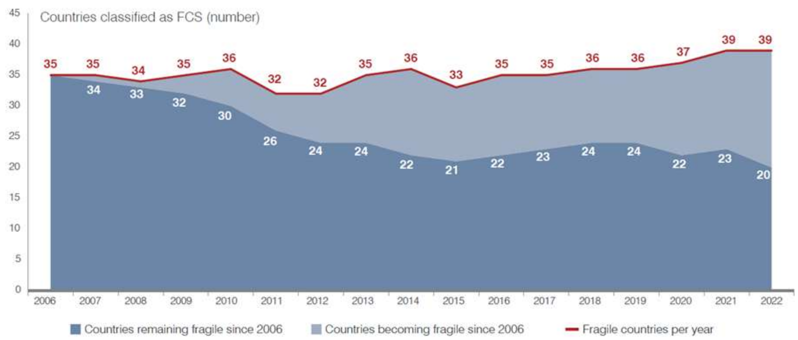
This presentation will explore the work of the International Trade Centre in supporting small businesses in fragile and conflict-affected settings.

The presentation will be based on our flagship publication, the SME Competitiveness Outlook, which, in turn, has been influenced and informed by projects such as SAAVI in Iraq, whose colleagues will be sharing the stage with me, as well as their experiences from the field.

Our world is becoming more fragile

Quadruple shock of COVID, conflict, climate change and higher cost of living pushing more countries into fragility



Of the 35 countries classified as fragile or conflict affected in 2006, only 15 have managed to break out of fragility, and 19 have fallen into it.

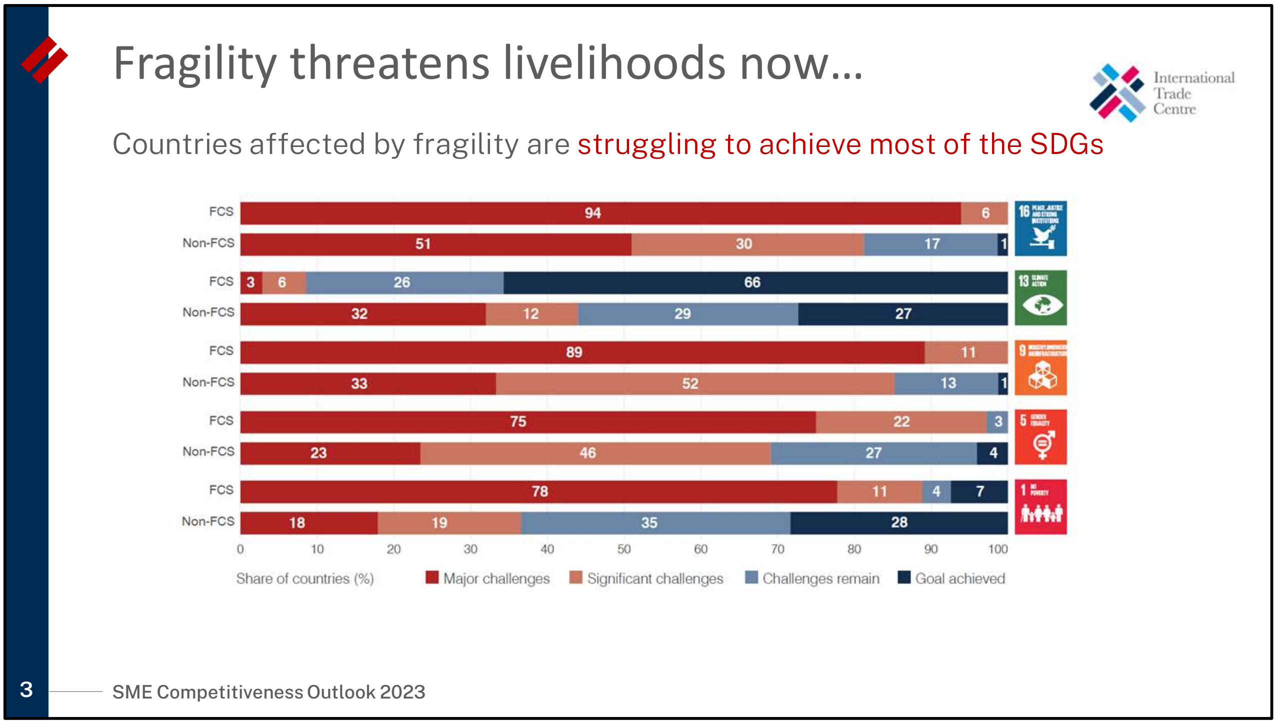
Let us start with the motivation. One year ago, when we chose the topic of this year's flagship publication, it felt timely, as the world was grappling with multiple and reinforcing crises such as climate change, and cost of living shocks in the post-COVID world.

It is disheartening to see that it became even more so, with conflict erupting across the globe.

These shocks have been pushing more countries into a cycle of insecurity, economic decline 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 decades. Of the 35 states classified as fragile by the World Bank in 2006, less than half (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.

Why does this matter? It matters because crises, and especially conflict, threaten livelihoods today, and cast a dark light on the future.



Fragility hampers people's ability to lead peaceful and prosperous lives.

Countries affected by fragility are struggling to achieve most of the Sustainable Development Goals (SDGs).

