salon’s revenue streams. In addition, the severe shortage of hard currency is really hurting the business. Murema lamented that he and his partners have to pay rent of \$1,500 per month, yet no banks trade in dollars. All the dollars they get are usually at extremely high exchange rates, hampering their operations and the sourcing of materials used in the salon. Murema added that these currency challenges

also affect their support of children and family back in their native countries of Kenya and Uganda. According to Murema, if these currency problems continue for another year, he and his partners may have to close shop and relocate to their respective countries.

Health Services

Many of Murema’s sentiments were shared by the proprietor of Life Start Clinic and Drugstore. The firm is a provider of pharmaceuticals and basic public health needs. It is owned and operated by its Kenyan principal, who was trained as a health professional in his home country. The pharmacy is in the front part of the business while the living quarters for him and his expectant wife and child are at the back. At the time of the interview, the mid-day heat of Juba—at 39 degrees centigrade—bore down on the low ceiling of the premises, forcing the family members to continually fan themselves.

The proprietor mentioned that his business has had to deal with several challenges, the first being the issues around establishing the business. At the time of formation, the firm had to have a South Sudanese partner. According to the business owner, one cannot imagine what that involved. The process of registration had its own trying moments. Among the many requirements he had to deal with was the condition that the Sudanese partner had to have five years of experience in the field and that Life Start would not run a pharmaceutical business with any temporary structures. According to the principal, for a starting venture targeting the common man, some of the requirements were definitely difficult to meet. On the product side, all the drugs dispensed in the clinic are imported. Like almost all products used in the country, South Sudan does not currently manufacture pharmaceutical

A yellow fever vaccine is administered. Photo courtesy of UNAMID



products that meet client expectations. The firm's supplies of mostly generic drugs come from Kenya, Uganda, and Sudan (Khartoum). According to the proprietor, the process of importing and clearing them is fraught with uncertainty. The shortage of hard currency also means that importation does not go smoothly. The business owner lamented that like a lot of issues around South Sudan, the policies used by agencies that govern his sector change frequently. To him, the customer experience is even more challenging: "the challenge of dealing with customers is another story." He elaborated that customers want prices fixed in spite of the fluctuating currency, many South Sudanese customers do not hold steady jobs and hence have low income levels, leading to unpredictable demand, and it also does not help that a majority of them come from large families with only one breadwinner.

The business owner lamented that like a lot of issues around South Sudan, the policies used by agencies that govern his sector change frequently.

He added that the customers/patients arrive at the clinic with the notion that any sick person brought to Life Start must get well. This is obviously not always possible, despite the fact that he dispenses most medication and provides basic treatment for the typical visit. He contends that the disease for which they may have sought treatment may be too advanced for Life Start's facilities. Besides, the Ministry of Health does not allow admissions by any clinic even when the condition that has resulted in the customer visiting is really serious. It is evident that many customers could improve their health situation with better water usage and better hygiene standards. The incidences of malaria infections could also be reduced by countering the mosquito menace through medicated nets and the clearance of stagnant water and other mosquito breeding sites around homes. These challenges are systemic and require the help of other bodies, especially the government, to run campaigns to the benefit of the South Sudanese.

Life Start's proprietor believes the business only has a few options for making this business model work. First, when customers are not able to fully meet costs, the clinic is forced to allow partial payments until they clear the balances. Second, the clinic also adjusts to the needs of its largely low-income customers by issuing mostly generics. Third, in instances where the optimal treatment would be an injection, the clinic's principal is on occasion forced to give oral medication if the customers cannot afford the injections. These options are not what he would ideally

seek, but he contended that he must work with what he has. Life Start's owner said he is convinced that it is hard to operate with the uncertainty of the civil war and its continued effects on the economy. He believes he is an optimist, and asserted that he would like to stay in the same field and look forward to a time he can expand Life Start's operations. Looking ahead, he said he believes that if the country stabilizes he would like, in four to five years, to move to a bigger piece of land and possibly manufacture drugs for South Sudan because there is a definite and desperate need for them.

Manufacturing

The nation of South Sudan has not had much of a manufacturing industry. As mentioned in the discussion of different segments, almost all goods consumed in the country are imported. The lone exception to this is the manufacturer of beer just outside Juba. At the time of the interview, South Sudan's only brewery, Southern Sudan Beverages Limited (SSBL), a SABMiller subsidiary that was once hailed as a symbol of freedom, was on the verge of a forced shut-down as the world's youngest nation reeled from 19 months of civil war.³⁸ The brewery had until then provided a great sense of pride. Drinks giant SABMiller opened the brewery in 2009, two years before South Sudan split from the north. The flagship beer was named White Bull, after the distinctive and valued cattle that are a symbol of national pride. The brewery also represented the country's hard-fought freedom, won in 2011, from Muslim-majority north Sudan where Shari'a law applies and alcohol is banned. The \$50 million project was the single largest investment in South Sudan apart from the oil industry and one of the few ventures to provide much-needed tax revenue. But civil war, economic collapse, fuel shortages, and a dearth of foreign currency have put SABMiller's operations in jeopardy. At the time of the interviews, things had taken a turn for the worse.

According to SSBL Managing Director Carlos Gomes, "it was difficult to continue with our operations" amid shortages of basics like fuel to run generators and hard currency to buy materials. The brewery's entire operation runs on diesel

Beer sold at a store in Nimule, South Sudan. Photo by Ron Savage, Flickr



generators and all raw materials except water are imported because South Sudanese farms cannot provide commercial-quality grain, sugar, or yeast in the quantities needed. At one point, the brewery had come to a standstill because they usually import all raw material. Without foreign currency, the brewery could not source diesel to keep its operations running. Gomes mentioned that around 100 workers, roughly one-quarter of the total workforce, had been sent home on leave, and with the position still precarious, the scaling-down process was expected to continue.

At its peak, the brewery produced tens of thousands of liters of beer a day, as well as soft drinks and other products, but operations in the vast warehouses have stalled, the latest loss from a war that has left the fledging nation in ruins. At the time of the interviews, the management considered the closing of the brewery to be a difficult but prudent decision. The subsidiary was convinced that closing, besides sending a terrible international message, would have a devastating impact on the many people employed in the business's supply chain. The brewery's closure would hit thousands of people who rely on the distribution and sale of the beer. Bar owners like Joseph Laku said the closure would force them to import more expensive beer from neighboring Uganda, where jumps of 33% in prices have recently occurred.

