



# SME Facilities in Fragile and Conflict-affected Settings: Contributing to peace?

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# About entities involved in this paper

## **TrustWorks Global**

TrustWorks Global (TrustWorks) enables public and private actors – companies, investors, governments and international organisations – to prevent conflict, promote stability and foster peace-positive development. TrustWorks has three key areas of work:

- First, we support companies (MNCs and SMEs) in fragile and conflict-affected settings on issues related to heightened human rights due diligence and conflict-sensitivity.
- Second, we work with investors (development financial institutions, impact and commercial) to ensure conflict-sensitive and ideally peace-promoting investments.
- Third, we work with multilateral organisations, governments and non-governmental organisations (including the United Nations and partners) to provide them with the necessary knowledge, tools and skills to undertake effective and efficient peacemaking and peacebuilding endeavours.

Drawing upon our extensive experience across different sectors, a range of perspectives from multinational, through government and to local community-based organizations, and access to diverse local and global networks, we work with diverse partners who exercise trust and courage in taking action for positive change.

## **Finance for Peace**

Finance for Peace is an independent initiative that seeks systemic change in how private and public investment supports peace in the world's developing and fragile contexts. It aims to create multistakeholder approaches that can co-develop the critical market frameworks, networks of political support, partnerships and knowledge required to scale what we call peace finance - investment that has an intentional and positive impact on peace. By doing so, it is possible to realise mutual benefits of reduced risks for investors and communities and achieve both bankable and peaceful outcomes.

Finance for Peace has been incubated by Interpeace, an International Peacebuilding organisation that has worked on conflict resolution and peacebuilding throughout Africa, the Middle East, Asia, Europe and Latin America for over 27 years. The governance and administration of the Initiative is supported by Interpeace from Geneva, Switzerland. It is financially supported by the German Federal Foreign Office.



# Abbreviations

<b>ACLED</b>	Armed Conflict Location and Event Database	<b>MENA</b>	Middle East and North Africa
<b>AGF</b>	African Guarantee Fund	<b>MIGA</b>	Multilateral Investment Guarantee Agency
<b>DFIs</b>	Development Financial Institutions	<b>MISFA</b>	Microfinance Investment Support Facility for Afghanistan
<b>DGGF</b>	Dutch Good Growth Fund	<b>MNCs</b>	Multinational Corporations
<b>DRC</b>	Democratic Republic of Congo	<b>NGOs</b>	Non-Governmental Organisations
<b>ESG</b>	"Environmental, Social and Governance"	<b>NIAC</b>	Non-International Armed Conflict
<b>ESMF</b>	Environmental and Social Management Framework	<b>NIF</b>	Nomou Iraq Fund
<b>ETC</b>	Equatoria Teak Company	<b>NII</b>	Northern Iraq Investments
<b>FCA</b>	Finn Church Aid	<b>Nordic Fund</b>	Nordic Horn of Africa Opportunities Fund
<b>FCAI</b>	Finn Church Aid Investments	<b>NSAGs</b>	Non-State Armed Groups
<b>FFS-PME</b>	Facilitating access to structuring financing for Burkinabe SMEs	<b>ODI</b>	Overseas Development Institute
<b>FSC</b>	Fragile and Conflict-affected Settings	<b>OEF</b>	One Earth Future Foundation
<b>GEFF</b>	Green Economy Finance Facility	<b>PFIF</b>	Peace Finance Impact Framework
<b>I&amp;P</b>	Investisseurs and Partenaires	<b>PSD</b>	Private Sector Development
<b>IAC</b>	International Armed Conflict	<b>RCF</b>	Revolving Credit Fund
<b>IFC</b>	International Finance Corporation	<b>RULAC</b>	Rule of Law in Armed Conflict
<b>ISIS</b>	Islamic State of Iraq and Syria	<b>SDGs</b>	Social Development Goals
<b>MDBs</b>	Multilateral Development Banks	<b>SMEs</b>	Small- and Mediumsized Enterprises

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SME FACILITIES IN FRAGILE AND  
CONFLICT-AFFECTED SETTINGS:  
CONTRIBUTING TO PEACE?

# Executive summary



# Executive summary

## Overview

This independent study was commissioned by the Finance for Peace initiative in 2022 in the context of their broader work on the Peace Finance Impact Framework (PFIF) and led by Swiss-based peace and conflict specialists, TrustWorks Global (TrustWorks). Entitled, 'SME Facilities in Fragile and Conflict-affected Settings: Contributing to Peace?', this study is motivated by a shared awareness of the increasing interest on the part of investors (development partners, impact and commercial investors) in supporting Small and Medium-Sized enterprises (SMEs) as a tool to foster both development and stability in frontier and emerging markets, understood by peace and conflict actors as Fragile and Conflict-affected Settings (FCS).

The study is designed to understand the unique challenges and opportunities faced by those supporting and/or managing SME facilities to contribute to peace and stability. Beyond the common assumption that providing jobs will inherently contribute to peace are more complex dynamics at work that prevent SMEs from growing to their full potential, and can create circumstances in which investments inadvertently contribute to conflict.

The overall purpose of this brief is to stimulate much-needed discussion on the role of SMEs in FCS through the lens of peace and conflict issues. With this objective in mind, the study seeks to explore five key questions:

- ▶ What does the literature tell us about SMEs and their impact on peace and conflict dynamics?
- ▶ What is the 'landscape' of SME facilities in FCS i.e., who is investing where, why and using which policies, tools and frameworks?
- ▶ To what extent are SME facilities designed to suit the realities of investing in FCS?
- ▶ What are some examples of the approaches and challenges faced by those supporting SMEs in FCS, and how have they overcome these challenges?
- ▶ What do these findings tell us about how SME facilities can minimise their negative and maximise their positive impacts on peace and stability?

The study focuses on the 70 FCS in the TrustWorks index<sup>1</sup>; following a review of expert literature, SME Facilities in these FCS were then “mapped out” and analysed in order to assess – based on publicly-available information – the extent to which the actor in question has in place policies and practices adapted to FCS. This desk-based research was supplemented by interviews with actors identified during the mapping. It should be noted that while over 50 actors were contacted, only six responded positively to the interview request. These actors are featured in the context of this report with their approval and consent.

### What do we know about SMEs in FCS

We identified ten key findings from the literature on SMEs, conflict and peace dynamics in FCS:

SMEs are shaped by key ‘formal’ and ‘informal’ characteristics of FCS. The activities of SMEs are constrained by common FCS-related challenges, including: social conflicts; fragile institutions, such as weak regulatory frameworks; absence of a political consensus among elites over power-sharing; inadequate infrastructure; limited government capabilities; and, high levels of inequality.<sup>2</sup> FCS are often contexts in which there are competing formal, informal, and even illegal authorities that may include gangs and Non-State Armed Groups (NSAGs).

**1. SMEs are often on the ‘frontline’ of violence and conflict:** SME’s owners, employees, suppliers, and customers all tend to be members of communities that are affected by conflict and fragility. SMEs often provide communities with essential goods and services in challenging circumstances and remote areas. For the same reason, they are often more exposed to the risks presented by conflict actors such as corrupt local officials, criminal organizations,

and NSAGs. Failure to agree to the demands of criminals, gangs or armed groups can lead to sabotage and/or physical violence.<sup>3</sup>

**2. SMEs are not outside of the conflict system:** Rather than being separate from the conflict system, it is important to understand SMEs as an integral part of it and as adapted to operating within it. SMEs may be both vulnerable to conflict dynamics and simultaneously beneficiaries of those dynamics and/or dependent on the conflict for their survival as businesses. SMEs in some instances play a role in actively sustaining and/or producing conflict systems either reflexively, deliberately, or as a consequence of compliance with the demands of conflict actors of various kinds.<sup>4</sup>

**3. SMEs may be owned or run by non-state armed groups or criminal organizations:** While SMEs are often understood simplistically as inherently “good” actors – providing jobs as well as vital goods and services to vulnerable populations – evidence suggests that SMEs may also be conflict actors. SMEs may be launched and operated, wholly or partly, by gangs, criminal groups or NSAGs. Such businesses may be “legal, registered, tax-paying businesses that operate in the formal sector”<sup>5</sup> or, alternatively, they may be informal businesses operating under the radar. Indeed, it is challenging to clearly delineate ‘war economies’ from the broader economies of which they are a part.<sup>6</sup>

**4. SMEs may deliberately avoid pursuing growth strategies:** While most investor engagements are designed to help SMEs grow, many SMEs in FCS pursue growth avoidance strategies, intentionally or otherwise. Business growth in an FCS may make a business more vulnerable to the dynamics that many businesses are keen to avoid: attacks; kidnapping; solicitation of bribery;

<sup>1</sup> See Figure One and associated explanation for more information.

<sup>2</sup> McKechnie Alastair et al., ‘MSME-led private sector development in contexts of conflict, fragility and displacement’, ODI, German Cooperation Deutsche Zusammenarbeit & KfW, 2022, p. 6.

<sup>3</sup> Miller, Ben and Angelika Rettberg, Todos Pagan, SMEs and Urban Violence in Medellin, Colombia, Paper Prepared for the Annual Meeting of the International Studies Association, Nashville, March 28th-April 2nd, 2022, p. 17.

<sup>4</sup> Ibid., p. 22.

<sup>5</sup> José Martínez d’Aubuisson, J., ‘The Omnipresent Business of the MS13 in El Salvador,’ *InSight Crime*, 25 January 2022, p. 30.

<sup>6</sup> As cited in Kaye, Josie Lianna. ‘The Business of Peace and the Politics of Inclusion: What Role for Local ‘Licit’ and ‘Illicit’ Business Actors in Peace Mediation?’ PhD thesis, University of Oxford, 2019, p. 231. See for example: Nordstrom, Carolyn, *Violence, Power, and International Profiteering in the Twenty-First Century*, University of California Press, 2004; Nordstrom, ‘Casting long shadows: war, peace and extra-legal economies,’ in Darby, John and MacGinty, Roger, Eds., *Contemporary Peacemaking: Conflict, Peace Processes and Post-war Reconstruction*, Palgrave Macmillan, 2008; Naylor, R. T., *Wages of Crime, Black Markets, Illegal Finance, and the Underworld Economy*, Cornell University Press, Cornell University, 2004; MacGaffey and co., *The Real economy of Zaire, The Contribution of Smuggling and Other Unofficial Activities to National Wealth*, London, University of Pennsylvania Press, Philadelphia, 1991; and, Jung, Dietrich, Ed., *Shadow globalisation, Ethnic Conflicts and New Wars, A Political Economy of Intra-State War*, Routledge, London and New York, 2003.

and extortion. Many SME owners deliberately pursue strategies designed to enable them (and their businesses) to be “resilient”<sup>7</sup> or at the very least to survive, rather than to grow.

5. **There is no clear evidence that jobs contribute to peace:** Many investors, particularly but not only DFIs, suggest that their investments in SMEs are contributing to peace through the creation of jobs. These claims have little empirical foundation, and the causal linkages in their implicit theory of change are not grounded in a robust base of evidence. The nature and distribution of new jobs is likely to be more salient for peace and conflict considerations than their number. There is also evidence to suggest that, in FCS, groups that are in conflict compete with each other for control of newly introduced resources, including jobs.
6. **Patterns of SME interactions – rather than one SME – contribute to peace or conflict:** Individual SMEs are unlikely to have meaningful impact on peace and conflict dynamics, even at a local level. The operational impacts of even a medium-sized enterprise on social groups and their relations with each other are likely trivial in comparison with those of a Multinational Corporation (MNC) or a DFI infrastructure project, for example. Impacts on peace and conflict are more likely to occur if a significant number of SMEs are involved in financially supporting NSAGs, or if a significant number of SMEs engage in exclusionary practices, or if a significant number of SMEs are forced to bribe local state officials. By the same token, as the Overseas Development Institute (ODI) observes, “when organised collectively, SMEs can have influence on conflict dynamics and peace outcomes.”<sup>8</sup>
7. **SME alliance- and coalition-building is most likely to contribute to peace outcomes:** Evidence suggests that SMEs may have greater potential to impact conflict – as opposed to individual

livelihoods – when they act collectively. SMEs can join together to explore solutions to conflict-related challenges or to advocate for specific reforms. Efforts to support SMEs to achieve peace and stability-related outcomes may include action such as leveraging “more protection within the group against external, conflict-related shocks, establishing access to value chains that extend beyond their immediate neighbourhoods or to national-level businesses and actors, and enabling MSMEs that are committed to peace efforts to gain greater traction in their local communities through positive recognition of their values.”<sup>9</sup>

8. **SMEs are more likely to have a strong interest in peace than MNCs:** SMEs that do not benefit materially from conflict may have a greater interest in peace than non-local actors because they are both more vulnerable to and more exposed to conflict risks; in any case, they have little choice but to be highly sensitive to the risks and opportunities that conflict and fragility present.<sup>10</sup> As locally embedded actors, SMEs may also have better access to information about the conflict, social tensions or local political dealings. This can make them invaluable resources for conflict analyses or conflict risk assessments.
9. **Finance alone is not enough:** By itself, more finance for SMEs will not necessarily bring about peace or sustainable development.<sup>11</sup> Indeed, “the way in which investments are made will determine whether they consolidate or undermine peace. Investments that compound conflict fault-lines and exacerbate inequalities increase rather decrease levels of poverty and may further undermine any development gains made.”<sup>12</sup> This is because, generally speaking, resources that are introduced to a conflict context become part of the conflict, fuelling competition, division and rivalries; competition for such resources can easily escalate into violence.<sup>13</sup>

7 Ibid.

8 McKechnie Alastair et al., 2022, p. 45.

9 Ibid.

10 William R. Avis in ‘Private sector engagement in fragile and conflict-affected settings,’ GSDRC Applied Knowledge Services, 2016.

11 International Dialogue on Peacebuilding & Statebuilding, ‘How to scale up responsible investment and promote Sustainable Peace in fragile environments,’ 2016.

12 Kaye, Josie Lianna, with Marc Jacquand and Jihed Hannachi, ‘Conditions for successful investments in fragile and conflict-affected states,’ Dutch Entrepreneurial Development Bank (FMO) Report, 2021, p. 22.

13 Mayer, Markus, Ben Miller, and Kathryn Nwajaku-Dahou, ‘Business and Peace: It takes two to tango,’ International Alert, 2020, p. 17.

**Bonus: As a result, heightened human rights due diligence and/or conflict sensitivity is not an option, it's imperative**

Conflict sensitivity is a process designed to ensure that actors are able to “work in the conflict” without becoming part of the conflict.<sup>14</sup> The above key messages from the literature suggest that, in FCS, and in the absence of deliberate efforts to understand the likely effects of the intervention, investment in SMEs can exacerbate significant risks, to SMEs, to investors, and to stability. In the absence of approaches that are conflict-sensitive, “there is a risk of reproducing and fostering the social, economic and political conditions for insecurity and exclusive growth.”<sup>15</sup>

**Mapping of SME Facilities in FCS: Key findings**

There are six key findings from the mapping and analysis undertaken:

- ▶ **Wide diversity of actors supporting SMEs in FCS:** We identified a total of 54 entities investing in SMEs in FCS, which can be organised into eleven categories albeit with overlaps: banks; financial facilities; financial institutions; investment funds; impact fund managers; impact investors; investment holding companies; microfinance institutions; not for profit Non-Governmental Organisations (NGOs) or foundations; private equity investors; and, venture capital funds.
- ▶ **Broad geographical distribution across FCS, with some gaps:** Actors investing in FCS do not appear to prefer investing in fragile rather than conflict contexts: on the contrary, 56 per cent of investments identified occur in conflict-affected settings, compared to 44 per cent in fragile settings. Despite the strong narrative that suggests that investors are ‘risk averse’ and, therefore, likely to avoid the most violent and/or challenging contexts, there does not appear to be any correlation between levels of violence and fragility and the presence of SME facilities. The countries where we identified ten or more SME facilities include: Kenya, Nigeria, Cote d’Ivoire, Uganda, Burkina Faso, Tanzania, Mali,

Cameroon, Madagascar, Democratic Republic of Congo, Egypt, India, Lebanon and Zambia. 9 of these contexts are conflict-affected while the remaining 4 are fragile.<sup>16</sup>

- ▶ **A wide diversity of financial and non-financial support:** The most common financial tools are equity investments, followed by loans and credit/micro-credit. The mapping also suggests that the most common non-financial tools provided by actors supporting SMEs is technical assistance/capacity development, e.g. providing skills development and trainings of SME staff and personnel, followed by consultancies and advisory services, e.g. providing strategic, operational, and financial improvements and solutions, and network-building, e.g. introducing SMEs’ managers to like-minded entrepreneurs, investors and innovators to benefit the whole business communities.
- ▶ **Most SME facilities focus on jobs as their most important social contribution:** Most SME facilities that have a ‘social’ aspiration to implement this commitment through the narrow angle of creating jobs; there is also a strong focus on supporting women-led businesses/entrepreneurs.
- ▶ **A minority of SME facilities go beyond ESG and focus explicitly on “positive impact”:** Although many facilities generically mention alignment with Environmental, Social and Governance (ESG) criteria and/or to the Sustainable Development Goals (SDGs), only a few disclose a more precise commitment or dedicated policy. Even fewer are explicit about going “beyond ESG” to have positive social impacts, although what is exactly meant by “positive social impacts” is not always made clear. The actors that claim to focus on positive social impacts provide support to SMEs with the intention of creating measurable social and environmental benefits; their strategy aligns with one or more SDGs and performance is measured against stated objectives. They also indicate long-term commitment in their investments and tend to be more forward looking in their approach.

<sup>14</sup> Kaye, 2021, p. 12.

<sup>15</sup> Hoffmann, Anette and Paul Lange. ‘Growing or Coping? Evidence from small and medium sized enterprises in fragile settings,’ Clingendael CRU Report, 2016, p. 51.

<sup>16</sup> According to the TrustWorks FCS Index, see Figure 1.



