WORLD ECONOMIC FORUM

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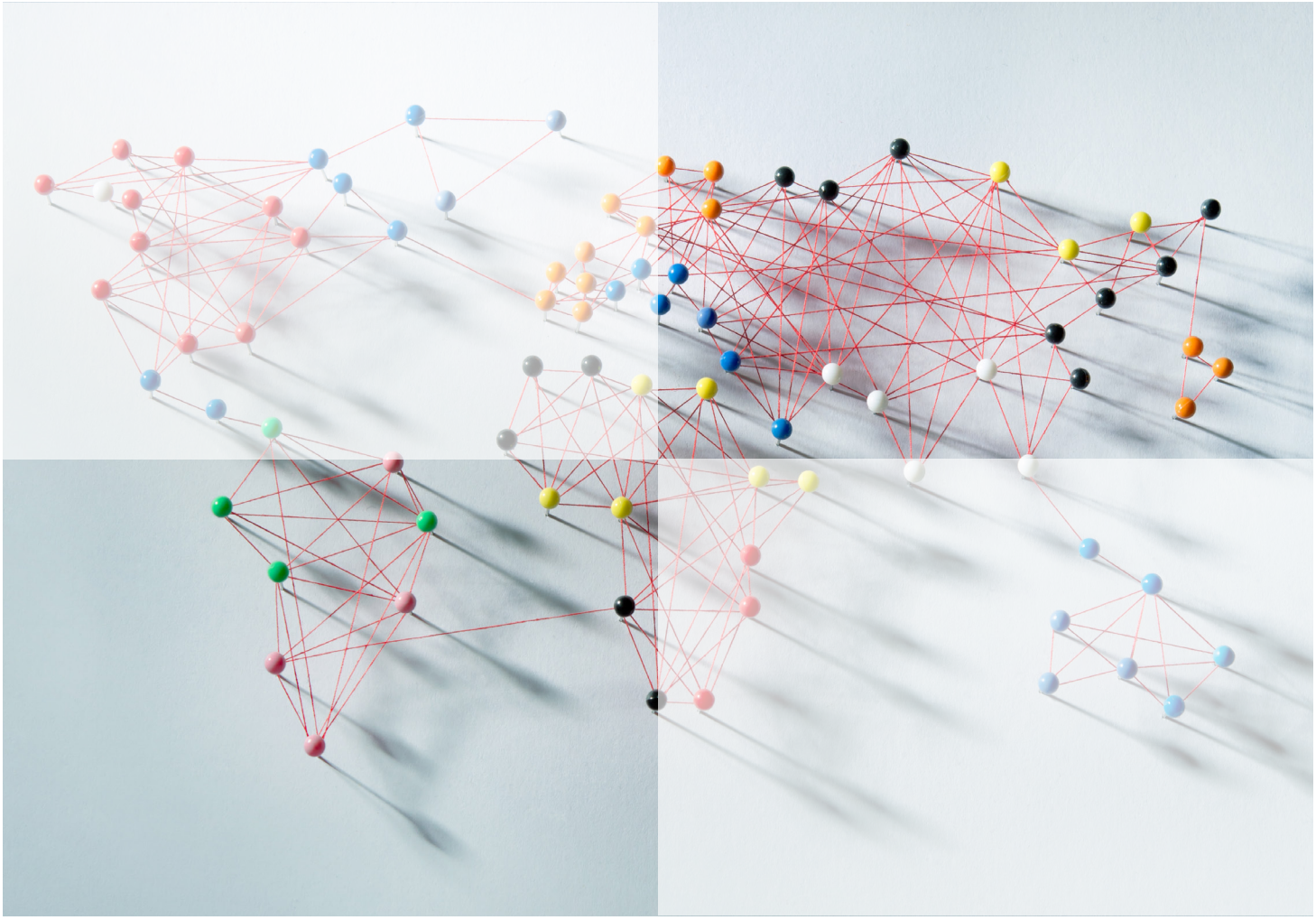
Industry Agenda

Responsible private sector action to address fragility, conflict and violence

February 2016



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Fragility is the new normal – pioneers needed to engage a complex and uncertain world