For other regional beer manufacturers with outlets in Sudan, the situation is not any less grim.³⁹ According to Charles Ireland, the managing director of East African Brewery Limited (EABL), the company announced in late 2015 that the beer maker's business in South Sudan had been operating at one-third of its capacity due to the limited access to foreign exchange. The brewer operates a depot in Juba, South Sudan's capital, which it supplies with beer and spirits from its Nairobi plant. In the last financial year, the unit contributed KES2.8 billion (\$28 million) to the brewer's full-year revenues of KES64.42 billion (\$64 million), a 47.3% increase from the previous year's KES1.9 billion (\$19 million). Ireland said this contribution would have been more were it not for the biting currency crunch; "The South Sudan economy is not performing very well. Whereas customers are prepared to buy our brands, there has been a slowdown in trading since we cannot get currency out of the country."

Media

One representative of this segment that graciously gave its time was the state-owned broadcaster the Equator Broadcasting Company (EBC).⁴⁰ EBC was represented by Basil Buga Nyama, Director of TV and Media Specialist, and Jacob Aligo Lo-Lado, Managing Director. According to the two principals, EBC was founded as an initiative to foster



Radio broadcaster Lady Belinda Juaw in Yei, South Sudan. Photo by Werner Anderson.

information dissemination. It was believed that people feel that the available platforms (slow-scan television and on-air radio channels) were not enough to cover the volume and reflect the variety of information for the South Sudanese, and especially those in the equatorial region (Western Equatoria, Central Equatoria, and Eastern Equatoria). The inadequate coverage was projected to be improved by EBC through a platform that informs, educates, and entertains its viewers and listeners. EBC was launched on July 6, 2015, as an initiative of the Governor of Central Equatoria in tandem with the Ministry of Information and Broadcasting, and was financed by the state (Central Equatoria). However, EBC is not under state control. EBC exists as an independent and autonomous body and can seek partnerships with private-sector actors and members of the INGO sector. The staff members are paid from public coffers.

EBC has two television channels and three radio frequencies. It hopes to have more channels and radio frequencies in the future. EBC prides itself on its broad 100-mile radius of coverage. The firm operates a 3-kilowatt generator and a staff that includes journalists and specialists from other related fields. EBC aims to: 1) Change the culture, including the "culture of enjoying slumber," or, as it was put, "why should I work when our country produces oil?" and 2) Address issues and opinions that "hinder us from attaining development goals"—corruption, rule of law, good governance, gender-based violence, and cultural biases. To tackle these issues, EBC in partnership with UNICEF has introduced a program for foreign relations that goes beyond regional borders for

the three Equatoria states, a program for sensitizing the public about things that bring change (at the village and county levels) in their totality. These “change makers” include governance, peace, and dividends of peace. EBC currently has 19 programs designed with the objective of bringing about change in society. Among these programs, topics addressed promote the rule of law on streets, e.g., proper use of traffic lights, and how resources are managed properly through good governance.

According to the two EBC principals, the corporation faces a litany of challenges. The first is funding. The principals contend that for what EBC is trying to achieve, necessary funding is critical and the current funding model is less than ideal. For instance, when they started EBC, all the staff members were hired on a day’s salary. Second is the issue of attitudes that affect people’s culture and perceptions. While the state of Equatoria must deal with insecurities unique to the jurisdiction, the feeling is that even though the whole issue of security is a national problem, the issue is painted as being uniform throughout the country. It is also important for EBC to bring out the fact that there is a lot of good in the state, too. Third is the issue of lack of access to events and people the corporation would like to cover in its broadcasts. EBC is not immune to what is happening around the country. They, too, are constrained by fuel shortages, even for short trips. The same fuel is also needed for generators. Being that EBC is not on a power grid, diesel-generated power is still the way to go. The principals asserted they actually need three generators for back-up power. Fourth, closely related to the above, is the challenge of mobility. At this point, they are not able to “test the waters in other states.” Because of the diverse and challenging terrains, a chopper would be the best bet. Fifth, according to EBC, its facilities are far from ideal. For instance, the corporation lacks a hall “for a good meeting, or better still a place to conduct this interview.” The directors asserted that there is a need to expand the broadcast and its clarity to far-flung areas through satellite. Sixth, the feature of South Sudan being a largely oral society comes with its own challenges; there is the challenge of capacity and skills in the arena of technology in particular, and the challenge of the audience having slower technology uptake and use. Seventh, some of EBC’s challenges are tied to how media is practiced in South Sudan. This needs to change for more balanced coverage; the principals summarized the climate as “right now, the more gruesome the news, the better.” Finally, operators such as EBC are faced with the challenge of the media not being treated as a business. The operators contend that media must be seen as a vibrant economic sector just like in other countries (e.g., Kenya, or even better still, the US).

To cope, EBC’s leadership said they believe the corporation must be resilient and seek to improve its operations. The leadership considers the corporation fortunate to have great support and political will, especially from the governor and state institutions. EBC’s leadership said they are happy to note that EBC so far has an understanding workforce and continues to get moral encouragement from those who

matter. The directors said they were humbled to point out that even though are indeed working against the odds, getting partners who share their vision, like UNICEF, can only put EBC in a good place. Looking ahead to a three-year timeframe, EBC plans (resources permitting) to expand and operate in spacious offices with bigger studios and satellite coverage in all 10 states, and if the country has a functioning stock exchange, to be listed. In short, EBC’s goal is to be the premier media house in the country and the most formidable broadcaster in the region. At that time, EBC leaders said they hope to have overcome most of the teething challenges the business is currently facing. In terms of achievement on its motto “achieving change in society,” EBC hopes to have made significant inroads, for instance by contributing through its activities to the substantial reduction of cattle rustling, and the introduction of zero-grazing among the livestock sector.

Professional Services

One member of this segment is the Bailey Consulting Group (BCG), a Kenya-registered company with operations in Kenya, Rwanda, and South Sudan. The company has four divisions: certified public accountancy, financial management advisory, market research and assessment, and training and capacity-building. The South Sudan operations started in 2011. The BCG was represented by officials Timothy Njenga, Senior Auditor, Evanson Wangai, Auditor, and Zakayo Nduati, Auditor. BCG’s client base is largely NGOs (at 80%), many of which are Kenyan. The high percentage of Kenyan clientele is partly explained by the fact that a lot of BCG contracts are negotiated by its Nairobi head office. The staff members based in-country then audit the South Sudan branches. As the South Sudan-based staff members pointed out, it is important for these organizations to monitor their local operations for accountability and transparency in order to meet stakeholder requirements. A key stakeholder for many of these organizations is the donor community. BCG-South Sudan also gets to do work for the local business community (10%) and offers tax consultancy (10%). BCG’s work is in three cycles. Bookkeeping takes the bulk of its auditing services. The firm normally closes books at the end of the year and carries out audits between November and March. In between, the staff of BCG-South Sudan keeps books and monthly reconciliations using QuickBooks and other IT platforms.

