Citizen-Centered Approaches
to State and Market

New Models for Engaging In Fragile States

World Economic Forum's Global Agenda Council on Fragile States 2011-2012

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Overview

The challenge and opportunity for the private sector is to find new models to forge partnerships between private sector capital, corporations, entrepreneurs, and domestic firms, on the one hand, and the public sector and private citizens, on the other, to build an agenda to create jobs and prosperity in Fragile States.

Introduction

Fragile countries affected by conflict present key threats to global stability and prosperity. Many of these threats to global security emanate from the 40 to 70 countries classified as "Fragile States". In these countries, hundreds of millions of people remain trapped in poverty and insecurity and are excluded from opportunities to participate in the marketplace and to make their voices count politically. Such citizens are no longer waiting for change; they are taking to the streets and demanding inclusion in democratic decision-making processes and the opportunities of the marketplace.

Although the countries of the Arab Spring have dominated the headlines in the past year, many other countries, from Pakistan and Sri Lanka to Nigeria, Liberia and Southern Sudan, face similar demographic pressures and their young people have similar demands.
It is imperative to find new models for the creation of accountable institutions, market-friendly environments, and systems for social justice, security and economic prosperity. In particular, many opportunities exist to create new models for business involvement – to leverage private capital, corporate responsibility, entrepreneurship and private philanthropy.

PART 1: BACKGROUND

1) *Threats- Poverty, Exclusion and their Impact on Global Security*

i) *Security:* for citizens, life in Fragile States is characterized by the daily threat of direct violence and this insecurity also exerts a regional and global impact. The fragility of a state spawns conflict, terrorism and organized crime.[1] It threatens the global commons, from international transport and commerce – as seen in the effect of piracy off the Horn of Africa – to the wider rule-based architecture of institutions worldwide.

ii) *Poverty and Exclusion:* Poverty is at its most intractable, and human dignity and justice under the severest challenge, in low-income Fragile States. Poverty is frequently exacerbated in these contexts by the lack of state resilience to natural disasters and other shocks.[2] Because Fragile States also have some of the highest population growth trends in the world, their populations are dominated by younger cohorts. This combination of poverty and a population skewed towards young people excludes hundreds of millions from economic opportunity,

[1] See World Bank (2011) "Conflict Security and Development", World Development Report 2011
[2] Indian Ocean Tsunami; Pakistan Earthquake, Haiti Earthquake, but distinguished from the tsunami in Japan or Hurricane Katrina. World Bank now warning poor countries to expect shocks.

meaningful employment and the possibility to generate wealth, driving a persistent cycle of dependency on humanitarian assistance.

iii) *Opportunity Cost*: The impact of conflict on an economy is devastating. Paul Collier estimates a 2.2% reduction in GDP for each year that civil conflict persists in a country.[3] Instability is a key threat to the confidence and patience of capital investors and can irreparably damage the reputation of a country's investment-worthiness. With typical conflicts lasting from 5-10 years, the impact on a country's quality of life can be drastic. In Afghanistan, for example, the World Bank estimated that in 2004 alone the cost of humanitarian and military assistance as well as lost growth amounted to US$ 240 billion.[4] Instability diverts productive resources away from efficient allocation to profitable enterprises which could create jobs and increase the standard of living of those who need it most.

2) Current Record and the Changing Context

i) *Financial Pressures*: despite tens of billions spent on humanitarian assistance, military interventions, and the disbursement of aid, insecurity and poverty persist in many countries. The record of the effectiveness of international assistance to date is sobering. Furthermore, the global financial crisis means that currently generous budgets will come under increasing pressure. It is imperative that ways are found to support efforts to promote change and growth without wasting billions of dollars on profligate projects if engagement with Fragile States is to remain possible. OECD estimates ODA to Fragile States as US$ 46.8 billion in 2009,[5] and flows of aid from DAC donor countries as US$ 129 billion in 2010.[6] According to recent analyses, Africa is likely to receive less than half of the US$ 25 billion increase in aid envisaged at Gleneagles, mainly because of the underperformance of some European funders' economies.[7] There has been some improvement on this front. The New Deal at Busan this past year has shifted the global paradigm from one of aid effectiveness [8] to development effectiveness but implementation of these commitments remains a challenge.

