

The Business of Peace



The private sector as a partner in conflict prevention and resolution

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This report was written by Jane Nelson, The Prince of Wales Business Leaders Forum. The 'business in conflict' project team, consisting of Nick Killick and Phil Champain, International Alert, Jordana Friedman, Council on Economic Priorities and Harriet Fletcher, PWBLF, provided research, case studies and editorial input and facilitated consultations with business, government and civil society organisations in the United Kingdom and Azerbaijan. These activities will continue to play a key role in the ongoing work of the three organisations aimed at understanding and promoting the role that business can play in conflict prevention and resolution. An external advisory group drawn from business, government and civil society served as a review panel and are listed in the acknowledgements section. The analytical framework for determining the role of business in conflict was jointly developed by The Prince of Wales Business Leaders Forum, International Alert and Council on Economic Priorities.

The final interpretations and conclusions in the report do not necessarily reflect the opinions of the member companies and partner organisations of The Prince of Wales Business Leaders Forum, International Alert and Council on Economic Priorities.

ISBN 1 899159 59 2

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Designed by Alison Beanland and printed by Folium Press.

Cover photographs: Oil rig, Fred Dott/Still Pictures; Soldiers, Angola, Carlos Guarita/Still Pictures, Women at community meeting in India, The Prince of Wales Business Leaders Forum.

PRINCIPLES OF CORPORATE ENGAGEMENT IN CONFLICT PREVENTION AND RESOLUTION

1

PRINCIPLE ONE: **STRATEGIC COMMITMENT**

Provide CEO and board level leadership on corporate responsibility issues. Establish policies, guidelines and operating standards that make explicit mention of these issues, including human rights, corruption and where appropriate, conflict and security arrangements. Develop internal management systems, compliance and incentive structures to embed policies into the company's daily activities. Invest in awareness raising and skills development programmes for employees and business partners to increase their understanding and capacity to address the company's socio-economic and environmental impacts. Recruit or contract specialised expertise where necessary.

2

PRINCIPLE TWO: **RISK AND IMPACT ANALYSIS**

Assess the conflict-related risks and impacts of the company's core business and social investment activities on a systematic and comprehensive basis. This requires an understanding of: the nature of the conflict (its causes, stage and location); the role and relationships of other actors; and the characteristics and constraints faced by the company itself. From this basis of analysis it is possible to build performance indicators, targets and strategies for action.

3

PRINCIPLE THREE: **DIALOGUE AND CONSULTATION**

Identify and engage with key stakeholder groups on a regular and consultative basis. Take into account different capacities and power structures and the need to facilitate genuine participation and two-way dialogue.

4

PRINCIPLE FOUR: **PARTNERSHIP AND COLLECTIVE ACTION**

Develop mutually beneficial and transparent partnerships with other companies, civil society organisations and government bodies to address sensitive political and public policy issues and to invest in practical projects. Collective action can address activities such as: advocacy for good governance and anti-corruption measures; negotiating peace; developing voluntary codes of corporate conduct; supporting an open and free media; and creating innovative public-private financing mechanisms for health, education, civic institution building and infrastructure development.

5

PRINCIPLE FIVE: **EVALUATION AND ACCOUNTABILITY**

Identify key performance indicators for assessing the company's social, economic and environmental impacts and relationships. Carry out ongoing measurement and monitoring of these. Aim for independent verification and public reporting of these measures. Assess and account for processes as well as inputs, outputs and impacts. Benchmark results against internal and external guidelines and best practices.

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Executive summary

During the past decade the forces of political transformation and economic globalisation have created a world of new opportunities and hope for some, but increased instability and insecurity for others. As we enter the 21st Century violent conflict continues to affect the lives of millions of people, undermining human progress and economic development. This has important implications for the private sector, which has become an influential player in many conflict-prone or conflict-ridden countries. From Azerbaijan to Zimbabwe, the potential and reality of violent conflict is becoming an unavoidable business issue.

Consider the following statistics:

- There are 72 countries where the security risk for the majority of locations in which foreign business operates is rated medium, high, or extreme for 2000.¹
- Multinational companies are investing more than US\$150 billion annually in nearly 50 countries which fall below the intermediate point in Transparency International's *Corruption Perception Index* – in other words in countries which may be confidently described as fairly to very corrupt.²
- Today, only about 4% of the world's GNP is military related; 96% of the international business community provides civilian products and services. Most of these business sectors have a vested interest in stability and peace.³

The private sector – ranging from large multinationals to informal micro-enterprises – has a vital role to play in creating wealth and promoting socio-economic development. It also has a role in contributing – both directly and indirectly – to the prevention and resolution of violent conflict. There is growing evidence that as market economies become more widespread and as business becomes a more central actor in societies around the world, the importance of this role is increasing.

A few companies are already playing a pro-active role. They are increasingly aware of their negative and positive impacts on society and are developing management and accountability structures aimed at minimising their negative impacts and optimising the positive ones. Other companies are making valuable contributions to society, but are not actively managing or measuring these, let alone thinking about them in terms of socio-economic development and conflict prevention. Some companies, however – and not only those in the arms industry or in illegal sectors such as the drug trade – are being identified as direct causes of violent conflict or as being complicit in

sustaining it in the countries and communities in which they operate. Sometimes this is a genuine result of unintended consequences arising from a company's operations or those of its business partners. In others, it is due to the actions of a repressive or weak government in the country in which the company is operating. This raises the challenge of whether the company withdraws from the country, tries to influence or advocate for better governance, or stays silent. In other situations, it is a result of bad management, lack of awareness and inadequate policies and operating controls within the company itself.

There has been relatively little research on these linkages between business and conflict. Although the arms industry and the impacts of illegal commercial activities such as drug dealing and illicit commodities trading have been extensively researched, relatively little analysis has been carried out on the role of industries such as the natural resource and infrastructure sectors, travel and tourism, consumer goods and banking. In particular, there are limited examples available on the specific role that these industries can play in preventing, creating, exacerbating or resolving conflict and how this differs from and relates to, the roles of government and civil society.

The purpose of this report is to review these issues and linkages and to provide a framework for understanding both the positive and negative roles that business can play in situations of conflict. The report focuses on mainstream legitimate businesses, especially multinational companies, and outlines:

- Why the private sector can no longer afford to ignore the causes and costs of conflict;
- Some of the key factors that determine whether business plays a negative role by creating or exacerbating violent conflict, or a positive role by helping to prevent it or resolve it when it occurs; and
- The practical actions that companies can undertake, with other actors, in preventing and resolving conflict and some of the challenges associated with these actions.

Structure of the report

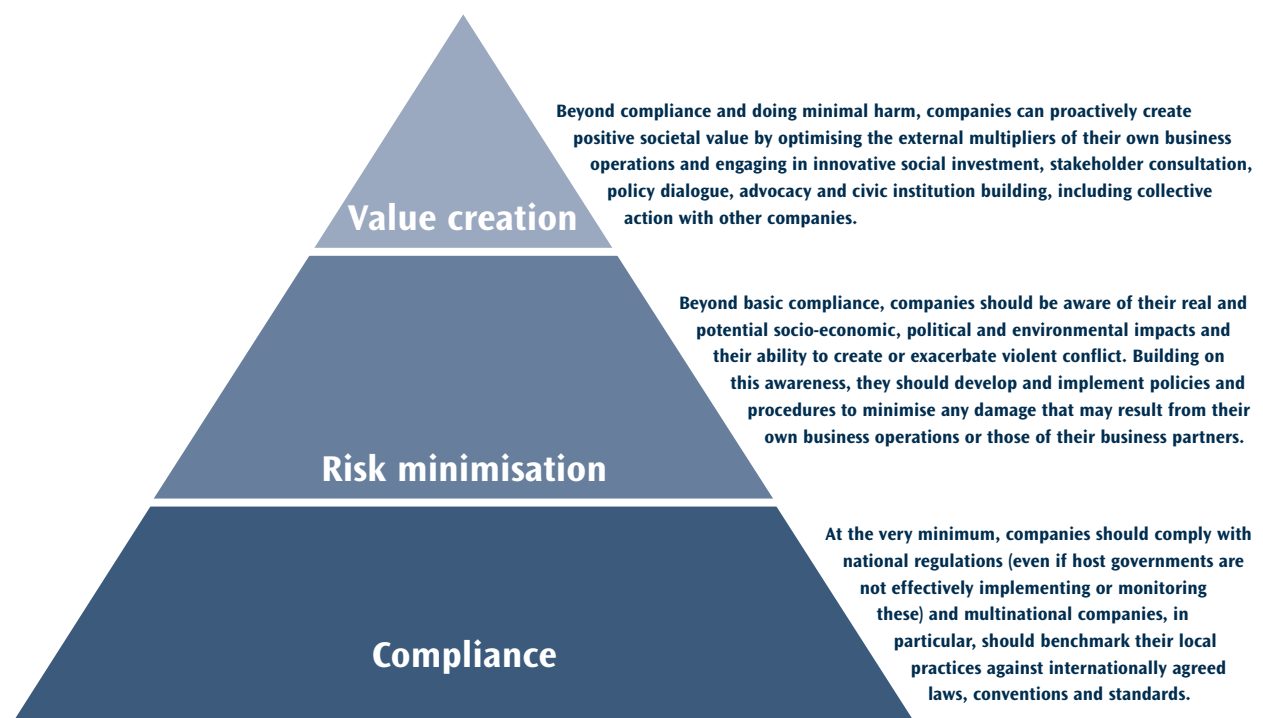
Part 1 of the report reviews the **Business Case for Engagement**. It outlines the changing context of business and the changing nature of conflict, before highlighting some of the key cost and benefit drivers for companies. It concludes that the case for corporate engagement in conflict prevention and resolution is compelling. In situations of existing conflict most businesses, other than those that are directly benefiting from war economies, pay heavy costs and struggle to carry out their operations under unstable and dangerous conditions, where their employees, assets and routes to market are under constant risk. Furthermore, there are potential reputation costs and the threats of international litigation and lawsuits for companies that are accused of complicity with either state or non-state actors that are perpetrating the violence. Over the longer-term, it is clear that the private sector has as much to lose as other sectors of society if economic and social development is seriously jeopardised, which it undoubtedly is when faced by violent conflict. Apart from the costs and benefits and the growing 'bottom-line' imperatives for business to play a more proactive role in conflict prevention and resolution, there is also a strong moral case for greater corporate leadership in today's world where the private sector is an increasingly prominent actor. As Sir Geoffrey Chandler, Chair of Amnesty International's UK Business Group argues, '...to fail to do good when it is in one's legitimate power to do so is rightly condemned by the world.'

Part 2 of the report introduces some key **Principles for Corporate Engagement**.

These can be defined as the management policies and processes that a company needs to establish in order to minimise its negative impacts on society and optimise its positive ones. They are applicable for companies operating in any industry sector, country or community, but have particular relevance in conflict-sensitive or conflict-ridden situations. The principles can be summarised as:

- **Strategic commitment** – CEO and board level leadership on corporate responsibility issues, supported by internal management systems, compliance, incentive and training structures to embed policies into the company's daily activities.
- **Risk and impact analysis** – Assessment of the conflict-related risks and impacts of the company's core business and social investment activities on a systematic and comprehensive basis.
- **Dialogue and consultation** – identification of and engagement with key stakeholder groups on a regular and consultative basis.
- **Partnership and collective action** – development of mutually beneficial and transparent partnerships with other companies, civil society organisations and government bodies to address sensitive political and public policy issues and to invest in practical projects.
- **Evaluation and accountability** – identification of key performance indicators for measuring and monitoring the company's social, economic and environmental impacts and reporting on these to internal and external stakeholders.

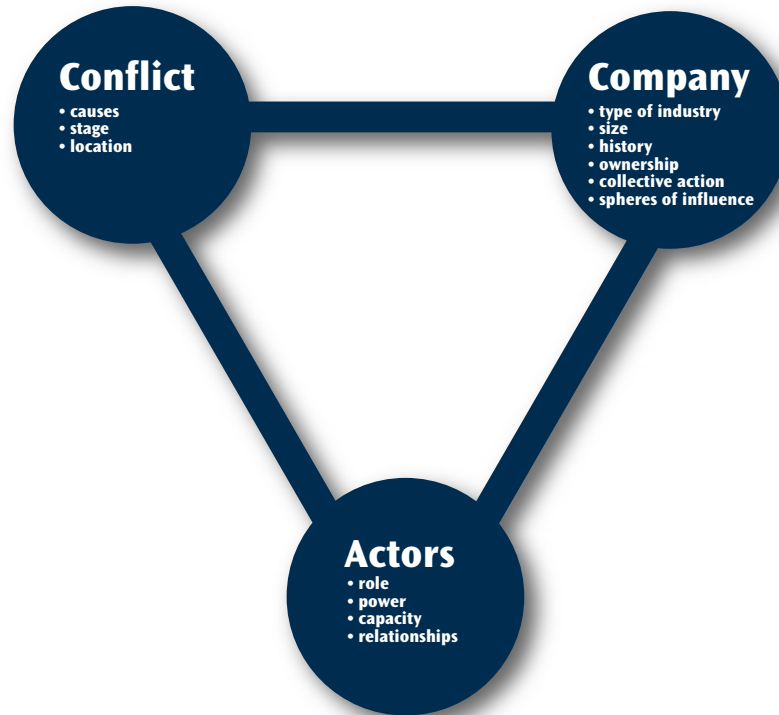
Part 2 also describes three different strategies that companies can adopt in managing their impacts on society. These strategies are not mutually exclusive and can usefully be viewed as building blocks for corporate responsibility. At a very minimum, for example, a company should aim to be compliant with national regulations and where applicable international laws and standards. It should aim beyond compliance, however, to minimise risks and harm from its operations. Ideally, a company should aim to proactively create societal value-added and new business opportunities by optimising its positive multipliers and impacts on society. The following diagram illustrates these three strategies:



Part 3 of the report develops a **Framework for Analysing Corporate Engagement**. It suggests a set of questions to help companies and their stakeholders to analyse the causes, stages, locations and actors of a particular conflict or conflict-prone situation and how these relate to the company's own characteristics. Undertaking this process of analysis can help companies to:

- understand the linkages between their business and the conflict; and
- assess the ways in which the company, acting individually and with others, can play a proactive role in conflict prevention and resolution.

The framework of analysis is summarised below:



Part 4 provides a framework and practical **Examples of Corporate Engagement** at different stages of conflict. It also introduces some key performance indicators for peaceful and progressive societies against which to analyse and benchmark both corporate performance and country performance. The practical examples illustrate how companies can contribute to conflict prevention, crisis management, and post conflict reconstruction and reconciliation through their:

- Core business operations;
- Social investment and philanthropy programmes; and
- Engagement in public policy dialogue, advocacy and institution building.