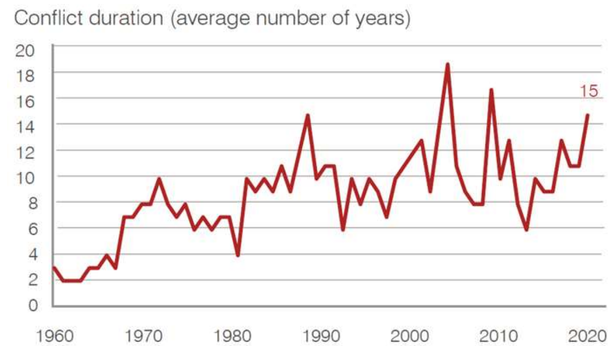
For instance, four in five countries classified as fragile reported facing major challenges in meeting SDG 1 (No poverty), compared with one in five not affected by fragility.

Three in every four countries affected by fragility reported major challenges in achieving SDG 5 (Gender equality), compared with less than one quarter of those not impacted.

Similarly, nine out of ten countries affected by fragility report major challenges in achieving SDG 9 (Industry, innovation, and infrastructure), compared with three out of ten of those not affected.

… and in the future

Conflict is dragging out over time, involving more countries and with more spillover effects



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Fragility is not only more pervasive, but also more persistent.

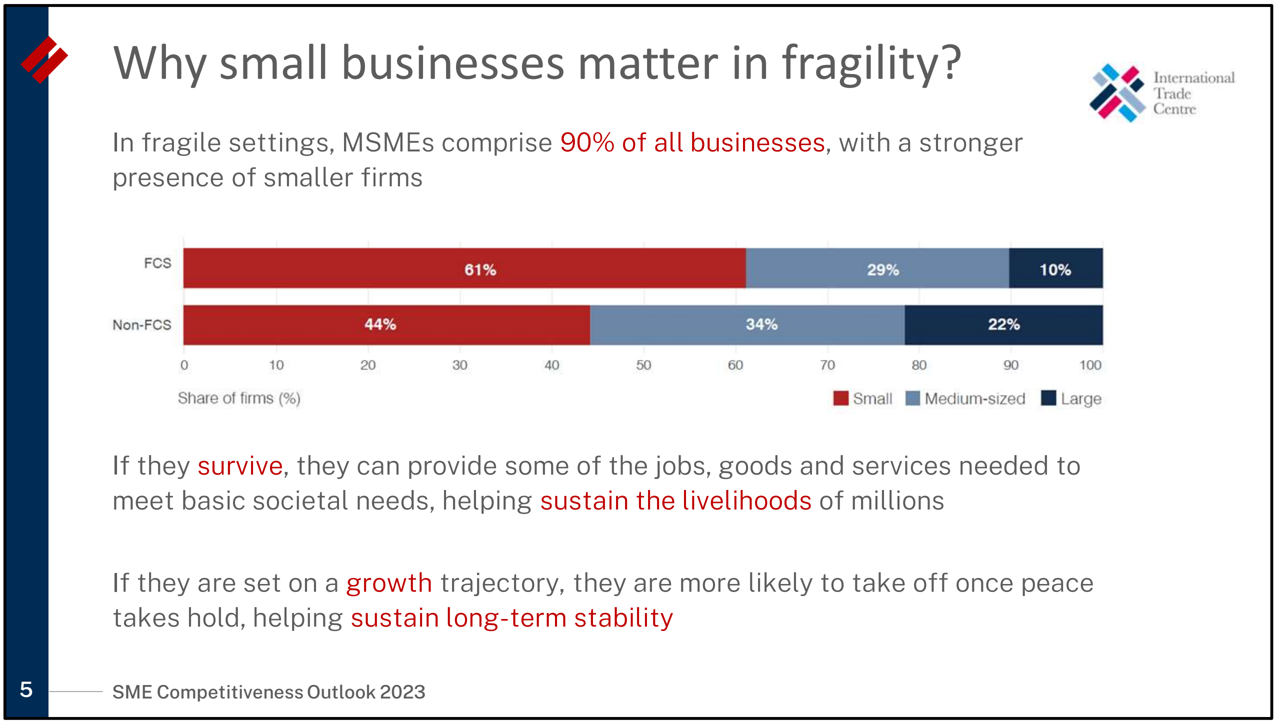
In 2021, 33 countries were involved in at least one conflict – a number that has increased considerably since World War II.

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 looks at the role played by small businesses as agents of change in fragile and conflict-affected settings.