Even in the best of times, it takes a while to get many of the local clients up to speed on internationally accepted standards on accountability.

The BCG firm is facing a lot of challenges in its South Sudan operations. One is that BCG has seen donors withdraw support for its clients for lack of accountability. Even in the best of times, it takes a while to get many of the local clients up to speed on internationally accepted standards on accountability. A second challenge is that because of the civil war, BCG’s client base has shrunk. The firm cannot work in Unity State and Western Equatoria. Work for these regions

remains pending not only because of the conflict but also, as in a few other places, due to the inaccessibility of the roads. Third, the requirement by the government of South Sudan that BCG bring in local personnel is exceedingly difficult to comply with. According to the in-country leadership of the firm, many of the potential candidates lack the necessary skills, desire to work to tight schedules, accountability, and the customer service skills necessary to meet (and exceed) client expectations.

A fourth challenge is that some of the government officials BCG deals with are not necessarily well-suited for the internationally accepted financial management protocols. Fifth, the country, even before the conflict, was and continues to be grappling with poor governance. The issue of land tenure, a key component of property valuations, is problematic. One can also see an illustration of this problem with land tenure in the dispute BCG's Juba office was caught in during the time of the interview: the shutting off of electrical power as a result of the presumptive owners' disagreements with the "real" landlord crippled BCG's operations, despite the firm having paid all rental dues in full. Sixth, the foreign currency restrictions are playing havoc with BCG's operations. The local leadership of BCG asserted that the issue of currency control was creating the illegal business of money trading. Last, according to the local BCG leadership closely related to this, is the fact that many financial laws are not well thought-out and appear to be reactions to circumstances rather than for the common good. The interpretation and implementation of these laws is also not consistent.

The local BCG office leaders said they believe that to cope with challenges in the South Sudan operations, it is necessary to work on the following issues, at a bare minimum. First, it is critical that BCG staff are well-versed in South Sudanese business law, and know all the local laws and how to operate within them. It is important to note that state laws may not always be consistent with federal laws. Second, BCG staff must make every effort to understand and appreciate local culture, even where there are major differences from what they are used to in their respective home countries. Third, BCG should partner with local people so that the business does not look like it is an entirely foreign entity. Fourth, BCG staff members should seek the advice of these local partners where the interpretation and implementation does not appear self-evident.

The firm's leadership contended that the trend for market research, auditing, bookkeeping, and financial advisory services can only be up.

The BCG leadership contended that in spite of the civil war, for those who are not faint of heart, South Sudan offers a lot of prospects to those in the firm's line of business. They said they believe there is a critical need for professional services in this frontier economy. The trend for market research, auditing, accounting, bookkeeping, and financial advisory services can only be up. They therefore expect the company to continue growing.

A second member of the category of professional services is Bridge Tours and Travel. The firm was established in 2011 and is run by Catherine "Kate" T. Murithi, who is also the proprietor of the business. The firm has three employees, all of whom are Kenyan. It deals in air travel ticketing as a primary source of revenue. It also professes (through its business card) that it has the connections to offer air charter, hotel bookings, and travel reservations for clients. According to Murithi, Bridge Tours has been and continues to be facing many daunting challenges. The first regards its creation as a business entity. According to Murithi, to open a business in South Sudan, you must have a South Sudanese partner. Getting the right fit is therefore clearly a challenge. Second, the foreign currency situation is crippling her firm's operations. The government declared a rate that no one is adhering to, the banks are not trading in foreign currency, and most of the exchange is going on in the black market. The third challenge is that there are far too many government agencies to deal with. Fourth, Murithi reported there is little respect for contracts. Local clientele are not always cooperative and easy to work with. The next challenge listed was that in the recent past, Bridge Tours provided service to a lot of South Sudanese government officials, but with the conflict, that side of business has largely dried up and most of what still trickles in comes from the foreigners who still give the firm business, even if much less than before.

An additional challenge is that the firm's rent, which is listed in US dollars, is prohibitive. Murithi's home, which is basically a lodging room measuring 12 square meters at the back of a bar and restaurant, goes for \$1,000. At the time of the interview there was a dispute between the presumptive landlord and the declared owner of her office premises (next to BCG), forcing her to operate from home. In addition, businesses have to endure unreliable power, a fact that adversely affects Bridge Tour's business because power is a necessary component of the ticketing trade. Next, Murithi said she had recently seen a significant rise in taxes levied on South Sudanese firms. Foodstuffs and the other costs incurred by Murithi and her employees also seemed to be increasing in a predictable manner. Finally, Murithi reported that as a mother of a child based in Kenya, transferring money to her dependents was becoming harder and harder. According to Murithi, in order to cope in this environment all one can really do is be vigilant and remain optimistic that the civil war will end soon. She said she believes South Sudan can offer very good returns when the situation is stable; however, if the civil war does not end soon, there will be no reason for her to continue investing in the country.

A third example in this segment is the car-hire operator named after Lucy Njoki, its proprietor. Njoki came to South Sudan in 2007 and began her stint in the country employed as a housekeeper. After a while, she started a small car rental business with two local employees, leveraging her (late) husband's good connections to access networks that would have otherwise been difficult to reach. At the time, the country's vehicle numbers were a lot lower, unlike at the time of the interview, when many more vehicles were on the road.

Her vehicles are all four-wheel-drive models that are better positioned to handle the challenging road conditions.

According to Njoki, her business model faces many challenges. First, it is difficult to work with the locals. Njoki contended that many are rough, aggressive, and hostile to deal with. Second, the language differences with the locals create a barrier if one cannot speak their language. Third, she noted that there is constant harassment by police even if one follows all laid-down laws. Fourth, insecurity remains a thorn in her operations; those in her trade have to contend with gunshots, pickpockets, and thieves. Fifth, the problems of hard currency affect her business just like any other. Finally, she has no recourse if there is a breach of contract between her and her local clients. Njoki lamented that even though some contracts are trickling in, “to be honest, business has almost come to a standstill.” Lucy said she believes that to cope in this environment, you have to be resilient and optimistic; you must also find ways to work around the difficult situation and the hostility of locals.

