

Small Businesses in Fragility: From Survival to Growth



4 Thought
leaders

5 Business
voices



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Centre

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Small Businesses in Fragility: From Survival to Growth



About the Report

This SME Competitiveness Outlook assesses the impact of conflict and fragility on business performance. It unveils a Fragility Exposure Index, and shows that fragility, as experienced by firms, can be reduced by 25% if they take actions to reinforce competitiveness. These include engaging with business support organizations, improving financial management and retaining skilled staff.

The report finds that direct support to firms is helpful and must be complemented by reforms to promote peace and stability and improve the business environment. Humanitarian partners, development agencies and capable state institutions must collaborate, coordinate and have a deep understanding of the context to avoid reinforcing the drivers of fragility, and maximize positive outcomes.

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Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars.

ACLED	Armed Conflict Location and Event Data
BSO	Business support organization
FCS	Fragile and Conflict-Affected Situations
FSI	Fragile States Index
GDP	Gross domestic product
ILO	International Labour Organization
ITC	International Trade Centre
OECD	Organisation for Economic Co-operation and Development
SDG	Sustainable Development Goal
SMEs	Small and medium-sized enterprises
SMECS	SME Competitiveness Survey

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Small Businesses in Fragility: From Survival to Growth



Foreword



Over the past few years, the international landscape has shifted dramatically: more and more, conflicts are breaking out within and across countries, amid rising geopolitical tensions and intense economic upheaval. These conflicts are putting lives and livelihoods at risk, at a time when the world is still working to recover from the painful toll of the COVID-19 pandemic, while grappling with rising costs of living and a greater incidence of climate-related natural disasters.

These crises are changing the entire fabric of communities and regions: they lead to greater fragility, and therefore risk the achievement of the Sustainable Development Goals, such as ending hunger, improving food security, transitioning to more sustainable modes of consumption and production, enabling decent work and economic growth, and ending gender inequality, to name a few. One person out of every eight currently lives in a fragile situation, and that number includes most of the world's poorest.

For smaller businesses, trying to survive—and thrive—in fragile and conflict-affected settings is exceedingly difficult. For these businesses, fragility means facing far greater start-up costs and limited capacity and resources for innovation. It means facing a greater risk

of failing outright. It means facing an even greater likelihood of the surrounding community experiencing poverty, and of people turning to self-employment to provide for themselves and their families. These businesses are the International Trade Centre's core constituency, and the most important lesson we have learned over nearly 60 years of serving them is that we cannot achieve sustainable, inclusive development unless these small businesses are able to thrive in the global economy.

Fragility manifests in different ways, while businesses also experience fragility differently. For instance, findings from our ITC Small Business in Fragility Survey, which we present in this report, affirm that small, informal, youth, and women-led firms often experience harsher repercussions from fragility than their larger, formal, older, and men-led counterparts, respectively. These nuances matter: what works well in one context can backfire when tried somewhere else. We cannot have a one-size-fits-all approach, but that does not mean that we cannot identify some best practices that can help.

Fragility requires a two-pronged approach, one where both firms and governments have critical roles to play. The states in which these entrepreneurs live and work can help by creating an environment where these enterprises have the infrastructure they need, are not burdened by excessive red tape, and are in an economy with clear and consistent rules and modes of operating. In parallel, small businesses can learn to adapt to changing circumstances, forge deeper relationships with partners, and adopt new ways of working that make them more competitive both locally and internationally.

These are efforts that need to happen in tandem: collaboration between everyone involved, from local governments and the private sector to international agencies and development partners, is critical to making sure that this two-pronged approach leads to lasting, positive change. To make a real difference, and in the right direction, also means developing a clear understanding of the repercussions that different



actions have in fragile and conflict-affected settings. We must all, always, proceed based on that time-honoured injunction: ‘first do no harm.’

Increasingly, our own work at ITC takes place in fragile settings, as the micro, small, and medium-sized enterprises that we collaborate with are often in areas affected directly or indirectly by conflict and other crises. That is why we have dedicated this year’s edition of our flagship publication, the SME Competitiveness Outlook, to what fragility means for small businesses, along with the role that businesses and states can play in mitigating fragility. It is also why we are adapting our own mode of working to make sure that our efforts on the ground and in policy circles can help small businesses and states address the root causes of this fragility, rather than allowing fragility to flourish.

As we approach our own 60th anniversary as an institution, and with precious time remaining to achieve the Sustainable Development Goals, we are facing a critical juncture in our efforts to avert the worst of climate change’s impacts, to achieve a gender-equitable world, and to make poverty and hunger a thing of the past.

This year marked the halfway point of the 2030 Agenda for Sustainable Development, and in December 2023 the first Global Stocktake under the Paris Agreement on climate change will conclude at the United Nations

climate conference in Dubai. What we have already heard at this year’s SDG Summit and from synthesis reports circulated under the Global Stocktake have affirmed that we have far more work to do to achieve a more sustainable, inclusive, and fairer world, both for current generations and those yet to come. Moreover, our research shows that fragility and conflict-affected states are among those struggling the most to deliver on the SDGs—meaning that the only way to realize this ambitious development agenda globally is by devoting far greater efforts to these settings.

The International Trade Centre stands ready to scale up our own efforts, ambition and commitment to closing the gap between the present we have and the future we need. This report aims to help us deliver on that commitment, and we hope it provides our partners with a better understanding of what fragility and conflict mean for small businesses, states, and sustainable development.

Pamela Coke-Hamilton

Executive Director
International Trade Centre

Fragility is the failure of the state to perform basic functions



Fragility is **multilevel** and **multidimensional**

Fragility varies across levels

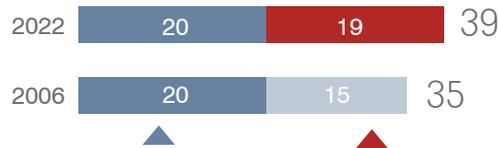


and along three dimensions



Fragility is **persistent** and **increasing**, hampering the Sustainable Development Goals

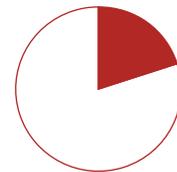
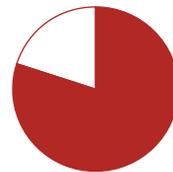
20 countries: Remained fragile and conflict-affected
19 new countries: Fell into fragility
15 countries: Escaped fragility



Number of countries classified as Fragile and Conflict-affected Situations (FCS) by the World Bank

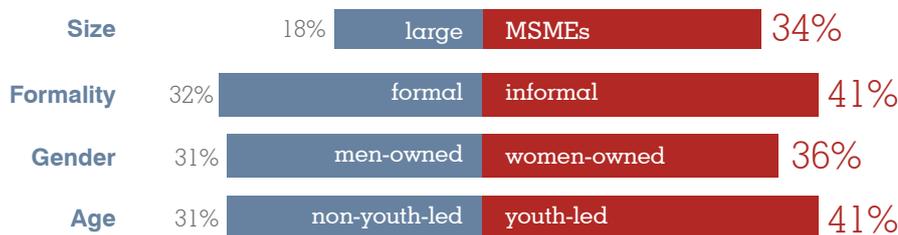


Major challenges to meet SDG 1- No poverty
80% – FCS vs **less than 20%** – non-FCS



Firms' characteristics matter

More small, informal, women-led and youth-led companies experience high fragility

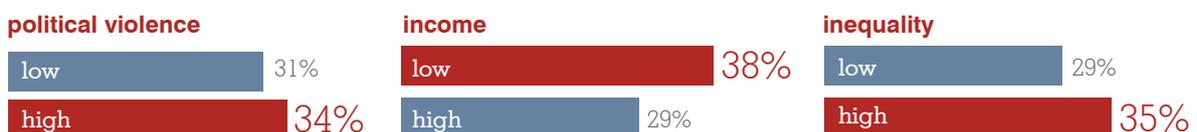


Share of firms experiencing high fragility

Location matters

Violent, poor and unequal regions have more companies experiencing high fragility

Share of firms experiencing high fragility in regions with:

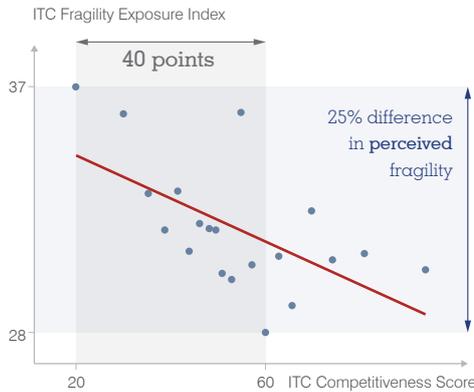


Higher competitiveness is associated with lower experienced fragility

COMPETITIVENESS

What firms do matters

Competitiveness helps firms cope with fragility

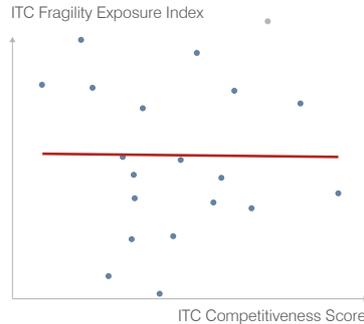


Perceived fragility can be reduced 25% by putting in place **internal measures** to raise firm competitiveness score by 40 points

Competitiveness is **not a silver bullet**

As fragility worsens, firm-level actions no longer protect firms from state-level fragility.

More fragile countries



There is a **window of opportunity** in which firm-level support can yield positive outcomes, before fragility and violence engulf firms and their business ecosystem entirely.

Reduce experienced fragility with **actions to support** business growth:

Engaged with Business Support Organizations (BSOs)



With strong hiring practices



Keeping financial records



share of respondents reporting employment growth (%)

Small Businesses: From survival to growth

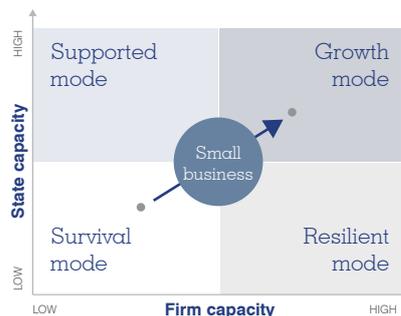
STATE CAPACITY

Secure peace as a basis for reforms. Rebuild institutional capacity for economic reforms.



FIRM CAPACITY

Strengthen ability to operate, build networks and adapt to sudden market changes.



Stakeholders must:

- **coordinate** to lessen risks
- **collaborate** to tackle multiple challenges
- understand the **context** to do no harm

Executive Summary

Small business in a more fragile world

The world is grappling with unprecedented crises.

The quadruple shock of COVID-19, conflict, climate change and higher cost of living threatens to push countries into greater insecurity, economic instability and social upheaval. As many places struggle to cope with these shocks, the world risks becoming more fragile.

As the types of crises that trigger fragility hit new places, others have found themselves trapped for years.

The World Bank currently classifies 39 countries and territories as fragile or conflict-affected, up from 35 in 2006. A look behind the figures is telling – of the 35 countries affected by fragility or conflict in 2006, only 15 have since managed to break out of fragility, while 19 others have fallen into it.

Rising fragility hampers people's ability to lead peaceful and prosperous lives. In 2021, nearly a billion people lived in fragile settings, with more than 300 million in extreme poverty. As crises push more places into fragility, **86% of the world's poor could be living in countries classified as fragile by 2030.**

Also, instability increasingly spills across borders. In 1991, only 4% of civil wars involved foreign forces. By 2021, the number had risen twelvefold to 48%. Moreover, the number of people forced to flee their homes, some to neighbouring countries and beyond, has doubled in the past decade, to roughly 100 million.

Breaking the cycle of fragility requires addressing the factors that drive it. Because it often coexists with and is reinforced by factors such as poverty and conflict,

How this report defines and measures fragility

This report focuses on the impact of conflict-driven fragility on the competitiveness and growth of micro, small and medium-sized businesses.

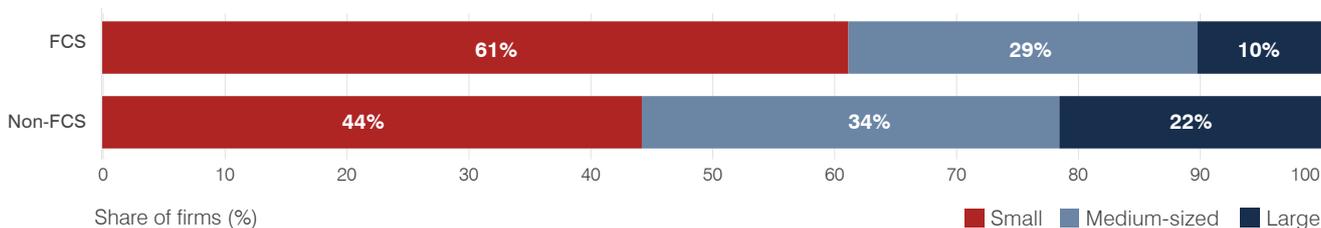
Why conflict? Conflict has persisted as one of the key factors driving fragility, with the term 'fragile and conflict-affected contexts' commonly used. While fragility can result from different events, including conflict, pandemics and climate change, each poses particular challenges to countries and businesses, necessitating a dedicated analysis to arrive at specific recommendations.

Why businesses? Just as fragility varies from country to country, its impacts may also differ from region to region within a country, and from firm to firm within a region. Understanding fragility from a business perspective, and particularly from that of the small businesses that constitute about 90% of all firms in fragile and conflict-affected settings, is necessary to complement macro-level analysis and put in place effective support strategies.

The analysis in this report is based on novel data gathered by the International Trade Centre to assess the experience of small businesses in fragile and conflict-affected settings. The Small Business in Fragility Survey collected information on two aspects of fragility. One set of questions helped identify the level and structure of fragility to which firms are exposed individually, which was used to build an index. Another set of questions assessed the extent to which fragility, as experienced by the firms, influences the obstacles they report. This helps to link the index to actual business outcomes.

The Small Business in Fragility Survey covered eight countries – Burkina Faso, Colombia, Honduras, Iraq, Kenya, Myanmar, South Sudan and Ukraine. In six countries – Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan – the survey covered a random sample of companies whose competitiveness ITC had previously assessed through its SME Competitiveness Survey (SMECS). This allowed responses to be combined, providing insights on whether competitiveness factors were associated with the firms' experience of fragility. ITC had not previously interviewed any of the firms in Ukraine and Honduras. In total, there were interviews with 1,323 firms, out of which 1,095 participated in both the SMECS and the Small Business in Fragility Survey.

More businesses are small



Source: ITC, based on World Bank Enterprise Surveys and Fragile and Conflict-Affected Situations (FCS) list.

isolating the drivers and outcomes is a challenge. Various definitions and measurements have been proposed, with the most common ones portraying fragility as a macro-level phenomenon that hampers the state's ability to fulfil basic functions and cope with shocks.

The impacts of fragility nonetheless trickle down. Fragility damages the business ecosystem and jeopardizes the ability of firms to compete, connect and change. By looking at fragility from a business perspective, this *SME Competitiveness Outlook* aims to promote actions that support enterprises to survive and grow, helping lay the foundations for long-lasting stability and sustainable, inclusive development.

All firms hurt by fragility

Stability requires strong foundations. This includes an active civil society and a vibrant private sector that provides the decent jobs, goods and services needed to increase incomes and meet societal needs, today and tomorrow.

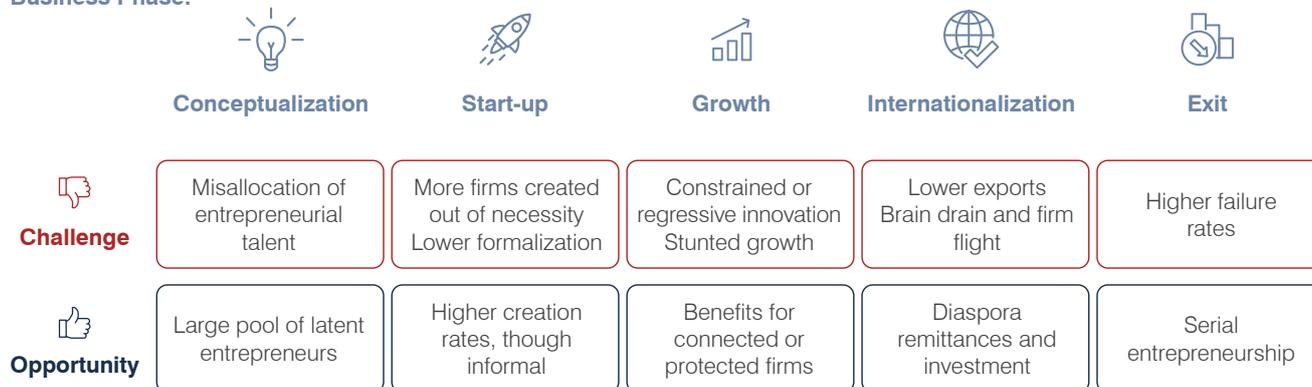
In fragile and conflict-affected places, small and medium-sized enterprises (SMEs) often play this critical role.

In fragile settings, micro, small and medium-sized enterprises comprise 90% of all businesses, with a stronger presence of smaller firms. With proper support, they have greater chances of coping with fragility, helping sustain the livelihoods of millions. If they are set on a growth trajectory, they are more likely to take off once stability starts taking hold and the business environment begins to improve. In fact, many have observed a so-called Phoenix effect – or a sharp upturn in entrepreneurial rates – as surviving firms rebound after peace and stability are secured.

Making small business survival a priority in fragile situations, while laying the foundations for firm growth, is essential in leveraging economic opportunities during peaceful times. Providing a secure environment for legitimate businesses to operate, while deterring companies from exploiting fragile situations, can support the transition from conflict and help sustain long-term stability.

The business life cycle: Opportunities and challenges

Business Phase:



Source: ITC, adapted from Brück et al., 2013.

Fragility constrains business in ways that are fundamentally distinct from non-fragile settings. Production and consumption become distorted, investment goes down and growth is stunted. This trickles down to the business ecosystem, depressing business dynamics across all stages of a firm's life cycle. Despite business opportunities at each stage, challenges abound. Consequently, the net impact of fragility and conflict on entrepreneurship – particularly the kind that promotes growth and stability – tends to be negative.

For emerging entrepreneurs, starting a formal business is difficult and costly. In fragile contexts uncertainty heightens costs, and institutions responsible for basic start-up procedures, such as property registration and contract enforcement, are undermined or inefficient. **Starting a business in fragile settings costs twice the world average and more than 15 times than in high-income countries.**

Pervasive market failures in fragile settings make it harder to start a business and make it grow. **Firms hoping to formalize and grow are deterred by the excessive cost and time.** This is exacerbated by the fact that firms in fragile settings tend to invest little in innovation. Firms innovate to simplify business processes, such as by shortening supply chains or finding customers closer to home. While such actions help them adapt to the circumstances and survive, they often do not lead to firm growth.

Survivalist entrepreneurship is also evident in the form of self-employment. Because informality is prevalent and salaried occupations are rare, **self-employment becomes a coping mechanism.** Between 2006 and 2020, around 70% of all employment in fragile and conflict-affected situations was self-employment, compared with a world average slightly below 50%.

Aspiring exporters face significant hurdles. Unstable or subpar infrastructure access; limited access to finance, exchange rate fluctuations and currency controls; and other deterrents reduce export opportunities. Unsurprisingly, ITC analysis shows that **the number of exporters decreases substantially** as areas become more fragile.

Business failure is also more common than in settings that are not fragile and affected by conflict. Smaller and newer ventures have less experience and fewer resources than established firms, leading to higher exit rates as fragility grows. Yet **firms that survive tend to see a rebound in economic opportunities once peace starts to take hold**, highlighting the need to maintain business support during fragility and conflict.

Fragility Exposure Index: Measuring the business impact

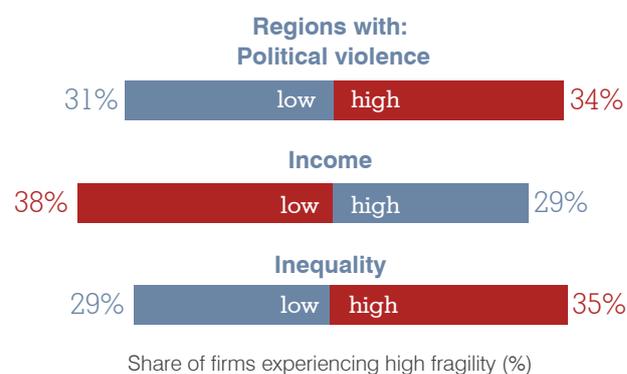
While much attention has been given to measuring and addressing fragility at the macro (state) level, exposure and impacts differ at the micro (business) level. To assess how different businesses experience the same overarching level of fragility, **ITC constructed a Fragility Exposure Index based on survey data from firms in eight countries.** The index shows that firms are exposed to different dimensions of fragility, and are affected to different degrees depending on business characteristics such as location, size and type of ownership, as well as the firms' own capabilities and actions.

Fragility can reach firms through security, economic and social channels. For example, if fragility is characterized by higher criminality, a larger firm that can afford private security is likely to be less affected than smaller businesses without such resources – though this may come at the expense of other, more productive investments. To reflect these nuances, the index was built around three pillars:

- **Security:** measures the impact of insecurity and violence on businesses
- **Economic:** measures the impact on firms' economic performance and opportunities
- **Social:** measures the impact on company relationships, reflected in trust in people, networks, business support organizations (BSOs) and local and national institutions

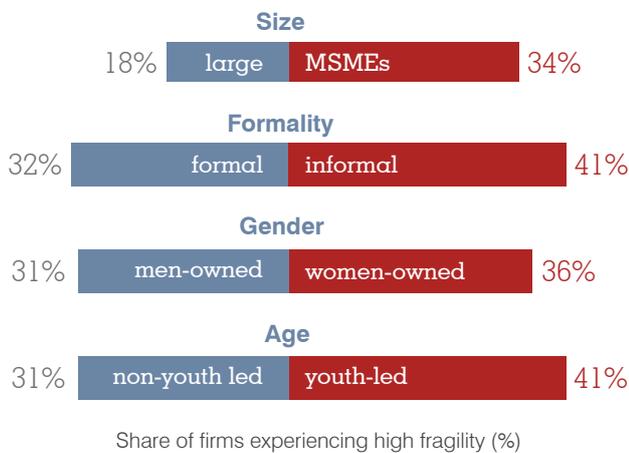
In addition to the structure of fragility, **business location matters. Firms in conflict hotbeds, in poorer areas, and regions where inequality is more marked often experience fragility more intensively.**

Businesses in violent, poor and unequal regions more affected



Source: ITC, based on ITC Small Business in Fragility Survey and Subnational Human Development Index Database of the Global Data Lab.

Small, informal, women-owned and youth-led firms intensively affected by fragility



Source: ITC, based on ITC Small Business in Fragility Survey.

Firms with certain characteristics are also more exposed and affected. Among those surveyed by ITC, smaller firms were more likely to report more intense experiences of fragility: **34% of micro, small and medium-sized companies reported experiencing high levels of fragility, compared with 18% of large firms.**

Informality further exacerbates the effects of fragility. **Informal firms were almost 10 percentage points more likely to report experiencing fragility intensively than formally registered ones.** This is partly because informal firms tend to have little or no recourse to formalized credit and are largely excluded from institutions that can provide the services they need to survive.

Women-led firms tend to be at a disadvantage even in non-fragile settings. Businesses owned and led by women generally have less access to public infrastructure services, finance and social protection. In fragile settings, additional factors such as women's increased exposure to violence and unsupportive social norms make them even more vulnerable.

Youth-led companies also report experiencing higher levels of fragility than non-youth-led companies. In fragile settings, youth-led enterprises are more likely to tread cautiously, focusing on consolidating operations and avoiding risk-taking.

Identifying which firms are likely to be more exposed to the security, economic and social challenges related to fragility is useful to design tailored support programmes. However, **it is necessary to go beyond what and where firms are and identify what they can do** to increase their ability to cope with fragility.

Businesses can act to curb impact of fragility

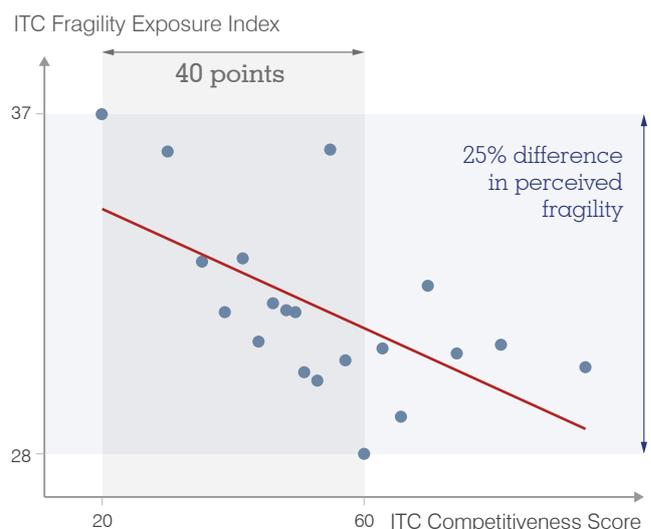
Building competitiveness can serve as a buffer to the impacts of fragility. When firms act to improve their competitiveness, they are likely to lower their exposure. For instance, by putting in place internal measures to raise its competitiveness score from 20 points (at the low end of the competitiveness distribution) to the average of 60 points, a firm's experienced fragility can drop by more than 25%, with no other changes taking place at the business ecosystem or national level.

At the micro level, competitiveness is based on a firm's business processes (ability to compete); internal and external connections (ability to connect); and responsiveness (ability to change). These capabilities provide a solid foundation for business resilience. Firms with critical competitiveness characteristics tend to fare better during crises.

ITC has pinpointed three firm-level actions that partially compensate for what is lacking in the environment of fragile and conflict-affected areas:

- **Build trustworthy connections**
- **Improve financial management**
- **Identify and retain skilled staff**

Competitiveness is associated with lower experienced fragility



Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys of 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

Work with business bodies to support growth



Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys of 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

First, companies engaged with business support organizations – as well as peers, buyers and suppliers – were more likely to report no revenue losses, compared with companies not engaged. What is more promising, **firms engaged with BSOs were more than 20 percentage points more likely to hire employees** – a positive sign of growth – than companies without such connections.

In fragile contexts, BSOs can act as a bridge among businesses and between firms and official institutions. They can enable businesses to create connections and share information to help them cope. Unfortunately, access to such institutions may be restricted for many businesses, and the quality of the services provided may also suffer due to limited funding and skewed priorities.

Second, businesses that manage resources well are stronger candidates for funding. Even if external funding is limited, companies with a good grip on their finances are better suited to identify internal buffers and continue operating in periods of disruption.

Firms with strong internal financial management mechanisms were less likely to experience fragility intensively, according to ITC surveys. **Companies that keep full economic records were 21 percentage points less likely to have lost revenue and twice as likely to report employee growth.**

Finally, companies that rely on professional hiring processes to identify talent were more likely to weather the economic impacts of fragility. **Forty-eight percent of enterprises with an established hiring process reported no drop in revenues, compared with 36% of those with a weak hiring process.**

These businesses were also more likely to expand their labour force. A strong hiring process increases the likelihood of finding employees with the right set of skills. This matters, as skilled workers are more efficient at adapting operations to new contexts, allowing firms to

Keep financial records to fuel expansion



Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys of 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

continue operating in periods of instability. Significantly, skilled employees are also more apt to innovate. In fragile settings, even innovation that is survival-driven and well behind the technology frontier, or frugal, is critical to ensure survival and power subsequent growth.

Unfortunately, the analysis also shows that firms' own actions can only help up to a certain level of fragility, and do not protect them from all manifestations of fragility. In fact, **as fragility becomes worse or more widespread, firm-level actions no longer protect firms to the same extent – or at all.**

Competitiveness is not a silver bullet, of course.

In less fragile countries, higher competitiveness is correlated with lower experienced fragility. This means that actions to increase competitiveness can lessen the exposure of companies to fragility. As the environment becomes more fragile, the relationship disappears. While firms' actions do matter, factors in the national environment, over which individual companies have little influence, are as or more important in determining their competitiveness – and experiences of fragility.

Similarly, firm-level action appears to have little impact on how companies experience the security aspects of fragility. In other words, all enterprises seem to be exposed to the harm caused by fragility through security channels, regardless of how much they try to improve their

Formal hiring practices underpin firm growth



Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys of 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

competitive position. In fact, there are situations in which more competitive and profitable firms become targets of extortion, corruption and other acts of violence.

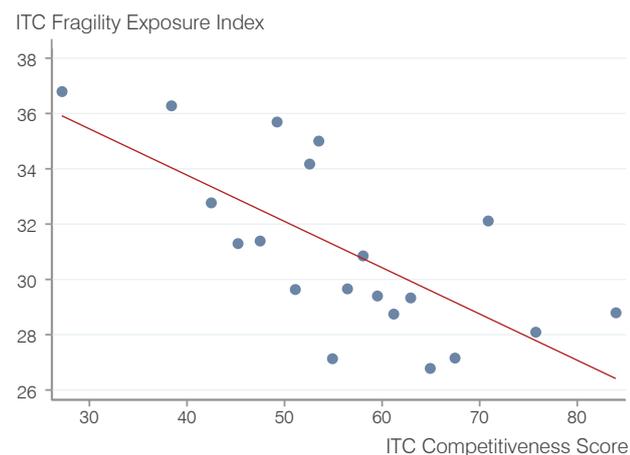
Two implications emerge from this analysis.

First, *there is a window of opportunity in which firm-level actions and support yield positive outcomes*. This tends to be before fragility and violence completely engulf firms and their business ecosystem. It is thus necessary to deal directly with the overarching situation of fragility, strive to consolidate peace and rebuild the capacity of the state to sustain a supportive and stable environment.

