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# EXPLORING THE POTENTIAL OF THE PRIVATE SECTOR TO CONTRIBUTE TO PEACEBUILDING IN PAKISTAN

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# EXPLORING THE POTENTIAL OF THE PRIVATE SECTOR TO CONTRIBUTE TO PEACEBUILDING IN PAKISTAN

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## Abbreviations

<b>ADB</b>	Asian Development Bank
<b>ADR</b>	Alternative dispute resolution
<b>ANP</b>	Awami National Party
<b>API</b>	American Petroleum Institute
<b>BCI</b>	Business Confidence Index
<b>BLA</b>	Baluch Liberation Army
<b>BPLF</b>	Baluchistan People's Liberation Front
<b>BRA</b>	Baluchistan Republican Army
<b>BSO</b>	Baluchistan Students Organization
<b>CIPE</b>	Centre for International Private Enterprise
<b>CPLC</b>	Citizens-Police Liaison Committee
<b>CSR</b>	Corporate social responsibility
<b>FATA</b>	Federally Administered Tribal Areas
<b>FFC</b>	Fauji Fertilizer Company
<b>GDP</b>	Gross domestic product
<b>HuJI</b>	Harkat-ul-Jihad-al-Islami
<b>ISO</b>	International Organization for Standardization
<b>JeM</b>	Jaish-e-Mohammed
<b>KPK</b>	Khyber Paktunkhwa
<b>LeJ</b>	Lashkar-e-Jhangvi
<b>LeT</b>	Lashkar-e-Taiba
<b>LUMS</b>	Lahore University of Management Sciences
<b>MNC</b>	Multinational companies
<b>MQM</b>	Muttahida Qaumi Movement
<b>PBPP</b>	Plural Business Partnerships for Peace in Pakistan
<b>PPP</b>	Pakistan People's Party
<b>RBI</b>	Responsible Business Initiative
<b>SDC</b>	Skills Development Council
<b>SDPI</b>	Sustainable Development Policy Institute
<b>SECP</b>	Securities and Exchange Commission of Pakistan
<b>SSP</b>	Sipah-e-Sahaba Pakistan
<b>TCF</b>	The Citizens Foundation
<b>TTP</b>	Tehrik-e-Taliban Pakistan

## Executive summary

Conflict divides in Pakistan have widened in recent years in the context of increasingly contentious state–citizen relationships, and a society polarised along regional, communal and sectarian lines. Some communities have become subject to the influence of potentially violent radical elements, and peace is increasingly fragile among others. In addition, safe spaces for plural voices that advocate for peace within civil society are limited, in part a reflection of intensified conservatism and withdrawal from negotiated settlement within society itself. These conflict risk factors are compounded by a stalling economy that has seen a reversal in economic growth, threatening further under-development and instigating social unrest.

The business sector in Pakistan, as elsewhere, has an intricate and complex relationship with peace and conflict. Research undertaken by International Alert in Pakistan shows that businesses across the country are suffering heavily from a loss of physical and social capital resulting from conflicts. In extreme cases, this is leading to the relocation of businesses away from areas affected by conflict – and even out of the country altogether. Yet, businesses can also contribute to conflicts because of their failure to consider the impact of their practices on communities.

Over the past decade, Pakistan's economy has struggled with low growth, infrastructural decay, corruption, budget deficits, environmental disasters, foreign and domestic debts, balance of payment difficulties, law and order problems, and a poor investment climate. The law and order problems – including widespread religious extremism and violence (terrorism), extortion by armed gangs and militias, and corruption – have also undermined Pakistan's economic growth potentials. According to Pakistan's Economic Survey 2011, armed conflict and insecurity is estimated to have cost US\$67.9 billion since 2001; this includes annual estimates of US\$2.67 billion in 2001/2, US\$3.4 billion in 2004/5, US\$6.94 billion in 2007/8 and US\$17.83 billion in 2010/11 (see Table 6). The breakdown of the costs reveals that exports, tax receipts, damage to physical infrastructure, industrial output and foreign direct investment are worst affected. Armed conflicts and insecurity in Pakistan have meant that, despite huge investment opportunities in places such as Karachi, Peshawar, Baluchistan and Sindh, there is a general perception among foreign and, more worryingly, local investors that the security and profitability of investments cannot be guaranteed by the government; that business activities would be subjected to disruption and extortions (by local power brokers and armed groups); and that key socio-economic infrastructures necessary to support business activities either have been destroyed or are simply unavailable. The scale of the problem is also reflected in Pakistan's continuously poor ratings in the Business Confidence Index (BCI) for 2012; according to Pakistan's Overseas Investors' Chamber of Commerce and Industry, Pakistan's BCI fell by 10 percentage points to -34.0% (from previous -24.0%), and capital investment plans for the second half of 2012 fell from 69.0% to 55.0% with no planned increase in employment levels, all of which was due to worsening security, inflation and energy shortages.

A direct impact of armed conflict on businesses in Pakistan has been the increase in overall operating costs and, more specifically, security expenditure by companies. This takes several forms, including companies having to pay wages and salaries to workers when production activities are disrupted; the destruction of business facilities (plants and infrastructures, especially in the oil and gas sector in Khyber Paktunkhwa (KPK) and Baluchistan) either from direct targeting by armed groups or in the crossfire between the army and armed groups; higher business insurance rates; and businesses having to set up or hire security firms to protect their facilities and value chains. The poor security situation and repeated disruption of production also affects management–labour relations with disputes over pay, retrenchments and overall working conditions. While some businesses have been resilient and continue to operate, despite the security challenges, some have either relocated (to other cities or countries) or ceased trading in Pakistan.

While being victims of conflict, businesses in Pakistan have also been directly and indirectly contributing to conflict within the country. Corporate social responsibility (CSR) represents a vital instrument for linking business to local communities and population. Where and when businesses fail to contribute to community development or minimise the negative effects of their activities on local communities, it translates into contributing to conflicts. Most of the companies in Pakistan do not have CSR policies; they usually outsource such activities to some independent consultant, and there is no strategic and coordinated approach to CSR or conflict reduction by the business community in Pakistan. Against the background of weak regulatory systems for CSR, a majority of interventions by businesses in local communities are reactive, rather than proactive to addressing community needs; there is no accountability in the use of CSR funds, which is thus prone to corruption and strengthening of armed groups; and such interventions are too ad hoc in nature as they are focused on philanthropy (e.g. providing assistance and disaster-relief items), rather than an integrated, conflict-sensitive approach to supporting community development.

Businesses in Pakistan have also been contributing directly or indirectly to tensions, armed conflict and insecurity by compromising extant national laws and international standards relating to labour practices, environmental protection, community engagements and unsustainable business models. The strong connections between businesses and political elites in Pakistan often mean it is difficult for government agencies and officials to exercise oversight functions of their activities. As in other developing countries, the operations of businesses in Pakistan are often caught in the web of subsisting contestations and conflicts over the ownership and control of natural resources between local communities and government.

The potential and actual contribution of business to armed conflicts and insecurity in Pakistan is also rooted in the overall structure of Pakistan's economy comprising an informal economy, which is dominated by small and medium-sized companies. The smaller firms operate locally, and are closely aligned to the ethno-political and religious dynamic, often owned or strongly linked to ethno-religious and political elites, and with strong influence on national and provincial governments and power brokers. All of these factors predispose them to influence conflict dynamic in major ways (even more so than large businesses). Small and medium-sized companies are implicated in the bribing of local (provincial) governmental officials, along with patronage of armed groups, ethno-religious elites and groups, and criminal gangs in Pakistan.

Our research indicates that business in Pakistan has a strong interest in undertaking charitable activities (which they wrongly equate with peacebuilding) for a variety of reasons. First, an estimated 52.0% of publicly listed companies and businesses in Pakistan practise some form of corporate philanthropy that suggest subsisting foundations and ongoing potential pro-peace activities. Second, given the ethno-religious foundations of Pakistan (as a Muslim-dominated country), there are strong Islamic influences, linked to charitable donations and obligatory alms giving (*Zakat*). Third, businesses are direct stakeholders in community problems, sometimes preventing or implicated in (caught in the web of) situations of conflict and insecurity. Fourth, conflict mitigation is increasingly a strategic goal for most businesses in Pakistan because the deterioration in Pakistan's security situation since 2007 has affected the activities of businesses more than before.

Sectorally, businesses in Pakistan are involved in a mixture of education and vocational skills training programmes, environment and health improvement initiatives, sports and leisure sponsorship and facility provisioning, and culture and religious heritage activities. Of this, education and skills training intervention is the most active area of business intervention largely because of its perceived pro-peace benefits, including contributing to reduced unemployment and unemployability of young people, meeting the technical skills and labour needs of businesses, and improving the technical profile and infrastructures of Pakistan's educational institutions. These are thought to contribute to poverty reduction and increased participation of youth in mainstream socio-economic activities and society, thereby reducing the chances of radicalisation and membership of extremist groups and criminal networks in Pakistan.

The interest of business in peacebuilding in Pakistan parallels strong public expectations of and demands for business to contribute to resolving underlying socio-economic issues linked to armed conflict and insecurity across Pakistan. However, the extent to which business interest in peacebuilding matches the reality of their activities, or is coherently formulated, coordinated and aligned in conflict-sensitive ways, or translates into intended impacts is questionable.

In order to strengthen the peacebuilding impact of the private sector in Pakistan, International Alert, with the support of the European Union, initiated a pilot project known as Plural Business Partnerships for Peace in Pakistan (PBPP). The aim of this initiative is to understand and strengthen the capacities of key business change agents as peacebuilders in Pakistan. Based on the research conducted in the first phase of the project, the project recommends that, similar to elsewhere, there is a vast scope for the business sector to play a vital role in peacebuilding within the country. The research also highlighted that the peacebuilding potential of small and medium-sized businesses remains untapped, despite their location deep into communities and being the closest to local communities and theatres of conflict. Small and medium-sized businesses appear to be the most experienced and knowledgeable about ways of promoting peace in local communities, yet they are hardly involved in business sector discussions and planning for pro-peace interventions.

This report summarises the learning of Alert from year one of the PBPP on the potential role of business as a peacebuilding constituency in Pakistan. This knowledge has been generated on the basis of discussions, interviews and a household survey conducted over the course of 2012 by Alert and its local partners (Responsible Business Initiative (RBI) and Sustainable Development Policy Institute (SDPI)).



## Introduction

Social unrest and political instability are on the rise in Pakistan. This is due in part to a combination of the unequal distribution of wealth, rising inflation and lack of employment opportunities. In a society polarised along regional, communal and sectarian lines, where some communities have become subjected to the influence of potentially violent radical elements, inequality increases the potential for conflict.

The business sector in Pakistan, as elsewhere, has a complex relationship with peace and conflict. Businesses are one of the most affected stakeholders in conflict situations. Research currently being undertaken by International Alert in Pakistan shows that businesses across the country are suffering heavily from the loss of physical and social capital as a result of conflict. In extreme cases, this is leading to the relocation of businesses away from areas affected by conflict – and even out of the country altogether.

Yet, businesses can also inadvertently contribute to the onset or protraction of conflict because of their failure to consider the impact of their practices on communities – for example, inadvertently fuelling perceptions of inequality by selecting employees from one ethnic group over others. One of the other ways in which the business sector is likely to inadvertently fuel conflict in Pakistan is – somewhat counter-intuitively – through its conflict-insensitive philanthropic efforts. Corporate philanthropy is on the rise in Pakistan. The Pakistan Centre for Philanthropy estimates that corporate philanthropy contributions multiplied by more than 14 times in the period from 2000 to 2010 (from PKR 228 million (about US\$2.3 million as at March 2014) to PKR 3.3 billion (US\$33.7 million)).

These philanthropic contributions, or ‘social investments’ as they are now beginning to be called, are primarily aligned with the business and marketing strategies of companies. They usually translate into scholarships and awareness campaigns relevant to businesses’ products, or donations to schools and hospitals. While these projects are aimed at providing support to the disadvantaged, if they are not designed in a conflict-sensitive manner, they can do harm rather than good and damage the fabric of societies and communities.

Most businesses mistake their philanthropic efforts for corporate social responsibility (CSR). CSR goes beyond philanthropy and compliance, and addresses how companies manage their economic, social and environmental impacts, as well as their relationships in all key spheres of influence: the workplace, the marketplace, the supply chain, the community and the public policy realm. However, the understanding of what actually constitutes CSR or its alignment with conflict-mitigation strategies within the Pakistan business sector is very poor, and rarely results in conflict-sensitive business practices. Only a handful of companies are signatories to the UN Global Compact or comply with the 10 guiding principles for conducting business in a responsible manner.<sup>1</sup> CSR is also absent from the curricula of most business schools and, where offered, it is not taught as an integrated tool in business practices. Moreover, no institution within the country offers conflict-sensitive CSR courses or explores the contribution of business to peacebuilding using CSR practices. As a result, CSR managers within companies often lack the knowledge and expertise to design and implement CSR programmes generally and conflict-sensitive CSR initiatives in particular. CSR continues to be wrongly equated with corporate philanthropy.

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<sup>1</sup> UN Global Compact’s 10 principles, available at <http://www.unglobalcompact.org/abouttheGc/TheTenprinciples/index.html>

In recent years, a number of CSR awards have been introduced in Pakistan to encourage businesses to contribute towards social investments. These awards, however, primarily use the amount of money disbursed, environmental reporting or financial reporting as the key criterion to select winners – rather than investigating the actual impact of these CSR programmes and whether the CSR interventions are conflict-sensitive. This emphasis on quantity over quality sets a concerning precedent for continued corporate philanthropic involvement. There is a risk that such donations, given without due attention to their actual impact, will further worsen already unstable conflict dynamics within Pakistan.

At the same time, Alert's experience working with the business sector in a range of conflict contexts shows that, if mobilised with the right technical support, the business sector is well placed to help build community cohesion and resilience to radicalisation through conflict-sensitive business practices and concerted strategic relationship building. It can build peace across conflict divides through horizontal business-to-business partnerships between polarised communities and regions. Businesses can also advocate for reform and a more secure business (and community) environment, through their access to political decision-makers.

Members of the business sector are often enthusiastic and committed peace advocates, once they are made aware of the possible modes for their engagement and contribution, and the benefits to their investments. This is evident from the support and interest on the part of the business sector with which Alert's current EC-funded project, Plural Business Partnerships for Peace in Pakistan (PBPP), has encountered. In order to strengthen the peacebuilding impact of the private sector in Pakistan, Alert, with the support of the European Union, initiated a pilot project, PBPP, in 2012 to understand and strengthen the capacities of key business change agents as peacebuilders in Pakistan. Building on international experiences in private sector engagement for peace, the project works with the business sector, whose support and influential voice is critical for processes of community cohesion, regional integration and the promotion of responsible business practices – all of which are critical to enhanced state stability and long-term peacebuilding.

This report synthesises the learning of Alert from year one of the PBPP project on the potential role of business as a peacebuilding constituency in Pakistan. This knowledge has been generated on the basis of reviews of extant official documents, discussions, and interviews conducted over the course of 2012 by Alert and its local partners (Responsible Business Initiative (RBI) and Sustainable Development Policy Institute (SDPI)).

The report comprises four sections. Section 1 of the report explains the context in Pakistan, including the business landscape. Section 2 explores the business and conflict nexus in Pakistan, explaining ways in which businesses contribute to armed conflict and insecurity in Pakistan, and how business is affected by violent conflicts in the country. Section 3 focuses on how the business sector is responding to and contributing to peacebuilding and what negative and positive impacts these activities have on Pakistan. The report concludes with a summary of the lessons learnt and recommendations for a way forward for future consideration.

# 1. Context of Pakistan

## 1.1 Politics

The state of the Islamic Republic of Pakistan was founded in 1947 following its split from Greater India. Contemporary Pakistan stretches from the Himalayas down to the Arabian Sea and is composed of five provinces – Punjab (northeast), Sindh (southeast), Khyber Pakhtunkhwa (KPK, formerly North West Frontier province), Baluchistan (in the southwest) and Gilgit-Baltistan (far north). In addition to this, there is Azad Jammu and Kashmir along the border with India in the northeast region.