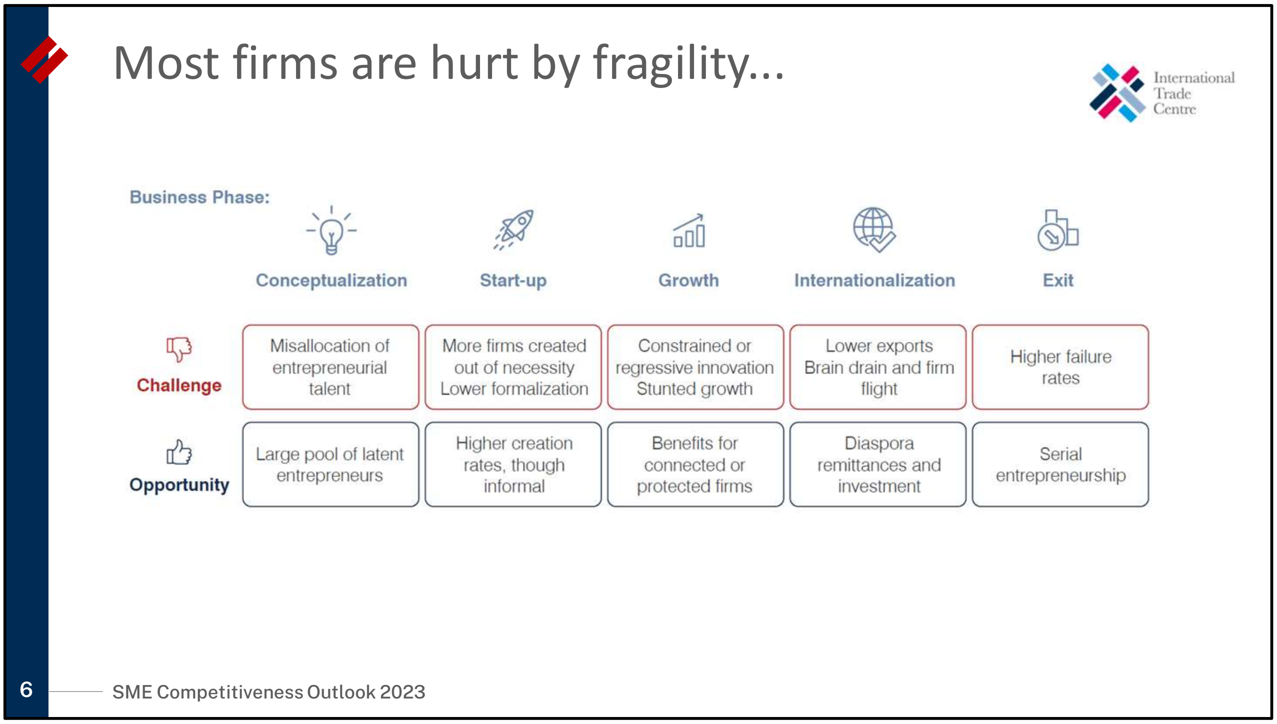
And why small businesses?

If fragility threatens livelihoods today and stability tomorrow, business can help change that.

In fragile settings, MSMEs comprise 90% of all businesses, with a stronger presence of smaller firms

If they survive, they can provide some of the jobs, goods and services needed to meet basic societal needs, helping sustain the livelihoods of millions

If they are set on a growth trajectory, they are more likely to take off once peace takes hold, helping sustain long-term stability.



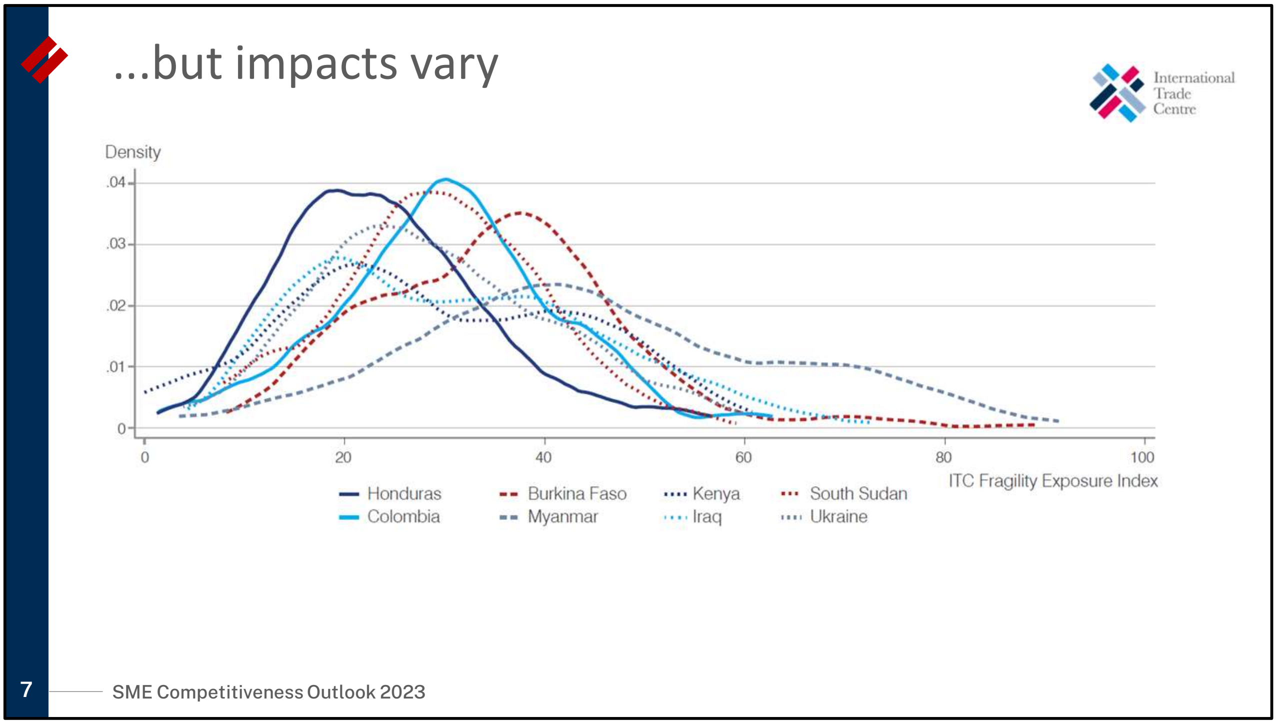
From the literature, and cross-country analysis, we know that most firms are hurt by fragility – though many studies also point to opportunities – across a firm's life cycle. We know, for instance, that for emerging entrepreneurs, starting a business becomes a burdensome and costly process because institutions responsible for basic startup procedures, such as property registration and contract enforcement, are undermined or inefficient. In fact, the cost of starting a business in fragile settings is twice the world average, and more than 15 times the cost in high-income countries.