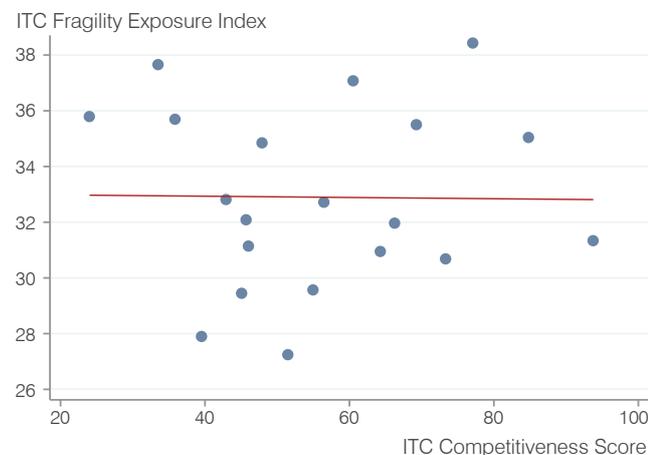
Second, *interventions at firm level alone, even at lower levels of fragility, may not be sufficient to*

Competitiveness is not a silver bullet

Less fragile countries



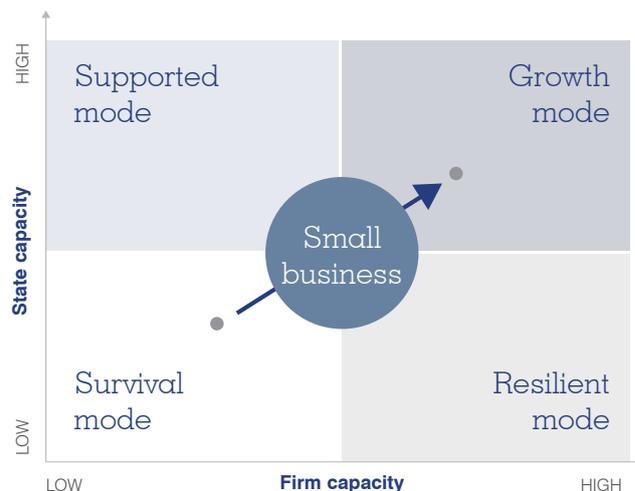
More fragile countries



Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys of 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

secure firms' survival and growth, and can even have negative effects if the underlying factors that drive fragility and conflict are not well understood and taken into account by those providing support.

**Addressing fragility:
A two-pronged approach**



Source: ITC.

Where crises are increasingly protracted and fragility tends to persist, interventions at the macro and micro levels must go together. It is fundamental to address the factors that drive fragility and restore the ability of the state and business ecosystem to perform their functions and cope with risks. But it is also critical to strengthen the capacity of firms to cope with the prevailing state of fragility and provide them with the right environment to move beyond survival, laying stronger foundations for growth and a more stable future.

Building state capacity includes reforms involving the business environment that remove barriers to entry and operation – reliable infrastructure and related services, fewer procedural complexities and better economic governance. Here, the goal should be to create a supportive business environment, in which entrepreneurs can thrive and grow in both size and number.

Building firm capacity or increasing firm competitiveness requires enhancing their ability to operate in the day-to-day environment, build strong connections with actors in the business ecosystem and adapt to sudden market changes. This allows them to become more resilient to the many shocks that fragility engenders.

Addressing both state and firm capacity in tandem is the key to promoting growth, in addition to avoiding some risks. If support is only to firms, interventions may have little to no impact, depending on the overarching level of fragility. Additionally, powerful firms in weak states may deliberately engage in destructive or unproductive activities. Similarly, enhancing state capacity in the absence of a strong private sector is likely to be short-lived, as exemplified by the numerous countries cycling through periods of fragility and stability.

Overcoming fragility is a multistakeholder process. By working collaboratively through strategic partnerships

where the value added by each stakeholder is clear, it is possible to address a broad range of macro, meso and micro issues that hinder the growth of small businesses.

Still, a one-size-fits-all approach is not the answer. SMEs have both the ability to foster peace and to enhance conflict. In many post-conflict contexts, private-sector actors contribute to greater rather than lower fragility, exacerbating inequality and inter-group resentment.

Any intervention must be grounded in a deep understanding of the environment, and the firms operating within it, to minimize negative outcomes and maximize the chances of success.



CHAPTER 1

The vicious cycle of fragility

CHAPTER SUMMARY

What is fragility, and how extensive is it? How does it affect business performance? How do businesses cope, depending on the stage of their business? This first chapter explores these questions.

Fragility hampers the state's ability to perform basic functions and cope with shocks, damaging the business ecosystem. It jeopardizes the capacity of firms to compete, connect and change throughout their life cycle. The costs of fragility and conflict in misallocated, displaced and disrupted business dynamics can be substantial, especially if entrepreneurial talent shifts towards unproductive or destructive activities.

Yet we can encourage actions that promote positive, opportunity-creating enterprises and growth-enhancing entrepreneurship, rather than negative activities and survivalist strategies. These high-growth and innovative businesses can lay the foundations for long-lasting stability and sustainable, inclusive development.

The world is grappling with unprecedented crises. The quadruple shock of COVID-19, conflict, climate change and higher cost of living threatens to push countries into greater insecurity, economic decline and social upheaval. As many places struggle to cope with these shocks, the world risks becoming more fragile.

The causes of fragility are many, multidimensional and often self-reinforcing. Breaking the cycle of fragility requires addressing the factors that drive it and the way they interact. This is a long-term process involving various actors and coordinated interventions to develop the structural conditions, attitudes and behaviours that lead to peaceful, stable and prosperous societies.¹

But laying the ground for a stable tomorrow starts with actions today. Ensuring that the most vulnerable, including businesses, are protected from the pernicious effects of fragility is not only a matter of survival, but also an investment in the future.

Small businesses operating in fragile and conflict-affected places can provide some of the jobs, goods and services needed to increase incomes and meet basic societal needs. With proper support, they have greater chances of coping with fragility, helping sustain the livelihoods of millions.

Table 1 Defining and measuring fragility

Measurement or index	Components	Source
Fragile States Index	Based on 12 risk indicators, grouped into four categories: cohesion and economic, political and social risks to state functioning.	Fund for Peace ⁶
Fragile and Conflict-Affected Situations	Defined as countries with the weakest institutional and policy environment, based on Country Policy and Institutional Assessment Scores, the presence of a United Nations Department of Peace Operation and/or flight across borders of 2,000 or more per 100,000 population. Separately, the World Bank lists countries in medium or high-intensity conflict.	World Bank ⁷
Fragile and Conflict-Affected States	Similar, but not identical, to the World Bank's FCS, focused on a Country Policy and Institutional Assessment score of less than 3.2 and/or the presence of a United Nations peacekeeping force in the past three years.	International Monetary Fund ⁸
Multidimensional Fragility Framework	Measured across six dimensions: economic, environmental, human, political, security and societal.	Organisation for Economic Co-operation and Development (OECD) ⁹
Conflict Severity Index	Based on four indicators: deadliness, danger, diffusion and fragmentation.	Armed Conflict Location & Event Data Project (ACLED) ¹⁰

Note: The World Bank's Country Policy and Institutional Assessment is computed annually for all its borrowing countries. It includes 16 criteria, grouped into four clusters: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions. It ranges from 1 (low) to 6 (high).

Source: ITC, based on the definitions of fragility used by referenced sources.

to and experience them. Chapter 3 identifies characteristics that can increase the capacity of a firm to cope productively with a certain level of fragility. Finally, Chapter 4 recommends actions to increase the capacity of the state to perform basic functions and that of the private sector to cope with fragility in a manner that lays a strong foundation for stability and sustainable growth.

A complex and persistent phenomenon

Fragility is neither linear nor one-directional – the factors that drive it and its outcomes are often intertwined. Poorer countries are more at risk of becoming fragile, and fragility often leaves countries poorer. Conflict can make a place fragile, and fragility can breed violence and instability. This makes it difficult to define the phenomenon. It also makes it persistent, as the cycle of fragility, conflict and poverty can reinforce itself.

One concept, many definitions

One of the major challenges to promoting global economic and social development is to understand when places become fragile, in which dimensions they are fragile and why.¹¹ But defining – and measuring – fragility is not straightforward, as illustrated by the multitude of indices used to examine it (Table 1).¹²

Fragility is traditionally understood as a state-level phenomenon. In fact, 'state' is the term most frequently

used to define fragility (Figure 1). The link is partly because the concept emerged from an earlier concern with 'failed states.' The now defunct failed states indices are precursors of today's fragility indices. In this context, high-capacity states are those able to provide public services, protect property rights and liberties, and with sole responsibility for handling violence and conflict.

States with low capacity, in turn, have little or no shared societal identity and trust, an underdeveloped private sector and little ability to handle shocks. These eventually translate into an environment conducive to instability and conflict (Box 1).¹³

Despite these state-centric definitions, fragility can affect territories and areas within countries that would not necessarily be classified as fragile as a whole. For instance, many conflicts are taking place in middle-income countries with relatively strong institutional capacity, affecting an increasingly larger share of the global population.

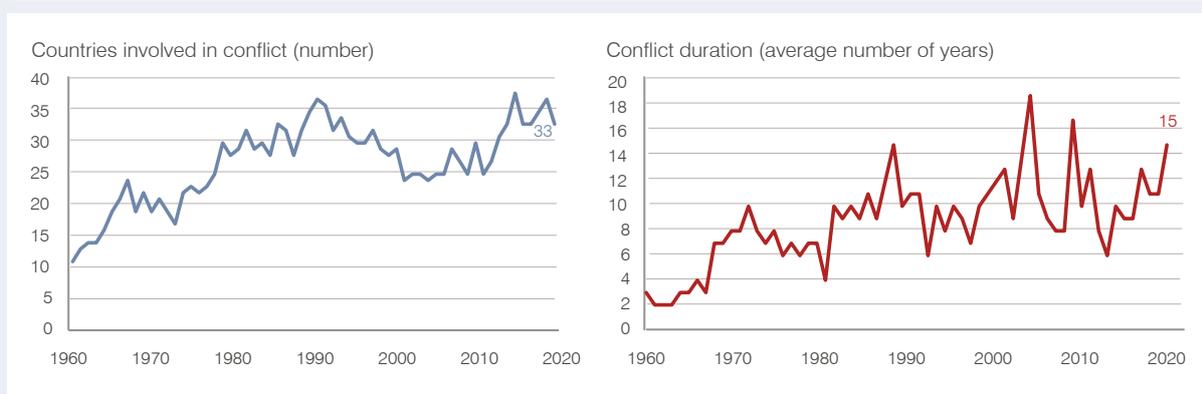
This means that many of the findings and recommendations in this report can also help shape interventions at subnational levels, even when the state generally retains legitimacy and the ability to provide for its people. Similarly, even in countries mired in conflict-driven fragility, there are de facto pockets of effectiveness, such as specific branches at municipal and district levels and quasi-state institutions, that can be directly supported.

Box 1: No development without peace, no peace without development

Many definitions of fragility refer to 'countries where the government has lost the monopoly over violence and territorial control'. Conflict is one of the primary drivers of fragility, with the terms 'fragile' and 'conflict-affected situations' often used together.

Fragile situations are conflict-affected when they experience significant state-based or interethnic organized violence. In 2021, 33 countries were involved in at least one conflict – a number that has increased considerably since World War II. In the same year, the World Bank classified 39 countries as 'fragile and conflict-affected situations.'

More and enduring conflicts



Note: A conflict is counted if at least 25 deaths have occurred. The figure on the right illustrates the temporal evolution of conflicts with at least 1,000 battle-related deaths in any given year. Duration is calculated as the difference between the last year in which the conflict remained within the definition's threshold, and the first year in which the conflict reached 25 battle-related deaths, post-World War II.

Source: ITC calculations, based on Uppsala Conflict Data Program/International Peace Research Institute Oslo Armed Conflict Dataset

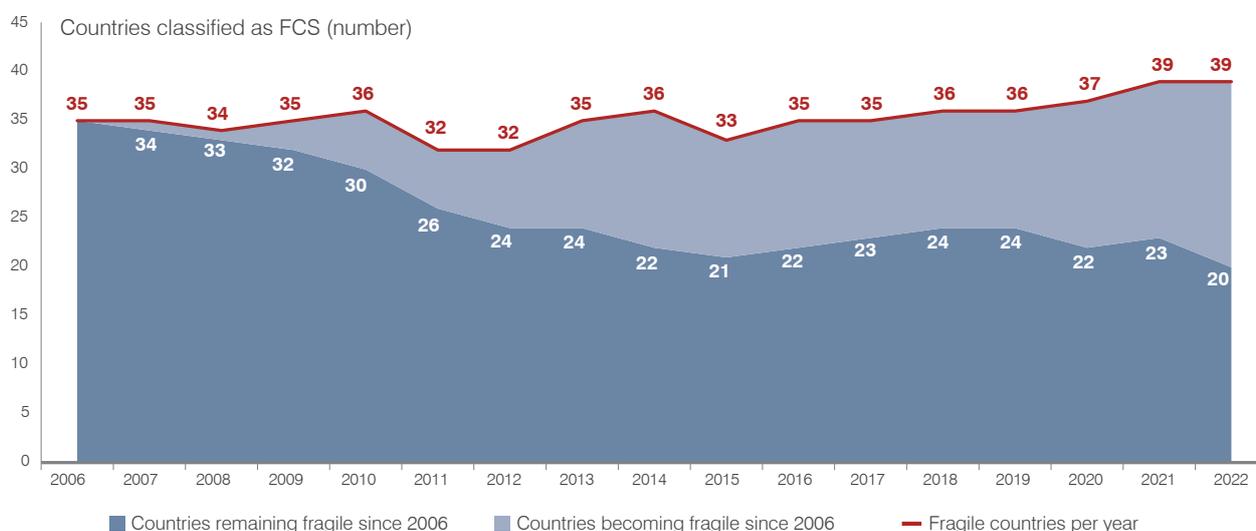
Instability is also spilling across borders. In 1991, only 4% of civil wars involved foreign forces. By 2021, the number had risen 12-fold to 48%. In addition, the number of people forced to flee their homes, some to neighbouring countries and beyond, has doubled in the past decade, to roughly 100 million.

The challenge to global development posed by conflict has thus become more acute, especially as many drag out over time, involving more countries and with more spillover effects. For these reasons, the Doha Programme of Action 2022–2031 argues that there can be 'no sustainable development without peace and no peace without sustainable development'. In line with this reasoning, this report focuses primarily on conflict and violence-driven fragility.

Nonetheless, other elements contribute to fragility. For instance, natural disasters induced by climate change can cause damage to infrastructure, disrupt food production and force people to move. Globally, some 24 million people were displaced by extreme weather in 2021 alone. These, in turn, have significant social and economic consequences that can increase the risk of state failure.

Note: The 2021 edition of the *SME Competitiveness Outlook* was dedicated to the topic of climate change and the challenges and opportunities for small businesses in going green.

Source: OECD, 2022; Reece, 2017; Sherbinin et al., 2018; The Economist, 2023.

Figure 2 Fragility persists and grows

Source: ITC, based on World Bank FCS list.

Overcoming fragility takes time

Places affected by fragility are often trapped in a vicious cycle. The social fabric is typically fractured, and parts of society may regard the state as captured, which undermines its legitimacy. Because the state lacks legitimacy, citizens are less inclined to comply with rules and norms. Without such compliance, it becomes harder for the state to perform its functions properly. This, in turn, leads citizens to question the state's legitimacy even more.

A state's failure to perform basic functions discourages the establishment of formal firms, as these face costs and uncertainties that shorten horizons and hamper investment. There are fewer employment opportunities with an underdeveloped private sector, pushing people into self-employment and underemployment. Societies struggle with the demographic transition, constraining the opportunities for youth.¹⁴ This lays a fertile ground for crime and violence.

An underdeveloped economy, limited economic opportunities, along with the lack of state legitimacy, expose the society to shocks that the state struggles to cushion due to its low capacity. This cycle entraps people in poverty and a sense of hopelessness.¹⁵

Escaping this trap is possible, though not easy, and fragility tends to persist. Of the 35 states classified as fragile by the World Bank in 2006, 15 have since managed to break the cycle. Some of those that had moved out of fragility fell back again, however, and 19 countries that were not fragile in 2006 became so by 2022 (Figure 2).

Given these increasingly protracted crises and the persistence of fragility, interventions at the macro and micro levels must go together. Addressing the factors that drive fragility and restoring the ability of the state and business ecosystem to perform their functions, under minimally peaceful conditions, is fundamental. But it is also critical to strengthen the capacity of businesses to cope with the prevailing state of fragility and provide them with the right conditions to move beyond survival, prepare for and contribute to a more stable future.

Trapped economies

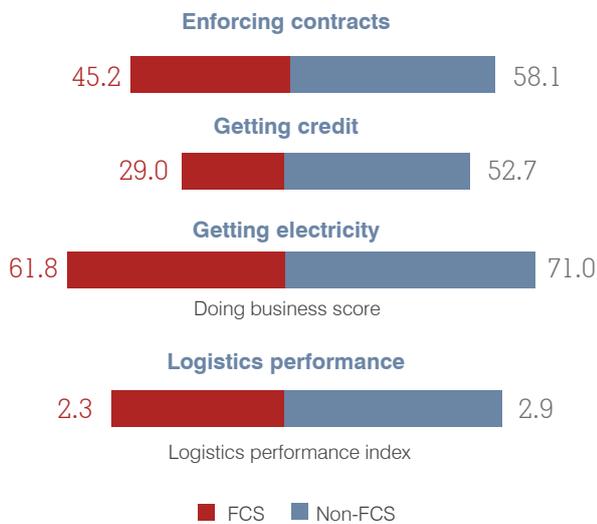
Fragility damages economic performance. Resources deteriorate as public expenditures are diverted to non-productive ends, ultimately affecting both production and consumption. Consequently, fragility and poverty often appear together, with countries affected by fragility lagging considerably in the drive to achieve the Sustainable Development Goals (SDGs). This development gap has profound consequences for citizens and their ability to lead peaceful and prosperous lives.

Distorted production and consumption

Fragility hurts production and consumption. Production often declines because inputs – capital, labour and land – are not used effectively and efficiently. For instance, there is damage to infrastructure, services are disrupted, educational quality deteriorates and property rights are unenforced.

Public investment in roads, telecoms, schools and other services is crucial to support entrepreneurial ventures.

Figure 3 Business environment challenges abound



Source: ITC, based on World Bank Doing Business Indicators, Logistics Performance Index and FCS list.

Businesses need a baseline level of infrastructure and services to operate profitably. As public expenditures dwindle, the costs of starting and running a business increase. Producers may also dedicate more resources to the security of premises, staff and products. These obstacles reduce expected profitability, discouraging formalization, hampering growth and triggering firm failures.¹⁶

Fragility is the textbook definition of a challenging business environment. Indicators confirm that firms in places affected by fragility and conflict face higher hurdles in key areas such as enforcing contracts, obtaining credit, getting electricity and relying on public infrastructure for good logistics performance (Figure 3).

All entrepreneurs featured as Business Voices in this report face – or faced – challenges associated with an unsupportive business environment. Participants in ITC programmes in Colombia, Kenya, Iraq, Myanmar and Ukraine alike report difficulties accessing electricity, transporting goods domestically and across borders, or relying on functioning state institutions to enforce contracts, albeit to varying degrees.

In this environment, consumption also decreases. Incomes fall, assets deteriorate and savings rates increase, reflecting caution in the face of uncertainty. Lower production and consumption reduce opportunities for profitable ventures. This translates into further declines in entrepreneurship, fewer start-ups, less investment for innovation and firm growth, and eventually more entrepreneurial failures.

In extreme cases, labour may be conscripted into military service or land and vehicles expropriated. Conflict also often causes governments to shift spending from civilian to military purposes. For instance, the share of military expenses as a percentage of government expenditures averaged 16% in fragile settings in 2015, compared with 6% for the whole world.¹⁷ As many fragile settings tend to be low-income, such a high share of resources dedicated to military ends comes at considerable economic and social expense.

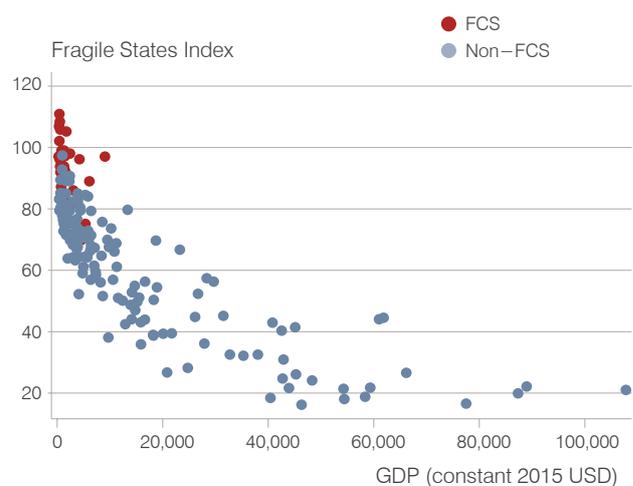
Poor and fragile: Two sides of the same coin

Fragility makes the world poorer. Research suggests that global gross domestic product (GDP) would have been 12% higher in 2014 had there been no fragile and conflict-affected settings since 1970. This implies that fragility and conflict reduced GDP growth by an average of 0.9% per year.¹⁸

Fragile and conflict-affected countries also tend to have lower incomes, though middle-income countries are increasingly affected. Of the countries classified by the World Bank as fragile or conflict-affected in 2022, 45% are low-income, 37% lower-middle income and 18% upper-middle income (Figure 4).¹⁹

Fragility and poverty often reinforce each other. Nearly 1 billion people lived in fragile settings in 2021, with more than 300 million among them living in extreme poverty.²⁰ As crises push more places into fragility, 86% of the world's poor could be living in countries considered fragile by 2030.²¹

Figure 4 Fragility and low income are connected



Source: ITC, based on the Fund for Peace FSI, and World Bank World Development Indicators and FCS list.

SDGs seemingly out of reach

The SDGs embody a commitment by United Nations member states to achieve common aspirations towards peace, prosperity and environmental protection.²² Countries affected by fragility lag behind in achieving 15 of the 17 targets, with considerable gaps in some of them (Figure 5).

Unsurprisingly, eradicating poverty is profoundly difficult for most places affected by fragility. Nearly four out of five countries affected by fragility report major challenges in meeting SDG 1 (No Poverty), compared with one in five non-fragile countries. What is worse, 81% of countries classified as fragile by the World Bank either stagnated or regressed in ending poverty,²³ partially due to the impact of COVID-19.²⁴

Gender inequality is often pervasive in fragile contexts. Three of every four countries affected by fragility report major challenges in achieving SDG 5 (Gender Equality), compared with less than one-quarter of those not affected. In some fragile contexts, archaic norms and laws prevent women and other vulnerable groups from fully engaging in and benefiting from social and political processes.

Climate change, another factor driving fragility, has further threatened progress in gender equality. In East Africa, for instance, child marriages rose markedly in 2021 and 2022 across regions worst hit by drought, as dowries became a

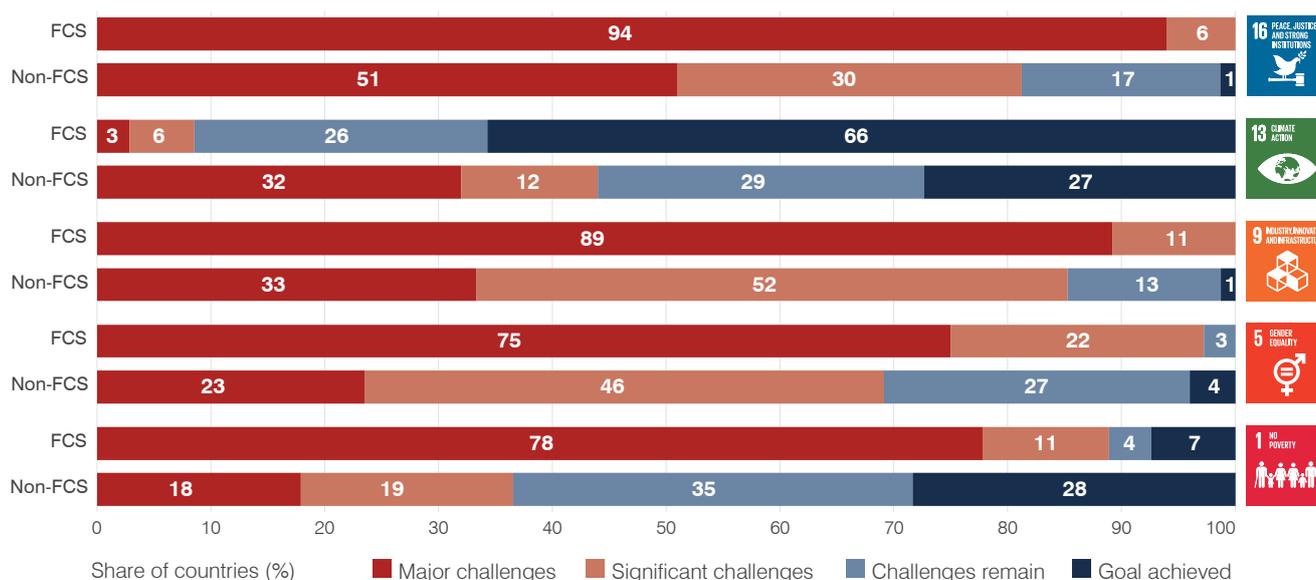
necessary source of income for families and communities.²⁵

While fragile contexts tend to be disproportionately exposed to the impacts of climate change, including food insecurity, they are not necessarily causing it. Two-thirds of countries affected by fragility reported achieving SDG 13 (Climate Action), which is double the one-third of non-fragile countries.

This positive achievement is little cause for celebration, however, as low emission levels largely reflect these countries' underdeveloped economies.²⁶ In fact, nine out of 10 countries affected by fragility report major challenges in achieving SDG 9 (Industry, Innovation and Infrastructure), compared with three out of 10 of those not affected. As countries transition out of fragility and reinforce their productive capacities, doing so in an environmentally sustainable manner and that facilitates adaptation to climate change will be crucial.

To achieve the SDGs globally, it is necessary to focus considerable effort on fragile contexts. Systematically and holistically improving peace, justice and strengthening institutions, as called for in SDG 16, can vastly reduce the main causes of fragility and support the drive to implement the SDGs.

Figure 5 Fragility hampers SDGs



Source: ITC, based on 2022 Sustainable Development report data and World Bank FCS list.

Table 2 Business life cycle: Opportunities and challenges

Business Phase:						
		Conceptualization	Start-up	Growth	Internationalization	Exit
 Challenge	Misallocation of entrepreneurial talent	More firms created out of necessity Lower formalization	Constrained or regressive innovation Stunted growth	Lower exports Brain drain and firm flight	Higher failure rates	
	 Opportunity	Large pool of latent entrepreneurs	Higher creation rates, though informal	Benefits for connected or protected firms	Diaspora remittances and investment	Serial entrepreneurship

Source: ITC, adapted from Brück et al., 2013.

Businesses: Surviving, not thriving

Fragility affects not only economic performance, but also business dynamics. It does so across the life cycle of a firm – from conceptualization through growth and even to its eventual demise (Table 2). While each phase offers some business opportunities, challenges abound, and the net impact of fragility and conflict on entrepreneurship – at least the kind that promotes stability and growth – is negative.

Misallocated talent, a missed opportunity

Entrepreneurship can be productive, unproductive or destructive.²⁷ Productive entrepreneurs create jobs, abide by laws and solve problems. Unproductive entrepreneurship can occur when talent seeks to evade authorities, unfairly influence regulatory processes or manipulate policies to increase profits.²⁸ At the other end of the spectrum is destructive entrepreneurship, or talent that moves into predatory and illegal activities, such as theft, smuggling and illicit trade, or outright state capture.²⁹

Employment opportunities are limited in fragile and conflict-affected settings. This means the pool of latent entrepreneurs is larger. It matters how these potential entrepreneurs allocate their talents because small businesses in conflict settings can collectively foster peace or enhance conflict.³⁰ As illustrated in the *Business Voice* of Segundo Ordóñez, from La Cooperativa Nueva Esperanza del Pacífico in Colombia, ensuring that all potential entrepreneurs have an opportunity to contribute positively

is vital for social inclusion and economic growth, which can ultimately help sustain stability and peace.

Productive entrepreneurship may leverage opportunities created by the fragile and conflict situation. Social enterprises, for instance, can fill in gaps in public services such as education, healthcare and transport. Some provide security services or repair damaged infrastructure. When successful, these companies improve the local business ecosystem for all firms.

However, unproductive or destructive entrepreneurs may unintentionally or deliberately obstruct pathways out of fragility because they benefit from it.³¹ Through illegal or predatory activities, such as illicit drugs or mineral trading, they increase their wealth and power for private benefit, rather than benefiting society. Additionally, these businesses may accumulate resources that they can leverage to maintain their power once overt conflict has ended.³²

Identifying and assessing the structures and institutions that spur talent and entrepreneurial effort, while complex, helps to illuminate the causes of fragility and how they relate to business dynamics. It can also point the way to solutions that avoid or reduce periods of fragility.³³

Self-employment, a survival strategy

In most places affected by fragility and conflict, starting a formal business is burdensome and costly. Institutions that issue construction permits, register property, attract and protect investors, and enforce contracts are inefficient or non-existent. Firms in fragile and conflict-affected places



Segundo Ordóñez

Former legal representative,
La Cooperativa Nueva
Esperanza del Pacífico,
Colombia

Social inclusion through market linkages

After decades of conflict, a peace agreement was signed in 2016 between the Government of Juan Manuel Santos and the Revolutionary Armed Forces of Colombia. The signatories pledged to return to civilian life, and many have become smallholder farmers. La Cooperativa Nueva Esperanza del Pacífico, specialized in coconut and cocoa production, was formed by 33 ex-combatants.

'Coconuts and cocoa are very common in our region and have good market potential. This is why many of us, signatories to the peace agreement, decided to grow and sell them. But we did not do it on our own – we started a cooperative to support one another. In the beginning, we had no experience running a business, did not know who our customers would be and how to make a profit. We were forced to rely on intermediaries and incurred high losses, from which we have not yet fully recovered.

'In the last four years, however, we have made great progress, partially thanks to ITC's Colombia PUEDE project. The project supported us in establishing a cocoa and coconut collection centre and provided advice in setting up a drying tunnel for cocoa, which helped improve the quality of our beans.

'We were also able to formalize the structure of the cooperative, establishing roles such as information manager and a sales committee. These efforts led to a contract with AOL Colombia, a fruit and vegetable seller, which committed to buying 10 tons of coconuts every month.