Pakistan is the sixth most populous country, with 184.35 million people in 2012–13,<sup>2</sup> projected to increase to 254 million people by 2040 based on a growth rate of 2.0%. The dominant ethnic groups include Punjabi (45.0%), Pashtun (15.0%), Sindhi (14.0%), Sistani (8.0%), Mohajirs (7.5%), Baluchi (4.0%) and other smaller groups (6.0%). The official qualification of Pakistan as an Islamic republic underscores the fact that over 97.0% of the population are Muslims, with Hindus and Christians being minority faith groups. According to the most recent (1998) census conducted by the government of Pakistan, Hindus make up 1.2% of the population and Christians (Protestant and Roman Catholic) 1.9%, or around 2.3 million people. Other estimates put the numbers higher.

Pakistan currently practises a federal system of government with parliamentary democracy. Following elections in May 2013, contemporary Pakistan is governed by the Pakistan Muslim League under the leadership of Prime Minister Sharif Nawaz. The main opposition parties are the Pakistan Tehrik-e-Insaaf and the Pakistan People's Party – Parliamentarians. Over the years, Pakistan has increased the devolution of power between the national (central) and provincial governments. However, this process remains fraught with grey areas, contentions and tensions; for instance, the two largest opposition political parties run the provincial government in Sindh and KPK, and the planned renegotiation of the revenue-sharing formula between the central and provincial government in 2015 is already generating considerable political tensions.

For much of the post-independence period, Pakistan has been characterised by a chequered socio-economic, political and security history. The country has experienced several military coups, political assassinations, and struggles with militancy and terrorism. Externally, Pakistan continues to be affected by armed conflicts and foreign interventions in Afghanistan, several cases of military confrontations and tensions with India over Kashmir, and the secession by the Bengali-speaking population in the east in 1971 to form the state of Bangladesh. Pakistan's relatively unstable socio-political and security situation partly reflects its geopolitical positioning with Afghanistan to the north and northwest, India and Bangladesh to the east, and China to the northeast. Pakistan's geographical location presents problems and opportunities; on the one hand, neighbouring states such as Iran and Afghanistan have ongoing security challenges; and Pakistan has a history of fractious relations with India (rooted in the split at independence) that is marked by ongoing military tensions. On the other hand, countries such as India and China are emerging global economic actors, thereby there are underlying potential pathways for socio-economic growth in Pakistan.

<sup>2</sup> Population data for Pakistan, available at [http://finance.gov.pk/survey/chapters\\_13/12-Population.pdf](http://finance.gov.pk/survey/chapters_13/12-Population.pdf)

Contemporary Pakistan faces serious internal security challenges relating to religious extremist groups, criminal gangs, and ethno-political and sectarian armed groups. For instance, since 2009 the Pakistan military has been battling armed insurgencies in major cities, especially against the Tehrik-e-Taliban Pakistan (TTP) – a loose network of militant groups – in Khyber Agency, Swat Valley and tribal areas in the Federally Administered Tribal Areas (FATA) in KPK. The criminal gangs perpetrate crimes such as armed robberies, kidnapping and ransom demands, narcotics, extortion, illegal smuggling of arms and stolen oil, and illegal trade of gem stones. The deterioration in Pakistan's security situation is reflected in its position in Amnesty International's Political Terror Scale: from its 3 rating (extensive political imprisonment, or a recent history of such imprisonment) in 1980, it slipped to 4 (civil and political rights violations have expanded to large numbers of the population, and murders, disappearances and torture are a common part of life) in 2005; and it has been rated 5 (terror has expanded to the whole population), the highest rating available, since 2010.<sup>3</sup>

## 1.2 Socio-economic context

Pakistan's economy (gross domestic product (GDP)) is dominated and driven by commodity produce and service sectors, and they have witnessed only marginal or negative growth over the past decade. For the 2012/13 financial year, the commodity sector accounted for 42.3% of total GDP. Agriculture emerged as the dominant economic activity, contributing 21.4% of GDP and 45.0% of employment, with the livestock and major cultivation (wheat, maize, rice, sugarcane and cotton) sub-sectors contributing 11.9% and 7.0%, respectively, to Pakistan's GDP. Pakistan's main exports are textiles (garments, bed linen, cotton cloth and yarn), rice, leather goods, sports goods, chemicals, manufactures, carpets and rugs. The agriculture sector is highly labour intensive and a major source of income (and poverty alleviation) for small farmers, landless poor and rural dwellers.

Karachi is the economic hub of Pakistan, given its status as the former capital city, its coastal location and its long history of concentration of commerce and trading firms, as well as being the most populous city (21.2 million) in Pakistan. The predominant economic activities in Punjab are agriculture, textiles, services, sugar production and the manufacturing of sports and surgical equipment, auto parts, vehicles and heavy machinery. Baluchistan has a huge informal economy, alongside formal economic activities in mining (marble, coal, iron and gem stones), oil and gas, and some agriculture (livestock and fishery); Sindh has agriculture (farming), financial services, manufacturing (cements and plastics), shipping and mining (coal, oil and gas). In KPK, the key economic activities are agriculture, hydroelectric power generation, mining of minerals and industrial production from industrial zones; Gilgit-Baltistan has an agrarian economy (fruits and horticulture).

The manufacturing sector is estimated to contribute 13.2% of GDP and accounts for 13.8% of employment, with textiles being the dominant economic activity – it accounts for 46.0% of value added in the manufacturing sector, 9.0% of total GDP and 60.0% of total exports. The service sector accounts for 57.7% of Pakistan's GDP, employs 12.0% of total labour, and is dominated by wholesale and retail trade, as well as transport and storage activities.

Over the past decade, Pakistan's economy has struggled with low growth, infrastructural decay, corruption, budget deficits, environmental disasters, foreign and domestic debts, balance of payment difficulties, law and order problems, and a poor investment climate. Critical infrastructural deficits, especially in the power sector, are a key economic challenge – it is estimated to be costing Pakistan up to 2.0% of GDP per annum. Similarly, law and order problems, including widespread religious extremism and violence (terrorism), extortion by armed gangs and militias,

<sup>3</sup> Ministry of Finance, Government of Pakistan [2013]. 'Population, Labor Force and Employment', Ch. 12 in *Pakistan Economic Survey 2012-13*. Available at [http://www.finance.gov.pk/survey\\_1213.html](http://www.finance.gov.pk/survey_1213.html)

and corruption, also undermine Pakistan's economic growth potential. Pakistan's weak (at best mixed) economic performance over the decade is underscored by mixed performances in socio-economic indicators.

Pakistan's estimated GDP for 2012 is US\$231.2 billion, with the real GDP growth rate for 2012/13 estimated at 3.6% (see Table 1). The economy is estimated to have grown on average by 2.94% per annum since the 2008/9 fiscal year. This is below the regional average of 7.0% for developing countries in Asia. Due to persistently weak macroeconomic performances, Pakistan's public debt has also expanded over the last decade, although higher repayments in 2012 slightly reduced overall debt stock. The estimated external liabilities as at 2012 totalled US\$65.8 billion (estimated to be nearly 60.0% of GDP) and debt servicing payments were 44.0% of total revenues in 2012. Pakistan suffers from recurrent budget deficits, with the fiscal deficit for 2013 estimated at 4.6%, down from 6.4% of GDP in 2011/12.

Investment has been in decline for most of the past decade – from 19.2% in 2008, it fell to 14.2% in 2012/13. This is also reflected in the pattern of fixed investment (from 17.6% in 2007/8 to 12.6% in 2012/13) and capital formation (from 17.0% in 2008 to 11.0% in 2012).

The official unemployment rate is 6.0%. However, this hides the huge underemployment that is widespread in Pakistan, and is also below the recommended 7.0% needed to absorb new entrants to the labour market. Inflation, measured by consumer price index, is estimated to have reduced to 7.5% from 10.9% in 2011/12. The per capita income increased from US\$1,323 to US\$1,368 in 2012/13 as compared with the previous year. Per capita income in dollar terms grew at a rate of 3.4% in 2012/13 as compared with 3.8% growth for the previous year.<sup>4</sup>

In terms of corruption, Pakistan has been consistently ranked among the least transparent (most corrupt) countries. According to Transparency International's Corruption Perception Index, Pakistan was ranked 134th (out of 179 countries) in 2012, 134th (out of 182 countries) in 2011, 142nd (out of 163 countries) in 2006 and 79th (out of 91 countries) in 2001. A 2011 survey revealed the most corrupt state institutions and processes included land administration, police, taxation, courts and judiciary, tendering and contracting, and customs. The least corrupt were the military and education department.

Pakistan reached an Extended Fund Facility agreement with the International Monetary Fund in July 2013 worth US\$5.3 billion over 36 months to forestall another balance of payment difficulty (similar to that of 2008). As at June 2013, Pakistan's net foreign exchange reserves had reduced sharply from US\$14.8 billion in 2011 to US\$6.3 billion in 2013, which could only finance six weeks of imports. The depletion of foreign exchange reserves reflects dwindling foreign investment, weak economic growth, poor industrial outputs and exports, trade deficit and higher debt repayment in 2012.

The outlook up to 2017 suggests that Pakistan is unlikely to transcend its current low-growth economic cycle, given the enduring impact of dysfunctional economic structure and process, insecurity, infrastructural decay (especially in the energy sector) and corruption. Thus, the trend of poor economic performance is expected to continue over the short and medium term, without the government of Pakistan being able to address the structural deficiencies or undertaking badly needed economic reforms and improved security, law and order.

<sup>4</sup> Association Press of Pakistan, 'Per capita income rises to \$1,254: Economic survey', 2 June 2011. Available at [http://www.app.com.pk/en/\\_/index.php?option=com\\_content&task=view&id=140956&Itemid=197](http://www.app.com.pk/en/_/index.php?option=com_content&task=view&id=140956&Itemid=197)

Table 1: Key socio-economic indicators

Poverty headcount ratio at national poverty line (% of population)	22.3% (2006 <sup>5</sup> )	World Bank (2 Sept 2013)
School enrolment, primary	92.0% (2011)	World Bank (1 July 2013)
School enrolment, secondary	35.0% (2011)	World Bank (2 Sept 2013)
Life expectancy at birth, years (total)	31.18 (2011)	World Bank (2 Sept 2013)
Gini <sup>6</sup>	35.4 (2011)	World Bank (2 Sept 2013)
Human Development Index (HDI)	0.515 / Ranking 177 (2012) 0.512 (2010) 0.485 (2005) 0.419 (2000) 0.383 (1990) 0.337 (1980)	UNDP: International Human Development Indicators (1 July 2013)
GDP (total)	US\$231.2 billion (2012)	World Bank (1 July 2013)
Gross National Income (GNI) (per capita PPP)	US\$3,030 (2012) US\$2,770 (2010) US\$2,200 (2005)	World Bank (1 July 2013)
Key export(s)	Textiles (garments, bed linen, cotton cloth, yarn), rice, leather goods, sports goods, chemicals, manufactures, carpets and rugs	The Economist Intelligence Unit (1 July 2013)
	House linen (10.0%), rice (10.0%), cotton yarn of > 85.0% (7.0%), petroleum oils, refined (6.0%), men's suits, not knit (4.0%)	The Observatory of Economic Complexity (27 August 2013)

### 1.3 Business landscape

Business (private sector) has played important roles in the production of goods and services in Pakistan throughout its history. At independence, the private sector was active in broad areas of the economy, with the public sector limited to the ownership of arms and ammunition, hydropower generation, rail, telecommunications and industries of national importance in which the private sector was unable or unwilling to invest.<sup>7</sup> The structure, composition, and sectors and areas of operation by business in contemporary Pakistan emerged from a series of policy dynamics from the 1970s, when the policy of nationalisation sought to reduce the size and role of the private sector in the economy of post-independence Pakistan.

The paradigm shifts in the 1980s and 1990s restored business as a key actor in Pakistan's economy through policies of privatisation, deregulation, liberalisation and good governance to promote economic growth. By 1999, there was a consolidation of this through several policy and institutional reforms, with emphasis on macroeconomic stability to improve economic governance

<sup>5</sup> Most recently available World Bank data.

<sup>6</sup> "Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality" (World Bank Data, 1 July 2013).

<sup>7</sup> Asian Development Bank (ADB) (2008). *Private Sector Assessment: Pakistan*. p.1. Available at <http://www.adb.org/documents/private-sector-assessment-pakistan?ref=themes/private-sector-development/publications>



and create a business-friendly environment. For instance, the Privatization Act 2000 created a Ministry of Privatization and Investment, and the State Bank of Pakistan (SBP) Act empowered it to formulate and implement monetary policies, and created a new Monetary and Fiscal Board; the Fiscal Responsibility and Debt Limitation Act (2005) prescribed ceilings for revenue deficits and total public debt. The policy changes, especially by instituting liberal investment regimes – for instance, 100.0% ownership by foreign investors and unhindered repatriation of profits, capital and dividends – made Pakistan attractive to business.

The reforms transformed business into an engine of economic growth in Pakistan. The private sector is estimated to control 77.0% of the commercial banking sector, 100.0% of the textile and telecommunications sectors, and significant stakes in the cement, sugar, automobile, fertiliser and mining sectors. The role of business in power generation and distribution has also grown in recent years, and business has contributed to the growth in the domestic capital market (Karachi Stock Exchange being the most important institution of capital formation in Pakistan).

Businesses, including the formal and informal sectors, are the largest employers of labour in Pakistan. Agriculture, textiles and wholesale and retail trade have the highest concentration of labour in Pakistan. A 2008 Asian Development Bank (ADB) assessment estimated the labour force at over 50 million, with nearly 48 million employed. Among those employed, agriculture accounted for 72.0%, community, social and personal services for 12.4%, and manufacturing (including textiles) for 12.0%. The ADB survey also found that the private sector employs 7 million workers in the formal sector and 18.6 million in the informal sector, and that the expansion and new employment opportunities in the private sector led to a fall in levels of unemployment from 8.2% in 2002 to 6.5% in 2005.<sup>8</sup> Small and medium-sized firms account for 90.0% of all enterprises, employ 80.0% of non-agriculture labour and contribute 40.0% of Pakistan's GDP.<sup>9</sup>

In recent years, the size and role of business in Pakistan's economy has either stagnated or experienced negative growth. The gains of the policy reforms from the 1990s have been reversed or compromised due to prevailing economic climate – poor infrastructures (roads, education, power, water and irrigation, and energy sector), corruption, and law and order problems. Pakistan faces serious internal security and socio-economic challenges that individually and collectively undermine economic production and the activities of business in major cities across the country. In Punjab cities (Lahore, Faisalabad, Multan, Sialkot and Gujranwala), residents and businesses are confronted with issues of armed robberies and thefts, kidnapping and ransom demands, and debilitating energy shortages. In Sindh, major cities such as Karachi, Hyderabad and Sukkur are confronted in varying degrees by issues of criminal gangs involved in narcotics and extortion, ethno-political violence, sectarian clashes, kidnapping and ransom demands, poor infrastructures and environmental degradation. In KPK cities such as Peshawar and industrial zones (Gadoon Hub in Swabi district and Hattar in Haripur district), the major challenges are smuggling, breakdown of law and order, and suicide bombing (connected with religious extremist groups). In Baluchistan cities (Quetta and Lasbela), the key challenges are widespread informal (often illicit) economic activities, sectarian and political violence, and energy shortages.

## 1.4 Diaspora

Pakistan has one of the highest diaspora populations in the world. There was an estimated 4.7 million Pakistani diaspora in 2010, a figure that rises to about 7 million when children are included.<sup>10</sup> The top five hosting countries of the Pakistani diaspora are the UK (1.2 million), Saudi Arabia (1.2 million), United Arab Emirates (1.1 million), United States (700,000) and Canada

<sup>8</sup> Ibid. pp.9–10.

<sup>9</sup> World Bank and the International Finance Corporation [2010]. *Doing Business in Pakistan 2010*. Washington: World Bank. p.6.