- ▶ **None of the SME facilities have a conflict sensitivity approach but a minority have a minimum level of 'conflict-awareness':** The mapping did not identify any SME facilities which integrate heightened human rights due diligence or conflict sensitivity into their policies and processes, a finding which is concerning given what we know about the role of SMEs in FCS. A minority, however (8 out of 54), can be considered to have a certain level of "conflict awareness" - to different and varying degrees i.e. they appear – based on their public-facing documents – to be aware that operating in FCS requires different approaches to operating in non-FCS.

### Six actors in the spotlight

Combining insights from desk review and interviews, the activities and approaches of six key actors are included as part of this study, including: Finn Church Aid Investments; GroFin; Maris Africa; One Earth Future Foundation's Shuraako Programme; Sinergi Burkina; and, Triple Jump. These actors have been "spotlighted" with their review and consent.

### Conclusions and recommendations

In further support of the rationale for and objectives of the Finance for Peace initiative's PFIF, the findings of this brief suggest that there is an important 'peace gap' between what we know about the role of SMEs in FCS, and the extent to which those supporting them are consistently incorporating this knowledge into their investment frameworks and support modalities. To address this gap, we recommend SME facility managers to:

1. **Put in place FCS-specific policies/processes:** Ensure that entities supporting SMEs (financial institutions, banks, impact and equity investors, NGOs, etc) put in place a clear policy framework that distinguishes between what it means to invest in FCS and non-FCS, including the implications of the former for in-country practices.
2. **Establish a conflict sensitivity investment approach:** In line with the PFIF, the conflict sensitivity investment approach should be based on a conflict analysis of the country in question and can be used to establish: guidelines for sectors, geographical areas, business type and size, supply chains, KYC protocols and possibly even systems, and other country- or region-specific peace and conflict specificities that need to be taken into consideration when deciding which SMEs to invest in and how to minimise the negative and maximise the positive impacts on peace and stability. The *TrustWorks peace investment model* may be helpful for assisting actors to make relevant decisions based on the risk appetite and objectives in FCS, and to understand the implications of their decisions on their investment modalities.
3. **Ensure conflict sensitivity monitoring and impact frameworks are established:** Interaction effects between the context and the investment need to be monitored over time. This requires putting in place clear conflict- and peace-related monitoring mechanisms to monitor risks, proactively anticipate and manage risks, and, therefore, more effectively deal with contextual crises. Moreover, the impact framework should measure the actual impact of SME investments on the context in question, thereby moving beyond results- to impact level monitoring.
4. **Align HQ and in-country incentives and resources:** Where appropriate, ensure that HQ – of the respective SME facility - and teams on the ground have sufficient understanding and awareness of what it means to invest in SMEs in FCS. This may mean providing training, aligning incentive structures and/or providing other resources to ensure that teams on the ground have the right profile of people to deal with the complexities of these challenging conflicts. Moreover, partnerships are an essential part of ensuring in-country teams have the necessary resources.
5. **Provide support to SMEs beyond traditional Technical Assistance to help them effectively navigate the conflict context:** Provide support to SMEs that helps them to manage the specific challenges of operating in FCS (or what the PFIF refers to as "Peace Enhancing Mechanisms"); this could involve training, mentoring and accompaniment and other forms of skill-building; connecting them with peacebuilding actors; helping them to build networks and alliances on specific issues; building cross-sectoral partnerships and other forms of support.

- 6. As much as possible, leverage 'ecosystem approaches':** By working in collaborative ways, based on strategic partnerships where each actor's value-added is clear can help to identify the range of macro, meso and micro issues that impede the growth of SMEs, and impact upon peace and conflict issues it is possible to foster constructive ecosystem approaches to supporting SMEs.
- 7. Take a long time horizon for investments:** Those investing in SMEs must take a long-term perspective. Given the extensive challenges of operating and investing in FCS, any expected impacts on the targeted SMEs and the contexts in which they operate are likely to take a significant amount of time to materialise. A medium- to long-term commitment is preferred for such investments to be able to realise their full potential.





SME FACILITIES IN FRAGILE AND  
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CONTRIBUTING TO PEACE?

# Introduction



# Introduction

## Background

This independent study was commissioned by the Finance for Peace initiative of Interpeace in 2022 and led by Swiss-based peace and conflict specialists, TrustWorks. Entitled, 'SME Facilities in Fragile and Conflict-affected Settings: Contributing to Peace?', this study is motivated by a shared awareness of the increasing interest on the part of investors (development partners, impact and commercial investors) in supporting Small and Medium-Sized enterprises (SMEs) as a tool to foster both development and stability in frontier and emerging markets, understood by peace and conflict actors as Fragile and Conflict-affected Settings (FCS).

This increasing interest – as demonstrated by the conflict- and/or fragile states' strategies of several leading Development Financial Institutions (DFIs) and Multi-lateral Development Banks (MDBs) – occurs in parallel to the increasing awareness that investing in FCS cannot be 'business as usual'. FCS, with their fractured state structures, divided societies and weak institutions, pose unique challenges for investors: investments do not take place in a vacuum but, on the contrary, interact both directly and indirectly with the dynamics of conflict. Consequently, despite good intentions, there is a strong risk that investments in SMEs inadvertently exacerbate violence, conflict and instability.

There is also the promise that, on the flipside, investments in SMEs can actually foster peace and stability; many investments are premised on this aspiration. The causal linkages between an investment in a specific SME and the complex dynamics of how a society emerges from fragility are poorly understood and even more poorly researched and documented.<sup>1</sup> To the extent that those working with SMEs are thinking about peace and conflict-related issues, there is an assumption that providing jobs is an inherently peace-promoting endeavour.

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<sup>1</sup> Holmes, Rebecca, Anna McCord and Jessica Hagen-Zanker, 'What is the evidence on the impact of employment creation on stability and poverty reduction in fragile states? A systematic Review,' London, ODI Research Reports and Studies, 2013.



This research is commissioned under the auspices of the Finance for Peace initiative's ongoing work on the Peace Finance Impact Framework (PFIF). The PFIF is designed to provide a benchmark for defining what 'Peace impact' means for public and private investors, with a view to lowering risk for both communities and investees (you can read more about the PFIF in figure 1).

### **Key questions**

This study seeks to unpack these issues and to shed more light on the ecosystem of actors undertaking the challenging work of supporting SMEs who face the even greater challenge of operating in conditions of violence, conflict and instability. The study is designed to explore five key questions:

- What does the literature tell us about SMEs and their impact on peace and conflict dynamics?
- What is the 'landscape' of SME facilities in FCS i.e., who is investing where, why and using which policies, tools and frameworks?
- To what extent are SME facilities designed to suit the realities of investing in FCS?
- What are some examples of the approaches and challenges faced by those supporting SMEs in FCS, and how have they overcome these challenges?
- What do these findings tell us about how SME facilities can minimise the negative and maximise their positive impacts on peace and stability?

### **Purpose and audience**

The overall purpose of this brief is to stimulate much-needed discussion on the role of SMEs in FCS through the lens of peace and conflict issues; it is designed to foster thinking and action amongst actors working with SMEs in FCS on how to put in place appropriate policies and practices that are tailored to what it means to invest in these challenging contexts. The primary audience for this piece of work, therefore, is development partners, financial institutions, impact and commercial investors, as well NGOs, foundations and other actors working with SMEs in FCS.

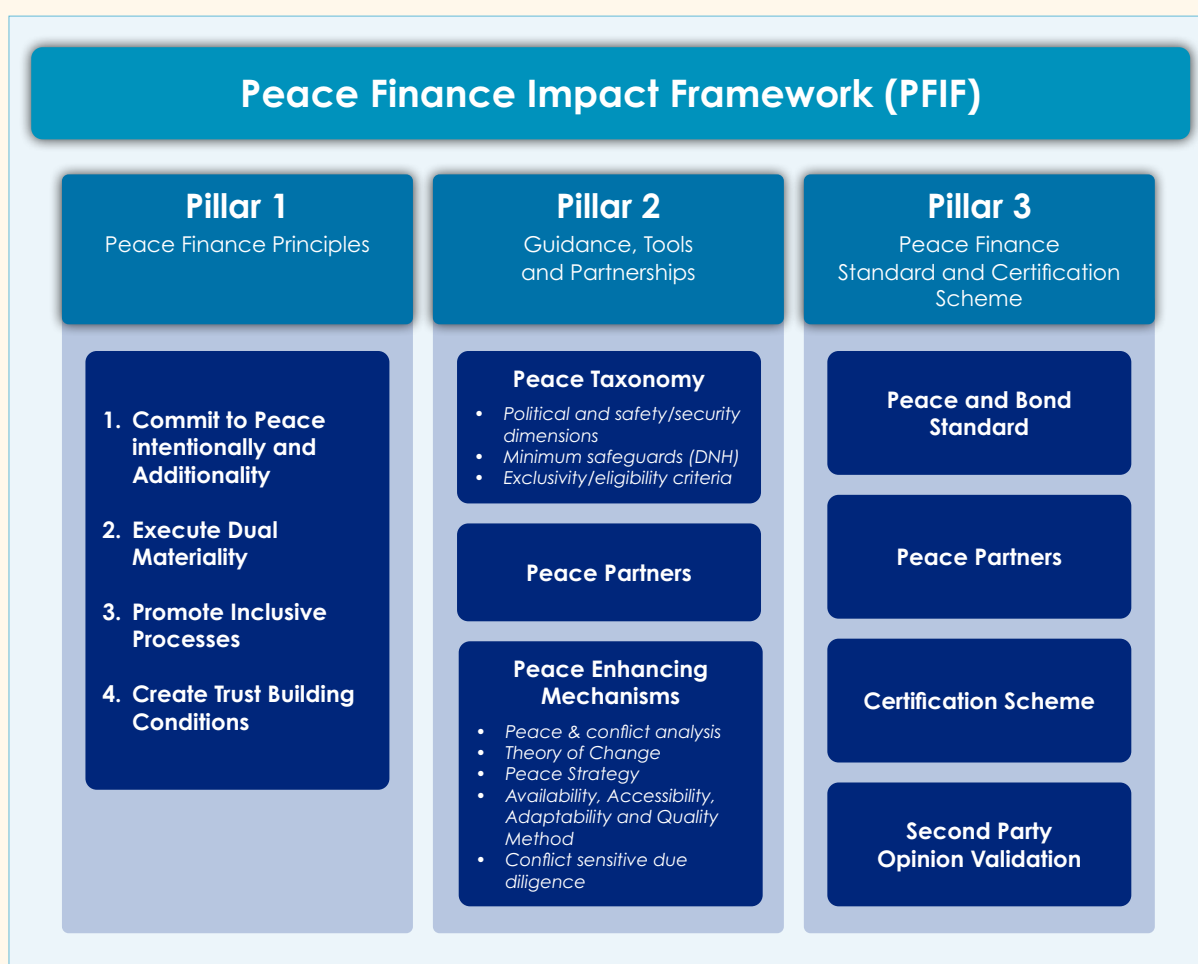
Figure 1: About the Finance for Peace - Peace Finance Impact Framework (PFIF)<sup>2</sup>

The objective of the PFIF is to help investors lower risk for both communities and investees by implementing peace and investment strategies that are better sensitised to political and social risks while also building greater trust, buy-in and certainty through more inclusive investment approaches.

The PFIF outlines: basic exclusionary criteria, a proposed process and partnership model of how investors can plan, implement, measure and verify peace impacts as well as some of the intervention logic of how they may generate additionality for investors and better outcomes for communities.

The current PFIF is composed of three key pillars, each including key tools, guidance and principles:

- ▶ **Pillar 1:** The Four Peace Finance Principles
- ▶ **Pillar 2:** Guidance, Tools and Partnerships
- ▶ **Pillar 3:** A Peace Finance Standard and Certification Scheme



<sup>2</sup> Finance for Peace, Interpeace. 'Peace Finance Impact Framework: Introducing a comprehensive framework to help investors align for peace impact and additionality,' Version 2.0, May 2023.



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# Methodology

# Methodology

## Fragile and conflict-affected settings in focus

This brief focuses on SMEs and the actors that support them in FCS. The FCS of focus were selected by TrustWorks based on its own FCS index. There are a wide diversity of conflict- and fragility indices, and each comes with its own challenges and biases. The TrustWorks FCS index draws upon two internationally-recognised frameworks:

- ▶ First, the *Swiss-based Rule of Law in Armed Conflict Project (RULAC)*, which is an online portal that identifies and classifies all situations of armed violence and is updated regularly. The RULAC classifies international conflict as either: International Armed Conflict (IAC), Non-International Armed Conflict (NIAC) or military occupation.
- ▶ Second, the *OECD States of Fragility Framework*, which identifies fragile contexts by assessing the risk and coping capacities of countries across 6 dimensions: economic, environmental, human, political, security, and societal. In the latest edition of the framework, published in September 2022, the report identified 60 fragile contexts, with 15 being extremely fragile.

### Ranking:

- ▶ The TrustWorks FCS Index begins with ranking (i.e., putting in order of severity) all classified conflicts: IACs, NIACs, military occupations; and fragile countries.
- ▶ The ranking of conflict-affected countries is based on the number of battle-related deaths in the last 5 years as a proxy for levels of insecurity, with the current Index using data from 2018-2022. The data is retrieved from the *Armed Conflict Location & Event Data (ACLED)* database, which is the highest quality and most widely used real-time data and analysis source on political violence.
- ▶ Countries that are both classified as *conflict-affected* and identified as *fragile* will appear in the conflict-affected section of the Index given that international law governs conflict contexts whereas fragility has no standing in international law, but the risk of instability and violence is heightened.
- ▶ Fragile countries are ranked after the conflict-affected countries and in the same order as in the OECD States of Fragility Framework.
- ▶ Conflict-affected countries are highlighted in orange and fragile countries are highlighted in yellow.

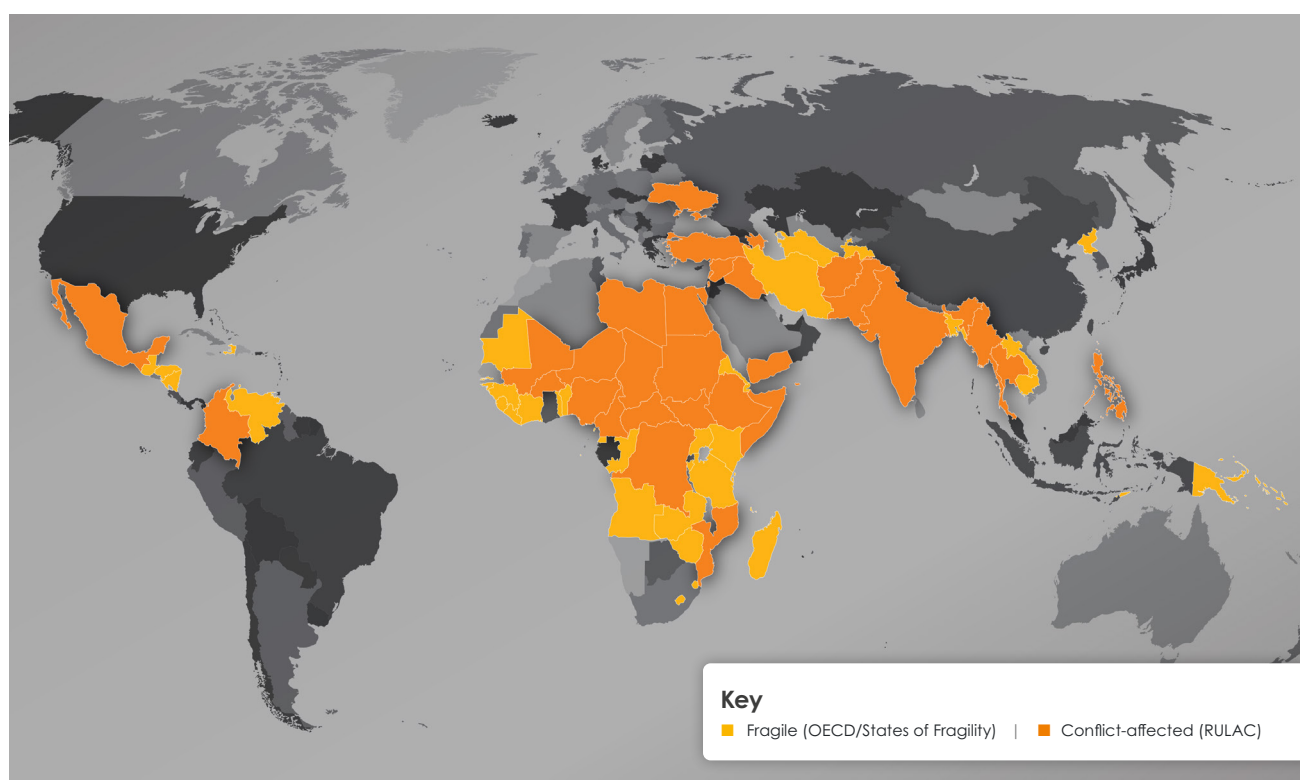


*Exclusion criteria:*

- ▶ TrustWorks' index takes a people-centred approach i.e., what concerns us the most are the lives and livelihoods of these affected by conflict. Countries that are either parties to a conflict or occupying a territory in another country, per the definition from RULAC, are not a part of the TrustWorks' Index. This is based on the argument that these countries are not classified as being conflict-affected.
- ▶ States occupying territory in another state are not classified as being in conflict, and are, as a result, not included in the Index.
- ▶ Countries with less than 100 reported fatalities over the last 5 years based on ACLED data are excluded from the Index.