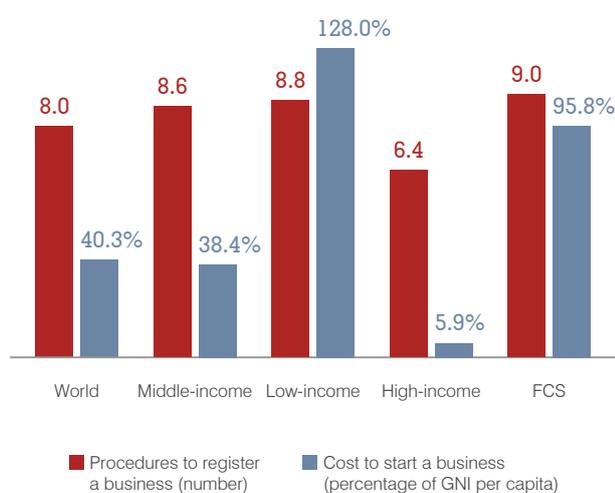
'Certainly, signing the peace agreement has been very positive for us. Things have changed for the better – we have a more relaxed and enjoyable life and get to spend more time with our families. We interact with institutions and exchange knowledge without being afraid or suspicious.

'Still, things have not been easy. As a cooperative of ex-combatants, we have received some, but limited, financial support from the Government, in the form of a basic income. Meanwhile, obtaining credit from banks has not been an option. Financial institutions have very stringent requirements, which most of us are not able to meet, having been outside of the market for an extended period.

'Recently, we have also been hit by challenges outside our control. We are currently not growing coconuts because of a coconut tree disease in our region. We are also struggling to distribute our produce to the rest of the country due to the closure of the Pan-American Highway because of a landslide. But we remain optimistic – we have the skills and knowledge to face these obstacles and come back stronger.'

ITC's project Paz y Unidad a través del Desarrollo Productivo y el Comercio (Colombia PUEDE) was funded by the European Union. It worked to improve earning opportunities of 2,000 smallholder farmers and their families in Colombia by increasing productivity, improving quality and strengthening market competitiveness.

Figure 6 Starting up: Red tape, high costs



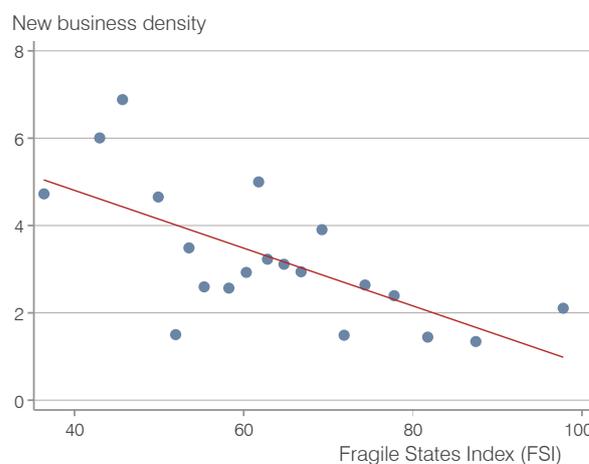
Source: ITC, based on World Bank Development Indicators and FCS list.

must comply with nine different procedures on average to start a business – the most in the world. Additionally, the cost is twice as high as the world average, and more than 15 times the cost in high-income countries, calculated as a percentage of gross national income (Figure 6).

Given the cost and time needed to start a business formally, most remain informal. In fragile settings, new business density rates, which measure the creation of start-ups in the formal sector, are significantly lower than in non-fragile settings (Figure 7). A large presence of informal firms tends to hold back growth, create unfair competition and erode formal firms' market share.³⁴ Moreover, empirical evidence shows that the labour productivity of informal firms is about one-fourth that of formal firms.³⁵

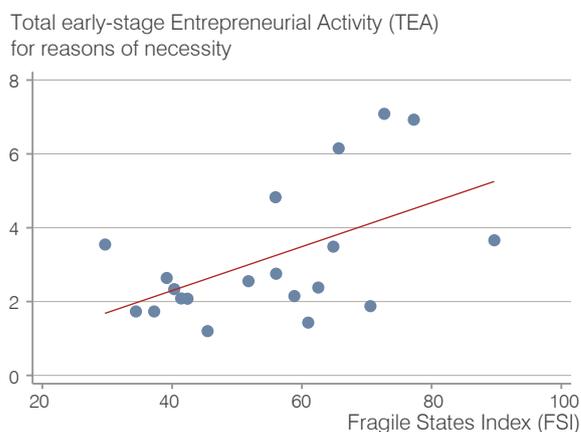
With greater informality, salaried occupations are limited and self-employment becomes a way of coping.³⁶ Between 2006 and 2020, about 70% of all employment in fragile and conflict-affected areas was self-employment, compared with a global average of slightly below 50%. This partially reflects lack of opportunity, and self-employment motivated by necessity increases with the level of fragility (Figure 8).

Figure 7 Formal business creation decreases with fragility



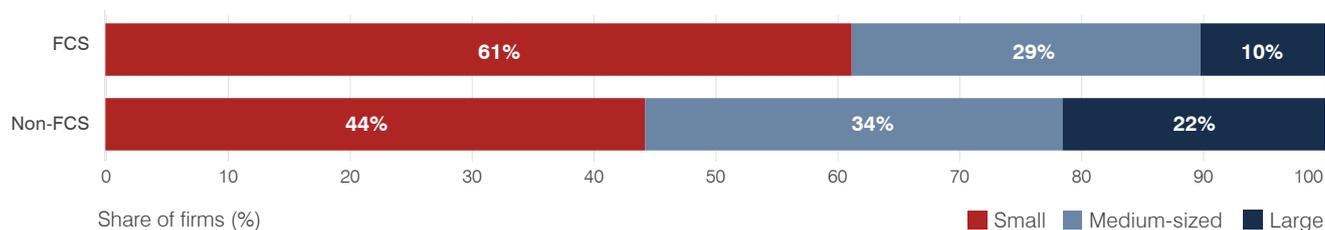
Source: ITC, based on World Bank Development Indicators and Fund for Peace FSI.

Figure 8 Self-employment is high, mostly out of necessity



Source: ITC, based on Fund for Peace FSI and the Global Entrepreneurship Monitor Adult Population Survey, International Labour Organization (ILO) and World Bank FCS list.

Figure 9 More businesses are small



Source: ITC, based on World Bank Enterprise Surveys and FCS list.

Lack of funding and innovation stunt growth

The pervasive market failures in fragile settings make it harder not only to start a business, but also to make it grow. Although SMEs account for most companies in all economies, they comprise 90% of businesses in fragile settings, compared with 78% in non-fragile contexts, with a strong prevalence of smaller firms (Figure 9).

The growth of firms is often hampered by their inability to innovate. While businesses in fragile and conflict-affected settings are nimble and adaptable, innovation is survival-driven and well behind the technology frontier. This kind of innovation, which economists call frugal, usually involves simplifying business processes to adapt to the circumstances, rather than introducing new products and services or adopting technologies that enhance productivity.

More firms in fragile contexts introduce process innovations, but these do not necessarily translate into increased labour productivity or sales growth (Figure 10).

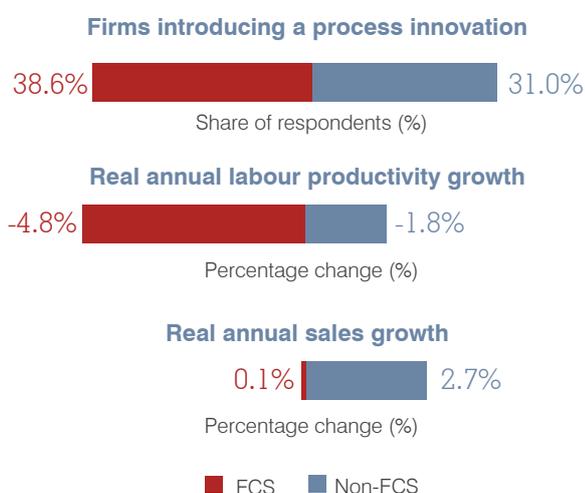
Such frugal innovation includes using fewer inputs or inputs that are less reliable but cheaper and more available, shortening supply chains or finding customers closer to home.

In contrast, innovation that enhances productivity paves the way for firms to reap future opportunities and generates positive effects on the wider economy, or externalities. It requires investment, whether from government or private sources. In fragile and conflict-affected settings, government support declines or ceases in areas such as research and development and higher education, with expenditures diverted towards non-productive ends, such as defence and security.

Private investment is also critical for firms to turn good ideas into new products and services. Innovation is risky and reliant on investors willing to be patient. However, although many financial entities are active in fragile and conflict-affected settings, their time horizons do not seem in line with the challenges of operating and investing in such contexts.³⁷ Moreover, few investors seem to have adopted a conflict-sensitive approach, to ensure the resources they provide do not fuel fragility.³⁸

In addition to a lack of investment and innovation that stunts growth, many firms deliberately pursue strategies that avoid growth. Their aim is to shelter themselves from some dynamics present in fragile and conflict-affected settings, such as bribery, extortion and other acts of violence, which more often target visibly successful firms.³⁹ This is unfortunate, as whether a firm grows or merely copes has an impact on economic development, not the least because fast-growing enterprises contribute disproportionately to creating employment.

Figure 10 Innovation is survival-driven



Source: ITC, based on World Bank Enterprise Surveys and FCS list.



Daryna Voitanishek

Sales Manager,
UApple
(Sadyi Dnepra LLC),
Ukraine

In search of alternative export routes

On 24 February 2022, the invasion of Ukraine disrupted lives and business operations. UApple is an apple grower located in the Dnipropetrovsk region. It employs about 55 permanent staff and 150 seasonal workers, and exports to European and Gulf countries.

'The first few months following the invasion were very hard, as we did not know how to react. With time, we put in place emergency protocols to allow us to carry out our business. For instance, we bought beds, food and medicine so our employees could stay on company premises if needed.

'We also bought three generators to avoid production interruptions when we started experiencing blackouts and internet outages. Though producing electricity with generators is three times more expensive than regular supply, we only had to rely on them in the winter months, when apple prices happened to be high. We were lucky.

'Currently, our main challenge is with logistics and transportation. We used to export our apples through Ukrainian ports, which is no longer possible. Now we are shipping through Romanian ports, which, although not much more expensive, takes an additional seven days. The delay is caused by long wait times at the Ukraine–Romania border, as many Ukrainian companies are using this alternative route.

'Our clients understand the obstacles we face, but we still make sure to clearly communicate how disruptions are expected to impact delivery. We have also adjusted our payment terms to minimize the risks clients face when buying from us.

'For instance, before the conflict, buyers would transfer the bulk of the payment when the truck left company premises. Today, this is risky, as they do not know what will happen while the truck is crossing the country. So, we allow them to transfer the largest share of the payment when the shipment has crossed into Romania.

'Though we now internalize risks, these measures were necessary to ensure we retain our clients. And while it was difficult to grow our business in this environment, we still managed to acquire two new clients. In fact, ITC helped us attend a trade fair in Madrid, where we met one of them. This was a great success, because 30% of our exports, by value, now go to this company.'

The Embassy of Sweden to Ukraine finances the project Ukraine: Linking SMEs in the fruits and vegetable sector to global and domestic markets and value chains. It aims to enhance the competitiveness and sustain exports by Ukrainian SMEs of fruits, vegetables, nuts and wine. These businesses receive support to produce goods that meet market requirements and to access new markets, particularly within the European Union.

Fewer exporters, concentrated markets

Doing business across borders is more complex and often riskier than operating at home. It also requires firms to be internationally competitive. As pervasive fragility and conflict undermine competitiveness, firms tend to put less of a priority on going international. Poor access to electricity, telecommunications and transport facilities in fragile contexts is a barrier to trade, reducing opportunities to export even among firms with potential to do so.⁴⁰

Corruption, both a symptom and a cause of fragility, also helps explain lower participation in cross-border trade.⁴¹ It tends to raise production and operational costs and reduce profits, discouraging firms from exporting.⁴² Nonetheless, corruption may increase the probability of firms exporting indirectly by selling domestically to an exporter. These indirect exporters tend to be relatively insulated from corruption, as they rely on intermediaries that learn how to circumvent red tape through repeated interactions.⁴³ Strengthening domestic value chains can therefore serve as a path for firms in fragile settings to engage, albeit indirectly, in international trade.

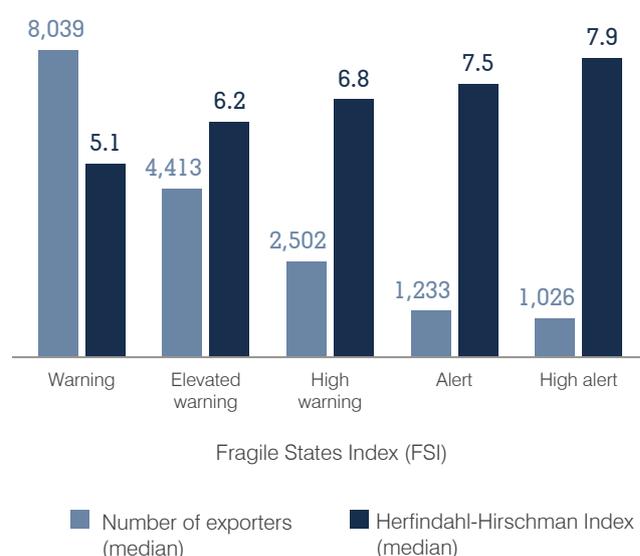
Finally, companies that were previously connected to international markets may suddenly find their links severed. As illustrated by the *Business Voice* of Daryna Voitanishek, Sales Manager at UApple in Ukraine, the conflict in the country has forced companies to look for alternative – and often less favourable – routes to export.

Countries affected by fragility and conflict tend to have fewer exporters.⁴⁴ As places become more fragile, the number of exporters decreases considerably, according to ITC analysis. This reduction is more pronounced in the earlier stages of fragility, as there are more exporters in the market in the first place (Figure 11).

Comparing South Africa, Botswana and Côte d'Ivoire helps illustrate some of the effects fragility has on exporters' dynamics. South Africa is classified as 'warning', according to the Fund for Peace. The country has reported about 25,000 exporters for a population of 60 million. Côte d'Ivoire, classified as 'high alert', has reported around 1,000 exporters for a population of 30 million. Despite Côte d'Ivoire's population being half that of South Africa, its number of exporters is only 4% of South Africa's.⁴⁵ Because South Africa is wealthier than Côte d'Ivoire, a higher level of GDP could explain this disparity. Nevertheless, further comparisons show that other factors are at play, including fragility.

Botswana, like South Africa, is classified as a 'warning' country. It has a population of under 3 million, 10% of that of Côte d'Ivoire, and its GDP is one-third that of Côte

Figure 11 Market concentration, fewer exporters



Source: ITC, based on the Fund for Peace FSI and World Bank Exporter Dynamics Database (EDD).

d'Ivoire. Still, it has nearly twice the number of exporters, even though it is a landlocked country. Though the relationship between exports and fragility is complex, the latter likely plays a role in explaining the disparity in trade performance. This, coupled with economic structure and other factors, affects the economic fabric of the country and the business opportunities available.

The drop in general exports does not usually apply to extraction and trade of natural resources, because these tend to operate as enclaves and can afford additional protection. As a result, many countries affected by fragility and conflict become increasingly dependent on commodity exports, often dominated by few large firms, as a source of revenue.⁴⁶

Alongside this commodity dependency, the behaviour of established firms often leads to market concentration, with few but powerful enterprises (Figure 11). This is because weak political governance enables established companies to restrict or drive out competition and engage in rent-seeking.⁴⁷ Such activities include influencing regulations to their own benefit and using connections with government officials and informal powerholders.⁴⁸ In addition, many of these powerful companies are state-owned enterprises, creating an unequal playing field for businesses and lowering the incentives for activities that enhance productivity.

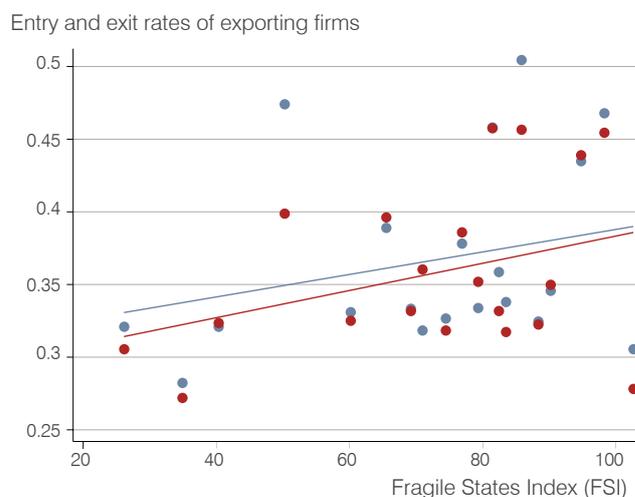
More firms created, and failing

While more informal and necessity-driven firms are created as fragility increases, business failure is also more common.⁴⁹ This reflects the fact that smaller and newer ventures have less experience and fewer resources than established firms, leading to higher exit rates as fragility grows (Figure 12).

In dynamic markets, companies enter and exit constantly. This is not necessarily negative, as overall economic productivity increases when new, innovative companies are created and those that are least competitive fold. However, in fragile and conflict-affected settings, the survival of firms is arguably more valuable, and not just because these small firms sustain the livelihoods of millions.

After conflict has ended, many have observed a phenomenon known as the Phoenix effect.⁵⁰ This refers to a sharp upturn in entrepreneurial activity, as firms that have managed to cope with fragility and conflict experience a rebound when countries return to peace. Thus, prioritizing business survival during conflict is important for leveraging economic opportunities later, which, in turn, can help sustain long-term stability.

Figure 12 Entry and exit increase with fragility



Source: ITC, based on the Fund for Peace FSI and World Bank Exporter Dynamics Database.



Ouided Bouchamaoui

Nobel Peace Prize
co-Laureate

THOUGHT LEADER

Business leadership in a time of transition

By working together and with others at times of uncertainty, businesses can help build stability and strength.

I am discrete by nature and have tended to avoid the spotlight. Still, my work led me to become a public figure in very challenging circumstances.

In 1990, I became involved in an employers' organization. I rose through the ranks of the most prominent and oldest organization of business owners in Tunisia, the Tunisian Confederation of Industry, Trade, and Handicrafts (UTICA), to become its President. In fact, I was the first woman in Tunisia – and the Arab world – to lead an employers' federation.

The year was 2011, when protests started in Tunisia what would later be known as the Arab Spring. I found myself having to restore the reputation of the private sector, and build a broad coalition to sustain the transition, while also dealing with personal threats to my safety and that of my family.

Changing perceptions

In the aftermath of revolution, there was stigma against being a business owner because many felt the business community benefited from the previous regime. My first task as UTICA's President was to change public perception, and emphasize the pivotal role played by the private sector, especially small businesses, in spearheading innovation, creating employment, building resilience and underpinning economic stability. In countries in transition, these businesses also promote much needed social cohesion and inclusiveness, by enabling people from diverse backgrounds to participate in economic activities, fostering gender equality and generating opportunities for young people.

The upheaval experienced in the country after January 14, 2011 is the flip side of the democratic transition process. Many organizations, associations, national bodies and even political parties did not survive the transition, for diverse reasons. UTICA withstood the storm by staying true to its mandate to support the private sector and avoiding political disputes and battles. I opposed every attempt to align the organization to specific party interests, as I was convinced that only by maintaining total independence would the organization be able to preserve its credibility and play its part in shaping a new Tunisia.

Need for broader coalition

I also knew that we could not do it alone, and that a broad coalition had to be forged. Building a network is critical for business success, and that is no different for a private sector organization. In this context, I sought a rapprochement between UTICA and the country's trade union federation. While some thought that the coming together of employer and worker federations was illogical, and even somewhat suspicious, we showed that we could work jointly to safeguard democracy.

This rapprochement did not eliminate our differences, as each side continued to promote its perspective and defend the interests of its constituency, but we succeeded in reducing conflict and easing social tensions by bringing stakeholders together through dialogue.

In 2013, two political assassinations of members of the opposition shook the country. We were afraid that we would lose our democracy. At this juncture, UTICA's collaboration with the labour federation expanded to include the Bar Association and the Tunisian Human Rights League. We became known as the National Dialogue Quartet and together we underwent several gruelling months of negotiations with dozens of political parties to safeguard the fruits of the revolution.

The process was not easy, but we persevered and succeeded. People recognized that democracy was possible in our region and in our country. They saw that dialogue was possible even in difficult times, and perhaps even more needed. And yes, we won the Nobel Peace Prize.

After the National Dialogue was over, I decided to step down in favour of new leadership in UTICA. Many in Tunisia found it hard to believe that an official would willingly give up power, and leaving was my last official contribution to a smooth and orderly transition. I announced my decision not to pursue a second term before an audience of some 2,500 UTICA members, receiving a standing ovation. The memory of that moment, and all that preceded it, will always fill me with pride and hope for better days ahead.



CHAPTER 2

Fragility from a business perspective

CHAPTER SUMMARY

How and to what extent does fragility affect different locations? Are specific enterprises or groups of enterprises likely to be exposed more than others?

Just as fragility varies from country to country, its impacts may also differ from region to region within a country, and from firm to firm within a region. ITC analysis shows that firms are more or less exposed to fragility depending on location, size and type of ownership. Moreover, fragility can be doubly adverse. Some firms are harmed both by operating in more fragile settings and by being particularly exposed to, and affected by, the prevailing state of fragility. As such, macro measurements must be complemented by micro assessments to ensure that support programmes and policies are targeted to local and firm contexts.

The new ITC Fragility Exposure Index provides a good starting point to understand fragility from a business perspective. When linked to the ITC Competitiveness Framework, it gives critical insights on how to improve a small firm's capacity to cope with fragility in a positive, growth-enhancing manner.

While a country may be entirely classified as fragile, conditions may differ widely sub-nationally. In Ukraine, for example, conflict has been more intense in the eastern parts of the country. Firms in these regions are arguably more exposed to the effects of fragility and conflict. However, all firms, regardless of their location, are likely to experience increased fragility compared with their pre-conflict state.

Much attention has been given to measuring and addressing fragility at the macro level, but there has been little analysis of the exposure and impacts at the micro level. Fragility manifests itself through security, economic and social channels, affecting firms differently. If fragility involves higher criminality, a larger firm with recourse to private security is likely to be less affected than smaller firms without such resources, though this comes at the expense of other, more productive investments. Similarly, if social norms and economic practices disempower women, fragility is likely to have a greater negative impact on a women-owned firm than the male-owned company next door.

Understanding fragility from a business perspective deserves attention.

Fragility is multilevel and multidimensional

Country-level measures of fragility are useful, but blunt, instruments to guide targeted interventions. Although such indices shed light on overall impacts of fragility, they provide little information on the factors that drive these impacts and how they vary across space and firms. To overcome this limitation, ITC collected data and developed an index of fragility based on firms' reported experiences. The ITC Fragility Exposure Index aggregates firm-level scores, illustrating how different companies experience the same overarching state of fragility.

Measuring fragility at the firm level

The ITC Fragility Exposure Index recognizes that fragility has multiple levels and dimensions. It is multilevel because fragility may vary significantly across locations within the same state, making it necessary to break down country-level gauges to understand them better. It is also multidimensional because fragility manifests itself through several channels, exposing firms to different types of fragility.

Based on firms' responses to the ITC Small Business in Fragility Survey (Box 2), the ITC Fragility Exposure Index consists of three pillars: security, economic and social.

- **Security pillar:** assesses if and how a business is exposed to and experiences insecurity and violence. Impacts may include damage to business assets, forced relocation or temporary shutdown, customers feeling unsafe, loss of staff due to violence, staff stress-related illness, injury or physical harm, harassment of staff or customers, and requests for unofficial payments, bribes and extortions.
- **Economic pillar:** assesses how firms are exposed to and experience fragility through reduced economic performance and opportunities. These may be due to difficulty accessing resources and getting products to customers, lower demand, clients refusing to pay bills and reduced investment and revenues.
- **Social pillar:** measures the exposure to and experience of fragility in the social fabric of the company and its relationships. This reflects trust of the owner and staff in people, networks, business support organizations (BSOs) and local and national governments.

The ITC Fragility Exposure Index assesses whether entrepreneurs are safe, have equal access to economic opportunities and belong to the social fabric of the place where they operate. A firm's experience of fragility is the sum of the fragility experienced under each pillar, with higher values indicating that it experiences the effects of state-level fragility more strongly.⁵¹ As the index is based on companies' own answers, it captures both objective facts and perceptions.

Business location matters

There is considerable variation in how firms are exposed to and experience state-level fragility, across and within countries. While the experience of fragility in the ITC sample was clustered around the respective country's average level of fragility, some companies reported considerably higher or lower intensity than their national peers (Figure 13).

This finding holds broadly for all countries in the sample, but with notable differences. For example, in Colombia and Honduras – two countries not classified as fragile or affected by conflict – the average intensity of fragility experienced by companies is lower than in other places, as expected. Additionally, the experience of fragility in these two countries is more tightly bunched near the average, with a very small number of firms reporting lower or higher intensity.

In Burkina Faso and Myanmar, in contrast, the average intensity of fragility is higher, and the distribution is much wider, with some firms reporting much lower or higher experiences of fragility. This suggests that firms in Colombia and Honduras tend to have similar experiences of fragility (or lack thereof), whereas in Burkina Faso and Myanmar, there is much more variation in experiences from firm to firm.⁵²

In addition to state-level fragility, several factors may influence the intensity with which a firm experiences fragility. First, a firm's location can affect its exposure. Second, the types of fragility to which it is exposed, as defined by the Fragility Exposure Index's three pillars. Third, how vulnerable it is to these types of fragility. Finally, the coping mechanisms it has to lessen the impact. The first three factors are addressed in this chapter, whereas the last one is the focus of Chapter 3.

Box 2: The ITC Small Business in Fragility Survey

Between November and December 2022, ITC partnered with the International Security and Development Center and the Norwegian Refugee Council to design and carry out a survey assessing the experiences of small businesses in fragile and conflict-affected settings.

The Small Business in Fragility Survey collected information on two aspects of fragility. One set of questions helped identify the level and structure of fragility to which firms are exposed individually, which was used to build an index. Another set of questions assessed the extent to which fragility, as experienced by the firms, influences the obstacles they report. This helps to link the index to actual business outcomes.

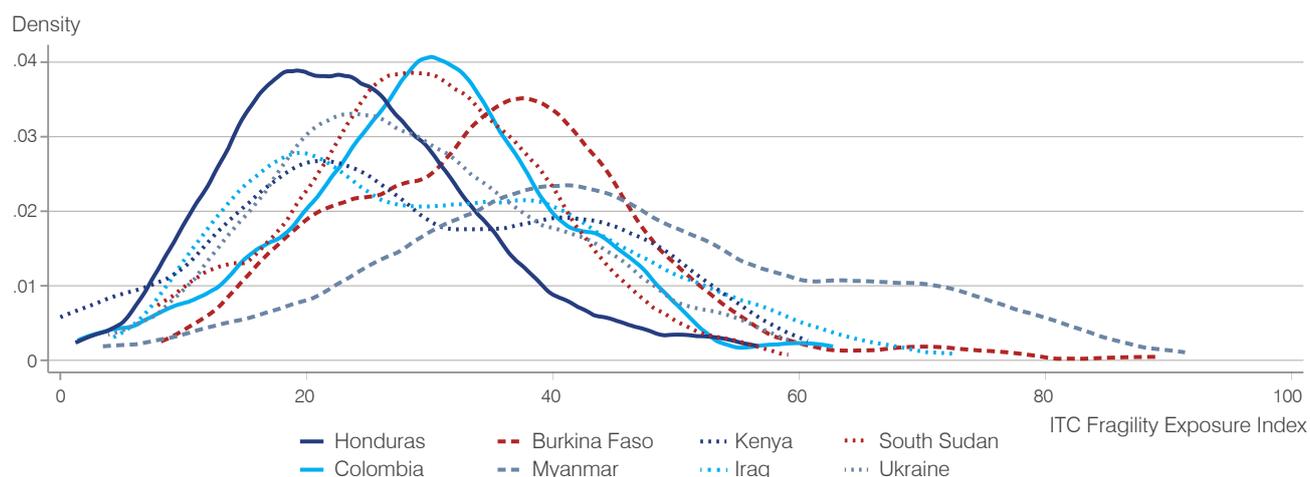
The survey covered eight countries: Burkina Faso, Colombia, Honduras, Iraq, Kenya, Myanmar, South Sudan and Ukraine. The World Bank classifies five of these – Burkina Faso, Iraq, Myanmar, South Sudan and Ukraine – as fragile and conflict-affected. The other three have experienced state-based violence in the past, with the Fund for Peace in 2022 issuing elevated warning for Colombia and Honduras and high warning for Kenya.

In six countries – Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan – the survey covered a random sample of companies whose competitiveness ITC had previously assessed through its SME Competitiveness Survey (SMECS). This allowed responses to be combined, providing insights on whether competitiveness factors were associated with the firms' experience of fragility. ITC had not previously interviewed any of the firms in Ukraine and Honduras. Their inclusion aimed at assessing different dimensions of fragility and ensuring wider geographical coverage.

In total, 1,323 firms were interviewed, of which 1,095 participated in both the SMECS and the Small Business in Fragility Survey.

Note: For additional information on the survey design and deployment, refer to Annex I.

Figure 13 Firms experience fragility differently, across and within countries



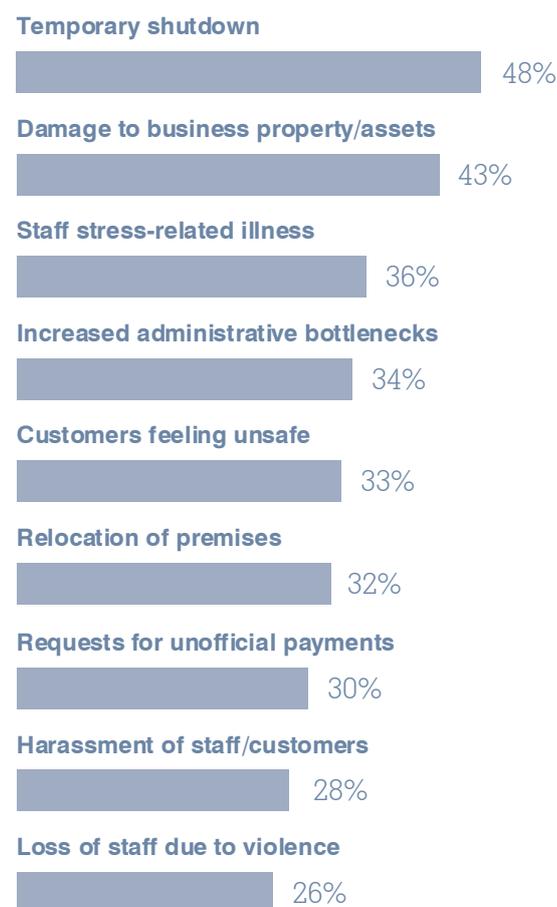
Source: ITC, based on ITC Small Business in Fragility Survey.