<sup>10</sup> See: World Bank [2010a]. 'Migration and remittances'. Available at <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1199807908806/Top10.pdf>

(300,000).<sup>11</sup> In the UK, for instance, the 2011 census established that people of Pakistani descent make up 2.0% of the total population; of this, 74.0% are under the age of 45, and mostly based in the northwest, Yorkshire and Humber, West Midlands and London. The new generation of Pakistani migrants are mostly students or professionals such as doctors, lawyers and engineers. This contrasts sharply with earlier migrants of the 1960s who were largely rural migrants from areas such as Mirpur. The majority of Pakistanis residing in the UK are Muslims (predominantly Sunni adherents with Shiites and Ahmadis being a minority), although the UK has the largest overseas Christian Pakistani community.

The size of the Pakistani diaspora population is reflected in the scale of remittances; funds transfers by the diaspora population are an important source of foreign currency reserves for the government. For instance, remittances from the UK in 2010 were at least £627 million. While there are variations in available estimates, there is a consistent consensus about the importance and growth of remittances from the Pakistani diaspora. Remittances to Pakistan are estimated to have increased from about US\$7.8 billion in 2009 to US\$8.9 billion in 2010 and US\$9.4 billion in 2011. The government of Pakistan's Economic Survey for 2012/13 reported that remittances totalled US\$11.6 billion in July–April 2012/13, as against US\$10.9 in the comparable period over the previous year, which indicated an increase of 6.4%. Remittances from the UK and Saudi Arabia increased by 27.5% and 13.0%, respectively.<sup>12</sup> The Economist Intelligence Unit estimates that remittances from Pakistanis working abroad rose by a healthy 14.0% in 2012, to US\$14 billion, leading to a 10.0% rise in the surplus on the transfers account, to US\$18 billion.<sup>13</sup> The World Bank and the ADB estimate that remittances make up 9.4% of household income in the KPK, 5.1% in Punjab, 1.5% in Baluchistan and 0.7% in Sindh. The fall in poverty from 34.5% in 2001 to 17.2% in 2008 in KPK, Punjab and Sindh was attributed partly to increases in remittances.<sup>14</sup>

The new government appears to be looking at ways of improving and harnessing remittances to further economic growth and tap other potential, such as promoting foreign direct investment, strengthening education and skills training, and improving the energy sector. A new National Policy for Overseas was passed in 2013 to accord and protect the legal rights of the Pakistani diaspora and their families.

Our research showed that the British Pakistani diaspora is a very diverse group, with varying perceptions about and interest in Pakistan depending on their migration patterns. Business people have tried investing in Pakistan but, due to the law and order situation and the high cost of doing business (because of corruption), have withdrawn their investment. Various diaspora-led associations, other than charitable initiatives, have not been very successful in attracting investment to Pakistan either. There is a 'disconnect' with Pakistan among the second- and third-generation Pakistani diaspora – a hindrance that discourages them from engaging with Pakistan for any business-related opportunity.

Similar to the wider community, the business diaspora is also keen to contribute and give back to Pakistan and the Pakistani community in the UK. The business diaspora sees addressing the issue of lack of employment opportunities and illiteracy as key to addressing poverty and subsequently conflict within the country. It feels that this investment in building the social capital will reduce the vulnerability of the marginalised and the disadvantaged (particularly the youth) to being exploited by various conflict actors.

11 See: 'Pakistani diaspora is the world's 7th largest', *Haq's Musings*, 2 September 2011. Available at <http://www.riazhaq.com/2011/09/pakistani-diaspora-is-worlds-7th.html>

12 'Highlights of the Pakistan Economic Survey 2012/13', available at [http://finance.gov.pk/survey/chapters\\_13/HIGHLIGHTS%202013.pdf](http://finance.gov.pk/survey/chapters_13/HIGHLIGHTS%202013.pdf)

13 'Pakistan – Economy', *Economist Intelligence Unit*, 20 February 2013.

14 See: World Bank (2010b). 'Poverty fell in Pakistan in 2001–8 partly because of remittances'. Available at <http://blogs.worldbank.org/peoplemove/pakistani-migrants-can-help-in-reconstruction#comment-969>



## 2. The business–conflict nexus

### 2.1 The landscape of conflict and insecurity

The combination of internal and external developments – including poverty, economic stagnation, corruption, political manipulation, regional geopolitical dynamics and foreign military operations in neighbouring Afghanistan – has created serious domestic law and order challenges for Pakistan. Since 2009, the intensity, spread and sophistication of internal conflicts and insecurity have reached an alarming rate, and virtually every province and major cities are faced with one or more of the problems of sectarian violence, religious extremists' insurgency, separatist insurgency, criminal violence and ethno-political violence (see Table 2). Militancy in Pakistan has become extremely complex with ever-changing dynamics, including the splintering of existing groups, emergence of new groups, and inter-group alliances and cooperation.

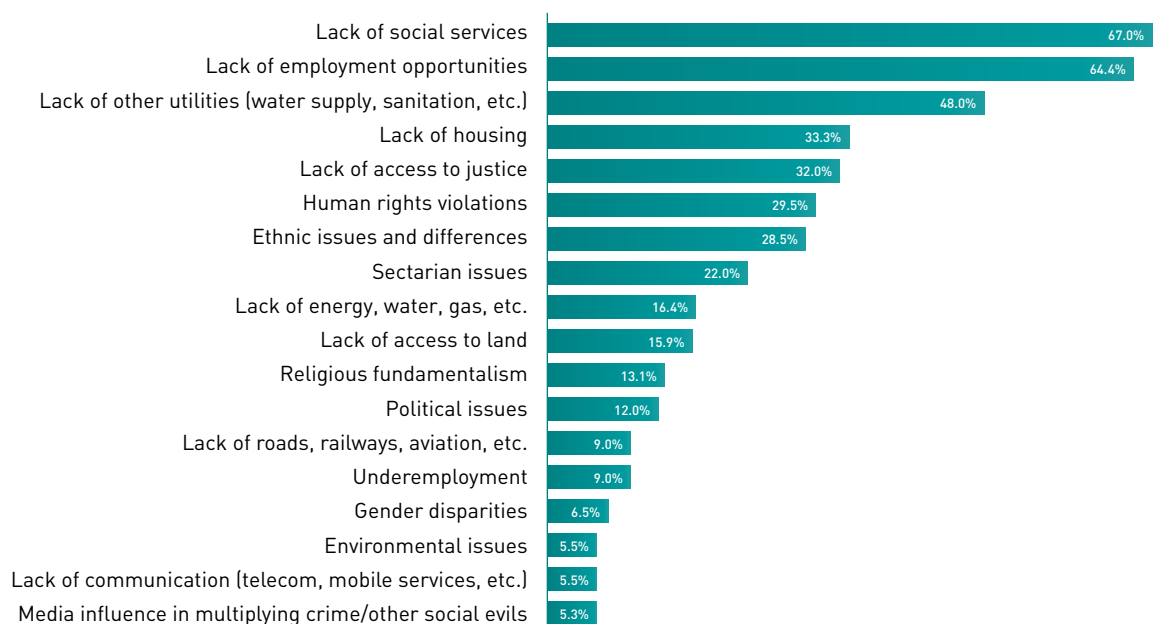
**Table 2: Nature of overall incidents of violence**

Attacks/Clashes	Frequency	Killed	Injured
Border attacks/clashes	79	326	227
Clashes between security forces and criminal gangs	8	25	60
Clashes between security forces and militants	115	705	490
Criminal gangs clashes	13	36	54
Drone attacks	45	336	67
Inter-militant clashes	61	217	158
Inter-tribal clashes	13	74	28
Operational attacks by security forces	109	960	469
Political and ethnic violence	183	288	182
Religious/communal violence	3	4	3
Sectarian clashes	11	26	128
Terrorist attacks	1,577	2,050	3,822
<b>Total</b>	<b>2,217</b>	<b>5,047</b>	<b>5,688</b>

Source: Pak Institute for Peace Studies (PIPS) (2012). *Pakistan Security Report 2012*. p.8.

Moreover, the dividing lines between religious, sectarian, militant, criminal and ethno-political groups are increasingly blurred, with many groups having multiple identities and involved in a variety of activities. The number of religious-political groups operating at provincial or national levels in Pakistan was estimated at 239 in 2002, with 21 involved in electoral politics, 148 involved in sectarian activities, 24 associated with militant jihad, 12 linked with religious-political demand for a caliphate system, and 28 involved in missionary and charity work.<sup>15</sup> A 2011 assessment found 53 militant (Sunni-Deobandi) groups operating across Pakistan.<sup>16</sup> The spread and intensity of armed insurgency led to considerable counter-insurgency operations by the Pakistan military from around 2009. While the counter-insurgency operations recorded gains in some places and in certain instances (e.g. in the FATA following the 2011 offensive), they have also complicated the dynamics in other cases. The causes of armed conflicts in Pakistan are historical and extremely complex, but dominating factors include poverty, religious extremism, political manipulation and poor governance (see Figure 1).

**Figure 1: Issues contributing to internal conflicts**



Source: Sustainable Development Policy Institute (SDPI) (2013). *Peaceful Economies: The Private Sector's Role in Mitigating Conflicts in Pakistan*. Islamabad.

Given that business requires a stable and secure environment to thrive, the volatile security environment in Pakistan is bound to affect the activities and operations of business and their potential contributions to economic growth and development. The first task undertaken here is to map the security landscape of Pakistan over the past five years to understand the overall and provincial conflict and security challenges.

According to the Pak Institute for Peace Studies, 2012 recorded a total of 2,217 violent attacks, with 5,047 fatalities and 5,688 injured (see Table 2). This was a drop in the levels recorded in 2011, as the total number of attacks reduced by 20.0%, fatalities by 14.0% and injured by 13.0%. However, places such as Karachi and Sindh recorded increases of 222.0% and 33.0%, respectively, over their 2011 levels (see Table 3). Other provinces and cities aligned with the overall trend of a reduction in violent attacks.

<sup>15</sup> M. Amir Rana (2011). 'Evolution of militant groups in Pakistan', PIPS, *Conflict and Peace Studies*, Vol. 4, No. 2, Background, pp.3-4.

<sup>16</sup> Ibid. pp.9-11.

Table 3: Comparison of terrorist attacks and casualties (2011 vs. 2012)

Province/Region	Number of attacks (% change)	Killed (% change)	Injured (% change)
Baluchistan	26 ▼	11 ▼	21 ▲
FATA	42 ▼	3 ▲	8 ▼
Gilgit-Baltistan	Unchanged	144 ▲	37 ▲
Islamabad	75 ▼	75 ▼	100 ▼
Karachi	222 ▲	136 ▲	57 ▲
KPK	11 ▼	51 ▼	36 ▼
Punjab	43 ▼	35 ▼	39 ▼
Sindh (excluding Karachi)	33 ▲	240 ▲	41 ▲
Total	20 ▼	14 ▼	13 ▼

Source: PIPS (2012). *Pakistan Security Report 2012*. Islamabad.

In terms of typologies, sectarian violence increased in 2012 by 53.0% (from 139 to 213), with over 85.0% of reported incidents concentrated in Karachi, Quetta, Gilgit and Kurram Agency. Suicide attacks fell by 27.0% over 2011 levels, with over half concentrated in the KPK region. The number of incidents of ethno-political violence decreased from 265 in 2011 to 183 in 2012, with a majority recorded in and around Karachi.

The impacts of Pakistan's armed conflict and security challenges have been exacerbated by successive cataclysmic natural disasters. The 2005 Kashmir earthquake was followed by massive flooding of the Indus Basin during 2010 and 2011. These disasters have cost Pakistan US\$22.4 billion, according to estimates from the World Bank, the ADB and the US State Department. Damage from the earthquake was estimated at US\$5.2 billion. The 2010 floods left behind US\$10.8 billion in losses followed by another US\$6.4 billion in 2011. Disasters have on occasion tested the resilience of Pakistan's densely packed population, but nothing has sapped the country's economic potential as much as the snowballing impact of violent conflict that manifests itself in prolonged military operations and random terror attacks in heavily populated urban centres. Pakistan's Human Rights Commission reports that the largest displacements in the country have been 2.7 million people internally displaced between April and July 2009 by war, and another 7 million by the floods between August and September 2010.<sup>17</sup> For the first time since 1979, internally displaced citizens outnumber foreign refugees from the Afghan war. This influx has strained the already fraught civic infrastructure as well as inter-communal relations. Peshawar, Karachi, Quetta and cities that have received refugees also report violence, particularly between culturally or religiously diverse communities.

## 2.2 Provincial dynamics

### Baluchistan

Baluchistan is one of the poorest regions in Pakistan, despite its huge natural resource deposits. The region's consistent failings in key socio-economic indicators (literacy, access to healthcare, water and education services) mean that 92.0% of its districts are classified as 'highly deprived areas' and 80.0% of the population remain economically vulnerable as they are engaged in subsistence agriculture. This contrasts sharply with the region's estimated richness in natural resource deposits, including huge deposits of mineral and petrochemical resources, such as coal,

<sup>17</sup> N.U. Din (2010). *Internal Displacement in Pakistan: Contemporary Challenges*. Lahore: Human Rights Commission of Pakistan. Available at <http://hrnp-web.org/hrnpweb/wp-content/pdf/ff/22.pdf>

copper, lead, gold, and natural gas and oil.<sup>18</sup> The agitation for Baluchistan independence has increased, despite recent reforms initiated by the government of Pakistan to address the underlying developmental grievances of the region (e.g. doubling revenue to the region, repaying debts owed as the share of proceeds from natural gas revenues, and infrastructural projects such as the Gwadar port and Kaachi canal aimed at encouraging private sector investment in the region).

**Table 4: Attacks in Baluchistan in 2012**

District	Frequency	Killed	Injured
Awaran	8	5	0
Barkhan	11	1	5
Bolan	26	53	55
Chagai	2	2	0
Dera Bugti	62	61	84
Gwadar	10	21	15
Jaffarabad	11	5	5
Kalat	14	6	15
Kech	25	66	27
Kharan	4	1	2
Khuzdar	26	28	10
Kohlu	14	7	10
Lasbela	7	4	40
Loralai	4	2	3
Mastung	23	46	99
Naseerabad	12	8	21
Nushki	6	2	0
Panjgur	17	15	18
Pishin	2	1	0
Qila Abdullah	2	2	0
Quetta	172	264	549
Sibbi	7	17	53
Washuk	4	4	1
Zhob	4	7	7
Ziarat	1	6	13
<b>Total</b>	<b>474</b>	<b>631</b>	<b>1,032</b>

Source: PIPS (2012). Op. cit.

The number of violent attacks in Baluchistan decreased to 474 in 2012, compared with 640 in 2011 (see Table 4). However, the region still had the highest concentration of attacks in 2012. A majority of attacks were perpetrated by nationalist and separatist groups such as the Baluch Liberation Army (BLA), Baluchistan Students Organization (BSO), Baluchistan Republican Army (BRA) and Baluchistan People's Liberation Front (BPLF). The worst affected city was Quetta, followed by Dera Bugti, Bolan, Khuzdar, Kech and Mastung. Ethnic Baluch constitute 45.0% of the region's population and their call for autonomy and independence is a major demand among the armed groups in the region; ethnic Baluch claim that the Pakistani state is dominated by ethnic Punjabis and that Baluchs have been neglected and excluded from key state institutions and positions.

<sup>18</sup> A.H. Cordesman and V. Vira (2011). *Pakistan: Violence versus Stability: A National Net Assessment*. Washington: Center for Strategic and International Studies. pp.83–85.

Baluchistan's unique geography makes it particularly difficult to police and strategically important in national and regional security terms. For instance, the region accounts for 44.0% of Pakistan's landmass and only 5.0% of its population; and it is strategically located close to KPK and the FATA with substantial levels of insurgency (e.g. in north and south Waziristan). In addition, Baluchistan shares contiguous borders with Afghanistan (especially cities like Kandahar and Helmand, which are hotbeds of insurgency activities) and 34.0% of American non-lethal supplies are routed through it (via the Chaman border crossing).

## KPK and the FATA

KPK is home to ethnic Pashtuns, the second largest ethnic group in Pakistan. KPK is largely under-developed, poorly policed and an economically mismanaged region. KPK and the FATA are awash with arms and weapons from three decades of foreign military intervention and civil war in neighbouring Afghanistan. Since 2008/9, KPK has been a hotbed of armed insurgency, criminal activities and other types of violence. The area is host to the TTP (Pakistan Taliban), the most active armed group in Pakistan. The area recorded 456 terrorist attacks in 2012, compared with 512 in 2011 (11.0% decrease). Peshawar is the most affected city, followed by Charsadda, Bannu, Nowshera, Swabi, Hangu and Kohat.

