

A report from The Economist Intelligence Unit

# A path to peace through inclusion



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The peace accord agreed late last year between the government and the FARC paramilitary group gives Colombia a historic opportunity to improve the living standards of all its people. More than half a century of conflict cost an estimated 220,000 lives and led over 5m people to flee their homes, with severe consequences for the country's prosperity, especially in the rural areas where violence was concentrated. The accord makes a "peace dividend" of economic growth whose benefits are shared by every Colombian, not just some of those living in its big cities, a real possibility—and also a necessity—if the peace accord is to succeed in practice.

Achieving this peace dividend will require the right policies, as well as an active partnership of every group in Colombian society, from community groups and charities to the private sector. Bringing about inclusive growth involves actions such as creating jobs in areas of high unemployment and poverty, empowering women, reducing corruption and bringing the rule of law to a previously informal economy. These are inherently challenging at the best of times, let alone in places that have long been mired in conflict and disconnected from the formal legal economy.

Some commentators in Colombia have argued that implementing the peace accord could be more difficult than negotiating it in the first place. That is not just because the accord does not have the full support of the electorate;

after an earlier version of it was narrowly defeated in an October referendum last year, the peace process seems certain to be a key issue in the 2018 presidential election. Moreover, the end of a period of rapid commodity-driven economic growth has put pressure on the government's finances at a time when it is expected to spend heavily to fulfil the promise of peace.

In the more than 50 years that Colombia's internal conflict has been taking place, dozens of peace deals have been struck around the world between governments and armed groups that had waged civil war. However, all too often, the failure of these deals to deliver inclusive prosperity has led to disillusion with the peace process and in some cases a resumption of violence. To see how things can go wrong, Colombians need only look north to El Salvador, which is now celebrating the 25th anniversary of its own peace deal amidst high rates of corruption, violent crime, inequality and poverty.

In this report The Economist Intelligence Unit considers Colombia's challenges in the context of other countries that have emerged from internal conflict, to identify effective strategies and highlight potential pitfalls to be avoided in building a peaceful, inclusive economy. We focus particularly on how best to engage the private sector, including businesses of all sizes, investors (especially those with a commitment to social impact) and philanthropists.

# The challenges of peacebuilding



As the implementation of the peace accord begins, Colombia's economy is facing the toughest conditions in many years. After a long period of strong growth, external factors including the apparent end of a long bull market in commodities and a sharp rise in the US dollar have helped slow the rate of GDP growth from an average of over 4% a year during 2001–15 (and record high of an annualised 8% in the first quarter of 2007) to 2% in 2016. As growth has slowed, the government's budget deficit has risen sharply to 4% of GDP in 2016, from 2.4% two years earlier. This is a far from ideal base for what should be a significant build out of the Colombian state to meet the terms of the peace accord.

At one time, the FARC controlled an estimated one-third of Colombia's territory. Although that has been reduced over the years, there remain substantial parts of the country that in effect have been beyond the reach of the state, but are now to be brought under the rule of law. That reintegration will involve many calls on the public purse, from funding effective law en-

forcement to building roads and other essential infrastructure. Some estimates place the additional government spending needed to implement the accord as high as US\$44bn over the next decade. There may be some cost savings, at least in the medium term, from reduced military spending as peace takes hold; and the FARC has agreed to hand over substantial illegally earned assets. However, how much actually materialises remains to be seen.

Other challenges include demobilising and reintegrating members of the FARC, something on which the government has a relatively good record; driving out the illegal drugs trade, of which the FARC traditionally has controlled an estimated 60% or more; and creating lots of jobs in areas where the lack of decent economic opportunity has driven many into organised crime and violent rebellion. The millions of people displaced from their homes will need a satisfactory outcome, and to avoid a sense of injustice, so will those who were not part of the FARC.