Fragility, conflict and violence can have implications for all governments, businesses and citizens. These phenomena will vary in intensity and degree depending on the country and city, and the extent to which people and institutions have the tools and capacity to manage crisis. While the absolute numbers of outright wars and conflicts in the world is lower today than in the past, they continue to generate significant costs and their resulting instability will contribute to continuing global uncertainty for the foreseeable future. In addition, the prevalence of interpersonal violence is widespread, alongside a recent rise in terrorism.[1]

These "states of fragility", as described by the OECD (Organization for Economic Cooperation and Development), are exacerbated by a myriad of factors, including global and regional competition among great powers, political tension within countries, organized crime and terrorist networks, lack of access to justice, weak rule of law institutions and limited trust between citizens and their governments. These stresses render specific countries and cities more vulnerable to social, economic and environmental shocks and hazards (see Figure 1), including in the latter case those that may result from climate change.

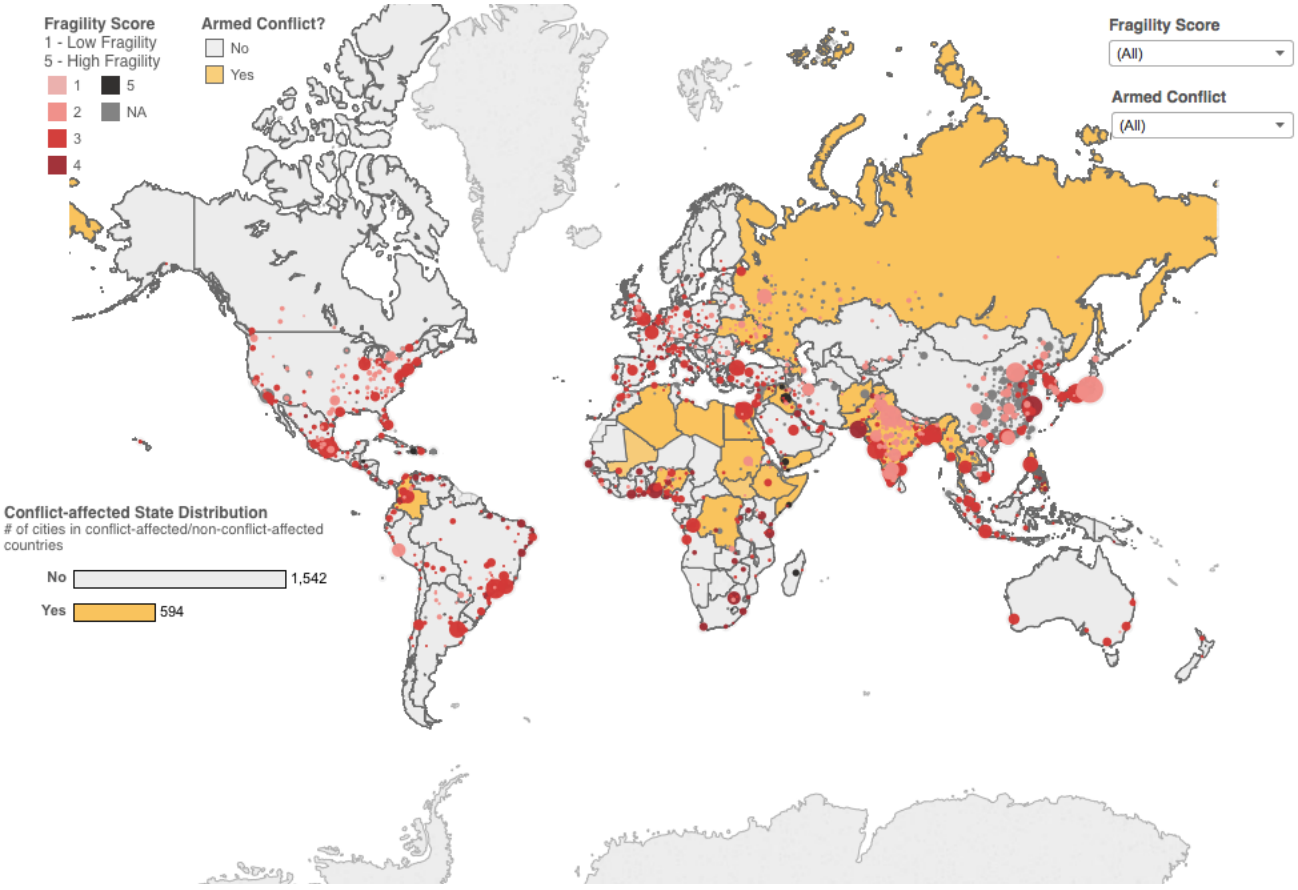
Some parts of the world are especially susceptible to endemic fragility and violence. Significant global attention is devoted to the ongoing wars in Afghanistan, Iraq, Libya, Syria, Yemen and the Great Lakes region of Africa.[2] However, political and social instability is not the preserve of low-income societies alone but also includes middle and upper-income countries rendered unstable by failures in achieving inclusive governance, tackling corruption, closing inequality gaps and other drivers. As the world population increasingly concentrates in urban environments, cities are especially vulnerable to increased violence (see Figure 2).