The FATA have been the centre of counter-insurgency operations by Pakistani military since 2011. This partly contributed to the 42.5% reduction in terrorist incidents in 2012, compared with 2011 levels. There are several groups operating in the region with a mix of militant, sectarian and Shariah enforcement agendas. The majority of armed groups operating in the FATA and KPK have close connections with groups and events in Afghanistan, partly because of geographical proximity.

## Sindh (Karachi)

Sindh, especially Karachi, is the economic hub for Pakistan – it generates 60.0% of national revenue, contributes over 50.0% of GDP, and is host to key economic infrastructures such as key financial institutions and the port. Armed conflict began to resurface in Karachi in 2005 and has continued to increase ever since. The period 2009/10 marked a major upsurge in the level of armed conflict in Karachi, with recorded violent conflicts increasing from 24 in 2009 to 93 in 2010. Across Sindh, 215 violent attacks were recorded in 2012, 187 of which took place in Karachi with 272 fatalities and 352 injured.<sup>19</sup> The dominant forms of armed conflict and violent attacks include ethno-political (including targeted killings), sectarian, organised crime (bank robberies, kidnappings and extortion) and terrorist violence. Some of the most active groups include Lashkar-e-Jhangvi (LeJ), Sipah-e-Sahaba Pakistan (SSP), Sipah-e-Muhammad Pakistan (SeM), TTP and Al-Qaeda.

The nature of armed conflicts and violent attacks in Karachi reflects its complex socio-economic, political and ethnic composition. Most conflicts underscore the nexus of ethnicity, political affiliation, and competition for economic resources and advantages. In terms of ethnicity, the Muhajirs constitute the majority ethnic group in Karachi, followed by Sindhis and Pashtuns, and more often the ethnic groups and their associated armed militias (especially Muhajirs versus Pashtuns) compete for local power and influence. Moreover, the ethnic groups and associated militias are allied to mainstream political parties, such as Muhajirs (Muttahida Qaumi Movement (MQM)), Sindhis (Pakistan People's Party (PPP)) and Pashtuns (Awami National Party (ANP)), and inter-group clashes are connected to political party competition for political power. Karachi has numerous madrassas that are linked to sectarian orientations and armed groups (including TTP and Al-Qaeda). The sectarian conflicts are linked to intra-Sunni sectarian rivalries and Sunni-Shia sectarian divide.

19 PIPS [2012]. *Pakistan Security Report 2012*. p.19.

In economic terms, Karachi's huge network of informal and illicit economies, the associated struggle to control certain trade networks, as well as the collection of illegal taxes, generate armed conflicts among the ethno-political and sectarian armed groups. All the armed groups in Karachi generate huge revenues from criminal activities such as general smuggling, narcotic trade, organised robberies, kidnappings and extortions.<sup>20</sup>

## Gilgit

The key security challenge and foremost form of conflict in Gilgit-Baltistan over the last five years has been sectarian violence between Sunni and Shia sects. The spectre of armed conflict continues, despite interventions by the Pakistani government (especially by the parliament) to promote dialogue and confidence building between the sects and to institute religious reforms (Maasjid Regulation Act 2012 and preaching codes for clerics). In 2012, there were 29 cases of such conflicts with 34 fatalities and 88 injured. The region is a hotbed of Shia activism and also has a substantial Sunni presence, a situation that results in almost constant inter-sectarian tensions. For instance, violent conflicts tend to break out with minimum provocations and triggers such as Friday sermons or Eid sermons, or retaliations against any form of casualties suffered by rival sects. Some of the known sectarian groups active in the region include Shia sects such as Millat-e-Islamia and Tehreek-e-Jafaria, and Sunni-Deobandi sects like Jamaat-e-Ahle-Sunnat, Ittehad Ulema-e-Baltistan and Jamiat Ulema-e-Islam.

## Punjab

Punjab is the socio-economic, political and cultural heartland of Pakistan. It is host to ethnic Punjabis (the largest group in Pakistan) and accounts for 90 million (of a total 173 million) of the country's demography. Since 2007, the region has faced armed conflict and ever-increasing numbers of armed groups and criminal networks. There were 17 reported terrorist attacks in Punjab in 2012 (admittedly a reduction in 2011 levels with 75 fatalities and 184 injured).<sup>21</sup> Cities such as Gujrat, Lahore, Rawalpindi and Multan have experienced terrorist attacks and violent confrontations between armed groups and security forces. Armed conflict in Punjab is considered the most serious for Pakistan, given the extent to which the armed groups in the region are embedded within communities; their knowledge of the terrain and operational methods of Pakistani security agencies; their training, funding and level of sophistication; and close cooperation with the TTP. The active armed groups are collectively known as Punjab Taliban and contain groups such as Jaish-e-Mohammed (JeM), SSP, Lashkar-e-Taiba (LeT), Harkat-ul-Jihad-al-Islami (HuJI) and LeJ. A majority of these groups were alleged to have been originally founded, trained and funded by Pakistani secret and intelligence services to promote its military objectives against India in Kashmir and to suppress Shia groups in Pakistan. However, state-led crackdowns, American-led war in Afghanistan and Pakistani cooperation led to a split between the armed groups and the Pakistani government, thereby generating armed attacks against the Pakistan state. The armed groups have been strengthened by their ability to attract funding from the Middle East and to provide services to populations in areas under its control, expansion in the number of madrassas and students, and humanitarian work (especially in the wake of the 2010 floods).<sup>22</sup>

## 2.3 Active types of militant groups in Pakistan

- Pakistani Taliban (TTP) and affiliates: This is a group of loosely connected, semi-autonomous armed groups spread across the FATA region and increasingly having affiliated groups in other regions. Some of the known constituent groups are the Mehsud faction, Lashkar-e-Islam, the Wazir faction, Punjabi Taliban, Ghazi Force, etc.

20 A.H. Cordesman and V. Vira (2011). Op. cit. pp.118–28.

21 PIPS (2012). Op. cit. pp.21–22.

22 A.H. Cordesman and V. Vira (2011). Op. cit. pp.108–17.

- Global jihadist groups: These are groups linked to wider Al-Qaeda ideology and some of the known groups include Al-Qaeda in Pakistan, Brigade 313, LeJ, LeT and TTP.
- Afghan Taliban: These are groups modelled after the Taliban movement in Afghanistan, and most affiliated groups and members tend to have been trained in or by Afghanistan Taliban. Some of the known affiliated groups in Pakistan are Quetta Shura Taliban, Haqqani Network, Hizb-i-Islami, etc.
- Sectarian groups: These are religiously motivated groups involved in inter-religious, inter-sect rivalries. Some of the known groups are SSP, LeJ, Al-Qaeda, Islamic Movement of Uzbekistan, JeM, etc.
- Kashmir jihadis: These are groups based in and fighting against India in the disputed Kashmir region; they include LeT, JeM, HuJI, Harkat-al-Mujahideen, etc.
- Baluch separatists: These are collection of armed nationalist groups fighting for autonomy and independence for Baluchistan province. They include BLA, BSO, BRA, BPLF and the Popular Front for Armed Resistance.
- Ethno-political groups: These are groups linked with political parties or special political interests, including MQM, ANP, PPP, Jamat-e-Islami, etc.

## 2.4 The role of business in conflict and insecurity

In this section, we explore the potential and actual ways in which business contributes to armed conflict and insecurity in Pakistan. The focus on the ways private sector actors ‘contribute’ to conflict acknowledges that the causes and dynamic of armed conflicts and insecurity in Pakistan are extremely complex, with the interaction of internal and external, public (government) and private actors, along with historical and contemporary factors at play.

There are five ways in which businesses contribute to armed conflict and insecurity in Pakistan:

### 2.4.1 Dysfunctional CSR strategies

CSR represents a vital instrument for linking business to local communities and population, and for integrating moral with strategic aspirations of firms. It is a framework for how businesses should function in society, a strategic approach for how businesses should address social, economic and environmental issues in ways that benefit people, communities and societies.<sup>23</sup> CSR is a multidimensional strategy varying from voluntary programmes to partnerships (with other stakeholders), and environmentally conducive production methods.<sup>24</sup> Where professionally undertaken, CSRs and their implementation represent tools for promoting community development, sharing the benefits (profits) of business with the local population, minimising the negative impacts of business activities (e.g. mining and oil and gas exploration on local environment) and complementing government’s efforts to provide social infrastructures. Where and when businesses fail to contribute to community development or when their activities are conflict-insensitive towards local communities, it can contribute to conflicts.

There is a near consensus among policymakers, analysts and commentators on Pakistan regarding the parallel between poverty (unemployment, lack of economic opportunities) and militancy and armed conflict. The ability of business to promote community development and generate employment opportunities generally, and for local inhabitants in their areas of operation in particular, is potentially a conflict-prevention tool in Pakistan. However, a majority of businesses in Pakistan are failing in this regard, thereby inadvertently contributing to armed conflicts and insecurity in various degrees. This reflects the weak regulatory framework for businesses in

23 ISO 2010 cited in Sustainable Development Policy Institute (SDPI) (2013). *Peaceful Economies: The Private Sector’s Role in Mitigating Conflicts in Pakistan*. Islamabad. p.22.

24 Nolan and Phillips (2010) cited in Ibid. p.23.



Pakistan; there is no coherent government policy or functional regulation of businesses' relations (and responsibility) with local communities. According to one respondent:

*"...it needs to be mentioned that there is no regulation for CSR in Pakistan; in 2009, a regulation was drafted voluntarily by businesses, and since then nothing much has been pursued. In 2012, the Securities and Exchange Commission of Pakistan called a round table conference to finalise a CSR framework, but deliberations from these meetings are yet to be disclosed."*<sup>25</sup>

Another respondent noted:

*"...there are MNCs [multinational companies] in many parts of Pakistan that adhere to international standards of CSR and can potentially contribute to addressing the drivers of conflict; however, most of the companies in Pakistan do not have proper CSR policies; they usually outsource such activities to some independent consultant and there is no large scale approach to CSR or conflict reduction by the business community in Pakistan."*<sup>26</sup>

Against the background of weak regulatory systems for CSR, a majority of interventions by businesses in local communities are reactive, rather than proactive to addressing community needs; there is no accountability in the use of CSR funds, which is thus prone to corruption and strengthening of armed groups; and such interventions are too ad hoc in nature as they are focused on philanthropy (e.g. providing assistance and disaster-relief items), rather than an integrated conflict-sensitive approach to supporting community development. This results in businesses being insensitive to conflict and the needs of local communities. There are substantial examples of businesses in Pakistan failing to employ substantial local populations or failing to provide requisite skills training for the local population to enable them to compete for jobs in local industries.

For instance, despite the existence of multi-billion dollars' worth of energy resource endowments and industries in the *Daharki* community (Sindh), the local population make up less than 10.0% of the active labour force in the city, and are mostly engaged in menial jobs; the skilled labour in the city generally come from other (distant) communities. This prevents the local population from benefiting from local resources and contributes to tensions between locals and non-locals.

In the *Lyari* area in Karachi (close to the SITE industrial area), businesses have failed to support community development or implement effective CSR strategies that uplift the socio-economic and environmental conditions of local communities; for example, a small proportion of people from *Lyari* are employed in the nearby SITE complex, and their employment is largely poorly paid (daily wages) and low skilled. This has resulted in feelings of alienation by the *Lyari* community, resulting in tensions and an increase in criminal activities.<sup>27</sup> Similarly, in Ghotki district (Sindh), despite being the largest energy hub in Pakistan and with over 40 years of extractive industry activities, the area was only recently (2012) provided with a technical skills training facility to equip locals with the skills needed to compete for jobs in the district. Other examples include resource-rich areas of Baluchistan where *Bugti* and *Dadu* communities barely benefit (through employment opportunities and the provision of social amenities).

#### 2.4.2 Advocacy and lobbying for their benefits

In certain instances, businesses contribute to tensions, armed conflict and insecurity in Pakistan by compromising extant national laws and international standards relating to labour practices,

<sup>25</sup> SDPI (2013). Op cit. p.46.

<sup>26</sup> Ibid. p.52.

<sup>27</sup> Ibid. p.61.



environmental protection, community engagements and unsustainable business models. In a majority of cases, some businesses in Pakistan use a two-pronged strategy; at the macro level, they use personal, socio-ethnic, political and religious networks to penetrate government agencies and officials to get laws changed or amended to legalise (previously banned) certain practices. At the micro level, they contribute to the circumvention of regulatory oversights on practices detrimental to staff and host communities. According to a respondent:

*“...sometimes on a much larger scale, MNCs and large businesses having influence even get the law re-tailored to their own interests, so that they are not branded as law violators while they continue enjoying their profits regardless of the destruction they are causing to the environment and the community at large.”<sup>28</sup>*

The strong connections between businesses and political elites in Pakistan often mean it is difficult for government agencies and officials to exercise oversight functions over their activities. For instance, there are reported cases of compromising the provisions of the Environmental Protection Act (specifically the requirement for environmental impact assessments before the onset of a road construction project). In addition, in some of the construction firms in Karachi, there are reported instances of continued excavation of crushed stones along the Malir riverbed, despite an official ban due to health hazards to workers and communities around the area.

Similarly, although the Khithar National Park located along the superhighway from Karachi to Hyderabad is an environmentally protected area and prohibited for exploration activities, a company with strong links to the government was able to get the law amended to operate in the area. There are also frequent factory fires in Karachi, with workers dying or sustaining injuries due to poor fire-exit facilities and overall safety standards; moreover, in a majority of tanneries in Kasur district (Punjab), there are poor safety practices, with workers rarely provided with hand gloves and protective clothing and thus being constantly exposed to hazardous chemicals. In all cases, local officials are bribed with monetary and other material payments. Given that host communities are often at the receiving end of unethical practices by businesses, the relationship between host communities and business and government is often marked by mistrust, tensions, resistance and confrontation. One respondent noted that business gets involved in conflict in Pakistan “when they do not comply with accepted norms and rules”.<sup>29</sup>

### 2.4.3 Patronage of local power brokers, including armed groups and militias

Some businesses in Pakistan wittingly or unwittingly contribute to armed conflict through their engagements with local power elites, ethno-religious groups, and gangs and armed groups. In a majority of cases, businesses negotiate and pay royalties to tribal elders and leaders in areas of operations. However, the internal dynamic of host communities – especially the hierarchical structures (age-based right system) and the failure of tribal elders to distribute fairly the proceeds from royalty payments, thereby causing disaffection in the communities – has seen new power blocs emerge in most host communities. The new power blocs tend to be populated by youth, are armed and have the capacity to disrupt business operations in and around their communities. Against the backdrop of widespread security challenges for the Pakistani security forces (already over-stretched) and the difficulty of guaranteeing uninterrupted business operations through official, state channels (deployment of police and the army), most businesses are forced to engage and negotiate with groups capable of disrupting their operations. Whether subsisting or newly emerging, businesses are forced to patronise these new groups in the form of paying ‘bhatta’<sup>30</sup> (rent-seeking). Indeed, bhatta culture and bhatta mafias are common factors in Pakistan’s business environment.

<sup>28</sup> Ibid. p.45.

<sup>29</sup> Ibid. p.51.

<sup>30</sup> Ibid. p.65.

