

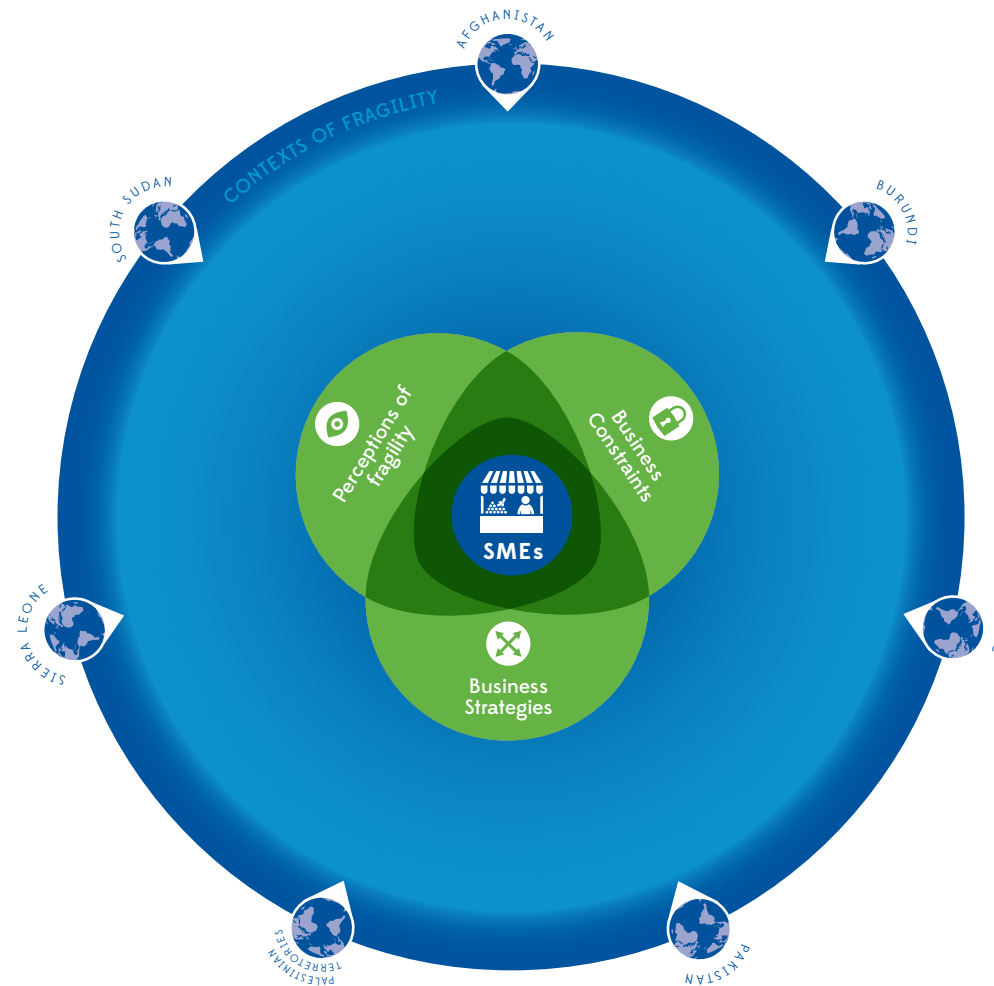
# Understanding fragility through the eyes of SMEs

## MAIN RESEARCH QUESTION

How do entrepreneurs in fragile contexts experience fragility and how does that perception shape companies' behaviour and business strategies?

## DEFINITION OF FRAGILITY

Fragility is a combination of conditions that together can prevent a political, economic and social system from coping with stresses in a non-violent manner. These conditions typically include competing systems of power and social fragmentation.



## SURVEY SAMPLE

### SIZE

Survey of 50 entrepreneurs in 5 countries plus RVO's experience with private sector investment programme in 10 countries.

### SECTOR

2/3 of interviewed SMEs operate in service sector, 15% in agriculture and 19% in manufacturing.

### EMPLOYEES

Interviewed SMEs hire between 2 to 300 employees.

### LOCATION

90% of SMEs are located in and around capital city.

### OWNERSHIP

More than ¾ of SMEs are locally owned.

### GENDER

38% of SMEs are owned by women.