The human toll of fragility, conflict and violence is immense. An estimated 1.3 million people die every year due to warfare[3], crime and self-directed violence, accounting for 2.5% of global mortality.[4] Some of these people are killed "directly" due to physical injuries, while many times more die "indirectly" owing to reduced access due to preventable illnesses and disease. The number of internally displaced people due to conflict has also increased dramatically – by 300% from 2004-2014. There are more refugees today than at any point since the Second World War.[5] The total number of people who have been forcibly displaced from their homes is 60 million.

Concentrated poverty, inequality and exclusion are among the main drivers of fragility, regardless of a country's income-level status. The underlying causes of fragility are often exacerbated by rapid but uneven population and economic growth, which leads to social exclusion and results in persistent extreme poverty in growing economies. In many fragile contexts, the "youth bulge" can be an additional destabilizing factor. The better we can understand not only what causes fragility, the more likely we will be able to design actions that go beyond addressing symptoms in a given context and implement those that can lead to meaningful change and resilience.

[1] See OECD (2016 - forthcoming) States of Fragility. Paris: OECD. Between 2008 and 2015 the word has become moderately less peaceful, with the average score of deterioration at around 2.4% a year.
[2] Instability is especially acute in the world's roughly 40 conflicts (UCDP 2015) and 33 fragile states (World Bank 2015).
[4] See WHO (2014) Global Status Report on Violence Prevention, pg. 2. Geneva: WHO.
[5] See UNHCR (2015). State of the World's Refugees. Geneva: UNHCR.

Figure 1: Fragility and armed conflict



Source: The data presented in the graphic is based on a fragile cities data visualization prepared by the Global Agenda Council in cooperation with the Igarapé Institute, SecDev, United Nations University, World Bank. Data on "armed conflict" is from the UCDP and includes countries that are affected by conflicts with more than 100 battle-related deaths a year. The "fragility score" is based on a scale of 10 metrics in which cities with darker colours feature more "risks" associated with fragility.