In other instances, businesses pursue counterproductive quasi-CSR practices, specifically philanthropic donations and outright payments to ethno-religious groups (including armed groups), as a form of short-term profit-maximisation strategy. A majority of businesses working in the extractive industry in Baluchistan are reported to actively patronise influential individuals and groups (including armed groups) in the area. Another observer noted that in Baluchistan and Sindh:

*“...businesses often bribe local influential persons, such as wadera (landlord) or sardar (tribal leader) and groups, on a monthly commission and employ their people in order to continue their operations without any hindrances from the local population.”<sup>31</sup>*

In Karachi, there are cases of businesses deliberately courting and favouring (through contributions in cash and kind) certain ethno-religious and political groups and power lords that are thought to have the capacity for violence, before and during the commencement of operations. Crucially, certain businesses wrongly justify and include this, and token relief assistance items during natural disasters, as evidence of investments in communities (CSR). While such acts may suppress potential conflicts arising from lack of employment of locals, they actually distort the employment dynamic, with only those connected to local power brokers benefiting from businesses. They also reinforce local power asymmetries, especially strengthening armed groups and local power brokers, rather than communities as a whole. In addition, such acts reduce the scope of communities, broadly defined, to be able to protest against the environmental impacts of business operations in their area. One respondent noted that:

*“...business[es] do contribute in cash or kind, and people sometimes become so enchanted by these contributions that they fail to recognize the harm that certain business practices might be causing to the environment and to the society at large.”<sup>32</sup>*

#### 2.4.4 Investment and conflicts over natural resources

The operations of businesses in Pakistan are often caught in the web of subsisting contestations and conflicts over the ownership and control of natural resources between local communities and government. This is rampant in areas where extractive industries operate, such as Baluchistan and the FATA. The armed conflict in Baluchistan coincided with the commencement of large-scale oil and gas exploration activities. In Pakistan, local communities protest, resist and disrupt (through armed attacks) mining and oil and gas exploration activities. The protests and ensuing armed conflicts by local communities are often underpinned by: social justice issues (relating to equitable distribution of the revenues and overall benefits accruing from exploration of natural resources); protests against environmental degradation; and political demands (for autonomy or independence). For instance, according to Pakistan’s 18th Amendment, royalties from resource-rich areas were paid to the provincial governments, and a majority of this money goes to provincial cities, with only small portions going to rural communities and populations who are directly affected by exploration activities. Moreover, Baluchistan is still owed substantial royalty payments by the central government from proceeds of gas exploration. In such circumstances, business contributes to armed conflict through poor environmental standards, or top-down investment patterns (relying on government concession agreements and licensing of operations, and the use of security forces to clamp down on protests), or simply being caught in the web of mistrust and disputes between local communities and government.

#### 2.4.5 Colossal size of informal and illegal economy

The potential and actual contribution of business to armed conflicts and insecurity in Pakistan is also rooted in the overall structure of Pakistan’s economy, specifically the significant size of the

<sup>31</sup> Ibid. p.52.

<sup>32</sup> Ibid. p.58.

private sector (estimated at between 60.0% and 70.0% of the economy). For a start, there are private sector businesses and activities that are illegal or involved in illicit business that fuel armed conflict and insecurity, such as smuggling activities, money laundering, violations of international sanctions (e.g. conducting business transactions with or on behalf of banned armed groups in Pakistan and Afghanistan) and unrecorded cross-border trading activities. A majority of small and medium-sized companies dominate the informal economy.

Moreover, while the activities of large companies are often under public scrutiny, very little is known about the activities of small and medium-sized firms and their impacts on the conflict and security landscape of Pakistan. A cross-section of respondents noted that, while large businesses, often with global business networks and reputation, tend to contribute to armed conflict and insecurity in Pakistan due to systemic failures (conflict-insensitive CSR and community development projects) as opposed to deliberate intentions, the same cannot be said of small and medium-sized companies. The smaller firms operate locally, and are closely aligned to the ethno-political and religious dynamic of Pakistan – often owned by or strongly linked to ethno-religious and political elites, and with strong influence on national and provincial governments and power brokers. All of these factors predispose them to influence conflict dynamics in major ways (even more so than large businesses). As such, small and medium-sized companies are allegedly implicated in the bribing of local (provincial) governmental officials as well as the patronage of armed groups, ethno-religious elites and groups, and criminal gangs in Pakistan.

## 2.5 How conflicts and insecurity affect business

The activities of businesses are not immune from the effects of armed conflict and other security-related challenges in Pakistan. In Pakistan, just as in most developing countries with similar security challenges, the impacts on business are conceptually and empirically negative. Nonetheless, there are instances of certain businesses benefiting from the breakdown of law and order in Pakistan. In this section, we outline five ways in which armed conflict and insecurity affects business in Pakistan.

### 2.5.1 Poor investment climate and lost investment

Pakistan's impressive economic performance and the gains recorded at the turn of the century, marked by significant economic growth, low unemployment, low budget deficit and increased foreign direct investment, were gradually reversed with the onset of armed conflict in Afghanistan and its spillover into Pakistan's borderland tribal areas and major cities, which began in 2003. As a result, Pakistan's investment-friendly climate was reversed to an 'investment-harsh' environment; companies suffered financial (investment) losses as opposed to profits; potential new investments and the number of active businesses declined rather than increased; and the rate of new foreign direct investments declined.

According to Pakistan's Economic Survey 2011, armed conflict and insecurity is estimated to have cost US\$67.9 billion since 2001; this includes annual estimates of US\$2.67 billion in 2001/2, US\$3.4 billion in 2004/5, US\$6.94 billion in 2007/8 and US\$17.83 billion in 2010/11 (see Table 5). The breakdown of the costs reveals that exports, tax receipts, damage to physical infrastructure, industrial output and foreign direct investment are worst affected (see Table 6). Armed conflicts and insecurity in Pakistan has meant that, despite huge investment opportunities in places such as Karachi, Peshawar, Baluchistan and Sindh, there is a general perception among foreign and, more worryingly, local investors that the security and profitability of investments cannot be guaranteed by the government; that business activities would be subjected to disruption and extortions (by local power brokers and armed groups); and that key socio-economic infrastructures necessary to support business activities either have been destroyed or are simply unavailable.<sup>33</sup>

33 Ibid. p.62.

Table 5: Cost of war (2001–2011)

Years	Billion (US\$)	Billion (PKR)	% change
2001/02	2.669	163.9	-
2002/03	2.749	160.8	3.0
2003/04	2.932	168.8	6.7
2004/05	3.410	202.4	16.3
2005/06	3.986	238.6	16.9
2006/07	4.670	283.2	17.2
2007/08	6.940	434.1	48.6
2008/09	9.180	720.6	32.2
2009/10	13.560	1,136.4	47.7
2010/11*	17.83	1,528.0	31.5
<b>Total</b>	<b>67.926</b>	<b>5,036.8</b>	

\* Estimated on the basis of eight-month actual data.

Source: Ministry of Finance, Ministry of Foreign Affairs Joint Ministerial Group

Table 6: Cost of war estimates in 2001/02 and 2010/11 (US\$ billion)

	2001/02	2010/11 (estimate)
Compensation to affected	0.00	0.80
Cost of uncertainty	0.10	2.90
Expenditure over run	0.11	1.60
Exports	1.40	2.90
Foreign investment	0.15	2.10
Industrial output	0.11	1.70
Others	0.10	0.90
Physical infrastructure	0.00	1.72
Privatisation	0.50	1.10
Tax collection	0.25	2.10
<b>Total</b>	<b>2.72</b>	<b>17.82</b>

Source: Ministry of Finance, Government of Pakistan

A major extractive industry company is reported to have delayed commencing operations in Baluchistan for six years because of unfavourable security assessments.<sup>34</sup> While it is possible that sensationalised media reports could amplify (or exaggerate) the nature and scale of security challenges for businesses in Pakistan, the reality suggests that Pakistan's competitiveness in the global arena is hampered by its internal security challenges. The scale of the problem is also reflected in Pakistan's continuously poor ratings in the Business Confidence Index (BCI) for 2012; according to Pakistan's Overseas Investors' Chamber of Commerce and Industry, Pakistan's BCI fell by 10 percentage points to -34.0% (from previous -24.0%), and capital investment plans for the second half of 2012 fell from 69.0% to 55.0% with no planned increase in employment levels, all of which was due to the worsening security, inflation and energy shortages.<sup>35</sup>

<sup>34</sup> Responsible Business Initiative (RBI) (2013). *Business as a Bridge to Peacebuilding: Voices from Pakistan*. Pakistan: RBI. p.60.

<sup>35</sup> Ibid. p.7.

## 2.5.2 Upsurge in operating costs

A direct impact of armed conflict on businesses in Pakistan is the increase in overall operating costs and, more specifically, security expenditure by companies. This takes several forms, including companies having to pay wages and salaries to workers when production activities are disrupted; the destruction of business facilities (plants and infrastructures, especially in the oil and gas sector in KPK and Baluchistan) either from direct targeting by armed groups or in the crossfire between the army and armed groups; higher business insurance rates; and businesses having to set up or hire security firms to protect their facilities and value chains. The poor security situation and repeated disruption of production also affects management–labour relations with disputes over pay, retrenchments and overall working conditions (see Table 7 for sectoral breakdown of impact).

On security costs for instance, MNCs working in the extractive sector undertake extensive security assessments before and periodically during the course of production, in addition to setting up huge security departments (usually headed by retired military officers) and developing costly security protocols and trainings for staff and management. A majority of medium- and large-scale companies in Pakistan have had to invest in security-related infrastructure, including surveillance technologies (such as closed circuit television cameras – CCTV), scanners, bomb detectors, alarm systems, and protected gates and walls. The Fauji Fertilizer Company (FFC), for instance, reported that security costs accounted for between 30.0% and 35.0% of its operating budget.<sup>36</sup> The upsurge in business costs in Pakistan is underscored by the country's poor ratings – Pakistan is ranked at 141 (out of a total 142) in the business cost of terrorism survey, and at 128 in the business cost of crime for 2012.<sup>37</sup>

**Table 7: Sectoral breakdown of impact of conflict and insecurity on businesses in Pakistan**

Sectors	Conflict	Impact	Affected	Response
Automobile	<ul style="list-style-type: none"> <li>•Unrest and protests</li> <li>•Crime</li> <li>•Workforce diversity</li> </ul>	<ul style="list-style-type: none"> <li>•Security cost</li> <li>•High turnover</li> </ul>	<ul style="list-style-type: none"> <li>•Labour</li> <li>•Local businesses</li> </ul>	<ul style="list-style-type: none"> <li>•Community-based security options</li> </ul>
Banking	<ul style="list-style-type: none"> <li>•High security risk</li> <li>•Uncertain investment</li> <li>•Political influence for loans</li> </ul>	<ul style="list-style-type: none"> <li>•Lower inflow of investment; higher outflow of savings</li> </ul>	<ul style="list-style-type: none"> <li>•Employees</li> <li>•Customers</li> </ul>	<ul style="list-style-type: none"> <li>•Follow strict security policy by enforcing controls</li> <li>•Special training and contracts for locals</li> </ul>
Hospitality	<ul style="list-style-type: none"> <li>•Militancy</li> <li>•Staff attrition</li> <li>•Travel restrictions</li> </ul>	<ul style="list-style-type: none"> <li>•Local businesses</li> <li>•Labour</li> <li>•Low client turnout</li> </ul>	<ul style="list-style-type: none"> <li>•Infrastructure loss</li> <li>•Unemployment</li> <li>•Loss of revenue</li> </ul>	<ul style="list-style-type: none"> <li>•Security perception</li> <li>•Local business support</li> <li>•Culture promotion</li> </ul>
Oil and gas	<ul style="list-style-type: none"> <li>•Exploitation and unequal resource distribution</li> <li>•Unrest, strikes and protests</li> </ul>	<ul style="list-style-type: none"> <li>•Investment hurdles</li> <li>•Higher business costs</li> </ul>	<ul style="list-style-type: none"> <li>•Labour</li> <li>•Industry owner</li> </ul>	<ul style="list-style-type: none"> <li>•Government initiatives to counter regional disparity</li> <li>•Community development</li> </ul>
Telecommunications and IT	<ul style="list-style-type: none"> <li>•Sabotage linked to militancy</li> <li>•Tough environmental regulatory regime</li> </ul>	<ul style="list-style-type: none"> <li>•Decline in retail trade</li> <li>•Reputational risk</li> </ul>	<ul style="list-style-type: none"> <li>•Consumers</li> <li>•Brands</li> <li>•Employees</li> </ul>	<ul style="list-style-type: none"> <li>•Alternative technology investment</li> <li>•Environmental compliance</li> </ul>
Textiles	<ul style="list-style-type: none"> <li>•Labour conditions</li> <li>•Energy crisis</li> <li>•Weak export policy</li> <li>•Strikes and protests</li> </ul>	<ul style="list-style-type: none"> <li>•Loss of revenue</li> <li>•Unemployment</li> <li>•Social unrest</li> </ul>	<ul style="list-style-type: none"> <li>•Local communities</li> <li>•Suppliers</li> </ul>	<ul style="list-style-type: none"> <li>•Lobbying for uninterrupted fuel supply</li> <li>•Revise exporting policy</li> </ul>

Source: RBI (2013). *Business as a Bridge to Peacebuilding: Voices from Pakistan*. Pakistan: RBI.

<sup>36</sup> Ibid. p.35.

<sup>37</sup> SDPI (2013). *Op. cit.* p.83.

### 2.5.3 Disrupted business activities

Disruptions of normal business activities affect levels of productivity and industrial outputs in Pakistan. While some businesses are resilient and continue to operate, despite the security challenges, some have either relocated (to other cities or countries) or ceased trading in Pakistan. For instance, the escalation of armed conflict in the FATA has led to the exit of high numbers of businesses from the region – in Gadoonamezai Industrial site in Bajaur Agency, the number of functional businesses decreased from 400 in 1992 to 40 in 2012.<sup>38</sup> Similarly, the number of knitwear units exporting products from Pakistan declined by 29.0% (from 1,183 units in 2005 to 840 units in 2009).<sup>39</sup> Aside from the upsurge in business costs, normal business activities are frequently disrupted due to one or more factors such as energy shortages, strikes, high turnovers in workforce, security operations by the army and police, and interruptions in supply chains. Industrial strikes and management–workers clashes alone are estimated to cost business US\$1 billion per annum in Pakistan.<sup>40</sup>

The combination of these challenges has seen companies, especially textile firms, relocate from Pakistan, with Bangladesh, China and India overtaking Pakistan as lead countries in the textile sector. One respondent noted that virtually all types and sizes of businesses in Pakistan experience disruptions to their activities through the unsettling of one or more of the supply chain, distribution channels, workers' access to plants, access to markets and management control processes. For instance, gas supply to 750 industries in Faisalabad was suspended for four days early in 2013 due to the load management by Sui Northern Gas Pipelines Limited (whose facilities are often targeted by armed groups).<sup>41</sup>

The telecommunications sector suffers from periodic disruption of its activities either because of mobile telephone networks being blocked by security agencies (during security operations in particular areas) or their infrastructures (telephone masts) being attacked by armed groups or destroyed in crossfire between the army and militias.<sup>42</sup> Telecommunications firms incur substantial losses from this; for example, over a two-month period in 2012, mobile telephone services were blocked six times in different cities, resulting in losses estimated at over PKR 1 billion (US\$10.2 million) and disrupted revenue forecast.<sup>43</sup>

### 2.5.4 Decline in business because of conflicts and insecurity

The overall negative impact of armed conflict and insecurity on Pakistan's economy has implications for business in the form of poor economic growth, higher unemployment, inflation and weak demands. Until the onset and escalation of armed conflict and widespread insecurity in Pakistan in 2007, the economy grew at an impressive annual rate of 6.0% between 2000 and 2007, and this coincided with equally good macroeconomic stability and industrial outputs. For example, budget deficit averaged 1.5% of GDP; domestic demand and investment outpaced consumption; and trade surplus, low food prices, good job growth rates and an expanding middle class made Pakistan a high-mean, low-variance economy.<sup>44</sup> Pakistan's poor macroeconomic performance has paralleled increased insecurity especially since 2008, and business investment, outputs and contributions to the economy have either decreased or mutated. The outbreak of armed conflict and counter-measures (e.g. counter-insurgency operations) serves to increase the socio-economic vulnerability of citizens and society as a whole as security-related spending consumes a disproportionate share of government expenditure and tax receipts (from company profits) decline

38 Ibid. p.80.

39 RBI (2013). Op. cit. p.49.

40 Ibid. p.49.

41 Ibid. p.31.

42 SDPI (2013). Op. cit. p.80.

43 RBI (2013). Op. cit. p.57.

44 Ibid. p.7.

in Pakistan. For example, the frequent imposition of curfews and state of emergency, search operations and military operations in KPK (FATA), Baluchistan, Karachi, etc. have occasioned the closure of markets, restrictions on movement and suspensions of telecommunication services. Thus, a vicious cycle of vulnerability and weak demand for businesses in Pakistan is produced by the combination of armed conflict and security challenges, poor macroeconomic performance (large budget deficits, unemployment and inflation) and business performance (investments, outputs and contributions to the economy).