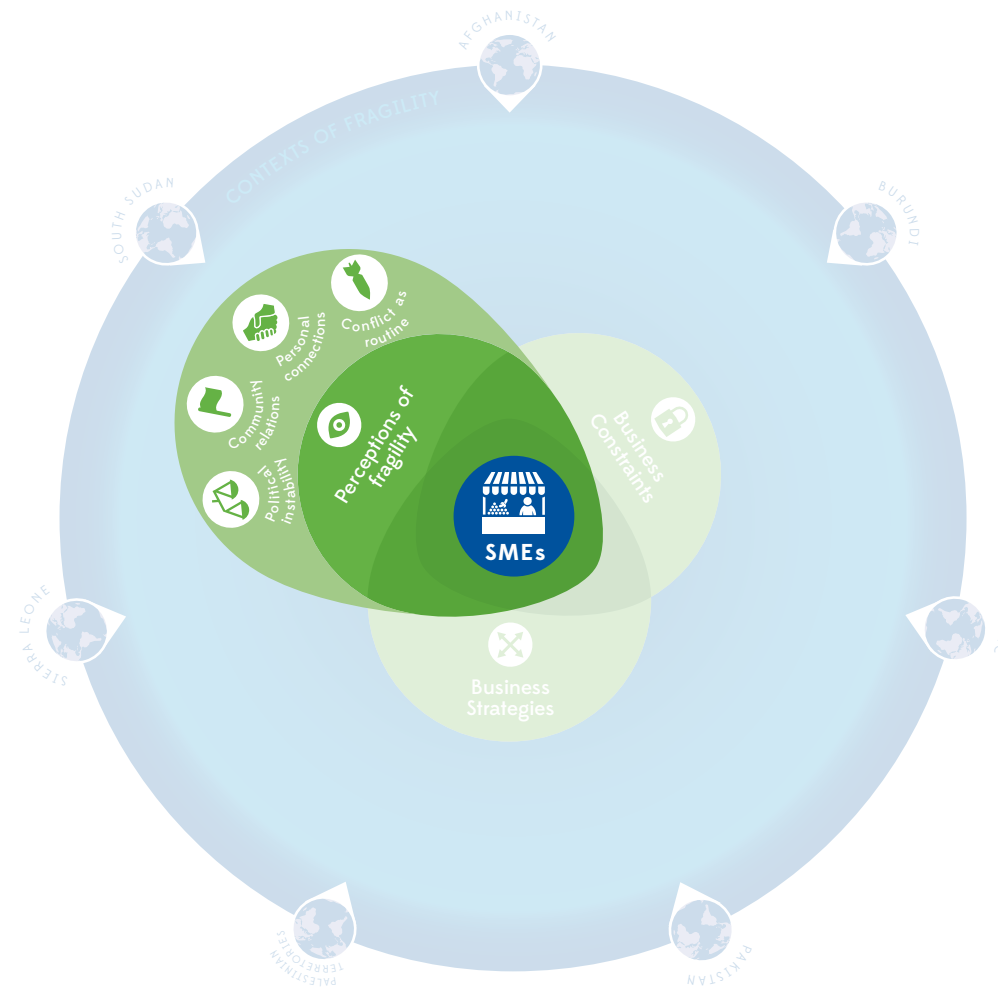
# Perceptions of fragility

## ❓ SUB-RESEARCH QUESTION

How do SMEs perceive the fragile environment in which they operate?

## 👁️ PERCEPTIONS OF FRAGILITY

- Political instability associated with weak formal institutions.
- Personal connections matter more than formal permits and regulations.
- Fragility and conflict are not a state of emergency, but routine.



### EXAMPLE PAKISTANI ENTREPRENEUR



“Certainly, conflict creates challenges for the businesses, but it also creates opportunities. Recently a mega grocery store’s wheat dealer could not deliver on time. So he contacted us and in a single go 200 sacks of wheat were sold.”

### EXAMPLE CONSTRUCTION COMPANY IN SOUTH SUDAN



“We used to get sand from a new site. But when there is fighting the roads to those areas are blocked because of the insecurity and we cannot access the sand. This lowers our production of bricks and hence our profit is low.”