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%.

Firms intending on formalizing and growing are deterred by the excessive cost and time, meaning they remain informal and fairly small. This is exacerbated by the fact that innovation among firms in fragile settings is scarce, or frugal at best.

Internationalizing firms also face significant hurdles. Unsurprisingly, ITC analysis shows that as areas become more fragile, the number of exporters decreases substantially.

Finally, while more informal and necessity-driven firms are created as fragility increases, business failure is also more common. Importantly, however, firms that manage to survive throughout instability tend to see a rebound in economic opportunities once stability starts to take hold, highlighting the need to prioritize business support during fragility and conflict.



What we often do no see, though, is that now all firms are affected in the same way.

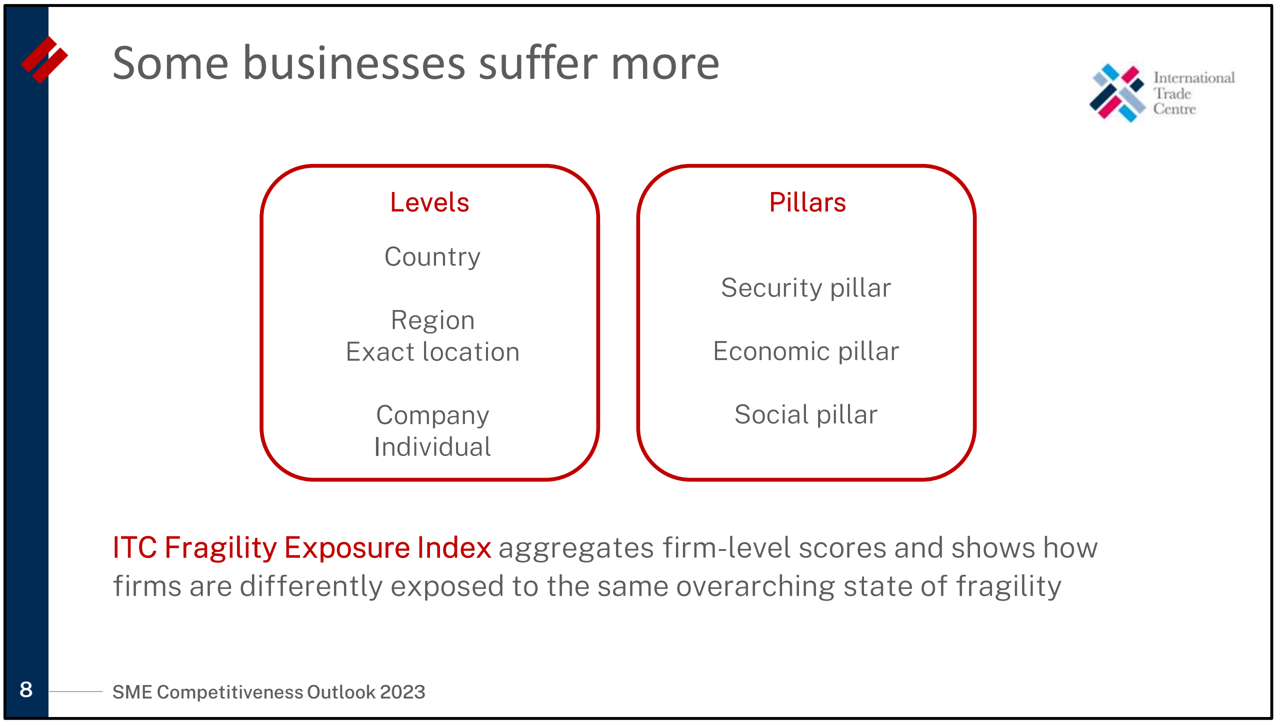
Even when exposed to the same overarching fragility, firms may experience different impacts, and to different degrees.

Based on this hunch, ITC surveyed over a thousand companies in 8 countries – Burkina Faso, Colombia, Honduras, Iraq, Kenya, Myanmar, South Sudan and Ukraine. In six countries – Burkina Faso, Colombia, Iraq, Kenya, Myanmar and South Sudan – at different levels of fragility.

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 – the ITC Fragility Exposure 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.

Because the Small Business in Fragility Survey also covered companies whose competitiveness ITC had previously assessed through its standard SME Competitiveness Survey (SMECS), we were able to combine responses and provide insight on whether competitiveness factors were associated with the firms’ experience of fragility.

This is the focus of the remainder of the presentation.