**The security pillar:
Violence harms property and people**

Businesses operating in fragile and conflict-affected settings are often concerned about security. Episodes of violence can directly damage the firm's property and operations, and most firms in ITC's sample have reported such experiences. Nearly half of the companies interviewed have been forced to shut down temporarily due to insecurity, more than 40% have suffered damage to property and assets, and more than 30% have had to relocate (Figure 14).

Insecurity and violence also affect staff and customer well-being. More than one in three businesses reported staff suffering from stress-related illnesses, and a similar percentage said customers feel unsafe on their premises. What is more, a quarter of businesses experienced customer or staff harassment, or staff loss due to violence (Figure 14).

Figure 14 Businesses: wide range of security concerns

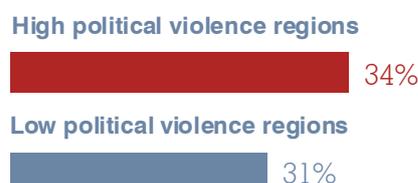


Source: ITC, based on ITC Small Business in Fragility Survey.

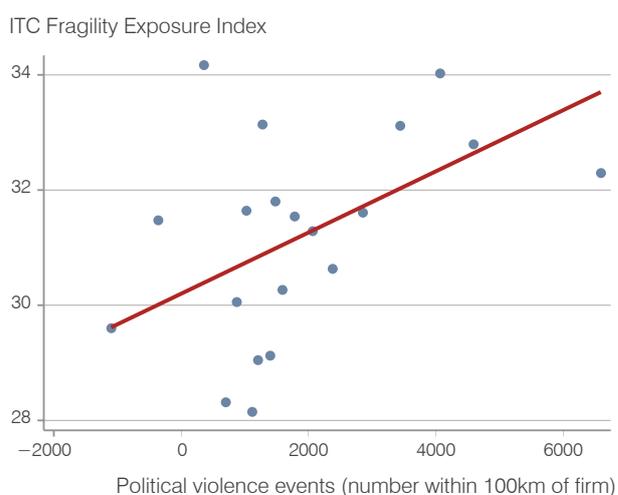
The intensity of violence is not homogenous, however. All else equal, and as expected, more firms located in conflict hotbeds reported intense experiences of fragility than those in more peaceful or stable parts of the countries. The intensity of fragility, as reported by the firms and measured by the ITC Fragility Exposure Index, is directly related to the amount of political violence and protests occurring in their immediate vicinity (Figure 15). Interestingly, being situated close to, but not in the midst of, conflict may boost opportunities for businesses. These neighbouring companies may, for instance, benefit from an influx of displaced labour or by providing services to displaced communities.⁵³

The *Business Voice* of Aung Khaing Htwe, Managing Director of Smile Happy Company in Myanmar, illustrates the heightened obstacles faced by companies located in certain areas. The honey exporting company relies on the production of local beekeepers, whose mobility has been limited by security checkpoints in rural areas.

Figure 15 Companies experience fragility more intensively as violence increases



Share of firms experiencing high fragility (%)



Source: ITC, based on ITC Small Business in Fragility Survey and ACLED Project.



Aung Khaing Htwe

Managing Director,
Smile Happy Company,
Myanmar

Back to basics: transport, electricity and regulations

In 2021, the civilian Government of Myanmar was removed by a military administration that has remained in power since then. Smile Happy Company is a honey exporter from Yangon that relies on the production of rural beekeepers.

'The beekeepers, our primary producers, have been most affected by the recent instability. This is because they must transport bees to different areas during the flowering seasons and must cross multiple checkpoints in rural regions. Mobility is therefore more time consuming, and bees are dying during transport. Due to inflation, transporting bees has also become more costly, as petrol is more expensive. The result has been a drop in honey production and higher production costs.

'Exporting has also become more difficult, as policies change frequently, sometimes monthly or even weekly. It takes time to adapt to the new regulations, and this holds up operations and delivery. For example, in the past, we did not need to apply for a permit to export. Recently, however, we were told that we need to apply for an export permit before customs clearance.

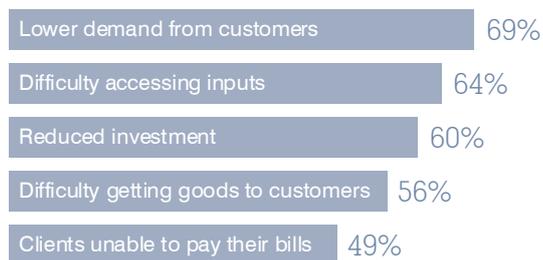
'Another issue is the fixed exchange rate with the US dollar. Last year, the Government set a value below the market rate, which decreased our revenue. For example, we cannot sell our honey at prices that reflect the cost of our supplies, which tend to be higher as many such supplies are imported.

'Finally, we have had problems with electricity. Because of frequent power cuts, we had to use generators to ensure our production is not disrupted. Running them, however, is expensive, as we need to pay for petrol.

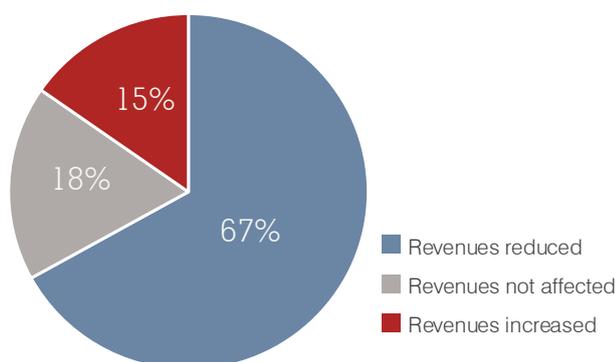
'ITC's ARISE Plus project has supported us in many ways. For example, we received training that helped our primary producers improve quality. In addition, ITC is helping us import high-quality bees, which will allow us to increase productivity and become more competitive in international markets. Indeed, thanks to ITC support, we are now exporting to the European Union and looking forward to reaching new markets.'

The European Union funds ITC's ARISE Plus Myanmar. It aims to contribute to inclusive and sustainable growth by supporting greater connectivity and economic integration between Myanmar and the Association of Southeast Asian Nations, in line with the ASEAN Economic Community Blueprint 2025.

Figure 16 Instability hurts economic performance



Share of firms affected by insecurity (%)

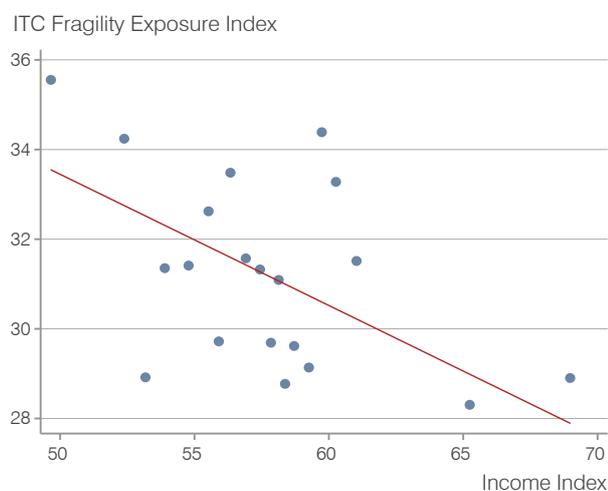


Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 17 Firms in poorer regions experience more fragility



Share of firms experiencing high fragility (%)



Source: ITC, based on ITC Small Business in Fragility Survey and Subnational Human Development Index Database of the Global Data Lab (<https://globaldatalab.org/shdi/>, version v7.0).⁵⁵

The economic pillar: Bottom lines deteriorate

Fragility sends economic shockwaves through most companies. Almost 70% of companies in the sample reported lower demand due to instability or insecurity, 64% have had difficulty accessing inputs and 60% saw investments dwindle. Consequently, bottom lines deteriorate. Nearly seven out of 10 companies reported declining revenues in the last year, which they attributed to the fragile environment in which they operate (Figure 16).

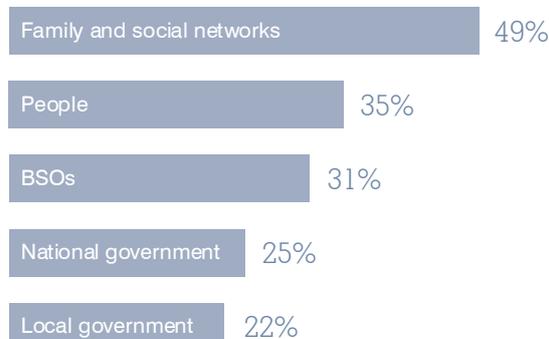
Again, economic fragility affects firms differently. Low and stagnant incomes, unemployment and ineffective government in poorer regions can create an unstable environment that affects businesses operating there.⁵⁴ It is thus not surprising that 38% of firms in poorer regions reported a high intensity of fragility, compared with 29% of those in higher income regions of the same country (Figure 17).

The social pillar: Trust in institutions erodes

Fragility and conflict often undermine trust, particularly in official institutions. Data confirm that firms tend to place their trust in people more than in government. Specifically, 49% reported trusting family and social networks, and 35% trust people in their countries, whereas 25% and 22% trust the national and local governments, respectively. BSOs, in turn, are trusted by 31% of respondents (Figure 18).

Studies in developed countries have shown that rising inequality reduces trust in national institutions.⁵⁶ Inequality may lead to apathy, discontent and discrimination in communities, providing a breeding ground for violence and radical action.⁵⁷ These elements seem to reinforce the fragility experienced by businesses in fragile and conflict-affected settings, as 35% of companies located in more

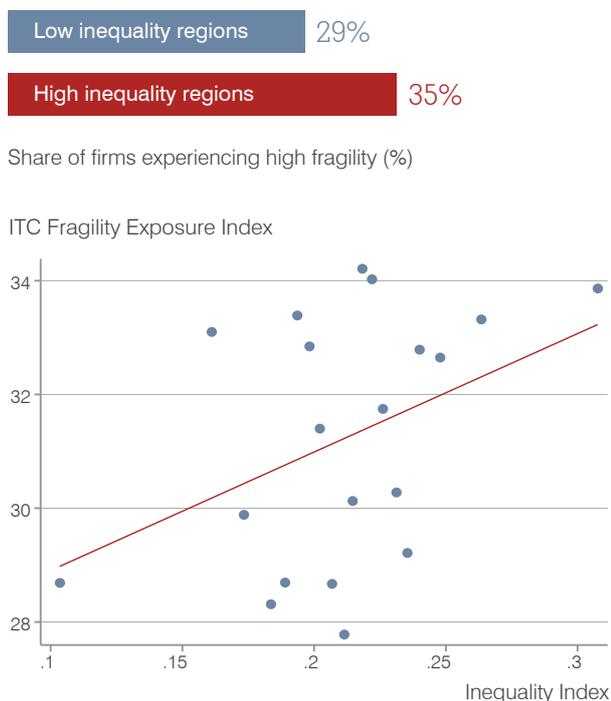
Figure 18 Low trust in government and institutions



Share of firms reporting high trust (%)

Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 19 Firms experience fragility more strongly in regions with more inequality



Source: ITC, based on ITC Small Business in Fragility Survey and Subnational Human Development Index Database of the Global Data Lab (<https://globaldatalab.org/shdi/>, version v7.0).⁵⁸

unequal regions reported experiencing high levels of fragility, compared with 29% of those in regions with lower inequality (Figure 19).

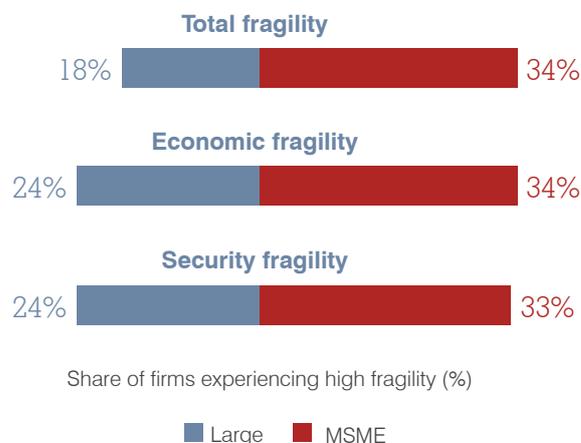
The above findings give new meaning to the old saying that what matters for business is 'location, location, location.' Where a business is located helps determine its exposure to state-level fragility: companies based in more violent, poorer and unequal regions – all else equal – tend to experience the general state of fragility more intensively than those elsewhere in the country. However, specific characteristics also influence the degree to which firms experience fragility.

Firm characteristics matter, too

Smaller firms tend to experience fragility more intensively. In the survey sample, 34% of micro, small and medium-sized companies reported experiencing high levels of fragility, compared with 18% of large firms. Results appear driven by security and economic fragility, as 34% of small firms reported experiencing a high level of economic fragility and 33% a high level of security fragility, compared with 24% of large firms (Figure 20).

Regarding security, firms not only face different levels of violent incidents, but they also differ in their ability to deal with them. Research has shown that, under extortion,

Figure 20 Small businesses experience high economic and security fragility



Source: ITC, based on ITC Small Business in Fragility Survey.

smaller and less productive firms are often forced to exit the market.⁵⁹ With fewer resources, they are less able to fulfil demands for illegal payments or protect themselves.⁶⁰

In the survey sample, 57% of companies said they paid for security, including equipment, personnel and professional security services. Smaller firms, however, are at a disadvantage: while 81% of large firms pay for security, 56% of small businesses do so (Figure 21). It is therefore not surprising that more small firms reported high intensity of fragility, as they are less able to cushion the security impacts.

Similarly, smaller enterprises appear more exposed to economic fragility. While 48% of large firms encountered difficulty obtaining inputs and 37% struggled to deliver goods to customers due to insecurity, the figures for small businesses were much higher, at 65% and 56%, respectively.

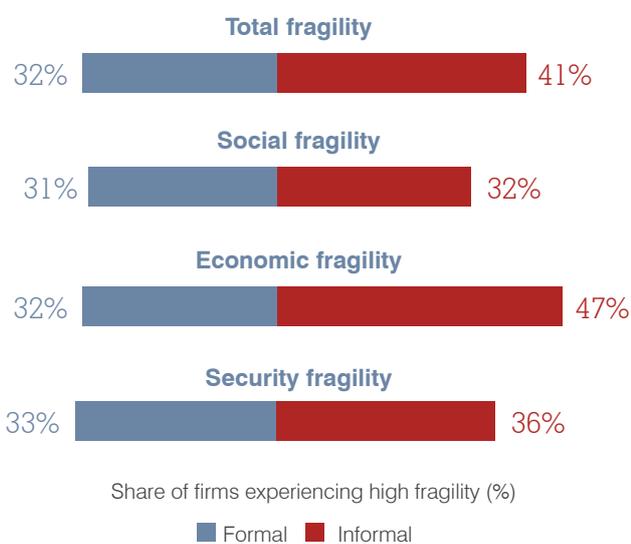
Moreover, demand for goods and services provided by smaller firms seems more affected: 70% of SMEs reported lower demand due to instability, compared with 48% of large firms. Finally, SMEs are much more likely to decrease investment due to insecurity, with 61% of smaller firms doing so, compared with 36% of large firms. As they are more exposed to fragility, small businesses are at higher risk than larger firms of being pushed into the informal sector, if not already there.⁶¹

Figure 21 Small firms less likely to pay for security



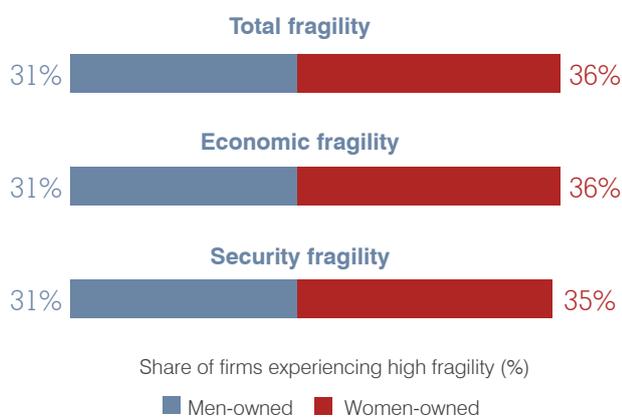
Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 22 Informal firms: more intense experience of fragility



Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 23 Women-owned businesses: more insecurity, instability



Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 24 Women-owned firms: more fragility in patriarchal regions



Source: ITC, based on ITC Small Business in Fragility Survey.

If in addition to being small, firms are also informal, they are further affected by fragility. In the survey sample, 41% of informal firms reported high intensity of fragility, compared with 32% of formally registered firms. Firms that operate informally feel the effects of fragility more strongly as they are exposed to its three types – security, social and economic – though economic fragility tends to dominate (Figure 22).

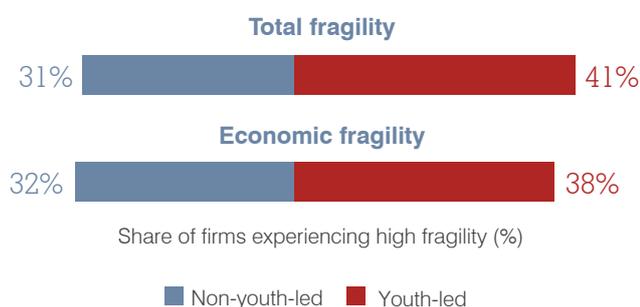
Regarding security, informal firms tend to be concentrated in sectors at high risk of capture by conflicting parties, such as small-scale cross-border trade, agriculture and services.⁶² Socially, they are excluded from institutions that provide essential services to support businesses during crises, while workers are also not afforded social protection.⁶³ Finally, they are more economically exposed, as they have little or no recourse to formalized forms of credit and rely on personal sources, such as savings, retained earnings and support from family members.⁶⁴

Women-owned businesses are generally more at risk of suffering the effects of fragility. Their access to social protection and public infrastructure services, even in non-fragile settings, tends to be more limited.⁶⁵ Therefore, it is no surprise that they would be more exposed and negatively affected in fragile settings, as the state's ability to provide these services is weaker.

While women-owned firms in the survey were more affected by fragility than men-owned firms, the gap does not appear very wide at first glance. Thirty-six per cent of women-owned businesses experienced high-intensity fragility, compared with 31% of male-owned companies, mainly due to economic and security fragility (Figure 23).

A more in-depth look that takes gender-based inequalities into account, however, shows wider differences. In highly patriarchal regions,⁶⁶ 45% of women-owned businesses reported experiencing high-intensity fragility, compared with 32% in low patriarchal areas (Figure 24). In such contexts, women may be more exposed to violence, which partially explains their greater vulnerability to fragility in security. In addition, where social norms and prescriptions restrict women's access to skills and assets such as formal education, property and finance, women-led businesses are likely to be more vulnerable to the economic effects of fragility.⁶⁷

When comparing firms led by young people to those run by older people, a higher share of youth appears to experience fragility intensely due to lack of means to exploit economic opportunities. Among youth-led companies, 41% reported experiencing high levels of fragility, compared with 31% of companies not led by youth, largely due to economic fragility (Figure 25).

Figure 25 Youth-led companies: more economic fragility

Source: ITC, based on ITC Small Business in Fragility Survey.

Youth-led enterprises tend to be more cautious when operating in fragile settings – many of them focus on consolidating operations, keeping a low profile and minimizing risks instead of aspiring to grow.⁶⁸ Similar to women, young people in fragile and conflict-affected settings lack access to the networks and market links typically accessible to other businesses, which could help mitigate their exposure to fragility.⁶⁹

Firms of different sizes, statuses and types of ownership experience life under fragility differently, even when located close to each other. Fragility influences the structure of the market in which all firms operate, but particular firm characteristics help to determine the degree to which they experience these fragile market conditions.

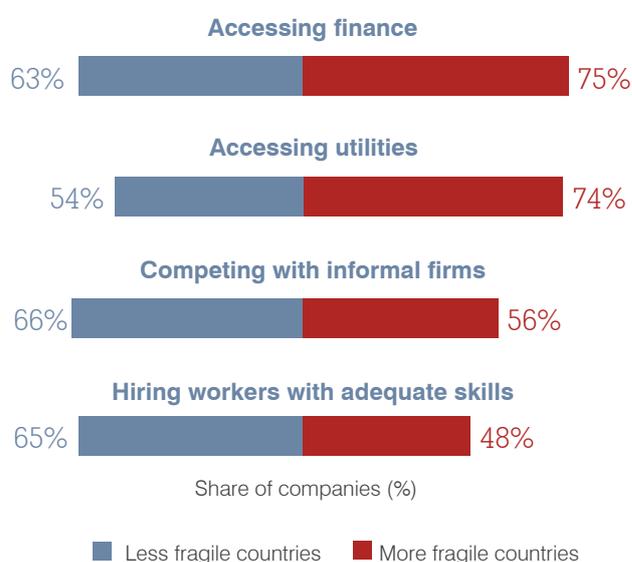
Adding insult to injury

As places become more fragile, firms increasingly face obstacles over which they have very little control. Moreover, if firms are particularly affected by state-level fragility, their outcomes are further undermined. As a result, these firms face a double blow that is reflected in how they perceive – and prepare for – the future.

Obstacles businesses cannot control

While firms worldwide face business obstacles, these may be harder to overcome for those based in more fragile settings. Not only are such barriers often higher than elsewhere, but there is arguably very little that firms can do to lower them.

As fragility increases, the constraints businesses face become largely beyond their control. For instance, if failure to comply with certain standards hinders a firm's competitiveness, the firm can remedy the situation by meeting the standards – even if it needs some support to do this correctly. But if firms cannot take their products to market because infrastructure is unavailable, there is little they can do without incurring extremely high costs or risks.

Figure 26 Obstacles more difficult to tackle in more fragile settings

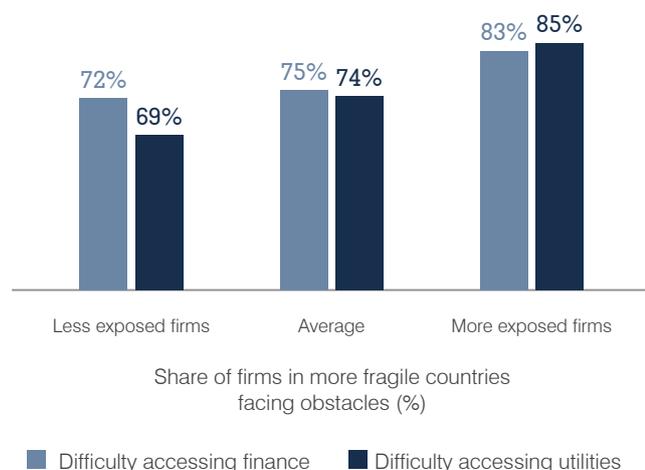
Source: ITC, based on ITC Small Business in Fragility Survey.

The level of fragility affects the type of obstacles firms report. Businesses operating in the most fragile settings tend to see more obstacles outside of the firm than those in less (though still) fragile contexts. In fact, access to finance and utilities are the top two barriers mentioned by firms in more fragile contexts, with 75% and 74% reporting these types of barriers, compared with 63% and 54% in less fragile settings. Addressing these constraints typically falls within the purview of the national governments, development organizations and finance providers, as without proper infrastructure and resources, firms are simply struggling to survive (Figure 26).

At lower levels of fragility, firms can tackle obstacles – at least to a certain extent. Firms operating in not-so-fragile settings rated competition with informal firms (66%) and hiring workers with adequate skills (65%) as the most serious obstacles (Figure 26). While it is a strain for companies to compete with informal firms and struggle to find workers, the fact that they are formalized and looking to hire indicates that they have passed the survival stage, with growth on the horizon.

These findings suggest that, at higher levels of fragility, state functions may be so compromised that barriers at the national or business ecosystem level have an outsized effect on firms' operations, leaving very little room to manoeuvre. In contrast, at lower levels of fragility, direct support to firms can build some bulwarks, helping companies weather the storm and get ready for better days ahead.

Figure 27 The double blow of fragility



Source: ITC, based on ITC Small Business in Fragility Survey.

Double blow

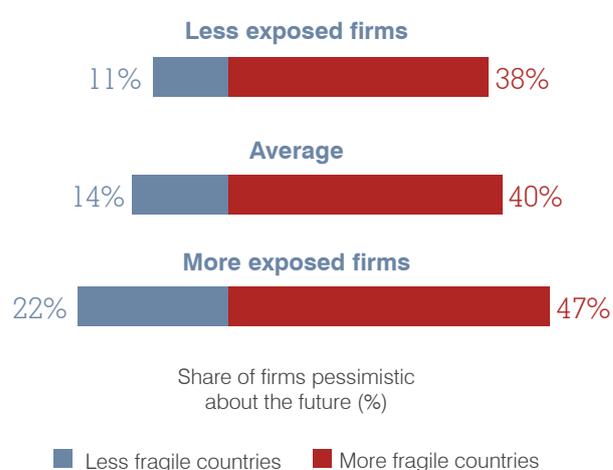
Fragility can be doubly adverse. Some firms are harmed both by operating in more fragile settings and by being particularly exposed to, and affected by, the prevailing state of fragility.

Access to finance and utilities illustrates the potential for such a double blow. The availability of credit is tighter in the most fragile places. As mentioned earlier, 75% of companies in more fragile contexts reported access to finance as the top obstacle to doing business. Still, among the firms in these places that reported being more exposed to fragility, 83% had difficulty accessing the resources they needed, compared with 72% that reported being less exposed.

There is a similar trend in accessing utilities: in the most fragile places, 74% of firms reported difficulty accessing utilities, but the figure jumped to 85% among firms that also reported experiencing fragility more intensively (Figure 27).

Firms that are highly exposed to the types of fragility most pervasive in their place of operation can be expected to fare worse than less exposed businesses in less fragile places. Firms in this report's sample are particularly susceptible to the economic dimensions of fragility, hence the double blow regarding access to finance. However, experiences vary geographically and among firms. As a result, a one-size-fits-all approach to support businesses in fragile and conflict-affected settings is not viable.

Figure 28 Firms increasingly pessimistic



Source: ITC, based on ITC Small Business in Fragility Survey.

Gloomy outlook

Companies are disadvantaged by operating in fragile and conflict-affected settings and among these, some are harder hit. It is understandable that these firms have a less optimistic outlook on the future of their business.

The ITC Small Business in Fragility Survey shows that companies in more fragile countries are more pessimistic about the future. Whereas 40% of companies in more fragile countries are pessimistic, the share falls to 14% in less fragile countries, on average. Within the most fragile countries, 47% of firms that reported being highly exposed by fragility are pessimistic, compared with less than 38% of those reporting being less exposed (Figure 28).

Companies' perceptions partially determine their willingness to invest and grow. In Latin America, for example, sales grew at a lower rate if entrepreneurs believed crime rates to be sufficiently high to interrupt business activities.⁷⁰ Conversely, when entrepreneurs have more confidence in the future, they become more likely to take risks.⁷¹ Where the business outlook is more optimistic, firms are more likely to adopt strategies to adjust to shifting market conditions, including diversifying suppliers and purchasing raw materials in bulk to lower costs.⁷² Such strategies are crucial for businesses to shift from coping mechanisms, aimed primarily at survival, to strategies that promote growth.



THOUGHT LEADER

Good governance: Breaking the cycle of fragility

Sanda Ojiambo

Executive Director and
Chief Executive Officer,
United Nations Global
Compact

By adopting strong human rights and anti-corruption policies, businesses can strengthen civil society and lay the foundations for a better future.

In fragile states, institutions are often too weak to uphold the rule of law, and corruption and rights abuses can be rife. But the boundary between fragile and non-fragile states is fluid. Stable nations can suffer from corruption, be subverted into autocracy or succumb to civil war, just as fragile states can construct a path to prosperity. It is the role of business, and of civil society more broadly, to help maintain stability. Some would argue that this is too much to ask of the private sector. That in a dog-eat-dog world, sometimes the only order of business is survival.

My experience leading the UN Global Compact,⁷³ the world's largest corporate sustainability initiative, is that this view is mistaken. Every day I engage with businesses big and small, from every corner of the globe, and what many tell me is that they want to play an active role in building stronger, fairer societies. They want to be good corporate citizens.

The United Nations Global Compact, which is founded on universal principles to protect human rights, labour and the environment, and combat corruption, helps participating businesses rise to this challenge. There is strength in numbers. More than 18,000 companies have joined us from 101 countries, representing nearly every sector and size. Many have set up local networks in their countries to learn from and support each other.

Beacons of best practice

Businesses can be beacons of decency and good governance in states that are fragile or where state institutions are weak. Businesses tend to be small or medium-sized in poorer, fragile states, but they have an outsized influence. By adopting strong and effective anti-corruption safeguards, upholding human rights and creating safe and respectful working environments for employees, businesses in fragile states can begin to build a culture of good governance which will surely permeate the rest of civil society.

The Ten Principles of the UN Global Compact,⁷⁴ to which all of our members adhere, are the bedrock of good corporate citizenship. They can also provide the foundation for building stronger state institutions and the rule of law.

Take corruption, so prevalent in fragile states. Nearly 2 billion people live in fragile settings, accounting for almost a quarter of the world's population, and three-quarters of the world's poor. Corruption keeps them from prospering. It is estimated that corruption costs the global economy \$2.6 trillion dollars every year.⁷⁵

The UN Global Compact can help businesses develop policies and programmes to address all forms of corruption. The same goes for human rights. We can also bring stakeholders around the table to chart a way forward to tackle systemic issues when other attempts have failed. In states that are too weak to protect the human rights of their citizens, business action on human rights is key.

An outsized impact

Businesses often have an impact on the human rights of their employees and contract workers, workers in their supply chains, the communities around their operations and even the end users of their products or services. Directly and indirectly, businesses influence the entire spectrum of human rights.

As a result, companies have both a responsibility and an opportunity to advance human rights across operations, supply chains and beyond. This is particularly true in fragile environments, where the state may be unable to protect its citizens from abuse.

Business members of the United Nations Global Compact commit to the idea that companies should support the protection of internationally recognized human rights, such as the rights to life, liberty, free speech and privacy, civil and political rights, and health and education.

By acting against corruption and respecting human rights, businesses in fragile states can play an important role in breaking the cycle of fragility. They will be laying the foundations for a fairer, more prosperous future. The United Nations Global Compact is here to support them in this most important of roles.

