FIRM BEHAVIOR in FRAGILE STATES

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

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Report Summary

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FRAGILE STATES continue to garner international attention. The pressure to address problems and dangers arising from state fragility is driven by two main exigencies that demand comprehensive solutions. 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 delivery of basic services. 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 report, based on field research, documents which features of the institution of business work in fragile areas as well as how they operate in regard to business strategy, contract enforcement, and other aspects of firm behavior. The study was conducted in three fragile jurisdictions: the eastern Democratic Republic of the 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 still struggles with protracted civil war. The nature and form of business institutions as accepted in the Western world largely do not exist in the eastern DRC, the Somali peninsula, or South Sudan. 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 states remains scant. This paper adds to the discourse in, and provides some clarity on, emerging issues in this field.

The case study therefore seeks answers to 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?

State fragility, like other tenuous conditions, can generate creative and often unexpected responses. The study findings illuminate how firms have structured themselves and how they negotiate challenges in the prevailing environments in these jurisdictions. The findings 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 offered;
- how payments are received and handled; and
- dealing with state agencies.

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The findings, analyses, and implications of this study should be useful to international businesses and multilateral organizations planning to be engaged in or currently in such an arena, and to regional governments interested in overcoming state fragility. Specific implications and recommendations, while country-specific, can generally be summarized as follows.

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.

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