Based on survey data, the index was built using factor analysis, which grouped fragility's impacts into three pillars:

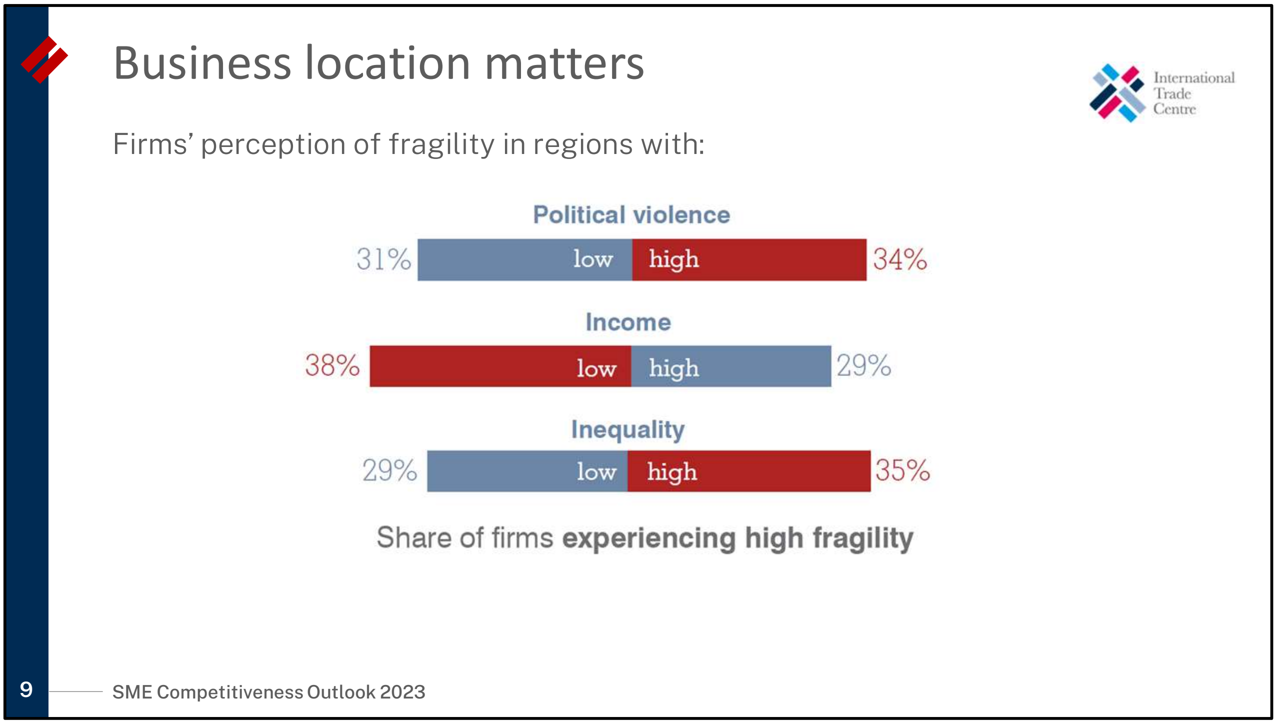
- The security pillar assesses if and how a business is affected by insecurity and violence induced by fragility.

- The economic pillar identifies whether and how fragility affects a firm's economic performance and opportunities.

- And the social pillar measures the effects of fragility on the company's relationships, as reflected in trust in people, networks, business support organizations (BSOs) and local and national institutions.

Our first findings is that the type of fragility to which firms are exposed, matters. For example, if fragility is reflected in 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.

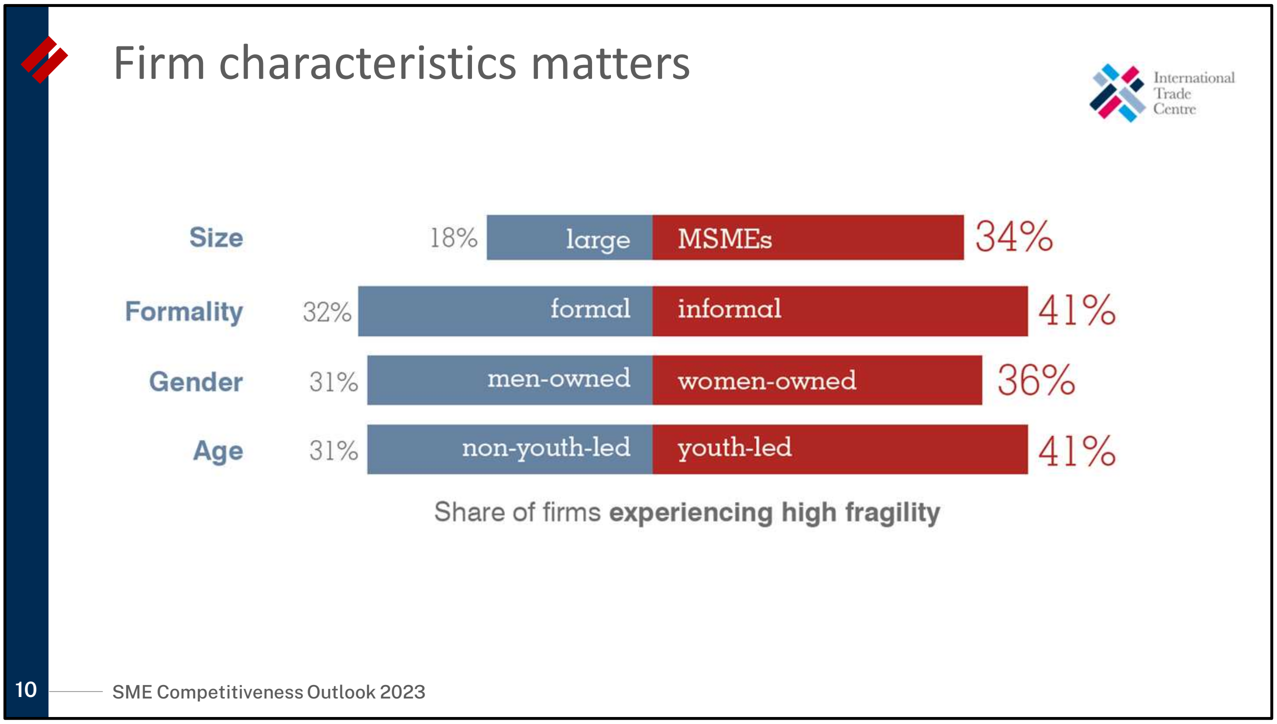
Another finding is that business location and characteristics also play a role in determining how exposed a firm is to fragility and how intensely it will experience its impacts.