## Lessons from elsewhere



Colombia has unique challenges resulting from its particular history. Yet the various opportunities and difficulties it faces have equivalents in other countries that have engaged in meaningful peacebuilding and inclusive development following significant internal conflict. There are several lessons to be learnt from them, not least about the importance of delivering inclusive economic growth to underpin other aspects of the peace process.

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John Paul Lederach, professor of international peacebuilding, University of Notre Dame

The evidence shows clearly that economic growth in post-conflict countries reduces the risk of renewed armed conflict, according to a survey of the literature by The Portland Trust, a not-for-profit which supports peacebuilding between Israelis and Palestinians through private sector development. Growth stimulates job creation, which reduces grievances and makes armed conflict less attractive to would-be rebels. The legitimacy of post-conflict government is closely tied to a country's economic performance.

The Kroc Institute at the University of Notre Dame has assembled a database of the 34 most comprehensive peace agreements reached in 1989–2012 to end internal conflicts. Analysis of this "peace accord matrix", which tracks the implementation of some 51 provisions over the ten years after agreement is reached, has generated several findings relevant to Colombia.

At over 300 pages in length, the Colombian deal is unusually detailed and comprehensive, but it is crucial that a large part of what has been agreed is implemented as quickly as possible, says John Paul Lederach, professor of interna-

tional peacebuilding at Notre Dame.

Those agreements elsewhere that within ten years had implemented more than 60% of what was required tended to be well regarded and to have avoided a return to violence; lower implementation rates were associated with less happy outcomes. In particular, in the first year or so, there needs to be clear progress on arms control and security. Ideally, this includes addressing root causes of the conflict, and showing socio-economic improvements and political changes that reassure both the wider society and private sector that the situation is stabilising around fairness in both access and participation.

As well as its financial muscle, "business can play a crucial role through its ability to engage across traditional lines of ideological difference," adds Professor Lederach. And while both national and local government have the responsibility to get roads and other infrastructure built, business can bring the logistical expertise and other know-how to connect producers in the worst afflicted or neglected parts of the country to mainstream markets.

Business played a crucial role in Northern Ireland, with the Confederation of British Industry maintaining an extremely bullish attitude to the opportunities created by the peace agreement there. So too in South Africa, where despite ongoing challenges, the government pushed businesses to quickly improve the number, conditions and status of black workers. Rwanda has been growing rapidly and fairly inclusively, helping the country maintain its peacebuilding effort despite its still poor record on human rights and press freedom. By contrast, oil-rich South Sudan was well placed for rapid economic growth after gaining its independence, but its brief peace had given way to civil war before investors and businesses had mustered the confidence to make a significant commitment.

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# Strategies for Colombia



Based on evidence from similar peace deals elsewhere, the top priority for Colombia should be to make quick progress on implementing what has been agreed, with the greatest emphasis on showing progress on security: disarming the FARC and establishing the rule of law in formerly FARC-controlled areas. It would also be wise, given the political risk of the peace process being seen as too friendly to the FARC, to promptly launch the process of truth and reconciliation. After that, the next priority should be to stimulate economic development, especially in the areas most afflicted by FARC activities, by engaging business. Under the peace accord, this engagement is envisaged in large part to involve participation alongside community groups and local governments in several regional collaborations.

Several vehicles for collective action by business have been launched, such as the Business Council for Sustainable Peace (Consejo Empresarial por una Paz Sostenible). These need to be supported wherever possible and encouraged to turn words into actions. Creating tax incentives for investing in certain parts of the country could also help, as would public-private partnerships which shift some of the risk onto the government. Multilateral agencies such as the IDB, which are keen to support Colombia's peace process, can also play a useful role here.

There are also encouraging examples of business playing a positive role in generating inclusive growth in some of Colombia's biggest cities, which have enjoyed something of a renaissance in recent years. Medellín, for example, has been transformed from a notorious drugs capital into a flourishing metropolis, with the third highest Social Progress Index score of all Colombia's big cities. As well as a social urbanism that has helped join once isolated and depressed areas

to the mainstream of the city, a crucial role was played by businesses such as EPM (Empresas Públicas de Medellín), the local power utility, says Aldo Civico, an expert in conflict resolution at Columbia University in New York.