CHAPTER 3

Competitiveness as a coping mechanism

CHAPTER SUMMARY

Designing interventions to support firms in fragile and conflict-affected settings is complex.

Interventions must be tailored to context, consider the levels and structure of fragility and understand the extent to which different firms are affected.

Just as a set of business strategies is available to firms in non-fragile places, the same is true of firms in fragile places. Three actions reinforce firms' ability to compete, connect and change in the face of fragility: build connections; improve financial management; upgrade staff skills.

Firm-level actions yield the greatest impact before violence and conflict escalate beyond a certain level (or after peace and stability are established). This threshold is hard to specify clearly. For this reason, it is critical to properly understand the local context to ensure that minimum conditions are in place for support activities to yield positive outcomes.

Firms have a critical role to play in fragile and conflict-affected settings. They can support the livelihoods of millions, they can provide some basic services when states fail to do so and they can contribute to peace and stability. To perform these functions, businesses need at a minimum to survive, and ideally to set the foundations for future growth, even in the face of adversity.

Helping companies thrive under fragility, however, is not straightforward. The heterogeneity of fragility, and of how firms experience it, make it impossible – if not downright damaging – to deploy a one-size-fits-all approach. Still, it is possible to identify some actions that can improve firm resilience in such situations.

Firms in fragile and conflict-affected settings face challenges such as distorted production and consumption, lower investment, stunted growth, shrunken export opportunities and higher failure rates, as outlined in Chapter 1. Fragility nonetheless affects different firms differently, as shown in Chapter 2. Some companies have characteristics that increase their exposure to the prevailing state of fragility, or at least to some of its forms.

Companies in more violent, unequal and poorer regions, smaller and informal firms, and those led by women and young people tend to have fewer resources and less well-developed firm capabilities. Though impacts depend

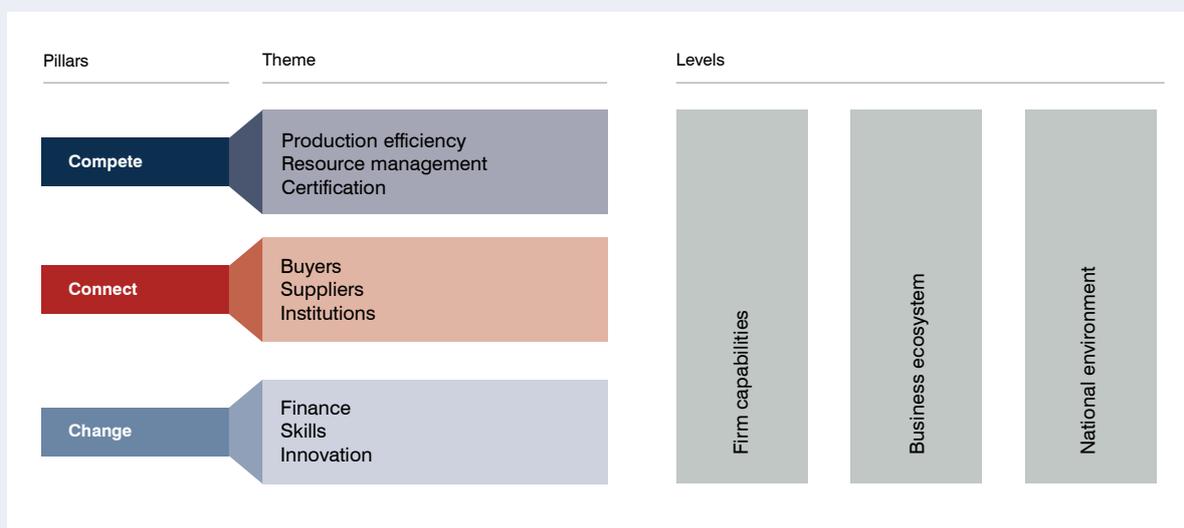
Box 3: Defining competitiveness

As with fragility, there is a long-standing tradition of defining and measuring competitiveness at the country level. However, such measures are of limited relevance to understanding business dynamics, besides not being widely available in fragile and conflict-affected settings.

In addition, business competitiveness occurs at the firm level, rather than at country level. ITC defines competitiveness as ‘the demonstrated ability to design, produce and commercialize an offer that fully, uniquely and continuously fulfils the needs of targeted market segments.’ The firms connect with and draw resources from the business environment and achieve a sustainable return on the resources employed.

Based on this definition, ITC has developed an analytical framework to understand firm competitiveness and how it improves over time. The framework is built around three pillars – compete, connect and change – and three levels: firm capabilities, business ecosystem and national environment.

ITC’s Competitiveness Grid



The *capacity to compete* reflects the static, short-term dimension of competitiveness. This is the firm’s ability to deliver output of appropriate quantity, timeliness, quality and cost to meet *current* market expectations.

The *capacity to connect* is the ability of an enterprise to build strong *links* with buyers, suppliers and support organizations in the business ecosystem that promote successful operations and growth.

Finally, the *capacity to change* is the dynamic, long-term aspect of competitiveness, which captures the ability of firms to innovate and adapt to new market trends and remain competitive in the *future*.

The capacity to compete, connect and change depends on firm-level capabilities, the immediate business ecosystem and the national environment. Firm-level capabilities are not independent of the immediate business ecosystem, and the immediate business ecosystem is not independent of the national environment. For instance, poor transport and logistics at the national level can lead to delays in customs clearance or cause losses in shipping, which will reduce a firm’s capacity utilization.

Therefore, a well-rounded strategy to support present and future firm competitiveness must address the constraints that prevent companies from competing, connecting and changing at all levels.

Source: ITC, 2015; Porter, 1998.

on the context in which they are embedded, these firms are likely to be more exposed to fragility and face the brunt of its harm.

Identifying which firms are potentially more exposed to the underlying level of fragility is useful to design support programmes. However, it is necessary to go beyond what and where firms *are* and identify what they can *do* to increase their ability to cope with fragility.

To do this, it is helpful to assess whether and how competitiveness can serve as a buffer to the effects of fragility, helping firms survive and grow. This chapter identifies three actions that help improve firms' outcomes in the face of fragility:

- Build trustworthy connections
- Improve financial management
- Identify and retain skilled staff

More competitive, less fragile

At the micro level, competitiveness is based on a firm's business processes (ability to compete), internal and external connections (ability to connect) and responsiveness to changes (ability to change). These capabilities also provide a solid foundation for business resilience, and firms that display some critical competitiveness characteristics tend to fare better during crises.⁷⁶

In fragile and conflict-affected situations, stronger performance in all three pillars seems to increase business resilience. However, firm-level actions can only help up to a certain level of fragility, and do not protect firms from all its manifestations.

Competitiveness helps firms cope with fragility

Firms can shield themselves, at least partially, against the harm done by fragility. ITC has long collected and analysed business information to shed light on factors that drive competitiveness through its SME Competitiveness Surveys (SMECS). In late 2022, it collected data from firms it had previously interviewed under SMECS and that operate in countries affected by different levels and types of fragility (Box 2 in Chapter 2).

Combining data from the two surveys allows ITC to assess whether, and to what extent, pre-existing competitiveness factors influence business outcomes under fragility. It is particularly relevant to identify actions that help firms cope and, ideally, grow under these complex circumstances.

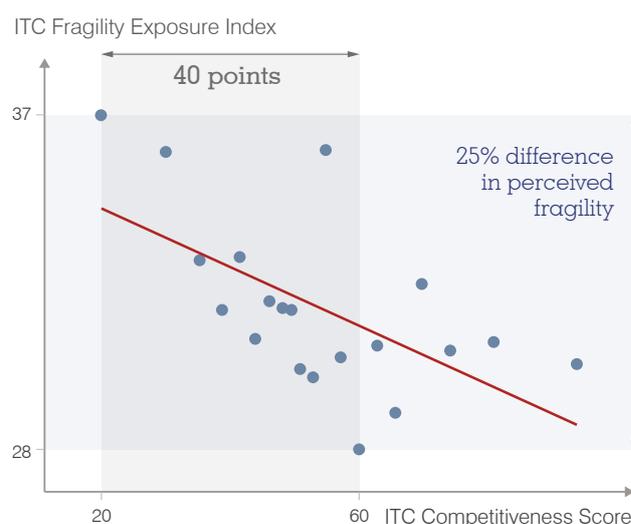
A firm's competitiveness is associated with how it experiences the background level of fragility, ITC analysis shows. First, more competitive firms seem more likely to remain operational. When ITC attempted to reconnect with firms that had been previously interviewed, many had gone out of business. But those that continued to operate – even if under a different name or structure – were those that displayed a wider set of competitiveness characteristics years before.

Part of the reason they remain operational is their ability to cushion the effects of fragility by being more competitive. In fact, the higher a firm's competitiveness score based on the ITC Competitiveness Framework (Box 3), the lower its reported experience of fragility, measured by the ITC Fragility Exposure Index (Figure 29).⁷⁷ Hence, when firms act to improve their competitiveness, they can also reduce their exposure to fragility.

For instance, by adopting internal measures that elevate their competitiveness score from 20 points (which is at the low end of the competitiveness distribution) to the average of 60 points, a firm's experienced fragility can drop by more than 25%, with no other changes taking place at the business ecosystem or at the national level.

This indicates that what firms do – not just where and what they are – influences their experience of fragility. This chapter examines firm-level actions that allow businesses to cope better with a difficult environment.

Figure 29 Competitiveness associated with lower experienced fragility



Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys of 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

For instance, companies connecting with peers through a sector association may pool resources and share information about challenges and solutions.⁷⁸

Similarly, firms with better cash flow management practices may be less affected by delayed payments from customers. Finally, firms with more skilled workers who know the product and production process well may be more likely to implement creative and quick solutions to unexpected problems.⁷⁹

Firms cannot insure against all risks

There are nonetheless limits to what firms can do to overcome the pervasive challenges of operating in a fragile and conflict-affected setting. While improving their competitiveness can build buffers, especially against social and economic fragility, it cannot prevent all risks from materializing. Moreover, in the worst case, it may further expose firms to the security manifestations of fragility.

Fragility affects the social fabric of a firm by eroding trust in society. Economic transactions in fragile environments tend to be confined to trusted members of the same group, such as within the family, to reduce uncertainty and risks.⁸⁰ As seen in Chapter 2, almost half of the companies interviewed by ITC reported little to no confidence in government and business organizations. However, companies at the higher echelons of competitiveness reported being less affected by social fragility (Figure 30). In other words, more competitive firms report higher levels of trust.

While establishing trust-based relationships can improve the competitive position of a firm, greater competitiveness also reinforces these relations, creating a virtuous cycle. This is because certain measures that enhance

competitiveness can help maintain or rebuild a firm's social fabric. For instance, to be more competitive, firms must forge connections with actors in the business ecosystem, including other firms and BSOs. Through these relationships, firms access the support they need to navigate the shocks of fragility. Repeated and positive interactions further solidify trust.

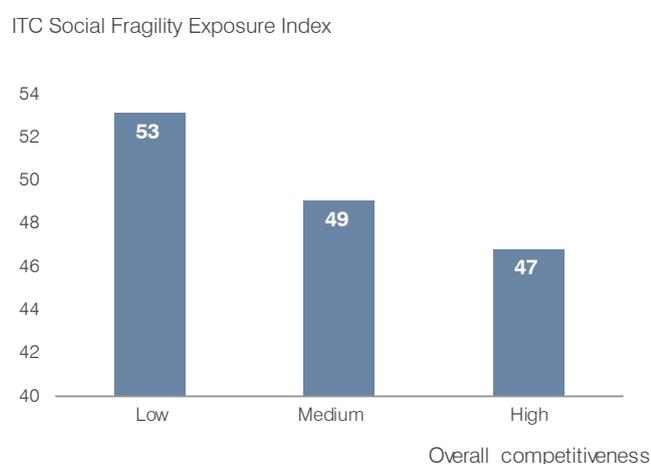
Certain factors contributing to competitiveness can also insulate firms from the pervasive economic impacts of fragility, with firms that record higher competitiveness scores reporting lower levels of economic fragility (Figure 31).

One way competitiveness seems to reduce economic fragility is by sustaining revenues. In addition to having higher revenues – or lower losses – competitive firms often adopt practices that build their resilience to fragility.⁸¹ For instance, firms that improve inventory management and diversify supply sources can lessen the impact of recurring supply disruptions.⁸² Those that diversify exports geographically are less likely to stop exporting when crises hit.⁸³

Finally, firms that manage their finances properly have more slack when clients delay payments or suppliers demand advance payments to fulfil an order – all of which are more common in fragile contexts.

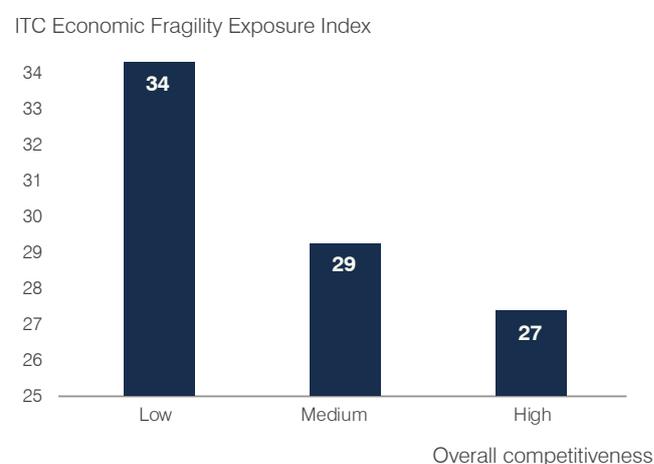
The picture is not completely positive, however, because improving firm competitiveness does not seem to lessen security threats. Regardless of how much firms try to strengthen their competitive position, they are equally exposed to the harm caused by lack of security.

Figure 30 Competitiveness reduces social impacts of fragility



Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys of 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

Figure 31 Competitive firms perceive less economic fragility



Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys of 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

Indeed, there are situations in which more competitive and profitable firms become greater targets of extortion, corruption and other acts of violence. Worryingly, it is often such security implications of fragility that cause the most lasting damage. Violent conflict induces a loss in human capital, which, in turn, creates a dearth of skilled workers in the post-conflict environment.⁸⁴ The risk that companies inadvertently become more exposed to security fragility by improving their competitiveness should be anticipated and considered when designing support programmes.

Fragility can trump competitiveness

When fragility becomes worse or more widespread, efforts by firms to improve competitiveness no longer protect them from state-level fragility to the same extent, or at all.

In less fragile countries, higher competitiveness is correlated with lower fragility. This means that actions designed to increase competitiveness can lessen firms' exposure to fragility. However, as the environment becomes more fragile, the relationship weakens or disappears (Figure 32).

This suggests that factors in the national environment, over which individual companies have little influence, are equally or more important as firms' behaviour in determining competitiveness – and experiences of fragility. It helps to explain why firm-level action appears to have little impact on how companies experience security fragility. Again, as dangers to security are largely outside of a firm's control, they are bound to threaten no matter what it does.

The reduced role of competitiveness in protecting firms when fragility escalates also emerges from ITC

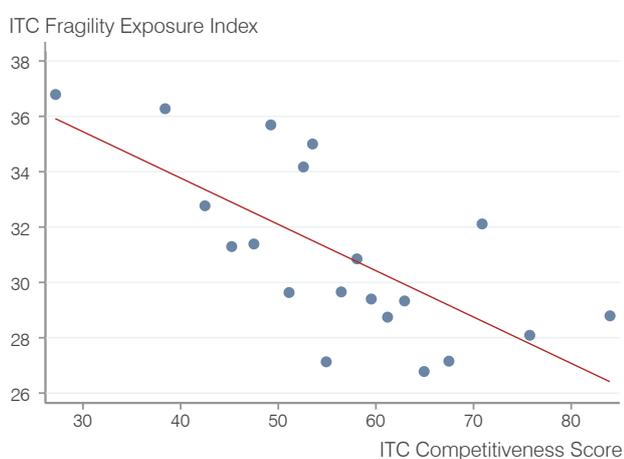
competitiveness data and analysis. In less fragile countries, a firm's ability to compete, connect and change are found to reduce its exposure to fragility. All three capabilities – business processes, connections and positive responses to change – are identified as important for business resilience.⁸⁵ In particular, the ability to respond to changes is critical in fragile and conflict-affected settings, as it ensures firms can grow – through the so-called Phoenix effect – once fragility and conflict subside.⁸⁶

However, as fragility grows, only the ability to *compete* seems to affect firms' experience of fragility, while *connect* and *change* do not. This helps explain the lack of impact from competitiveness in highly fragile contexts (Figure 32). It further supports the notion that, in extreme situations, firms are primarily concerned about survival and are often unable or unwilling to take the necessary actions to prepare for the future.⁸⁷

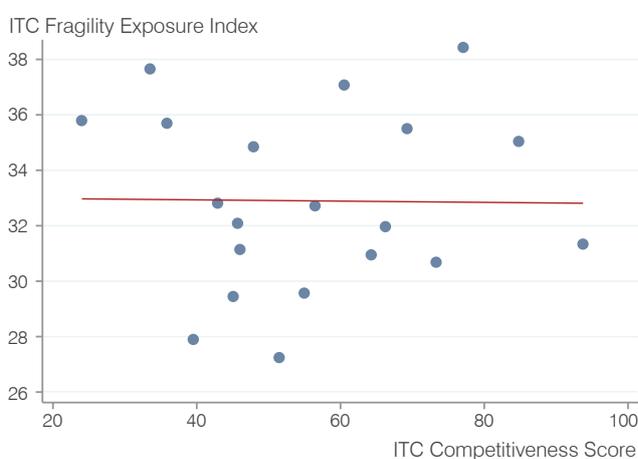
These findings have two critical policy implications. First, there seems to be a window of opportunity during which firm-level support can yield positive outcomes. While it is not possible from the limited sample ITC surveyed to pinpoint precisely such a fragility threshold, this window of opportunity typically occurs before violence and conflict entirely engulf firms and their business ecosystem. Second, firm-level actions alone appear insufficient, though necessary, to ensure the survival and growth of businesses. There is also a need to deal directly with the overarching situation of fragility, secure a peaceful resolution of conflict and rebuild the state's capacity to ensure a supportive and stable environment.

Figure 32 Competitiveness is not a silver bullet

Less fragile countries



More fragile countries



Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys of 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.



Nimo Ibrahim Hassan

Digital Freelancer and Secretary,
Dadaab Collective Freelancing Agency,
Kenya

The power of collectives

Dadaab camp was first established in 1991, when refugees fleeing the civil war in Somalia started to cross the border into Kenya. Today, it is the third-largest refugee complex in the world, hosting more than 220,000 refugees and asylum seekers. The Dadaab Collective Freelancing Agency is a digital agency led by the refugees. It has provided a platform for members to market digital services since 2019.

'I did not quite know what freelancing was before I joined my first course on videography and photography. I immediately became passionate and decided to turn it into a profession.

'Being in a collective has been good for me. It is a great learning opportunity and I enjoy working in a team. Sometimes, if I do not know how to do something, my fellow members help me. And whenever they do not know how to do something, I support them.

'Being in a collective opened more opportunities for us. As individual freelancers, we can get jobs, but clients trust you more when you are part of a more formal agency. ITC has been a great help to us. It supported us in establishing our collective and acquiring the necessary digital skills. I actually learned web development, videography and photography thanks to ITC's skills training.

'Still, as freelancers based in the Dadaab refugee camp, we face many challenges. First, we have an electricity problem, which leads to an internet connection problem. Electricity is off during the day and only goes on at 11 p.m. As we rely on digital tools as digital freelancers, we must go to the organizational centres within Dadaab to connect.

'Some of the members in our collective do not have identification cards certifying that we are residents of Dadaab. This can cause problems. To open an account on freelance advertising websites, for example, identity must be verified. Clients understandably want to see an identity card, and also need it to be able to send payments through Upwork, LinkedIn or PayPal. Getting this identification card, however, is a lengthy process and sometimes takes up to two years.'

The Government of the Netherlands, the Ministry of Foreign Affairs of Japan and the European Union funded ITC's Refugee Employment and Skills Initiative II and ABLI-G projects. It provided support to entrepreneurship and business development for income generation, and addressed the rapid phasing out of humanitarian assistance in the Dadaab camp.

Boost competitiveness, confront fragility

Efforts to reduce businesses' experience of fragility should focus on preventing the immediate business ecosystem and national environment from deteriorating, while also identifying effective moves that firms can make to safeguard against fragility.

ITC has identified three firm-level actions that can partially make up for what the environment lacks:

- Build trustworthy connections
- Improve financial management
- Identify and retain skilled staff

These boost firms' ability to connect to the business ecosystem and adapt to sudden market change, which have been shown to lack in highly fragile contexts but are critical for firm growth.

Foster links to institutions, peers, buyers

For small businesses in fragile contexts, connections and social capital are often a critical success factor.⁸⁸ By connecting with actors in the ecosystem, firms obtain information and access to resources to adjust and adopt positive, resilient strategies.⁸⁹

Business support organizations, for instance, can help mitigate some of the negative impacts of operating in a fragile context. These institutions can build the capacity of businesses and foster trust by facilitating vertical and horizontal coordination, reducing information costs and acting as a bridge among businesses and between firms and official institutions.⁹⁰

A study of civil society and accountability in Africa, for instance, found that BSOs are often best placed to take collective action for businesses, as they can leverage their bargaining power to influence governments in providing necessary public goods and services.⁹¹

Connecting with BSOs seems to pay off for both survival and growth. Forty-one per cent of companies engaged with such organizations reported no revenue losses due to fragility, compared with 20% of companies not engaged, a considerable 21 percentage point difference. What is more encouraging, 35% of firms engaged with a BSO reported hiring more employees, a positive sign of growth in the face of adversity, compared with less than 14% of companies without such connections (Figure 33).

Though BSOs can offer crucial backing to firms operating in fragile environments, they tend to be fewer and less efficient than in non-fragile countries. Places in fragility often lack business support culture and, due to low trust in official institutions, many firms are hesitant to engage with them.⁹²

Moreover, depending on how well resourced – in human and financial capital – these institutions are, they may spread misinformation or impose additional burdens on entrepreneurs. For example, during a surge of violent protests in Togo in 2017 and 2018, firms that sought support from business advisers were more likely to incur losses, as advisers often requested resources in return, researchers found.⁹³ Thus, it is necessary to foster links with the right types of institutions and to ensure these organizations operate efficiently and effectively (Box 4).

Other business-to-business connections, such as cooperatives, can partially make up for the weaknesses or absence of publicly funded business support organizations in fragile environments. For example, by creating the Dadaab Collective Freelancing Agency in the Dadaab refugee camp in Kenya, featured as a *Business Voice* in this chapter, a group of refugees accessed international clients, which would have been more difficult working as individual freelancers.

When organized into business associations for collective action, small businesses have greater chances of positively influencing conflict dynamics and peace outcomes. In addition, participating in value chains – as buyers, processors or producers – sends signals to other firms that the marketplace is strong, or that risks are manageable. This works best when firms have a forum, such as an association or network of similar businesses to share information.⁹⁴

Figure 33 Work with business bodies to support growth



Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys of 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

Finally, direct links to buyers can help small businesses overcome fragmented markets. In Iraq, farmers often operated at a significant loss, frequently discarding large quantities of agricultural produce because the price offered by local buyers would not even cover the cost of transportation to the local marketplace. For example, potato farmers could not find profitable markets, while supermarket owners and potato processing factories less than 100km away were unable to source enough quality potatoes and had to import them.

Emergency support for agriculture in Iraq was initially successful in providing relief. However, because market dynamics were not sufficiently taken into consideration, the assistance led to aid dependency and distorted markets,

and did not ultimately solve the core economic issue. The main problem was not increasing the level of production, but enhancing profitability and competitiveness and forging market linkages, so firms could connect and change.

A targeted intervention in 2022 to develop buyer-driven market systems, led by ITC, connected potato farmers with supermarkets and potato chip factories, as described in the next chapter's Business Voice. Without providing any subsidies, the project helped farmers nearly double their farm-gate prices simply by connecting them with new buyers, understanding the requirements of buyers and aligning the production model in terms of quality, supply chain management and marketing.

Box 4: Help business support organizations to help businesses

Business support organizations play a critical role in helping businesses grow and internationalize. Their ability to do so in fragile and conflict-affected settings nonetheless seems to be more limited due to external and internal shortcomings.

The ITC Institutional Strengthening Programme developed and uses a benchmarking tool to assess the quality of BSOs. This tool evaluates institutions based on their performance in four areas: leadership and direction; measurement and results; product and service delivery; and resources and processes. Combining the scores in each area gives an overall institutional performance score, with higher values indicating superior performance.

Scores from BSOs in countries classified as fragile and non-fragile show that overall performance of BSOs decreases with fragility. With an average score of 40, BSOs in fragile settings are less able to support local businesses adequately than those in non-fragile settings, where scores average 58. The gap mainly reflects the fact that BSOs in fragile countries underperform on resources and processes, as well as product and service delivery.

Support organizations underperform in fragile and conflict-affected situations

Regarding resources and processes, BSOs typically lack appropriate financial means, physical assets and infrastructure. Fragility exacerbates budget uncertainty, with promised funds often redirected. In these conditions, support organizations hunker down to protect staff salaries, only carrying out activities that can be done with existing resources, while physical assets deteriorate.

Within product and service delivery, BSOs do worst regarding support in foreign markets, external communication and website. Many BSOs in non-fragile contexts have offices or networks abroad to support businesses that wish to expand internationally. BSOs in fragile contexts, however, often do not have the means to open such offices or nurture networks. In addition, political pressure often creates an incentive to help traditional sectors and existing exporters, rather than explore new opportunities and markets.

Budget uncertainty and politicization, along with opaque decision-making, mean that officials in publicly funded BSOs may adopt behaviours that undermine confidence in state agents, such as corruption, conflict of interest, undue influence and nepotism. As trust in publicly funded BSOs may be eroded, private BSOs, including sector associations, may fill in the gap. It is thus valuable for development partners to support different types of BSOs, to ensure at least one trusted partner in all conditions.

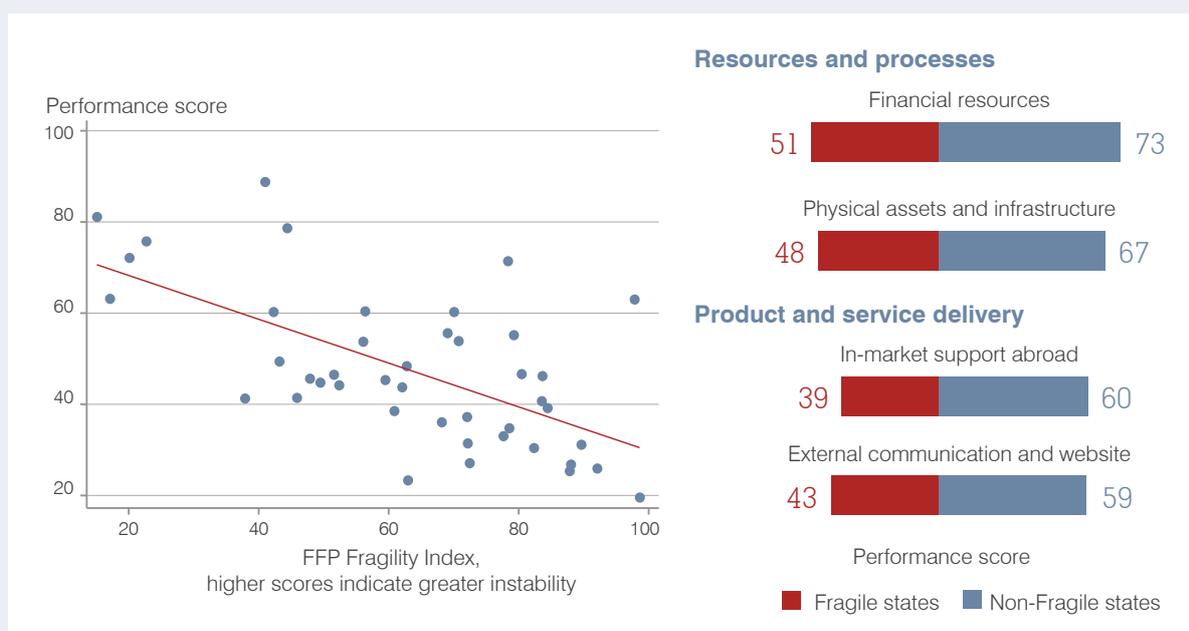
Reduce financial constraints to growth

Investment is necessary to boost a firm's capacity to change. However, this is a heightened challenge in fragile and conflict-affected settings, where financial institutions perceive entrepreneurship to be weak.⁹⁵ This perception is partially due to the higher numbers of low-ability entrepreneurs, whose activities are based on necessity, and fewer high-ability entrepreneurs, due to brain drain and misallocation of entrepreneurial talent. In such circumstances, credit markets tighten, through higher interest and/or collateral requirements, further pushing out talented entrepreneurs.

While they cannot make up for the lack of a functioning financial system, firms can act to increase their access to

finance and lessen their reliance on external funding sources. Banks and other financial institutions view firms that properly structure a business plan and have a bank account as less risky, and such businesses can access funds under better conditions.⁹⁶

Those that manage their resources well can identify internal buffers and continue operating even if external funding is limited. This improves their chances of surviving and growing. These firm-level actions certainly do not preclude the need to improve credit information and secured transactions for small businesses. By providing better credit information and widening the possibilities for collateral, for instance, small firms' access to credit will improve, leading to growth-supportive investments.



Note: The vertical axis shows the ITC's institutional benchmarking score. In the left panel, the horizontal axis shows the Fund for Peace Fragile States Index for 2022. In the right panel, countries are defined as being fragile if the Fund for Peace 2022 Fragile States Index is above 70.
Source: ITC calculations based on aggregated data from ITC's Institutional Strengthening Programme using ITC benchmarking methodology and the 2022 Fragile States Index by the Fund for Peace.

Strengthening trusted BSOs is critical, as through their coordination role and local network they may be able to extend traditional services portfolios to make up temporarily for dwindling state services. For instance, BSOs may coordinate firms' efforts to share private security costs or make large financial investments, such as buying generators.

BSOs also have a role to deliver on broader socioeconomic objectives. They create impact and more social cohesion by devoting attention to vulnerable, under-supported groups, which is particularly relevant in fragile and conflict-affected settings.