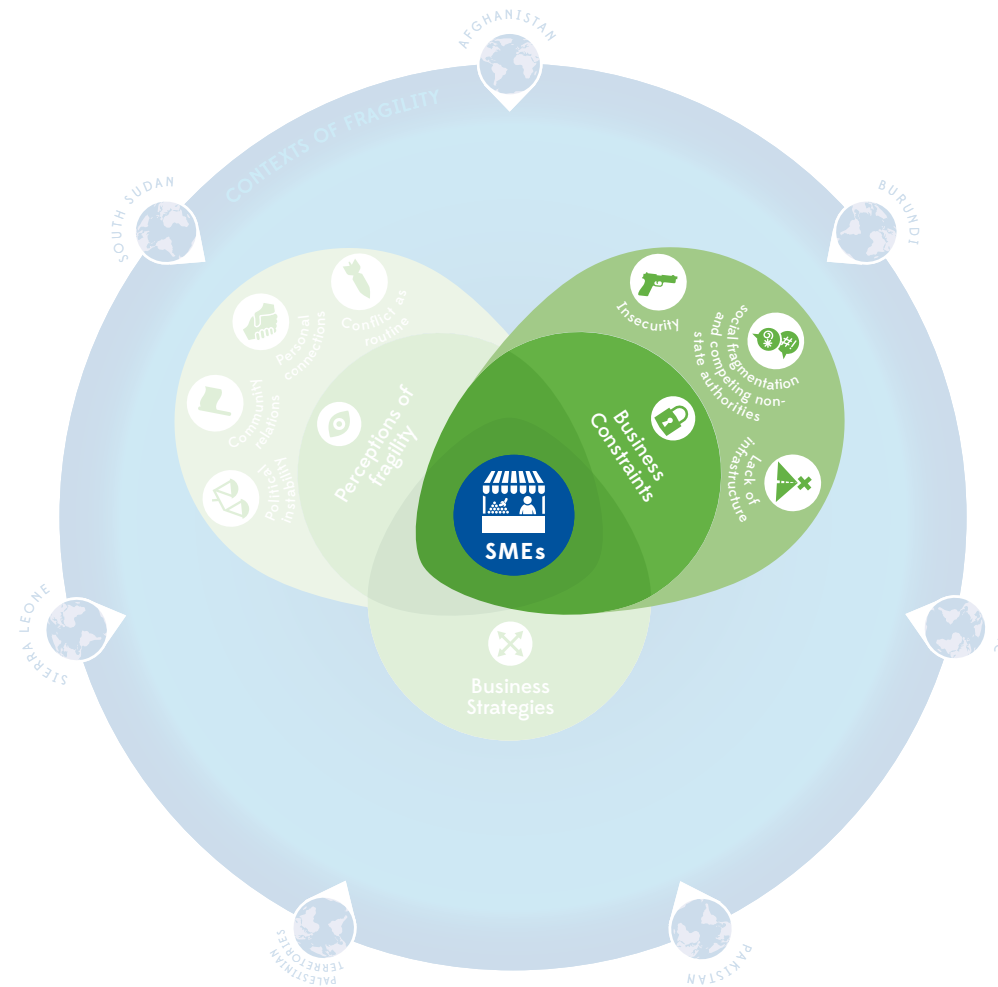
# Business constraints

## ❓ SUB-RESEARCH QUESTION

To what extent do SMEs feel affected by the fragile environment in which they operate?

## 📌 BUSINESS CONSTRAINTS

- Main bottlenecks are insecurity, deficient transport infrastructure, and lack of energy supply.
- Social fragmentation and competing non-state authorities shape and reinforce these constraints.



### EXAMPLE AFGHAN POULTRY BUSINESS



Afghan poultry business linking transport problems to insurgents:

"The roads were good in the past, but some of the insurgents attack transport convoys. Most of the roads are damaged now."

### EXAMPLE LEBANESE FOOD TRADER IN DRC



"We have to pay too many taxes both legal and illegal which forces companies to bribery."

# Business strategies

## QUESTION SUB-RESEARCH QUESTION

Which strategies do SMEs deploy to manage fragility?

## ANSWER BUSINESS STRATEGIES

- Many SMEs aim for resilience rather than growth.
- Community relations and clanship are critical for SME survival.
- Most SMEs pay bribes to often colluding public officials, non-state authorities and criminals.