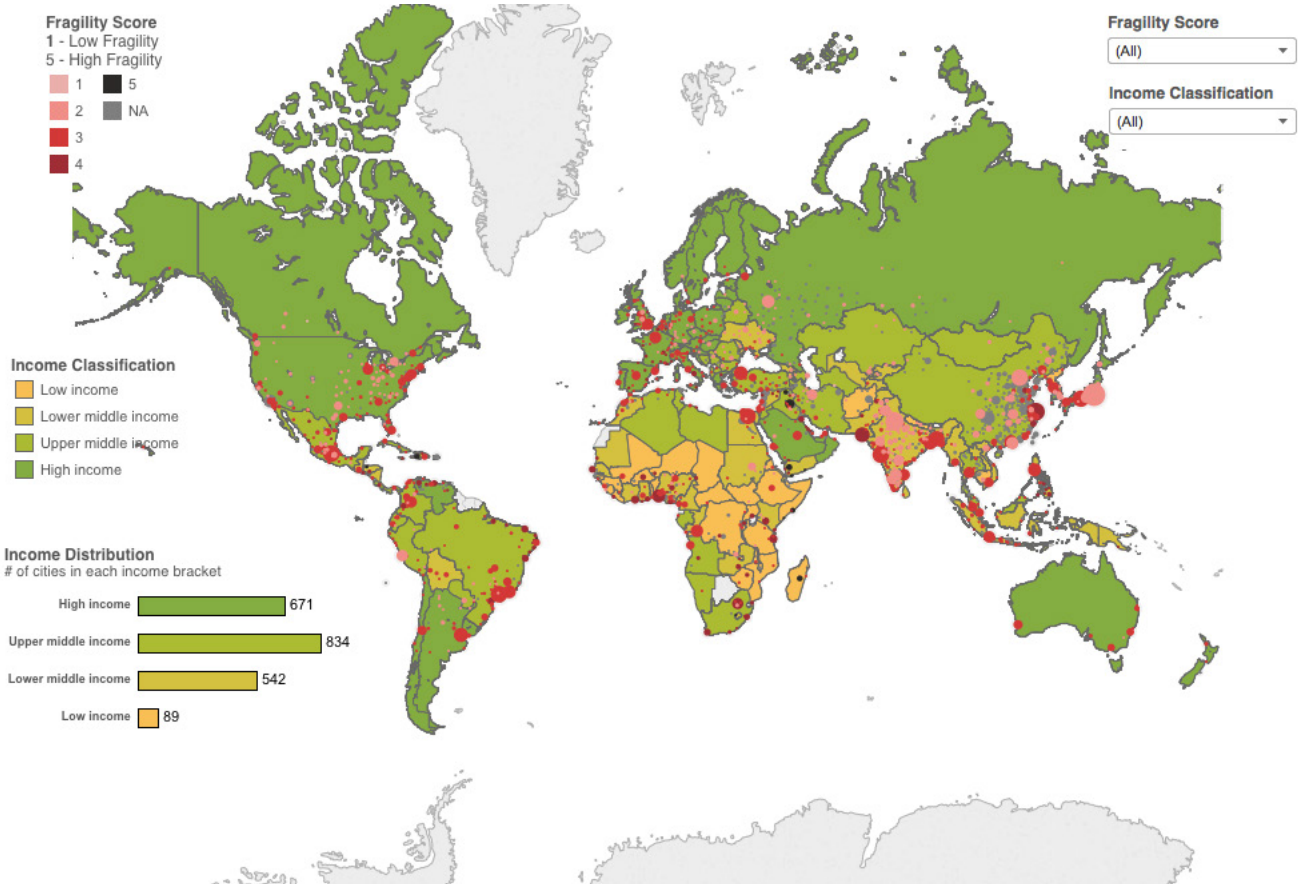
The cost of fragility and violence

Fragility, conflict and violence are expensive, generating tremendous short-, medium- and long-term costs in human and financial resources. For example, the global humanitarian need for 2014 alone amounted to roughly $25 billion.[6] Estimates of the wider impacts of violence on the global economy range from $9.5 trillion to $14.3 trillion, depending on accounting methods.[7] There are also less tangible, but equally important, implications in relation to the upending of the rule of law, increased transaction costs for business, depleted human capital – all of which have substantial negative effects for global prosperity, equality and the achievement of sustainable development. This is newly evident in Europe where a surge of refugees and migrants over the past year has provoked instability within the European Union.

In spite of these alarming figures, there is insufficient perceived urgency to design and fund new and productive solutions. Conventional measures to prevent conflict and mitigate fragility rely almost exclusively on international or non-governmental institutions and national governments. These actors are unable to address these complex challenges on their own. If we truly want to enhance the ability for communities and societies to thrive and achieve resilience, we will need more comprehensive and innovative solutions. These must include public-private partnerships and a greater engagement of the business sector. World leaders acknowledged this reality when they endorsed the 2030 Agenda for Sustainable Development in September 2015, which explicitly recognized the need for engagement and collaboration with the private sector.

[6] See Development Initiatives (2015) Global Humanitarian Assistance Report 2015. New York: Development Initiatives, http://www.globalhumanitarianassistance.org/report/gha-report-2015.
[7] See Hoeffler and Fearon (2015) Benefits and Costs of the Conflict and Violence Targets for the Post-2015 Development Agenda. Copenhagen: Copenhagen Consensus, http://www.copenhagenconsensus.com/post-2015-consensus/conflictandviolence

Figure 2: Fragility and development



Source: The data presented in the graphic is based on a fragile cities data visualization prepared by the Global Agenda Council in cooperation with the Igarapé Institute, SecDev, United Nations University, World Bank. Data on "development" is from the World Bank. The "fragility score" is based on a scale of 10 metrics in which cities with darker colours feature more "risks" associated with fragility.