The performance indicators are drawn from a framework developed by The Prince of Wales Business Leaders Forum in its 1998 report *Building Competitiveness and Communities*. The report identified five main areas in which companies can make a positive contribution to their host countries and communities. These five areas provide a useful framework for thinking about the broad conditions needed for developing peaceful and prosperous societies and for preventing and resolving conflicts. They have been used in this report to develop examples of both country and company-level performance indicators. The five areas are as follows:

- Strengthening economies
- Building human capital
- Promoting good governance (at both the corporate and national level)
- Protecting the environment
- Assisting social cohesion and respect for human rights

The indicators listed in this report are not intended to be an exhaustive list. In practical terms, most companies would probably choose to select a small number of indicators to manage and monitor on an on-going basis. Different indicators will be relevant for different industry sectors, but the list outlined in the report provides a broad framework that can be adapted by any company or industry sector.

Part 5 of the report focuses on **Dealing with Key Management Challenges**. It reviews some of the practical and strategic dilemmas that companies face when they are operating, investing, or trading in conflict zones and the processes that they can undertake to address these. The dilemmas include both:

- structural challenges at the macro-level that raise strategic policy issues for corporate executives; and
- day-to-day management challenges at the micro or operational level of the individual enterprise.

The twelve dilemmas or management challenges covered in the report are as follows:

KEY MANAGEMENT CHALLENGES IN CONFLICT ZONES

1 Dealing with repressive regimes – what are some of the issues that companies need to consider in deciding whether to invest or disinvest in countries with repressive or corrupt regimes? What actions can they take to operate in accordance with international standards and encourage better governance if they decide to invest in such countries?

2 Benefiting from ‘war economies’ – are a company’s investments and operations helping to fund or sustain a war economy? If so, what actions – individually or collectively – can be taken to limit negative impacts and improve the situation?

3 Developing a nation’s strategic assets – how can companies that are developing a nation’s natural resources or infrastructure influence the distribution of costs and benefits from these strategic activities and manage the negative social, economic and environmental impacts associated with the ‘honey-pot’ effect of large-scale projects?

4 Managing security arrangements – how can companies best manage their security arrangements, either with state or private security forces, in a manner that protects their own staff and assets without undermining the security of people in surrounding communities and especially without causing human rights violations in these communities?

5 Facilitating or facing criminal activities – what measures can companies take to limit the risk of being a target or conduit for criminal activities?

6 Tackling corruption – how can companies address the challenge of bribery and corruption in their own operations, in the countries in which they are investing, and at the international level?

7 Supporting humanitarian relief operations – what type of contributions can companies make, either through their commercial or social investment activities, to contribute to humanitarian needs and disaster relief?

8 Engaging in diplomacy and peacemaking – is there a role for the private sector, either on an individual or collective basis, in the sensitive area of diplomacy and peacemaking? If so what are some of the issues to consider?

9 Rebuilding trust – how can companies help to protect or rebuild social capital, such as interpersonal relationships and formal and informal networks and associations, which may be threatened or destroyed in situations of conflict?

10 Creating cross-sector dialogue and partnerships – what types of relationships can companies establish with civil society and governmental organisations to address areas of common interest in preventing or resolving conflicts?

11 Ensuring accountability – in conflict situations what are some of the key issues that companies need to consider in measuring and reporting on their impacts to a wide range of stakeholders? What are some of the most effective tools or mechanisms for engaging with these different stakeholders?

12 Limiting the means to wage war – what role do defence and other industries have in helping governments to decrease and control the trade in arms, remove arms already in circulation and undertake security sector reforms?

Although reviewed separately, there are strong links between most of these challenges. In many conflict situations a company will have to address several of them at the same time. Each of them is the subject of differing perspectives from business, non-governmental organisations (NGOs), governments and the media and is worthy of a detailed report in its own right. This report aims only to:

- highlight some of the key issues and different opinions relating to each challenge;
- raise some critical questions that companies need to ask in order to take action; and
- offer some examples of recommendations, partnerships and corporate actions that are currently being undertaken to address these challenges.

It would be possible to develop individual company, industry-wide or international guidelines and standards for most of the eleven challenges outlined in Part 5. In several cases, such as dealing with security arrangements, tackling corruption and supporting humanitarian relief operations, there are already efforts underway to do this. These efforts are being led by a variety of different actors ranging from industry groups, to national or international governmental bodies and the NGO community. Examples of some of them are included in the report.

Scope of the report

The two core subject areas that underpin this report – the **prevention and resolution of violent conflict** and the **role of business in development** – are areas that have been extensively researched and documented on a separate basis. This report cannot capture all the complex details of each of these two subjects. What it aims to provide is a general framework for analysing the linkages between the two, supported by examples from different industry sectors, geographies and conflict situations.

Such linkages are themselves highly complex. It would be simplistic, and in many cases incorrect, to suggest that non-contestable, causal relationships exist between them. In particular, it would be incorrect to assume that there is a linear conflict-economic development-peace continuum. In many situations economic growth does indeed help to improve situations of existing or potential conflict, but not always. If the benefits of economic growth are unequally distributed, for example, this can increase the potential or existence of conflict rather than decrease it. In such cases private sector investment can have ‘net’ negative impacts rather than positive ones, no matter how good the intentions of these investments. Equally, in most post-conflict situations there is the continued likelihood of violent conflict re-emerging if economic development is not accompanied by the strengthening of social capital and civil institutions. Again, the role of a particular company or industry sector can be positive, negative, or a combination of the two, depending on the specific situation. Having said this, there is little doubt that economic progress is all but impossible in situations of sustained conflict, except for a minority of interests that benefit directly from war economies. In short, the relationship between violent conflict, economic development and the role of the private sector is often a complex and situation-specific one. A core aim of this report will be to explore some of these complexities and dilemmas.

Given the complexity of the issues covered, the wide variety of definitions in use and the diversity of opinions that exist on the subjects of corporate responsibility and conflict, the report is based on a number of ‘starting assumptions and definitions’. These are outlined in Appendix I. They relate firstly to the terminology used in the report to describe the different stages of conflict and corporate responsibility. They also cover the fact that this report focuses on multinational and large national companies working within legal frameworks and pursuing legitimate business objectives. Whilst recognising the importance of small and medium size businesses and the serious impacts of illegal or illicit commercial activities in most conflict situations, the report does not focus on these

other than in terms of their linkages to legitimate, large-scale companies. Nor does the report cover the arms industry in any detail, which has been extensively researched elsewhere, but it summarises some key issues for controlling arms in Part 5. In terms of geographic focus, the report looks mainly at countries in transition – mostly developing economies and countries in the former Soviet bloc – although it recognises the potential of localised violent conflict in OECD economies.

Every example included in the report is worthy of a detailed case study to capture the complexities and different opinions involved. In the interests of space and in order to provide a comprehensive overview of the linkages between business and conflict, a decision was made to use these examples as illustrative vignettes and brief profiles, rather than to provide detailed and lengthy case studies. Some of the cases that have been written by other people are listed in the bibliography and website addresses are provided for most of the examples profiled.

Key messages from the report

Drawing on examples from over 30 countries and from a variety of industry sectors, the report concludes with the following key messages:

1. The business imperative for action

Domestic and multinational companies have an increasingly important role to play in conflict prevention and resolution. In today's global economy they have a growing commercial rationale for playing this role, in order to avoid the direct and indirect business costs of conflict and to reap the business benefits of peace. They also have a moral imperative and leadership responsibility, given the increasingly central position of the private sector as decision-makers and influencers at the national and international level.

Almost all companies, in any industry sector, have an interest in helping to build peaceful and prosperous societies and a role to play by contributing to: equitable economic development; human development, especially education and health; environmental sustainability; good governance; social cohesion and respect for human rights.

Certain companies and industry sectors, most notably the defence, natural resource and infrastructure industries, have a particularly important responsibility to understand and address their direct roles as potential causes of conflict. Others, such as banks, travel and tourism companies and companies providing products and services to humanitarian agencies, also have a direct and growing role in conflict prevention and resolution.

2. Strategies for individual corporate action

In managing their wider societal impacts, companies need to move beyond strategies of compliance and risk minimisation, although these are necessary 'starting points'. Their goal should be to pursue strategies of pro-active, systematic value-creation, aimed at creating positive value for as many stakeholder groups as possible, including, but not exclusively, shareholders.

Companies can create societal value and enhance shareholder value in three main areas of corporate activity or spheres of influence. These are: their core business operations (in the workplace, the marketplace and along their value chains); their social investment and philanthropy programmes; and the way in which they engage in public policy dialogue, advocacy and institution building. All three have relevance for corporate engagement in conflict prevention and resolution.

In dealing with conflict, companies also need to recognise the dual challenges of addressing practical problems at the level of the individual company's operations (over which the company has some control) and structural problems at the regional, national and international level (over which the company has less control, but usually some influence, especially if operating collectively with other companies and actors).

Linked to the above, multinational companies need to develop systems and competencies for addressing conflict at different management levels. Staff at the head-office, for example, have a key role to develop global frameworks for corporate values and management systems. It is the line managers, however, especially country officers and local plant managers, who must have the skills and capacities to deal with situation-specific issues within these frameworks.

Companies also need to adjust their external communication strategies from assertion to accountability. The traditional role of corporate communications and one-way public relations must evolve into a more complex structure of multi-way stakeholder engagement, ranging from dialogue and consultation to accountable reporting processes.

3. The importance of partnership

Apart from ensuring compliance, minimising risks and creating value in the way they manage their own individual operations and stakeholder relationships, companies can engage with each other in collective action. This can be especially valuable in addressing politically sensitive issues, such as bad governance, corruption and human rights abuses.

Having said this, business cannot be expected to 'do it alone'. The enabling framework for preventing and resolving violent conflict must first and foremost be in the hands of governments – at the national and international level. The private sector can support and influence government action, but corporate engagement cannot, and should not, be viewed as a substitute for good and pro-active government. This is the case in all societies, but especially those ridden by conflict.

Linked to this, new types of cross-sector partnership between business, government and civil society will be absolutely critical in building peace and preventing or resolving conflict. Although not easy to achieve in practice, such partnerships can be valuable mechanisms for addressing policy issues, mobilising resources and improving mutual trust and understanding between different groups in regions of existing or potential conflict.

4. The need for leadership

Ultimately the challenge of conflict prevention and resolution is about values-based leadership at every level of the company and at every level of society. The question of whether a company contributes to conflict or helps to prevent it, depends on the values, policies and operating guidelines of the company and the way its employees and business partners accept, interpret and implement these. The same can be said for society-at-large. Here the creation or prevention of violent conflict will depend on the values, rules and norms of the society and the way its citizens accept, interpret and implement these. Corporate, political and civic leaders are needed to help shape these values and guiding principles and to provide the incentives and frameworks in which their respective stakeholders must live and operate. Such leaders are needed at local, national and international levels. They have the power to lead their communities, their companies and their countries towards either peace and prosperity, or towards conflict and poverty. Developing future leaders capable of building peace and prosperity in a complex world, is one of the greatest challenge we face in the 21st Century. It is a challenge that government, civil society and business must address, both individually and in partnership. Responsible leadership is the *cine qua non* of conflict prevention and resolution.

The business case for engagement

1

1. The changing context of business
2. The changing nature of conflict
3. Business costs of conflict
4. Business benefits of peace



STATEMENTS MADE BY BUSINESS, CIVIL SOCIETY AND GOVERNMENT AT A BRITISH PARLIAMENTARY COMMITTEE HEARING ON THE PREVENTION OF CONFLICT 1998

[Conflict] threatens our whole commercial presence in a country since, for such a presence to be sustainable, we need prosperous, peaceful and content societies. Stability built on repression or violence is fundamentally flawed, and contains the seeds of its own destruction.

The British Petroleum Company plc, Statement to International Development Committee, UK, 1998

Insecurity threatens investments in conflict-vulnerable countries, reduces the opportunities which peace could bring in future markets, and helps to make the world less stable for business dependent on trade. Investing in conflict prevention and post conflict reconstruction is a moral imperative and a legal obligation which also makes economic sense.

Oxfam, Statement to International Development Committee, UK, 1998

Businesses have a strong interest in peace and security in the countries in which they are operating or might wish to operate. Conflict and instability creates risks and disruption for business in terms of heightened insecurity for staff and property, risks to investments, weakening of local markets and damage to infrastructure.

Clare Short, Secretary of State for International Development, Statement to International Development Committee, UK, 1998

The private sector has been engaged in areas of conflict and its aftermath ever since international trade began. It plays a role in many ways – positive and negative, direct and indirect – and has always done so. Over the past decade, however, this role has become more prominent. This is due to dramatic political, socio-economic and technological developments that have changed both the context of business and the nature of conflict. For example:

The growing acceptance of market-based economies and the processes of privatisation and liberalisation have resulted in a massive transfer of assets to the private sector and a large increase in foreign investment in **emerging markets**. These markets represent the new investment frontiers for many industry sectors and companies. They also represent new risks and management challenges such as:

- weak legal frameworks and governance structures;
- sizeable populations who are antagonistic to foreign investment; and
- unfamiliar social challenges such as high levels of poverty, human rights violations, bribery and corruption.

Their state of political and socio-economic transition also creates high potential for instability and violent conflict. The existence of valuable resources, which draws many companies into these challenging markets in the first place, is a further factor contributing to conflict. The Prince of Wales Business Leaders Forum estimated that of the 34 countries listed by the Carnegie Commission as locations of major armed conflicts in 1997, companies associated with the PWBLF had direct business interests in 30 of them. A few are locations of significant investment.

More than ever before, large numbers of **civilians** are entangled in violent crime and conflict – both as perpetrators and victims. As a result, it is increasingly difficult to distinguish between combatants and non-combatants in many situations of conflict. All too often there are no uniforms; no front lines; and no declarations of war. Hardworking employees by day, may well be inciting violent conflict once they leave the factory gate. Equally, they may be the targets of such violence. Increasingly, business cannot simply remove itself from the ‘fray’.