ii) *Changing Context:* The global context has changed, making new approaches to these problems necessary. The rapid globalization of finance, commerce, information and ideas means that what worked 50 years ago may no longer work now. At the same time, new opportunities have opened up as a result of new knowledge, technology and perspectives. As our Council noted at the beginning of its 2010 session, the rise of the BRIC countries and their impact on Fragile States has led to new patterns of investment flows (Brazil, Russia, India, China, and Turkey receive nearly half of all FDI sent to developing countries[9]) and the prospect of new models for engagement as the BRICs refine and adapt their approaches. Demographic shifts leading to significant population growth in developing countries, together with the political events of the Arab Spring, highlight the central importance of the inclusion of young people in market opportunities.[10]

[3] Paul Collier, "On the Economic Consequences of Civil War," Economic Papers 51, 1999, 168-183.
[4] See: http://www.oecd.org/dac/conflictandfragility/datafromensuringfragilestatesarenotleftbehind201138.htm
[5] ~~See: http://www.oecd.org/dac/aid~~statistics/aidstatistics.htm
[6] Ibid.
[7] Ibid.
[8] Ibid.
[9] See: UNCTAD Database
[10] Davos Report 2012: Seven Billion and Growing: a 21st Century Perspective on Population.

iii) *Individual Successes:* a number of countries have successfully removed themselves from poverty and instability by devising and implementing innovative approaches to building their systems of governance and economies, including those in the agricultural, industrial, financial, and other service sectors. These approaches have created jobs and generated revenue through leveraging human capital and increasing opportunities for citizens. A number of countries including Mozambique, Ghana, Rwanda, Bosnia, Bulgaria, Paraguay and Malaysia are clearly following this path.

iv) *Market Regulation:* While a consensus has formed on some of the critical tasks that states should undertake in the current climate, the specific functions that states need to perform to regulate their markets remain obscure. The rise of new powers with different approaches to interaction and investment in Africa and Asia are changing the global political and economic dynamics and suggest new models of engagement for the future.

3) The Opportunity

Current political transitions in the Middle East North Africa (MENA) region present a unique climate of opportunity for these countries to reform their institutions and modernize their economies to meet the aspirations of their young populations. A new social covenant and clear rules of engagement for the government, market and civil society can create tangible quality of life improvements for these citizens. Understanding how to provide equality of opportunity, particularly for currently excluded segments of the population, will be key in laying the groundwork for stability and growth. New models are needed in this respect, to harness entrepreneurial energy and capital to address demands for services, jobs, and wealth creation.

In the Middle East and beyond – in Haiti, Mali, Myanmar, Nepal, Nigeria, Pakistan, Sierra Leone and Sri Lanka – today's Fragile States are potentially tomorrow's emerging and frontier markets. While the majority of the people within these societies live in conditions of poverty, the countries themselves possess great potential in terms of human and natural assets that could be translated into benefits for their citizens. More than three quarters of the states classified as "fragile or failed" possess extensive mineral and energy resources.[11] Exponential growth in the populations of developing countries place a potential burden on public services, but also represent a source of great dynamism, a growing pool of human capital, and a potentially significant domestic consumer market.

In 2008, the total recorded FDI into Fragile States was US$ 13 billion, compared to the US$ 586 billion total net FDI given to developing countries, of which US$ 320 billion went to the large, emerging BRIC markets (Brazil, Russia, India and China[12]). FDI inflows to the 48 LDCs (Least Developed Countries) fell by 20% in 2009, interrupting the upwards trend of the previous decade[13], and declined by a further 0.6% in 2010 to US$ 26 billion. The IMF stated in 2011: "The emerging and frontier markets' share of global GDP (in USD terms) is already 35.2% and, on a purchasing power parity basis, is almost 50%. There is growing recognition on the part of investors that exposure to the emerging and frontier markets must increase and it is likely that allocations will shift by substantial amounts in the coming years".[14]

Investors have expressed their intention to increase investment to developing countries over the next three years. These expressions of intended capital commitments will be realized only if governments,