Insights from the business community

International and local businesses have a critical role to play in finding ways to minimize fragility and build resilience in violence-affected societies. A key reason, among others, is because fragility – including conflict and crime – is bad for business. It generates direct and indirect opportunity costs all along the value chain. Of course, business alone is not the answer. But it can and must be one part of a sophisticated approach to engaging in fragile settings to improve local conditions and help tip the scales to stability and prosperity. There are important, if under-recognized, opportunities for business to effectively and constructively operate and invest in fragile environments – and often businesses to continue to offer services even in the direst circumstances.

It is worth emphasizing that today's fragile environments include many emerging or frontier markets. There are enormous opportunities in many of them, especially when initiatives can positively harness young and urbanized populations, key natural resource endowments, and where connections to global markets can be secured. The World Economic Forum's Global Agenda Council on Fragility, Violence & Conflict was established in 2014 to improve understanding and raise awareness of the connections between chronic violence, social volatility and instability.[8] A key priority of the council involves exploring the positive contribution that responsible investment by businesses can have when working in collaboration with public institutions and civil society.

The council has found that private firms can contribute to fostering stable, inclusive and prosperous societies that respect the rule of law and benefit from accountable governance. Both local and multi-national businesses can play an important role, often working alongside each other to support and grow local and national economies and, in the process, help support efforts undertaken by other actors to reduce fragility and conflict in a given context.

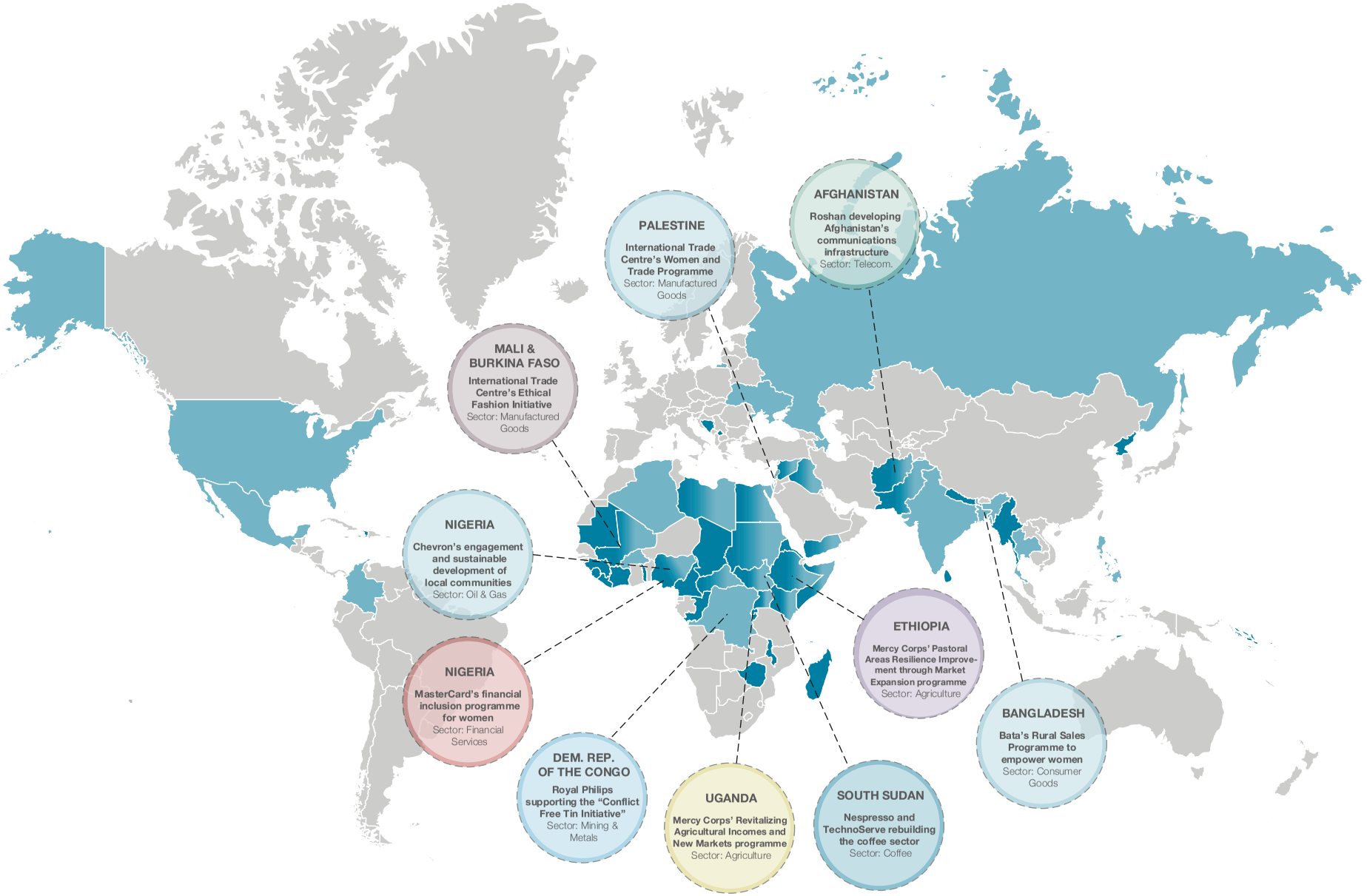
As part of these efforts, the Global Agenda Council has encouraged an ongoing conversation with a number of global private companies, civil society and international organizations. It has collected valuable experiences from 10 fragile and conflict-affected settings where international companies were heavily engaged. These include:

- Chevron in Nigeria
- Nestlé Nespresso SA and TechnoServe in South Sudan
- Roshan Telecommunications in Afghanistan
- Royal Philips Electronics in Eastern DRC
- BATA Brands SA in Bangladesh
- MasterCard and Mercy Corps in northern Nigeria
- International Trade Centre's Ethical Fashion Initiative in Mali, Burkina Faso and West Bank
- Mercy Corps and the Gulu Agricultural Development Company in Uganda
- Mercy Corps and the PRIME initiative in Ethiopia

This summary report highlights several lessons emerging from their experiences. The goal is to better understand how multinational firms, small and medium-sized enterprises and local communities are able to mobilize for positive impact in the most adverse conditions, while keenly acknowledging their engagement is not a panacea. Nevertheless taken together, the council found that the private sector can contribute to stability and improving economic and social conditions in fragile settings while simultaneously avoiding unintentional harm - notably when it is actively conscious of the intricacies of local context and the impact of its own presence.

[8] See http://www.weforum.org/communities/global-agenda-council-on-fragility-violence-conflict.

Figure 3: Distribution of 10 businesses working in fragile, conflict and violence-affected setting



Dark blue: countries with one or more conflicts (armed conflict, non-state conflict or one-sided violence)
Light blue: fragile states and economies (countries on the 2016 World Bank Harmonized List of Fragile Situations and the 2015 Fragile States Index with a score above 90)

References:
World Bank's FY16 harmonised List of Fragile Situations; http://pubdocs.worldbank.org/pubdocs/publicdoc/2015/7/700521437416355449/FCSlist-FY16-Final-712015.pdf; The Fund for Peace (2015), "Fragile States Index 2015", the Fund for Peace, Washington, DC, http://fsi.fundforpeace.org/; Uppsala Conflict Data Program (16/02/19) UCDP Conflict Encyclopaedia: www.ucdp.uu.se/database, Uppsala University.

A few insights stand out:

First, the evidence shows that a "positive business case" is essential for successful investment in fragile, conflict and violence-affected settings. Altruism alone is insufficient, nor should it be expected – companies must see the business case in altering their core operations to improve their impacts on the societies in which they operate. A "triple win" scenario should generate not only financial returns for the companies but also benefits to the local communities and governments. The development of a coffee export market by Nespresso in South Sudan, Roshan's catalysing of the mobile telecoms market in Afghanistan, the establishment of farmer collectives in Uganda by Mercy Corps, and the redevelopment of abandoned communications infrastructure in the Niger delta by Chevron all contributed to the bottom line for business, while simultaneously generating new employment opportunities for local communities and increased tax revenues.

Second, to guarantee longer-term sustainability, a functioning state with the right institutions needs to be in place. Coherent responses should consider state and institution building as part of the solution. Businesses operating in regions should work towards an integrated response, which also means investing in regional frameworks for resilience, and initiatives that build the capacity of local institutions and regional economic communities. In this, an improved coordination among multiple stakeholders is necessary.