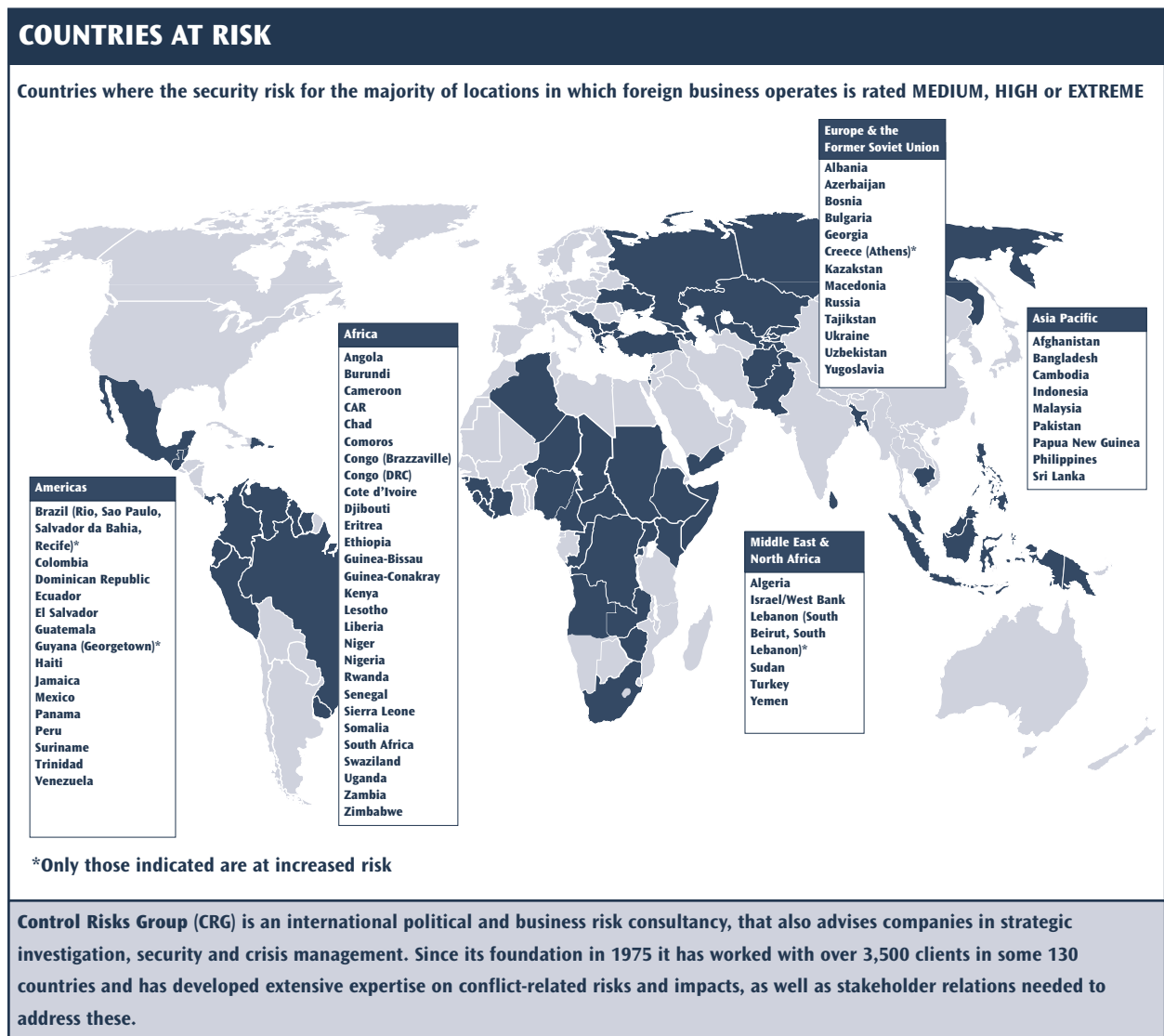
Growing acceptance of and interest in **multi-track approaches** to conflict prevention and resolution are placing increased expectations on business, especially major companies. This is creating pressure on these companies to play a more proactive role in peace building. In today’s world, failure to play a proactive role, or even worse, being seen (correctly or incorrectly) as responsible for, or complicit in, the creation or exacerbation of conflict, means that a company is likely to attract negative media attention, NGO campaigns and consumer boycotts.

International companies are under greater competitive pressure than probably ever before to create shareholder value. At the same time, they are under growing pressure from western consumers, governments, ethical investors, the media and pressure groups to create wider **societal value** and at the very minimum to comply with international laws and standards and to ‘do no harm’. The spotlight shines especially strongly on companies with major brand names and those operating in politically and environmentally sensitive regions.

The achievement of **human security and prosperity** has obvious long-term benefits for business investment and success. This is especially the case in new, untapped markets.

In short, growing investment in conflict prone or conflict-ridden regions is creating new opportunities, but also new risks and costs for business that cannot be ignored. In particular, recent developments in international humanitarian and human rights law have increased the risk of transboundary litigation for companies accused of human rights abuses or complicity in such abuses. At the same time, the growth in the activities of non-governmental pressure groups, the international media and the internet, has increased the risk of reputation damage for companies accused of human rights abuses or complicity in conflict situations. These two factors, combined with 'on-the-ground' costs of risk management and material losses, mean that few companies operating in transition economies can afford to ignore their links to existing or potential conflict.

The following pages summarise some key trends determining the changing context of business and the changing nature of conflict, before focusing on the cost and benefit drivers for business engagement in conflict prevention and resolution. The map below illustrates the large numbers of countries where companies faced medium to high security risks in 1999.



1. The changing context of business

During the past decade, development assistance has continued to decline, while private capital flows to the developing world have risen significantly. This has reduced the relative influence of donor States and international institutions in developing countries, while increasing the presence of international corporations.

UN Secretary General Kofi Annan,
1999 Annual Report to the General Assembly,

Privatisation

The privatisation of state-owned enterprises has become a central feature of economic and political transformation in countries all over the world. Privatisation International magazine estimates that global proceeds from privatisation have increased from US\$36 billion in 1988 to over US\$141 billion in 1998. This has resulted in the public sector's share and direct control of national economies shrinking, whilst the influence of the private sector has increased. The process is likely to continue, especially in the world's developing and transition economies, many of which are prone to conflict.

Liberalisation

At the same time, countries around the world have opened their markets to foreign investment, resulting in a dramatic increase in cross-border flows of private capital, people, technology and products. Although most of these flows still occur between OECD economies, private capital flows to developing countries have also grown substantially. In 1999 private capital flows to emerging markets outstripped official development assistance by a factor of 5:1 having grown sixfold since 1990 to a level of over US\$250 billion. Even though most of this money went to only 12 countries, according to UNCTAD, foreign investment in the world's 44 poorest countries has also risen, from an annual average of under US\$1 billion in 1987-1992, to nearly US\$3 billion in 1998. ⁽⁴⁾

Emerging markets

Linked to the above, and also as a result of political transformation, there is growing private investment – both foreign and domestic – in many developing and transition economies. The World Bank estimates that the share of emerging markets in world trade could grow from being 25% of the European Union's today, to more than 50% in 2020. Few companies with global aspirations can ignore such markets, but with this potential comes the challenges and risks of operating in conflict prone or conflict ridden regions of the world. In particular, these economies are opening up their infrastructure, energy, mining, manufacturing, banking and agribusiness industries to private investors. These are often strategic industries. As such, their transfer to partial or full private ownership has important political, as well as economic implications. This is the case even when the new owners are nationals of the country in question, let alone foreigners. It creates obvious potential for conflict, based on access to these strategic resources.

Technological change

The advent of new technologies has increased the reach and scope of the private sector. Most notable has been the dramatic growth in information and communications technology. This technological change has not only created new market opportunities and competitive pressures for business, but also new social challenges and expectations by underpinning the blossoming of civil society. Certain new technologies have also created or increased the potential for conflict. This ranges from the use of information and communications technology by terrorist and criminal organisations, to the increased potential for conflict around issues such as access to technology and the impact of certain technologies, such as biotechnology, on poorer countries and communities.

Increased societal expectations

At the same time that privatisation and liberalisation have transferred assets and many would argue power to the private sector, democratic and technological advancements have transferred other sources of power, or certainly empowerment, to civil society organisations and citizens. This takes a variety of forms, ranging from millions of tiny community initiatives to campaigning on a world wide scale, supported by unprecedented communications capacity via the internet and the global media. A strong focus of these activities has been to call for greater accountability on the part of both governments and business. In a 'networked world' there are few hiding places for companies that are deemed to operate unethically or irresponsibly, especially multinationals. As Thilo Bode, Executive Director of Greenpeace, pointed out in a Financial Times interview in August 1999, "Multinationals are much more vulnerable [than governments], because they have to be accountable to the public every day – governments have that only once every few years".

Global competitiveness

The majority of businesses are not only facing rising societal expectations, but also dramatically increased and relentless competition. Failure to deliver value to their customers and shareholders will result in board upheavals, market erosion and in some cases, take-overs or acquisitions by other companies. Whilst being responsive to a growing social agenda, companies must therefore be more responsive than ever before to the commercial agenda. Increasingly the two are positively linked, but not always.

Changing 'governance' structures

There is fundamental change taking place in our understanding and practice of governance. Governance used to be principally about what governments do. Today, the concept is increasingly about balancing the roles, responsibilities, accountabilities and capabilities of different levels of government and different actors or sectors in society. This is creating new challenges for all the actors involved, including business. In the long-term it offers potential for more accountable and effective governance structures and more active and open civil society. In the process of transition, however, there is often confusion over the relative roles and responsibilities of different actors, vested interests operating against change, and increased potential for conflict. Another serious challenge is the emergence of 'uncivil society'. Essentially this can be defined as non-governmental actors – many of which are commercial enterprises or are funded by commercial enterprise – that are illegal or illegitimate and increasingly difficult to control in today's global economy. Drug trafficking and illicit arms trading are obvious examples.

BUSINESS... UNDER PRESSURE TO PERFORM COMMERCIALY AND SOCIALLY

The overall implications of these trends for business can be summed up as growing pressure to perform both commercially and socially. In almost every industry sector and almost every country, companies are under greater pressure than ever before to meet both shareholder demands and wider stakeholder demands. What is more, they are under greater pressure than probably ever before not only to manage their actual performance in each of these areas, but also to respond to external perceptions of this performance. As a result, the typical company board and senior management team have to decipher and respond to what is often a mixed set of signals from an increasingly wide range of stakeholders. Whilst there is growing evidence of positive links between corporate social responsibility, reputation and

shareholder value, especially over the longer-term, on a day-to-day basis the issues are rarely that simple to deal with. Often difficult trade-offs and value judgements have to be made. Over the past decade, managing a private enterprise, especially a global one, has become a much more complex and challenging process. Nowhere is this more true than in regions that are prone to violent conflict or experiencing conflict. Companies that have a legal and legitimate purpose are under pressure to demonstrate that they are not contributing to such conflict and where possible, that they are proactively helping to avoid or solve it.

2. The changing nature of conflict

War between states to internal conflict

Today more than 90% of armed conflicts take place within rather than between states. According to the World Bank, of the 101 conflicts that occurred between 1989 and 1996, 95 of them were internal and most were in developing or transition countries.

Geo-politics and ideology to resources, identity and state 'failure'

Linked to the increase in intra-state wars is the fact that the underlying causes of conflict have shifted from being primarily about geo-strategic interests and ideological differences, to conflicts based on access to resources, issues of identity and 'state' failure.

Military casualties to civilian victims

Civilians, who accounted for between 5-10% of war casualties during the 1st and 2nd World Wars, now comprise 85 – 90% of all victims. Most are women and children. In a growing number of situations, far from adhering to the *Geneva Conventions on the Rules of War*, combatants have made the targeting of civilians a strategic objective. From Kosovo to Sierra Leone, there are tragic examples of the close relationship between human rights abuses and war. Some 5 million civilians have been killed in war and internal conflicts during the past decade, and a further 6 million injured. According to UNDP, these conflicts have forced 50 million people to flee their homes and created more than 10 million refugees and 5 million internally displaced people. In the past decade, 2 million children lost their lives in conflict, 6 million were disabled or maimed, 15 million made homeless, and more than 1 million were orphaned or separated from their families by conflict. The rise in the use of child soldiers, especially in Africa, has added a further toll. Save the Children estimates that there are over 300,000 children – some as young as 10 – fighting adult wars.

Superpowers to poorer states in transition

Most major conflicts in the past few decades have occurred in poorer countries and states that are in the process of political and socio-economic transition.

State-sponsored war to privatisation of violence and security

In recent years the world has witnessed a dramatic increase in the privatisation of security and violence. Examples of this trend range from the growth of unauthorised militias and local warlords, to the activities of narco-guerrillas, mercenaries, private security and military companies. Many private security and military companies are legally constituted enterprises, but their operations raise new challenges for the state and for the private companies that hire their services. There is also the problem of violent crime and renewed conflict caused by demobilised soldiers in many post-conflict societies. These people have either been unable to integrate back into civilian professions, or have decided that their access to small arms and the pursuit of illegal activities is more lucrative.

Weapons of mass destruction to small arms

Whilst the threat from weapons of mass destruction has not disappeared, their production has declined. There has, however, been a dramatic increase in the legal and illegal trade in small arms. About 90% of all deaths and injuries in present-day conflicts can be attributed to small arms, of which UNDP estimates there are about 500 million in circulation around the world. Many of these arms are in the hands of private operators, rather than state-controlled armies. Their size makes them easy to transport and to transfer between legal and illegal ownership. They have become central components in many internal conflicts and in undermining the fragility of post-conflict reconstruction and reconciliation. Landmines represent an especially serious problem. The World Bank estimates that there are 80 to 100 million landmines deployed in over 65 countries, causing more than 25,000 casualties a year, most of whom are civilians. It costs US\$3 – US\$10 to buy a landmine and between US\$300 – US\$1000 to remove one.

State-based diplomacy to 'multi-track' diplomacy

The changing nature of conflict has had major implications for approaches to preventive diplomacy and peacemaking. Traditionally these have been the sole preserve of the leaders or authorised representatives of states. In today's multi-polar world, such an approach whilst still important, is no longer adequate on its own. There is a need for more multi-disciplinary approaches. This requires a growing role for non-state organisations and private individuals, including business, in the process of negotiating and making peace. As a result, there has been an increase in what is termed 'two track' or 'citizen' diplomacy, whereby unofficial and often informal negotiations occur between members of adversarial groups or nations. The Institute for Multi-Track Diplomacy has developed the concept of multi-track diplomacy and identified the following key actors: governments; churches; professional organisations; the media; training and educational institutes; funding organisations; activists; private citizens; and the business community. Examples include the roles played by: former politicians, such as Jimmy Carter in his visits to North Korea and Haiti in the 1990s; the Norwegian Labour Union's social research institute in facilitating the Oslo Peace Process between Israel and Palestine in 1993; and business leaders in promoting peace in Ireland, South Africa and Mozambique.

Military security to human security

In recent decades there has been a shift in our concept of security. Traditionally a nation's security was measured by the size of its army and military installations. Whilst this mindset is still the norm for many governments, there is growing acceptance in the international community that security is also about human security and freedom from oppression, violence, poverty, hunger and disease. State security systems remain important mechanisms for ensuring human security from both internal and external threats. There is growing evidence, however, that in many recent conflicts state forces are all too often turned against a nation's people, rather than protecting them. This trend has raised serious questions about the inviolability of a nation's sovereignty and created new challenges for the international community in terms of when and how to intervene in internal conflicts. Humanitarian and human rights principles have been increasingly invoked to justify external interventions in internal conflict, as happened in Kosovo and East Timor in 1999.

