INNOVATION AGENTS

INVESTING IN POST-CONFLICT ZONE STARTUPS JUST MIGHT SAVE THE WORLD

BY LISA KATAYAMA

When Kevin Braithwaite, a serial entrepreneur and director of the incubator RootSpace, tells fellow Silicon Valley types that he's investing in startups in Lebanon, they usually look at him like he's crazy. "Most people choke on their drinks and walk away," he tells *Fast Company*. As it turns out, they're the ones who might be crazy: An increasing number of investors are looking to post-conflict zones and fragile states as promising future markets.

It's admittedly a radical idea, as a panel of experts pointed out at the Social Capital Markets conference in San Francisco last week. The average poverty rate in these countries is 54% -- enough to scare any traditionally minded investor away. There are obvious risks like instability, the lack of infrastructure, the high rate of loan defaults, and the massive brain drain caused by the expatriation of the more educated and mobile sector of the population.

But a shift is taking place among investors, and on the governmental level, too. The global cost of conflicts is $100 billion; dishing charity cash and sleeping bags to these regions doesn't change much -- but introducing innovation and business skills to the local economy can. In September, President Obama signed a policy directive recognizing for the first time the importance of development to national security. The United States Agency for International Development (USAID) has implemented credit guarantees, incentive grants to lending institutions, and reduced transaction costs as ways to minimize collateral damage of doing business in fragile states.

"Our focus in post-conflict situations is around two important things: to reduce the risk of return to conflict, and to improve and accelerate the well-being of the conflict zone population," says David Ferguson, Director of the Global Development Commons at USAID. According to a World Bank study, 40% of conflict zones return to their state of conflict within a decade. "It's a deadly spiral," says Ferguson. "Peace companies are a way to break that cycle."

Post-conflict zones can be a solid financial investment -- albeit with slower returns, says Paul van Zyl, former executive secretary of South Africa's Truth and Reconciliation Commission and CEO of PeaceVentures. "I actually don't think the places we're looking at are very risky," he says. "Kenya has had decades of nepotism and ethnic favoritism that created a toxic conflict, but it's also a very open economy with billions of dollars worth of goods produced by crazily gifted entrepreneurs."

One example of a "peace company" is the International Languages and Management Institute in Kigali, Rwanda. When his government announced that they were shifting the national language from French to English by the year 2020, local entrepreneur Alphonse Byusa saw this as an opportunity. With the help of a team of American business school students, Byusa raised $100,000 in investments, partnered with Rwanda's Private Sector Federation, and built his school. His is just one tiny piece of a larger entrepreneurial initiative in the post-genocidal state; an entrepreneurial collaborative called Rwanda Investment Group raised $25 million in startup capital in 2006 to build entire industries around local cement producers and energy companies. "There are plenty of profitable investment opportunities in Rwanda," says Benjamin Cox, Project Director of the Babson-Rwanda Entrepreneurship Center. "The country is united by dreams of a better life. The people are no longer Hutu or Tutsi—they're Rwandese."

In 2008, Braithwaite co-founded RootSpace, a social entrepreneurship community and incubator based in Beirut. He has since partnered with private donors, media agencies, and grantees to train over 100 young journalists and filmmakers and helps them produce Hibr, the city's only free youth newspaper, which covers everything from civil war to piracy to white water rafting. "The people here are not only passionate about creating world-changing products and success," he says. "They also see this as a way to support the development of their country."

One of the greatest challenges in making profitable businesses in these countries is the lack of innovation and intuitive understanding of global market demand. PeaceVentures' van Zyl has a solution for this. In a new not-only-for-profit enterprise called 3000 Degrees, he is connecting local businesses in five post-conflict countries with experienced brand managers from the West to sell clothing and homeware made by those who are just rising from the ashes of war -- Kenyan jewelry made by Luos and Kikuyus, fabrics made in India by Muslims and Hindus, and organic cotton made in Liberia by women who helped drive Charles Taylor out of office. By supporting businesses that bring people together from different sides of a conflict, you can systematically shift the paradigm from poverty to peace, capital flight to investment, unemployment to employment, he says.

Aid money and donor presence are important, of course, but a heavy hand from outside forces can prevent local institutions from thriving, drive up wages and inflation, and marginalize the legitimacy of local institutions and governments. Instead, it's important to provide locals with hope through opportunity.

"Within the broad basket that gets labeled 'conflict countries,' there are some that have significant opportunities," van Zyl says. "It's relatively seldom that you have continual waves of daily conflict in these countries. What spooks us are the highly sporadic big spikes in violence, which cause us to miscalculate risk."

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I write articles about culture, technology, and human rights for publications like Wired, Popular Science, and the New York Times Magazine. I also produce radio segments for American Public Media, Public Radio International, and WNYC. I'm also a Correspondent at Boing Boing. I'm @tokyomango on Twitte...

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