[11] Country list formed from 2011 Failed State Index (Prepared by Fund for Peace, Published by Foreign Policy) and World Bank Country Policy and Institutional Assessment Index.
[12] MIGA, Conflict Affected and Fragile States Facility, Presentation, May 2010.
[13] MIGA, Conflict Affected and Fragile States Facility, Presentation, May 2010.
[14] IMF World Economic Outlook of 2011

businesses and civil society work together to create stability, transparency and strong foundations to assure that business can be done safely and effectively. MIGA estimates that the majority of investment will come from the mining and construction sectors. These figures, of course, do not represent the investment in the private sector generated from within a country. Investors and corporations interviewed by MIGA identified political risk as the most significant constraint to further investment, far ahead of poor infrastructure or lack of macro-economic stability. Within the category of political risk, the most significant fears concerned breach of contract and regulatory changes, far ahead of war, terrorism or expropriation. Corporations and investors claimed to use Political Risk Insurance less often in Conflict Affected and Fragile (CAF) countries than in developing countries in aggregate, in part because of its lack of availability.[15] At present, extractive sector investment in developing countries, particularly Fragile States, is at risk of precipitous decline, since the smaller and medium sized companies that predominantly carry out exploration and natural resource development in high-risk countries face huge financing difficulties. Equity markets are largely closed to them in the present risk-adverse climate and increasingly stringent capital rules have led most banks to lend far less readily to risky projects. Thus, the fallout from the financial crisis is likely to reduce investment and growth in Fragile States.

Establishing the conditions to promote economic activity, by creating accountable institutions for managing assets and models for investment that generate confidence for investors from domestic, as well as emerging and established markets, do and could create significant national and global economic benefits. But how these conditions are achieved is important. Citizens everywhere are demanding that the rules of engagement are both fair and inclusive. The UN Global Compact Guidance on Responsible Business in Conflict-Affected and High-Risk Areas, while an early and voluntary initiative, is a movement in the right direction to create concepts centered on responsible social practices in the private sector within the high-risk environments in which they increasingly operate.[16]

Even if conditions do not currently exist for a society to capitalize on opportunity, it is clear that political stability and security can only be achieved and maintained, by paying attention to the stability of the economic foundations. In the absence of a legitimate private sector, illegitimate and informal economies continue to flourish in most environments, with a strong impact on the nature of politics and security. Understanding these dimensions is important for any policy-maker, particularly since they impose limits on what can realistically be achieved in the short- to medium-term. At the same time, creative use of the opportunities for growth offered by the informal sector can yield positive results in terms of growth and development.

PART II: PUBLIC AND PRIVATE SECTOR ROLES

4) Role of the Public Sector

The state plays a fundamental role in creating favourable conditions for business development for local firms, capital inflows, and FDI. Previously, the Council has focused on the role of the state, in the belief that the state cannot be circumvented. Investors and corporations frequently cite corruption, arbitrary and unpredictable policies, and regulations, as well as lack of a skilled workforce and inadequate infrastructure, as the primary impediments to investment. The two central questions concerning the role of the public sector are:

- How can governments in fragile countries become more accountable to their population’s demands for services and market opportunities? And

[15] MIGA World Investment and Risk Report 2010
[16] United Nations Global Compact Office, “Guidance on Responsible Business in Conflict-Affected and High-risk Areas: A Resource for Companies and Investors”, 2010,http://www.unglobalcompact.org

- How can the state provide economic governance, for both fiscal management and economic growth?

Box 1: EXAMPLES OF NATIONAL AND LOCAL GOVERNMENT ACTION

- Removal of barriers to market function, the creation of firms, and growth
- Simplification of processes for business registration and operations
- Promotion of microfinance facilities for building and regulating the financial industry
- Approaches to governing the processes of privatization
- Use of public funding and handling of procurement to foster local firms and job creation
- Granting of licenses for business operations in particular sectors (e.g., telecoms, fuel, minerals exploration, agribusiness)
- Provision of security and other services (e.g., power, land, transportation, communications)
- Appropriate policies towards the informal sector, especially supporting the emergence of cooperatives and locally-owned and run businesses
- Provision of risk guarantees (see section 3 below)
- Facilitation of economic zones, industrial parks and clusters
- Negotiation to enhance revenue sources, job creation, and infrastructure provision
- Setting particular roles for rural and urban local government

Brainstorming by the Fragile States Council at Abu Dhabi Global Agenda Council meetings, 2011.