Intervention to prevention

At the same time that the international community is starting to undertake military interventions to prevent gross violations of human rights within sovereign states, there is growing recognition of the need to shift towards a more preventative peace-building approach to security. This approach places economic and social development as integral aspects of the international security agenda. This contrasts with traditional approaches that have characterised international aid and peacekeeping activities in the past, which tended to separate peacekeeping and conflict resolution from poverty reduction and sustainable development.

BUSINESS... PART OF THE PROBLEM OR PART OF THE SOLUTION?

Human centred development, which places human security at its core, is increasingly accepted as a necessary condition for peaceful and progressive societies. Private enterprises have a potentially vital role to play in supporting such development. They can create the economic wealth and livelihood opportunities, and support the social development activities needed to meet basic human needs. In doing so, they can help to counter some of the key causes of modern conflict. Failure to play a proactive role in this process positions business as part of the problem rather than part of the solution. It also creates direct and indirect costs for business as outlined on the following pages.

War and armed conflict impose huge economic and environmental costs. These include: the destruction of physical infrastructure (transport and irrigation systems and power supplies) and social infrastructure (schools and hospitals); the loss of trade, investment and commercial links; damage to the environment; and the contamination of agricultural land, particularly by anti-personnel landmines. The extent of war-induced economic collapse is enormous in many countries.

SaferWorld, Submission to International Development Committee Enquiry, UK, 1998

3. Business costs of conflict

Conflict is almost always an impediment rather than a spur to private sector investment and economic growth. With the exception of the 3-4% of world trade generated by the arms industry, certain illegal commercial activities, and situations where business gains directly from being part of war economies, few industries benefit from violent conflict. In the short-term, employees are threatened, if not killed, markets are slashed, infrastructure is damaged and in many cases company assets are seized or destroyed. In the long-term, the way in which conflict undermines social and economic progress will seriously impact a company's own prospects for successful investment and economic progress. The private sector therefore has commercial interests as well as a moral imperative to help prevent and resolve violent conflict.

It is useful to think of the business costs of conflict in two categories:

- 3.1 Indirect societal costs of conflict** – such as 'internal' costs to the country, region or locality in which a violent conflict is occurring and 'external' costs to the international community, both of which have an indirect impact on business; and
- 3.2 Direct business costs of conflict** – the costs that directly hit the individual company's bottom line and/or reputation. These are often linked to the broader societal costs, but have a more direct impact on a company's immediate business operations or investment strategies.

3.1 Indirect societal costs of conflict

The 'internal' costs that a country faces as a result of conflict can be summarised as the destruction or undermining of human, social, economic, environmental and political capital. To the extent that all of these types of capital are critical for the success of most private sector investments, it follows that their destruction will have a negative impact on current investment – both domestic and foreign – and will put off new investment. It is impossible to put a 'price tag' on the human misery and breakdown in systems of governance, trust and tolerance that are a common legacy of conflict. The more quantifiable economic and environmental costs, however, run into many billions of dollars. The examples opposite of Mozambique, Sri Lanka and Bosnia illustrate this point.

Added to these 'internal' costs are the 'external' costs borne by neighbouring states and the international community:

- In neighbouring states the costs of supporting warring factions and refugees from another country may themselves become a source of conflict. The engagement of Zimbabwean troops in the Congo's civil war, for example, has not only exacerbated Zimbabwe's already weak economic situation, but is creating growing political tensions in the country. As a result, the private sector in Zimbabwe has faced the costs of a declining economy and political uncertainty, due in part to a conflict far beyond the country's borders.
- The costs facing the UN system, its donor governments and their taxpayers (including corporate taxpayers) include: dealing with humanitarian crises and refugee flows; undertaking military interventions and/or peacekeeping operations; addressing regional instability; supporting lengthy peace negotiations and diplomatic missions; and funding the costs of reconstruction and rehabilitation in post-conflict situations. It can be argued that these costs don't impact the private sector adversely, at least on a direct basis. Indeed, the costs borne by donor governments for reconstruction, peacekeeping and to a lesser extent humanitarian relief, represent business opportunities for some industries and companies. Having said this, there may be indirect business costs associated with the reallocation of government funds to cope with conflict. These funds have an 'opportunity cost' in that they could have been used for more productive purposes, including support for the private sector, either within the donor country itself or in the country ridden by conflict.

COUNTING THE COSTS OF CONFLICT

The following country profiles, drawn from diverse regions of the world and representing nations with different histories and at different stages in development, give some indication of the actual costs of conflict, especially the economic costs, to the countries in question, their business communities and selected foreign investors.

MOZAMBIQUE ⁽⁵⁾

During Mozambique's 16 year civil war from 1975 to 1992 over 40% of schools and health centres were destroyed or forced to close; economic losses totalled US\$15 billion, equal to four times the country's 1988 GDP; and industries were so damaged that post-war production equalled only 20-40% of pre-war capacity.

UK-based Lonrho, a conglomerate with mining, oil, agricultural and auto interests, was the largest foreign investor in Mozambique during the 1980s, controlling an estimated 40% of the country's GNP. The high costs of conflict borne by the company were a key factor that motivated the direct involvement of its CEO Tiny Rowland in the country's peace negotiations. These costs included:

- Significant material losses as a result of destruction of property, particularly damage to its oil pipeline running from Beira to landlocked Rhodesia (Zimbabwe);
- Protection payments to the Renamo rebels costing half a million dollars a month. Although expensive, they only brought temporary respite and Renamo continued with occasional attacks;
- Supply of uniforms and materials to the Mozambique army and support for a military training agreement with the UK government;
- Hiring of a private security firm, Defense Systems Limited, at a cost of some £6 million; and
- Negative impacts on the company's other business interests in Zimbabwe, Zambia and Malawi, due to increased regional instability.

By the end of the 1980s the war was having a serious impact on Lonrho's bottom line. The combination of security costs, some 30% of operating costs on an annual basis, and damage to assets, resulted in Mozambique

contributing about £2 million a month to Lonrho's world wide losses. The strategy of secretly paying off the rebels, publicly funding the army and hiring private security firms was proving untenable and unsatisfactory, and the company started to engage actively in facilitating the peace process between the Mozambican government and Renamo. This role of 'business diplomat' was, and remains, a controversial one for companies to engage in and is discussed in the section on Dealing with Key Challenges.

SRI LANKA ⁽⁶⁾

Ethnic tensions erupted into large scale violent conflict in Sri Lanka in 1983. Since then between 45,000 and 55,000 people have been killed, including some 30,000 civilians, and more than one million people have been displaced or become refugees. Military spending increased from 1.4% of total government spending in 1982 to 15.8% in 1998. The costs of the war to the Sri Lankan business community have been high, an estimated \$2.2 billion, or 22% of Sri Lanka's GDP in 1995. These have included: increased taxes (a national security levy of 5.5% has been placed on goods and services); destruction of physical assets (damage to physical infrastructure is estimated at over US\$1 billion); closure of major industrial enterprises, such as cement and chemical factories, in the North and East; reduced productivity and output from agriculture and many other industries; personnel costs (such as frequent disruptions in normal working hours, low morale and brain drain); loss of tourism revenues (estimated at over \$1.5 billion); restrictions on transport of goods and services around the country; and lost investment opportunities from both local and foreign investors. Estimated lost foreign direct investment since the start of the war exceeds \$1.1 billion. Motorola, for example, was planning to build their first Asian plant

in Sri Lanka, but pulled out immediately following the 1983 riots and moved the project to Malaysia. The Marga Institute believes if not for the war, during the 1982-1998 period over 40% more of GDP (1998 prices) would have been available for consumption and investment to improve welfare and development.

BOSNIA ⁽⁷⁾

A 1999 publication entitled The Costs of Conflict, undertook detailed analyses of the costs of several conflicts to the international community. The report produced the following figures for the Bosnian conflict between 1992 and 1998. The estimated economic damage of the war to Bosnia was US\$60 billion. By the end of 1995, 45% of all industrial plants and 75% of oil refineries had been destroyed. Electric generating capacity was 20% of its prewar level. Some 30% of all health facilities and 50% of all schools had been destroyed. The Muslim areas operated at only 5% of their prewar production capacity and Croat areas at 15% of prewar levels. Exports were 10% of their prewar level by 1995, although imports remained relatively high at 41% of prewar levels. By 1997, the annual income per capita had dropped to US\$500 and the rate of unemployment stood at nearly 70%. The report estimated that the Bosnian conflict cost the international community at least US\$53.68 billion between 1992 and 1998. This was broken down as follows:

Military, including the UN mission and costs of NATO's operation	US\$19.06 b
Humanitarian costs borne by public and private relief agencies & nearby countries	US\$11.98 b
Economic (direct costs for rehabilitation of physical and industrial infrastructure)	US\$6.36 b
Economic (opportunity costs – estimated trade revenue lost by nearby countries)	\$510.00 b
Individual nations, direct bilateral financial and in-kind contributions	US\$6.28 b

3.2 Direct business costs

The direct corporate costs of conflict will obviously vary depending on factors such as the type of industry, proximity of the conflict to the company's operations, level and time horizon of the company's investments and extent of the company's role in creating or exacerbating the conflict.

The costs and risks of conflict are likely to be higher for the 'big footprint' investors in the extractive, infrastructure and heavy industry sectors, for example, than for consumer goods, financial services and tourism companies. The former group have major and long-term 'on-the-ground' investments and active engagement in strategic (and hence conflict sensitive) industries. The latter group, on the other hand, are more able to disinvest or change their sources of supply, areas of distribution, or range of services in periods of conflict. Even for this latter group, however, there can be potentially serious costs. A medium sized tourism company, for example, could go bankrupt as a result of losing its business in one country or having clients that get killed in a conflict zone. A major oil company, on the other hand, may incur larger absolute costs, but be more able to absorb them in its overall global operations.

Even when the costs of operating in conflict sensitive or war-ridden societies are high, the business benefits of doing so may still outweigh the costs. Again, this is more likely to be the case for the 'big footprint' industries than it is for others. The operating conditions, however, will still be more costly and more risky in terms of both material losses and possible reputation damage, than is likely in more stable societies.

Despite the variation between different industry sectors, it is possible to identify some generic business costs which companies need to consider when operating in, or planning to invest in, conflict sensitive or war-ridden countries. These can be summarised as follows:

Security costs

Payments made to the state and/or private security forces to protect employees, contractors, assets etc. An article in *The Economist* magazine on May 25th 2000, entitled *Business in Difficult Places*, illustrated how expensive this can be, "In Algeria, where Islamic terrorists trade atrocities with pro-government militias, oil firms typically spend 8-9% of their budgets on security. In Colombia, where leftist guerrillas, pro-government paramilitaries and cocaine barons spread mayhem, the figure is roughly 4-6%..."

Other risk management costs

These include high insurance premiums, loss of insurance coverage, specialised emergency training programmes etc.

Material losses

Material losses can involve destruction of the company's private property (i.e. plant, machinery and product) or destruction of public infrastructure that is vital for operating the business (which may belong to the company or the state i.e. roads, energy, pipelines, ports and other facilities). In Colombia, for example, pipelines managed by Western oil companies in joint ventures with EcoPetrol, Colombia's state-owned oil company, are blown up on a regular basis.

Opportunity costs

These may include disruption or suspension of production, lost markets, disruption in trade links, insufficient foreign exchange and lost investment opportunities. In many conflict situations, essential imports such as machinery, and raw materials may take months instead of days to reach their correct destination, if they get there at all.

Capital costs

Companies operating in conflict zones may find it more expensive and more difficult to raise capital through the international capital markets and bank loans. In June 2000, for example, the diamond mining company Oryx cancelled its plans for a flotation on the London stock exchange after its financial advisers withdrew. The exchange and British

government had expressed concerns about the company's activities in the Congo, where it had signed a profit-sharing agreement with the Congo and Zimbabwean governments for a US\$1 billion diamond concession. Another example is the activism that PetroChina faced from a coalition of labour and human rights organisations when it made an initial public offering of shares on the New York Stock Exchange in April 2000. These groups lobbied investors not to buy PetroChina shares, in part because of its parent company's investments in Sudan (see page 82). Several major US pension funds decided not to invest.

Personnel costs

Apart from the costs of employee security, there may be costs of increased stress, lower productivity levels, more labour disputes, disruption of labour markets and problems with recruiting good people. Most seriously, is the risk of lost lives among employees as a direct result of violent conflict and the longer-term impacts that such losses have on the morale and security of those left behind. Linked to this, kidnapping is a major personnel risk for companies operating in countries of conflict. It is used by warring factions, militants and criminals for various reasons such as gaining media attention, making 'political statements' and generating revenues. In August 2000, for example, militant youths held 165 people hostage for five days on two Royal Dutch Shell oil rigs in Nigeria's troubled River Delta province, demanding cash, jobs and a greater share of the region's oil wealth for the local Ijaw ethnic group. Although in most cases hostages are released, hundreds of deaths have occurred. The kidnap and beheading in 1998, of four engineers employed by the British company Granger Telecom whilst installing a mobile network in Chechnya, is one example, and the execution of three expatriate Chevron employees by opposition forces in Sudan in 1984 is another. Colombia, Peru, Mexico, South Africa, parts of the Former Soviet Union, Alegria and the Philippines have been high risk areas for kidnappings in recent years.

Litigation costs

These include the time and money spent in dealing with lawsuits when companies are accused of being directly responsible for, or complicit in, a conflict situation. One example is the lawsuit filed by Ecuadorean Amerindians against Texaco in 1993, supported by NGOs in Europe and North America. In 1996 an American judge ruled against the case, but it inflicted direct costs on Texaco in terms of money management time and reputation. Another example is the current civil lawsuit that was filed by activist lawyers in the US courts against Unocal on behalf of 12 Burmese farmers. The plaintiffs are seeking US\$ 1 billion in damages from the company for human rights abuses committed against them and their families by Burmese troops responsible for security of the company's joint-venture pipeline in Burma. As *The Economist* pointed out in an August 1999 article entitled '*Go global, sue local*': "Until recently, a multinational operating in a less-than-savoury country had nothing to worry about except its image. ...But now American-based firms face a new danger: being sued at home for offences committed overseas... This is the flip side of globalisation". In the example of the Unocal lawsuit, US companies have been put on notice that they may be legally answerable not only for their own overseas behaviour, but also that of foreign companies and state-owned enterprises that they partner with.