### EXAMPLE CAR BUSINESS IN SOUTH SUDAN



"The strategy I apply in my business is that in the time of the conflict I have reduced the number of cars I import so that I am not left with surplus stock."

### EXAMPLE LOGISTICS COMPANY FROM AFGHANISTAN



"Hiring or recruiting staff from other provinces gave us more problems e.g : we had a project in Khost province and we hired some staff from North provinces but the residence of that area did not let us hire them so we had to fire the Northern staff and re hire from the Khost province".

# Conclusions

## MAIN RESEARCH QUESTION

How do entrepreneurs in fragile contexts experience fragility and how does that perception shape companies' behaviour and business strategies?

## COPING RATHER THAN GROWING

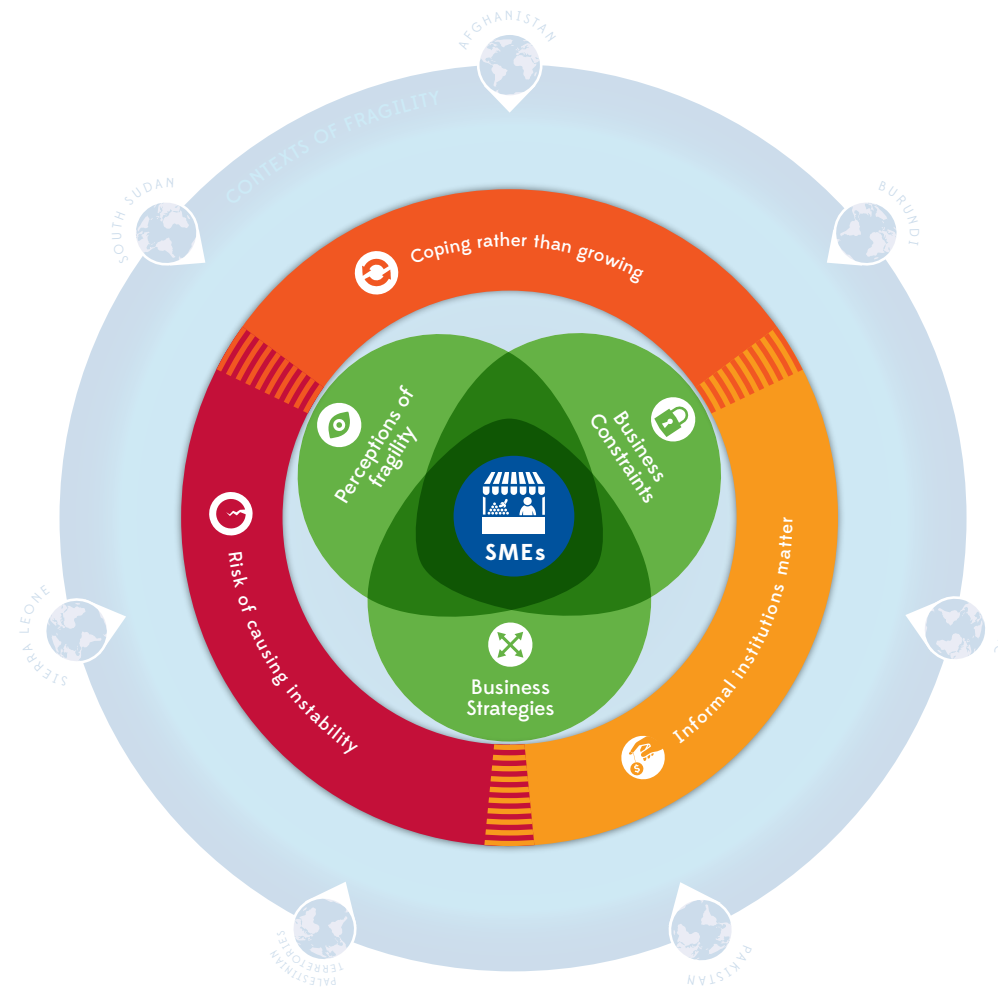
Many SMEs prioritize coping over growing.

## INFORMAL INSTITUTIONS MATTER

Informal institutions are critical for SME survival and growth.