### 2.5.5 Increase in security business

Pakistan's security challenges and the over-stretching of existing security agencies and personnel (due to widespread insecurity and deployments in multiple locations) have created increasing demand for private security services. This particular type of business has grown in Pakistan since 2008 to the extent that there are more than 300 registered private security outfits (members of the All Pakistan Security Agencies Association), with an estimated labour force of 300,000 persons (the same size as Pakistan's paramilitary forces). The security services rendered include gatepost services, screening and general guard services for residential and business facilities, closed circuit surveillance, security training and drills, and development of security protocols and policies for businesses. Conversely, the increase in the demand for and use of private security services by businesses has meant increased security costs and an overall rise in operating costs that are transferred to consumers as price increases.



### 3. Responding to the business–conflict nexus: business and peacebuilding in Pakistan

#### 3.1 Business interest and capacity for peacebuilding

Since the end of the Cold War and the intensification of global economic production, there has been an increasing acknowledgement in research, policy and practice that business is an important agent of socio-economic change and peacebuilding in general. Businesses recognise the symbiosis between promoting a stable environment and profit maximisation, and the strong connection between their actions and inactions and the maintenance of stable socio-economic orders. Business action that promotes social harmony creates a strategic advantage that comes from market stability and prosperity; business social responsibility is integral to profit-making. This has been expressed in international, regional and national policy processes (such as the UN Global Compact and the Responsible Business Framework), on the one hand, and a reciprocal recognition and attempt to develop pro-peace policy frameworks and management systems within the business sector, on the other. Pakistan exemplifies this trend in important ways, such as through developing and realigning its CSR strategies to community needs and issues linked to drivers of conflict and insecurity; improving business practices and quality through international standards certification (ISO); developing business–community relations units; improving business sector coordination through chambers of commerce and other business ensembles; and developing partnerships with government and civil society groups (including religious groups) to coordinate activities and deliver social services.

Alert’s research indicates that business in Pakistan has a strong interest in undertaking charitable activities (which they wrongly equate with peacebuilding) for a variety of reasons. First, an estimated 52.0% of publicly listed companies and businesses in Pakistan practise some form of corporate philanthropy that suggests subsisting foundations and ongoing potential pro-peace activities. Second, given the ethno-religious foundations of Pakistan (as a Muslim-dominated country), there are strong Islamic influences, linked to charitable donations and obligatory alms giving (*Zakat*). Third, businesses are direct stakeholders in community problems, sometimes preventing or implicated in (caught in the web) situations of conflict and insecurity. Fourth, conflict mitigation is increasingly a strategic goal for most businesses in Pakistan because the deterioration in Pakistan’s security situation since 2007 has affected the activities of businesses more than before. During focus group sessions with diaspora communities, there was general interest and inclination to contribute to initiatives that will reduce armed conflict and insecurity in Pakistan through investment in skills training and education, economic development, inter-group (inter-faith) dialogue and reconciliation, and provision of social amenities. One diaspora business respondent noted that:

*“...[the] only way to build lasting peace and tolerance should be across the board. We come across racism here [UK] but then have factions back in Pakistan. It doesn’t make anyone better than the other, it is about what you do constructively.”<sup>45</sup>*

Another respondent affirmed that:

*“...charity begins at home, if we do not help our communities first, there will be no confidence and trust in us. We have to first look at our own community and then the circle widens... however, the government and its policies have not been very supportive.”<sup>46</sup>*

<sup>45</sup> N. Buksh (2013). *Business as an Agent for Peace in Pakistan: Role of British Pakistani Business Diaspora*. London: International Alert. p.20.

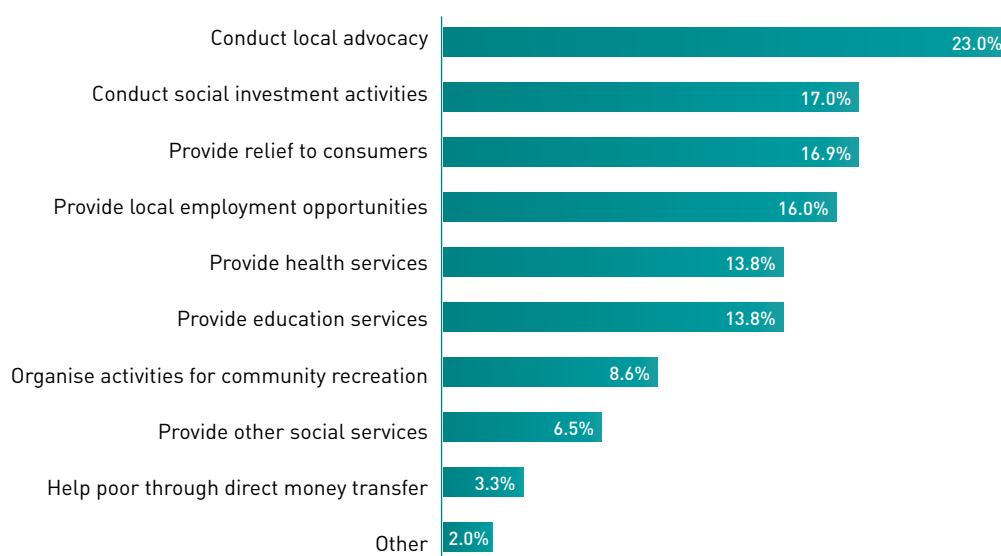
<sup>46</sup> Ibid.



While it is questionable the extent to which business interest in peacebuilding matches the reality of their activities, or is coherently formulated, coordinated and aligned in conflict-sensitive ways, or translates into intended impacts, the existence of business interest in alleviating the drivers of conflict does not seem to be in doubt.

The interest of business in peacebuilding in Pakistan parallels strong public expectations of and demands for business to contribute to resolving underlying socio-economic issues linked to armed conflict and insecurity across Pakistan. According to a survey of 800 respondents, including civil society groups, media, community leaders, religious heads and citizens across Pakistan, the topmost business activities that they believe can help prevent armed conflict are conducting local advocacy (23.0%), social investment activities (17.0%), provision of relief to consumers and citizens, for example, during natural disasters (16.9%), provision of employment opportunities in their areas of operation (16.0%), provision of health services (13.8%) and provision of educational services (13.8%) (see Figure 2).

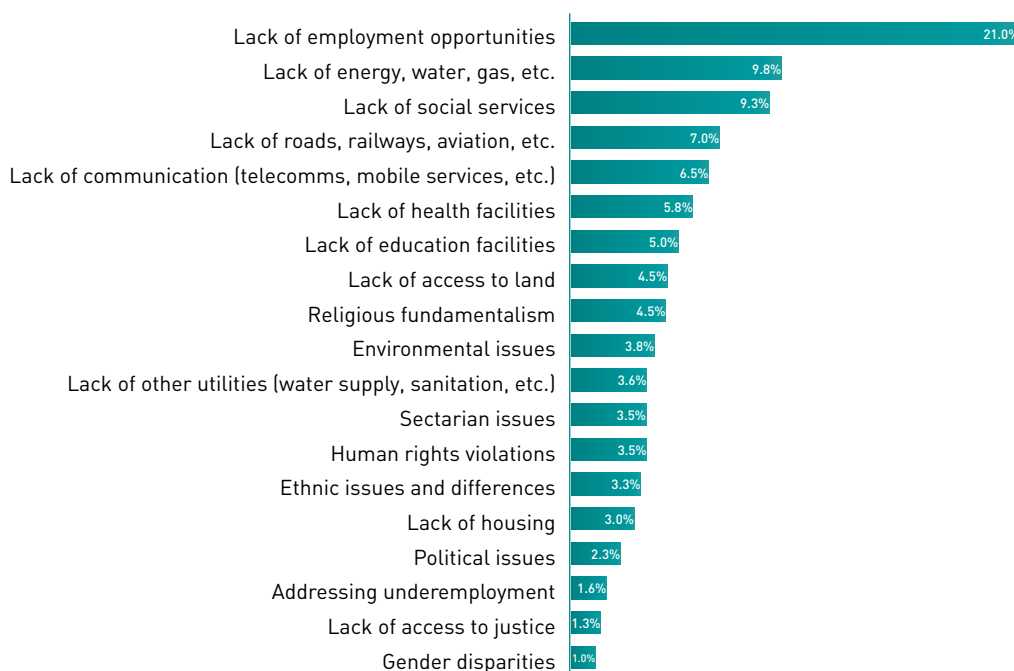
**Figure 2: Desirable business activities that can help prevent conflicts**



Source: SDPI (2013). *Peaceful Economies: The Private Sector's Role in Mitigating Conflicts in Pakistan*. p.40.

A second survey designed to identify specific socio-economic issues and activities (linked to conflict and insecurity) where business is already or potentially able to play decisive roles in Pakistan also picked out the lack of employment (21.0%), lack of energy, water and gas (9.8%), and lack of social services (9.3%) (see Figure 3). Respondents identified these three as the topmost challenges confronting Pakistan's government and society and as areas where business could contribute the most and help make a difference. The role of business in these issues is twofold: first, directly contributing to or providing solutions (through investments, expansion, innovation and new technologies, trainings and capacity building); and, second, influencing government (public) policies and programmes on those issues. The presumption here is that the resolution of these challenges will reduce the scale and scope of armed conflict and insecurity in Pakistan.

Figure 3: Areas where business can help



Source: SDPI (2013). Op. cit. p.35.

### 3.2 Business activities/initiatives on peacebuilding

Beyond public expectations, it is important to examine business pro-peace policies, strategies and activities in Pakistan. This is done at two levels: at the sectoral (business sector) and the individual company levels.

#### Business sector level

The business sector, through chambers of commerce, trade associations and other groupings at national and provincial levels, promotes peacebuilding in two ways: first, through policy formulation and coordination; and, second, through collaboration and coordination of activities among companies and partnerships with government and civil society groups.

Over the past decade, chambers of commerce and business associations have initiated policy development and adoption processes among their members in the area of developing and updating CSR strategies, adopting national and international standards and certification for business activities (products and services), generating research and position papers on aspects of business and their impacts in Pakistan, and providing assistance and guidance for businesses on security procedures and cooperation. It is in the area of CSR guidance and development that business groupings appear to be most active in Pakistan. Since 2009, the discourse and practice of CSR has been growing within and outside the business sector in Pakistan. Businesses are reframing their community-related engagement and activities into a coherent strategy that aligns organisational goals with community needs; improving their ability to make strategic choices (especially factoring social responsibility obligations into business models and planning); and recognising the need to better adapt company policies and practices to the socio-economic and political realities of their operating environment. Companies that are members of chambers of commerce at provincial or national levels profess awareness of and interest in CSR approaches that mitigate armed conflict and insecurity. There are virtually no medium- to large-scale companies without some form of CSR, involved directly or indirectly in some conflict-mitigation activities through community-related activities (even if perceived as corporate philanthropy).

Second, business groupings promote partnerships through collaboration and coordination of activities among companies and generating sectoral agenda and position papers (e.g. leading to sub-sectoral groupings such as in telecommunications, textile, manufacturing, mining and oil and gas, banking, etc.), and partnerships with government and civil society groups. For instance, the Citizens-Police Liaison Committee (CPLC) in Karachi was established in 1989 through the efforts of the Karachi Chamber of Commerce as a mechanism for coordinating and improving the security situation in Karachi. The CPLC has been replicated in major cities across Pakistan with partnerships between private, public and civil society stakeholders. It involves businesses working with government (security agencies) and community groups to conduct crime analysis, investigation of kidnappings, recording (database) of stolen vehicles, geographic information systems for spatial crime, crime and security hotlines, computerised identity kits for developing sketches of wanted criminals, and providing security information and advice to people and businesses on a real-time basis. It is also a mechanism for motivating citizens and citizens groups to participate in policing. Another example is the Punjab Vocational Training Council, which was established as a partnership arrangement between the Punjabi government and business groups (Islamabad Chamber of Commerce) to alleviate poverty (and underlying deprivation that predisposes young people to radicalisation and membership of jihadi and criminal networks) through providing youth with skills training and education by harnessing Muslim charity (*Zakat*) and private sector donations.

Overall, while the nature, scope, targets and impact of CSR strategies and programmes differ across companies and provinces, the language and discourse of as well as interest in CSR have grown as a response to public expectation and demands, and the deterioration of security in Pakistan over the past five years. Below are illustrative examples of the activities of business groupings.

- *Federation of Pakistan Chamber of Commerce and Industry (FPCCI)*  
This is the largest representative body for business in Pakistan and embodies the collective perspectives and aspirations of the private sector. The FPCCI also provides specialist advice, technical assistance and policy options to the government of Pakistan on ways to promote exports, encourage foreign investment and stimulate economic activity in the country. In addressing the cross-cutting challenges of armed conflict and insecurity in Pakistan, the FPCCI has collaborated with government institutions and civil society stakeholders to create the Justice and Development Forum for resolving conflicts and disputes. Over the past five years, the FPCCI has consistently advocated for regional and sectoral business strategies for conflict mitigation and peacebuilding (that are independently implemented by individual businesses under the supervision of the FPCCI and government), as part of a coherent national peacebuilding initiative.
- *Securities and Exchange Commission of Pakistan (SECP)*  
The SECP is the regulatory body for businesses in Pakistan, and it works to promote conflict prevention and resolution as well as peacebuilding in three ways: through CSR, corporate governance, and mediation and alternative dispute resolution (ADR). First, the SECP is developing a voluntary guideline for listed companies to codify, institutionalise and standardise the content and practice of CSR. The CSR guideline is being framed around themes relevant to conflict and insecurity in Pakistan, including skills training and development, health and education, risk management, anti-corruption, youth development, disaster management, infrastructure development, human rights and transparency. The SECP CSR framework aims to integrate CSR with corporate governance. Second, the SECP is seeking to improve the structures and processes of corporate governance in Pakistan through a revision of the Code of Corporate Conduct. The revised code (*Corporate Social Responsibility Voluntary Guidelines 2012*) includes new guidance on risk assessment and risk management, and on the composition, qualification and powers of Chief Executive/Chairperson and Boards of listed companies in Pakistan. The third approach focuses on mediation, and the SECP initiative is designed to improve awareness and use of ADR in Pakistan, especially in commercial disputes. This is against the backdrop of extreme slowness and the inefficient justice system in Pakistan, with courts over-burdened by the high volume of cases. The SECP signed a Memorandum

of Understanding with the Karachi Centre for Dispute Resolution to develop templates and structures for ADRs in Pakistan. The SECP is proposing that businesses and other stakeholders in the country try mediation before going to courts, given that this will accelerate justice mechanisms, thereby improving investors' confidence and leading to a healthier business environment in the country. Consequently, improvements in the economic environment are expected to boost (higher) economic growth.

- *Overseas Investors Chamber of Commerce and Industry (OICCI)*

The OICCI works to promote foreign investment in Pakistan and faces the challenge of convincing and attracting investment into the country against ongoing security concerns. The OICCI promotes peacebuilding in Pakistan by working (advising and influencing) with government at strategic policy levels to improve peace in the country. It works with foreign embassies and media agencies to communicate a more holistic view of Pakistan, highlighting positive developments and countering media stereotypes. The OICCI also regularly advises businesses on security situations and works with private security providers, law-enforcement agencies and various branches of the CPLC to review and offer options on security situations across Pakistan.

- *Islamabad Chamber of Commerce and Industry (ICCI)*

The ICCI developed a strategy on youth development and employment and social entrepreneurship. By working with the Centre for International Private Enterprise (CIPE) Pakistan, the ICCI set up an Entrepreneurship Development Centre to enable educated and jobless people to develop employable skills and to reduce recruitment into criminal and extremist activities by providing them with alternative employment opportunities and activities. Some members of the Islamabad Chamber are also aware that sometimes unfinished education due to financial constraints can lead youth into radicalisation and extremism. Therefore, they have a sponsorship programme where talented and poor students are supported financially to complete their education. This is on a very small scale so far. Barkat Rice Mills (Fazal Steel Limited (FSL) Group) is a good example of this initiative. The ICCI and its members then work with the industry to help these students secure employment. Through the coordinating role of the ICCI, more and more member companies are working on youth employment and training initiatives, such as Rastgar Engineering Company Pvt Limited and Ericsson Pakistan Pvt Limited, Islamabad.