A fourth member of this professional services segment is M/S Kamau and Associates, whose principal, Peter Waithaka, a certified public accountant, spared some time for the interview. Waithaka first came to South Sudan in 2009. His firm has only been registered since 2012, however, when he formally opened his office. The firm offers certified accounting services (registered audit, assurance audit, and office support services). A lot of the challenges Waithaka faces are a consequence of the security situation. For instance, the stability of local currency affects firms like his; services rendered must be paid for, and with such fluctuation as was prevalent at the time of the interview, it was hard to price for engagement using local currency. Second, even where prices are known, payment for service rendered is unreliable. Third, there is a lot of harassment by the local populace; Waithaka reported that the hostility is palpable. Fourth, Waithaka’s firm does not have a formal way to make bank transfers and remit funds to staff members’ families back in Kenya. The declared official dollar exchange rate is untenable and the local banks no longer carry such transactions. At the same time, the black market rate is at least three times the “official” rate. Fifth, as a result there is inflation for goods and services. Sixth, at the firm level, the cost of incorporation of companies is unnecessarily high. Finally, even after registering the firm, there is harassment of the business by government functionaries.

To survive, Waithaka said he believes you must do what is pragmatic. For instance, to get hard currency there is no option but to engage in the black market. Also, he insists on a 50% down payment for services to be rendered, and exercises caution when dealing with locals. In terms of registration, he uses local partners to help with the process. Finally, as this is a fragile environment, Waithaka commented that he believes one must operate with one foot in South Sudan and another elsewhere. For him, everything is dependent on the civil war. He contended that political stability shapes fortunes. One

must, therefore, work for that day and hope for the best. He asserted that with political stability, fortunes will be fine and the local currency will gain value.

A fifth representative of this category is Tango Consult,⁴¹ a research, consultancy, advocacy, monitoring, evaluation, and training organization run by Peter Edopu, Tango Consult’s principal, and Sandra, the South Sudan country manager. Edopu is Ugandan while Sandra is South Sudanese but has lived most of her life outside of South Sudan. Sandra has an MBA and went to school in Uganda and Malaysia, among other countries. Tango offers baseline surveys, undertakes monitoring and evaluation of projects on behalf of stakeholders, carries out project developments based on needs assessments, researches peace and security, conducts training programs and creates manuals, and is outsourced by USAID and DfID-types for projects. The company is registered in South Sudan and Kampala, Uganda. Tango has a presence in Rwanda, Burundi, and Tanzania. It brings staff on board on a project-by-project basis. Tango reported doing work on issues of terms of peaceful transfer of power, a challenge to many of the regional countries, especially South Sudan, Uganda, Rwanda, and Burundi.

Black market foreign currency exchange rates are over three times the official rates.

The challenges Tango reported having to deal with were largely tied to issues currently affecting South Sudan. The first of these issues is the perception problem. According to Edopu and Sandra, South Sudan suffers from a terrible problem with how it is perceived, no doubt as a result of what is beamed on international airwaves. Second, the country is currently going through a period of hyperinflation, and purchasing power has clearly gone down. Third, they stated that the country had lately been subject to all manner of market controls. Because of this the only really booming sectors of the economy were the water trade and energy sales. For a young nation, it was noted that it is surprising that there are already 25 water processing companies. Fourth, they mentioned that the hard currency restrictions and fixed exchange regimes are only making things worse. The black market foreign currency exchange rates are over three times the official rates. Fifth, these economic dynamics are also leading to hyper-fragility. In the real estate sector, rent is exceedingly expensive. Edopu and Sandra contended that the cost of building is very high, noting that for folks to “recoup their investments, they must charge a ton.” There is now some cartel-like grouping of Ethiopians, Eritreans, and Lebanese comprising the major players in real estate. It does, however, attract all manner of people. Even small entrepreneurs are dealing with property. It was noted that in spite of the conflict, every month one still sees new developments.

Next, the erratic behavior on behalf of government agencies was mentioned. There is a great deal of uncertainty about government regulations at the national, state, and local levels. For instance, Tango has to renew registration yearly and does

not always know what to expect. The last time around they were told that registration renewals, too, must be done in person. There are also a lot of legal costs to these exercises. At any one time, there could be as many as three licenses needed for the same issue (for all the levels of government operations). Seventh, and closely related to this, is the issue of haphazard taxation. To get a single-entry permit at the Uganda border, you pay \$100, while the same can be gotten for \$60 at the Nairobi South Sudan Embassy. To complicate matters further for Tango and others operating in this space, there is hardly ever any notice of an imminent change of policies; they just become effective when declared.

How does Tango cope with these challenges? A lot of the challenges are effects of the war. According to Edopu and Sandra, it does seem like the worst of the war has passed. If and when the war ends, Edopu said he believes those in the jurisdiction will likely see a better-run country. Edopu and Sandra both asserted that it is sad to say so, but war is in some ways a silver lining—when it does occur, folks realize the perils of conflict. War is an eye-opener, and has been so to the locals and citizens of neighboring countries. What happens in the nation is not only affecting South Sudan, they noted, because “a country is a community of nations.” Edopu and Sandra contended that it is possible that the conflict might remain for two or three years, then little will change. Almost all the work will then be tied to the humanitarian efforts. If and when the civil war ends, the country has a lot of goodwill and residents will see renewed development at rates even faster than pre-2013. That, according to the Tango representatives, would of course be great for the firm’s business because of the services it offers.

A seventh representative of the professional category of firms is provided by interviewees Ezekiel and Robert. Ezekiel previously managed an upscale hospitality institution, Logali House.⁴² At the time of the interview, Ezekiel and Robert, one of his business partners, were in the process of setting up a new business. Ezekiel is an Utalii Hotel⁴³-trained Kenyan with over 20 years’ experience in progressively responsible management roles at Nairobi’s Hilton, Windsor Golf and Country Club, Nairobi Club, and a short period spent at South Sudan’s Logali House. The bulk of this time was spent at Nairobi Club, a private members’ club where he last served as the general manager. He also worked for Function Masters, an events-management company with a wide network of reciprocating clubs both within the region and around the world. Robert is an architect and construction professional with several years of experience in South Sudan and, to a lesser extent, Kenya. The other members of the partnership are a doctor and a lawyer. The proposed management firm is designed to turn around hotels, a major segment of business activity in present-day Juba. A lot of the hotels, many of which are reportedly owned by high-level South Sudanese functionaries and their surrogates, are underperforming. Ezekiel and his partners propose to take over the management of these ventures and turn the enterprises into revenue-generating entities.