Reputation costs

These result from either the reality or perception of a company being deemed to have 'got it wrong'. This can occur if the company is deemed to be :

- associated with or investing in a 'pariah' state (such as Myanmar);
- benefiting from operations that directly or indirectly support a 'war economy' (such as the Sudan, Sierra Leone or Angola); or
- seen to have had responsibility for, or complicity in, a specific human rights abuse or violent incident.

Reputation risks are often highlighted in regions of conflict, where media attention is already focussed. Reputation damage can have negative ramifications for the company due to its impact on consumer choices, risk ratings and even share prices. Examples of companies that have seen their reputation and in some cases business results damaged as a result of problems associated with conflict situations, are illustrated in the box on the following pages.

CORPORATE REPUTATION COSTS ASSOCIATED WITH CONFLICT

The following vignettes illustrate some of the companies that have faced reputation damage due to their real or perceived activities in conflict prone or conflict-ridden countries:

PepsiCo, Heineken, Carlsberg, Unocal, ARCO, Premier Oil and others investing in Myanmar (Burma).

These companies have been targeted by a variety of pressure groups such as the Burma Action Group and the Free Burma Campaign (FBC). FBC is an international, internet-based coalition of NGOs, trade unions and private individuals focused on pressuring multinational companies to divest from Burma. The campaign is reviewed in more detail on page 78. In the past two years over 30 major multinational companies have divested from Burma, partly as a result of the reputation damage and lost business they were facing in their European and North American markets. In its 1997 report *No Hiding Place: Business and the politics of pressure* Control Risks Group notes that, “the prime lesson of the (Burma) case study is that the politics of a once isolated country now have repercussions for governments and business in a much broader political arena. ... Burma will remain a high political risk for international companies on its own account, but also because of the potential repercussions on the activities of such companies in the US... Western companies investing in other pariah states must expect to face hostile publicity and potentially NGO boycott campaigns – in their home countries.”

De Beers and other players active in the African diamond trade.

These companies have been targeted by the Fatal Transactions campaign. This is a consumer campaign consisting of four international human rights organisations which was launched in October 1999 to alert the public to the links between the global diamond trade and the funding of conflict in African countries such as Angola, Sierra Leone and the Democratic Republic of the Congo. It is reviewed in more detail on page 83. In early 2000, De Beers bowed to pressure and announced that it would begin issuing written guarantees that its stones do

“not include any diamonds which come from any area in Africa controlled by forces rebelling against the legitimate and internationally recognised government of the relevant country.” Although the company’s sales had not been damaged by the campaign, in fact had achieved record levels over the millennium period, the Financial Times quoted a Johannesburg-based mining analyst as saying, “...there were signals that the campaign could have escalated and seriously damaged De Beer’s image. They have decided to heed the warning signals, partly because, as the world’s largest producer, they had a moral responsibility to act”.⁽⁸⁾

The Dabhol Power project in India.

This joint venture between Enron, GE, Bechtel and the Maharashtra State Electricity Board has been the focus of campaigning by Human Rights Watch. Major emphasis has been placed on the role of Enron, which owns a 50% stake in the project. In this case the company is being campaigned against not for investing in a pariah or war-ridden state (indeed India is the world’s largest democracy), but for complicity in violent conflict and human rights abuses at a local or situational level. In a report published in 1999⁽⁹⁾, Human Rights Watch accuses the company of paying the salaries of state employed police forces who have been responsible for beatings, arrests and other forms of repression against local communities and activists opposing the investment project. Human Rights Watch has called on not only Enron and the governments of India and Maharashtra State to account for these abuses, but also public and private financial institutions that have funded the project. These include: Bank of America, ABN Amro, a group of Indian banks and the US Export-Import Bank. Over the past year Enron has taken steps to develop operating procedures, hire professionals and implement management systems to improve the rigor and scope of its corporate social responsibility agenda.

Talisman Energy in Sudan.

This Canadian oil company has been the subject of an official investigation ordered by the Canadian Minister of Foreign Affairs, following growing international pressure over its operations in Sudan, which are part of a consortium with the Sudanese, Chinese and Malaysian state oil companies. The Canadian government established a commission in 1999 headed by John Harker, an African specialist and former government adviser to investigate the situation. An official report was made public in early 2000 and concluded that the company’s investment in Sudan had strengthened the capacity and willingness of the Islamist Sudanese government to wage war against Christian and tribal rebels in southern Sudan.⁽¹⁰⁾ The report pointed to the use of the consortium’s airstrip by the Sudanese military and stated that, “The evidence we have gathered, including the testimony of those directly involved, directs us to conclude that oil is exacerbating conflict. ...There has been and probably still is major displacement of civilian populations related to oil extraction ...Sudan is a place of extraordinary suffering and continuing human rights violations, even though some forward progress can be recorded, and the oil operations in which a Canadian company is involved add more suffering.”⁽¹¹⁾ The company’s stock price had been weighed down during the fact-finding process by bad publicity and concerns over the future of Talisman’s operations in Sudan. It rebounded, however, after the report was released and the Canadian Foreign Minister Lloyd Axworthy decided not to impose sanctions on the company. At the height of the controversy the company did agree to sign up to a code of conduct developed by other Canadian companies operating internationally.

Shell in Nigeria, BP Amoco in Colombia and Rio Tinto in Indonesia.

These companies have been targeted by a variety of pressure groups, journalists and politicians due to the perceived and real impacts that their operations have had on violent conflict and human rights abuses in specific regions of each country.

Shell's activities in Nigeria, especially after the execution of Ken Saro Wiwa and 7 other Ogoni leaders in 1997, have been the subject of intensive international media coverage and campaigns by shareholder activists and NGOs. These included activities by Amnesty International and by Human Rights Watch, who published a report on Nigeria entitled *The Price of Oil* in 1999, with strong recommendations for action by the foreign oil companies. The Body Shop also ran a campaign on Nigeria which was highly critical of Shell. The criticisms levelled at the company by these different campaigns has centred around issues of:

- environmental degradation;
- lack of recognition for indigenous land rights,
- loss of livelihood opportunities by local communities;
- human rights abuses by paramilitary forces such as the Mobile Police and national security forces in the process of protecting the company's employees and assets;
- lack of compensation to local communities;
- minimal benefits to them from state oil revenues; and
- failure on the part of the company to assert stronger influence on the government – both in general terms and on specific issues such as the Ogoni executions and revenue distribution.

In response to these criticisms the company has embarked on an extensive process of stakeholder engagement in Nigeria and internationally and has undertaken far-reaching changes in certain policies and operating procedures including the revision of its business principles and implementation of a comprehensive Sustainable Development Management Framework.

BP's operations in Colombia have also been the source of NGO criticism and negative media coverage, especially in the British press. The latter has been supported by the activism of a UK-based Member of the European Parliament, whose goal has been to get more stringent controls on multinational companies passed through the European Parliament. As with Shell, criticism has revolved around the socio-economic and environmental impacts of the company's investment in the Casanare region of Colombia and the way it has handled its security arrangements. In 1999, in response to this criticism, the company engaged in an intensive dialogue with a group of UK-based development NGOs called the Inter-Agency Group (CAFOD, Christian Aid, Catholic Institute for International Relations, Oxfam UK and Save the Children Fund UK) – see profile on page 135. It has also reviewed and revised key policies and operating processes for Colombia and elsewhere.

Rio Tinto's investments in the Kelian gold mine in East Kalimantan and the Freeport McMoRan Grasberg gold and copper mine in Irian Jaya, have attracted negative attention from environmental and human rights NGOs in Australia, Europe and the United States. As with Shell and BP, Rio Tinto has also had its annual general meetings picketed by pressure groups. Criticisms have covered similar issues to those directed at the other two companies. In response Rio Tinto has also initiated stakeholder consultations and operational and policy reviews. In 1999, the company played a leadership role with other mining companies and the World Business Council for Sustainable Development, in establishing a two year study of 'Mining and Sustainable Development' which will review the socio-political as well as environmental impacts of mining activities in different parts of the world.

Each of these situations has created reputation damage for the three companies involved – unjustified as well as justified. They have also incurred heavy costs in terms of paying for local security, the kidnapping of personnel and contractors, and the disruption and closure of operations. Extensive management time and resources – at both head office and the local level – have been dedicated to responding to each local crisis, answering international criticisms, addressing misperceptions, rectifying problem areas, implementing new policies and management systems, and communicating progress.

All of these cases have been instrumental in putting the complex linkages between business, human rights and violent conflict more firmly onto the corporate agenda. They have highlighted a number of critical issues and suggested lessons for future private investment – both for these companies and others in their industry sector. In the case of the three companies in question, they have led to a variety of practical and policy changes in the way they manage and account for their operations in conflict prone or war-ridden societies. All three companies now include an explicit commitment to human rights in their business principles and are playing a pioneering role on these issues in their industry and the private sector in general. Having said this, the examples continue to be a source of major challenge both for the companies themselves and for the stakeholders engaged with them. Some of these challenges are reviewed in more detail in later chapters.

4. Business benefits of peace

...I believe that it is part of building good sustainable businesses to help establish safe, secure, stable and peaceful societies. Business thrives where society thrives.

Peter Sutherland, Chairman BP and Goldman Sachs

In the vast majority of situations and for the vast majority of organisations – in the public and private sectors – there is an economic benefit in resolving violent conflicts and preferably preventing them from happening in the first place. Some of the benefits of peace or conflict prevention which can have a direct impact on business are as follows:

Better investment opportunities

Over the longer term peace provides the underlying basis on which to build healthy market economies, which in turn provides the private sector with customers, qualified employees, local suppliers and investors. In post-conflict situations there are also immediate investment opportunities for the private sector, especially infrastructure companies, as international agencies look increasingly to public-private partnerships to share the burdens of reconstruction.

Reduced operational costs

Peaceful and stable conditions are likely to lower key operating costs for companies, such as risk management, security and personnel expenditures.

Reallocation of national state expenditure

State expenditure could be reallocated from military-related purposes to social and productive purposes. The 1997 *Carnegie Commission on Preventing Deadly Conflict* estimated, for example, that military expenditures per soldier in developing countries were US\$9,094 compared to education expenditures per student of US\$143 and health expenditures per capita of US\$22. In the UK, the British House of Commons *International Development Committee*, argues that, “if just 25% of the £80 billion spent on arms (in developing countries) were diverted to health, education and other social development in those countries, most of the development targets for the year 2000 could be met.”⁽¹²⁾ Equally, money could be reallocated to support industrial and enterprise development, ranging from large-scale physical infrastructure to micro-credit.

Reallocation of international funding

Official development assistance could be reallocated from peacekeeping and humanitarian relief to other development purposes. OECD countries currently spend over US\$10 billion every year in emergency humanitarian assistance. Much of this is conflict-related. The figures are far higher for peacekeeping and military interventions. This diversion of international attention and scarce public resources to address violent conflict reduces the overall funds available for development globally. It also increases inequity, in the sense that there is a major gap between the international resources deployed for strategic conflict regions, such as the Balkans and the Middle East, compared to those deployed for poorer, but less strategic parts of the world, such as Africa. In more stable and peaceful circumstances the former regions would be more than capable of attracting private investment and would not need high levels of international military support and official development assistance. Such assistance could then be targeted at poorer countries, especially in sub-Saharan Africa, that are less capable of attracting private capital even when they are not facing conflict, let alone when they are. Appropriately targeted development assistance could help to make these countries more attractive to private investors and more capable of sustaining diversified and effective market economies.

Principles for corporate engagement in conflict prevention and resolution

2

1. Strategic commitment
2. Risk and impact analysis
3. Dialogue and consultation
4. Partnership and collective action
5. Evaluation and accountability



A commitment to uphold international human rights standards in companies' business principles or codes of conduct is a good starting point, but companies need to go further. To win credibility from society at large, they must demonstrate top-level support, allocation of responsibility and resources to integrate human rights into mainstream business activities, ongoing stakeholder consultation, independent verification and reporting against benchmarks.

Human Rights: Is it any of your business? Amnesty International and The Prince of Wales Business Leaders Forum, 2000

Mission statements and guidelines are only as good as their implementation. CEOs and directors can, and must, give guidance and direction, but the actual implementation can only be carried out by the people in the company who are making the products, delivering the services, carrying out the R&D, purchasing the inputs, marketing the outputs, managing the financial books, running the training, co-ordinating health, safety and the environment, and managing the corporate community involvement activities.

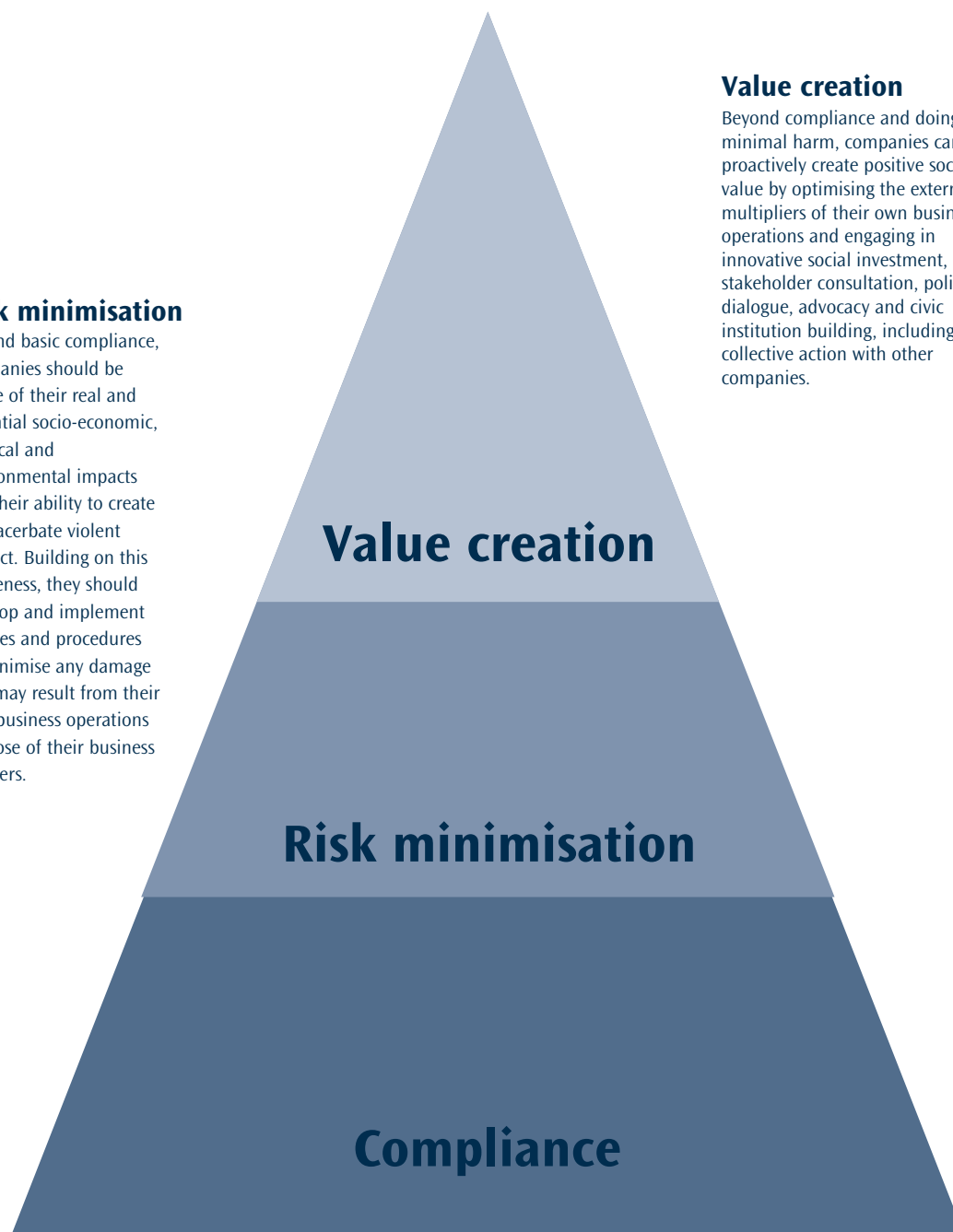
Business as Partners in Development, The Prince of Wales Business Leaders Forum in collaboration with the World Bank and UNDP, 1996

Risk minimisation

Beyond basic compliance, companies should be aware of their real and potential socio-economic, political and environmental impacts and their ability to create or exacerbate violent conflict. Building on this awareness, they should develop and implement policies and procedures to minimise any damage that may result from their own business operations or those of their business partners.