There are significant reserves of commodities in areas that have been controlled by the FARC, some of which have been subject to illegal mining. With the right infrastructure, such as roads, this could be a valuable source of jobs and growth—though for that growth to be properly inclusive, roads built to connect mines should connect currently isolated communities rather than, as was often the case in the past, bypassing them.

Much of the area that was controlled by the FARC is essentially informal, beyond the rule of law, with few significant companies and a reliance on subsistence agriculture. Often that means growing coca for the illegal drugs trade, from which the FARC profited mightily.

There are big opportunities to build up the agricultural sector in these areas. This would involve persuading farmers to switch to legal crops, such as cocoa, helping them build businesses, and embedding them in supply chains that connect them to Colombia's main markets and beyond. This is likely to be a long process, which could be accelerated by big companies committing to long-term purchasing agreements with farmer cooperatives.

The Colombian government has been looking at creating public-private partnerships to develop these rural economies, which could help—although industry is at such an early stage of development in much of the areas that it needs the sort of painstaking capacity-building work that is often better supported by social enterprises, philanthropy and impact investors than by government or big business.

# In search of impact



Several philanthropic foundations belonging to Colombia's biggest families have already been involved in supporting activities aimed at generating inclusive growth. That includes working with the country's small but growing impact investment sector, which aims simultaneously to make a profit and achieve a social or environmental goal. In Colombia, impact investors are exploring opportunities to get involved in back-

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ing businesses in areas such as rural development, providing basic services in urban environments and reducing youth unemployment. Delivering better outcomes in these and other social areas is closely aligned with stability, giving Colombia a historic opportunity to pioneer impact investment as a way of supporting long-lasting peacebuilding in a post-conflict scenario, says Sebastian Welisiejko, a former chief economist of The Portland Trust who is now working with the Global Steering Group for Impact Investment (GSG).

One illustration of what is needed is the US\$1.15m investment in 2016 by Acumen, an international impact investor, in partnership with USAID, America's aid agency, in Cacao de Colombia, a producer and marketer of premium chocolate from farmers in conflict-affected areas. This was a first investment from their US\$4m joint initiative, the Investing for Peace Fund. Pilots are also being launched of social impact bonds, which reward investors only if the activities they are funding achieve pre-agreed social out-

comes. Fundación Corona, with the IDB, the Swiss government, the Department of Social Prosperity of Colombia, Fundación Mario Santo Domingo and Fundación Bolívar Davivienda have been working on one to increase the employability of vulnerable people, including some displaced by the conflict. If the initial results are good, there is the potential to scale up fast.

Figuring out how to mobilise significantly more money behind similar initiatives is an urgent challenge. A greater willingness of foundations to bear the "first loss" risk on impact investments would certainly help make them more attractive to mainstream investors. As they mature, Colombia's foundations are increasingly focusing on setting outcome goals and rigorously monitoring progress towards them, says Mr Uribe, which could be crucial in identifying what is working, in order that it can be scaled up. Greater interest in impact investing from Colombia's pension funds, which have started to dabble in the sector, would also help.

Yet for now, despite all the positive talk and sense of opportunity, the private sector has yet to engage fully with the peacebuilding agenda. "Business is willing to contribute to the peacebuilding process, but is waiting for the government to set out a clear vision," says Maria Victoria Llorente, executive director of FIP (Fundación Ideas para la Paz), a think-tank in Bogota. Business is holding back because of a "feeling that there are a lot of uncertainties related to politics, security and the provision of the necessary public goods," she adds. The prospect of the peace accord being damaged by the forthcoming presidential race is a particular worry. Quick progress on all these fronts would greatly increase the willingness of business to play its part in building peace through inclusive growth.

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