For Ezekiel, hotel operations in South Sudan are difficult to analyze without considering the effects of the civil war. The civil war started in December 2013. After the war started, the hospitality business just went under. Hotels that had previously charged up to \$300 dollars a day now levied charges of \$60 a night. Ezekiel saw this firsthand at Logali House. A lot of people on whom the hotel’s successes depended fled, just as the customers also took off. Services offered by many of the establishments have therefore gone downhill dramatically since. It is this observation that had brought to the fore the potential for the kind of business model Ezekiel and his partner are proposing to set up.

They said they expect that initially there will be some resistance to their pitch. They also noted that funding has been and continues to be tight in this environment and until the new business has a steady stream of contracts, they will remain cash-strapped. Furthermore, the fluctuations in currency exchange rates are a major hindrance to well-reasoned bids. It also does not help that a lot of the potential decision-makers have little professional knowledge nor an appreciation of the benefits Ezekiel, Robert, and their partners can bring them down the road. They said they expect to have to counter the tendencies to leave businesses with relatives or other representatives of the owners even when this does not make much sense.

The South Sudanese are seemingly operating at the margins.

Ezekiel and Robert mentioned that another challenge that they have observed, which will likely also affect their business, is the prevalence of nepotism in almost all business sectors. This is especially the case in the building construction sector where Robert plies his trade. The major active developers in Juba are Ethiopian, Lebanese, and, to a lesser extent, Eritrean and Somali. They seem to work in tandem, leaving very little of the construction market—other than cheap labor—to the native South Sudanese. The South Sudanese are seemingly operating at the margins. This, according to Robert, is not healthy given that certifications of skills are predominantly foreign (especially Kenyan). For Robert and Ezekiel, the two related industries—real estate and hospitality—are clearly suffering in the civil war environment. They also mentioned that the war has had the effect of bringing out the worst of people. People who were otherwise reliable become cautious. In this uncertain environment, Robert and Ezekiel said they hope for a speedy resolution to the conflict and a prompt return to a peaceful South Sudan. According to them, the country cannot survive for much longer with such a heavy reliance on emergency aid and humanitarian assistance.

Ezekiel and Robert asserted that they see themselves as the ones who will turn weaknesses to strengths. Their business model is intended to restore the glory of their partner hotels and create the ambience of restaurants that provide good returns on investment. They intend to studiously observe the people they plan to do business with, put in the “software”



A mobile telephone company billboard in Juba. Photo by Paula Bronstein/Getty Images

necessary, and give their clients the best service possible. Ezekiel, Robert, and their partners project to break even in 12 months of operations, assuming they can start their venture soon. The model seeks to have near-full occupancy year-round by pursuing business travelers, NGO markets, diplomatic corps, and conference hosting.

Real Estate

The only representative of this segment is Peter Njenga, informal settlement land developer. Peter operates out of the heavily populated Shirakit area across the Nile from Juba proper. He leases land from the local people and then builds semi-permanent tenant houses for many of the immigrant workers who ply their trades in the area. Njenga came to South Sudan in 2007, and before the war was a building contractor. He worked in places such as Torit, Malakal, and Nassir, and said he was taken by surprise with the ferocity and speed of the war. He therefore transitioned to building and leasing the iron-sheet dwellings in Shirakit that form the bulk of his developments.

There are no legal land tenure documents. To transact and move on to the stage of building, one depends on verbal agreements and trust to lease land for development.

According to Njenga, operating in his space comes with lots of challenges. One is that there are no legal land tenure documents. To transact and move on to the stage of building, one depends on verbal agreements and trust to lease land for development. Second, even if there were legal documents, the Ministry of Lands does not have the capacity to verify them. Third, because there are no legal documents, one is at the mercy of the presumptive land-owners as to whether a new lease can be extended. If it cannot, then there is considerable loss in materials. Fourth, the security issue is a major challenge. One almost never knows what may

happen next. Fifth, the hard currency fluctuations and restrictions on formal trade are causing havoc with rental pricing. In addition, for those who come from foreign countries, the process of transferring funds in order to support family back home has become a nightmare. Finally, the inflation that is affecting all facets of life is making it exceedingly difficult to live in Juba.

Njenga reported that coping in these challenging circumstances is largely “by the grace of God.” He said believes it is not easy—the conflict has not ended. He contended that it is only in Juba that there is some form of normalcy, but even in the city he senses the tension. He said, therefore, that he believes that if things do not

change, Juba is no longer the place to do business. Njenga asserted that “it is unfortunate that killings could easily follow money,” noting that the folks on the ground (locals and migrant workers) are the ones suffering.

Retail Trade

This segment is represented by Shamrock Supermarket, whose proprietor is Mr. Idnan, an Eritrean national. The firm started seven months before the interview, and at the time had three employees. The proprietor previously had a grocery shop and a wine shop which he sold before returning to his home country (at the apex of the civil war). Shamrock is a small self-selection shop and offers items for everyday use. This business model reflects what Eritreans and Ethiopians are doing. Its customers include Kenyans, Ugandans, some Caucasians from multiple nationalities, and South Sudanese. Because Shamrock occupies space in property owned by the brother of the proprietor, the crippling rent issues that bother other tenants around Juba do not apply. The supermarket does, however, have challenges. First, the cost of power in Juba being very high. The second challenge is the problems with foreign exchange availability, which Idnan pointed out affects procurement of goods. The primary source of goods sold in the convenience store is Kenya, and to a lesser extent Uganda. Third, he said the ever-changing foreign exchange rates make it difficult to hold prices for long. Fourth, it is difficult to make money on water products with the state-mandated price controls. Fifth, competition in the sector has lately become more pronounced. And sixth, there exists constant harassment by those “purportedly” representing the licensing authorities.

To cope, Idnan mentioned there are a few things he and his associates have done to operate in this market. He mentioned that it is early days, but he sees the decision to establish his

business as one that puts him in a competitive place. He believes this is because of four reasons. One, that he has made rent almost a non-issue by operating from family premises. Two, that in order to get around the price control issue, he no longer deals in water products. Three, that by owning his own generator, he counters the problems of unreliable electricity. Four, that though he has not yet brought in supplies, he intends to include wine and whisky among Shamrock's products.