As demonstrated in Figure 1 one below, there are **70 FCS in the TrustWorks FCS index.**

**Figure 2: TrustWorks Global Index of Fragile and Conflict-affected Settings**



1	Afghanistan	19	India	37	Angola	55	Solomon Islands
2	Yemen	20	Pakistan	38	Liberia	56	Djibouti
3	Syria	21	Sudan	39	Madagascar	57	Eswatini
4	Ukraine	22	Libya	40	Uganda	58	Turkmenistan
5	Mexico	23	Niger	41	Guinea	59	Laos
6	Nigeria	24	Central African Republic	42	Papua New Guinea	60	Guatemala
7	Myanmar	25	Mozambique	43	Guinea-Bissau	61	Tanzania
8	Dem Rep Congo	26	Turkey	44	Zambia	62	Kenya
9	Somalia	27	Egypt	45	Comoros	63	Togo
10	Ethiopia	28	Chad	46	Mauritania	64	Nicaragua
11	Iraq	29	Palestine	47	Timor-Leste	65	Benin
12	Mali	30	Thailand	48	Zimbabwe	66	Dem. People's Rep. Korea
13	Burkina Faso	31	Lebanon	49	Tajikistan	67	Lesotho
14	South Sudan	32	Congo	50	Bangladesh	68	Gambia
15	Colombia	33	Haiti	51	Sierra Leone	69	Honduras
16	Philippines	34	Burundi	52	Cambodia	70	Iran
17	Azerbaijan	35	Eritrea	53	Côte d'Ivoire		
18	Cameroon	36	Equatorial Guinea	54	Venezuela		

## Approach

This research is based on a four-pronged methodological approach:

- ▶ **Review of expert literature:** The study began with a review of the small but cohesive body of literature on SMEs in FCS, including research published by academic institutions, think-tanks, NGOs, DFIs and other expert entities.
- ▶ **Mapping key actors supporting SMEs in FCS:** Focusing on the 70 FCS in the TrustWorks' index, we then undertook a desk-based mapping exercise to identify SME facilities located in these countries. Since there is no internationally recognised definition of an "SME facility", we took a broad-based approach to identifying *actors providing financial support to multiple SMEs*. Moreover, there are multiple operative definitions of "SME" provided by different governments, the OECD and United Nations, and other entities. For the purposes of this report, we were guided by the definition of SMEs used by each of the "facilities" identified.
- ▶ **Assessment of actors' publicly available information:** The actors identified were then analysed based on publicly available information on their websites. Of particular interest was the extent to which the actor in question:
  - provides information about the approach they take in FCS;
  - has an ESG framework in place, including an Environmental, Social and Management framework and E&S performance frameworks;
  - has an explicit focus on positive social impact;
  - has a certain level of "conflict awareness", and, therefore, recognises the need for different approaches in FCS to non-FCS; and/or,
  - takes a conflict-sensitive approach i.e., has in place policies and practices designed to minimise the negative and maximise the positive impacts of supporting SMEs on peace and stability.
- ▶ **Supplemented by expert interviews:** Over 50+ actors identified during the mapping exercise were then approached for interview. Unfortunately, only six actors responded positively to this request. These actors are featured in the context of this report with their approval and consent.

## Key considerations, constraints and limitations

The information contained in this report - except for the six actors in the 'spotlight' - is based on publicly available information available in English or French. The analysis undertaken of different entities' approaches may, therefore, not necessarily reflect realities on the ground. Rather than singling out or criticising particular actors undertaking undoubtedly difficult work in challenging settings, the intention of this analysis is to stimulate much-needed discussion on supporting SMEs in FCS. It should also be noted that what is currently lacking in this space is in-depth research on the ground concerning support to SMEs; it was unfortunately not possible to do such field work in the context of this short project.

## Layout of this brief

This brief is organised into four sections. The first section covers 'what we know' about the SMEs, conflict and peace in FCS, drawing upon the body of expert literature and organised into ten key messages. The second section presents the findings of our mapping of SME Facilities in FCS, including insights on a typology of actors, geographical distribution and approaches to peace and conflict issues. In the third section we then provide a spotlight on six diverse actors operating in FCS: Finnish Church Aid Investments; Grofin; Maris Africa; One Earth Future Foundation; Sinergi Burkina; and Triple Jump. The fourth and last section provides recommendations to the diverse actors supporting SMEs on how to maximise positive impacts on peace and stability.





SME FACILITIES IN FRAGILE AND  
CONFLICT-AFFECTED SETTINGS:  
CONTRIBUTING TO PEACE?

# The literature: What do we know about SMEs in FCS?



# The literature: What do we know about SMEs in FCS?

Below we summarise ten key findings from the literature on SMEs, conflict and peace dynamics in FCS.

## **SMEs are shaped by key 'formal' and 'informal' characteristics of FCS**

The activities of SMEs are constrained by common FCS-related challenges, including: social conflicts; fragile institutions, such as weak regulatory frameworks; absence of a political consensus among elites over power-sharing; inadequate infrastructure; limited government capabilities; and, high levels of inequality.<sup>1</sup> One of the most important challenges facing SMEs is the financing gap<sup>2</sup> between what they are estimated to need and what they are in fact provided - estimated at US\$5.2 trillion every year<sup>3</sup> - as a result of the unwillingness of local banks to provide loans to SMEs, and the comparatively low interest on the part of investors in engaging in contexts that are perceived to be "risky". FCS may not only have weak states; they may also be contexts in which there are competing formal, informal, and even illegal authorities that may include gangs and NSAGs. They are contexts "shaped by highly personalised or informal institutions" which determine the "rules of the game."<sup>4</sup> SMEs in these environments are influenced by and dependent on local social relations – including identity groups and loyalty to specific elites – as well as dynamics of trust and power.<sup>5</sup>

## **SMEs are often on the 'frontline' of violence and conflict**

SME's owners, employees, suppliers, and customers all tend to be members of communities that are affected by conflict and fragility, although the interests and capabilities of business owners may differ in certain respects from those of other community members. SMEs often provide communities with essential goods and services in challenging circumstances and remote areas – and may therefore provide a "lifeline" for communities. SMEs – their owners and employees – are often known to all within a given community; they may

<sup>1</sup> McKechnie Alastair et al., 2022, p. 6.

<sup>2</sup> The financial gap between what SMEs need and what is currently available to them.

<sup>3</sup> World Bank. 'Small and Medium-sized Enterprises (SMEs) Finance.' website. ([url](#))

<sup>4</sup> Hoffmann, Anette and Paul Lange, 2016, p. 18-19.

<sup>5</sup> Kaye, 2021.

have dense networks of relationships among local actors, as well as detailed understandings of the positionality of other local actors and the effects of violence in their communities. For the same reason, they are often more exposed to the risks presented by conflict actors such as corrupt local officials, criminal organizations, and NSAGs. Failure to agree to the demands of criminals, gangs or armed groups “can lead to increases in the requested amount or to acts of sabotage against vehicles, warehouses, storefronts or other assets, and, in extreme cases, to physical violence against company owners or their families.”<sup>6</sup> In many instances, SMEs may be compelled to pay bribes or extortion in order to continue to operate or to avoid violent reprisals. In some contexts, these expenditures are even integrated into business operational costs and planning.

### **SMEs are not outside of the conflict system**

Rather than being separate from the conflict system, it is important to understand SMEs as an integral part of it and as adapted to operating within it. In FCS, where formal employment opportunities are scarce, starting a small enterprise may be the most viable livelihood option for many people. Research<sup>7</sup> suggests that a majority of SME owners in FCS are motivated primarily by livelihood concerns, rather than by an interest in social transformation. When they do engage deliberately in activities that might be construed as peace-supporting, they may understand and frame their own motivations in immediate and practical terms, such as deteriorating security in their neighbourhood. As such, SMEs may be both vulnerable to conflict dynamics and simultaneously beneficiaries of those dynamics and/or dependent on the conflict for their survival as businesses; SMEs in some instances play a role in actively sustaining and/or producing conflict systems either reflexively, deliberately, or as a consequence of compliance with the demands of conflict actors of various kinds.<sup>8</sup>

For example, SMEs may recruit and hire personnel in ways that reflect patriarchal and exclusionary dynamics due to social pressures to hire members of their own ethnic, religious or clan group – or because they themselves feel more comfortable with members of their own in-group.<sup>9</sup> Furthermore, some SMEs provide goods and services to criminal/armed groups and may also benefit from money laundering and “engaging in commerce of smuggled, stolen, or illegal goods.”<sup>10</sup> SMEs, moreover, may be dependent on certain groups or certain powerful elites remaining in (formal or informal) “power”, and they may get ahead by creating alliances they have an active interest in sustaining.<sup>11</sup> SMEs may have business interests that are tied to the consequences of conflict, for example providing goods or services to refugees and internally displaced persons.<sup>12</sup> In all the above examples, the business model of SMEs “may be threatened by efforts to establish peace”<sup>13</sup> as well as efforts designed to overcome cultural norms, including those that foster greater inclusion of diverse ethnic groups, women and youth.

6 Miller, Ben and Angelika Rettberg, 2022, p. 17.

7 McKechnie Alastair et al., 2022.

8 Miller, 2022, p. 22.

9 McKechnie Alastair et al., 2022, p. 30.

10 Miller, 2022, p. 18.

11 Kaye, 2021.

12 McKechnie Alastair et al., 2022, p. 30.

13 Ibid.

### SMEs may be owned or run by non-state armed groups or criminal organizations

While SMEs are often understood simplistically as inherently “good” actors – providing jobs as well as vital goods and services to vulnerable populations – evidence suggests that SMEs may also be conflict actors. SMEs may be launched and operated, wholly or partly, by gangs, criminal groups or NSAGs or individual members of any of the aforementioned actors. Such businesses may be “legal, registered, tax-paying businesses that operate in the formal sector”<sup>14</sup> or, alternatively, they may be informal businesses operating under the radar. Irrespective of ownership and formality, SMEs at times engage in illicit business, including criminal activities, money laundering, smuggling, trafficking etc., of diverse goods and services. In such contexts, the distinctions between licit and illicit business actors and practices become increasingly blurred;<sup>15</sup> indeed, it is challenging to clearly delineate ‘war economies’ from the broader economies of which they are a part.<sup>16</sup>

### SMEs may deliberately avoid pursuing growth strategies

While most investor engagements are designed to help SMEs grow, some SMEs in FCS pursue growth avoidance strategies, intentionally or otherwise. Business growth in an FCS may make a business more vulnerable to the dynamics that many businesses are keen to avoid: attacks; kidnapping; solicitation of bribery; and extortion. Growth avoidance strategies can include anything ranging from: maintaining a low profile or eschewing business improvements;<sup>17</sup> “operating dispersed, small shops under different business names” to decrease the likelihood of a business being associated with a specific family or holding;<sup>18</sup> avoiding formalisation; and reducing “inventory and in-bulk purchases in anticipation of theft, sudden drops in customer demands or arbitrary confiscation.”<sup>19</sup> Some of these risks associated with growth are likely to be particularly pertinent for women-owned/managed businesses.<sup>20</sup> Some SME owners deliberately pursue strategies designed to enable them (and their businesses) to be “resilient”<sup>21</sup> or at the very least to survive, rather than to grow. Businesses may also inadvertently or indirectly pursue ‘anti-growth’ and/or ‘anti-innovation’ strategies due to the need or tendency to rely on familiar networks; indeed, as outlined by Clingendael, “as long as hiring, sourcing and marketing strategies are based on allegiance to family and identity groups rather than on merit, quality and market demand”, productivity, growth and innovation are likely to be hindered.<sup>22</sup>

### There is no clear evidence that jobs contribute to peace

Many investors, particularly but not only DFIs, suggest that their investments in SMEs are contributing to peace through the creation of jobs. The belief in the peace promoting power of jobs was epitomised by the 2013 World Development Report entitled simply “Jobs,”<sup>23</sup> and has since been echoed in the WEF report ‘Mobilizing the Private Sector for Peace and Reconciliation’<sup>24</sup> and in the International Finance Corporation report “Generating Private Investment in Fragile and Conflict-Affected Areas.”<sup>25</sup>

<sup>14</sup> José Martínez d’Aubuisson, J., ‘The Omnipresent Business of the MS13 in El Salvador,’ *InSight Crime*, 25 January 2022, p. 30.

<sup>15</sup> Kaye, Josie Lianna. ‘The Business of Peace and the Politics of Inclusion: What Role for Local ‘Licit’ and ‘Illicit’ Business Actors in Peace Mediation?’ PhD thesis, University of Oxford, 2019, p. 231.

<sup>16</sup> See for example: Nordstrom, Carolyn, *Violence, Power, and International Profiteering in the Twenty-First Century*, University of California Press, 2004; Nordstrom, ‘Casting long shadows: war, peace and extra-legal economies,’ in Darby, John and MacGinty, Roger, Eds., *Contemporary Peacemaking: Conflict, Peace Processes and Post-war Reconstruction*, Palgrave Macmillan, 2008; Naylor, R. T., *Wages of Crime, Black Markets, Illegal Finance, and the Underworld Economy*, Cornell University Press, Cornell University, 2004; MacGaffey and co., *The Real economy of Zaire, The Contribution of Smuggling and Other Unofficial Activities to National Wealth*, London, University of Pennsylvania Press, Philadelphia, 1991; and, Jung, Dietrich, Ed., *Shadow globalisation, Ethnic Conflicts and New Wars, A Political Economy of Intra-State War*, Routledge, London and New York, 2003.

<sup>17</sup> Miller, 2022, p. 19.

<sup>18</sup> McKechnie Alastair et al., 2022., p. 30.

<sup>19</sup> Hoffmann, 2016, p. 42.

<sup>20</sup> *Ibid.*, p. 56.

<sup>21</sup> *Ibid.*

<sup>22</sup> *Ibid.*, p. 20.

<sup>23</sup> For a summary, see World Bank, ‘Jobs are a cornerstone of development, say World Development Report 2013,’ Press Release, October 1, 2012 ([url](#))

<sup>24</sup> Amadiogwu Amara, Kihyu Maya, and Simon Manuel, ‘Mobilizing the Private Sector for Peace and Reconciliation’, the Graduate Institute of Geneva & World Economic Forum, 2020.

<sup>25</sup> IFC, ‘Generating Private Investment in Fragile and Conflict-Affected Areas,’ 2019, p. 19.

The theory is based on the assumption that poverty is a driver of conflict and/or that out-of-work youth are more likely to join violent extremist groups.<sup>26</sup> These claims have little empirical foundation, and the causal linkages in their implicit theory of change are not grounded in a robust base of evidence. In its exhaustive report 'What is the evidence on the impact of employment creation on stability and poverty reduction in fragile states',<sup>27</sup> A recent study conducting in-depth reviews of academic literature, grey literature, and over 400 program documents, provided significant insights on the peace and employment thesis. It concluded that despite the strong theoretical reasons to expect that employment can contribute to peace and stability, the existing evidence base is thin and the majority of programs focusing on job creation are not modelled in practice. Furthermore, existing evidence is based on only a handful of case studies of programs which tend to assume their contributions to peace without testing.<sup>28</sup> As the study concludes, conducting job programs in FCS is already a difficult task "even without trying to build peace at the same time,"<sup>29</sup> and while it does emphasise that creating peace through employment is possible, it also suggests that "achieving two goals with a single instrument is complex and requires multi-disciplinary skills and institutional learning that, so far, have not been present in efforts to build peace through jobs and employment programming."<sup>30</sup>

Indeed, it would seem more likely that the nature and distribution of jobs would be more salient for peace and conflict considerations than their number. Moreover, there is evidence to suggest that, in FCS, groups that are in conflict compete with each other for control of newly introduced resources, including jobs; the literature on hiring and recruitment in the extractive industries, for instance, indicates that job creation can be a major driver of local-level conflict.

### **Patterns of SME interactions – rather than one SME – contribute to peace or conflict**

Individual SMEs are unlikely to have meaningful impact on peace and conflict dynamics, even at a local level. The operational impacts of even a medium-sized enterprise on social groups and their relations with each other are likely trivial in comparison with those of a MNC or a DFI infrastructure project. What does have meaningful impacts on peace and conflict dynamics are "patterns of decision and action that hold across a large number of SMEs" and which may thus "contribute to violence, peace, instability, and so on, in ways that are meaningful at a city-wide or larger scale."<sup>31</sup> In other words, impacts on peace and conflict are more likely to occur when a significant number of SMEs are involved in financially supporting NSAGs, or a significant number of SMEs engage in exclusionary practices, or a significant number of SMEs are forced to bribe local state officials. By the same token, as ODI observes, "when organised collectively, SMEs can have influence on conflict dynamics and peace outcomes."<sup>32</sup>

### **SME alliance- and coalition-building are most likely to contribute to peace outcomes**

Evidence suggests that SMEs might have greater potential to impact conflict – as opposed to individual livelihoods – when they act collectively or in concert with other actors. SMEs can join together to explore solutions to conflict-related challenges or to advocate for specific reforms. Bringing SMEs into meaningful alliances or coalitions, however formal or informal, may require the support of a third party to create. Chambers of Commerce can also provide useful entry-points.<sup>33</sup>

<sup>26</sup> McKechnie Alastair et al., 2022.

<sup>27</sup> Holmes Rebecca et al., 2013.

<sup>28</sup> Brück, Tilman, et al., 'Can Jobs Programs Build Peace?' *The World Bank Research Observer*, vol. 36, No. 2, 2021, p. 251.

<sup>29</sup> *Ibid.*, p. 252.

<sup>30</sup> *Ibid.*

<sup>31</sup> Miller, 2022, p. 4.

<sup>32</sup> McKechnie Alastair et al., 2022, p. 45.

<sup>33</sup> Mayer, Markus, Ben Miller, and Kathryn Nwajaku-Dahou, 'Business and Peace: It takes two to tango,' *International Alert*, 2020, p. 17.