Source: ITC, based on data from ITC's Institutional Strengthening Programme.

Figure 34 Keep financial records to fuel expansion



Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys of 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

In ITC's survey sample, 44% of enterprises with a business bank account did not see their revenues drop due to violence and instability, compared with 26% of those without a bank account. This suggests bank account ownership is associated with revenue remaining unaffected by fragility. Additionally, firms able to present a properly structured business plan were 15 percentage points less likely to report revenue losses.

Similarly, adequately managing finances, for instance by keeping records and managing cash flow, enables firms to make informed decisions. Companies that keep full economic records were 21 percentage points less likely to have experienced revenue losses due to fragility in the previous 12 months. Firms with strong cash-flow management were 16 percentage points less likely to have experienced revenue losses due to fragility.

Effective financial management is also associated with firm growth in fragile settings. Forty-two per cent of companies that maintained full records increased their staff, twice the share for those that did not keep full records (Figure 34). Furthermore, 39% of firms with a business bank account expanded their number of employees, while only 21% of those without a bank account experienced growth.

Firms able to present a business plan were more than twice as likely to expand their staff numbers. Forty per cent of those with a strong ability to present a business plan increased the number of employees, compared with only 19% of companies not able to present a business plan.

Identify entrepreneurial talent

Conflict makes it more difficult for entrepreneurs to find employees and distorts the incentives for an efficient job market. In addition to creating a brain drain, prolonged

Figure 35 Formal hiring practices underpin firm growth



Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys of 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

fragility can lower school attainment levels, which reduces availability of skilled workers.⁹⁷ Also, during conflict, firms tend to hire among relatives and same-ethnicity group members.

Factors such as high social distrust, uncertainty and inter-ethnic tensions are incentives for firms to keep business within the family as a means of minimizing risks.⁹⁸ While these choices are understandable, establishing strong hiring processes benefits both firm survival and growth.

Firms with a strong, professional hiring process are more likely to find employees with the right set of skills. Skilled workers who are intimately familiar with their work processes are more efficient at adapting operations to a new context. This, in turn, is critical to enable firms to sustain revenues during periods of instability.⁹⁹ Forty-eight per cent of enterprises with an established hiring process had no drop in revenues, compared with 36% of those with a weak hiring process.

A robust hiring process was also associated with a 10 percentage point increase in the likelihood of companies' enlarging their labour force. Forty-one per cent of firms with a strong hiring process had employee growth, compared with 31% with a weak hiring process (Figure 35).

Skilled employees are essential for firms wanting to innovate, which, in turn, is critical for growth. Innovation, even if survival-driven or frugal, helps enterprises develop creative solutions when regular operations are disrupted.¹⁰⁰ Forty-two per cent of firms that sometimes or often engage in innovation experienced no revenue losses due to fragility, compared with 33% that rarely engage in innovation. What is more, 36% of businesses that sometimes or often innovate grew, compared with 27% that rarely innovate.



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Per L. Saxegaard

Executive Chair
Business for Peace
Foundation

THOUGHT LEADER

Fostering resilience, hope and global collaboration for SMEs in fragile contexts

Businesses can both create wealth and benefit society. Those that excel in doing so must be acknowledged, celebrated and emulated.

In an increasingly uncertain world, fragility is distressingly abundant. Examples such as Sudan, Haiti, Ethiopia and Syria demonstrate the catastrophic consequences of such fragility. Even in seemingly stable societies, once-strong institutions have shown their susceptibility to buckle or collapse.

Fragile contexts are characterized by the risk of conflict, economic or natural disasters that threaten to undermine optimism and extinguish hope. Governments alone cannot fix these issues, as weak or ineffectual governments often lie at the heart of the problem. A combination of public initiative and private-sector involvement is necessary. The private sector's role must be dynamic and central, with economic activity providing incentives for improved governance, hope through job creation and innovative solutions to pressing problems.

Small and medium-sized enterprises are particularly vital in this dynamic. They tackle tough challenges at the local level, innovating and creating jobs. For years, the Business for Peace (BfP) Foundation has celebrated businessworthy leaders who harness the power of private enterprise to create wealth and benefit society. These leaders have the greatest potential to inspire change in fragile states, offering hope where central institutions are lacking.

Honouring entrepreneurs

The Oslo Business for Peace Award recognizes, inspires and accelerates businessworthy leadership by honouring outstanding business leaders from around the world. These leaders demonstrate ethical business practices, prioritize their workers and create long-term success through local, entrepreneurial approaches.

Since 2007, the BfP Foundation has honoured a broad array of leaders who have contributed more than wealth to their societies by creating shared value through businessworthy ideals.

These leaders have particular impact in fragile contexts, where they forge new, reliable pathways for growth. One such Oslo Business for Peace Honouree is Felicitas 'Joji' Bautista Pantoja, President and Chief Executive of Coffee for Peace in the Philippines. Joji has navigated weak governing structures, societal conflict and high barriers to finance to create transformative change for local farmers.

By helping them access government and non-governmental organization grants, providing education on appropriate business practices and fostering peace and reconciliation, Coffee for Peace has helped raw material providers to become self-sufficient entrepreneurs.

This long, complex process often begins with one family adopting Coffee for Peace's practices, which slowly spread throughout the community. Organizations such as Coffee for Peace can provide a level of care, consistency and rapid problem-solving that traditional investors and government grants cannot always offer. The positive effects of businessworthy leadership extend beyond individual businesses, reducing conflict and improving relationships between communities and other local companies.

SMEs can be powerful forces for healing and resilience in fragile contexts, decreasing the need for international support. By unlocking the untapped resources and providing long-term value solutions, there are immense rewards for those willing to invest time, effort and resources.

Role for global businesses

The role of global businesses in supporting local SMEs is also crucial. They shape the agenda and often set the rules and standards for conducting business. By collaborating with local SMEs, global corporations can provide financial resources, technical expertise and market access that help SMEs grow and thrive. This collaboration can create shared value by fostering local economic development, building resilience in fragile contexts and promoting innovation that benefits the global community.

Furthermore, global businesses could easily work together to enlarge the pre-competition space, i.e. to expand and raise voluntary standards or commitments, not least in low- and middle-income countries, and thus further strengthen the potential for SMEs in fragile contexts. This, in turn, encourages investors, policymakers and other stakeholders to support such enterprises.

It is essential to recognize, celebrate and support these businessworthy leaders in fragile contexts. By providing them with the knowledge, backing and resources necessary for development, we can learn from their successes and foster a brighter, more stable future.

Global collaboration is key in driving positive change, as it amplifies the impact of SMEs and enables them to contribute even more to local communities and the global economy. By working together, we can create a more resilient, hopeful and interconnected world, empowering local SMEs to be agents of change and progress in fragile contexts.

CHAPTER 4

From survival to growth

CHAPTER SUMMARY

Fragility is persistent and growing. It is by definition an unsupportive business environment that curbs firm growth, undercutting the private sector's ability to contribute to a more prosperous future. Yet not all places and firms are equally affected. Some suffer for reasons beyond their control. Others succeed in developing capabilities that underpin resilience and set the conditions for a Phoenix rising.

What do stakeholders need to know about fragility and entrepreneurship to put in place effective support strategies? How can they work together? What pitfalls should they be aware of to avoid doing harm?

Based on the preceding analysis, this concluding chapter provides some guiding principles to foster private-sector growth in fragile and conflict-affected settings, with the ultimate goal of charting a sustainable path out of fragility.

A strong private sector can help lay the foundations for long-lasting stability and sustainable, inclusive economic development. Leveraging business capabilities in fragile settings is nonetheless challenging, as the national environment and business ecosystem often fail to create enabling conditions for firm success and companies understandably prioritize survival rather than growth.

Overcoming the multiple challenges faced by small businesses in fragile and conflict-affected settings, thereby shifting their focus from survival to growth, requires a holistic approach.

First and foremost, peace must be re-established. Critical conditions for private-sector growth such as democratic participation, inclusive governance and enforcement of property rights may help prevent conflicts from escalating, but are largely ineffective once violent conflict has taken hold.¹⁰¹ As clearly argued in the Doha Programme of Action 2022–2031 (Box 1), there can be 'no sustainable development without peace.' Securing an end to hostilities is a precursor to effective development interventions.

Still, peace is unstable without sustainable development, which must be fostered through a combination of macro (national environment and business ecosystem) and micro (firm-level) interventions. These must be assessed, designed and deployed in a coordinated fashion among internal and external stakeholders, including domestic institutions and humanitarian and development actors,

with a heightened awareness of and sensitivity to the context in which interventions take place to avoid reinforcing the factors and forces that drive fragility and conflict.

A two-pronged strategy

In dealing with conflict-driven fragility, the obvious first step in overcoming the state of affairs is to restore or establish peace. This includes, as needed, rebuilding or developing the capacity of the state to protect its citizens. As shown in Chapter 3, when violence and conflict are pervasive, interventions aimed at increasing private sector competitiveness have much lower chances of succeeding.

Once peace is secured, private-sector development interventions tend to follow a top-down approach, based on macro-level measures to create the social, political and economic conditions needed for business growth. These nonetheless must be complemented by a bottom-up approach focused on increasing firm capacity, to allow for a Phoenix-like entrepreneurial rebound that can support long-term, sustainable development and peace.

Top down: Peace and state capacity

Fragility is the textbook definition of an unsupportive business environment, as shown in Chapter 1. Therefore, reforms are needed to improve the operating environment for the private sector and power economic recovery. These reforms should seek to reduce the cost of doing business by lowering uncertainty and risk, providing higher quality infrastructure and public services, and ensuring the stability and enforcement of laws, policies and regulations.

Governments and BSOs play a critical role in creating a national environment and ecosystem that support firm growth. This is partially because successful reforms require a government that is willing to champion them and has the legitimacy, authority and capacity to do so.¹⁰² They also require effective civil society and private-sector participation, which is often mediated by business support organizations.

Unfortunately, lagging state and institutional capacity hampers the implementation of much-needed reforms. In some cases, the state itself can be an obstacle to the development of a better environment for entrepreneurs. Evidence shows that decades of state-building support have not been particularly effective in countries where political will is lacking, which may hinder subsequent efforts to foster private-sector development.¹⁰³

Research on business environment reforms suggests these tend to be more effective once security is established.¹⁰⁴ This means that promoting peace, as called

for in SDG 16, should be the basis for further reforms,¹⁰⁵ followed by institution-building to ensure they are trusted and capable of implementing and monitoring economic reform.

Establishing effective conflict-resolution mechanisms can help reduce violence and set a foundation for stability.¹⁰⁶ Over the last decades, several countries that had experienced violent conflict instituted truth and reconciliation commissions. Aimed at restorative justice, these commissions investigate past abuses, listen to the experiences of victims and perpetrators, and seek to repair the social fabric damaged by violence.¹⁰⁷ In so doing, they have the potential to restore confidence in civil society and systems of governance in areas where there have been systematic human rights abuses.¹⁰⁸

Comprehensive security sector reforms, including restructuring and professionalizing the military, police and other security forces, can improve their effectiveness, accountability and respect for human rights.¹⁰⁹ Experiences from security sector reviews conducted in Burundi, Liberia and Sierra Leone have also underlined how crucial it is to engage citizens in an inclusive and broad-based manner to ensure their interests are represented and provide societal legitimacy to the process.¹¹⁰

Strengthening the rule of law and promoting an independent judiciary can further foster accountability and establish a system in which all individuals are held responsible for their actions. This typically involves protecting human rights, improving access to justice, enhancing legal frameworks, combating corruption and promoting judicial independence.¹¹¹

In addition to formal legal bodies, supporting informal or traditional justice mechanisms can also help to restore or establish trust in state-level systems by improving understanding of legal issues and customs. These mechanisms can be critical in fragile states, in which such providers may resolve more than 80% of disputes.¹¹²

Promoting citizen participation and inclusive governance, such as by creating channels for citizens to voice their concerns, helps build trust in and legitimacy of government institutions. For example, experiences in Nepal, Pakistan and Uganda have shown that including citizens in the process of delivering public service reinforced feelings that government actors are sensitive to the opinion and role of civil society actors.¹¹³

Similarly, engaging the business community in decision-making processes supports stability efforts, as exemplified in this report's contribution from the former president of the Tunisian Confederation of Industry, Trade and Handicrafts and Nobel Peace Prize recipient Ouided Bouchamaoui,

who co-founded the Tunisian National Dialogue Quartet amid Tunisia's civil and political unrest in 2013.

Implementing successful programmes to reform the business environment thus requires political will and some level of safety, stability and institutional capacity. This aligns with this report's findings that firms can do very little to protect themselves from fragility-driven violence and insecurity, and that their ability to curb fragility by fostering competitiveness is severely limited once fragility passes a certain level, as challenges become increasingly systemic.

Still, achieving peace remains elusive in many settings. It is particularly challenging in 'hybrid political orders,' where claims to authority and legitimacy do not lie with the state or formal actors. In these cases, waiting for an end to protracted hostilities may not be an option, and identifying de facto pockets of effectiveness, such as specific branches at municipal and district levels, or quasi-state institutions, may provide a path to continue supporting entrepreneurs.

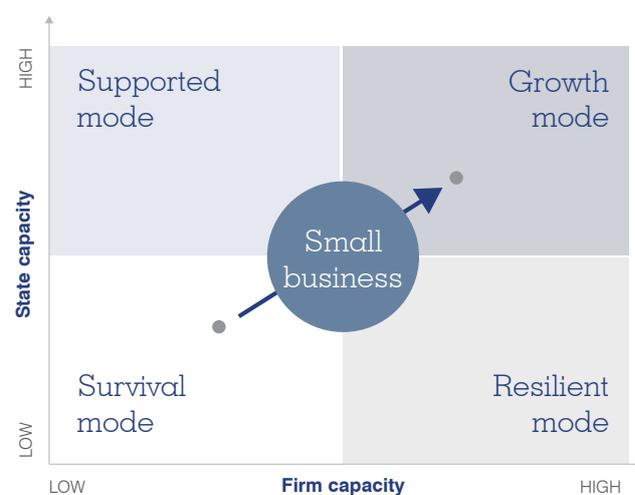
Once a baseline of stability is achieved, or pockets of effectiveness identified, the focus should be on building the capacity of the state to help firms move from survival mode to supported mode (Figure 36). Business environment reforms must target the most severe constraints on private-sector growth, which vary across countries, but often include access to finance and public services, as identified through the ITC Small Business in Fragility Survey.

Emerging from a prolonged civil war that lasted from 1989 to 2003, Liberia faced major challenges including collapsed infrastructure, weakened governance systems and widespread population displacement. In the aftermath of the conflict, the Government focused on rebuilding institutions and establishing mechanisms to promote economic recovery, such as the Liberia Business Registry, aimed at simplifying business registration processes and reducing administrative burdens for small firms.

Additionally, the Government introduced reforms to enhance access to finance for small businesses, including microfinance programmes and grants for entrepreneurial ventures. These efforts have helped pave the way for increased private-sector engagement and economic growth in Liberia, underpinned by a coherent, consensual and fully endorsed national export strategy.

Alongside horizontal measures aimed at levelling the playing field for all firms, it is necessary to address issues that plague the businesses that are most affected by fragility and conflict.¹¹⁴ In Chapter 2, the ITC Fragility Exposure Index sheds light on critical business characteristics, including location, status and ownership,

Figure 36 Two-pronged approach to support small business



Source: ITC.

that tend to heighten exposure to fragility for some businesses. These can serve as a starting point in designing tailored policies.

Bottom up: Firm competitiveness

To become agents of stability, firms in fragile contexts also need to develop capabilities to operate on a daily basis, build strong connections with their business ecosystem and anticipate and adapt to market changes.

As highlighted in Chapter 3, businesses in fragile and conflict-affected settings should focus on three critical competitiveness characteristics – connections, financial management and staff skills – to boost their capacity to connect and change, and shift from survival to resilience (Figure 36). By investing in these areas, small businesses may also have a positive impact on the dynamics of fragility, reinforcing a virtuous cycle.

By connecting with actors in their ecosystem, including peers, value chain participants and business support organizations, small businesses obtain critical information, as well as access to resources to adjust and adopt positive, resilient strategies.¹¹⁵

Engaging in peer-to-peer collaboration, for instance, allows entrepreneurs to expand trusted networks to explore solutions to fragility-related challenges, develop a shared sense of purpose and advocate more effectively for reforms. Given that most businesses in fragile settings tend to be very small, pooling resources is also key to scale up efforts and lower costs. For instance, in Iraq, traders jointly hired a truck to transport products, reducing costs.



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Navigating partnerships in stormy business waters

Beirut Erbil for Potato Products (BEPP) was established in 2013 with the aim of developing the food industry and supporting potato farmers in Iraq. Despite political and economic instability in the country, compounded by a challenging business environment, BEPP has achieved notable success in local markets.

‘Our company produces natural potato chips from the best potatoes. We source them from local farmers, who can rely on annual contracts. These provide them with a stable income and create more job opportunities in the agricultural and industrial sectors. Thanks to these contracts, we now have 360 employees working in our factory, in addition to 120 employees working in the company.’

‘We are expanding, having overcome many initial challenges. For example, convincing consumers of the quality of our product was difficult, but we did it by obtaining international certification. With that, we started exporting to Syria and the United Arab Emirates.’

‘But we continue to face challenges due to a difficult business environment. Because of the weak judicial system in Iraq, our contracts with suppliers and buyers are not easily enforceable, and we suffer financially when one of these parties does not fulfil their part of the deal.’

‘We also face difficulties accessing finance. The work of banks in Iraq is often limited to paying salaries and other routine matters. This restricts our ability to invest and grow. The country’s poor infrastructure and unstable political and security situation have further reduced the chances of attracting international investment.’

‘We are trying to overcome these obstacles by coordinating with government agencies, joining forces with other companies in the sector. BEPP contributed substantively to the ITC potato strategy, whose design phase brought together government, private-sector and civil society organizations to identify obstacles, agree on priorities and collectively promote the interests of the potato sector.’

‘ITC has helped us significantly. By organizing field visits to our factory for farmers and providing material and training support under the Strengthening the Agriculture and Agri-food Value Chain and Improving Trade Policy in Iraq project, ITC has enabled us to remain well-connected with the farmers and be ready to support them with any technical assistance required to grow their business.’

The European Union funds ITC’s Strengthening the Agriculture and Agri-food Value Chain and Improving Trade Policy in Iraq project. The project aims to support stability by building the capacity of key Iraqi institutions, as well as sustainable job creation through development of human capital. It focuses on the development and implementation of sector strategies for high-potential products as well as market-oriented policies to improve predictability and efficiency of the business environment.

Additionally, research suggests that small businesses have greater potential to positively affect conflict dynamics when they act collectively.¹¹⁶ This is because success in building stability often arises from collective decision-making and coordinated action, rather than uncoordinated efforts of a discrete number of small businesses.¹¹⁷

Value chains remain the main vehicle for small businesses to integrate into international trade. Building such connections is even more critical in fragile and conflict-affected contexts, in which small firms are more likely to export indirectly. Ensuring that large buyers promote ethical practices, including respect for human rights, fair labour standards and environmental sustainability, can have extra benefits in terms of social cohesion and trust, as well as expansion of economic opportunities.

When SMEs join international supply chains, it becomes increasingly important to comply with environment, social and governance standards, adapted to the context. As stated in the United Nations Guiding Principles on Business and Human Rights, the risk that companies affect human rights adversely is particularly big in fragile settings. Environmental and social risk management is likely to take longer than in other settings and require flexible timing and additional resources.

While the same standards apply in fragile and conflict-affected settings, they may have to be applied differently. There may be a different sequence in which to carry out the accompanying measures to mitigate risks. Also, there may be a need to apply more extensive human rights due diligence to identify risk of violations, as these are heightened in conflict-affected areas.

Strengthening financial management skills can also make an outsized difference. This is because managers over-rely on internal funds due to thin financial markets despite facing large, often severe, short-term fluctuations in cash flow.¹¹⁸ While it is certainly necessary to reinforce economic fundamentals to improve firm's access to capital, companies can avert or reduce revenue losses and increase their chances of accessing existing funding sources by carefully managing cash flow.

Liquidity is a matter of life or death for small businesses. In fact, research suggests that cash flow in a small company is more significant than the magnitude of profit, as firms can survive for a while without making profits, but fail the day they cannot meet a critical payment.¹¹⁹ Here, mobile financial services can play a significant role.

In the Democratic Republic of Congo, Somaliland and South Sudan, mobile phones are being used to settle major payments. The Zaad platform in Somaliland and

MTN Money and Airtel Money in the eastern Democratic Republic of Congo serve as mobile banking services, albeit only for receiving deposits, allowing a large group of enterprises to pay salaries.¹²⁰

Finally, securing a skilled workforce is essential for firms to survive during crises and to seize growth opportunities later. By inciting a brain drain and negatively affecting school attainment, fragility lowers the availability of skilled workers.¹²¹ This makes it even more crucial to establish strong recruitment systems that allow firms to identify talent. Additionally, to the extent possible, investing in training programmes, apprenticeships and vocational education helps workers upskill and remain aligned with the emerging needs of firms.

Business support organizations have a key role to play in reskilling and upskilling. During the 1990s in Angola and Mozambique, for instance, they provided effective vocational skills training, management training, self-employment and income-generation to ex-combatant groups, while identifying viable business opportunities and conducting marketing feasibility studies.¹²²

Sensitive human resource management can support stability and reconciliation efforts. Inclusive hiring strategies can help strengthen social cohesion and widen employment opportunities.¹²³ In Colombia, companies such as Electrolux and Exito deliberately hired and trained ex-combatants.¹²⁴ In Nepal, the Three Sisters' Trekking Agency employs and trains socially disadvantaged women, including Dalits (the so-called 'untouchables'), to guide clients on their vacations, addressing both gender and socioeconomic issues through its core operations.¹²⁵

By creating an environment that promotes unity and focuses on shared goals and professional development, companies can also foster a more inclusive and harmonious work atmosphere that contributes to reducing sectarian tensions.¹²⁶ In the Caucasus, a local initiative developed a product called 'cheese for peace.' Establishing a joint marketplace for people from different parts of the region led to a sense of hope for peaceful co-existence.¹²⁷

Coordination, collaboration and context

The success of any project in fragile and conflict-affected areas depends not only on its content, but also on its design, sequence and implementation. Actors seeking to foster private-sector growth and, ultimately, a return to stability and prosperity must consider three critical factors.

First, top-down approaches should be complemented by bottom-up ones, both to leverage synergies and to avoid risks. Second, stakeholder collaboration is essential to ensure that the many factors driving fragility and conflict are effectively and efficiently addressed. Finally, conflict sensitivity and context awareness are a must to avoid exacerbating negative dynamics, including inequality and conflict, and increase the chances of successful outcomes.

Coordinate to lessen risks

Building state capacity helps governments and BSOs support firms more effectively. Building firm capacity helps business become more resilient. Moving them from survival to growth nonetheless depends on combining interventions at the macro and micro levels, as they reinforce one another (Figure 36). Moreover, addressing both capacity constraints in tandem helps avoid potential risks.

The combination of top-down and bottom-up approaches should create the right conditions for entrepreneurs to grow – both in size and in number. As more small businesses succeed, a virtuous cycle takes root whereby they push for additional reforms, further improving the ecosystem and encouraging more entrepreneurs to emerge. Over time, an entrepreneurial mindset and skill set spreads among the population, with a broad impact on the economy and political landscape.¹²⁸

Combining interventions also prevents some risks. On the one hand, if state capacity improves but businesses are not strengthened, firms may become reliant on government support and unable to play their role as drivers of growth. In such circumstances, stability itself may be undermined, as it would rest on shaky foundations.

On the other hand, if the ecosystem is weak, it will either discourage any risk-taking or encourage the wrong kind – boosting criminality or the economic drivers of conflict.¹²⁹ This takes place as powerful companies in the face of weak governments may engage in unproductive or destructive entrepreneurial activities, obstructing the entry of new firms, and the exit from fragility.¹³⁰

This coordinated approach is in line with the concept of market systems development (Box 5). This methodology recognizes that, in challenging settings, markets often have entrenched, systemic issues that are resistant to piecemeal interventions requiring an emergent systems approach to change.¹³¹

Collaborate to tackle multiple challenges

This report has underlined that fragility is complex and multifaceted. Therefore, escaping it requires support on

multiple fronts. By working in collaborative ways, based on strategic partnerships where each stakeholder's value added is clear, it is possible to tackle more effectively the range of issues that hamper social, political and economic progress.¹³²

At the very least, stakeholders can strengthen information sharing. As diverse actors often have different counterparts, maintaining constant communication allows them to complement and triangulate information, broadening their understanding of quickly changing circumstances in a timely fashion.

In Colombia, for example, the Government joined forces with the United Nations Development Programme, the United Nations High Commissioner for Refugees and local non-governmental organizations following the 2016 peace agreement, to stimulate dialogue between communities, large domestic companies and local businesses, investors and the development partners themselves.

While grounded in commercial common interests, these relationships also aimed to foster an understanding of threats and opportunities facing the various partners and seek collective resolution mechanisms. Specifically, the stated goal was to build value chains to increase economic security and support legitimate livelihood activities. Still, for many, the programme helped break down barriers between actors and establish the value of multistakeholder cooperation.¹³³

Stakeholders can also undertake joint analytical work, leveraging each other's data and tools. In fragile and conflict-affected settings, analytical work must be deeper and broader – a task that no organization can undertake alone. In addition, as data are hard to come by and expensive to collect, collaboration not only improves understanding, but also saves resources by not duplicating work.

Thus, leveraging each other's expertise – for instance, in developing and deploying due diligence and conflict assessment tools and creating collaborative platforms to collect and analyse data – can broaden understanding more efficiently.

Finally, stakeholders should dedicate sufficient resources – both financial and human – to develop joint programming.¹³⁴ Specifically, those working in fragile and conflict-affected settings must support and participate in donor coordination structures wherever they exist – and create them where they do not. They can also develop integrated and inclusive sector strategies, undertake joint project development and collectively implement projects based on their comparative advantages and mandate.

Box 5: Market systems development in fragile contexts

With programmes such as the Refugee Empowerment through Markets Initiative, the Strengthening the Agriculture and Agri-food Value Chain and Improving Trade Policy project in Iraq, and projects in Myanmar, South Sudan, Ukraine and others, ITC's footprint in fragile settings is growing.

These contexts often feature thin and distorted markets. In such situations, it may appear easier to work as 'firefighters' and jump to practical solutions. This approach, however, means that impact remains limited, with interventions failing to reach scale and become locally embedded. Applying a market systems development lens can lead to interventions that are both scalable and sustainable.

Conventional efforts to integrate businesses into value chains, for instance, often ask questions such as 'What problems do businesses have and how can we solve them?' A market systems development programme asks rather 'Why isn't the market providing solutions to the problems?' and 'How can we address the constraints that prevent it from doing so?'

ITC has drawn insights from applying a market systems development approach to its work in fragile and conflict-affected settings:

Businesses are people. When much of the population works in self-owned small businesses, the frontier between business and people is less pronounced. This means that supporting small enterprises is more directly and visibly linked to poverty alleviation than in other contexts.

No one-size-fits-all. There is tremendous variation even within the subset of fragile and conflict-affected settings. Less developed and more unstable markets may require direct approaches that focus on meeting basic needs, whereas more established markets offer potential for interventions to make them more inclusive of vulnerable populations.

There is no humanitarian development divide. Humanitarian interventions and development programming should go together. Efforts that focus on strengthening markets can help bridge the divide and lead to programmes that combine quick response with long-term technical interventions. The earlier this connection is built, the better, because it is easier to shift to development work when the initial crisis response is less market-distorting.

Structure is important, but so is flexibility. Conflict analysis is essential so that an understanding of the social and political power dynamics is integrated into project design and implementation. Nonetheless, project teams must be able to adjust programmes, activities and targets quickly to adapt to changing circumstances. This requires efficient monitoring systems, flexibility in programming and funding, and efficient back-office support.

Note: For additional information on the survey design and deployment, refer to Annex I.

Source: Dudwick & Srinivasan, 2013; Hemberger et al., 2018; Mandelli & Hartrich, 2019; SIDA, 2019.

Collaboration signals to local actors, including the government and private sector, that development partners are aligned, coordinated and sharing resources to ensure the whole is greater than the sum of its parts. This is especially relevant as the journey from fragility to stability is a long one, and knowing that development partners operate in synergy reinforces the commitment to supporting countries and businesses in the long haul.

Understand the context to do no harm

This report aims to advance the collective understanding on fragility and how it constrains business opportunities, operations and outcomes. It will remain merely a study if those supporting small firms do not consistently incorporate the knowledge it sets out into their strategies, programmes, projects and activities.

Interventions must be based on a good understanding of the underlying dynamics of fragility and conflict, and how

the planned actions may interact with them. Without this, any effort will at best be ineffective, and at worst exacerbate risks to businesses, communities and stability, causing harm.

Conflict sensitivity is an approach that is predicated on an understanding of the interaction between a given intervention and conflict. It ensures that economic development is sensitive to issues that can spark violence, such as conflict fault lines, contested land and natural resources, and inequalities. It is a continuous process designed to minimize the negative impacts and maximize the positive impacts of economic development on peace and stability, ultimately helping also to improve the business case.

Conflict sensitivity in fragile contexts is not an option, but an imperative. To date, few actors working to promote economic growth have integrated conflict analysis and sensitivity into their interventions. Programmes, projects and activities – whether they are economy-wide reforms or targeted at specific firms – can unwittingly exacerbate the ties between economy and conflict if they are not sensitive to the context, to the detriment of peace and growth alike.¹³⁵

Implementing conflict-sensitive interventions requires several steps. First, it is necessary to understand the context in which the intervention takes place through analysis of the country in question. This can help establish guidelines for engagement in certain geographical areas, with specific actors, sectors, supply chains, business types and size, among other factors. Unfortunately, many assessments end at this stage, without further evaluating how the proposed intervention may change the conditions on the ground.

In addition to country-wide analysis, it is necessary to anticipate the potential impacts of interaction between the context and the planned intervention. Based on this additional assessment, there must be a strategy to minimize the negative and maximize the positive effects. Finally, monitoring mechanisms must be established to track how interactions change over time and to assess the effectiveness of the implemented strategies.¹³⁶

Certainly, the process can be time-consuming and costly. It will often require a multidisciplinary team with specialized knowledge. Doing so is nonetheless critical to avoid wasting valuable resources and turning good intentions into unintentional drivers of conflict and fragility.