In terms of location, while a country may be entirely classified as fragile, sub-nationally conditions may differ widely.

Evidently, firms located in conflict hotbeds, such as areas with high levels of political violence, tend to be more exposed to and potentially impacted by fragility.

Similarly, firms in poorer and more unequal areas also tend to experience fragility more intensively.

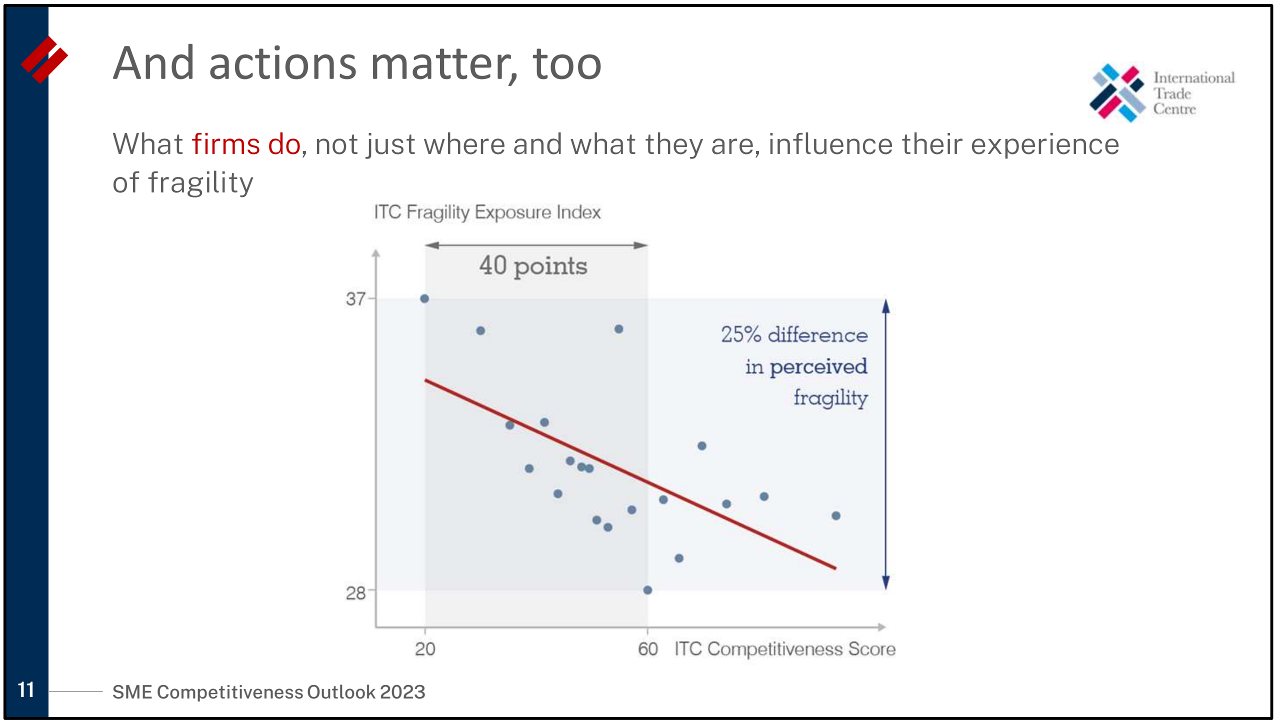


Besides location, firms with certain characteristics may be more of less exposed and affected. Among those surveyed by ITC, smaller firms were more likely to experience fragility more intensively: 34% of micro, small and medium-sized companies reported experiencing high levels of fragility, compared with 18% of large firms.

Informality further exacerbates the effects of fragility, with informal firms almost 10 percentage points more likely to report experiencing a high intensity of fragility than formally registered ones. This is partly because informal firms tend to have little or no recourse to formalized credit and facing exclusion from institutions that can provide the services they need to survive in times of fragility.

Women-led firms tend to be at a disadvantage even in non-fragile settings. Businesses owned and led by women typically lack access to public infrastructure services, finance and social protection. And in fragile settings, where additional factors such as women's increased exposure to violence, make them even more vulnerable to fragility's impacts, these limitations are further intensified.