Efforts to support SMEs to achieve peace and stability-related outcomes may include action such as leveraging “more protection within the group against external, conflict-related shocks, establishing access to value chains that extend beyond their immediate neighbourhoods or to national-level businesses and actors, and enabling MSMEs that are committed to peace efforts to gain greater traction in their local communities through positive recognition of their values.”<sup>34</sup> More overt peace alliances can also “grant the private sector a legitimate and influential voice in national conversations, even allowing them to exert pressure on negotiating parties to find a peaceful solution.”<sup>35</sup>

### **SMEs are more likely to have a stronger interest in peace than MNCs**

SMEs that do not benefit materially from conflict may have a greater interest in peace than non-local actors because they are both more vulnerable to and more exposed to the risks of conflict; in any case, they have little choice but to be highly sensitive to the risks and opportunities that conflict and fragility present.<sup>36</sup> As locally embedded actors, SMEs may also have better access to information about the conflict, social tensions or local political dealings. This can make them invaluable resources for conflict analyses or conflict risk assessments. Engaging with SME managers for early-warning can result in fewer staff injuries or loss of life and reduce losses incurred during any looting of one’s premises, to give just a few examples.<sup>37</sup> There is evidence to suggest that, when SMEs are supported in ways that enable them to respond to conflict risks, they do so, often with positive impacts on conflict dynamics.<sup>38</sup> In some instances, SMEs, as locally embedded actors, can advance peace narratives or even be directly involved in peace mediation. Local business actors “have better influence and leverage to mobilize the broader business community and local civil society, and to get engaged in peacebuilding.”<sup>39</sup>

### **Finance alone is not enough**

By itself, more finance for SMEs will not necessarily bring about peace or sustainable development.<sup>40</sup> Indeed, “the way in which investments are made will determine whether they consolidate or undermine peace. Investments that compound conflict fault-lines and exacerbate inequalities increase rather decrease levels of poverty and may further undermine any development gains made.”<sup>41</sup> This is because, generally speaking, resources that are introduced to a conflict context become part of the conflict, fuelling competition, division and rivalries; competition for such resources can easily escalate into violence.<sup>42</sup> This implies that Private Sector Development (PSD) strategies that target SMEs may have perverse impacts when the “predictable impacts of PSD on conflict drivers” are insufficiently accounted for. As a result, support to SMEs may not only fall short of its objectives, but also may actively fuel conflict and violence.

<sup>34</sup> *Ibid.*

<sup>35</sup> *Ibid.*, p. 61.

<sup>36</sup> *Avis*, 2016.

<sup>37</sup> *Amadiogwu*, 2020.

<sup>38</sup> *Avis*, 2016.

<sup>39</sup> *Amadiogwu*, 2020, p.43.

<sup>40</sup> *International Dialogue on Peacebuilding & Statebuilding*, ‘How to scale up responsible investment and promote Sustainable Peace in fragile environments,’ 2016.

<sup>41</sup> *Kaye*, 2021, p. 22.

<sup>42</sup> *Mayer*, 2020, p. 17.

**Bonus: As a result, heightened human rights due diligence/conflict sensitivity is not an option, it's imperative**

Conflict sensitivity is a process designed to ensure that actors, including different types of investors, are able to “work in the conflict” without becoming part of the conflict.<sup>43</sup> The above key messages from the literature suggest that, in FCS, and in the absence of deliberate efforts to understand the likely effects of the intervention, investment in SMEs can exacerbate significant risks, to SMEs, to investors, and to stability. Conflict sensitivity is a four-fold process which seeks to:

1. Understand the context in which the investment takes place;
2. Understand the current or potential interaction effects between the context and the investments;
3. Elaborate and implement strategies to minimise the negative and maximise the positive impacts of investments on peace and stability; and,
4. Put in place monitoring mechanisms to understand how these interactions change over time and the effectiveness of the strategies implemented.

In the absence of approaches that are conflict-sensitive, “there is a risk of reproducing and fostering the social, economic and political conditions for insecurity and exclusive growth.”<sup>44</sup>

The aforementioned points suggest key ways in which actors supporting SMEs can exercise conflict sensitivity: for example, avoiding key conflict risks (such as financing of armed groups, or supporting SMEs owned by or linked to them, avoiding exposing SMEs to additional risks; it also points to key peace-related opportunities such as, for example, building or facilitating access to leadership, organizational and analytical capacity, network-building, etc. Many of the ways in which SME facilities can enhance their approach to conflict sensitivity are covered in greater detail in section four, on conclusions and recommendations.

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<sup>43</sup> Kaye, 2021, p. 12.

<sup>44</sup> Hoffmann, 2016, p. 51.





# 2

CONDITIONS FOR  
SUCCESSFUL INVESTMENTS IN  
FRAGILE AND CONFLICT-AFFECTED STATES

## Mapping of SME Facilities in FCS: Key findings

# Mapping of SME Facilities in FCS: Key findings

There are six key findings from the mapping and analysis undertaken of entities supporting SMEs in FCS.

## Wide diversity of actors supporting SMEs in FCS

We identified a total of 54 entities investing in SMEs in FCS. These actors can be organised into eleven key categories; while there are clear similarities between some of the categories, the research methodology used prioritised the way in which actors self-identify.

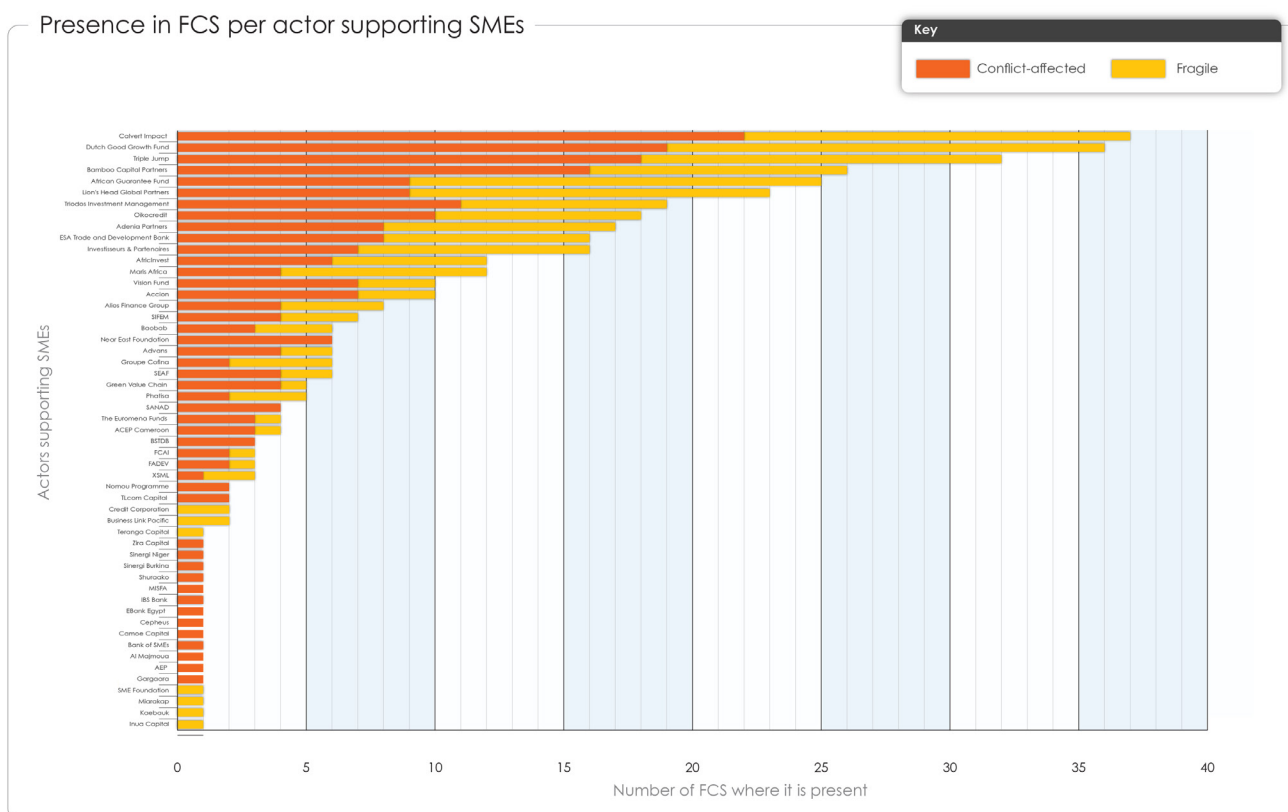
The eleven categories include:

- ▶ **Banks**, for example: the Bank of SMEs in Cameroon; the EBank in Egypt, or the International Bank of Somalia.
- ▶ **Financial Facilities**, for example: Business Link Pacific operating in Papua New Guinea and the Solomon Islands; the Green Economy Finance Facility (GEFF), active in Azerbaijan Tajikistan, Turkey and Ukraine; and, the Green Value Chain facility in Egypt.
- ▶ **Financial institutions**, for example: the African Guarantee Fund (AGF) providing financing to SMEs across the African continent; Gargaara in Somalia; and, Alios Finance, providing loans to SMEs predominantly in West and East Africa.
- ▶ **Investment funds**, for example: Comoé Capital in Cote d'Ivoire; the Revolving Credit Fund in Syria; and, the Dutch Good Growth Fund operating in a high number of FCS.
- ▶ **Impact fund managers**, for example: XSML in the Democratic Republic of Congo, Congo and Uganda; Lion's Head Global Partners, operating in a high number of FCS; and, Triple Jump, operating in a high number of FCS.
- ▶ **Impact investors, for example:** Adenia Parters, Bamboo Capital Partners and Triodos Investment Management, all operating in a high number of FCS.



- ▶ **Investment holding companies**, of which we only identified one operating in FCS: Maris, operating in Afghanistan, Angola, Burundi, Democratic Republic of Congo (DRC), Kenya, Mozambique, Rwanda, Somalia, South Sudan, Tanzania, Uganda, Zambia and Zimbabwe.
- ▶ **Microfinance institutions**, for example: ACEP in Cameroon; Al Majmoua in Lebanon; and Baobab in Burkina Faso, Congo, Cote d'Ivoire, Madagascar, Mali and Nigeria.
- ▶ **Not-for-profit NGOs or foundations**, for example: Calvert Impact, operating in a high number of FCS; the SME Foundation in Bangladesh, and One Earth Future Foundation (OEF), operating through the Shuraako programme in Somalia.
- ▶ **Private equity investors**, for example: AfricInvest, operating in a large number of FCS across the African continent; FADEV operating in Cameroon, Cote d'Ivoire and Mali; and, the Euromena Funds, operating in Cote d'Ivoire, Egypt, Nigeria and Lebanon.
- ▶ **Venture capital Funds**, of which we only identified one in FCS: TLCOM Capital operating in Kenya and Nigeria.

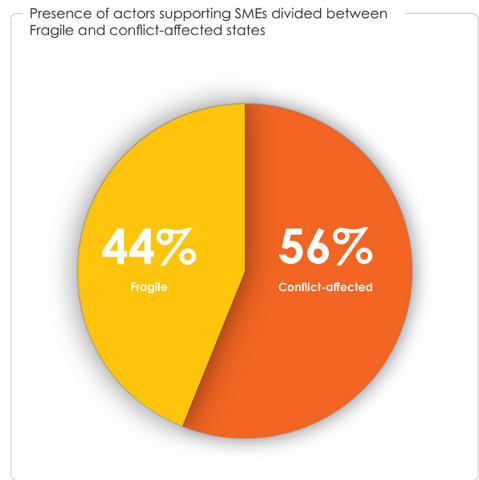
Calvert Impact, DGGF, Triple Jump, Bamboo Capital Partners, and AGF are all investing in 25 or more FCS. Broadly speaking and out of the SME facilities identified, it seems that those investing in more than 15 FCS tend to be impact investors; those investing in 5-15 FCS tend to be microfinance or financial institutions; and those investing in less than 5 FCS tend to be non-profit NGOs and foundations.



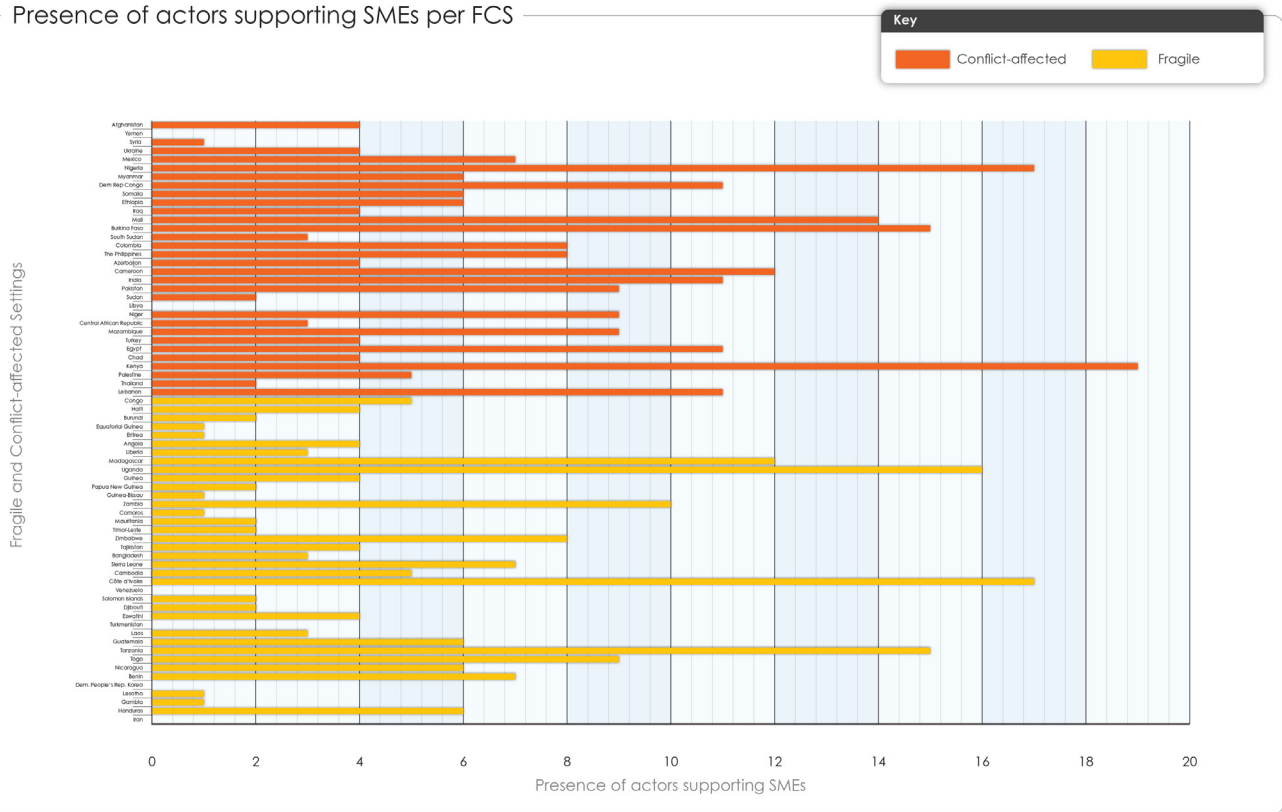
**Broad geographical distribution across FCS, with some gaps**

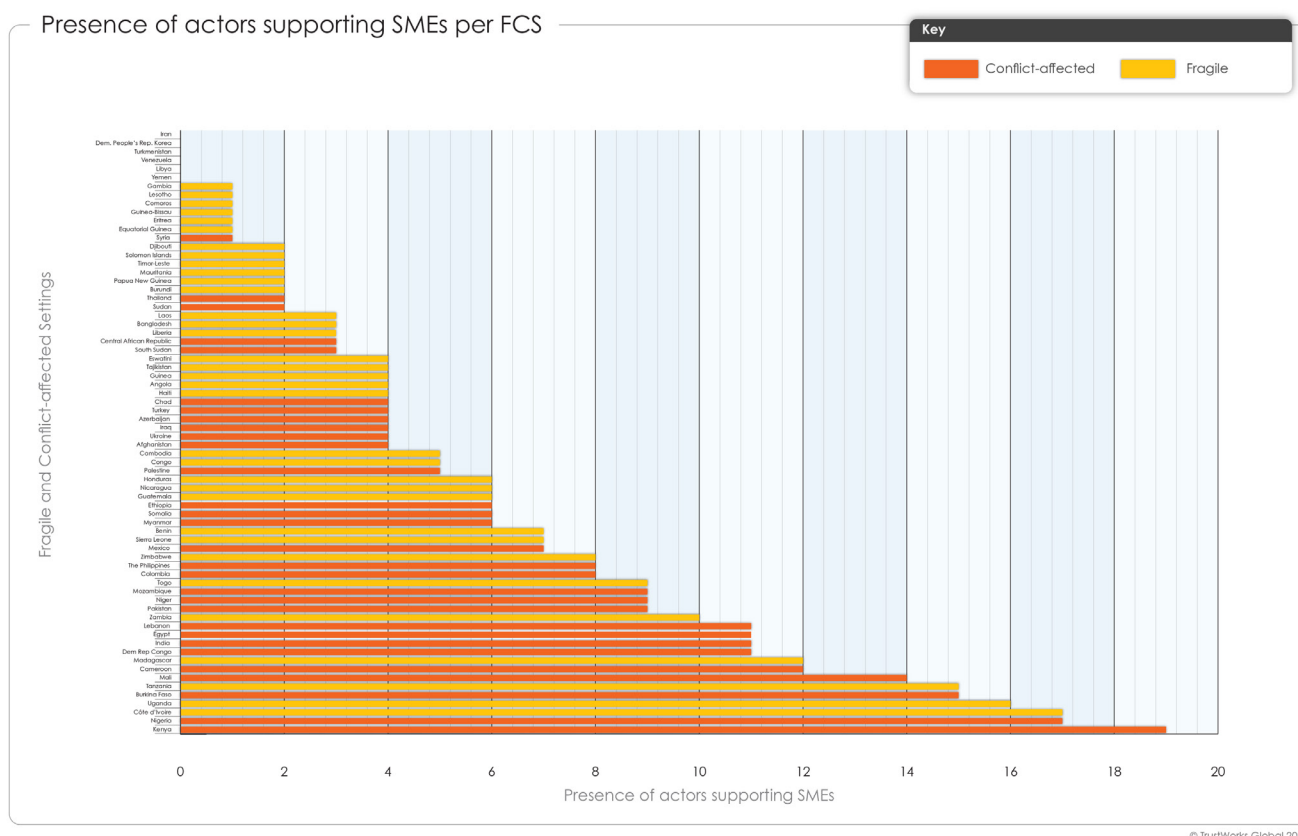
Actors investing in FCS do not appear to have a preference for investing in fragile rather than conflict contexts: on the contrary, 56 per cent of investments identified occur in conflict-affected settings, compared to 44 per cent in fragile settings. Some other key observations:

- ▶ No SME facilities were identified in: Yemen, Libya, Venezuela, Turkmenistan, Democratic People’s Republic of Korea or Iran; that said, it is possible that SME facilities could not be identified in these contexts due to our language barriers or lack of online presence.
- ▶ Despite the strong narrative that suggests that investors are “risk averse” and, therefore, likely to avoid the most violent and/or challenging contexts, there does not appear to be any correlation between levels of violence and fragility and the presence of SME facilities. For example, in Afghanistan – which features in first place on the TrustWorks FCS ranking – we identified 4 SME facilities; similarly, in DRC - which features in 5th place in the ranking – we identified 11 SME facilities; and, in Nigeria (7th place), we identified 17. That said, within each of these country contexts we were not able to assess whether SME investments are focused on capital cities and other comparatively ‘more stable’ locations, or in more remote and potentially conflict-affected areas.