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THOUGHT LEADER

Generating livelihood opportunities in conflict and violent settings

Comprehensive approaches that bring together peacebuilding, humanitarian and development actors are needed to craft sustainable solutions to protracted crises.

Armed conflicts are ever more protracted, often spanning generations, so that living in conflict settings has sadly become the norm for millions of people.

This increases the urgency of finding solutions that address the humanitarian, developmental and security needs of the people affected – to advance their well-being and support them in making a dignified living. For decades, the focus has been on the humanitarian–development nexus. More recently, peace has been added as an additional pillar of a triple nexus, acknowledging that aid alone cannot solve political crises.

The need for a comprehensive approach was evident when I returned to Iraq after 30 years and reconnected with a former colleague with whom I had worked during the 1991 Gulf War. While living through successive cycles of armed conflict and economic sanctions, he married, raised a family and recently became a grandfather.

Talking about his experiences, one comment stayed with me. ‘While humanitarians have kept providing assistance, thanks be to God they’ve shifted from dumping wheat flour to providing seed money to helps us generate incomes and jobs and move out of aid dependency,’ he said.

Leveraging resources

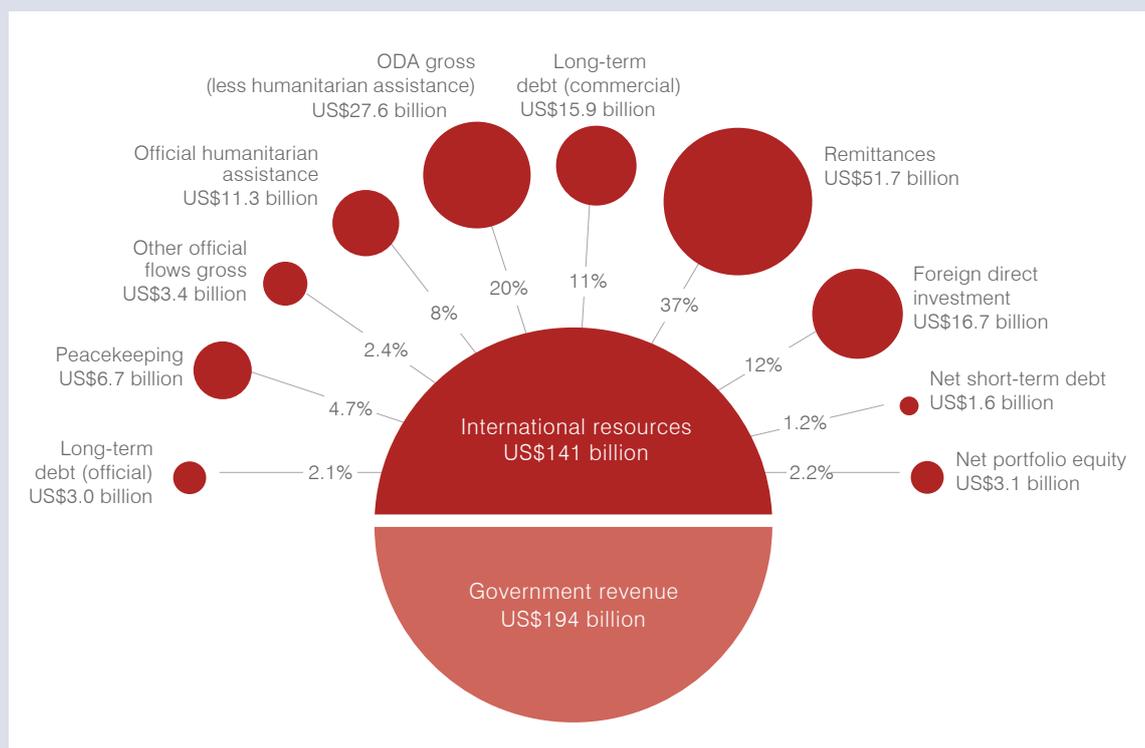
Given the distinct objectives, funding and modus operandi of humanitarian, development and peacebuilding actors, the key question is how to leverage domestic and international policy instruments around a triple nexus that works for affected people.

International development bodies have started investing more in fragile and conflict settings. Development banks more than tripled their grants and loans to the top 20 recipients of humanitarian aid between 2012 and 2020, to \$11.6 billion from \$3.5 billion.¹³⁷

Looking at countries subject to consecutive humanitarian appeals, it is estimated that overall resources available amounted to \$335 billion in 2017. There is great potential to leverage domestic resources, not least for essential services and infrastructure (see figure below).

Foreign aid remains comparatively modest, but can play a catalytic role: development assistance accounted for 20% of resource inflows, humanitarian aid for 8% and peacekeeping for 4.7%, which is way behind migrant workers’ remittances (37%), whose importance to sustain the livelihood of recipient families cannot be understated.

Countries with consecutive humanitarian appeals



Source: Development Initiatives (2019).

The potential catalytic role of foreign aid varies from context to context. In Afghanistan, since the regime change in 2021, economic sanctions have prevented international development institutions from investing. In parallel, the breakdown of formal payment systems has limited the scope for supporting income-generating activities.

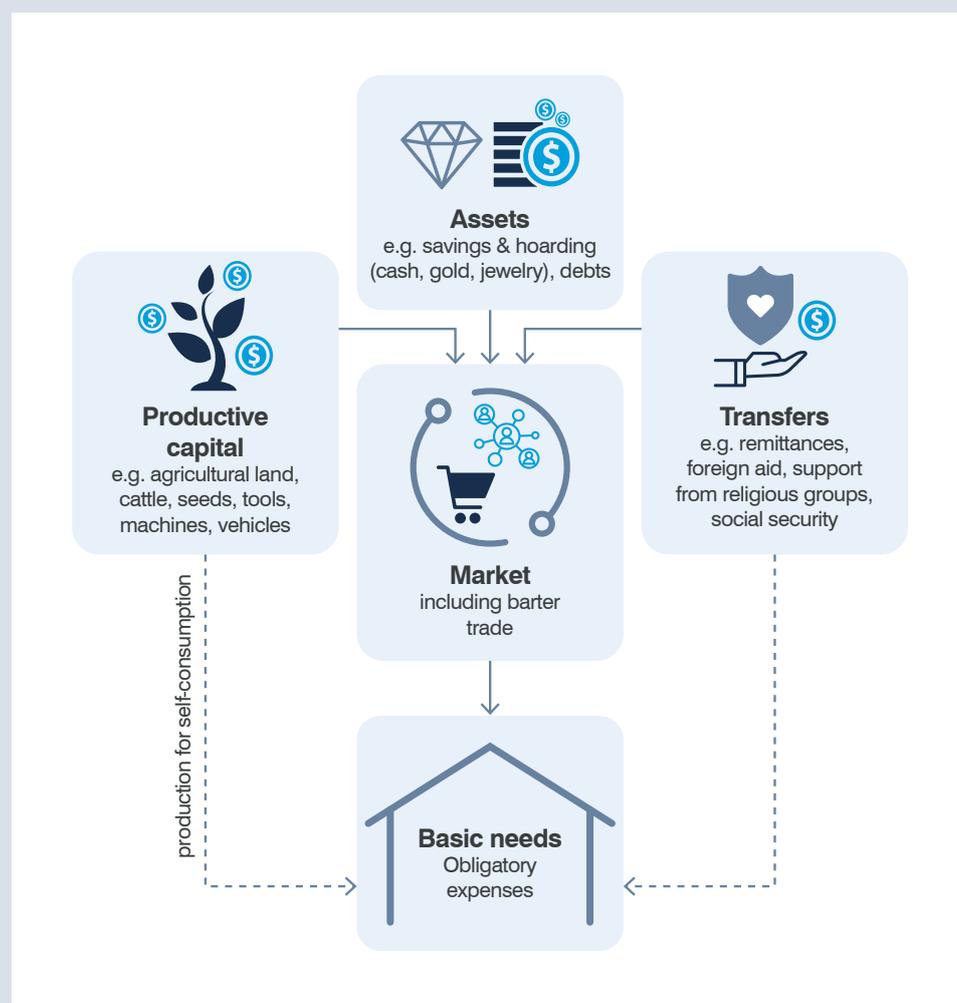
In the Sahel and Lake Chad regions, people affected by protracted conflict identify a broad range of job-creation opportunities and are ready to invest in agriculture, manufacturing and services. Philanthropists and aid organizations have invested in basic finance and management training to help would-be entrepreneurs develop solid business plans and succeed to establish and grow microenterprises in fragile and conflict settings.

Yet, development finance institutions and private investors are reluctant to commit capital, contending that there is a lack of bankable projects and prohibitive risks. This gap between top-down versus bottom-up perspectives can and must be reduced. Financial and political risk-insurance instruments can help, but it won't suffice.

Meeting basic needs

Humanitarian actors have shifted to cash- and market-based interventions. Using household economy approaches, they seek to ensure that people can meet their basic needs in a sustainable way by looking at productive capital, savings and transfers, as illustrated in the figure below.

Household economy



Source: Carbonnier (2016).

To strengthen vulnerable households' economic security, it is necessary to respond swiftly to shocks such as sudden population displacement. Knowing that forced displacement typically lasts for more than one or two decades, fostering labour market integration is a response of choice while assisting host communities is critical to smooth tensions between the displaced and residents.

In Iraq, as soon as inhabitants could return to Mosul city centre at the end of 2017, the International Committee of the Red Cross (ICRC) provided seed money to micro-entrepreneurs to help them resume their former livelihoods. I visited a tailor in the old city who had hired seven women in the textile workshop installed in her basement. She had proudly put aside enough savings to rebuild a textile factory in Mosul's outskirts.

Also in Mosul, another family had resumed poultry production and discussions were under way to scale up by integrating into regional value chains. Such opportunities contribute to economic recovery and lasting peace, reducing grievances as communities reintegrate.

There are countless such local-level examples, which deserve to be supported. As waves of migrants crossed into Colombia from Venezuela, the Colombian Red Cross helped young Venezuelans become short-term apprentices in local SMEs, through a short-term subsidy. Visiting the region in 2021, I talked with several who had been kept on being employed after the subsidized period, having gained their employer's trust and valuable professional skills.

The next step is to bridge the micro–macro gap that prevents scaling up such successes and job opportunities. Field-based cooperation recently established by the ICRC with ITC in Iraq seeks to achieve this, contributing to a triple nexus that helps ensure the most vulnerable can enjoy freedom from fear and from want.

Endnotes, References and Annexes



Endnotes

- 1 (Smith, 2004).
- 2 (Organski & Kugler, 1977).
- 3 (Addison & Brück, 2009).
- 4 This is partially due to the difficulty collecting firm-level data in places considered fragile or affected by conflict. Many businesses operate informally and are unwilling to provide information that would shed light on their opportunities, operations and outcomes. Additionally, some of the most fragile places are not easily or safely accessible to enumerators or researchers. Finally, as places cycle through conflict and fragility, there is little consistency in observations to allow for more robust assessments. This report is not immune to these difficulties. Despite the new data collected in eight countries (see Annex I), ITC reinforces the call for greater investment in data collection and research to improve our collective understanding of those businesses most in need of support.
- 5 (Gunduz et al., 2006).
- 6 (The Fund for Peace, n.d.).
- 7 (World Bank, 2022).
- 8 (International Monetary Fund, 2022).
- 9 (OECD, n.d.).
- 10 (ACLEDE, n.d.).
- 11 (Naudé et al., 2011).
- 12 This report uses both the Fund for Peace Fragile States Index (FSI) and the World Bank Fragile and Conflict-Affected Situations (FCS) list to generate figures and values. The two measurements are used as they are built differently and serve different purposes: whereas the FCS list has a hard cut-off (i.e., countries are either fragile or not), the FSI provides a continuous variable. Therefore, the FCS is used for comparisons between fragile and non-fragile countries. The FSI is preferred for changes within categories. Sources are clearly specified under each figure and detailed in Annex I.
- 13 (Besley & Persson, 2010; Collier et al., 2019).
- 14 (*Ibid.*).
- 15 (*Ibid.*).
- 16 (Camacho & Rodriguez, 2013; Hiatt & Sine, 2014; Petracco & Schweiger, 2012).
- 17 World Bank Development Indicators Online at <https://databank.worldbank.org/source/world-development-indicators>.
- 18 (de Groot et al., 2022).
- 19 The classification of countries as fragile or conflict-affected varies slightly depending on the measurement used. For example, according to the OECD's 2022 Multidimensional Fragility Framework, 55% of countries are middle-income and 43% are low-income.
- 20 Calculated based on the World Bank FCS list. If, instead, the OECD definition were used, nearly 2 billion people live in fragile settings, accounting for almost a quarter (24%) of the world's population and three-quarters (73%) of the world's poor.
- 21 (Gerszon Mahler et al., 2022).
- 22 (UN DESA, n.d.).
- 23 (OECD, 2022a). ITC calculation based on 2022 World Bank FCS list and 2022 Sustainable Development report data.
- 24 (Kharas & Dooley, 2021).
- 25 (OECD, 2022a).
- 26 (*Ibid.*).
- 27 (Baumol, 1990).
- 28 (Elert & Henrekson, 2016).
- 29 (Marsh & McDougal, 2021).
- 30 (Van Buren & Joseph, 2022).
- 31 (Cooper, 2006).
- 32 (Addison, 2001).
- 33 (Banerjee & Newman, 1993; Mehlum et al., 2003; K. M. Murphy et al., 1991; Sanders & Weitzel, 2013).
- 34 (Ghossein & Rana, 2023).
- 35 (Ohnsorge & Yu, 2023).
- 36 (Brück et al., 2013).
- 37 (Kaye et al., 2023).
- 38 (*Ibid.*).
- 39 (*Ibid.*).
- 40 (Elbadawi et al., 2019).
- 41 (Faruq, 2017; Kimuyu, 2007; Makochekeka & Mahofa, 2021; Olney, 2016).
- 42 (Makochekeka & Mahofa, 2021).
- 43 (Fredriksson, 2014; Kimuyu, 2007).
- 44 This assumes that characteristics of fragile environments influence a firm's decision to export, which, in turn, explains the lower number of exporting firms.
- 45 The number of exporters reported in the text, for each country, is extracted from the World Bank Exporters Dynamics Dataset, as an average of the number of exporters in the available years.
- 46 (Besada, 2013; Cali, 2015; Cilliers & Sisk, 2013; Hoefler, 2012; Sacchetto et al., 2021).
- 47 (Cilliers & Sisk, 2013).
- 48 (Djankov et al., 2002; McKechnie & Lightner, 2018).
- 49 (Hiatt & Sine, 2014).
- 50 (Organski & Kugler, 1977).
- 51 For additional information on how the index is built, please refer to Annex I.
- 52 The variation in distributions could partly reflect differences in how the national surveys were conducted or how firms within a specific country responded.
- 53 (Bozzoli et al., 2013).
- 54 (Zoellick, 2008).
- 55 (Kuhn et al., 2016; Lipps & Schraff, 2021).
- 56 (*Ibid.*).
- 57 (Ezcurra & Palacios, 2016; Okafor & Piesse, 2017).
- 58 (Smits & Permanyer, 2019).
- 59 (Camacho & Rodriguez, 2013; Konrad & Skaperdas, 1998).
- 60 (Camacho & Rodriguez, 2013).
- 61 (Benjamin, 2023; Torres et al., 2021).
- 62 (Speakman & Rysova, 2015).
- 63 (Ahairwe et al., 2022; Benjamin, 2023).
- 64 (Triki & Faye, 2013).
- 65 (ILO, 2018; Mbaye et al., 2023).

- 66 Defined as those in the third tertile of the Patrilocal Index.
- 67 (Hoffmann & Lange, 2016).
- 68 (*Ibid.*).
- 69 (Benjamin, 2023).
- 70 (Gaviria, 2002).
- 71 (Hoffmann & Lange, 2016).
- 72 (*Ibid.*).
- 73 (UN Global Compact, 2023b).
- 74 (UN Global Compact, 2023a).
- 75 (Hartmann & Ferreyra, 2022).
- 76 (Falciola et al., 2023).
- 77 Competitiveness scores vary from 0 to 100, with higher values denoting greater competitiveness (better outcomes). The average score in ITC's sample is around 60 points. Fragility scores vary from 0 to 100, with higher values denoting greater fragility (worse outcomes). For additional explanation on the ITC Competitiveness and Fragility Exposure Indices, see Annex I.
- 78 (Avdiu & Grover, 2022).
- 79 (Falciola et al., 2023).
- 80 (Brück et al., 2013; Hellman, 2012; Ritchie, 2013).
- 81 (Rose & Krausmann, 2013).
- 82 (Avdiu & Grover, 2022).
- 83 (Bernard & Jensen, 2007; Martincus & Carballo, 2008).
- 84 (Brück et al., 2013).
- 85 (Falciola et al., 2023; ITC, 2021).
- 86 (Dimitriadis, 2019).
- 87 (Hoffmann & Lange, 2016).
- 88 (*Ibid.*).
- 89 (ITC, 2021; Sserwanga et al., 2014).
- 90 (Owuor, 2015).
- 91 (Devarajan et al., 2011).
- 92 (Owuor, 2015).
- 93 (Dimitriadis, 2019).
- 94 (Parker, 2008).
- 95 (Collier et al., 2019).
- 96 (ITC, 2022).
- 97 (Chauvet & Collier, 2008; Davies & Bentrovato, 2011).
- 98 (Naudé, 2013).
- 99 (ITC, 2022).
- 100 (ITC, 2015).
- 101 While state-building is outside the scope of this report's analysis, it is recognized as a sine qua non condition for successful private-sector development interventions. ITC's mandate is clearly focused on providing technical assistance to businesses, in support of sustainable, inclusive development. To do so, it partners with organizations whose mission and expertise lie at the peace/humanitarian end of the peace-humanitarian-development spectrum, in recognition that a minimum level of stability, state legitimacy and secure livelihood must be achieved for development interventions to be effective.
- 102 (White, 2020).
- 103 (OECD, 2023).
- 104 (Luiz et al., 2019).
- 105 (*Ibid.*).
- 106 (African Union, 2006).
- 107 (Hirsch et al., 2012).
- 108 (C. Murphy, 2011).
- 109 (United Nations Peacekeeping, n.d.).
- 110 (Kuol, 2020).
- 111 (Brooks et al., 2013; United Nations Development Programme, 2015).
- 112 (OECD, 2008).
- 113 (United Nations & World Bank, 2018).
- 114 (Ghossein & Rana, 2023).
- 115 (ITC, 2021; Sserwanga et al., 2014).
- 116 (Kaye et al., 2023).
- 117 (*Ibid.*).
- 118 (Owuor, 2017).
- 119 (Welsh & White, 1981).
- 120 (Owuor, 2017).
- 121 (Collier et al., 2019).
- 122 (ILO, 2009).
- 123 (Brück et al., 2021).
- 124 (Melin, 2021).
- 125 (Dhakal & Subedi, 2006).
- 126 (Katsos & AlKafaji, 2019; Joseph et al., 2021).
- 127 (Kruckow & Servaes, 2021).
- 128 (Kaplan & Magendzo, 2021).
- 129 (Andreas, 2004).
- 130 (Kaplan & Magendzo, 2021).
- 131 (Shultz et al., 2012).
- 132 (OECD, 2022b).
- 133 (LSE IDEAS, 2021).
- 134 (White, 2020).
- 135 (Kaye et al., 2023).
- 136 (*Ibid.*).
- 137 A third as grants and the rest as concessional loans. The World Bank (International Development Association) is the main provider.
- 138 For more information on the SME Competitiveness Survey, see <https://intracen.org/resources/data-and-analysis/research-and-data/>
- 139 (Falciola et al., 2017).
- 140 These numbers are rough estimates. Not all attempts to contact companies were recorded through the survey platform. Questions on reachability or operationality were not included in the questionnaire when companies were contacted that had not been drawn from the existing SMECS sample.
- 141 Reachable and operational firms.
- 142 Observations by firm size do not add to 1,323 because some firms did not reply to the question 'How many full-time employees does this establishment currently have?'
- 143 Observations by firm size do not add to 1,095 because some firms did not reply to the question 'How many full-time employees does this establishment currently have?'
- 144 (Baliki et al., 2022).
- 145 (Falciola et al., 2020).
- 146 (Raleigh et al., 2010).
- 147 Further information can be found in the [ACLED Codebook](#) (2021).
- 148 The database was accessed on 21 February 2023.
- 149 Further analysis was done with a fatalities indicator that is defined as the number of fatalities within a 100km radius from the business, between 2018 and 2022.
- 150 (Kuhn et al., 2016; Lipps & Schraff, 2021).
- 151 (Smits & Permanyer, 2019).

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Annex I: Methodology note and data sources

This annex provides details for all figures and calculations in the report. It includes definitions, sampling, econometric and statistical methods, and data sources. Additional detail can be requested by email to the ITC Research team at SMEcompetitiveness@intracen.org.

Definitions

Micro, small and medium-sized enterprises

There is no internationally harmonized definition of micro, small and medium-sized enterprises. For feasibility and comparability reasons, this report classifies companies based on the number of full-time employees:

- Micro: 0 to 4 employees;
- Small: 5 to 19 employees;
- Medium: 20 to 99 employees;
- Large: 100 or more employees.

SMEs are therefore companies with fewer than 100 employees. Micro firms are implicitly included in the definition.

Women-owned enterprises

Women-owned enterprises are defined as those in which women own at least 1% of the company.

Youth-led enterprises

Youth-led firms are defined as being run by a top manager under the age of 35.

Exporters

Exporters are companies that sell their products and/or services beyond national borders.

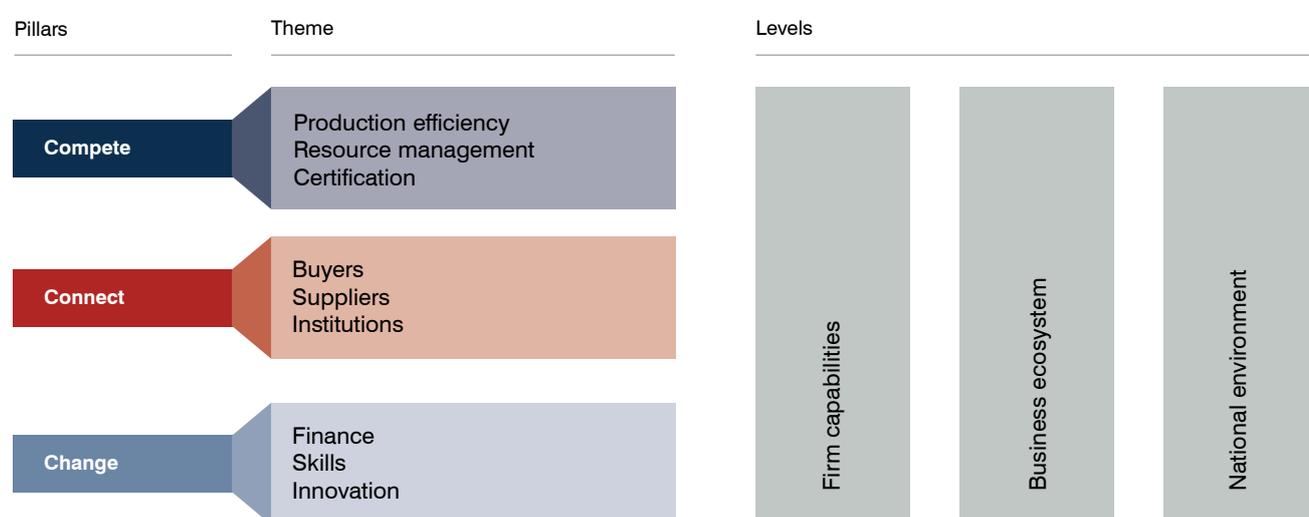
ITC SME Competitiveness Surveys

Content and sample

The SME Competitiveness Survey (SMECS) is a national firm-level survey of a representative sample of an economy's private sector. Data are gathered, to the extent possible, from firms across all regions of the country, sectors (primary, manufacturing and services), sizes (micro, small, medium and large) and export status (exporting and non-exporting).¹³⁸

Typically carried out in partnership with business support organizations, the SMECS is designed to combine information at the micro (firm capabilities) and meso (business ecosystem) levels to provide a holistic picture of the capacity of a country's private sector to compete in international markets. As of June 2023, more than 42,000 companies had been surveyed in 58 countries. The baseline questionnaire of SMECS is based on ITC's competitiveness framework,¹³⁹ which is composed of three pillars – compete, connect and change – and three levels – firm capabilities, business ecosystem and national environment.

Figure A1 SME competitiveness framework



Source: ITC.

SME competitiveness scores

Based on ITC SME Competitiveness Survey responses, classified by pillar, theme and level, according to the ITC competitiveness framework (Figure A1), ITC computes a 'capacity to compete,' 'capacity to connect' and 'capacity to change' score for each firm, as well as an overall competitiveness score. Each has a value between 0 and 100, with 100 representing the best score.

Questions in the SMECS questionnaire have different structures (from dichotomous to Likert scale). Each response option is transformed on a 0 – 100 scale.

As such, for each surveyed firm it is possible to calculate

a score for each theme and level as a simple average of the transformed answers from relevant questions (see the list of questions included in each theme-level in Table A1, Table A2 and Table A3 for the compete, connect and change pillars, respectively). Pillar scores (compete, connect and change) are computed at a firm level as the average of the scores of each of their three component themes and two levels (firm capabilities and business ecosystem). Finally, for each interviewed firm, the competitiveness score is the simple average of the scores of the three pillars.

Capacity to compete

The capacity to compete score is calculated as the average of firm capabilities and business ecosystem competitiveness scores in meeting production efficiency, resource management and certification requirements (Table A1).

Table A1 Questions by theme and level in the compete pillar

		Levels of competitiveness	
	Themes	Firm capabilities	Business ecosystem
Compete	Production efficiency	<ul style="list-style-type: none"> ▪ Capacity utilization ▪ Quantity delivered on time 	<ul style="list-style-type: none"> ▪ Access to electricity ▪ Access to water
	Resource management	<ul style="list-style-type: none"> ▪ Inventory management system efficiency ▪ Keep records ▪ Bank account ▪ Ability to manage cash flow 	<ul style="list-style-type: none"> ▪ Quality of the logistics services ▪ Cost of the logistics services
	Certification	<ul style="list-style-type: none"> ▪ International certificates: Safety certificates ▪ International certificates: Quality or performance certificates ▪ International certificates: Sustainability certificates ▪ International certificates: Other 	<ul style="list-style-type: none"> ▪ Availability of domestic information on international certificates ▪ Quality of domestic information on international certificates ▪ Cost of domestic information on international certificates

Capacity to connect

The capacity to connect is calculated as the average of firm capabilities and business ecosystem competitiveness scores in connecting with buyers, suppliers and institutions (Table A2).

Table A2 Questions by theme and level in the connect pillar

		Levels of competitiveness	
	Themes	Firm capabilities	Business ecosystem
Connect	Buyers	<ul style="list-style-type: none"> ▪ Business website ▪ Forms of advertising: leaflet, poster, etc. ▪ Forms of advertising: radio or tv ▪ Forms of advertising: internet based 	<ul style="list-style-type: none"> ▪ Availability of information on buyers ▪ Completeness of market information on potential buyers ▪ Quality of market information on potential buyers ▪ Cost of market information on potential buyers
	Suppliers	<ul style="list-style-type: none"> ▪ Reliance on biggest supplier ▪ Assess the performance of suppliers 	<ul style="list-style-type: none"> ▪ Availability of market information on potential suppliers ▪ Quality of market information on potential suppliers ▪ Cost of market information on potential suppliers ▪ Exchange of market information with other companies in sector ▪ Cooperation with firms in sector
	Institutions	<ul style="list-style-type: none"> ▪ Engagement with institutions: TPO ▪ Engagement with institutions: IPO ▪ Engagement with institutions: Chambers of Commerce ▪ Engagement with institutions: sector association 	<ul style="list-style-type: none"> ▪ Quality of services provided by TPO ▪ Quality of services provided by IPO ▪ Quality of services provided by Chambers of Commerce ▪ Quality of services provided by relevant sector association

Capacity to change

The capacity to change is calculated as the average of firm capabilities and business ecosystem competitiveness scores in finance, skills, and innovation requirements (Table A3).

Table A3 Questions by theme and level in the change pillar

	Themes	Levels of competitiveness	
		Firm capabilities	Business ecosystem
Change	Finance	<ul style="list-style-type: none"> ▪ Business plan ▪ Need for financing 	<ul style="list-style-type: none"> ▪ Quality of the banks ▪ Quality of the insurance companies ▪ Access to financial institutions is an obstacle to operations
	Skills	<ul style="list-style-type: none"> ▪ Skill set of employees matches the needs of the company ▪ Established hiring process 	<ul style="list-style-type: none"> ▪ Availability of skilled workers ▪ Quality of bodies teaching relevant skills for the sector ▪ Cost of bodies teaching relevant skills for the sector
	Innovation	<ul style="list-style-type: none"> ▪ Protect sensitive business information ▪ Registered patent ▪ Resources to research and development ▪ New or improved processes or products 	<ul style="list-style-type: none"> ▪ Quality of the services offered by patent registration institutions ▪ Cost of the services offered by patent registration institutions ▪ Quality of innovation supporting institutions ▪ Cost of innovation supporting institutions

ITC Small Business in Fragility Survey

Content and sample

The ITC Small Business in Fragility Survey was implemented in eight countries (Burkina Faso, Colombia, Honduras, Iraq, Kenya, Myanmar, South Sudan and Ukraine) between November and December 2022. It targeted businesses operating in fragile settings and asked questions about enterprises' experience of fragility. The data collection was in cooperation with the Norwegian Refugee Council (NRC), which coordinated the interviews on the ground.

In six of these countries (Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan), businesses had already been interviewed through the SMECS. To examine how competitiveness factors (determined through SMECS) relate to a firm's experience of fragility (determined through the fragility questionnaire), some of these businesses were contacted again and asked to participate in the ITC Small Business in Fragility Survey. In South Sudan, Kenya, Colombia, Burkina Faso and Iraq, 200 companies each were targeted. In Myanmar, 100 companies were targeted.

None of the firms in Ukraine and Honduras had previously been interviewed through the SMECS. Here, ITC obtained external company databases and drew a random sample of 100 companies from each of these databases.