5) Role of the Private Sector

There are many private sector actors already active in Fragile States. Some particular sectors are ready for development and present opportunities in terms of the convergence between potential return for the private sector and social impact within developing states, although there are obvious risks:

i) *Mining and Minerals:* Of approximately 70 states classified as "fragile" on various indices, about three quarters have significant mineral and energy deposits, and many of these remain untapped.[17] We are seeing a promising shift in the thinking of regulators and companies towards finding new models for partnership between the mining companies, a country's citizens and government, so that companies can align their activities to core national development goals, rather than limiting their risk exposure by remaining on the sidelines and avoiding deeper involvement in national economies. For example, as part of the Responsible Metals and Mining Initiative, mining companies have identified cases where; instead of

[17] Country list formed from 2011 Foreign Policy Failed State Index and World Bank Country Policy and Institutional Assessment Index.

investing in a stand-alone health-clinic or school, they aim to make investments in education and training; they can broaden their investment in rail, road and power sectors enabling large numbers of citizens to also access this infrastructure; they can invest in growing local businesses that can form part of their supply chains. Regulators in many countries need to develop more flexible instruments that take into account the nature of exploration for natural resources, particularly allowing efforts by junior mining and energy companies to evolve into commercially viable projects. For example, Colombia has established sliding scale royalty systems to make smaller oil fields economically viable by charging lower royalties on fields up to 10 million barrels in size versus fields up to 60 million barrels in size.

ii) *Construction and Infrastructure:* Construction and infrastructure firms have extensive potential in Fragile States, where infrastructure is typically underdeveloped. For example, at independence, South Sudan had no paved, and few all-weather roads. While there are concerns about the risks of instability and expropriation, there is also huge opportunity in these markets. Often, foreign investors can expand their investment in transport and electricity, built for their own needs, to connect it with public infrastructure services. Private infrastructure on a regional scale can lower risks by diversifying customer bases across several countries. Key constraints remain the availability of prepared projects, intermediation services, and risk guarantees, especially by multi-lateral banks. For the development of export-oriented agriculture, which is one of the most promising areas of activity in many Fragile States, transport infrastructure is of crucial importance. Even when agriculture is mainly focused on domestic consumption, improved transport networks are crucial for the development and optimization of local markets so that subsistence farmers can generate some cash income.

iii) *Financial Services:* There are large risks – but also rewards – in emerging markets for the financial services sector. In Fragile States, the challenge is to establish a new class of assets with appropriate social as well as financial returns, and to tie this into the activities of intermediary MDBs, with or without political risk insurance. There is also a clear need and opportunity for innovation in financial services, whether by providing re-insurance for natural disasters and agricultural downturns, mortgage financing, or investment in waste disposal for the poor.

iv) *Consumer Goods:* Large and global firms see the opportunities presented by burgeoning consumer markets in Asia, Latin America, and Africa in comparison to the more developed, saturated markets where they have historically concentrated their capital investment. Such firms are working out how their supply chains can benefit developing countries, both by sourcing from developing markets, including from women's cooperatives, and by using their distribution chains for public health or humanitarian purposes.

v) *Agriculture and Agribusiness:* Many Fragile States possess significant resources of arable land and labour, which potentially give them a comparative advantage in agriculture and agribusiness more broadly. Despite this, very few Fragile States have been able to fully harness these potentials. Agriculture remains largely under-capitalized in these countries, with little mechanization and scant use of yield-enhancing practices and technologies – and, therefore, low value addition. Overall, agricultural productivity has been persistently low.

In addition to weak agricultural productivity, the majority of Fragile States also have limited agro-processing activity and capacity. Relatively low agricultural output is made worse by large post-harvest losses, particularly for perishable commodities. In some African Fragile States, such losses can be as much as 35%-50% of total production for fruit and vegetables and 15%-25% for grains. Weak agricultural productivity and limited processing capacity limit the scope for value addition and the creation of decent employment, which are crucial for development and peace in these countries.The convergence of strong demand for food and non-food agricultural products with favourable supply conditions – such as abundant arable land and labour – make agriculture and agri-business development a viable option for most Fragile States.

Changing demographics and consumption patterns, both in Fragile States and in the rest of world, are likely to raise the demand for food and non-food agricultural products and sustain high prices for these goods in the years to come. Setting these expected developments against favourable natural conditions and growing labour forces in Fragile States suggests that private sector investment – both foreign and domestic – in agriculture and agri-business activity could yield high profit returns and employment growth. Such investments could set the stage for structural transformation in these countries if local government and populations share in the profitability of the enterprise.