Wholesale Services

A representative of this segment is East African Breweries Limited (EABL). The strategies employed by EABL in the challenging South Sudanese environment are captured by notes derived from a *Business Daily* report. The East African Brewery has since shut down its South Sudan depot due to currency losses resulting from devaluation and sustained political instability in the country.⁴⁴ The regional brewer late in 2015 suspended its depot operations in Juba, opting to supply the market through distributors and sales teams from Nairobi. "We have closed that depot as a result of safety concerns and to ensure that our cost base is managed," said EABL's Chief Executive Officer Charles Ireland in a recent investor briefing. "We will be operating through our sales force in South Sudan and distributors who are getting stock from Nairobi." The brewer opened its Juba depot, with a holding capacity of 100,000 cases, in September 2013. EABL said the free-fall of the South Sudan pound had, in the six months to December 2015, cost the brewer KES908 million in currency losses, aggravating low sales attributed to political instability. As mentioned, businesses in South Sudan have been hit hard by inaccessibility of US dollars, the predominant trading currency in the country. The dollar shortage and ongoing civil war in the country caused net sales to dip 74%, EABL noted.

The currency depreciated 85% in just two days after the government stopped fixing its exchange rate.

Shortage of US dollars in the country in early 2015 saw EABL reveal that it was operating at two-thirds below capacity. The currency depreciated 85% in just two days after the government stopped fixing its exchange rate last year, leaving cash holders and bank depositors with drastically slashed wealth. "From our successful operations in the last couple of years, we accumulated a cash exposure which was significantly impacted by the devaluation in December," said EABL's group finance director Gyorgy Geiszl at the investor briefing. According to Geiszl, in the last financial year, the unit contributed KES2.8 billion to the brewer's full-year revenues out of a KES64.42 billion total, which was a 47.3% increase from the previous year's KES1.9 billion. The South Sudan business contributed approximately 1% of EABL's net sales, or KES375 million, in the half-year to December 2015, highlighting the sharp dip in fortunes.

As documented earlier, at the time of compiling this report EABL's multinational competitor SABMiller was also preparing

to shut down its brewery, the largest single direct private investment in South Sudan. It had also bought a piece of land adjacent to the Nile River for expansion. SABMiller, which opened the nation's first brewery in 2009, was preparing to shut down its facility mid-February 2016, following the economic and political crisis. The brewer preferred instead to export products into the country from Uganda. Bloomberg news agency recently reported that the multinational brewer, which has not returned a profit since launch in the war-torn country, incurred tens of millions of dollars in losses following the devaluation of the Sudanese pound.⁴⁵

APPENDIX C: BUSINESS IN EASTERN DEMOCRATIC REPUBLIC OF CONGO

This section captures the business activity in the eastern DRC. The categories are as previously described for the other jurisdictions. As a French-speaking jurisdiction, interview responses for non-English speaking interviewees willing to speak were translated into Kiswahili or English with the help of the guides.

Accommodations and Food Service

The first representative of this segment is Abraham Kazadi. In 2002, Kazadi and his family were among the tens of thousands of Goma residents who lost their homes to Nyiragongo, the fiery volcano that looms 12 miles north of town. Ever since, and despite nearly 20 years of simmering conflict in the eastern DRC and the certainty that Nyiragongo will one day erupt again, Kazadi has bucked Goma's reputation as a dangerous, restive backwater and focused on building a business. Today, atop a layer of the petrified lava that once reduced his home to ashes, Kazadi operates an expanding factory that has helped make him one of the DRC's leading health-food entrepreneurs. His product, a fermented, medicinal black tea known as kombucha, which the researcher sampled, has become a hit in town and across the country, with rising demand that keeps Kazadi and his 15 staff members busy 24 hours a day. Starting 15 years ago by tinkering with small batches in his kitchen, the former trader and computer salesman slowly scaled up his operation. He perfected his recipe with the help of an herbalist in China and expanded his distribution as far as the distant capital, Kinshasa. Today, he produces approximately 20 tons of his sour brown elixir each month—a process that entails fermenting sweetened tea for 21 days with a culture of yeasts and bacteria. According to Kazadi and his many loyal customers, the drink, which is believed to have originated in

northeast China or Manchuria, helps boost the immune system and is effective against a host of ailments including diabetes, rheumatism, and sexual dysfunction.⁴⁶ In Goma, Kazadi is one of several local businessmen who are implementing bold ideas despite a host of risks—and bringing about a renewal of their town in the process. “Everyone knows Goma as a place where there are bandits and rebels, where the volcano can just come and destroy you,” said Kazadi while sitting amid large plastic vats of his pungent brew. Despite the ever-present threat of Nyiragongo, the Goma of Kazadi's youth was a far less perilous place than the city is today.

Unable to access credit, Kazadi—like most Goma businesspeople—has financed his operation almost entirely from his own pocket.

Aside from the city's crime rate, which requires him to employ round-the-clock security for his factory, Kazadi's biggest headache is his supply chain—particularly the 300-milliliter plastic bottles he uses to package his product, which he purchases twice a month in the Ugandan capital, Kampala, a 24-hour round-trip by car. Due to Goma's notoriously unreliable electrical grid, Kazadi bypasses the grid entirely, powering his factory, often the only building in his neighborhood with lights, from solar panels and a generator. Since high rates of interest and predatory lending practices make borrowing from local banks untenable, Kazadi—like most Goma businesspeople—has financed his operation almost entirely from his own pocket. Unable to access credit, he's also regularly besieged by tax collectors, often for assessments that he claimed are dubious. Illegal taxation—effectively, a form of forced bribery—is a widely cited problem in Goma and one that has caused many startups to founder. Kazadi narrated the challenges facing him and other merchants in his segment, including the second representative of the hospitality industry, John Sabiti of Haki Fresh,⁴⁷ a sandwich shop owner who has expressed misgivings on the possibility of closure due to problems with never-ending tax collectors: “Someone will come to collect a tax, then after an hour another one comes, a few hours later, someone else...I ask them to give me official documents, but they never do. I'm happy to pay my taxes, but it should be legal.”

Ihusi Hotel in Goma. Photo courtesy of Advantage Lendl, Flickr.



A third representative of this segment is the Au Bon Pain bakery owned and operated by young Goma resident Vanessa Jados. Though born in Goma, Jados went to school in Belgium and was away from the city for 11 years. During her time away, the city was the epicenter of conflict. The major challenges Jados encountered on her return included the lack of high-quality products, clean water, reliable electricity supplies, and financing options for equipment purchases, and the dearth of skilled labor. On the recommendation of local guides, the bakery and pastry shop is often deemed a “must-see” while in Goma

and was among the establishments that were visited during this research. Au Bon Pain bakery opened in May 2014 and has a staff of 10 people.⁴⁸ The bakery operates out of second-floor premises and serves freshly baked cakes, cookies, croissants, and other pastries.