Presence of actors supporting SMEs per FCS





- ▶ The countries where we identified ten or more SME facilities include: Kenya, Nigeria, Cote d'Ivoire, Uganda, Burkina Faso, Tanzania, Mali, Cameroon, Madagascar, DRC, Egypt, India, Lebanon and Zambia. 9 of these contexts are conflict-affected while the remaining 4 are fragile.
- ▶ Regionally speaking, we identified the highest number of actors supporting SMEs in Africa; then Asia, Latin America, Middle East, and Europe. While the fact that Africa has the highest number of actors supporting SMEs is not surprising - given that almost half the countries on the TrustWorks FCS ranking are in Africa (39 out of 70) - the fact that there are more actors supporting SMEs in Latin America (37) than in the Middle East (29) is surprising given that Latin America only counts 6 FCS compared to 7 FCS in the Middle East.

### A wide diversity of financial and non-financial support

According to the mapping, the most common financial tools are equity investments, followed by loans and credit/micro-credit.

- **Equity**, for example: Triodos Investment Management, Investisseurs & Partenaires, AfricInvest, Accion, SANAD, Cepheus.
- **Loans**, for example: Microfinance Investment Support Facility for Afghanistan, Bank of SMEs, Alios Finance Group, Baobab, African Guarantee Fund, VisionFund.
- **Credit and micro-credit**, for example: ACEP Cameroon, Groupe Cofina, Association D'entraide Professionnelle, Green Value Chain.
- **Mezzanine**, for example: Eastern and Southern African Trade and Development Bank, XSML, Finn Church Aid Investments, Bamboo Capital Partners.

The mapping also suggests that the most common non-financial tools provided by actors supporting SMEs is technical assistance/capacity development, e.g. providing skills development and trainings of SME staff

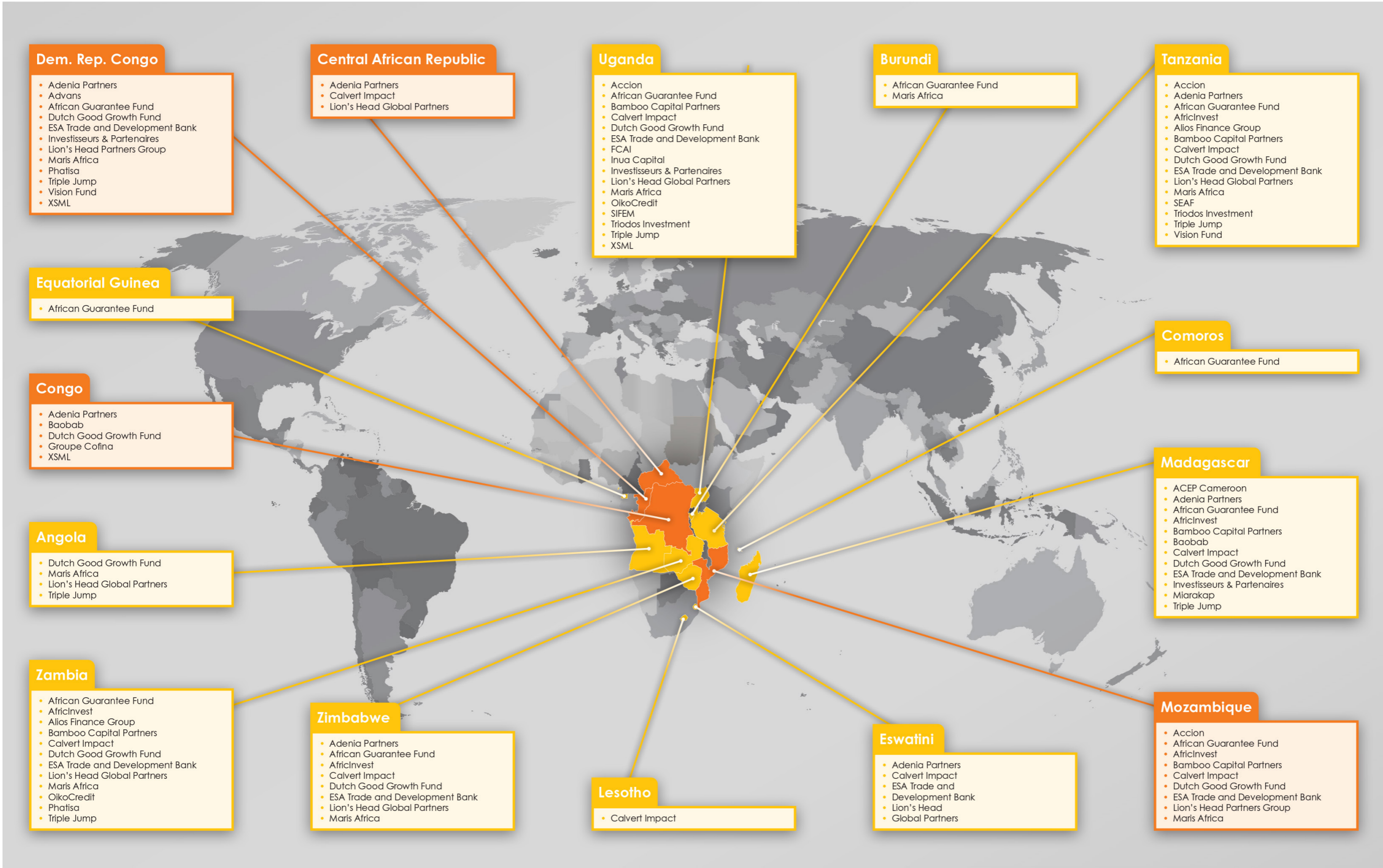


and personnel, followed by consultancies and advisory services, e.g. providing strategic, operational, and financial improvements and solutions, and network-building, e.g. introducing SMEs' managers to like-minded entrepreneurs, investors and innovators to benefit the whole business communities.

- **Technical Assistance/capacity development**, for example: Microfinance Investment Support Facility for Afghanistan (MISFA), Sinergi Burkina, African Guarantee Fund, Investisseurs & Partenaires, AfricInvest, Green Value Chain, SANAD, Cepheus.
- **Consultancies/Advisory**, for example: Sinergi Burkina, Accion, SEAF - Fondo Transandino Colombia, Grofin - Nomou Iraq Fund and Northern Iraq investments, Al Majmoua.
- **Business network-building**: Sinergi Burkina, Investisseurs & Partenaires, AfricInvest, SEAF - Fondo Transandino Colombia, Grofin - Nomou Iraq Fund and Northern Iraq investments, OEF – Shuraako programme.
- **Technological innovation**: Green Value Chain and Babobab.

The following four maps shows the number of actors supporting SMEs present in each of the 70 FCS included in the TrustWorks FCS Index. The maps are divided into four regions: Central and South Africa; West Africa, Europe, East Africa and the Middle East and North Africa (MENA) region, and Asia, Latin America and Oceania.

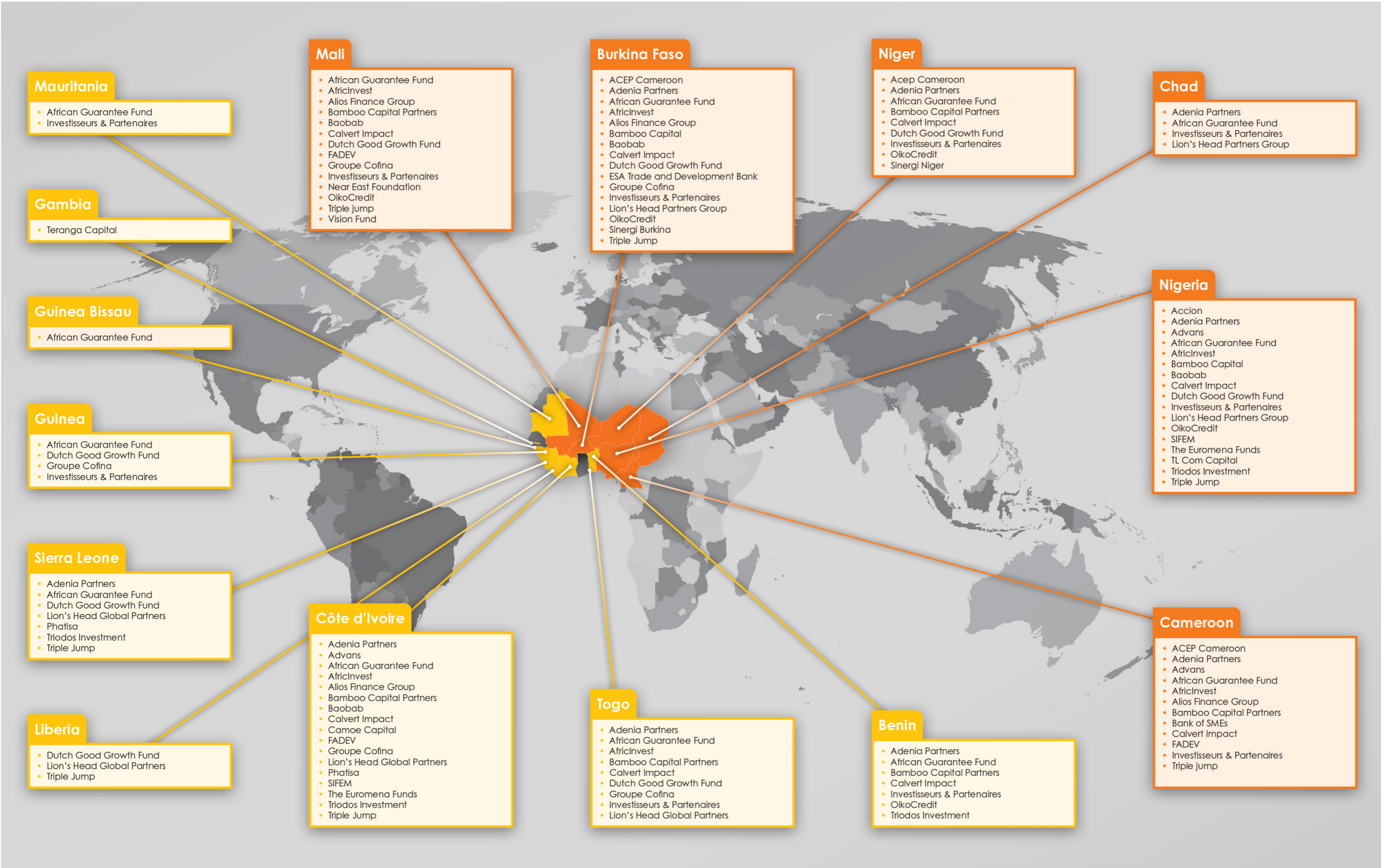
Figure 3: SME facilities in Central and South Africa



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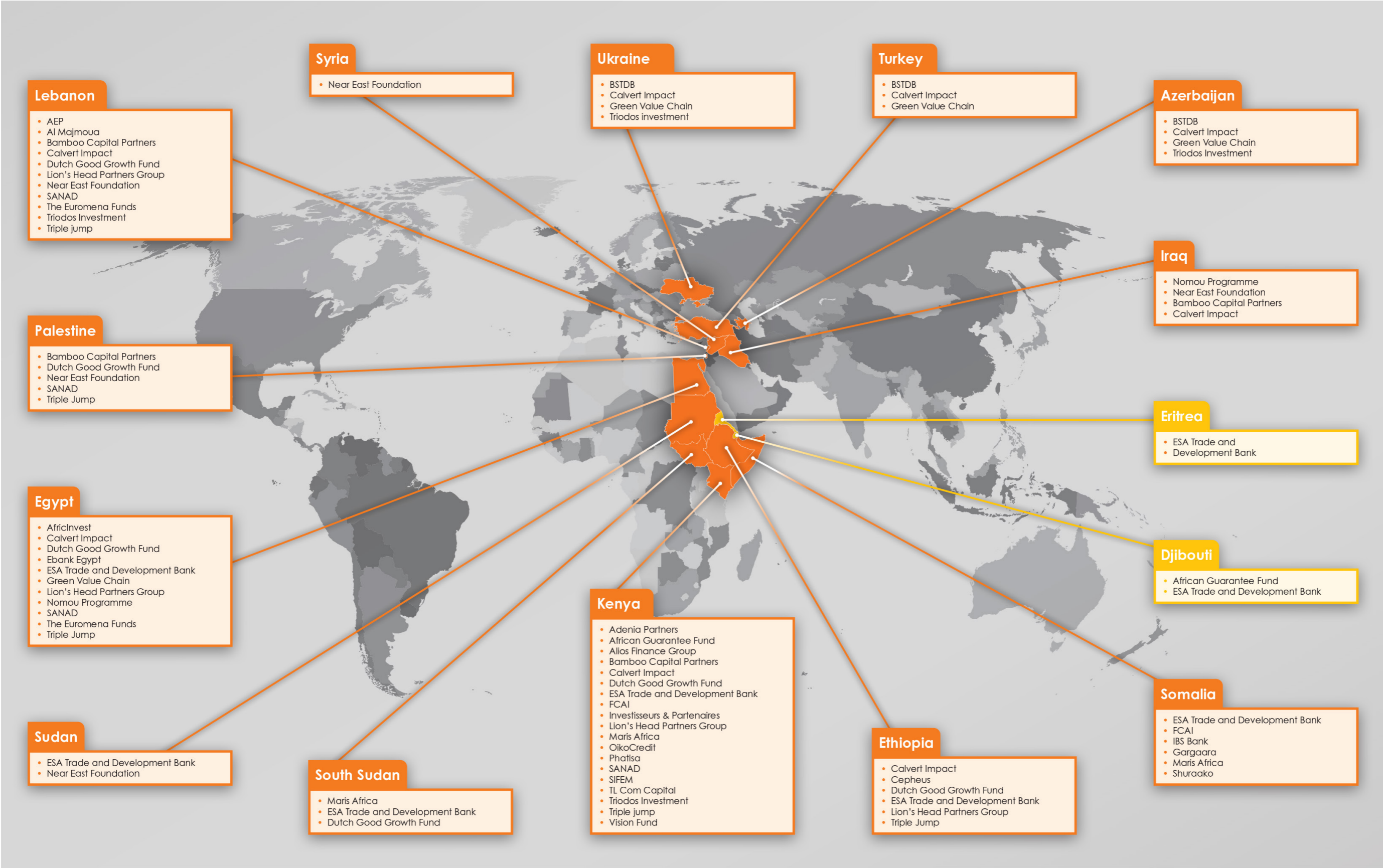


Figure 4: SME facilities in West Africa



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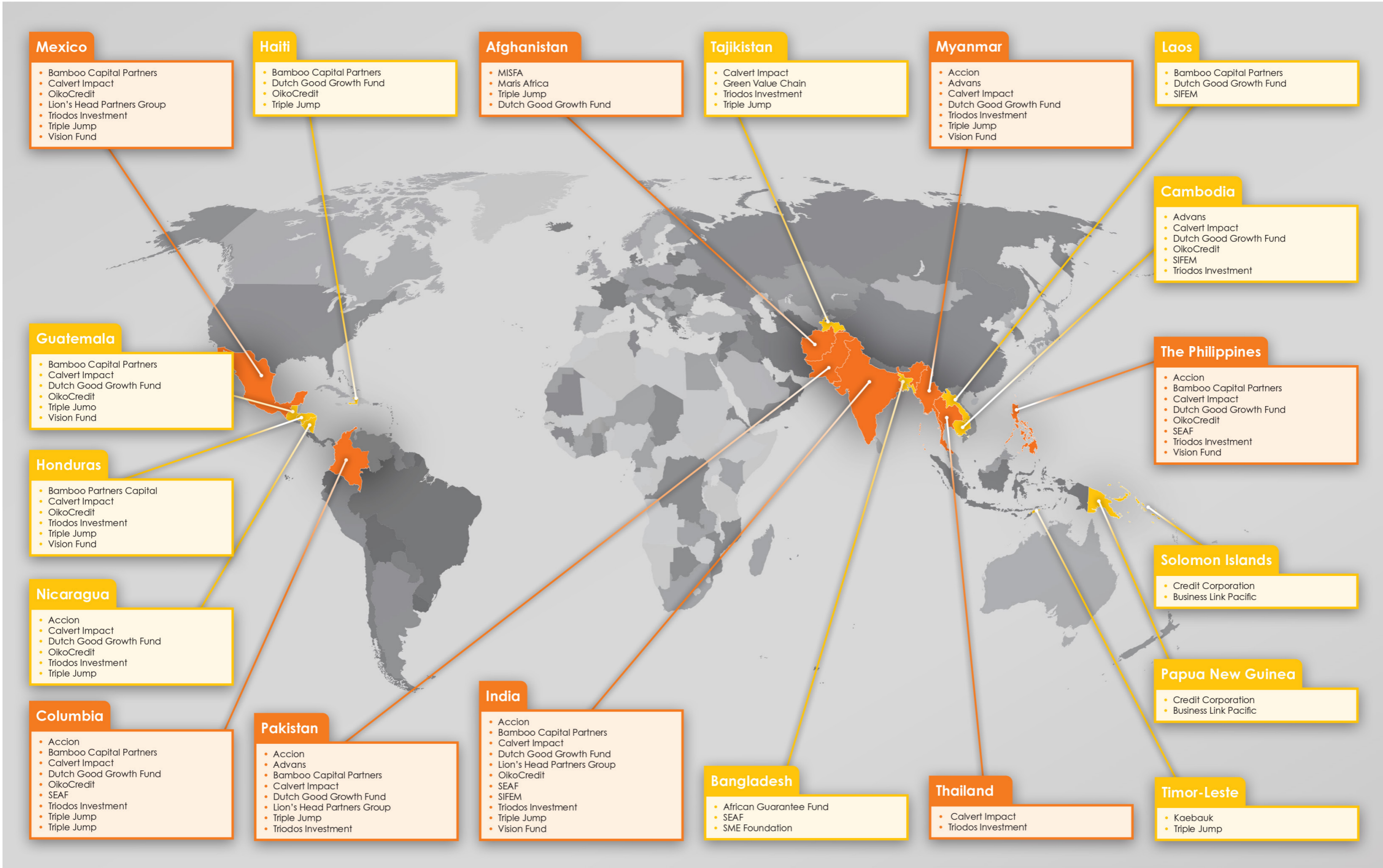
Figure 5: SME facilities in Europe, East Africa and MENA region



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Figure 6: SME facilities in Asia, Latin America, and Oceania



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### Most SME facilities focus on jobs as their most important social contribution

Most SME facilities that have a 'social' aspiration implement this commitment through the narrow angle of creating jobs (for example, SEAF - Fondo Transandino Colombia, Grofin - Nomou Iraq Fund and Northern Iraq investments, Association D'Entraide Professionnelle, XSML, Bamboo Capital Partners). Providing jobs is usually further emphasized as a means through which to tackle poverty (SANAD) and to break the donor cycle-dependency. There is also a strong focus on supporting women-led businesses/entrepreneurs (Grofin - Nomou Iraq Fund and Northern Iraq investments, Green Value Chain, The Euromena Funds, Finn Church Aid Investments, Bamboo Capital Partners). Some SME Facilities underscore that investing in SMEs also benefits the surrounding communities by empowering potential community leaders (FADEV - YiriMali project).