For example, developing value chains in agriculture might require the creation of linkages and fostering knowledge flows between medium- and large-scale processors – mostly foreign firms – and local farmers. Benefits to farmers include market access for their products, improvement in the quality of their products, acquisition of knowledge and technologies, access to essential agricultural inputs, and often greater access to credit. Processors gain from assured raw material supplies, local support and local market knowledge that can enhance operational optimization.

Concomitantly, the expansion of large-scale agriculture could increase production and also provide remunerative employment along with serving as a know-how vehicle, particularly if concerns over land and resource rights are adequately addressed. In this connection, it is worth recalling the voluntary "code of conduct for responsible international investment in agriculture" promoted by FAO, UNCTAD, IFAD, OECD and the World Bank. This code outlines the basic principles that should guide responsible investment behaviour, including the principles related to land and resource rights, transparency, participation, and food security.

Besides agriculture supplying raw products and final consumer goods to other sectors, increased agricultural activity and incomes will also generate multiplier effects in other sectors – including manufacturing, and services in the form of increased employment, output and incomes. The potential for value chain development in agriculture can be tapped if the factors inhibiting productivity and private investment in agriculture are relieved. Raising productivity would require, among other things, improving physical infrastructure, increased funding for agricultural research, increasing use and promotion of yield-enhancing and environmentally-sustainable technologies and practices, and improving institutional and regulatory frameworks. Promoting risk-taking and innovation –hence private investment – in agriculture and agri-business would require the exploration of innovative financing tools, particularly given the high perceived risk in this sector, in these countries

6) Private Sector Recommendations

The Council recommends that business councils of investors and corporations active in Fragile States in key sectors should play a central role in supporting good governance, growth and job creation.

The private sector can further these objectives in a variety of ways:

i) Establish standards of transparency and accountability in company relationships with local partners, including host governments and local businesses, and apply these standards systematically to all transactions. This would include such measures as conducting independent audits, insisting on on-budget expenditures, and creating transparent policies to avoid conflicts of interest.

ii) Set procedures to stem illicit capital flight and monitor supply chain operations to ensure best practices.

iii) Recruit and employ qualified people from the country at large, and from minority groups and women in particular, to economically empower the country's citizens in general, and marginalized groups in particular.

iv) Strengthen independent media by advertising in local news outlets, magazines, websites, and radio and television stations that are not controlled by members of the government.

v) Offer employee benefits, such as scholarships, apprenticeships, and distance learning courses, to expand skills, with clear financial rewards and promotions for satisfactory completion of such opportunities. Provide company pensions and family health insurance to increase productivity, inspire loyalty to company values, and curtail corruption.

vi) Recognize cultural holidays, local celebrations and historical traditions by providing paid leave and vacation time consistent with local community practices.

vii) Promote the education of girls and women which will also reduce fertility rates, reduce baby booms, lower the risk of conflict, and enhance development.

PART III: FUTURE INITIATIVES

7) Focus on Young People, Jobs, and Skills

i) *Young people:* in the next decade, the majority of global population growth will take place in Fragile States. Over the past year, the world has seen this issue highlighted in the demands articulated by young people in the Middle East and North Africa. Issues of youth unemployment are also acutely felt elsewhere, from Pakistan to Nigeria and Liberia. Where will work opportunities be generated for the hundreds of millions of young people in Fragile States? How can skills gaps be better addressed in these populations, and better aligned to job creation in Fragile States?

ii) *Jobs:* Seventeen per cent of investors interviewed by MIGA cited the shortage of skilled labour as a significant impediment to their expanding investment in developing countries, behind only political risk and ahead of five other factors including corruption and quality of infrastructure.[18]

[18] World Investment and Risk Report, 2011

In “The War for Good Jobs”, the Gallup chief executive officer Jim Clifton estimates that 1.8 billion jobs are needed globally. Sixty percent of the population of the Middle East is under 25 years old. Thirty-nine countries in Africa, five in Central America, nine in Asia, and four in Oceania have populations in which the under-30 age group is two thirds of the total – or more. Finding ways to match the huge demand for skilled labour with the desire for young people to become that skilled labour is essential to social cohesion and stability as well as wealth generation.

iii) *Skills:* The development of new communication infrastructures and technologies, especially the rapid expansion of low-cost mobile platforms, provides a unique opportunity for economic empowerment and skills development for young people. In most of the Fragile States, the lack of quality education and vocational training prevent the growing number of young people in rural communities from gaining the skills needed for more sophisticated, skill-intensive job opportunities. Mobile communication networks provide an excellent substitute for face to face, locally available, quality training and skills building. Quality training modules for skills developed in one part of the world could easily be tailored and presented in real time to a number of classrooms in remote, disadvantaged communities at low cost, given that a TV set and an internet line are available in most of the villages in Fragile States, and that a satellite signal receiver can cost as little as US$ 50.