In interacting with Jados, whose brightly colored and sleek café stands out on a downtown Goma block of derelict buildings and an abandoned supermarket, one gets the impression her mission is as much about reviving the image of her town as it is about her own café's success. Jados tackled a key part of the skilled labor issue by convincing a baker from the French town of Toulouse to move to Goma. To overcome the problem of sourcing quality materials, she uses local products where she can, including white flour and butter from her family's farm about an hour's drive from Goma. Among the materials she still imports are brown flour and chocolate. Although Jados lamented Goma's many business challenges like Kazidi and Sabiti above, she was quick to stress its many perks. These, she confirmed, include the city's picturesque spot on Lake Kivu and its proximity to the famed Virunga National Park. Even Nyiragongo, the town's great menace, is, in the primordial beauty of its churning lava lake, also a source of pride. "In Goma, we have the lake, the volcano, the forest," said Jados, sitting on her café's balcony as her high-end clientele of expatriates and other moneyed patrons worked on their laptops while street children used rags to wash a UN vehicle parked below. To cope, Jados said she believes that "if we can have a little peace, it would be the perfect place."

Agriculture

The sole representative of this category interviewed was the pig farmer raising pigs on one acre within the upscale area of Goma. He keeps Large White Yorkshire-breed animals. At the time of the visit, his brood had just multiplied from 15 to 64 animals in various stages of development. The pigs are divided by familial relations and age. The animals were kept in a clean and purposely built shed. The shed, divided into

four sections, has a cement slanting floor so that no water or liquid waste collects inside the structure. The roof of the shed is constructed of iron sheeting and sides of timber. Security is tight and access is limited to people known to the farmer.

Like others before him, the farmer mentioned the challenge of the high costs of commercial feed, inputs, vaccinations, and power along with the lack of veterinary services and cultural and religious perceptions about pigs. To cope, he is selective on where he delivers his animals and he has assumed some tasks that would normally be dealt with by veterinarians. This means that a farmer must be knowledgeable in the intricacies of the trade. The farmer is creative in the food given to the pigs. He feeds them with cooked table scraps and vegetables, with the occasional protein from fish meal, cotton seed cake, and sunflower. He has employed a trained overseer who learned his trade in Uganda, where he previously lived. The farmer did mention that the demand for pig meat in the city of Goma is very high not only among the non-Muslim locals and area hotels but also with the expatriate communities from MONUSCO and other humanitarian organizations. He intends to further develop his pig farm and also introduce other activities to create a mixed farm. Among the activities he plans to introduce is zero-grazing in order to meet high milk demand in the city of Goma and its immediate environs.

Financial Services

There are a large number of banks operating in the eastern DRC. During the visit to Goma, at least a dozen financial institutions were observable. These included FIN Bank, TMB Bank, Ecobank, Standard Bank, Afriland Bank, Access Bank, RAO Bank, BIAC Bank, SMICO Bank, Trust Bank, HEKIMA, MEROCO, and IMARA (the last three being microfinance institutions). Of the lot, Trust Bank is the largest DRC-based bank. Some of the others are foreign. These include Standard Bank (a pan-African bank headquartered in South Africa) and Ecobank from Nigeria. During the visit, no officials of the institutions were willing to go on record with responses to the semi-structured questions. They did confirm that their

Transporting bananas. Photo courtesy of International Institute of Tropical Agriculture



leading customers were mostly from the INGO sector and the mining community.

Humanitarian Services

For all of the challenges that result from the region's insecurity, the hustle and bustle of Goma is also, in part, a direct result of DRC's crisis. In an irony not lost on Goma residents, it is largely because of the region's elusive peace that many in the city, home to nearly 100 international development and humanitarian organizations and a major base of UN peacekeeping operations, have managed to prosper. Today, aside from those employed in mining or by telecommunication firms, traditional mainstays of the local and national economies, many among Goma's middle class are products of MONUSCO as well as the wider international aid industry. The economic impact of the humanitarian industry is most visible in the town's large number of upmarket hotels and restaurants, nearly all built since the DRC conflict started. But it's also felt by local drivers, cleaners, mechanics, cooks, office workers, translators, and real-estate entrepreneurs who continue to erect new homes, rented at exorbitant prices, atop Nyiragongo's rubble. This dependency has many risks, highlighted by growing signs that the UN may soon begin to reduce the size and scope of its Congo mission—and with it, the local jobs, contracts, and foreign clientele that keep the city humming. Many of the city's residents, including the tour guides who accompanied the author, said they remain cautiously optimistic that even if the large foreign aid contingent leaves, businesses will survive.

Mining

Decades of war and mismanagement have ravaged the Congo's overall productive capacity. Despite having some of the world's most valuable mineral deposits, Africa's greatest hydropower potential, and vast expanses of fertile

farmland, the country's people live on an average of less than \$200 a year—barely half of what they did in 1970. Even with impressive growth rates of over 9% in 2014 and 2015, economic progress hasn't translated into broader prosperity in the eastern Congo.⁴⁹ Unemployment remains above 50%, with levels even higher among the young and in the eastern Kivu provinces where much of the conflict is centered.

The DRC's crumbling infrastructure, too, limits the economic activity and hobbles the central government's efforts to defeat rebel groups. Internal commerce is greatly constrained and electricity is scarce, with less than 10% of citizens able to reliably access power. Many in the east are thus left to fend for themselves, both economically and militarily. The resulting proliferation of militias has become deeply intertwined with local economies. The "conflict-mineral trade" has received particular attention due to the many mines that have come under the control of rebel groups and the importance of several of those minerals in cell phones and other consumer electronics. Informal, or "artisanal," mining comprises up to one-fifth of the country's economic output and employs millions of people in the eastern Congo. Despite the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010,⁵⁰ a US law targeting banking regulation and verification of minerals' sources, artisanal mining continues unabated. It is a ready source of income for rebels and corrupt government soldiers alike, as well as for traders from neighboring countries operating directly or through local armed allies. Though no individual was ready to talk on record about their engagement with these mines, it was a common topic among the drivers of taxi vehicles used by the researcher. They mentioned that the large presence of banks was not only to support the plethora of humanitarian organizations but also the mining community.

The "conflict-mineral trade" has received particular attention due to the many mines that have come under the control of rebel groups and the importance of several of those minerals in cell phones and other consumer electronics.