Value creation

Beyond compliance and doing minimal harm, companies can proactively create positive societal value by optimising the external multipliers of their own business operations and engaging in innovative social investment, stakeholder consultation, policy dialogue, advocacy and civic institution building, including collective action with other companies.



Compliance

At the very minimum, companies should comply with national regulations (even if host governments are not effectively implementing or monitoring these) and multinational companies, in particular, should benchmark their local practices against internationally agreed laws, conventions and standards.

In conflict prone or conflict-ridden situations companies face the dual challenge of:

- **taking full responsibility for how they manage their own activities and interactions with society at the level of the individual enterprise or micro-level; and**
- **engaging, preferably with others, in addressing some of the structural challenges at the macro-level that make these locations prone to conflict in the first place.**

Such structural challenges relate to issues of governance, equality, poverty, justice, identity and ideology. These issues are not normally considered within the provenance or competence of business to deal with. As private enterprises become more central players in economies around the world, however, they will be under increasing pressure from certain stakeholders to at least acknowledge, if not proactively address, these issues. None of them are easy to address – even for governments and civil society actors – let alone the business community. In the final analysis the core role of business is, and should remain, the creation of wealth and the production of legitimate, legally acceptable goods and services. The way in which it carries out this process, however, will be critical in determining whether it has a negative impact on the above structural issues or a positive one.

No multinational company aiming to be a world class player – in terms of either performance or reputation – can afford to ignore the dual challenge outlined above. At both the enterprise level and structural level, companies can adopt the following three strategies for corporate responsibility.

- **Compliance** – At the very minimum, they should aim to comply with national regulations and where applicable, international laws and standards.
- **Risk minimisation** – they should aim beyond compliance, however, to minimise risks and harm from their operations.
- **Value creation** – ultimately they should aim to proactively create societal value-added and enhance shareholder value-added by optimising their positive impacts on society.

This section outlines five inter-dependent principles for action that can contribute towards achieving this aim of societal value-added. These principles are applicable for companies operating in any industry sector, country or community, but have particular relevance in conflict sensitive or conflict-ridden situations.

STRATEGIC COMMITMENT

Provide CEO and board level leadership on corporate responsibility issues. Establish policies, guidelines and operating standards that make explicit mention of these issues, including human rights, corruption and where appropriate, conflict and security arrangements. Develop internal management systems, compliance and incentive structures to embed policies into the company's daily activities. Invest in awareness raising and skills development programmes for employees and business partners to increase their understanding and capacity to address the company's socio-economic and environmental impacts. Recruit or contract specialised expertise where necessary.

To-date few companies have made explicit public commitments on their role in conflict prevention and resolution. A growing number, however, are establishing policy statements, principles and operating guidelines on specific issues that are linked to conflict prevention such as human rights, anti-corruption measurements, security arrangements, labour conditions, diversity, dealing with indigenous people, the environment and so on.

In some companies these are incorporated into a statement of *General Business Principles* or statements on *What We Stand For* or *How We Operate*. In others, they are addressed as separate guidelines. In a growing number of companies both approaches are used, with general commitments to good practice and then more detailed operational procedures on complex issues such as security arrangements and human rights. Over the past two years, for example, Shell, BP Amoco, Rio Tinto, British Telecommunications, Premier Oil, Nokia, Novo Nordisk, Norsk Hydro and Statoil have all incorporated explicit statements on human rights into their business principles or policy statements. Several of these companies are now developing performance indicators for the way they deal with human rights at the operational level. Similar approaches are being adopted with security arrangements and anti-corruption measures.

A critical issue is the level and degree of senior leadership in the company. This should include a commitment at board level, for example through the establishment of a board committee to cover 'business in society' issues or the appointment of a board level director with responsibility for these issues.

A policy commitment to good practice then needs to be backed-up by management systems to mainstream or embed this commitment through the operational layers of the company and its network of business partners. This requires the establishment of operating procedures, incentives, communication, training, consultation, measurement and accountability systems.

A critically important preparatory step is motivating and developing the skills and capacities of employees and business partners. Senior executives can say all the 'right' words, produce all the 'right' bits of paper and even establish all the 'right' procedures, but if they fail to genuinely motivate and prepare their employees and business partners, the company will achieve at best compliance. In today's internet and media-driven world, the reputation of a business or entire industry sector can be damaged by one contractor, one operating unit, or even one individual, committing a serious breach of the company's business principles. Companies can obviously hire people with expertise on the relevant issues such as human rights and the environment or bring in outside advisers, but this will always be an 'add-on' unless employees and business partners integrate the issues in the way they carry out their day-to-day activities.

A variety of approaches can be used to mobilise employees and business partners. These include the following:

- accountability and disciplinary structures
- financial and non-financial incentives
- training and capacity building activities
- general communications and awareness raising programmes (through workshops, experiential learning, site visits, management manuals, internet-based simulation exercises etc).

RISK AND IMPACT ANALYSIS

Assess the conflict-related risks and impacts of the company's core business and social investment activities on a systematic and comprehensive basis. This requires an understanding of: the nature of the conflict (its causes, stage and location); the role and relationships of other actors; and the characteristics and constraints faced by the company itself. From this basis of analysis it is possible to build performance indicators, targets and strategies for action.

Rigorous and ongoing analysis is central to a company's understanding of the context in which it is operating and the options it may have for engaging in conflict prevention or resolution in a manner that safeguards its business interests whilst contributing to wider societal interests. Two inter-related types of analysis are critical:

- Risk analysis; and
- Impact assessment.

Risk analysis – Most companies have long-standing practices for carrying out political risk analysis at the country and project level. In many cases, however, these have tended to be *ad hoc*, 'top-down' procedures. They have relied heavily on externally commissioned work and desk-based research. Most have been focused on political and economic issues and feedback from policy-level contacts, rather than wider societal and environmental issues and more varied and localised stakeholder identification and feedback. There is growing recognition of the value of having a broader and more systematic approach to political risk analysis which builds on the knowledge of local managers and takes into account consultations with a wider range of local stakeholders on a wider range of societal issues.

In the Financial Times *Mastering Risk* series, Marvin Zonis and Sam Wilkin of Marvin Zonis Associates, identify three groups of factors that drive political risk⁽¹³⁾:

- External drivers: including political instability, poor public policy and weak institutional frameworks, such as corrupt regulatory systems, ineffective legal systems and the inability of governments to provide vital services such as infrastructure and security;
- Interaction drivers: based on the relationship between the company and external actors such as home-country and host-country governments, local authorities and communities, labour unions, NGOs and shareholders; and
- Internal drivers: such as organisational and incentive structures, information systems and staff competencies, which determine the quality and robustness of the company's political risk management processes, in terms of its ability to both identify and manage potential risks.

The first set of drivers is clearly the most difficult for a company to influence, but all of them can be better managed if the company has a good understanding of its relationships, impacts and capacities in the countries in which it operates.

Impact assessment – Over the past decade extensive work has been undertaken by companies, consultants and donor agencies, such as the World Bank Group, in the area of environmental impact assessments on specific projects or investments. More recently these actors have started to undertake social impact assessments. There is now a large literature available on the rationale and practical approaches for carrying out these activities. One of the most important lessons to have emerged is recognition that process is often as important as information. The basic purpose of impact assessments is to gain useful information on the company's real and potential impacts and the risks associated with these. The way in which this information is gathered, however, and in particular the type of consultation that is carried out with key stakeholders, is extremely valuable in its own right. Ideally this process should be conducted through ongoing dialogue, actively involving company managers, rather than as a passive or externally commissioned exercise. Apart from building mutual understanding and trust with external actors, such exercises also add to the local and national knowledge-base available to the company and its ability to make better-informed decisions.

In recent years there have been growing efforts to integrate social and environmental impact assessment into a single framework. What is now needed, especially in conflict regions, is a framework that enables companies to bring together these impact assessments with political risk analysis, and to understand the linkages between all three. It is often the nature of these linkages that determine whether a particular company is likely to create or exacerbate conflict or help to prevent and resolve it. The comments on evaluation and accountability on pages 126 and 133, are also relevant here.

The framework in the next chapter provides a starting point for helping companies to analyse the risks and impacts of their engagement in conflict regions. It outlines some of the key questions that need to be explored – the nature of the conflict; the role and relationship of other actors, both to the conflict and to the company; and the characteristics of the company. An understanding of these issues and their linkages provides a useful starting point for carrying out more detailed risk analysis and impact assessments and for building performance indicators, targets and strategies for action.

DIALOGUE AND CONSULTATION

Identify and engage with key stakeholder groups on a regular and consultative basis. Take into account different capacities and power structures and the need to facilitate genuine participation and two-way dialogue.

A company must invest in regular dialogue and consultation with key stakeholders so that they understand what it is trying to achieve and the practical and strategic constraints that it faces. This is especially important for companies operating in conflict regions where the complexity, lack of reliable information, variety of conflicting interests and fast changing environment create numerous opportunities for misperceptions to occur. In such situations companies need to be proactive in meeting with their colleagues in the business community and outreaching to a variety of stakeholder groups, on both a collective and individual basis.

Multi-stakeholder dialogue – collective dialogue between key stakeholder groups can have a positive impact on the process of conflict prevention and resolution. Given the different vested interests of different stakeholders, especially in conflict situations, bringing them together to discuss key challenges, share respective needs and constraints, and identify common ground can be a valuable, but difficult process. In some situations, the company or business community may be able to facilitate this process. However, given that the companies are themselves actors in the local context, it is often advisable to bring in a neutral third party as a facilitator. Holding such meetings ‘off the record’ without trying to gain media coverage or public relations advantage for the participants is also advisable, especially in the initial process of trust building. If the company and other actors can see the value of ‘multi-stakeholder dialogue’ and are willing to engage in open discussion, such dialogue can serve as a catalyst for creative solutions to challenging and complex conflicts.

Companies also need to engage in regular dialogue with key stakeholders on an individual basis:

Major shareholders – Most financial analysts and fund managers remain focused on short-term shareholder value in their interactions with the individual companies in their portfolios. It is in the interests of these companies to keep their investors up-dated on the changing societal expectations and challenges that business faces, both in conflict regions and elsewhere. Although a few companies have started to hold regular meetings for their institutional investors around these subjects, this is an area that needs further engagement.

Governments – Regular dialogue with host governments at the local, national and regional level, home-base governments and intergovernmental agencies, is of particular importance when companies are investing in conflict regions. This can be especially challenging when investing in repressive and/or corrupt regimes. In such situations the business community has to undertake a difficult balancing act of working with government officials when appropriate and taking a stand against them, either public or private, when necessary. Even when companies recognise the need for change they still have to operate within existing structures if they are going to operate at all. There is growing potential for increased dialogue and co-operation between the private sector and intergovernmental agencies, such as the World Bank and United Nations, in dealing with and attempting to influence such regimes.

NGOs and communities – This represents one of the most challenging types of consultation for most companies, but it is of increasing importance. Some of the challenges include:

- identifying the right people and organisations to engage with;
- overcoming legacies of mistrust and ignorance on both sides;
- developing frameworks and consultation skills that allow for genuine two-way dialogue vs. one-way public relations and campaigning; and
- sustaining an on-going process vs. one-off meetings and events.

The above activities are time consuming and resource intensive. The most successful examples of sustained dialogue have usually occurred when an individual from a company and from an NGO have built a personal relationship of trust, but in most cases these individuals still struggle to get their organisations or communities fully behind them. This poses problems when the process faces a problem or crisis. There is no doubt, however, that this process of business-NGO dialogue is critical, especially in conflict sensitive or conflict ridden regions.

PARTNERSHIP AND COLLECTIVE ACTION

Develop mutually beneficial and transparent partnerships with other companies, civil society organisations and government bodies to address sensitive political and public policy issues and to invest in practical projects. Collective action can address activities such as: advocacy for good governance and anti-corruption measures; negotiating peace; developing voluntary codes of corporate conduct; supporting an open and free media; and creating innovative public-private financing mechanisms for health, education, civic institution building and infrastructure development.

Collective action is often a more realistic option for a company operating in a politically sensitive environment than risking the exposure of unilateral approaches. This is especially the case when dealing with structural issues, for example, negotiating peace or influencing public policy reform in areas such as human rights, corruption, labour standards, state security systems and so on. It can also be an effective structure for mobilising resources and leveraging different skills and capacities for practical projects, in areas such as education, health, civic institution building and infrastructure development.

Risk and impact analyses and multi-stakeholder dialogues provide useful starting points for:

- identifying potential partners and the tasks to be tackled; and
- building the mutual understanding, trust and common purpose that are crucial for the emergence of effective partnerships and collective action.

The Prince of Wales Business Leaders Forum defines partnership as:

“A cross-sector alliance in which individuals, groups or organisations agree to: work together to fulfil an obligation or undertake a specific task; share the risks as well as the benefits; and review the relationship regularly, revising their agreement as necessary.”

International Alert offers a similar definition:

“Relationships of mutual support where the participants share a common sense of purpose and responsibility.”