- *Employers Federation of Pakistan (EFP)*

The EFP established the Skills Development Council (SDC) as a public-private partnership designed to provide training and employment to underprivileged and unemployed youth, as well as catering for the skills needs of business in Pakistan. The SDC was pioneered in Peshawar and expanded to Karachi, Lahore, Islamabad and Quetta. The Karachi centre is the biggest and most active, given the city's socio-economic profile. These centres focus on needs-based training of youth and develop employable skills, with the aim of reducing youth's involvement in criminal and extremist activities. According to the Head of the Peshawar Council, businesses helped establish these as a way of not only improving their value chain but also of reducing criminal and extremist activities. Businesses were concerned that, if they did not provide alternative occupation for the youth, then the same youth would create problems in their business activities by becoming part of criminal gangs and extremist outfits.

- *Sarhad Chamber of Commerce and Industry (SCCI)*

This is the most active chamber of commerce in the KPK region, where business seems most affected by armed conflict, insecurity and counter-insurgency operations by the military. The SCCI core activities include running training and capacity-building workshops for its members on labour rights, productivity, skills development, cottage industries, taxation, market access and women's entrepreneurship. These training sessions are organised in partnership with different agencies such as the International Labour Organization, the National Productivity Organization, the SME Business Support Fund and the SDC. The SCCI also actively negotiates preferential policies for businesses (and their employees) operating in the region – tax-related

exemptions and waivers, including a 2012 reduction in income tax and a 50.0% cut in sales tax – against the background of the difficult business climate in the KPK region.

- *Lahore Chamber of Commerce and Industry (LCCI)*

The LCCI is the second largest representative body for business in Pakistan. Given that Lahore borders India, the LCCI works to promote peace and security in border areas with India, and between India and Pakistan. The LCCI runs an Alternative Dispute Resolution Centre to mediate and resolve commercial disputes among companies and between business and local communities. In addition, the LCCI partners with the government of Punjab to establish and fund the activities of the CPLC in the area, such as situational analysis, emergence response awareness, and security adaptation techniques and policies.

This section provides a broad sectoral overview of companies' pro-peace interventions, along with examples of particular companies and their CSR and community development interventions that contribute to creating spaces and atmosphere conducive to conflict prevention and resolution as well as peacebuilding in Pakistan. Sectorally, businesses in Pakistan are involved in a mixture of education and vocational skills training programmes, environment and health improvement initiatives, sports and leisure sponsorship and facility provisioning, and cultural and religious heritage activities.

Of this, education and skills training intervention is the most active area of business intervention largely because of its potential pro-peace benefits, including contributing to reduced unemployment and unemployability of young people, meeting the technical skills and labour needs of businesses, and improving the technical profile and infrastructures of Pakistan's educational institutions. These are thought to contribute to poverty reduction and increased participation of youth in mainstream socio-economic activities and society, thereby reducing the chances of radicalisation and membership of extremist groups and criminal networks in Pakistan. In certain instances, conflict-prone districts are targeted for intervention by businesses; for example, in 2009 business groups partnered with government and civil society groups (World Memon Organization) to establish the Memon Industrial and Technical Institute in Korangi, a conflict-prone district in Karachi. Over the last four years, the institute is estimated to have trained more than 230,000 young people, a majority of whom were from poor, vulnerable families. Similarly, the House of Habib is establishing a university in Gulistan-e-Jauhar, another conflict-sensitive district.<sup>47</sup> The Engro Corp established schools and vocational skills training facilities in Daharki, and it launched initiatives to employ more locals in the company after more than 40 years of neglect.<sup>48</sup> Hinopak Motors in Karachi also established a school and technical training facility at a dilapidated public school building (acquired with permission from the government) in the periphery of its plant to serve the needs of youth in the area who, after finishing from the schools, are either employed by the manufacturer or go on to pursue higher education that is funded by the company.

Environment and health intervention by business is also growing due to at least two considerations: first, for certain businesses and business in general, their operations affect, as well as being affected by, environmental issues; and, second, health-related interventions in local communities contribute to improved welfare and productivity of their workforce.

Following the floods of 2010, the Engro Corporation established a model village to resettle survivors from destroyed communities and also provided employment for its inhabitants.<sup>49</sup> The Bank of Punjab established the 'Kissan Dost Agriculture Finance Scheme' for small farmers to improve farm yields, improve agricultural practices to minimise environmental damage, expand employment opportunities in the agricultural sector (by reducing rural–urban migration by youth) and enhance the contribution of agriculture to Pakistan's economy.<sup>50</sup>

47 SDPI (2013). Op. cit. p.73.

48 Ibid. pp.54, 72.

49 Ibid. p.72.

50 Bank of Punjab: <http://www.bop.com.pk/>

Some companies have provided environment intervention through attaining international certification – e.g. the National Refinery Limited attained the ISO 14001 and Occupational Health and Safety Advisory Services (OHSAS) 18001 certifications for implementing Environmental Management System and Occupational Health and Safety Management Systems.<sup>51</sup> Similarly, the FFC gained the ISO 14000 certification for implementing strategies for reducing damage or injury in and around plant sites, and spending almost PKR 1.13 billion (US\$11.5 million) per annum on health and safety.<sup>52</sup> Crescent Steel and Allied Products Limited (a steel pipe manufacturing and coating company) gained the API monogram of the American Petroleum Institute in 1987, the highest international standard accredited for quality of steel line pipe. It has also maintained its ISO 9001:2000 certification since 1997, and it is the first Pakistani company to have acquired oil and gas industry specifics ISO 9000-2000 Quality Management System certification from API.

In addition, health-related interventions in local communities contribute to improved welfare and productivity of their workforce (members and residents of local communities). For instance, the Mushtag group provide material and financial support to the Sindh Institute of Urology and Transplant, and other smaller medical units in remote areas of Karachi and Sukkur.<sup>53</sup> National Foods organises programmes to increase public awareness about food, including cooking competitions and food festivals; it also provides free advice to communities on primary health issues.<sup>54</sup> The FFC also sponsors health advice and services to underprivileged and deprived communities in and around its plant sites, and sponsors sporting competitions in places such as Rahim Yar Khar and Ghotki, and at the national level.

Below are summaries of the CSR activities of some selected companies that were surveyed as part of the PBPP in Pakistan.

- *Serena Hotels*

Serena Hotels is a leading conglomerate of hotel, leisure and tourism in Pakistan. Given the location of its business in mostly nature-laden areas, it was badly affected by the 2010 floods. Since 2011, it has provided socio-economic assistance to communities in and around places where its businesses are located in the form of employment opportunities for locals, purchase of handicrafts and agricultural produce (vegetables, fruits, etc.) from locals and hiring of local dance troupes. It has also launched environmental initiatives such as a tree-planting in public places to limit the impact of future floods and raise awareness about flood prevention; conservation programmes such as indigenous plant restocking, turtle protection and butterfly breeding; and the promotion of corporate green economy campaign and practices.

- *Shell Pakistan*

Shell Pakistan is one of the most famous companies in the oil and gas sector of Pakistan. Shell Pakistan believes that the way to manage these challenges is through a commitment to the principles of sustainable development. These principles include robust profit generation, value delivery to the customers, environmental protection and management of resources, providing benefits to the communities, providing safety and respect to the people, and working with stakeholders. Shell Pakistan has social investment in four sectors – education, health, environment and heritage. It provides funds to different hospitals, educational institutes, rich heritage sites and other social development programmes – notable among which are Layton Rahmatullah Benevolent Trust (LRBT), The Kidney Centre, Behbud Association, Human Rights Education Programme and The Book Group.<sup>55</sup> Others include free eye camps and medical camps in the northern areas of Pakistan, the Shell road safety programme and the Shell Tameer programme.<sup>56</sup>

51 National Refinery Limited (2005). 'National Refinery Limited', *Economic Review*, Vol. 36, No. 2/3. Available at <http://connection.ebscohost.com/c/articles/18356533/national-refinery-limited>

52 RBI (2013). Op. cit. p.36.

53 SDPI (2013). Op. cit. p.54.

54 National Foods: <http://nfoods.com/contents/nfl-in-the-community/>

55 Shell Pakistan local initiatives: <http://www.shell.com.pk/environment-society/society-tpkg/local-initiatives.html>

56 Shell Pakistan: <http://www.shell.com.pk/>



- *Pakistan State Oil (PSO)*

PSO is a publicly listed company in Pakistan and a lead company in the country's oil market. The corporate citizenship activities include the installation of traffic signals in all the major cities and towns in the country; and provision of scholarships to meritorious and deserving business management and engineering students at prestigious universities in Karachi, Sindh, Islamabad, Baluchistan, Lahore, etc. The company also provides financial and material support to genuine charitable projects like Shaukat Khanam Memorial Trust, The Kidney Centre, Al-Umeed Rehabilitation Society, Family Education Services, Darul Khushnud Centre for Mentally Handicapped, etc.<sup>57</sup>

- *Sui Southern Gas Company (SSGC)*

The company is engaged in the business of transmission and distribution of natural gas besides construction of high-pressure transmission and low-pressure distribution systems, with substantial assets and operations in Baluchistan. Some of SSGC's social responsibility activities include the 2006 establishment of Marie Adelaide Leprosy Centre at Mirpur Khas; the 2006 partnership with non-governmental organisations to clean the beach at Sandspit, Karachi; August 2006 provision of transport buses and coaches to students of the University of Baluchistan; sponsorship of annual Independence Day Karachi-Hyderabad Cycle Race; and ongoing scholarships to students of Lahore University of Management Sciences (LUMS).<sup>58</sup>

- *First Women Bank Limited (FWBL)*

FWBL was incorporated as a scheduled commercial bank in the public sector as a public company limited by shares on 21 November 1989 under Companies Ordinance 1984 and commenced its business on 2 December 1989. Since its inception, the bank has worked for the wellbeing of women, with the mission to become a financially sustainable bank with a specialised focus on promoting economic prosperity and self-reliance in women of urban and rural areas by transforming the status of women from passive beneficiaries of social services to dynamic agents of change. The bank has promoted women's entrepreneurship through computer literacy and business centres for skills enhancement, product development and business management; and provision of micro finance, small and medium enterprise loans, business loans for women, education and personal loans for women, and home financing and car financing for female entrepreneurs.

- *Crescent Steel and Allied Products Limited (CSAPL)*

CSAPL is a steel pipe manufacturing and coating company, with operations near the Sindh Industrial Trading Estate, Nooriabad in the Jamshoro district of Sindh, Pakistan. CSAPL has interventions in education and health sectors in Pakistan. Over the last five years, the company has provided funding to build 13 primary schools and is currently supporting all these schools under the umbrella of The Citizens Foundation (TCF), a not-for-profit organisation designed to provide quality education to Pakistan's neglected low-income urban (*katchi abadis*) and far-flung rural areas. TCF does this through its network of purpose-built and well-managed schools, trained teachers, developed curriculum and an effective system of monitoring and evaluation. More than 126,000 children study in 910 TCF school units all over Pakistan.<sup>59</sup> The company also provides considerable funding to many other educational institutes and hospitals, such as LUMS (COMMECS) and the Aga Khan Hospital.

- *Engro Chemical Pakistan Limited*

Engro Chemical Pakistan Limited is the second largest producer of urea fertiliser in Pakistan, and it is a public limited company listed on the Stock Exchanges of Karachi, Lahore and Islamabad. Engro Chemical's social interventions include providing funds for education to

57 Pakistan State Oil: <http://www.psopk.com>

58 Sui Southern Gas Company: <http://www.ssgc.com.pk>

59 See: <http://www.crescent.com.pk/corporate-social-responsibility/> and <http://www.thecitizensfoundation.org/>

the people of far-flung areas by developing educational institutes in those areas (e.g. Daharki); providing funding and equipment to hospitals; and establishing new specialist units and facilities such as the Oncology Unit at Aga Khan University Hospital, Karachi and Dialysis Centres at Daharki and Mirpur Mathelo.<sup>60</sup>

- *Unilever Pakistan Limited (UPL)*

UPL is one of the largest multinationals operating in the country. UPL's social intervention is focused on improving quality of life through the provision of hygiene, sanitation, access to safe drinking water and basic nutrition, and by enhancing self-esteem. Unilever Foundation is partnering with five leading global organisations – Oxfam, Population Services International (PSI), Save the Children, UNICEF and the World Food Programme – to expand the delivery of life-saving solutions and contribute to systemic and scalable social change.<sup>61</sup>

- *Procter & Gamble Pakistan (P&G)*

P&G started its operations in Pakistan in 1991 and currently has major production facilities at Hub, Baluchistan. P&G Pakistan has initiated and runs several health and hygiene awareness, education and female empowerment programmes focused on improving the lives of Pakistanis, especially children, teens and young mothers. Some of the specific interventions include the Pampers Hospital Education Programme, which educates young mothers (over 300,000 beneficiaries) about baby care practices, immunisation and vaccination; the Pampers Baby Care Clinic Programme, which educates young mothers (over 700,000 beneficiaries) about baby care practices, immunisation and vaccination by going to their doorstep in 30 cities; and the Always School Education Programme, which educates female students (over 250,000 beneficiaries) about good health and hygiene practices in 1,400 schools in three cities of Pakistan. Others are the Safeguard School Education Programme, which educates children aged 5–9 (over two million beneficiaries) about basic hygiene habits and the importance of washing hands in 5,000 schools across 20 cities of Pakistan; the Ariel Help the Needy Programme, which provides medical equipment to about 30 institutions for disabled children; and the HOPE School Programme, which runs 23 schools in Karachi and rural Sindh, providing class 1–5 education to nearly 1,000 children.<sup>62</sup>

- *Kohat Cement*

Kohat Cement is a major producer of cement for construction purposes in Pakistan and Afghanistan. The production plants are located in remote, conflict-prone areas in the KPK and FATA regions. For example, its main plant is located in the tribal heartland of Peshawar in KPK, which is close to the theatre of major military counter-insurgency operations. Due to its location near a conflict zone, the plant faces staff turnover of eight to ten employees per week, which takes its toll on efficiency. The company uses a conflict-tracking and monitoring mechanism, or on-site verification and real-time monitoring and reporting of potential tensions or emerging conflict threats. The company has instituted a policy of 'creating' and 'promoting' more stakeholders for peace in its areas of operation. This includes enhancing the company's involvement in the provision of local amenities and infrastructures, selling cement to locals at subsidised rates, providing enhanced economic opportunities for local communities by targeting them as employees, vendors or beneficiaries of infrastructural projects, and supporting community development efforts. For example, Kohat transferred the ownership of 200 trucks that carry up to seven tonnes of materials per week to people from the local communities, built 16 truck shops and maintenance facilities, and constructed public recreation facilities for the local population. Kohat also sponsors technical skills training for youth in local communities to enable them to participate as suppliers in the production chain (especially the supply of gypsum and laterite) for cement. This is in addition to scholarships for six students (one medical and five engineering)

60 Engro Corporation: <http://www.engro.com/>

61 Unilever Foundation: <http://www.unileverpakistan.com.pk/aboutus/unileverfoundation/aboutunileverfoundation/>

62 P&G social responsibility: [http://www.pg.com/en\\_US/sustainability/social\\_responsibility/index.shtml](http://www.pg.com/en_US/sustainability/social_responsibility/index.shtml)



from host communities per annum. The company also gives small supply contracts to selected individuals from surrounding local communities on a turn-by-turn basis, thereby minimising conflicts and tensions among them. To reduce pollution to air and water sources and overall environmental hazards from its quarries and production plants, Kohat also built a new plant with new technology, which minimised environmental damage. Finally, Kohat Cement supported the establishment of a Common Interest Committee (following on the traditional Jirga system of consultation and dialogue in the KPK region) to fairly distribute the payment of about PKR 6 million (US\$61,300) in royalty payments to the 10 families that owned the land where quarries were located.