In total, interviewers tried contacting upward of 2,500 firms. More than 1,200 companies were unreachable, refused to participate or were no longer operational and therefore could not participate in the survey.¹⁴⁰ In total, 1,323 complete firm interviews were conducted. Table A4 shows how many interviews were collected by country, sector and size.

Table A4 Sample size of Small Business in Fragility Survey¹⁴¹

Country	Number of completed interviews	Share
Burkina Faso	195	15%
Colombia	204	15%
Honduras	100	8%
Iraq	229	17%
Kenya	200	15%
Myanmar	101	8%
South Sudan	202	15%
Ukraine	92	7%
TOTAL	1,323	100%
Sector		
Agriculture	408	31%
Manufacturing	206	16%
Services	708	54%
TOTAL	1,322	100%
Size ¹⁴²		
Micro	486	39%
Small	567	45%
Medium	155	12%
Large	53	4%
TOTAL	1,261	100%

Merging ITC SME Competitiveness and Small Business in Fragility Survey

Though 1,323 businesses were interviewed through the ITC Small Business in Fragility Survey, not all can be merged with SMECS responses. As explained above,

businesses from Ukraine and Honduras had not previously been interviewed through SMECS. The same is true for 28 of the businesses interviewed in Colombia. In Burkina Faso, eight businesses could not be linked to their SMECS responses due to missing data.

Table A5 Interviews from Small Business in Fragility Survey merged with SMECS

Country	Number of interviews merged with SMECS	Share
Burkina Faso	187	17%
Colombia	176	16%
Iraq	229	21%
Kenya	200	18%
Myanmar	101	9%
South Sudan	202	18%
TOTAL	1,095	100%
Sector		
Agriculture	380	35%
Manufacturing	160	15%
Services	555	51%
TOTAL	1,095	100%
Size ¹⁴³		
Micro	411	39%
Small	480	46%
Medium	117	11%
Large	33	3%
TOTAL	1,041	100%

Overall, 1,095 of the interviews collected through the ITC Small Business in Fragility Survey could be merged with their SMECS responses. Table A5 shows how many interviews were collected by country, sector and size.

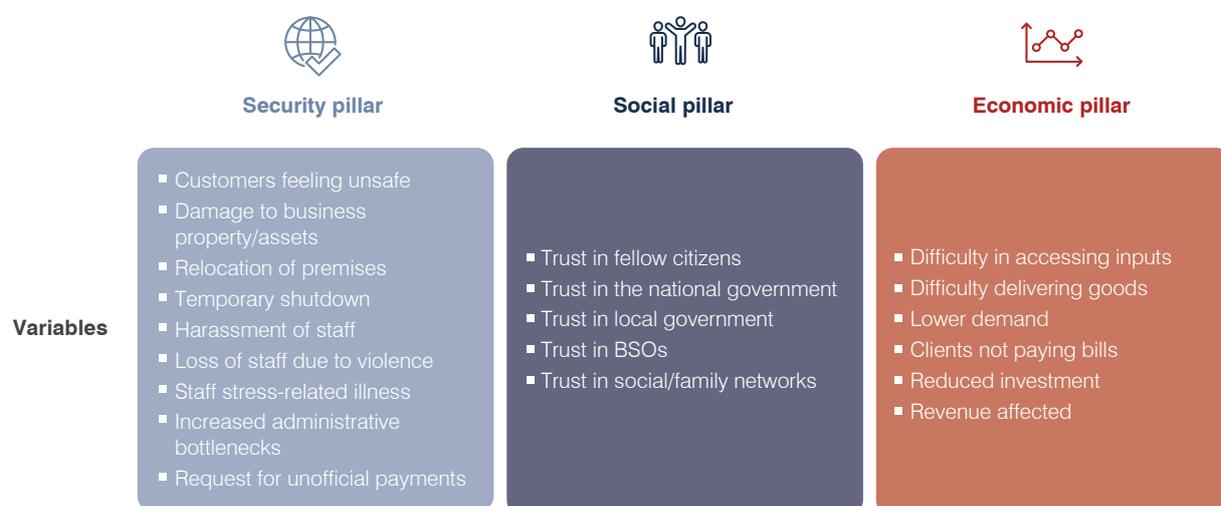
ITC Fragility Exposure Index

The literature on fragility suggests that firm level fragility is a multidimensional concept, expressed through certain factors that often influence each other. The ITC Fragility Exposure Index created for this report models this multidimensionality following Baliki et al. (2022).¹⁴⁴ To construct the index, questions on fragility from the ITC Small Business in Fragility Survey were used. In particular, the survey asked how businesses experience fragility and the coping mechanisms these businesses adopted in response.

The ITC Fragility Exposure Index is based on a subset of the data collected for which full and comparable data are available: 1,107 firms from Burkina Faso, Colombia, Honduras, Iraq, Kenya, Myanmar, South Sudan, and Ukraine. The sample includes firms of different sizes, sectors, and regions of the respective countries. Some descriptive statistics are available in the Supplementary Material.

The Fragility Exposure Index consists of three pillars: the security pillar, the economic pillar, and the social pillar. Each pillar is composed of multiple variables from the ITC Small Business in Fragility Survey (Figure A2).

Figure A2 ITC Fragility Exposure Index



Source: ITC.

Fragility Exposure Index calculation

Although there are many methodologies available to build indices, factor analysis is particularly well suited for constructing the Fragility Exposure Index. It acknowledges multidimensionality as essential to the construction of the index, automatically produces estimation weights and combines theoretical considerations of fragility with a statistical technique to compress a larger set of variables into a small set of latent factors while minimizing information loss.¹⁴⁵

Exploratory factor analysis is performed on all questions related to firms' experience of fragility from the ITC Small Business in Fragility Survey. This process helps identify the ideal structure of the index, namely how many pillars affect fragility and which survey questions go into each pillar.

With the structure finalized, the three pillars and, subsequently, the index itself are generated. The pillars are produced through a confirmatory factor analysis. The three scores for each pillar are then standardized between 0 and 100 through a max-min procedure. A max-min procedure is adopted whereby higher pillar values are more fragile. The associated equation is defined below:

$$\bar{x}_i^j = \frac{\hat{x}_i^j - \max(x^j)}{\min(x^j) - \max(x^j)} \times 100$$

where \hat{x}_i^j is the prediction and \bar{x}_i^j is the standardized pillar value for business i and pillar j . The vector x^j is full set of predictions for a particular pillar, where $j \in \{\text{Security pillar, Social pillar, Economic pillar}\}$.

The Fragility Exposure Index is then calculated as a simple average of the three pillars, with higher values indicating more fragile businesses. For each business i , the Fragility Exposure Index can be represented mathematically as:

$$\text{Fragility Index}_i = \frac{1}{3} \sum (\text{Security Pillar}_i, \text{Social Pillar}_i, \text{Economic pillar}_i)$$

This results in a vector containing the Fragility Exposure Index for each individual business.

Robustness checks confirm that the model is invariant to a variety of alternative approaches. More information on the exploratory factor analysis and on the robustness checks can be viewed in the Supplementary Material.

ACLED

Content and sample

The Armed Conflict Location and Event Data (ACLED) Project is a global dataset that records violent and certain non-violent events, including the dates, actors, and fatalities involved.¹⁴⁶ It also provides geolocation data (i.e., GPS coordinates) on where these events occurred. ACLED data are derived from local, regional and national sources collected by trained data analysts and are released publicly each week. The Project codes reported events based on three event categories and six event types (Table A6).¹⁴⁷

Table A6 ACLED event categories and types

Event Category	Event Type
Violent events	Battles Explosions/Remote violence Violence against civilians
Demonstrations	Protests Riots
Non-violent actions	Strategic developments

The analysis in this report is based on a subset of the available ACLED data, covering 2018 to 2022 inclusive.¹⁴⁸ Data were downloaded for all countries surveyed through the Small Business in Fragility Survey and their neighbours (Table A7).

Table A7 ACLED sample countries

Country	Neighbours
Burkina Faso	Benin, Côte d'Ivoire, Ghana, Mali, Niger and Togo
Colombia	Brazil, Ecuador, Panama, Peru and Venezuela
Honduras	El Salvador, Guatemala and Nicaragua
Iraq	Iran, Jordan, Kuwait, Saudi Arabia, Syria and Turkey
Kenya	Ethiopia, Somalia, South Sudan, Tanzania and Uganda
Myanmar	Bangladesh, China, India, Laos and Thailand
South Sudan	Central African Republic, Democratic Republic of Congo, Ethiopia, Kenya, Sudan and Uganda
Ukraine	Belarus, Hungary, Moldova, Poland, Romania, Russia and Slovakia

Geocoding ITC Small Business in Fragility Survey data

As the ITC Small Business in Fragility Survey contained questions on the location of the surveyed businesses, this data can be merged with ACLED. Of the 1,323 businesses from the fragility survey, 96% have geolocation data. The remaining four percent of firms contain information on subnational regions.

For the latter, their business coordinates are assumed to be within subnational capitals. This approach was chosen over centroids – the geographical centre of the region – for two reasons. First, the fragility survey predominantly interviewed businesses close to regional capitals, and second, centroids may lie outside the boundaries of a subnational region, while capitals are guaranteed to be within them.

Defining instability and fatality indicators

Having combined the ITC Small Business in Fragility Survey and ACLED data, it is possible to associate each business with nearby events and fatalities. These can be aggregated to proxy for local instability.

An instability indicator is defined as the total number of ACLED events within a 100km radius from the specific location of the ITC Small Business in Fragility Survey respondents, between 2018 and 2022.¹⁴⁹ Instability indicators are then created for each of the six ACLED event types defined in Table A6. Since ACLED assumes these event types to be mutually exclusive, meaning there is no double counting, they are then combined into the event indicators “violent events”, “demonstrations” and “non-violent actions”.

As a final step, these three event indicators are then aggregated into one ACLED indicator. Whenever the 100km radius reaches across borders, events from neighbouring countries are included in the estimations. This is done as instability within a border region can influence the resiliency of businesses in nearby areas on both sides of the border. Finally, it should be noted that all events and fatalities are equally weighted across distance, time and event category.

Notes on figures

The results shown in all figures are statistically significant. The controls used in regressions vary across figures. Additional information on these results is available upon request.

Chapter 1

The analysis in Chapter 1 was conducted using indicators from multiple sources. Many of these indicators are drawn from various World Bank databases, including Doing Business, Logistics Performance Index, Development Indicators, Enterprise Surveys, and the Exporter Dynamics Database. Other databases include the Armed Conflict Dataset developed jointly by the Uppsala Conflict Data Program and the International Peace Research Institute Oslo, the 2022 Sustainable Development Report data, the Global Entrepreneurship Monitor Adult Population Survey, and International Labour Organization (ILO) data. The Fund for Peace Fragile States Index (FSI) was also used, as well as the World Bank’s annual lists of fragile and conflict-affected situations to identify countries in fragile settings.

Figure 2. The red line measures, for each year, the number of countries listed by the World Bank as Fragile and Conflict-affected Situations. The dark blue area measures the number of countries remaining in FCS status since 2006. The light blue area measures, for each year, the number of new countries falling into fragility after 2006.

Source: ITC, based on World Bank FCS list.

Figure 3. Scores for enforcing contracts, getting credit and electricity are based on the methodologies in the Doing Business 17–20, Doing Business 05–14 and Doing Business 10–15 studies, respectively, and are shown as the average values between 2006 and 2020 on the left axis. Higher values indicate greater ease of doing business. The logistics performance index is calculated using data for the years available between 2007 and 2018 and shown on the right axis. Higher values indicate greater logistics performance.

Source: ITC, based on World Bank Doing Business Indicators, Logistics Performance Index and FCS list.

Figure 4. The vertical axis denotes the Fund for Peace Fragile States Index (FSI) scores, with higher values indicating higher fragility. The two vertical lines in the figure indicate the GDP per capita threshold for middle-income countries and high-income countries. Countries coloured in red are identified as fragile based on the World Bank FCS list. Data are from 2021.

Source: ITC, based on the Fund for Peace FSI, and World Bank World Development Indicators and FCS list.

Figure 5. The figure indicates progress of countries classified as fragile and non-fragile in achieving a selection of SDGs. Results on the remaining SDGs are available upon request.

Source: ITC, based on 2022 Sustainable Development report data and World Bank FCS list.

Figure 6. The red bars represent the procedures required to start a business, including to obtain necessary permits and licences and to complete all necessary inscriptions, verifications and notifications. For the blue bars, the cost to start a business is represented as a share of gross national income, per capita. The values represent averages between 2006 and 2019. The results are confirmed in a regression in which the number of procedures or cost are regressed on fragility, controlling for GDP per capita or GDP. The results are positive and significant: fragility is positively and significantly correlated with the number of procedures and cost of starting a business.

Source: ITC, based on World Bank Development Indicators and FCS list.

Figure 7. This figure is a binned scatterplot, controlling for GDP per capita (constant 2015 USD). Binned scatterplots are a non-parametric method of plotting the conditional expectation function, which describes the average y-value for each x-value. To generate a binned scatterplot, the `binscatter` command groups the x-axis variable into 20 equal sized bins, computes the mean of the x-axis and y-axis variables within each bin, and creates a scatterplot of these data points. By default, `binscatter` also plots a linear fit using ordinary least squares (OLS), which represents the best linear approximation to the conditional expectation function. The horizontal axis denotes the Fund for Peace FSI, for which higher values indicate greater fragility. The vertical axis measures density of new businesses, defined as new limited liability corporations (or equivalent) registered in the calendar year per 1,000 people between ages 15 and 64. Data from the latest available year in 2006–2020.

Source: ITC, based on World Bank Development Indicators and Fund for Peace FSI.

Figure 8. Self-employment is defined as jobs in which the remuneration is directly dependent upon the profits derived from the goods and services produced. Self-employed workers include four sub-categories: those with employees (employers), those without employees (own-account workers), members of producers' cooperatives and contributing family members (also known as unpaid family workers). The bars represent the average values between 2006 and 2019. The results are confirmed in a regression in which self-employment is regressed on fragility, controlling

for GDP per capita or GDP. The results are positive and significant: fragility is positively and significantly correlated with self-employment. The figure below is a binned scatterplot, controlling for GDP per capita (constant 2015 US dollars). Binned scatterplots are a non-parametric method of plotting the conditional expectation function, which describes the average y-value for each x-value. To generate a binned scatterplot, the `binscatter` command groups the x-axis variable into 20 equal sized bins, computes the mean of the x-axis and y-axis variables within each bin, and creates a scatterplot of these data points. By default, `binscatter` also plots a linear fit using OLS, which represents the best linear approximation to the conditional expectation function. The vertical axis measures the total entrepreneurial activity for necessity motive, defined as the percentage of the population 18–64 years old that is either nascent entrepreneurs or owner-managers of a new business due to no work alternative. The horizontal axis denotes the Fund for Peace FSI, for which higher values indicate greater fragility. Data are from 2018.

Source: ITC, based on Fund for Peace FSI and the Global Entrepreneurship Monitor Adult Population Survey, International Labour Organization (ILO) and World Bank FCS list.

Figure 9. Small enterprises are defined as those with 19 or fewer employees, medium-sized firms have 20 to 99 employees and large companies have 100 or more employees. For each country, data from the latest available year between 2006 and 2022 of the World Bank Enterprise Survey are used. The results are confirmed in a regression in which the number of employees is regressed on fragility, controlling for GDP per capita or GDP. The results are negative and significant: fragility is negatively and significantly correlated with the number of employees (size).

Source: ITC, based on World Bank Enterprise Surveys and FCS list.

Figure 10. Respondents were asked: 'During the last three years, has this establishment introduced any new or significantly improved process?' These include: methods of manufacturing products or offering services; logistics, delivery, or distribution methods for inputs, products, or services; or supporting activities for processes? The bars represent average values calculated using survey data for 2006–2020. Annual labour productivity growth is measured as a percentage change in labour productivity between the last completed fiscal year and a previous period. Labour productivity is calculated based on sales divided by the number of full-time permanent workers. Real annual sales growth is measured as a percentage change in sales between the last completed fiscal year and a previous period.

Source: ITC, based on World Bank Enterprise Surveys and FCS list.

Figure 11. The bars represent the median of the predicted values of the number of exporters (light blue) and of the Hirschman-Herfindahl index (dark blue), after regressing each variable on the Fund for Peace FSI, controlling for GDP and year fixed effects. The dataset is an unbalanced panel from 2006 to 2014. Countries classified in ‘warning’ status are those with a score between 60 and 69; ‘elevated warning,’ 70–79; ‘high warning,’ 80–89; ‘alert,’ 90–99; ‘high alert,’ 100–109, with lower FSI scores indicating greater relative stability. The Hirschman-Herfindahl index is a measure of the dispersion of the value of exports among exporters’ partners. A country with exports concentrated in a very small number of markets will have an index close to 1. Similarly, a country with a perfectly diversified export portfolio will have an index close to zero. The index has been multiplied by 100 on the figure.

Source: ITC, based on the Fund for Peace FSI and World Bank Exporter Dynamics Database (EDD).

Figure 12. The figure is a binned scatterplot, controlling for GDP (constant 2015 USD) and year fixed effects. Binned scatterplots are a non-parametric method of plotting the conditional expectation function, which describes the average y-value for each x-value. To generate a binned scatterplot, the `binscatter` command groups the x-axis variable into 20 equal sized bins, computes the mean of the x-axis and y-axis variables within each bin, and creates a scatterplot of these data points. By default, `binscatter` also plots a linear fit using OLS, which represents the best linear approximation to the conditional expectation function. The horizontal axis measures the Fund for Peace FSI. The vertical axis measures the entry and exit rates. The firm entry and exit rates represent the ratio between the number of entrants (firm not exporting in ‘t-1’ and exporting in ‘t’) and exiters (firm exporting in ‘t-1’ but not in ‘t’) respectively and the number of exporters. The dataset is an unbalanced panel from 2006 to 2014.

Source: ITC, based on the Fund for Peace FSI and World Bank Exporter Dynamics Database.

Chapter 2

The analysis included in Chapter 2 is based on data collected through the ITC Small Business in Fragility Survey from 1,323 firms in 8 countries in 2022. Countries are defined as more or less fragile according to the score of the Fragility States Index (FSI). If the FSI of a specific country is below (equal or above) the median FSI in our sample, that country is classified as “Less (More) fragile country”. With this definition, more fragile countries include Burkina Faso, Iraq, Myanmar and South Sudan. Less fragile countries include Colombia, Honduras, Kenya and Ukraine.

Figure 14. Respondents were asked: ‘Has insecurity and instability affected business operations in the last 12 months?’ A business is affected by insecurity if it chooses options two, three, four, five or six on a Likert scale ranging from one (not at all) to six (always).

Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 15. The figure on the bottom is a binned scatterplot, controlling for firm size, sector and GDP per capita. Binned scatterplots are a non-parametric method of plotting the conditional expectation function, which describes the average y-value for each x-value. To generate a binned scatterplot, the `binscatter` command groups the x-axis variable into 20 equal sized bins, computes the mean of the x-axis and y-axis variables within each bin, and creates a scatterplot of these data points. By default, `binscatter` also plots a linear fit using OLS, which represents the best linear approximation to the conditional expectation function. The horizontal axis measures the number of political violence events that occurred within a 100 km radius of the company’s location, as measured by the ACLED Project. The vertical axis measures the ITC Fragility Exposure Index, at the firm level. For the figure on the top, high fragility firms are those with a fragility index in the third tertile of the ITC Fragility Exposure Index distribution. Low (high) political violence regions are defined as those with political violence events that falls in the first (third) tertile of the distribution, as measured by the ACLED Project. The difference in the share of high fragility firms between high and low political violence regions is statistically significant.

Source: ITC, based on ITC Small Business in Fragility Survey and ACLED Project.

Figure 16. Respondents were asked ‘Has insecurity and instability affected business operations in the last 12 months?’. A business is affected by insecurity if it chooses options two, three, four, five or six on a Likert scale ranging from one (not at all) to six (always). They were also asked ‘In the last 12 months, how have your business revenues been affected due to violence, conflict and/or political instability?’.

Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 17. The figure on the bottom is a binned scatterplot, controlling for firm size, sector, formality, trade status, country and ACLED events. Binned scatterplots are a non-parametric method of plotting the conditional expectation function, which describes the average y-value for each x-value. To generate a binned scatterplot, the `binscatter` command groups the x-axis variable into 20 equal sized bins, computes the mean of the x-axis and y-axis variables within each bin, and creates a scatterplot of these data points. By default, `binscatter` also plots a linear fit using OLS, which represents the best linear approximation to the conditional expectation function. The horizontal axis measures the income index of the region where the firm is located. The vertical axis measures the ITC Fragility Exposure Index, at the firm level. For the bars on the top, high-fragility firms are those with a fragility index in the third tertile of the ITC Fragility Exposure Index distribution. Low- (high-) income regions are defined as those with an income that falls in the first (third) tertile of the income distribution, measured as the gross national income per capita (2011 USD PPP). The difference in the share of high fragility firms between high- and low-income regions is statistically significant.

Source: ITC, based on ITC Small Business in Fragility Survey and Subnational Human Development Index Database of the Global Data Lab (<https://globaldatalab.org/shdi/>, version v7.0).¹⁵⁰

Figure 18. Respondents were asked: ‘How much trust do you have in?’ They are found to have high trust if they choose options five and six on a Likert scale ranging from one (no trust) to six (complete trust).

Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 19. The figure on the bottom is a binned scatterplot, controlling for firm size, sector, formality, trade status, country and ACLED events. Binned scatterplots are a non-parametric method of plotting the conditional expectation function, which describes the average y-value for each x-value. To generate a binned scatterplot, the `binscatter` command groups the x-axis variable into

20 equal sized bins, computes the mean of the x-axis and y-axis variables within each bin, and creates a scatterplot of these data points. By default, `binscatter` also plots a linear fit using OLS, which represents the best linear approximation to the conditional expectation function. The horizontal axis measures the inequality index of the region where the firm is located. The vertical axis measures the ITC Fragility Exposure Index, at the firm level. For the bars on the top, high-fragility firms are those with a fragility index placed in the third tertile of the ITC Fragility Exposure Index distribution. Low (high) inequality regions are defined as those with an inequality index that falls under the first (third) tertile of the inequality distribution, measured using the Gini coefficient. The difference in the share of high fragility firms between high and low inequality regions is statistically significant.

Source: ITC, based on ITC Small Business in Fragility Survey and Subnational Human Development Index Database of the Global Data Lab (<https://globaldatalab.org/shdi/>, version v7.0).¹⁵¹

Figure 20. Companies are defined as having high fragility if their fragility index is in the third tertile of the ITC Fragility Exposure Index distribution. The same applies to their economic and security fragility scores. Micro, small and medium-sized enterprises have one to 99 employees, and large businesses have 100 or more.

Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 21. Respondents were asked: ‘In the last 12 months, did this establishment pay for security?’ Micro, small and medium-sized enterprises have one to 99 employees, and large businesses have 100 or more.

Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 22. Companies are defined as having high fragility if their fragility index is in the third tertile of the ITC Fragility Exposure Index distribution. The same applies to their social, economic and security fragility scores. Formal businesses are registered with the relevant authority, while informal businesses are currently not registered, including those that have never been registered.

Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 23. Companies are defined as having high fragility if their fragility index is placed in the third tertile of the ITC Fragility Exposure Index distribution. The same applies to their economic and security fragility scores. Women-owned businesses are at least 1% owned by a woman. Otherwise, they are men-owned.

Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 24. Companies are defined as experiencing high fragility if their fragility index is placed in the third tertile of the ITC Fragility Exposure Index distribution. Regions are defined as low (high) patriarchal society if their Patrilocality Index is placed in the first and second (third) tertile of the index distribution. The Patrilocality Index is computed as the logarithm of the percentage of households where the couple lives with the parents of the husband in the area, divided by the percentage of households where the couple lives with the parents of the wife in the area. Positive values of the patrilocality index refer to patriarchal regions and negative values to matriarchal regions.

Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 25. Companies are defined as having high fragility if their fragility index is placed in the third tertile of the ITC Fragility Exposure Index distribution. The same applies to their economic fragility scores. Youth-led firms are defined as being run by a top manager under the age of 35. Otherwise, firms are non-youth led.

Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 26. Respondents were asked: 'Please rate the severity of the following obstacles to your business: accessing finance; accessing utilities (transport, electricity, internet, gas, water and garbage); obtaining business licences and permits; complying with customs and trade regulations; paying taxes; security of land/property rights; hiring workers with adequate skills; competing with informal firms; coping with crime, theft, conflict, and disorder; dealing with corruption and bribes; and enforcing contracts.' Countries with FSI below (equal or above) the median FSI in the sample are classified as 'less (more) fragile countries.'

Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 27. Respondents were asked: 'Please rate the severity of the following obstacles to your business?' Options included: accessing finance; accessing utilities (transport, electricity, internet, gas, water and garbage). This figure solely examines firms in more fragile countries. In more fragile countries, companies are categorized as more (less) fragile if their fragility index is placed in the third (first or second) tertile of the ITC Fragility Exposure Index distribution.

Source: ITC, based on ITC Small Business in Fragility Survey.

Figure 28. Respondents were asked: 'How do you feel about the future of your business?' Companies are pessimistic if they chose options one, two, three on a Likert scale ranging from one (very pessimistic) to six (very optimistic). Countries with FSI below (equal or above) the median FSI in our sample are classified as 'less (more) fragile countries.' In more fragile countries, companies are categorized as more (less) fragile if their fragility index is placed in the third (first or second) tertile of the ITC Fragility Exposure Index distribution. Similarly, in less fragile countries, companies are categorized as more (less) fragile if their fragility index is placed in the third (first or second) tertile of the ITC Fragility Exposure Index distribution.

Source: ITC, based on ITC Small Business in Fragility Survey.

Chapter 3

The analysis included in Chapter 3 is based on a dataset of 1,095 companies that replied to both the ITC Small Business in Fragility and SME Competitiveness Surveys. Countries with a FSI score equal or below (above) the median FSI in our sample are classified as "Less (More) fragile countries". More fragile countries include Iraq, Myanmar and South Sudan. Less fragile countries include Burkina Faso, Colombia, and Kenya.

Figure 29. This figure is a binned scatterplot, controlling for firm size, sector, GDP per capita and total number of violent events within 100 km from the firm. Binned scatterplots are a non-parametric method of plotting the conditional expectation function, which describes the average y-value for each x-value. To generate a binned scatterplot, the binscatter command groups the x-axis variable into 20 equal sized bins, computes the mean of the x-axis and y-axis variables within each bin, and creates a scatterplot of these data points. By default, binscatter also plots a linear fit line using OLS, which represents the best linear approximation to the conditional expectation function. The horizontal axis measures the competitiveness score of firms, based on responses to the ITC SME Competitiveness Surveys. It is obtained by taking the simple average of the capacity to compete, capacity to connect and capacity to change indices at both firm level and business ecosystem level. The vertical axis measures the average fragility exposure of firms, based on the ITC Fragility Exposure Index.

Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys with 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

Figure 30. The columns represent the mean of the predicted values of the social fragility index for low, medium and high competitiveness, after regressing the social fragility index on the ITC competitiveness score, controlling for firm size, sector, GDP per capita and total number of ACLED events within 100 km from the firm. Firms classified as having low, medium and high competitiveness are those in the first, second and third tertile of the competitiveness distribution, with an average competitiveness score of 40, 56 and 75, respectively.

Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys with 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

Figure 31. The columns represent the mean of the predicted values of the economic fragility index for low, medium and high competitiveness, after regressing the economic fragility index on the ITC competitiveness score, controlling for firm size, sector, GDP per capita and total number of ACLED events within 100 km from the firm. Firms classified as Low, Medium and High competitiveness are those in the first, second and third tertile of the competitiveness distribution, with an average competitiveness score of 40, 56 and 70, respectively.

Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys with 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

Figure 32. This figure is a binned scatterplot, controlling for firm size, sector, GDP per capita and total number of ACLED events within 100 km from the firm. The horizontal axis measures the overall competitiveness of firms in low (left) vs high (right) fragile countries. The vertical axis measures the average ITC Fragility Exposure Index of firms in less vs more fragile countries. The overall competitiveness score is obtained by taking the simple average of the capacity to compete, capacity to connect and capacity to change indices. Burkina Faso, Colombia and Kenya are classified as less fragile countries, while Myanmar, South Sudan and Iraq as more fragile countries, based on their Fund for Peace score. See Annex I for further details.

Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys with 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

Figure 33. Respondents were asked 'Are you actively engaged with any of the following types of institutions: Trade promotion organizations, investment promotion organizations, chambers of commerce, sector associations?' Respondents were also asked 'How many full-time employees does this establishment currently have?' and 'In 2021, how many full-time employees did the business have?' Firms are considered to have increased employee numbers if their employee growth rate between

2021 and 2022 was positive. The results are confirmed in a regression in which employment growth is regressed on being engaged with BSOs, controlling for firm size and sector and for GDP per capita (constant 2015 US dollars). The results are positive and significant: engaging with BSOs is positively and significantly correlated with hiring more employees.

Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys with 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

Figure 34. Respondents were asked: 'Does your company keep the following types of records: revenues, expenses, liabilities, assets?' Firms are considered to 'keep full records' if they kept all economic records (revenues, expenses, liabilities, and assets). Respondents were also asked: 'How many full-time employees does this establishment currently have?' and 'In 2021, how many full-time employees did the business have?' Firms are considered to have increased employee numbers if their employee growth rate between 2021 and 2022 was positive. The results are confirmed in a regression in which employment growth is regressed on keeping financial records, controlling for firm size and sector and for GDP per capita (constant 2015 US dollars). The results are positive and significant: keeping full financial records is positively and significantly correlated with hiring more employees.

Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys with 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

Figure 35. Respondents were asked: 'Please rate the extent to which your company has an established hiring process to hire the best candidates?' Firms are considered to have strong hiring process if they selected options four, five or six on a scale ranging from one (no established hiring) to six (strong established process). Respondents were also asked: 'How many full-time employees does this establishment currently have?' and 'In 2021, how many full-time employees did the business have?' Firms are considered to have increased employee numbers if their employee growth rate between 2021 and 2022 was positive. The results are confirmed in a regression in which employment growth is regressed on having an established hiring process, controlling for firm size and sector and for GDP per capita (constant 2015 US dollars). The results are positive and significant: having an established hiring process is positively and significantly correlated with hiring more employees.

Source: ITC calculations, based on ITC SME Competitiveness and Fragility Surveys with 1,095 firms in Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan. See Annex I for detail.