Cross-sector partnerships usually consist of some combination of business, government and civil society organisations. An important variation is collective action by the business community acting on its own. There are a growing number of ‘business in society’ coalitions around the world that bring together different companies to address specific social, economic, environmental or political issues. The National Business Initiative in South Africa, Philippines Business for Social Progress and the Confederation of British Industry in Ireland (pages 112-115), are all examples of business-led collective action or ‘business in society’ coalitions that have engaged explicitly in peace building and conflict

resolution activities. Such coalitions often work in partnership with other civil society organisations and government bodies, but they stand as discrete entities in their own right, funded, governed and managed by the private sector. They can be highly effective mechanisms for mobilising corporate engagement in peace building and in addressing sensitive political or socio-economic development issues.

The process of creating and sustaining mutually beneficial partnerships is not easy, especially on a cross-sector basis between business, government and civil society and especially in situations of existing or potential conflict. There are both operational and strategic challenges associated with partnership building that range from the need to bridge diversity and address different power balances, to the representative nature and legitimacy of various participants. Neither are partnerships a panacea for solving complex problems. In some cases they are not appropriate.

Despite their challenges and limitations, however, cross-sector partnerships and collective corporate action can be valuable mechanisms for addressing some of the complex, resource intensive and integrated issues associated with conflict prevention and resolution. Companies should at least have a principle of always investigating their potential.

EVALUATION AND ACCOUNTABILITY

Identify key performance indicators for assessing the company's social, economic and environmental impacts and relationships. Carry out ongoing measurement and monitoring of these. Aim for independent verification and public reporting of these measures. Assess and account for processes as well as inputs, outputs and impacts. Benchmark results against internal and external guidelines and best practices.

In broad terms corporate accountability has two main components:

- the ability and willingness of the company to understand, manage, measure and verify its positive and negative social, economic and environmental impacts everywhere it operates; and
- the ability and willingness of the company to report on these verified impacts and engage in two-way dialogue about them, with a growing variety and number of stakeholders, ranging from shareholders to local communities.

This requires:

- the development of appropriate internal skills and competencies in each of these areas; and
- the establishment of an external enabling framework, ranging from regulations and voluntary codes of conduct to stakeholder pressure and support services, to ensure that companies have the necessary incentives and support structures to undertake the process in the first place.

Some areas of corporate accountability are subject to national company law and international standards and conventions – most notably accountability to shareholders on financial performance. Others – such as social, ethical and environmental accountability – are still addressed primarily on a voluntary rather than legally binding basis. This varies from country to country. In a growing number of cases, for example with occupational health, safety and environmental impacts, regulations have been established to ensure corporate accountability. In many developing countries and conflict regions, however, such regulations are either lacking, weak or poorly monitored. Multinational companies are under growing pressure from a variety of sources to ensure that they operate in these countries in a manner that is consistent with the standards they are required to uphold in more developed parts of the world. Although not always easy to achieve, the reputation costs of failing to adhere to this approach are driving many companies to address the issue seriously.

There are a wide range of voluntary efforts underway to develop standards and procedures for evaluating and accounting for these wider 'business in society' impacts.

Some of these efforts are driven by non-governmental organisations or government bodies, others by business associations. A few are being developed by multi-stakeholder coalitions drawing from all three of these sectors. Some are focused on a specific issue, such as dealing with security forces or indigenous peoples rights, others are more general. Some provide guidelines for the type of process companies should be undertaking in evaluating and accounting for their impacts. Others provide guidelines on the type of impacts that companies should be measuring. Two complimentary initiatives that are developing generic process guidelines are the Global Reporting Initiative and the Institute for Social and Ethical Accountability (see appendix for contact details).

In the past decade, much progress has been made in the area of environmental accountability and there is now a growing emphasis on social and ethical issues, ranging from dealing with human rights, to the impact of new technologies on society and the practice of bribery and corruption. All of these have direct or indirect impacts on conflict. Some of the progress being made in these areas is covered in the sections that follow. Pages 126 to 133 also provide an overview of some of the key management challenges associated with evaluation and accountability.

Four over-riding messages come out of the current work in this area:

- No company that aims to be world-class can afford to ignore the growing and increasingly sophisticated demands for evaluation and accountability – be it in regions of conflict or elsewhere;
- This process must now cover social, ethical and environmental impacts, as well as financial ones, but the 'devil is in the detail' of what specifically can and should be measured;
- Accountability must be to a wider set of stakeholders than the company's shareholders, but again the challenge is who and how;
- The manner in which the process of evaluation is undertaken is equally as important as the type of information gathered.

A framework for analysing corporate engagement

3

1. The conflict
2. The actors
3. The company

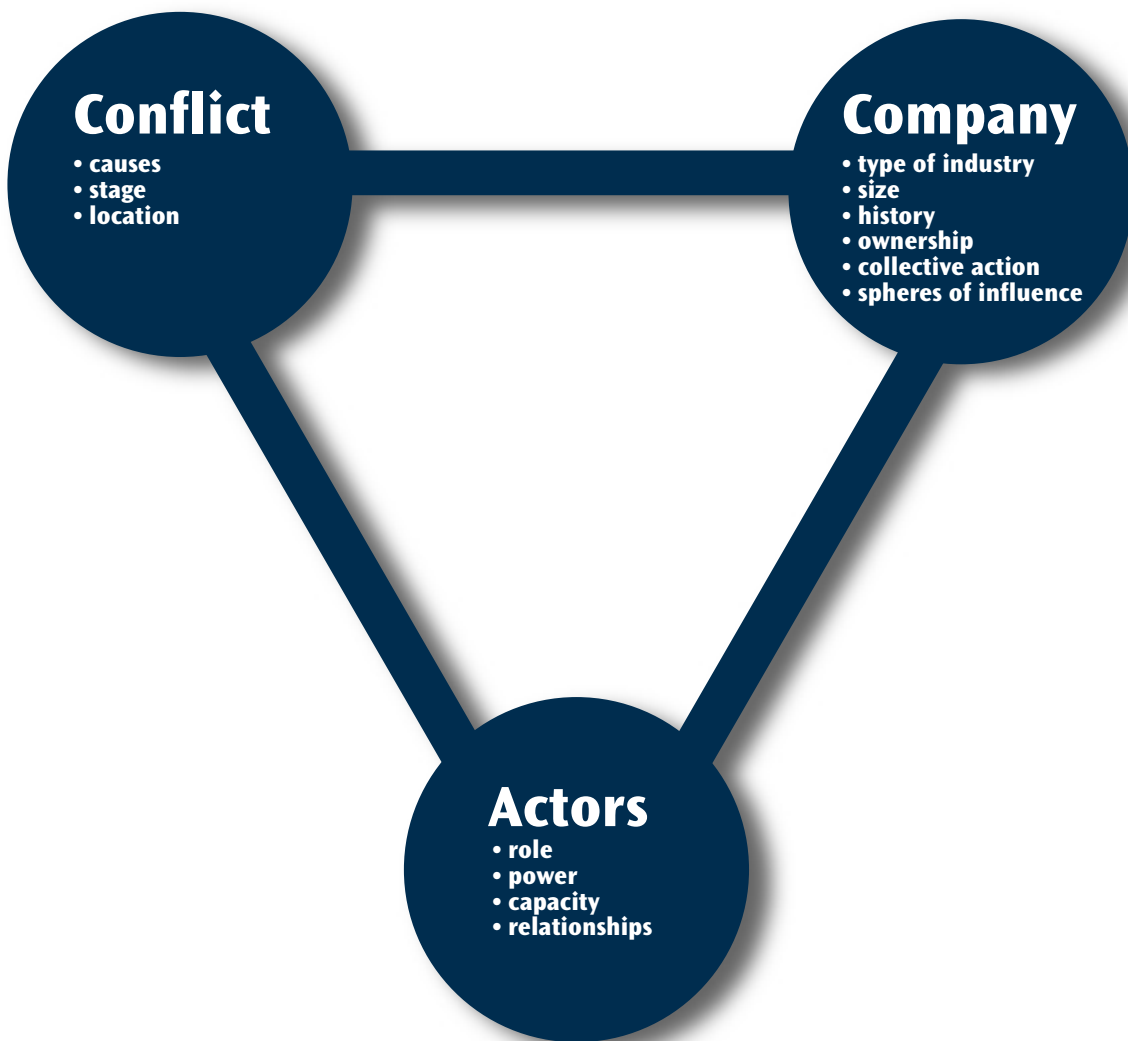


Understanding and acknowledging the social, economic and political context of conflict must, from now on, be the *sine qua non* of outside involvement, whether political, commercial or humanitarian. Within that broad context, outside actors must account for their engagement and the impact of their activities.

War, Money and Survival, International Committee of the Red Cross, 2000

Making money and making war have long been related activities. That soldiers loot and arms manufacturers turn a profit is hardly new. But is competition for wealth and resources becoming the major cause of new wars around the world? Where tribal violence, independence struggles or cold-war rivalry were once blamed for wars, now bandits, traders and some businesses are being fingered, especially in developing countries. Though some conflicts are ethnic or religious clashes or stem from scraps over influence, many of today's wars, especially civil ones, have a strong commercial element too often ignored by analysts outside, though not by businessmen willing to profit from war.

The Economist, March 2000



The diagram on the opposite page summarises three key factors that work in combination to shape the risks, roles and responsibilities of a company or industry sector in conflict. These are as follows:

- The nature of the CONFLICT
- The activities and relationships of other ACTORS
- The characteristics of the COMPANY

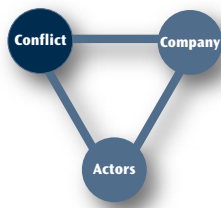
It is the dynamic and complex linkages between these factors that determine how a company either influences or is influenced by conflict in any particular situation. The linkages may operate on each other in different ways at different times. Almost every case is situation-specific. There is no generic 'blueprint' for action. These three factors do, however, provide a set of questions against which a company, or its stakeholders, can assess its particular situation, its risks, its likely impacts and its possible responses.

1. THE CONFLICT



What are the causes of conflict?

What are the underlying causes or triggers that are driving a current conflict or likely to drive a future conflict? What is the existing or potential influence of the company or industry sector on these causes and triggers?



Extensive research has been undertaken on the causes of conflict. The following section aims to provide an overview of these and to illustrate their possible linkages to business activities. In considering the causes of conflict it is useful to distinguish between:

- underlying, systemic or root causes, which usually create the pre-conditions for violent conflict; and
- triggers, proximate and immediate causes, which are often the factors that move a high risk situation of potential conflict into a situation of violence.

a) Underlying causes

Four main categories of underlying causes have been summarised by International Alert and others.⁽¹⁴⁾ These are as follows:

- Resource-based conflicts based on competition for economic power and access to natural resources;
- Identity conflicts based on competition between rival ethnic, religious or other communal identity groups for access to political and economic power and social justice;
- Ideological conflicts based on competition between rival ideologies and value systems;
- Conflicts over governance and authority based on competition for political power and participation in political processes.

Resource-based causes of conflict

We cannot assume that the creation of wealth is a benign activity in and of itself. Creating wealth, particularly through exploiting non-renewable and highly valuable resources, almost always results in a struggle for control over that wealth and history proves that this struggle has often been violent.

Sophia Tickell, Business Policy Adviser, Oxfam

Access to, and the control of, natural resources have been major sources of wealth creation and conflict throughout history. They remain so today, especially in the world's developing economies where natural resources still represent a high percentage of the nation's strategic assets and sources of livelihood. Some of the factors that private sector companies need to think about in this area include:

RESOURCES – The potential influence of business:



Good if companies can help to develop sustainable local livelihoods, improve access to basic needs (water, food etc) and if they are sensitive to the way that strategic resources are exploited. For example: developing good relations with local communities in the areas where the company operates; minimising the environmental degradation and social disruption of these operations; and influencing how the public revenues from these strategic resources are used and distributed and ensuring that any resettlement programmes are carried out with sensitivity and in consultation with the affected communities.



Bad if companies are involved in uncompetitive or unfair patronage systems or if the manner in which they develop natural resources undermines the ability of local communities to meet their basic needs, for example, as a result of environmental degradation or bad resettlement schemes, and does not contribute to the wider socio-economic development of the community, region or country.

Exploitation of strategic resources

The relevance of business as a potential source of resource-based conflict has grown as the private sector plays an increasingly central role in developing the renewable and non-renewable resources of many countries. These strategic resources range from oil and minerals to water, which is predicted to become a major source of conflict in the 21st century. The following questions need to be asked: How is the ownership of these resources structured? If they are still owned by governments, with private companies operating under licensing agreements or joint ventures, how much of the economic benefits from their exploitation are distributed by the government back to local communities or allocated to socio-economic development? Can the company influence this distribution in any way to make it fairer? Is the development of these resources either purposely or inadvertently funding warring factions in a particular conflict or underpinning war economies? How transparent and non-corrupt are systems of licensing? Is there an open-bid process or strong political patronage?

Ability to meet basic needs

In many poorer countries people rely on access to natural resources – especially land and water – for their livelihoods and often survival. Companies need to assess whether their activities are undermining such access. Are poor people being forced off their land by governments and/or private operators, to make way for large-scale development either of the land, or of mineral and oil supplies beneath it? Are they losing access to water supplies due to the building of dams or reallocation of limited water for commercial purposes? If so, are private investors working with governments, funding agencies and the affected communities, to limit this loss of access to resources and to find alternative livelihood opportunities?

Environmental degradation

There are obviously many situations where private operators are not directly responsible for limiting or destroying access to basic resources. Rapid population growth, recurrent droughts, misconceived development policies and changes in land tenure systems are common factors that lead to environmental degradation, undermine access to basic resources and create conditions for conflict. Even in these situations, however, the private sector may be complicit in exacerbating the impacts of these other factors or failing to ameliorate them when it has the ability to do so. Can a major investor help to improve the land rights of indigenous people, for example, or is it actively undermining these? Is pollution from a business activity destroying local livelihoods?

In most cases, violent conflict occurs not as a result of access to resources *per se*, but as a result of *unequal* access or the struggle to *control* access. Leading from this, it is often an increase in poverty or high levels of inequality, rather than poverty itself, that leads to serious conflict.

Identity-based causes of conflict

In some ways globalisation diminishes differences between different peoples and ethnic groups. But this idea of a smaller world does not mean an end to ethnic conflict and nationalism. On the contrary, in an anonymous world of global bureaucracy and multinational commerce, the national idea, the sense of belonging to a smaller group, will become more not less attractive.

Outlook 2000: Global Risk Forecast, Control Risks Group, 1999

The stark and tragic images of 'ethnic cleansing' in places as different as Central Africa and the Balkans have placed identity at the heart of today's debate on the causes of conflict. Control Risks Group in its Outlook 2000 report ⁽¹⁵⁾ states, 'in the late 1990s there were some 70 major ethnic conflicts in the world, and there was little evidence that many of these would abate in the near future'.