## RISK OF CAUSING INSTABILITY

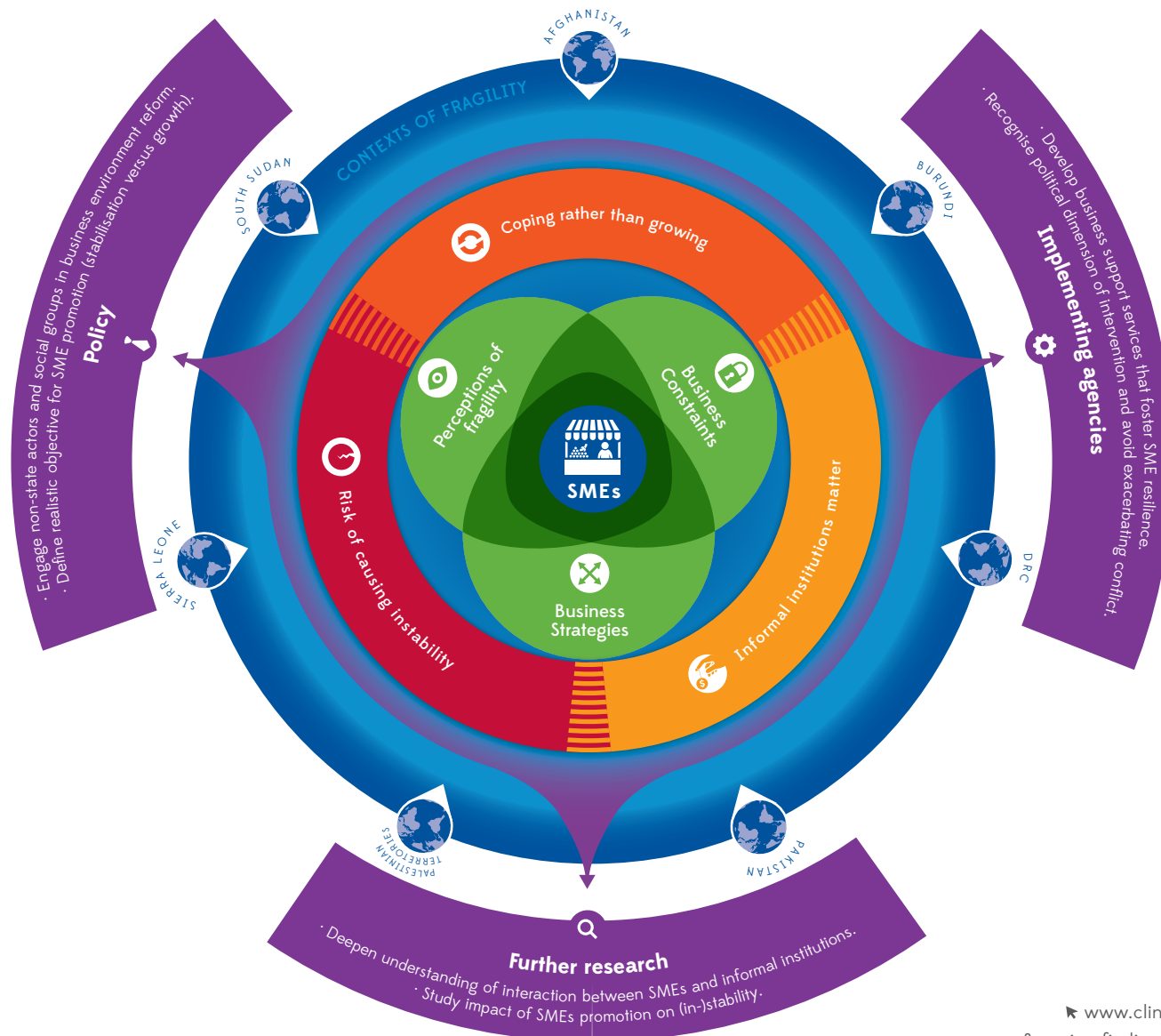
SMEs support strategies risk reinforcing structural causes of instability.



# Future of SME support

## MAIN RESEARCH QUESTION

How do entrepreneurs in fragile contexts experience fragility and how does that perception shape companies' behaviour and business strategies?



## WANT TO LEARN MORE?

Please read the full report at:  
[www.clingendael.nl/cru](http://www.clingendael.nl/cru)