Coltan mine in North Kivu. Sylvain Liechti/UN photo



A recent report on mining activity in eastern DRC is that of Alphamin Resources, a Canada-funded company that is trying to build a modern industrial tin mine in a region where almost all metal mining has previously been conducted by hand.⁵¹ The mining site, called Bisie, is based on a hill some 60 kilometers from the nearest urban settlement of Walikale, in North Kivu (two days by treacherous road from Goma). All initial equipment, tools, and shelter were airlifted by helicopter. The site used to be mined by some 18,000 artisanal miners who produced about 14,000 tons of tin from the rich vein of

rock that is reported to contain 4.5% grade; that implies that for every 100 tons of ore extracted, the firm gets 3.25 tons of tin (not all the metal is extracted from the rock). This vein has been deemed the world's richest. Typically, an economically viable mine is expected to produce at least 0.7 tons of tin for every 100 tons of ore. Because of the remoteness of Bisie, there are hefty costs and risks to establishing the mine. These include the need for exploratory drilling to prove to investors the viability of the investment, and the astronomical costs of building a new 32-kilometer road to the mine and rehabilitating the existing road to Goma. In addition to these costs, there are the very high security charges in an area as insecure as North Kivu. Though exploratory license was granted in 2006, the firm was not able to start exploratory work until 2012 because of fighting in the immediate area. As recently as 2014, a police officer was killed and a substantial part of the mine's infrastructure destroyed. The mine now has 30 police officers on site backed by occasional forays by UN peacekeeping helicopters. When the \$135 million mine starts production, it is expected to ferry a truck a day to Goma on a rehabilitated road, paying royalties to the provincial government, employing many thousands, and funding local projects that can benefit 44 nearby villages.

Security Services

A visit to Goma is made striking by the walled residential and commercial buildings. Invariably these structures are manned by uniformed security guards, which in itself is not surprising because the region has a history of conflict. What is, however, surprising is the number of large security companies in the eastern DRC. The firms originate from the DRC and as far afield as the UK (G4S Security Solutions), Lebanon (GSA), and Kenya (KK Security Services). In the case of KK Security Services, the company of 22,000 employees across seven countries including the DRC has an annual group turnover of \$100 million.⁵² The various large security firms offer a wide closed-circuit television, radio alarm systems, back-up response to courier services, and remote facility set-up and support (for the mining companies).

The lone security firm that was willing to openly talk was KAMI Humanitarian and Security Services, a local company owned by four shareholders. KAMI has the largest contingent of security guards in Goma and its immediate environs. At the time of the visit, it had slightly more than 600 guards on its payroll. According to the company official spoken with, they provide guard

services to homes and business premises. The challenges they face include many of those previously mentioned by other business sectors, such as rent-seeking by unscrupulous officials, lack of infrastructure, the high cost of fuel for company vehicles, and the dependency on humanitarian organizations for clientele. A challenge they noted as unique to their business is the difficulty of keeping good guards. With the high levels of competition and a greater variety of services offered by international companies, the good guards prefer to work for KK, G4S, and GSA security companies, whose clientele include MONUSCO, the banks, INGOs, mining companies, and other well-paying institutions. They also face the challenge of vetting potential workers. With the jurisdiction having a history of prolonged conflict and little in the form of identification, KAMI has to grapple with the determination of background checks in the absence of supporting structures. To minimize the chance of hiring felons, KAMI depends on referrals for its staff hires.

Transport

The spectacle of marine transport on Lake Kivu is a must-see. One moment the port of Goma appears to be an oasis of tranquility; fishermen are seen recovering their nets, roadside vendors roast maize above small fires while taxi drivers leaning against their motor-bikes and cars joke around with each other. Within a few seconds this peaceful scenery can turn into chaos, as in the moment that *Emmanuel I* reaches the quay of Lake Kivu. Agile and loud errand boys jump via the ropes and decks of other boats to the berthing ship, competing

Residents transport agricultural products on the Congo River. Photo courtesy of MONUSCO





Locomotive transporting goods near Kamina, DRC. Photo by Redhonda

to be the first to carry off one of the many boxes, bags, sacks, or suitcases and earn some money. Meanwhile, the ship tilts precariously to one side as the hundreds of passengers jostle their way to the exit. Indeed, the marine industry is flourishing in that part of Lake Kivu. In recent years, the number of passenger boats has grown from ten to forty. This now allows daily travel in two to five hours between Goma and Bukavu. Depending on speed and class, the price can be anywhere between \$6 and \$60. In earlier days, a state-owned agency was the single operator of a handful of boats on the lake, forcing passengers to be at the harbor as early as 4:00 a.m. in order to get mid-morning tickets. Not being maintained, many of the state-owned ships ended up as scrap iron within a few years. Some of these half-sunken shipwrecks are reportedly still on the quay of Bukavu, where they nowadays serve as shelter for homeless Congolese.

By the time of the research visit, multiple private DRC companies had built their own boats and were providing lake transport to a grateful population. The DRC shipbuilders at the same time face many challenges. One such operator is Kaneza Semanyenzi. According to Semanyenzi, the owner of *Emmanuel I* and *II*, “due to the innumerable power cuts, [we] have to use expensive diesel generators” while boat-building. *Emmanuel I* and *II* are the two largest boats on the lake. The boats, which can transport more than 500 passengers each, even have a first-class section with leather armchairs, widescreen televisions, a bar, a restaurant, and spacious sleeping cabins. Semanyenzi lamented how they have had to finance everything themselves as the area banks do not give out any loans. He also added that “government officials often come to beg for money.” In spite of these challenges, the shipping industry substantially contributes to the economy in the eastern DRC. Hundreds of traders transport vegetables, milk products, corn powder, beans, rice, potatoes, and oil by boat on a daily basis from the more fertile Goma to Bukavu.

Lake transport is preferred because of the presence of rebels on the road to Bukavu. Multilateral bodies such as the World Food Programme and the Bralima Brewery (a Heineken International subsidiary with one of its six DRC breweries located in the border town of Bukavu) often rent boats to transport goods to remote areas.

Looking to the future, Semanyenzi said he has big plans for the medium to long term. He stated he believes that marine transport has great potential in all of the DRC and not just the eastern part of the country. Currently, he said, he’s looking for a Western business partner to start building boats for the Congo River. He asserts that at the moment, boats on this important arterial river are of poor quality and passengers have no choice but to take shelter under plastic sheets on deck while traveling. Semanyenzi wants to build up a professional passenger shipping industry, as well, in this region. He did, however, stress that “first we need to learn how to build flat riverboats.”

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