### A minority of SME facilities go beyond ESG and focus explicitly on "positive impact"

Although many facilities generically mention alignment with ESG criteria and/or to the SDGs, only a few disclose a more precise commitment or dedicated policy. Even fewer are explicit about going "beyond ESG" to have positive social impacts, although what is exactly meant by "positive social impacts" is not always made clear. The actors that claim to focus on positive social impacts provide support to SMEs with the intention of creating measurable social and environmental benefits; their strategy aligns with one or more SDGs and performance is measured against stated objectives. They also indicate long-term commitment in their investments and tend to be more forward looking in their approach. Examples of actors that claim to have an explicit 'positive impact' focus include: Bamboo Capital Partners, which aims to generate positive social and environmental impact while mitigating the risk of negative impact; their investments are selected for their high potential for positive social and/or environmental impact. Al Majmoua, moreover, has been recognised for its outstanding work in support of SMEs affected by the Beirut Port explosion, and for its comprehensive approach to having positive impacts on SMEs. Similarly, the Near East Foundation's Revolving Credit Fund (RCF) operating in Iraq, Lebanon, Mali, Palestine, Sudan and Syria builds people's economic and social resilience through entrepreneurship, employment, access to finance, peer mentoring, and social support.

### None of the SME facilities have a conflict sensitivity approach but a minority have a minimum level of 'conflict-awareness'

The mapping did not identify any SME facilities which integrate heightened human rights due diligence or conflict-sensitive approaches into their policies and processes, a finding which is concerning given what we know about the role of SMEs in FCS. A minority, however (8 out of 54), can be considered to have a certain level of "conflict awareness" - to different and varying degrees i.e. they appear – based on their public-facing documents – to be aware that operating in FCS requires different approaches to operating in non-FCS. For example, they may focus on having a strong awareness of the context in which they operate, or have in place enhanced ESG due diligence to account for the risk of inadvertently feeding into conflict, and/or they may put in place processes to measure adverse negative impacts. However, they do not mention conflict sensitivity explicitly, and nor do they appear to have in place comprehensive policies and processes to minimise the negative and maximise the positive impacts on conflict, peace and stability. In many instances more information would be required to understand better the entity's approach to conflict.

Actor	"Conflict aware" examples
<b>Dutch Good Growth Fund</b> (DGGF)	<p>"DGGF pays particular attention to fragile states, where businesses deal with added challenges. Last but not least, the transfer of expertise to entrepreneurs by DGGF financed intermediaries creates a favourable environment for new ideas to flourish."<sup>45</sup></p> <p>"DGGF is also unique in its high-risk appetite, its presence in fragile countries like Afghanistan and South Sudan, and its hands-on support to the managers DGGF works with."<sup>46</sup></p>
<b>Finn Church Aid Investments (FCAI)</b>	<p>"FCAI is an impact Investor whose primary objective is to make funding and skills available to economically viable, socially and environmentally sustainable Small and Medium Enterprises (SME's) that work to improve lives and livelihoods in developing countries and fragile states thus paving the way for a more resilient, inclusive and productive private sector."<sup>47</sup></p> <p>"We cannot stress enough the importance of the SME sector in terms of job creation, structural economic transition, and fighting against poverty and conflicts, but maybe we don't have to. The strong evidence to back this argument is there. In 2021, we have been also contributing to building this evidence through research. Impact does not materialize through action, but through well-informed action."<sup>48</sup></p>
<b>Grofin - Nomou Programme</b>	<p>"The Nomou Iraq Fund (NIF) was launched in 2013 with the objective to develop a strong SME sector to help rebuild the economic fabric of Iraq and create sustainable jobs for Iraqis. The Fund aims to support local content development to help rebuild an industrial economy damaged by war and embargoes and to create employment in a region where the fast-growing and predominantly young workforce has limited opportunities. Grofin, with the support of USAID under the Iraq Middle East and North Africa Investment Initiative (MENA II), launched Northern Iraq Investments (NII) in 2019 to provide finance and technical assistance to small and medium-sized businesses with a high propensity for job creation. NII aims to support local Iraqi entrepreneurs, including those from the minority groups most affected by ISIS, in rebuilding the region's SME sector."<sup>49</sup></p>
<b>Investisseurs &amp; Partenaires</b>	<p>"Supporting entrepreneurs rooted in the continent is at the core of our mission. I&amp;P also focuses mainly on Least Developed or fragile Countries in West Africa, Indian Ocean and Central Africa. 87% of companies are in located Least Developed Countries or fragile countries."<sup>50</sup></p> <p>"In a complex, volatile economic context, often fraught with political instability and conflict, mobilization by the financial sector remains too modest."<sup>51</sup></p> <p>"I&amp;P's impact methodology and framework - adaptable for each fund or program launched - always integrate an ESG risk management component ("Do no harm") and a positive impact creation lens ("Do good"). The field investment team implement the impact framework throughout the investment process, from screening to exit."<sup>52</sup></p>

45 DGGF, *Impact Newsletter, Track 2, Financing local SMEs*. April 2022. ([url](#))

46 DGGF, *Financing local SMEs – Impact report*. 2019. ([url](#))

47 FCAI, *'Principles and Guidelines for Direct Investments.'* p. 2.

48 FCAI, *'Impact Report 2021.'* 2021, p. 5.

49 Grofin, *2021 Impact Report*. P. 29. ([url](#))

50 Investisseurs & Partenaires, *'Annual Impact report.'* 2022. P. 8.

51 Investisseurs & Partenaires, *'Manifesto for the financing and support of entrepreneurship in Africa'* October 2022.

52 Investisseurs & Partenaires, *'Annual Impact report 2021.'*

Actor	"Conflict aware" examples
<p><b>Maris Africa</b></p>	<p>"At Equatoria Teak Company in South Sudan we have created jobs where before there was war. Some of our forestry staff used to be child soldiers and the employment and boost to the local economy we have provided has undoubtedly reduced conflict levels relative to the rest of the country."<sup>9</sup></p> <p>"The last four decades in South Sudan have been characterised by bloody conflict, so the jobs we have created for young men of fighting age have impact far beyond the buying power of a monthly salary. Jobs help to end the deathly, self-perpetuating cycle of hunger and violence."<sup>10</sup></p>
<p><b>Shuraako programme</b></p>	<p>"OEF believes that no violent conflict comes from any one cause. Whether considering conflict within or between countries, or internationalized conflict where external governments inflame conflict within another country, there are always multiple pressures leading people to choose to engage in violence. These include pressures at the level of key decision-makers as well as across society. This means that sustainable peace will always require working across multiple different issues."<sup>11</sup></p>
<p><b>Triodos Investment Management</b></p>	<p>"Guiding principle: Triodos Bank only finances and invests in companies that respect and uphold human rights. In practice Triodos Bank will not tolerate – for example – companies that provide phone tapping equipment for repressive regimes. Triodos Bank does however support microfinance institutions that are located in countries prone to conflicts or with weak governance."<sup>12</sup></p> <p>"Guiding principle: Triodos Bank does not finance or invest in companies that are exposed to the use of conflict minerals or extract and supply such minerals and do not take action to source conflict-free minerals. Triodos Bank requires the same from their suppliers. Tantalum, tin, tungsten and gold are minerals that originate from the Democratic Republic of Congo and adjoining countries. They are categorised as 'conflict minerals' as this region is heavily torn by armed conflict. Control over the mines and their revenue is linked to financing the fighting parties and fuels the ongoing conflict. "<sup>13</sup></p>
<p><b>Triple Jump</b></p>	<p>"Through our SME funds, Triple Jump and other institutional investors provide the start-up capital for funds that (plan to) invest in SMEs in developing countries. The impact analysis focuses on the potential impact generated by pipeline SMEs, focusing on job creation, female entrepreneurs, youth entrepreneurs, and those based in fragile states."<sup>14</sup></p>

The following diagram shows all 54 actors supporting SMEs categorised: i) based on the type of financial service they provide (x axis); and, ii) their approach to investing in SMEs in FCS (y axis). The mapping indicates that most actors have in place an ESG framework, including an Environmental and Social Management Framework (ESMF), with seven having an approach that is focus on positive impact, and seven being aware that they are operating in Fragile contexts. As previously indicated, none of the actors included in this analysis appear to be working in a conflict-sensitive manner.

<sup>53</sup> Tyron, Charlie (Maris CEO). 'Our environmental and social impact is on a par with impact investment funds. So why do we not call ourselves an impact investor?' Blog post. 3 December, 2021. (url)

<sup>54</sup> Maris. 'Beyond the ESG scorecard.' Blog Post. 17 December, 2020. (url)

<sup>55</sup> OEF. 'Architecture of Peace: OEF's Theories of War and Peace.' September 2020.

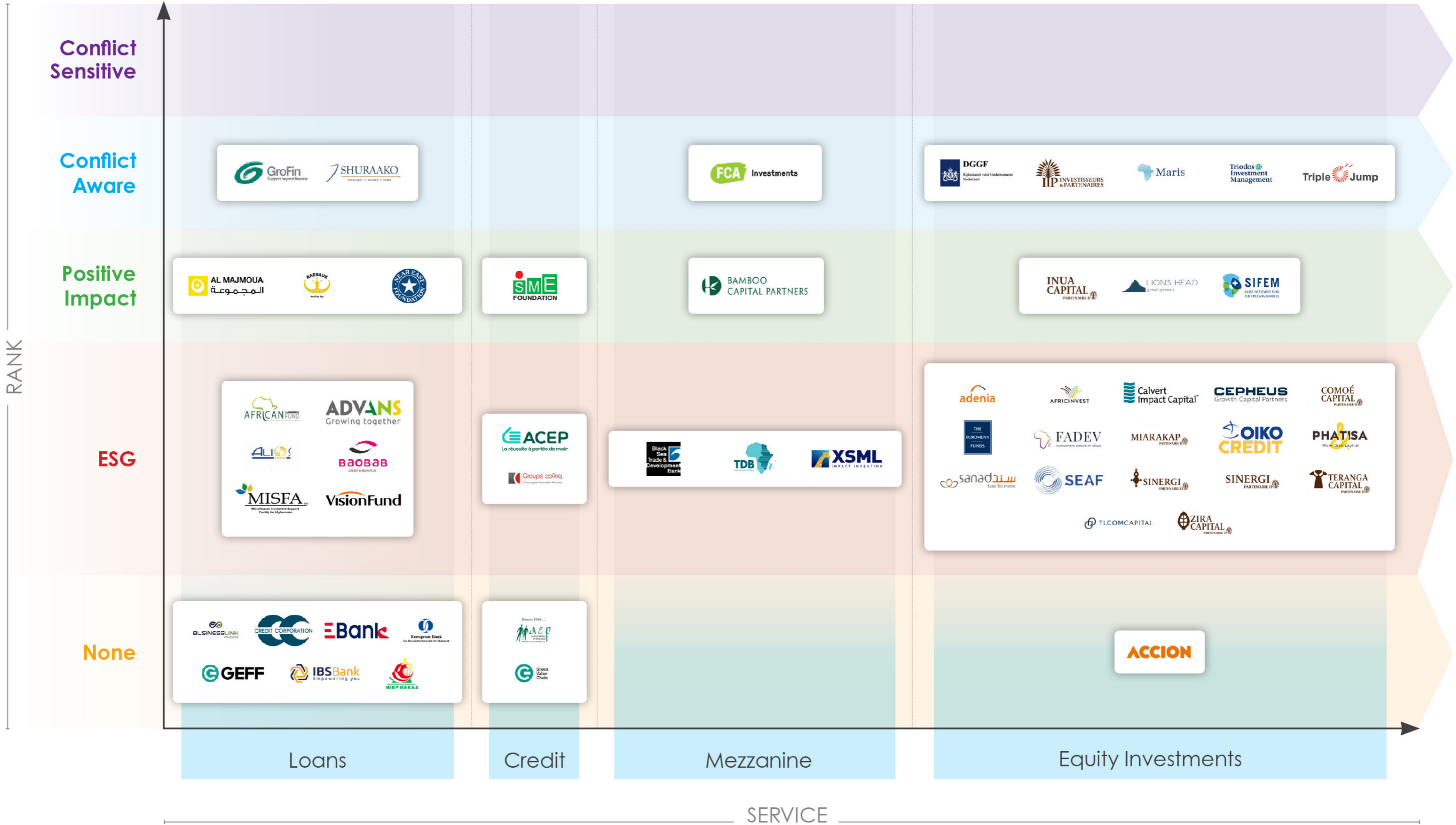
<sup>56</sup> Triodos. 'Minimum Standards.' p. 7.

<sup>57</sup> Ibid., p. 8.

<sup>58</sup> Triple Jump. 'Responsible Investment Strategy.' Policies, 2023, p. 10.



Figure 7: Ranking of actors supporting SMEs based on their approach in FCS





3

SME FACILITIES IN FRAGILE AND  
CONFLICT-AFFECTED SETTINGS:  
CONTRIBUTING TO PEACE?

Six actors in  
the spotlight



# Six actors in the spotlight



## Introduction

FCA Investments (FCAI) is an impact investor specialising in developing countries and fragile states, with a strong focus on East Africa. It aims to address three main issues facing SMEs in these contexts: low productive capacities; irregular/non-standard business practices; and, limited access to affordable finance.<sup>1</sup> FCAI believes these elements are key to achieving inclusive and sustainable economic growth. FCAI's mandate is focused on serving responsible and growth-oriented SMEs, and its interventions are heavily tilted towards creating positive social and environmental change.

## Approach

As per its mandate, FCAI focuses on value creation and improving the productive capacity of the target SMEs and the associated value-chains, especially regarding its direct investments. As a subsidiary of Finn Church Aid (FCA), FCAI only invests in countries where FCA is already present in order to utilise its institutional knowledge and build on FCA's pre-existing knowledge and networks in these countries to maximise synergies. This is the first step of its approach as part of its theory of change, with the second being its investments in and support to SMEs, especially those in the 'missing middle'. FCAI then measures the outputs and outcome of its investments to ensure that they work towards contributing to the SDGs.

## Uniqueness

FCAI's goal is to turn the 'missing middle' challenge into a 'missing middle' opportunity, which begins with their Deal Approval process that includes information collection, site visits, and analysis and reviews.<sup>2</sup> As part of this process, FCAI examines whether SMEs are capable and willing to comply with local and national laws, and their financial and business-development needs to help bridge these gaps. This allows FCAI to work both with companies and government on regulation and partnership, creating a better environment for business growth, while ensuring local ownership. This ties into its ecosystem approach, focused on creating enabling ecosystems for SMEs in fragile contexts.

<sup>59</sup> FCAI, 'Impact Report 2021,' 2022, p. 4.

<sup>60</sup> FCAI, 'Deal Approval Process.'

## FCA Investments: Theory of Change



## Challenges

Addressing the 'missing middle' requires long-term commitment and continued analysis, but the dynamic context in FCS makes it challenging in practice. In order to gain the necessary information on the local context, FCAI has engaged with other investors in FCS to create a stronger network of experts. FCAI believes that this approach has proved useful for identifying companies linked to armed groups or criminal activities,<sup>3</sup> giving them an opportunity to combine their in-house expertise with more context-specific expertise as part of the network.