Third, the private sector lends a specific skillset and portfolio of experience that can support fragile governments and societies. For example, as our case studies highlight, some businesses have knowledge of ways to encourage financial inclusion for vulnerable members of society, access to global value chains for small and medium-size producers, jobs and opportunities for youth skills development, and the ability to improve the delivery of basic services in hard-to-reach communities. Ultimately, however, successful initiatives demand a high degree of situational awareness, sensitivity to the local context, an appetite for risk, and a robust commitment to the highest ethical standards. Companies must abide by existing international and domestic laws and practices if they are to have a lasting positive impact. It must be acknowledged that as much as our case studies demonstrate a desire to have positive impact, large-scale investments can also be a source of fragility. And finally patience is required in the face of likely setbacks, knowing the potential for longer-term gains. In turn, local communities, governments and development actors need to recognize that businesses can play an important role and that it is reasonable that they seek to make an appropriate financial return.

Fourth, the private sector can work hand-in-hand with the public sector and civil society to kick-start important innovations and rapid growth. Put succinctly, public-private partnerships are excellent ways to drive positive development and we are seeing more mature conversations and collaborations between large international businesses and civil society than in the past. However, this requires a high degree of flexibility and agility from all partners. Businesses must have an open mind. National governments must demonstrate a commitment to create the appropriate enabling context, including laws and infrastructure, to spur proactive partnerships, including a transparent and appropriate legal framework and investment in infrastructure. Local civil society groups and international non-governmental organizations can help make valuable connections between business, government and local communities. And these undertakings are more likely to succeed when international donors (both multilateral and bilateral) can provide the necessary financial guarantees and political confidence required for business to mobilize in volatile settings, including investment in national institutional and local authorities. It is also clear though that new instruments are needed for supporting private sector development in isolated and emerging economies, to encourage and enable capital and skills investment.

Fifth, local businesses must be actively included in any solution. The local private sector is the engine of economic growth. At least 70% of jobs globally are generated by small and medium-sized enterprises and these local entities often prove extremely resilient in fragile contexts.[9] Large international business can support these local enterprises, for example, by exploring potential ways to connect them with global value chains. Both large and small enterprises with invaluable knowledge of local actors and conditions can also provide essential last-mile services and, more importantly, provide opportunities for youth, women and excluded communities through vocational and other training, as the work of Nespresso in South Sudan, Roshan in Afghanistan and Heritage Touch in the West Bank shows.

Finally, business can contribute to the transparent and effective management of revenues from the export of natural resources. Both Philips' Conflict-Free Tin Initiative and Chevron's work in developing the Global Memorandum of Understanding model in Nigeria (albeit not without controversy) illustrate how the private sector can play a role in helping resource-rich countries to leverage their natural wealth to achieve development. However, there should be regular communication with local communities and extraction needs to be accompanied by investments in human, physical and institutional capabilities to encourage diversified economies.[10]

[9] International Trade Centre, SME Competitiveness Outlook 2015, http://www.intracen.org/SMEOutlook/.

[10] Chatham House published an interesting research paper looking at extractive sector investment in Juen 2015 – see "Investing in Stability: Can Extractive-Sector Development Help Build Peace?". See also "Rags to Riches? Perspectives on Responsible Natural Resource Management in Conflict Affected Countries", World Economic Forum 2013.

New entry points and the agenda ahead

There are many entry points for business in fragile, conflict and violence-affected settings. Digital connectivity, the sharing economy, easy cash transfers, access to big data and other new social media platforms are reducing the costs and risks of business in many parts of the world. In addition, transformations in the global economy, not least the displacement of low-skill employment opportunities from China to Africa, open new avenues for engagement across multiple sectors. It is important that clear-headed assessments are provided of the pros and cons of investment and social impacts given these emerging realities.

Further analysis is needed of the opportunities and constraints experienced by companies working in fragile, conflict-affected and violent contexts. Lessons also need to be learnt and discusses from a wider variety of cases. The World Bank's 2016 Forum on Fragility, Conflict and Violence offers a constructive platform to expand the dialogue. The international community must better identify and promote creative and practical enabling strategies and tools to responsibly and sustainably drive economies in fragile contexts and, in so doing, hopefully build their resilience to instability and violence.

To this end, the World Economic Forum and its partners, including the United Nations and the World Bank Group, alongside civil society organizations, have a key role to play in mitigating fragility, conflict and violence and contributing to growth and productivity in the world's challenging settings. At a minimum, these organizations should engage industry leaders on the risks and opportunities in fragile countries and cities. They should also educate them on why such threats matter, how they can affect their bottom line, the opportunity costs of non-engagement and the methods to ensure that they can best invest responsibly.

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