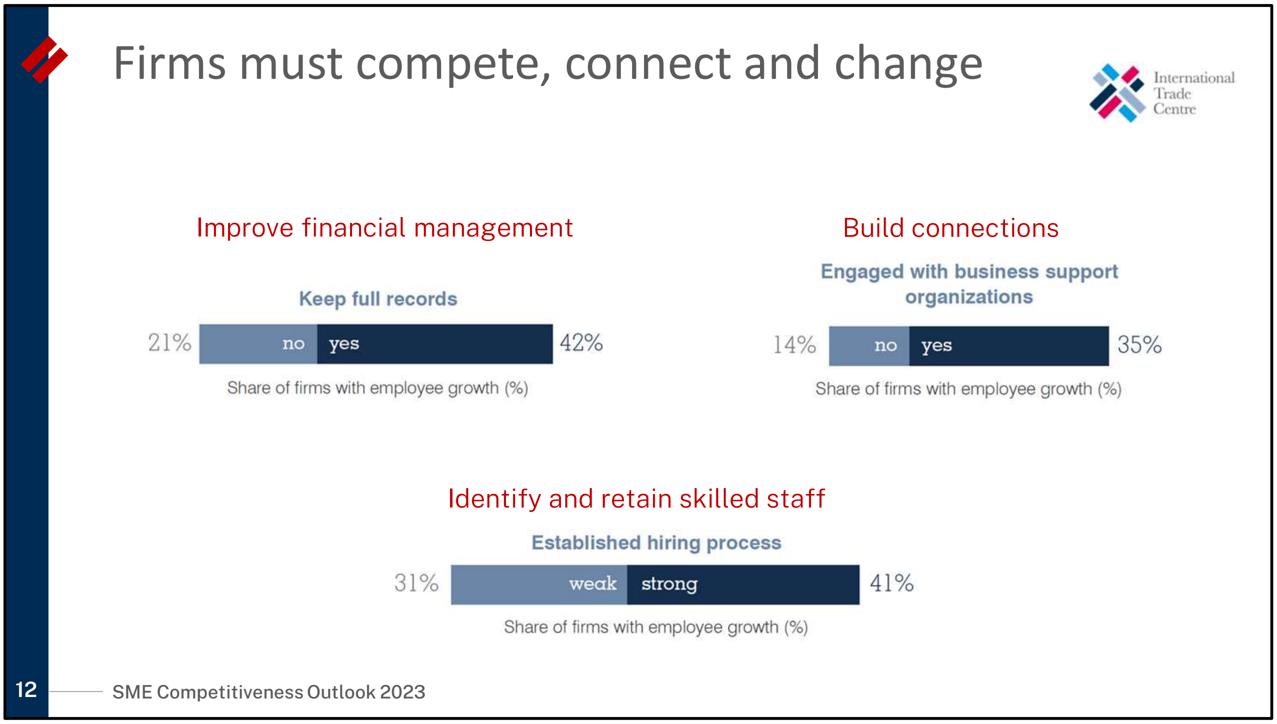
Finally, when it comes to age, youth-led companies reported higher levels of fragility, compared with non-youth-led companies. In fragile settings, youth-led enterprises are more likely to tread cautiously, focusing on consolidating operations and avoiding risk-taking.



Identifying which firms are potentially more exposed to the background level of fragility, and through which channels, is a useful step in designing support programmes. However, we must go beyond what and where firms are and identify what they can do to increase their ability to cope with fragility.

Fragility undoubtedly affects firm competitiveness, often for the worse. Conversely, competitiveness can serve as a buffer to fragility's impacts. Specifically, when firms take action to improve their competitiveness, they may also reduce their exposure to fragility. For instance, by putting in place internal measures to raise its 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 over 25%, with no other changes taking place at the business ecosystem or national level.

One can intuitively see how some of these firm-level actions allow businesses to cope better with a difficult environment. For example, companies connecting with peers through sector association might pool resources and share information about challenges and solutions. Similarly, firms with better cash flow management practices might be less affected by customer's delaying payments. Finally, firms with more skilled workers, that know the product and production process well, might be more likely to implement creative solutions to problems.



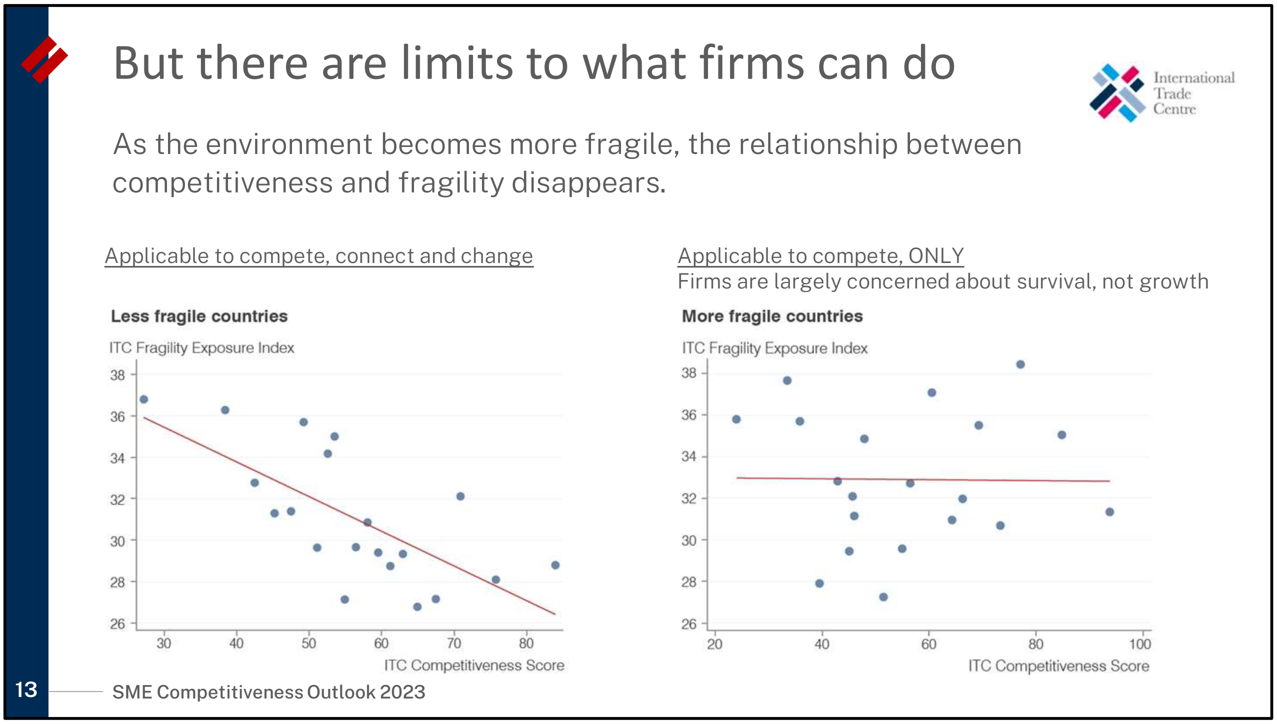
Combining data from the two surveys we spoke about earlier, ITC assessed whether, and to what extent, pre-existing competitiveness factors influence business outcomes under fragility. Specifically, ITC has pinpointed three firm-level actions that can partially make up for what the environment lacks:

- Build connections with institutions, peers and buyers;
- Improve financial management;
- Identify and upgrade staff skills.

First, 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.

Second, having strong internal financial management mechanisms can lessen the impacts of fragility. Companies that keep full economic records were twice as likely to report employee growth.

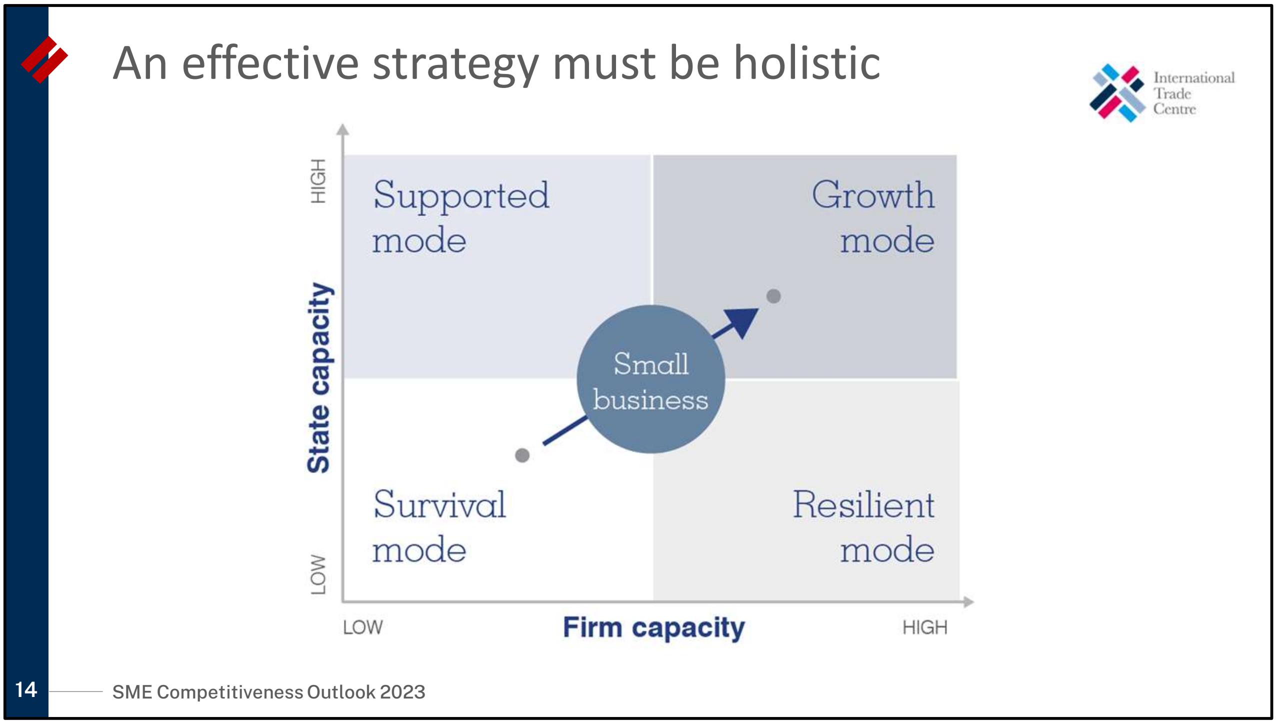
Finally, establishing a professional hiring process and identifying talent can help firms weather fragility's economic impacts. Enterprises with an established hiring process were more likely to expand their labour force. A strong hiring process increases the likelihood of finding employees with the right set of skills. This matters as skilled workers are more efficient at adapting operations to new contexts, allowing firms to continue operating in periods of instability.



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

Specifically, ITC analysis finds that, in less fragile countries, higher competitiveness is correlated with lower fragility. This means that actions aimed at increasing competitiveness can lessen firms' exposure to fragility.

However, as the environment becomes more fragile, the relationship disappears. This suggests that, while firms' actions do matter, factors in the national environment, over which companies individually have little influence, are just as important in determining their competitiveness – and experiences of fragility.



Two critical implications come out of the preceding analysis.

First, there seems to be a window of opportunity in which firm-level support can yield positive outcomes, and this tends to be before fragility and violence engulf firms and their business ecosystem entirely.

Second, firm-level interventions are insufficient to secure the survival and growth of firms. It is also necessary to directly deal with the overarching situation of fragility and rebuild the state’s capacity to ensure a supportive and stable environment.

Thank you!

Report available at:

https://intracen.org/resources/publications/sme-competitiveness-outlook

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