## Examples

### *Creating an ecosystem for investments*

During 2019-2020, FCAI conducted a successful feasibility and market study to map the financial sector and the SMEs needs in Somalia to prepare for an active and effective investment processes. The project resulted in collaborations with different actors, including OEF Shuraako programme (see below) and the Multilateral Investment Guarantee Agency (MIGA), and establishing proper investment products and modalities to ensure impactful and successful interventions. One year later, this has allowed FCAI to approve two investments in the Somaliland region and to build an active pipeline comprising 6 companies.<sup>4</sup> Working with OEF provides FCAI with an opportunity to scale-up more rapidly, and FCAI believe this partnership also minimises the risk of investing in Al-Shabaab controlled businesses.<sup>5</sup>

61 Anonymous, phone interview, 9 January 2023.

62 FCAI, 'Impact report 2021,' 2022.

63 Anonymous, phone interview, 9 January 2023.





## Introduction

Grofin is a development finance institution providing loans and other forms of support to SMEs in emerging markets. Founded in 2004 and headquartered in Mauritius, GroFin has invested in more than 768 SMEs across 14 countries in Africa and the Middle East and sustained nearly 77,960 jobs in 5 key sectors: education, healthcare, agri-processing, manufacturing and key services (water, energy and sanitation).<sup>6</sup>

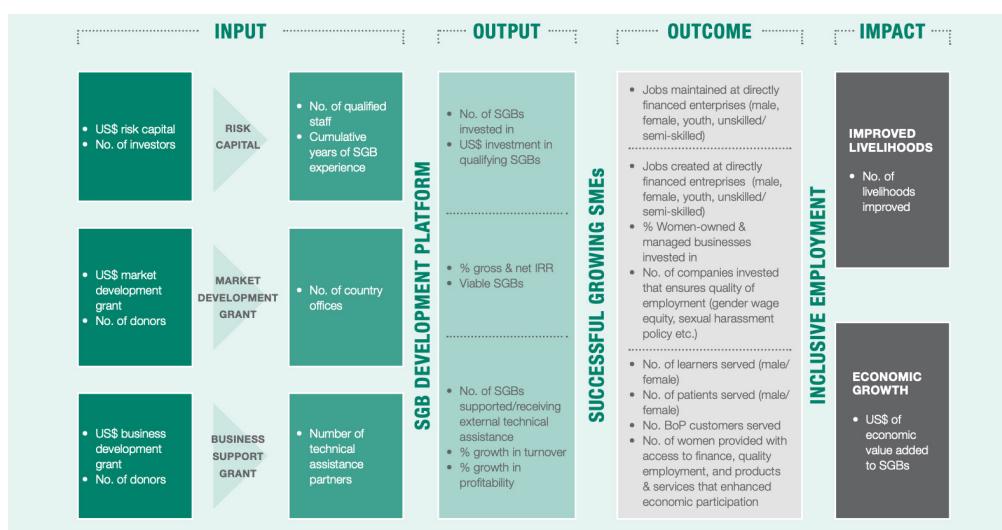
## Approach

GroFin's unique "viability model" is designed to provide SMEs with access to markets, risk capital, skills, and capacity-building. Their approach is also tailored to emerging markets in sub-Saharan Africa and MENA where financial opportunities for the 'missing middle' are often scarce. The Grofin model follows 5 key steps:<sup>7</sup>

- 1 Support and growth of SMEs in managed funds by providing an effective working model to deliver impact and opportunity for scale.
- 2 To invest in viable SMEs with sound business plans and long-term prospects.
- 3 To invest in and support SMEs that have the capacity to create and maintain sustainable employment and generate broad-based employment opportunities, to contribute to inclusive growth in the developing economies.
- 4 To expand local and national economic development, improve local supply chains, grow local markets, and help meet the basic needs of local communities.
- 5 To de-risk and professionalise the SME sector in the countries it operates in, and reduce the potential negative E&S impacts of its investments.

Grofin has also adopted the SDGs as an overarching framework, with the core focus of its investments having been towards advancing SDG 8 on decent work and economic growth.<sup>8</sup>

## Grofin Impact Development Framework



<sup>64</sup> Grofin, 'Our approach' website. (url)

<sup>65</sup> Grofin, '2021 Impact Report,' p. 49-50.

<sup>66</sup> Grofin, '2021 Impact Report,' p. 50.

## Uniqueness

Besides managing its 7 funds, Grofin manages the Nomou Programme that provides access to finance in the form of medium-term risk capital and value-adding business support to grow SMEs and support entrepreneurs in Egypt, Iraq and Oman.<sup>9</sup> The Nomou programme offers Islamic finance products, with Murabahah being the most widely used in the world. Murabahah cannot be used to fund working capital but only to purchase goods; however, goods can be in the form of bonds or securities, which the SME can then liquidate and use for business finance.<sup>10</sup>

## Challenges

In the context of the Nomou Programme, it can be challenging to identify sufficient information on the local context, and also to be able to access sufficient scale of funding amongst financial partners. In Iraq, for example, the economy is more cash-based and local people tend to avoid using the banks because of bureaucracy, which means that SMEs may lack the kind of paperwork required by most due diligence processes from a book-keeping perspective.<sup>11</sup> Many SMEs in conflict areas also lack basic financial management and business planning, and often do not have formal contracts due to high levels of informality. This, in return, can make it challenging in some circumstances for Grofin to monitor and measure its impact.<sup>12</sup>

## Examples

Investing in post-conflict development in Iraq

In 2013, Grofin launched its Nomou Iraq Fund (NIF) to support local SMEs to help rebuild the industrial economy. During 2019, GroFin expanded its footprint in post-Islamic State of Iraq and Syria (ISIS) affected areas in Northern Iraq by establishing Northern Iraq Investments (NII) as a separate vehicle for investments.<sup>13</sup> This has allowed Grofin to focus specifically on the regions most affected by conflict, providing finance and support to SMEs, which in return creates job opportunities, especially for the growing youth segment in the region.

<sup>67</sup> Grofin, 'Nomou Programme,' website, (url)

<sup>68</sup> *Ibid.*

<sup>69</sup> Anonymous, phone interview, 15 March 2023.

<sup>70</sup> Anonymous, phone interview, 15 March 2023.

<sup>71</sup> Grofin, 'The Nomou Programme,' (url)



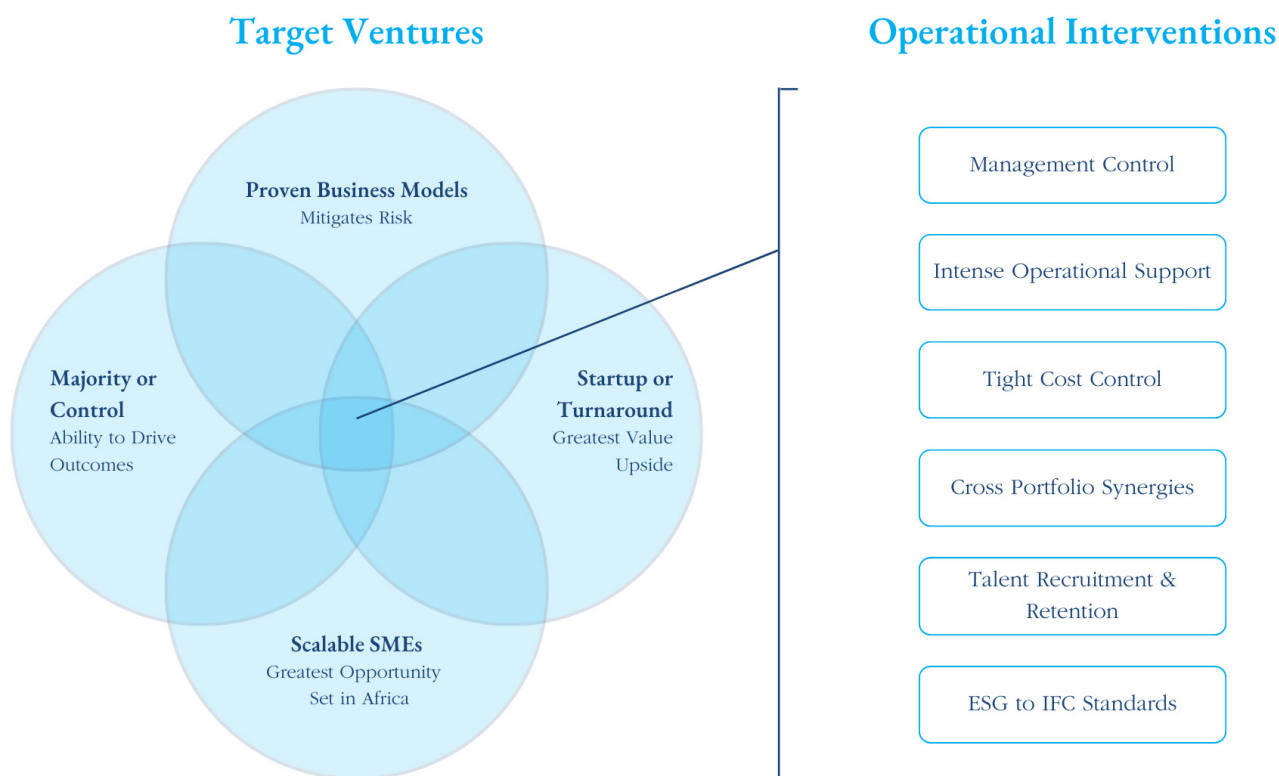
## Introduction

Maris Africa is a SME-focused investment holding company investing in companies in Eastern and Southern African countries. Maris works in five key economic sectors and geographies that have little or no formal mechanisms for investment: agriculture, food, and forestry; gold; property; renewables; and services.<sup>14</sup>

## Approach

Maris' approach is focused on long-term growth of its portfolio companies; its approach is based on the belief that it takes patience to grow a successful business, especially in FCS. It controls more than 80 per cent of its holdings, believing that effectively managing risk requires more control than, for example, a 10 per cent investment in a company.<sup>15</sup> Maris states that it is very engaged in the local communities where its companies operate, making use of active and constructive community engagement and further proactive ESG risk management.

## Maris' strategy for investing in SMEs



72 Maris Africa, Website (url)

73 Anonymous, phone interview, 20 February 2023.

## Uniqueness

Maris has a unique investment strategy: it takes a majority equity approach and works closely with local business partners: “it takes several small companies, and then merges them into medium-sized entities, thereby enabling for the consolidation of certain business functions”.<sup>16</sup> This approach provides Maris with greater control of the business, ensures long-term development, and lets it take advantage of the expertise of its country-teams. Maris has also focused on creating a data model for monitoring and assessing data in relation to ESG. The model is still being developed but, Maris believes, it has already proved useful in reducing water consumption across its investments.<sup>17</sup> The company also says it has crisis management procedures in place to keep a constant watching brief and close consultations with companies operating in the most insecure contexts.

## Challenges

Maris' majority control over its companies also exposes it to many of the challenges and risks that exists in FCS, including poor infrastructure conditions, rebel groups, insecurity, extortion, theft, corruption, etc. Another challenge is raising more capital for its companies, as the majority of DFIs believe that these contexts are too difficult to invest in.<sup>18</sup> Maris believes that, while their approach is based on equity, many of their companies would benefit from loans in order to grow, but finding such loans is challenging due to DFI risk-averse practices, and the tendency for DFI processes to be long and time-consuming.

## Examples

### *Forestry business in South Sudan*

In South Sudan, Maris has been working with the Equatoria Teak Company (ETC), a forestry company which manages, harvests and replants teak trees. The company was built by the former British colonial administration in the 1950's, which began various agro-programmes in the area and introduced Teak from Myanmar during the 1970's. Today the company provides tax revenues to the government, services for local people, and creates job opportunities for local communities, including former combatants in the civil war.<sup>19</sup> For over 8 years, ETC employed over a 1000 people, the majority being former combatants, making a significant contribution to the demobilisation and reintegration of these former fighters.<sup>20</sup> Workers and their families have also been provided with support to undertake farming on the tree and coffee plantations, furthering the social cohesion of the local communities.

<sup>74</sup> Anonymous, phone interview, 20 February 2023.

<sup>75</sup> Anonymous, phone interview, 20 February 2023.

<sup>76</sup> Anonymous, phone interview, 20 February 2023.

<sup>77</sup> Tyrone, Charlie, 'Equatoria Teak Company' Vimeo, December 7, 2019. ([url](#))

<sup>78</sup> Anonymous, phone interview, 20 February 2023.





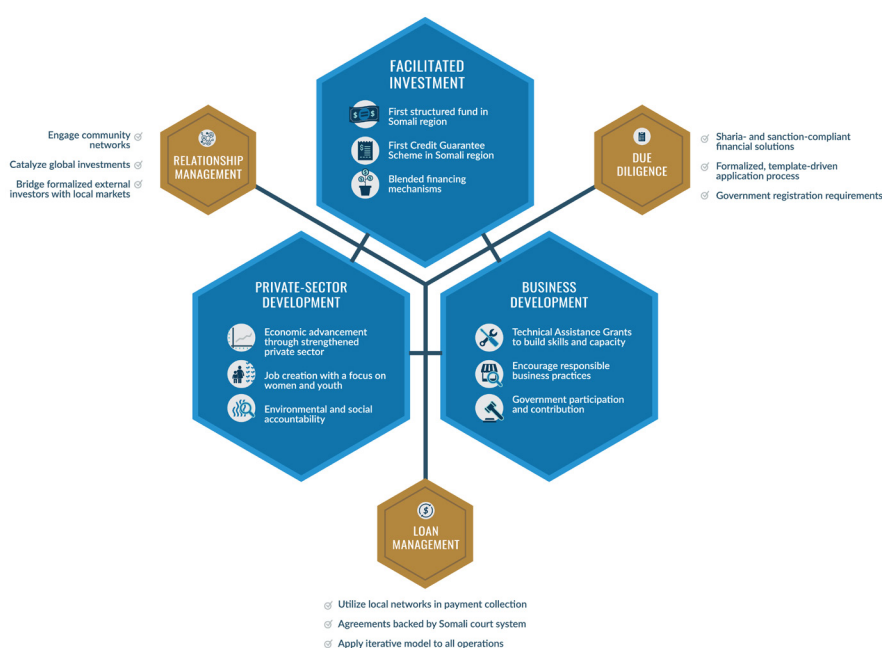
## Introduction

Shuraako is a programme by One Earth Future (OEF), an operating foundation working to promote sustainable solutions to the root causes of armed conflict. Shuraako was created with the mandate to promote economic development in the Somali region by connecting investors with promising Somalia-based SMEs, which it believes will contribute to more stability and peace in the region.<sup>21</sup> Once an investment decision has been reached, Shuraako manages the post-investment responsibilities, including payment tracking and collection, with OEF providing strategic, financial, and administrative support.<sup>22</sup>

## Approach

Shuraako acts as the fund manager for the Nordic Horn of Africa Opportunities Fund, a \$28 million debt fund capitalised by private and DFI investors. Shuraako identifies impactful SMEs by conducting on-the-ground due diligence and establishing strong relationships, which it believes is key to a successful investment. With the support of an external investment committee, Shuraako approves the loan and performs ongoing loan management services, monitoring business development, and conducting quarterly reviews of the investments.<sup>23</sup> Shuraako engages with numerous Somali stakeholders to foster collaboration and stronger partnerships between the private sector, community members, the local government, and all other relevant members of society.<sup>24</sup> Shuraako's approach is based on OEF's model for creating sustainable peace through economic development, which emphasises facilitated investment, business development, and private-sector development.

## Sustainable Peace Through Economic Development



79 Shuraako, Website (url)

80 Shuraako, Website (url)

81 Anonymous, phone interview, 1 December 2023.

82 Shuraako, Website (url)

## Uniqueness

The Shuraako programme is one of its kind in providing innovative solutions and introducing new financial products to Somalian SMEs.<sup>25</sup> Investments made through the programme are designed to not only grow economies, but to support SMEs in a manner that creates transformative social impacts.<sup>26</sup> For Shuraako, real impact comes through creating an ecosystem for SMEs to grow; Shuraako believes it is not enough to focus on growing individual companies alone. The ecosystem approach enables access to finance for the top performing companies to grow and create healthy competition along with local entrepreneurs. This, in return, gives a strong sense of local ownership in communities, which has the potential to provide opportunities for peacebuilding.<sup>27</sup>

## Challenges

One of the key challenges that Shuraako faces is balancing how to foster employment creation with the business imperative to keep operational costs down. While providing financing in the economy creates jobs, at the individual business level, the company will try to employ as few people and spend as few resources as possible to perform its business.<sup>28</sup> This became evident in the beginning of its operations, where Shuraako took a more heavy-handed approach to job creation, which created a negative feedback loop. Shuraako has since shifted its approach to an ecosystem approach, providing other ways to support the SMEs in its facility through due diligence processes, relationship management, and loan management.<sup>29</sup>

## Examples

### *Fostering economic stability, sustainable growth, and job creation in Somalia*

Shuraako manages the Nordic Horn of Africa Opportunities Fund (the Nordic Fund), an investment fund focused on mobilising capital investments to Somalian SMEs. One of the first commercial funds in Somalia, it focuses on women-owned businesses and job creation for youth. It provides Murabahah, a form of sharia-compliant loans to Somali businesses and entrepreneurs through a unique collaboration between international investors and the Somali private sector.<sup>30</sup> With a Somalia-based team, Shuraako has a strong local presence as fund manager, and combined with its deep business expertise and innovative finance, it creates access to a higher number of quality investment opportunities for the fund.

83 Shuraako, 'about Shuraako' Website (url)

84 Anonymous, phone interview, 1 December 2023.

85 Anonymous, phone interview, 1 December 2023.

86 Anonymous, phone interview, 1 December 2023.

87 Anonymous, phone interview, 1 December 2023.

88 Shuraako, 'The Nordic Horn of Africa Opportunities Fund.' (url)



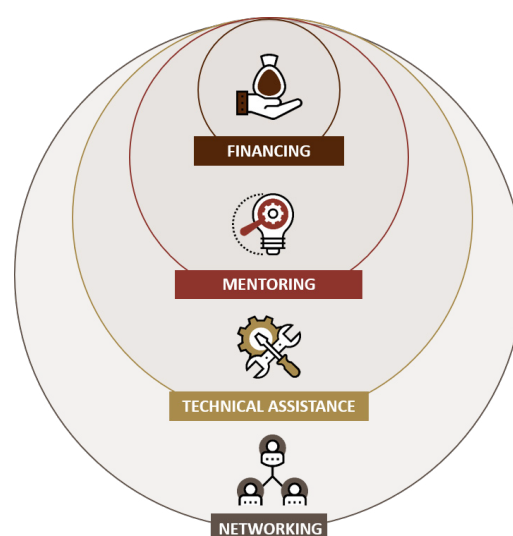
## Introduction

Sinergi Burkina is an impact investment fund launched in 2014 by entrepreneurs and private actors, including Investisseurs & Partenaires (I&P). It is a part of the pan-African network of investment companies supported by I&P, a unique program created to build investment capacity in Africa. The fund is dedicated to the financing and support of start-ups and SMEs in Sub-Saharan Africa, where it provides funding and support for Burkinabe SMEs with financing needs between €50,000 and €500,000.