BOX 2: EXAMPLES IN SKILLS BUILDING

Afghanistan – a local media organization joined with a local NGO to show classes filmed and aired in real time to pupils in more than 10 locations in the most remote parts of the country. Young people aged from 20-35 years gathered to follow vocational training programs on subjects including how to grow better vegetables, how to preserve agricultural products and prevent products being wasted, how to sell them in the provincial market, and when to sell them. They also taught practical lessons on carpentry to classes to whom tools had been provided in advance. Initiatives such as these could be developed further and adapted to the needs of different economies.

Libya – the majority of young people use mobile phones not only to make calls, but mostly to access the Internet and participate in social networks. The country suffers from a shortage of skilled labour and civil servants. This young army of social media activists aspires to jobs with the government or at an oil company, but many of these jobs have disappeared as insecurity grows. These individuals lack the knowledge and information on how to set up their own small businesses, which could be developed using the same skills that they use to engage in social networks. Applications and platforms similar to social networks need to be developed to educate young people on how to become entrepreneurs, and to share skills and information. These platforms could be linked to existing popular networks such as Facebook.

8) New Institutional Models for Development Engagement

Public bilateral and multilateral budget constraints can drive the search for more effective and less costly methods to mobilize and align the comparative advantages and resources of the public, private and multilateral sectors so as to create prosperous societies beneficial to all. Although public budgets and confidence are currently constrained, immense capital, know-how, technology, energy and imagination exists in the private sector. Harnessing this imagination and willingness depends on making the pathways to concrete initiatives more explicit and accessible.

The challenge for the private sector is to harness these assets to engage in markets – using both old and new models – in such a way as to create value for the citizenry, to follow accountable and fair practices, and to profit so that enterprise can continue to employ citizens and contribute to the growth of GDP. There are already a range of development agencies working in private sector development (see box). Taking stock of their instruments and efficacy might reveal both a large number of existing methods and practices that are under-utilized and not sufficiently well known by policy makers, as well as perhaps opportunities for further innovation.

The challenge for the public sector is to find models to support the evolution of citizen-oriented, accountable institutions. Various initiatives and new models – including some championed by this Council in previous years – have been piloted recently, such as those trialled in Haiti. Taking stock of these institutional innovations and finding ways to improve their performance will be critical if international effort is to be relevant to countries' own efforts to provide peace and prosperity for their citizens. In particular, finding ways to give space at the table to the people and to business to business partnerships will be essential, removing the need to rely on government to government and NGO contracting systems alone.

9) New Models: A Call to Action

The Fragile States Council calls on the Forum members to harness their resources, knowledge, experiences and commitment to develop and implement new models for engagement of the public and private sector in Fragile States that are consistent with the values of fairness, accountability and respect for citizenship.

In particular, it calls upon:

i) **The Financial Services Industry**:

- To innovate, test and make available financial services and products (e.g., crop insurance, equity, lease-financing, mortgages, business credit, insurance, and reinsurance) that benefit entrepreneurs and citizens
- To find mechanisms to make the transmittal of remittances less costly, and innovate investment vehicles so remittances can provide working capital for SME investments
- To establish financial services principles for Fragile States to prevent financial fraud, corruption, or lopsided deals
- To put in place financial education and consumer rights programs for citizens taking out loans, especially for young people and women

ii) **The Metals and Mining Sector**

- To commit to contracts that represent a fair deal for the citizenry of the country concerned as well as to high standards of accountability
- To find strategic ways to bring their resources to bear to invest in a country's long-term development, including infrastructure
- Where appropriate, to put into practice the EITI, OECD-UN Guidance for companies extracting or sourcing minerals from conflict zones, while ensuring that practices intended to remove mineral revenues which may be used as a source of finance for armed

conflict do not lead to a general avoidance of areas seen as high risk by investors, and to implement the recommendations of the RMMI[19]