### 3.3 Business impact on peacebuilding

The overall impact of business on peacebuilding in Pakistan is either minimal or at best mixed. Business has yet to contribute to peacebuilding in Pakistan in a coherent way; trends suggest that business interventions are scattered, less coordinated and piecemeal. Perhaps this underlines the complexities of armed conflict in Pakistan, especially the external (regional) dimensions of insecurity in Pakistan. Moreover, the participation of business in peacebuilding in Pakistan is a fairly recent phenomenon.

This section identifies the potential positive and negative impacts of business peacebuilding activities in Pakistan.

#### Positive impacts

- *Sustained interest:* A noticeable change in the business mindsets, policies and practices in Pakistan over the past 10 years is clear recognition and acceptance of the need to contribute to conflict prevention and resolution and peacebuilding in Pakistan. Business recognition and interest in peacebuilding has grown as the number of armed groups and armed conflicts, crime and subnational violence, and their effects have increased across Pakistan. Even in the absence of reliable data about business expenditure on activities that potentially support peacebuilding, there is a general feeling among observers and analysts that corporate interventions and financial commitments to activities alleviating the drivers of conflict and potentially contributing to peacebuilding have increased over the past decade. Given the complex dynamic of religion, culture and conflict in Pakistan, philanthropy (on individual and corporate bases) is an activity that is generally perceived as a tool for alleviating the drivers of conflict and potentially contributing to peacebuilding. On average, companies are estimated to be spending over PKR 3 billion (US\$30.6 million) on corporate philanthropy per annum in Pakistan.
- *Growing awareness about conflict sensitivity:* The notion of conflict sensitivity is fast emerging as a buzz expression in Pakistan's business sector, not least the awareness of how corporate activities and transactions could and do interact with local peace and conflict dynamics. At a minimum, an increasing number of companies, mostly large-size firms, openly profess conflict sensitivity or express an intention to be conflict sensitive.
- *Inclusion and consultation with locals and local communities:* Over the past five years, companies in Pakistan have started initiating policies and practical steps that bridge subsisting gaps with local communities in and around their areas of operations. These include increasing the number of people hired from local communities, establishing consultative mechanisms and lines of communication with local communities (e.g. creation of community liaison units), constructing schools and technical training institutes in local communities, and providing social amenities (hospitals, roads, etc.). While current intervention in this area remains small, relative to the problem, it represents a positive step towards addressing drivers of conflict in the long term.

- *Security awareness and security business:* Businesses in Pakistan have become ‘security aware’ and developed new security procedures, structures and practices. For instance, most companies now conduct regular security assessments and reviews in their areas of operations. Moreover, companies have expressed strong interests in partnering with government, local communities and civil society groups to address urban crime in major cities, e.g. through the CPLC initiative across major cities in Pakistan. There has also been a boom in private security services in Pakistan, with new companies emerging and more than 300,000 people employed in the sector.
- *Emerging patterns of needs-driven social responsibility:* In the last five years, businesses in Pakistan have been responding more to the needs of local communities, especially in addressing the socio-economic conditions that fuel armed conflict, extremist violence and criminality. In this sense, businesses have concentrated their social responsibility intervention on providing employment opportunities and education and skills trainings for youth. In some of the most deprived yet conflict-prone areas of Pakistan, businesses have established schools, promoted education and undertaken youth empowerment programmes. For example, in Ghotki and Daharki, companies established vocational skills centres; in the Sialkot area, the rate of school enrolment has gone up considerably due to companies establishing new schools and encouraging formal education. In addition, businesses in Pakistan’s extractive industry have engaged local communities in economic activities by providing employment and entrepreneurship opportunities, especially for youth. For example, in KPK and the FATA, they have provided economic opportunities for youth to participate in the trucking, transport and marble industry. This has attracted a huge number of young people in and outside of the area.
- *Partnerships:* Since 2009, businesses have been changing strategy in their approach to CSR to emphasise partnerships across sectors, and with other stakeholders, including government and civil society groups. This underscores business realisation of the need for a broad-based coalition to transform the underlying socio-economic conditions that fuel armed conflict and insecurity in Pakistan. For example, the Karachi, KPK and Chaman Chambers of Commerce have come together to form the Pak-Afghan Joint Chamber of Commerce with the support of the British High Commission and CIPE. In addition, in September 2012 the Faisalabad and Sialkot Chambers conducted a dialogue on energy crisis; the Faculty at LUMS helped develop Pak-India Trade Policy in collaboration with the Karachi, Lahore and Sialkot Chambers; and several chambers including the Federation were involved in a series of dialogues initiated by the SECP on developing voluntary guidelines for CSR.

## Negative impacts

- *Poor sectoral coordination:* Despite emerging signs of collaboration between chambers of commerce and other business groupings, the overall sectoral coordination of business remains low in Pakistan; the emerging collaborations are on a case-by-case basis and there are no structures or mechanisms for sustained collaboration. The poor coordination means that businesses are potentially working counter-productively and not harnessing potential synergies. Business groupings, including individual chambers of commerce and the Federation of Chambers of Commerce, remain weak and often divided on account of personality clashes, vested interests of the leadership, political interests and affiliation of business leaders, lack of transparency and accountability, and poor governance structures. Consequently, various chambers of commerce function independently without a serious mechanism of dialogue, mutual learning and sustained collaboration. This does not mean that there is no interaction among the business community at all; they do meet and join in discussions on important matters, but this normally happens locally within one city. Thus, the extent of interaction is limited. Moreover, even when they do come together, there is a lack of sustained and institutionalised engagement. This prevents the business community from having a united and collective voice when engaging with the government on policy issues of national importance.

- *Ad hoc approach to conflict sensitivity and peacebuilding:* In spite of conflict sensitivity becoming part of the language of business in Pakistan, it has yet to be translated into practice or radically change the way businesses operate. Despite workshops and dialogue sessions, guidance notes, resource packs and learning tools, conflict sensitivity for and among businesses in Pakistan remains limited. Moreover, there are few capacity-building initiatives on conflict sensitivity by business. All this points to problems with translating conflict sensitivity into practice in Pakistan's business sector. It also exposes gaps and problems with integrating CSR plans into a peacebuilding framework at the level of individual companies and for business as a whole.
- *Structures and practices that maintain status quo:* In attempting to minimise the impact on business activities of armed conflicts and armed groups, criminal networks and extremist groups, some companies continue to skew their corporate social interventions towards local power elites. In a number of cases, financial and material donations to communities are channelled through local 'strongmen' or powerful groups that are generally dominated by men and adults. For instance, following the 2010 floods, the bulk of relief materials provided by business was channelled through local power elites. This explains why a majority of corporate social interventions continue to take the form of corporate philanthropy. While this approach might reduce disruptions to business in the short term, it serves to damage the prospect for peace in the long term.
- *Lack of transparency and accountability in CSR practices:* The regulation of CSR activities in Pakistan is generally lax. As a consequence, issues of transparency and accountability continue to trail considerations of how much business spent on CSR, what proportion or percentage of their profits and operational budgets is devoted to CSR, how CSR funds are spent (criteria), whether CSR interventions and spending audited are like other business operations, and what the ethical guidance are for CSR interventions. There is a feeling among observers that CSR interventions are used by companies to protect their operations, rather than contribute to meaningful peacebuilding. One observer noted that CSR is a vastly abused fund in many companies:

*"There is no transparency and regulation of the CSR fund. For example, companies organise fancy galas and fairs using these funds and claim them as CSR."*

Certain publicly regulated organisations do contribute towards community needs but these contributions are often inadequate. Another interviewee was of the same opinion, saying that:

*"CSR means contributing towards community development, and not sponsoring music shows and fashion galas, which many businesses in Pakistan claim as their CSR contributions for the society."*

- *Lack of data and tracking of business peacebuilding activities:* Across the private sector (at the level of individual companies and the business sector as a whole), there are no investments in developing a database of business pro-peace interventions or assessments of impact of individual and collective interventions on armed conflict and peacebuilding. There is no mechanism or opportunities for learning, cross-sharing of experiences, ideas and resources, and for reviewing the impact of peacebuilding-related activities. In a way, businesses appear to be in denial that some of their well-intentioned social responsibility interventions have had negative impacts on the prospects for peace in Pakistan.

## 4. Conclusion: lessons learnt and what needs to be done

### 4.1 Lessons learnt

- Most of the efforts by the private sector are focusing on the issue of youth skills development, training and employment, with the underlying assumption that, in this way, they have an indirect effect on recruitment of youth in unproductive activities. Most of the CSR activities are focusing on building health and education facilities and doing charitable work. While philanthropy has a very prominent role in Islam and most businesses practise philanthropy both at an organisation and individual level, the potential for applying this more strategically, and its impacts or relevance for peacebuilding, has yet to be explored.
- Some business champions are involved in advocacy on economic reform, sustainable and inclusive economic development, good corporate governance, and capacity-building of the business and the government in servicing the society. However, there is no focus on any particular marginalised group, especially given the high levels of horizontal and vertical inequality in Pakistani society. As such, targeting vulnerable and marginalised groups broadly, rather than only those deemed capable of violence (youth, tribal leaders, etc.), is another neglected aspect of business intervention in peacebuilding. Some examples indicate that business interventions do have greater impacts when they target marginalised communities and populations.
- The business sectors in Pakistan, as well as the government, have yet to tap into the resources (financial, skills and material expertise) of the Pakistani business diaspora in addressing the underlying socio-economic conditions of armed conflict and insecurity in Pakistan.
- Despite the initiatives by some companies to address the environmental impacts of their activities, the majority of business units continue to pay scant or lip service attention to reducing the environmental damage arising from their production. Enhanced environmental standards and minimising environmental impacts are hardly considered potential contributions to peacebuilding or coherently integrated into CSR in practice. In short, there is a mismatch between business contributions to peacebuilding at the micro level, and the damage they cause at the macro level – e.g. chemical firms that provide monetary and financial donations towards charity often continue to pollute air, water and land around their areas of operations.
- There have been initiatives by members of the business community in Karachi addressing sectarianism. A concrete effort was made to increase engagement and interaction between opposite sects by exchanging prayer leaders for Friday mosques and by listening to the narrative of the other. Still, these remain isolated cases, and there is no interest or mechanism for learning lessons from these pilot cases or up-scaling them in ways that become aspects of a coherent business strategy for peacebuilding in Pakistan.
- The peacebuilding potentials of small businesses remain untapped, despite their location deep in the communities and being the closest to local communities and theatres of conflict. Small businesses would appear to be the most experienced and knowledgeable about ways of promoting peace in local communities, yet they are hardly involved in business sector discussions and planning for pro-peace interventions. The ad hoc meetings and collaborations in the business sector tend to involve only medium and large companies.

## 4.2 What needs to be done

- The government of Pakistan needs to:
  - Pass new legislation that regulates the practice of CSR in Pakistan. For example, such legislation would define the meaning and interpretation of CSR in Pakistan, provide criteria for areas and approaches to CSR interventions, and prescribe funding mechanisms for CSR activities (e.g. as in India where, legally, 1.0% of companies' annual profits are to be expended on CSR);
  - Design a comprehensive national peacebuilding strategy with clear options and entry points for business or provide companies with the opportunity to integrate their CSR interventions into a grand peacebuilding initiative;
  - Address in a holistic way the challenges to business activities and potential contributions to economic growth and peacebuilding, especially corruption, official bureaucracy, poor infrastructure provisioning and policing;
  - Enhance the enforcement of existing laws and standards relating to labour and environmental practices to reduce tensions and clashes between business and local communities;
  - Integrate business into the policy planning process and address business needs in public policies in ways that would improve the global competitiveness of Pakistan businesses and their contributions to economic growth and peacebuilding.
- Local communities need to:
  - Own the community development process in their area in and around where businesses operate by making business interventions demands and needs based, rather than the preserve of companies;
  - Institute a community governance structure that is representative of citizens to prevent privileged individuals from being sole beneficiaries or channels through which companies provide assistance;
  - Encourage small businesses and entrepreneurs in the local community to develop their economic and investment strategies in ways that tap into opportunities created by the presence of large companies in their area;
  - Explore dialogue and ADR mechanisms in resolving disagreements and conflicts with companies;
  - Transcend the receipt of remittances from their family and friends in the diaspora by harnessing their technical expertise and knowledge in their engagement with business, especially to transform the activities of businesses in their areas as a platform for socio-economic development of their communities.
- Business needs to:
  - Integrate small and medium-sized businesses into regional and national business groupings and collectives to tap into their knowledge and empirical experience of peacebuilding at household and community levels;
  - Finalise guidance notes on CSR and enforce compliance at the level of individual companies and across the business sector;
  - Integrate labour and environmental standards into their community development strategies and CSR policies;
  - Transform and transcend corporate philanthropy into a coherent CSR and peacebuilding strategy at the level of individual companies and across the business sector;
  - Develop manuals and training packs and undertake capacity-building efforts on conflict sensitivity to translate them into practice;
  - Use their leverage on government, local communities and religious groups to facilitate dialogue and enhanced communication capable of reducing armed conflict and insecurity;
  - Develop more accountable and transparent structures and practices in social responsibility interventions.

- Diaspora need to:
  - Transcend their engagement with the government and communities in Pakistan beyond providing remittances by also making their technical knowledge and expertise available to support socio-economic development and peacebuilding;
  - Align the sending, purposes and use of remittances to initiatives that promote community development, conflict prevention and peacebuilding;
  - Facilitate communication and constructive engagement between business groups in the diaspora and those in Pakistan to share ideas and resources, and undertake joint investments;
  - Streamline and strengthen diaspora associations and groups to serve as platforms for collective engagement with the government and business sectors in Pakistan;
  - Harness their leverage on local communities, religious sects and the government of Pakistan to promote dialogue, conflict resolution and national development.

The business sector in Pakistan, as elsewhere, has an intricate and complex relationship with peace and conflict. Research undertaken by Alert in Pakistan shows that businesses across the country are suffering heavily from the loss of financial and social capital as a result of conflicts. In extreme cases, this is leading to the relocation of businesses away from areas affected by conflict – and even out of the country altogether. Yet, businesses can also contribute to conflicts because of their failure to consider the impact of their practices on communities – for example, inadvertently fuelling perceptions of inequality by selecting employees from one ethnic group over others.

Beyond any attempt to harness business strength for achievement of sustainable development goals, the CSR concept provides insights into mechanisms that can contribute to peacebuilding. Broadly, CSR can contribute to the positive impact of business on peace in two ways: in core business operations; and in and through their social investment activities.<sup>63</sup> Available evidence indicates that business in Pakistan has a strong interest in undertaking peacebuilding activities for a variety of reasons. However, the overall impact of business on peacebuilding in Pakistan is either minimal or at best mixed. Most of the efforts by the private sector towards peacebuilding in the country focus on the issue of youth skills development, training and employment, with the underlying assumption that, in this way, they have an indirect effect on recruitment of youth in unproductive activities. Most of the CSR activities are channelled towards building health and education facilities and doing charitable work. While philanthropy has a very prominent role in Islam and most businesses practise philanthropy both at an organisational and individual level, the potential for applying this more strategically has not yet been explored in Pakistan.

In order to strengthen the peacebuilding impact of the private sector in Pakistan, Alert, with the support of the European Union, initiated a pilot project, PBPP, to understand and strengthen the capacities of key business change agents as peacebuilders in Pakistan. Based on the research conducted in the first phase of the project, the project recommends that, similar to elsewhere, there is a vast scope for the business sector to play a vital role in peacebuilding within the country.

The research also highlighted that the peacebuilding potentials of small businesses remain untapped, despite their location deep into communities and being the closest to local communities and theatres of conflict. Small businesses appear to be the most experienced and knowledgeable about ways of promoting peace in local communities, yet they are hardly involved in business sector discussions and planning for pro-peace interventions. The ad hoc meetings and collaborations in the business sector tend to involve only medium and large companies. Building on this knowledge, the PBPP project will focus on building the capacity of small and medium-sized businesses to realise their peacebuilding potential. The project will work with chambers of commerce across the country to reach out to businesses to build their capacity to adopt conflict-sensitive business practices to contribute to peacebuilding within the country, through both learning and practice.

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<sup>63</sup> International Alert (2005). *Peace through Profit: Sri Lankan Perspective on Corporate Social Responsibility*. London and Colombo.





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