## Approach

Sinergi Burkina works with Burkinabe entrepreneurs and local suppliers to develop a dynamic community of SMEs in Burkina Faso. Its approach is organized around building long-term relationships based on trust. The fund offers four types of services:

- 1 Financing in the forms of minority equity investments, seed financing, etc.
- 2 Supporting SMEs capacities through regular follow-ups and providing contributions to strategic thinking and corporate governance.
- 3 Providing technical assistance and resources to companies through skills development and training.
- 4 Networking as part of the pan-African network. This network builds common skills and initiatives to strengthen the entrepreneurial ecosystem between countries.<sup>31</sup>



Prior to any investments, the fund takes into consideration the type of investment and its implication for human rights, illicit dynamics, and ESG related issues. It considers social dynamics, good governance, corruption, and how these dynamics reinforce each other.<sup>32</sup>

## Uniqueness

In addition to investments in equity, Sinergi Burkina has developed with I&P a unique approach to financing in the form of seed funding aimed at addressing the 'missing middle' that many SMEs face in FCS. Since 2020, the fund has been involved in the implementation of the I&P Acceleration in Sahel programme. This EU-funded programme offers financial and technical support to start-ups with strong growth potential but deemed too young to benefit from traditional financing (bank loans, capital investments, etc.).<sup>33</sup> The programme is deployed through three complementary components: seed funding; technical assistance; and, supporting the ecosystem.<sup>34</sup> SMEs are selected based on four main selection criteria:

Managed by men and women of African nationality or permanently settled in Africa.

Operating in the formal economy or in the process of formalization.

<sup>89</sup> There are 4 other funds as part of the network: Comoé Capital in Côte d'Ivoire; Sinergi in Niger; Teranga Capital in Senegal and Gambia; and Miarakap in Madagascar. There are also 2 new funds currently in the fundraising phase: Inva Capital in Uganda and Zira Capital in Mali. More information about the network can be found on the I&P website.

<sup>90</sup> Anonymous, phone interview, 7 March 2023.

<sup>91</sup> Sinergi Burkina, 'Sinergi Burkina, in partnership with I&P and the European Union, organize their first round table on alternative financing' Press Release, 17 June, 2021. ([url](#))

<sup>92</sup> Sinergi Burkina, 'Support small businesses and start-ups in Sahel.' ([url](#))

Committed to maximizing their E&S impacts through their business activities and/or improving their practices. Particular attention is paid to projects led by vulnerable populations (young people, women, populations in disaster-stricken and/or landlocked regions).

The programme is said to benefit around 300 companies in 13 countries operating in the Sahel region.<sup>35</sup>

## Challenges

The increase in violence and turmoil over the last couple of years has made the situation in Burkina Faso difficult for both the fund and Burkinabe SMEs. The main challenge continues to be access to the SMEs located in the areas affected by conflict and for due diligence processes to be able to constantly adapt to the changing conflict dynamics. It is challenging in this context to understand both the impact that the conflict has on the SMEs in the fund, but also the risk that SMEs are inadvertently contributing to the conflict.<sup>36</sup> There is interest in having more external expertise to understand each SME and its impact vis-a-vis conflict and peace.

## Examples

### *The successful exit of Agroserv Industrie*

In July 2022, Sinergi Burkina made its first exit by withdrawing capital from Agroserv Industrie, a Burkinabe agribusiness that processes locally-sourced maize into flour and gritz for households and industry.<sup>37</sup> Since 2017, the fund had provided support to the SME, with better structuring of its supply-chain and a second production line, which increased the company's production capacity and had considerable impacts on the fabric of the local economy. At the time of exit, the collaboration had resulted in the creation of a strong network of over 6,000 small maize producers, while the activities of Agroserv Industrie continues to contribute to Burkina Faso's economic and social development by meeting the demand for local raw materials, replacing the need for expensive imports.<sup>38</sup> Agroserv Industrie is now supported by new investors, including the I&P Afrique Entrepreneurs 2 fund, Oikocredit, BIO, and AGRIFI.

## Launch of SME Facilitation Project

In January 2022, Sinergi Burkina also launched the Facilitating access to structuring financing for Burkinabe SMEs (FFS-PME), a cash collateral mechanism project, in partnership with the USAID-funded West Africa Trade and Investment Hub. Sinergi Burkina invests in equity to finance the long-term needs of companies experiencing very strong growth, but it is difficult to mobilize short-term financing with banks, complementary to that offered by Sinergi Burkina and which is necessary for the growth of businesses.

This disconnect between rapid growth and the inability to finance Working Capital Requirements negatively affects many SMEs and limits their capacity to absorb the production of small holders farming producers. With the Trade Hub grant to serve as collateral and guarantee, local banks are better positioned to provide short-term financing to the identified high potential SMEs. The programme aims to reduce this disconnection for a greater number of SMEs.<sup>39</sup>

As part of its focus on creating social value at the local level, the fund trained more than 1,800 rice paddy and sesame smallholder farmers in financial education and good agricultural practices in 2022. The training is expected to positively impact the volume and quality of the production of these farmers and make a meaningful contribution to improving their standard of living.<sup>40</sup> The project has also created more than 370 jobs so far, with 77 per cent being occupied by women.

93 I&P, 'I&P Acceleration in Sahel,' 2020, p. 3. (url)

94 Anonymous, phone interview, 7 March 2023.

95 Sinergi Burkina, 'Sinergi Burkina, a pioneering impact investing fund in Burkina Faso, makes its first exit' Press Release. July 2022 (url)

96 Ibid.

97 Burkina Sinergi, 'Sinergi Burkina launches the FFS-PME to facilitate access to structuring financing.' Press Release. 7 April, 2022 (url)

98 Sinergi Burkina, 'FFS-PME Project: SINERGI BURKINA trains more than 170 paddy rice smallholder farmers in financial education.' Press Release, 22 July, 2023. (url)



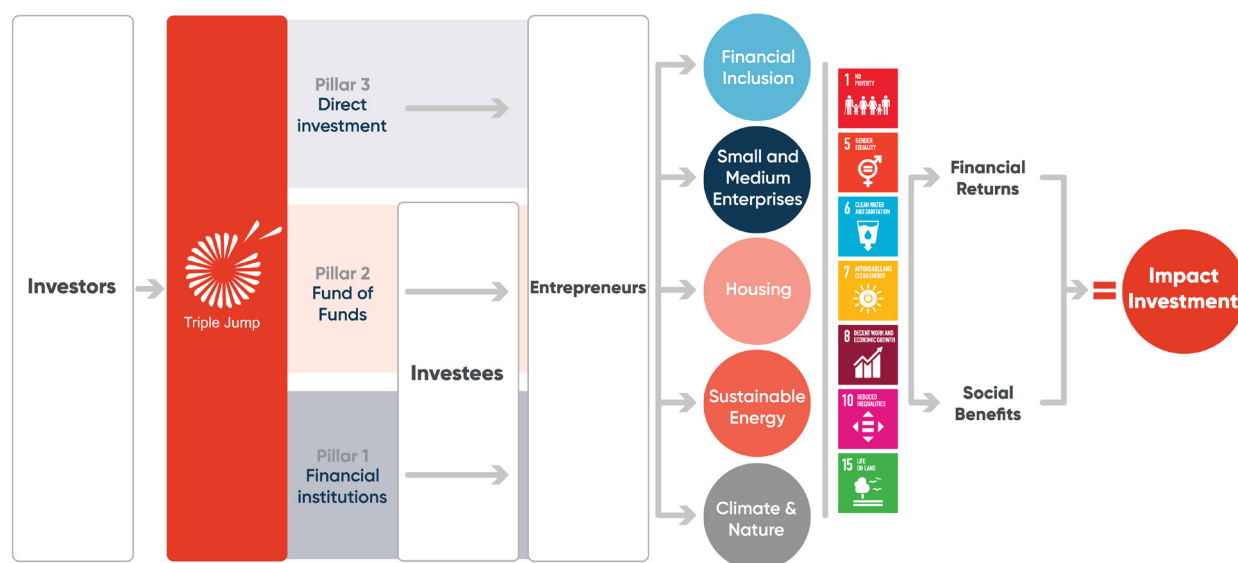


## Introduction

Triple Jump is an impact investment fund manager founded in 2006. Its work revolves around five main development themes and subthemes: financial inclusion, missing middle finance (financing SMEs), affordable housing, access to clean energy, and climate and nature.<sup>41</sup> Its goal is to generate positive social and environmental outcomes through its investment activities.

## Approach

Triple jump has three pillars of investments since it makes investments through financial institutions, funds and/or direct investments. It has a three-step approach to making investments: 1) centralised portfolio and investment strategy; 2) top-down approach to portfolio allocation; and 3) bottom-up approach to single asset selection. Prior to any investment they make an investment profile based on their ESG framework, which includes additional criteria: It begins at pipeline development, involves numerous teams, and continues throughout the entire investment lifecycle.<sup>42</sup> When it prepares investment cases for its decisions makers, Triple Jump claims to distinguish between fragile and non-fragile countries.<sup>43</sup>



Triple Jump goes in early to engage with funds and impact investors, and when a country or regional opportunity is identified and the investment is made, the investee then enters into a contract with Triple Jump. This allows Triple Jump to set up certain criteria with the investee, with the most important being a growth mandate.<sup>44</sup> After an investment, Triple Jump manages its impact throughout the entire investment cycle, setting distinct impact objectives and targets at the company level. Targets are then integrated into an incentive system to ensure full alignment. In every investment, they also claim to perform capacity-

99 Triple jump, Website (url)

100 Triple Jump, Investment Process (url)

101 Kristoffer Beer Urheim, phone interview, 7 March 2023.

102 Kristoffer Beer Urheim, phone interview, 7 March 2023.

building and put in place social and environment plans.<sup>45</sup> This helps building a stronger network of SMEs in the relevant countries.

## Challenges

Despite its efforts, according to Triple Jump there are still a number of work-place incidents: accidents at work, abuses and harassments occurring in the invested SMEs operating in FCS. Triple Jump is committed to providing an appropriate whistle-blowing or grievance mechanism,<sup>46</sup> but lack of reporting is compounded by weak company procedures and poor working environments, making these issues difficult to address.<sup>47</sup> There is also the very real risk of corruption, which is why Triple Jump steers away from investing in companies that are exposed to government or political influence.

## Examples

### *The Dutch Good Growth Fund (DGGF)*

In 2014, the Dutch Ministry of Foreign Affairs launched DGGF with the aim of supporting investment funds that target underserved SMEs. Besides supporting SMEs and creating jobs, DGGF also aims to show other market players that SME financing in emerging markets is a viable option. DGGF pays particular attention to investing in fragile states, and to transferring knowledge and expertise to SMEs to help them improve their resilience. For example, DGGF “requires applicants to identify conflict drivers (such as land acquisition, hiring policies and natural resource use) as part of their context analysis. However, the application of the “conflict lens” by implementing agencies is still mostly informal and ad hoc.”<sup>48</sup>

103 Kristoffer Beer Urheim, phone interview, 7 March 2023.

104 Triple Jump, ‘Responsible Investment Strategy,’ Policies, 2023, p. 6.

105 Kristoffer Beer Urheim, phone interview, 7 March 2023.

106 SOMO, ‘Private Sector Development policies and instruments through a conflict lens,’ November 2018, p. 4. (url)



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# Conclusions and recommendations

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## Conclusions

In further support of the rationale for and objectives of the PFIF, the findings of this brief suggest that there is an important 'peace gap' between what we know about the role of SMEs in FCS, and the extent to which those supporting them are consistently incorporating this knowledge into their investment frameworks and support modalities.

These findings suggest that actors supporting SMEs are exposing themselves and their funds to important conflict risks, risks that not only undermine the performance of the SMEs they seek to support, but also the very serious risk that – rather than contributing to peace and stability – their investments are contributing, albeit inadvertently, to violence and conflict.

Moreover, by working with SMEs in a manner that insufficiently incorporates an understanding of the informal as well as formal dynamics of conflict and fragility, there is a risk that business owners and their staff are being further exposed to realities of extortion, bribery, kidnapping and other actors of violence.

However, as long as the main metrics for measuring the performance of support to SMEs remains 'output' rather than 'impact' oriented indicators – such as the number of jobs created, the amounts of money dispersed, and levels of good/bad debt etc. – our knowledge and understanding of the real impact of this important work will remain extremely scarce and our ability to learn from past engagements limited. By real impact we mean not only the impact on the context, but also the impact on violence, conflict, stability and peace – which should be an overriding concern for those working with SMEs in FCS.

What we do know is that measuring the number of jobs created tells us very little about the nature of those jobs; more importantly, the number of jobs tells us little about their distribution across conflict lines, nor does it answer the very pressing question about whether an increase in jobs at a particular SME resulted in increased and unwanted attention from armed group, or other political/economic elites. Moreover, it also tells us little about whether the jobs provided are going to people at a meaningful risk of joining armed or terrorist groups – an assumption often made by those supporting the "job=peace" narrative.



What is striking about these findings is the scale of missed opportunities. The findings of this brief certainly do not imply that entities working with SMEs in FCS are not needed. On the contrary, what it suggests is that - given the scale, range and diversity of actors working with SMEs, their reach into challenging contexts and remote areas – with the right approach their support to SMEs could have an exponential impact on peace and stability. The question, therefore, is not whether to invest in SMEs in FCS, but *how*.

## Recommendations

In line with many of the aspects of the Finance for Peace-PFIF as well as the TrustWorks Peace Finance framework<sup>1</sup> and in order to minimise the negative and maximise the positive impacts of SME Facilities on peace and stability, we recommend that those managing SME Facilities:

1. **Put in place FCS-specific policies and processes:** Ensure that entities supporting SMEs (financial institutions, banks, impact and equity investors, NGOs, etc) put in place a clear policy framework that distinguishes between what it means to invest in FCS and non-FCS, including the implications of the former for in-country practices. The policy framework should draw upon international best practice standards for heightened human rights due diligence/conflict sensitivity, and other frameworks for responsible business in FCS, while being fully tailored to the realities of the actor in question, including through alignment with their human rights frameworks and risk management processes. The PFIF provides many elements of a policy framework which may assist in standardising approaches to conflict sensitivity, while allowing for the tailoring to both the context and the actor in question.
2. **Establish a conflict sensitivity investment approach:**
  - In line with the PFIF, the conflict sensitivity investment framework should be based on a conflict analysis of the country in question, including political economy considerations; where possible, investors should pool resources in order to undertake a meaningful and robust conflict analysis.
  - The analysis can then be used to establish: guidelines for sectors, geographical areas, business type and size, supply chains, KYC protocols and possibly even systems, and other country- or region-specific peace and conflict specificities that need to be taken into consideration when deciding which SMEs to invest in and how to minimise the negative and maximise the positive impacts on peace and stability – all of which will need to be tailored not only to the country in question, but to the specific area of investment in question (at the sub-national/local levels).
  - The conflict sensitivity investment approach can also support the elaboration of other guidelines for the type of support SMEs may require to thrive in a challenging context, including the formal and informal

<sup>107</sup> Accessible here: <https://peacefinance.trustworksglobal.com/>

barriers to their growth.

The framework should also be guided by the aspirations of the actor in question regarding the type of impacts they seek to achieve in any given context. The TrustWorks [peace finance framework](#) may help with making these kind of decisions, and understanding their implications for the manner in which technical assistance, investment modalities, staffing and skill-sets, data analytics, learning and impact, and partnerships can be tailored to support those objectives.

3. **The conflict context will change, just as the evolution of the investment will change the SMEs:** this creates interaction effects that need to be monitored over time. This requires putting in place clear conflict- and peace-related monitoring mechanisms as part of the above conflict sensitivity investment frameworks, which will allow fund managers and/or intermediaries to monitor risks, proactively anticipate and manage them, and therefore more effectively deal with contextual crises that have an impact on the SMEs in the portfolio as and when they emerge. Moreover, the impact framework should measure the actual impact of SME investments on the context in question, thereby moving beyond results-related monitoring to impact level monitoring on SMEs and the context. Results-based monitoring must be context-specific and cannot be decided in advance and/or in the absence of a broader conflict analysis.
  
4. **Align HQ and in-country incentives, resources and partnerships:**

Where appropriate, ensure that HQ – of the respective SME facility - and teams on the ground have sufficient understanding and awareness of what it means to invest in SMEs in FCS, and the associated conflict risks/peace opportunities.

This may mean providing training, aligning incentive structures and/or providing other resources to ensure that teams on the ground have the right profile of people to deal with the complexities of these challenging contexts.

Training, mentoring and accompaniment in conflict sensitivity may be required to ensure teams are able to manage the ongoing and ever-changing nature of conflict risks in a dynamic and effective manner.

Moreover, partnerships are an essential part of ensuring in-country teams have the necessary resources; partnerships may mean between DFIs, for example, to foster greater collaboration and overcome the dynamics of competition; or between SME facility managers and key local actors who can help contextualise support to SMEs, and ensure conflict sensitivity is effectively implemented.

The incentive structures of both HQ as well as managers and investment officers on the ground are critical here, and there are opportunities to ensure peace and stability are reflected as relevant objectives for SME facilities when it comes to understanding working processes as well as objectives.
  
5. **Provide support to SMEs beyond traditional Technical Assistance to help them effectively navigate the conflict context:** Provide support to SMEs that helps them to manage the specific challenges of operating in FCS (also referred to as Peace Enhancing Mechanisms in the PFIF); this could involve training, mentoring and accompaniment and other forms of skill-building; connecting them with peacebuilding actors; helping them to build networks and alliances on specific issues; building cross-sectoral partnerships and other forms of support based on the findings of the conflict analysis, as well as the needs expressed by the SMEs themselves.
  
6. **As much as possible, leverage 'ecosystem approaches':** Ecosystem approaches are based on the knowledge and understanding that the challenges facing SMEs are highly complex, and the number and nature of actors working in domains that effect SMEs diverse. By working in collaborative ways, based on strategic partnerships where each actor's value-added is clear can help to identify the range of macro, meso and micro issues that impede the growth of SMEs, and impact upon peace and conflict

issues. By developing strategies to work in concert, rather than in competition, actors supporting SMEs are more likely to be able to contribute to both development and peace-related goals.

- 7. Take a long time horizon for investments:** Those investing in SMEs must take a long-term perspective. Given the extensive challenges of operating and investing in FCS, any expected impacts on the targeted SMEs and the contexts in which they operate are likely to take a significant amount of time to materialise. A medium- to long-term commitment is preferred for such investments to be able to realise their full potential.





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**SME Facilities in Fragile and Conflict-affected  
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