WORLD ECONOMIC FORUM

COMMITTED TO IMPROVING THE STATE OF THE WORLD

Global Agenda Council on Fragility, Violence & Conflict

'States of fragility' and why this should matter to the World Economic Forum

The current global geopolitical context makes clear that chronic violence, social volatility and instability will remain a prominent feature for the foreseeable future. These "states of fragility" as described by the OECD[1], may be informed or exacerbated by a myriad of factors including global and regional competition among powers, instances of political tension within countries, organized transnational crime and terrorist networks, lack of access to justice and weak rule-of-law institutions, and heightened vulnerability to social, environmental and economic shocks and natural hazards.

This enduring volatility will result both from challenges among states and within them – often in distinct regions or cities, and irrespective of level of national income. Indeed, pockets of vulnerability can coexist with pockets of progress and advanced development, notably where there is a lack of effective institutions or questions on their legitimacy, and investment made within such contexts can become a mitigating or amplifying factor for fragility. Individuals and businesses must, therefore, be far better equipped to understand the risks, including to their bottom line, and encourage resilience and innovation to harness the opportunities that can exist in such environments.

This is not an abstract concern. The Institute for Economics and Peace estimates that the economic impact of violence on the global economy is $14.3 trillion,[2] while the Copenhagen Consensus Centre suggests it is $9.5 trillion.[3] While both use different metrics, ranging from types of violence to military and internal security expenditure, even if one only focuses on the costs of collective (e.g. conflict related) and interpersonal (e.g. homicide) violence, the numbers are staggering at $2 trillion and $1.4 trillion respectively. Tangibly, that means losses in productive capital, depleted human and financial capital, and rising transaction costs.[4]

This has significant implications for the achievement of global prosperity and equality, including opportunities for sustainable economic growth, and the ability of communities and societies to thrive. Therefore, it demands the attention of business, government and civil society leaders at the highest levels. The 2030 Sustainable Development Agenda acknowledges the significance of these issues and outlines specific actions aimed at reducing all forms of violence.[5] Concern over the lack of sufficient understanding – notably by businesses – in how to effectively and constructively operate and invest in fragile contexts prompted the World Economic Forum to identify this as an area where deliberate attention could usefully contribute to advancing the global agenda.

[1] OECD (2015), States of Fragility: Meeting Post-2015 Ambitions, OECD Publications, Paris http://dx.doi.org/10.1787/9789264227699-en
[2] Global Peace Index 2015, Institute for Economics and Peace.
[3] Benefits and Costs of the Conflict and Violence Targets for the Post-2015 Development Agenda, Copenhagen Consensus Centre.
[4] Global Burden of Armed Violence 2011 & 2015, Geneva Declaration on Armed Violence and Development.
[5] Goal 16 from Transforming our World – the 2030 Agenda for Sustainable Development

Global Agenda Council – Drawing lessons on responsible investment in fragile contexts

The World Economic Forum Global Agenda Council on Fragility, Violence & Conflict was launched in 2014 to improve understanding and raise awareness of the connections among the themes of fragility, violence and conflict.

A key focus of the council has been to highlight the positive contribution that responsible investment by businesses can have in fostering stable, inclusive, prosperous and democratic societies that respect the rule of law, together with public institutions and civil society that strengthen national and local governance and policy development, invest in local business development and marketing, and enhance infrastructure to enable access to markets. Such investments along the value chain – whether by the private, public sector or individuals – can lead to jobs and skills creation, and propel economic transformation and poverty reduction through technology transfer, trade and export development, and fostering sustainable domestic revenue generation. Responsible investment is considered by the council at two levels: the direct impact of a given investment on a local area; and the overall structures of foreign investment in a given country.

The council is acutely aware that today's fragile environments are also often emerging or frontier markets, especially when able to positively harness young and urbanized populations, important natural resource endowments, and establish deepening connections to global markets. Thus, while taking advantage of opportunities for growth, businesses and industries must be attuned to their role in reducing and mitigating the risks of fragility, and be knowledgeable and behave in a manner that is consistent with established global standards and practices that promote sustainable and equitable development and respect for human rights.[6] This is an important opportunity for business not just to protect their bottom line by avoiding fuelling potential fragility but also to be leaders for positive change in challenging environments.

National governments must help (and be helped) to create an enabling environment to absorb investment and ensure that economic growth is inclusive by establishing the necessary regulatory, institutional and policy frameworks. It will also be crucial for governments to transparently collect and effectively manage and disburse revenues. Other key actors, such as local civil society groups, international and non-governmental organizations, can help in making essential connections between business, government and local communities. Public sector financial institutions can help through strategic investments that aim to enhance the macro policy and operational context and to mobilize other revenue sources by offering risk guarantees or other innovative financing instruments.

Through the unique public-private collaboration that the World Economic Forum facilitates, the council aims to encourage dialogue, identify risks and distil lessons among leading practitioners. The council also will promote creative and practical enabling strategies and tools that can drive the economy in fragile contexts to the top of the global policy agenda to help build resilience to violence and conflict.

Key council milestones:

- Launch event on Investment in Fragile Contexts, Geneva, 25 June 2015
- Summit on the Global Agenda 2015, Abu Dhabi, 25-27 October
- World Economic Forum Annual Meeting 2016, Davos-Klosters, 20-23 January
- Launch of the publication on investment in fragile contexts; March 2016
- World Bank Group Fragility, Conflict and Violence Forum, Washington DC, 2 March 2016

Next steps:

- Collect practical experiences and lessons from Forum Members across industry sectors working in fragile contexts, including their risk management strategies, pre-requisites for investment and partnerships pursued.
- Organize private event on "Responsible investment and states of fragility" involving sector leaders at the Annual Meeting 2016.
- Produce a report resulting from the council's work, to be launched before the 2016 World Bank Fragility, Conflict and Violence Forum.

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[6] Established standards include the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the principles that underline the New Deal, the ILO MNE Declaration, and the OECD 10 Principles for Engagement in Fragile States.