- To commit to transferring mechanical, operational and engineering skills to members of the local workforce, in so far as is possible

iii) Wholesalers and Retailers

- To build local supply chains, especially buying from women and in regions where sourcing of goods would make a significant impact on poverty
- To consider local supply chains and consumer markets in the business' overall strategic plan, where relevant

iv) Manufacturers, Agriculture and Services

- To locate manufacturing and agricultural processing value chains in regions where employment will have a significant impact on local community beneficiaries
- To invest in human capital through sponsoring vocational training programs
- To conceptualize innovative products suitable to the income and preferences of the local consumer base

v) Investors and Financial Services

- To find ways to invest in regions and local basic services (affordable housing, health, education, sanitation, and power) that will bring these services to more consumers, through Social Impact Investing and other financial innovations that can bring capital to support financial innovation[20]
- To invest in infrastructure (including power, irrigation, and transportation) that will reduce poverty in Fragile States especially by advancing regional economic integration
- To develop services for the "base of the pyramid" including health and crop insurance and SME lending

vi) Logistics and transportation firms and MNEs

- To find creative ways to put supply chains to work for the world's poor and vulnerable, especially by making their own vehicles, logistics and transportation networks available to provide aid in time of humanitarian disasters

vii) **Foundations**

[19] Mining & Metals Industry Partner Group, "Responsible Minerals Development Initiative," Davos: World Economic Forum, 2012,http://www.weforum.org/reports

[20] See: https://infocus.credit-suisse.com/data/_product_doc

- To create innovative models that support entrepreneurs, firm formation, and social impact technology development, and to provide services in critically underserved areas

- To forge critical connections between the public and private sectors in areas of mutual interest and to catalyse action accordingly

- To work with civil society groups to form industry watchdog groups in frontier markets

viii) Governments of Developing Countries

- To commit to transparency and accountability in governance and financing arrangements, and to make the national accounts public

- To engage with their citizenry to generate new social compacts that respond to citizen aspirations and needs

- To determine a role and function of the state that will best fit their citizens' needs and to communicate the aligning responsibilities of this role

- To invest in human capital, the rule of law, infrastructure, and R&D to support a growth and entrepreneurship agenda

- To create platforms for mutually-beneficial partnerships with the private sector and citizens to co-deliver priority services

- To simplify their processes to remove the gates and barriers that raise the cost of business

ix) **International organizations and development agencies**

- To support countries in their quest to graduate from aid to self-sufficiency through a renewed focus on revenue generation and efficacy of public expenditure programs

- To focus increasingly on an agenda of nurturing a legitimate private sector and expanding opportunities in the informal sector in Fragile States

- To use their grant and loan aid more creatively, especially looking for means to share risk and catalyse private investment

- To focus on new models for the creation of employment, especially for the world's growing young populations

- To invest in a research agenda to investigate cases and mechanisms of private sector engagement and market institutions (including lease financing, stock and commodities markets, banking and finance) in furtherance of peace-building and development

- To invest in the understanding of appropriate legal frameworks and mechanisms for public / private /citizen partnerships

- To identify means to support local procurement and invest in the capacity of the local business sector

- To develop best practices and expand the availability of instruments to intermediate and mitigate risk to enable private investment to identify appropriate projects and overcome the barriers of risk perception (A number of organizations already exist including MIGA within the World Bank, the African Trade Insurance Agency, facilities within the Asian Development Bank and the European Bank for Reconstruction and Development, the Islamic Corporation for Insurance of Investment and Export Credit, and bilateral facilities such as OPIC. Many of these insurers do not focus on the most fragile situations despite their public mandate to do so, and their risk thresholds require reconsideration.)

- To develop concepts of real growth, rather than growth based on rental income and diversion of revenues, which should include productivity, and open and competitive environments for domestic businesses and job creation

- To establish business forums and councils for business to interact with country representatives and policy makers on constraints and opportunities

x) **Universities and think tanks**

- To devote time, resources and attention to understanding case studies and mechanisms for generating economic opportunities in a fair and inclusive way

- To focus on building the human capital required for building inclusive and productive economies

- To allocate resources for the forward-planning of integrated and competitive future economies

xi) **Citizens**

- To hold their governments to account, especially in the design of policies and use of public accounts in providing services and generating opportunities

- To participate in the search for solutions, as active participants, to the greatest extent possible

BOX 3: FRAGILE, EMERGING, FRONTIER NEXUS