Identity politics

Close analysis of these conflicts, however, illustrates that it is often not ethnic differences *per se* that have created conflict, but either:

- the way in which political leaders and other actors have exploited these differences and incited intolerance in order to consolidate their own positions of power or access to resources; and/or
- growing inequality between different ethnic groups.

In such cases there is often a rise in identity politics and/or a breakdown in the protection of minority rights, which in turn leads to violent conflict. Instead of engendering a sense of national identity and community, leaders polarise their people into separate groups, with one (or more) groups having unfair access to power and resources compared to the others. Private sector operators can consciously or inadvertently become part of the problem by publicly identifying with, accepting patronage from, hiring employees from or providing products and services to one ethnic group to the exclusion of others.

Religious fundamentalism

Linked closely to the concept of identity is the role of religion. Conflicts between different religious groups have occurred throughout history and continue to play a role today. In particular, there has been a resurgence in fundamentalism – both Islamic fundamentalism in the East and Christian fundamentalism in the west. In both cases, fundamentalists are responding to problems that they perceive with the 'new world' order. Their actions have potentially serious political and security implications. According to the US State Department, terrorist attacks around the world rose by 43% in 1999, with terrorist groups increasingly motivated by religious concerns rather than political ideology.

Impact of globalisation

Economic globalisation and the threat that it poses to local cultures and identities is another potential source of identity-based conflict that increasingly cannot be ignored. It can manifest itself in several ways. In some cases it is leading to violent conflict between different ethnic groups within the same country, the Chiapas rebellion in Mexico being one example, where the largely indigenous population of Chiapas is supporting the Zapatista Liberation Army. In others, it is leading to a resurgence in religious fundamentalism, as outlined above and/or a rise in nationalism, targeted against the threat – real and perceived – of western dominance.

Business has a role to play in helping to address these issues of identity. As employers of people from different ethnic and religious groups, as marketers to customers of different ethnicities and as members of multi-ethnic communities, companies can play an important role in either exacerbating identity-based tensions or helping to reduce them by encouraging ethnic diversity and tolerance.

IDENTITY – The potential influence of business



Good if companies undertake efforts to increase tolerance and diversity in the workplace and more widely in their host countries and communities via activities such as: multi-ethnic hiring policies and work teams; taking a responsible approach to the marketing of western products and services in different countries; supporting cause related marketing and community investment projects that encourage tolerance and ethnic diversity; and advocating for an open media and active civic society.



Bad if companies carry out policies that exacerbate identity issues, for example: discrimination in the workplace; lack of respect for indigenous communities; marketing products and services that undermine local cultures; or facilitating insensitive resettlement programmes which exclude a particular ethnic group from access to resources or livelihood opportunities.

Ideology-based causes of conflict

We have just completed an 80-year-long experiment comparing two systems of wealth creation and concluded that the capitalist system actually does create wealth more effectively; but the experiment has not yet established that the capitalist system distributes wealth any better, or even well, in the long term.... As long as millions of people feel that they have no stake in our system of wealth creation and that they can't survive within it, that structure will be at risk.

Peter Schwartz and Blair Gibb, When Good Companies do Bad Things, 1999

During the Cold War, all conflicts fitted, or seemed to fit, a pattern of a global struggle of capitalism versus communism. Yet most of them had deep-seated local causes. They were turned into proxy wars by the superpowers. ...The communist and capitalist ideologies provided universal touchstones for motive and involvement.

War, money and survival, International Committee of the Red Cross, 2000

IDEOLOGY – The potential influence of business:



Good if companies are willing to accept that they have a role to play in promoting poverty alleviation and social cohesion. Also if the private sector can demonstrate that capitalism is not about the exploitation of people and that its benefits can reach poorer countries and communities if consciously directed to do so.



Bad if companies and their leaders are not sensitive to ongoing ideological concerns about the impacts of global capitalism and are arrogant about the 'triumph of capitalism', especially in the face of local poverty and traditional cultures.

The conflict between the ideologies of communism and capitalism was the defining feature of the international security agenda for almost 50 years. This Cold War framework resulted in the formation of economic and military blocs, high military expenditures by the superpowers and proxy wars between or within 'client' states in Africa, Asia and Latin America. In the 1960s and 1970s many companies operating in developing countries were caught up in this framework. The greatest political risk they faced was nationalisation of their assets or at the least, heavy-handed government controls on their operations.

Although clearly not as important as it used to be from a geo-political perspective, elements of this tension still manifest themselves in many internal conflicts. This can result in violent actions targeted specifically against individual companies or investment projects that are viewed as 'standard-bearers' of western capitalism and cultural imperialism, exploiting a country's strategic assets and undermining its local cultures. In other cases it manifests itself as a more general backlash against global capitalism and the unequal benefits of this process. Whether this is illustrated by guerrilla movements fighting against foreign investment and free-market policies, as in Colombia, or by the growing tensions and violence created by anti-capitalism activists in the west, companies cannot afford to ignore this tension. Although there appears little likelihood of communism reasserting itself, there are clear signs of a growing sense of nationalism and anti-Western sentiments in a number of former communist regimes, with Russia being an obvious case.

As with identity-based conflicts, the private sector (especially multinational companies) can have both a negative and positive impact in this area. Failure by the public and private sector, especially in western countries, to address growing concerns about the values that underpin the global capitalist economy could lead to violent repercussions from increased nationalism, fundamentalism and activism.

Governance-based causes of conflict

In all societies, competition on access to essential resources and differences over political, religious or other beliefs is common. These can generate conflict. But societies have also learnt constructive and peaceful ways to manage such conflict, usually through arrangements for mediation and democratic representation which promote respect for human rights of all citizens. When such systems fail, or do not exist, conflict can lead to violence.

Clare Short, Secretary of State for International Development, UK, 1999

Governance can be defined as the framework through which political, economic, social and administrative authority or power is controlled and distributed. In today's world this framework consists of a wide variety of mechanisms, processes, institutions and relationships through which individual citizens, groups and organisations can express their interests, exercise their rights and responsibilities, and mediate their differences.

Violent conflict can occur when these systems are either:

- **Weak** – in the sense that the state lacks the resources and administrative capabilities to carry out its core functions and is unable to create an enabling environment for other actors to play an effective role; and/or
- **Lacking in legitimacy** – in the sense that the government does not reflect the values or satisfy the needs of the people over whom it exercises authority.

Many developing or transition economies face the challenge of weak governance in that their governments lack the tax bases, resources and administrative capabilities to effectively undertake their core functions. Even in such situations, violent conflict is not an automatic outcome. It becomes increasingly likely, however, where the government is lacking in legitimacy and where there are other structural failures such as:

- non-democratic, authoritarian regimes;
- lack of other forms of public participation;
- serious inequities in the distribution of resources and livelihood opportunities;
- lack of independent systems of law, justice and mediation;
- breakdown in traditional mediation mechanisms;
- unaccountable or undisciplined security forces;
- state-sponsored or condoned human rights abuses;
- state-sponsored terrorism;
- corruption and cronyism;
- unreasonable press controls; and
- 'state failure' leading to the loss of national identity and the emergence of strong and sometimes aggressive local leadership factions and warlords.

Any or all of these will not only make it impossible for a government to undertake its core functions in an effective, efficient and equitable manner, but will also seriously undermine the legitimacy of the government amongst its citizens. This in turn will create the conditions for violent conflict.

Most companies argue that they cannot be held responsible for the ability or inability of a government to fulfil its core functions, or for a government's legitimacy amongst its people. To a large extent this is correct. Business cannot, however, claim that it has absolutely no role to play in influencing the nature of governance. There are numerous examples, both historic and contemporary, of companies 'propping-up' corrupt and illegitimate regimes through providing the economic means and other indirect support structures that such regimes need. At the same time, there are examples of companies and business associations encouraging more competent and credible governance through advocacy activities and practical initiatives such as supporting programmes to develop administrative skills.

GOVERNANCE – The potential influence of business:



Good if companies engage in institution building, the creation or maintenance of social capital, support for open civil societies and a free press, and responsible policy dialogue on key development issues

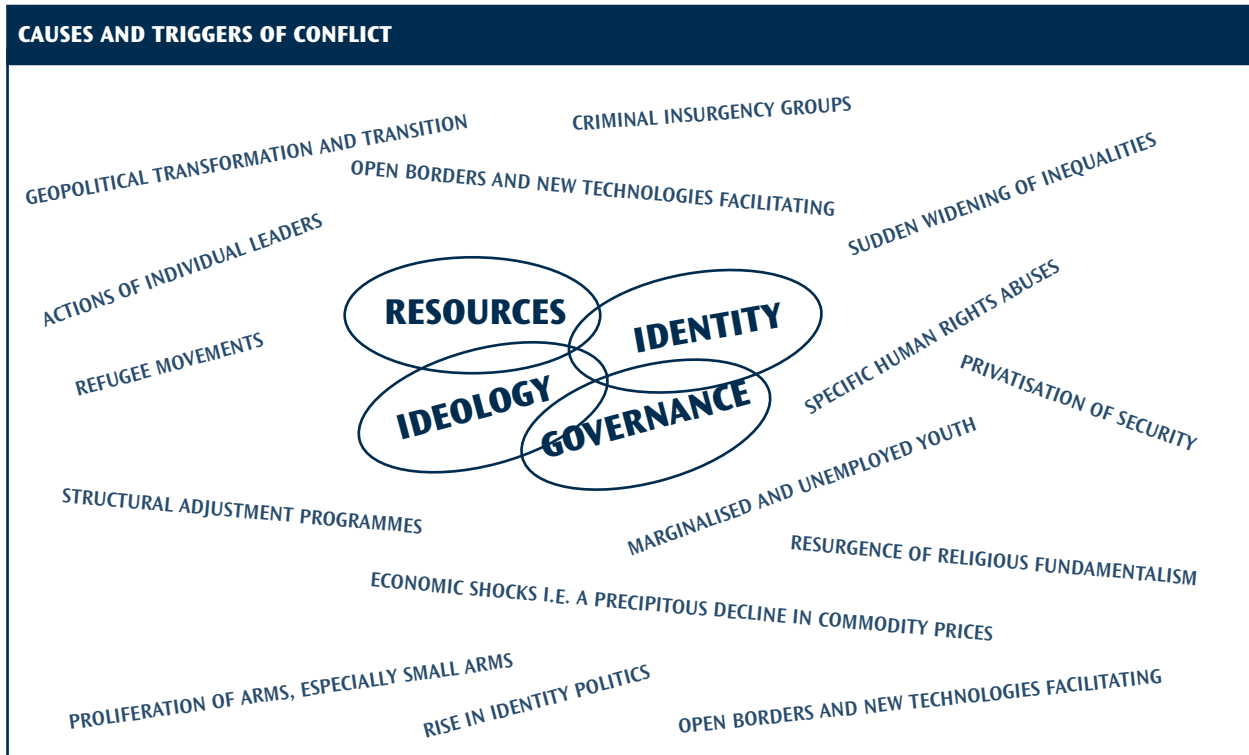


Bad if companies collude with and support corrupt regimes, undertake activities that weaken local institutions and social structures.

b) Triggers

The four underlying causes serve to create the conditions for violent conflict. It is often a trigger – a single event or series of events – that leads to actual violence. Obviously all countries, including well-established democracies, experience some of these underlying causes. It is the ability of a country and its systems of governance to mediate between areas of tension and to effectively respond to violent triggers, that prevents the emergence of sustained violent conflict. The weaker the systems of governance and participation, the more likely that a trigger will lead to violence.

Some of the triggers that have moved conflict-prone situations to conditions of violent conflict in recent years include the following:



Over the past decade the process of globalisation has affected all four underlying causes of conflict and a number of these triggers. Some of its implications for conflict are outlined on the opposite page.

Linked to this, more work has been carried out in recent years on the complex relationships between economics and conflict. In a paper entitled *Doing Well out of War*, Paul Collier of the World Bank argues that; ‘The discourse on conflict tends to be dominated by group grievances beneath which inter-group hatreds lurk, often traced back through history. I have investigated statistically the global pattern of large-scale civil conflict since 1965, expecting to find a close relationship between measures of these hatreds and grievances and the incidence of conflict. Instead, I found that economic agendas appear to be central to understanding why civil wars get going. Conflicts are far more likely to be caused by economic opportunities than by grievance.’⁽¹⁶⁾

The central role of economic factors in many current conflicts has important implications for the private sector as it becomes a more active player in many emerging markets around the world.

PERSPECTIVES ON GLOBALISATION and CONFLICT

The process of globalisation has proved to be a 'mixed bag' in terms of human security and conflict. In some situations it has created the conditions for increased conflict and in others it has played an important role in conflict prevention and resolution. The following statements from international agencies and national governments capture a few of the complexities in the link between globalisation and conflict.

Globalisation has a number of implications for global and national security, some positive, some negative. Global market forces can generate wealth and spread prosperity, but where development is uneven the result can be increased political tensions and risks of instability... Many commentators see an important association between the spread of economic liberalisation, which is one of the hallmarks of globalisation and the expansion of political liberalism... insofar as the expansion of market forces facilitates the emergence of democracy, globalisation has a positive impact on global security... Globalisation also has a dark side. Global demand for particular commodities, such as timber, diamonds and drugs, has provided the funds that have allowed warring factions to sustain fighting over many years. The same internet that has facilitated the spread of human rights and good governance norms, has also been a conduit for propagating intolerance and has diffused information necessary for building weapons of terror.

Report of the Secretary General to the United Nations General Assembly, 1999

Globalisation expands the opportunities for unprecedented human advance for some but shrinks those opportunities for others and erodes human security. It is integrating economy, culture and governance, but fragmenting societies. Driven by commercial market forces, globalisation in this era seeks to promote economic efficiency, generate growth and yield profits. But it misses out on the goals of equity, poverty eradication and enhanced human security... The challenge for globalisation in the new century is not to stop the expansion of global markets. The challenge is to find the rules and institutions for stronger governance – local, national, regional and global – to preserve the advantages of global markets and competition, but also to provide enough space for human, community and environmental resources to ensure that globalisation works for people – not just for profits.

Human Development Report, United Nations Development Programme, 1999

Cold war rivalries kept the lid on conflicts during the decades between independence and the current era. But the advent of the 'global village,' coinciding with the end of the Cold War, brought a change. Suddenly, the Eritrean diaspora could transcend national boundaries as readily as did the marketing of Coca-Cola. This makes for a very different view of state-building, identity formation, and the market-place. In the contemporary world, international trade replaces colonial imperialism, and security is everyone's concern, from impoverished citizen to multinational investor. Advances in communications technology and the ease of international financial flows bring people, ideas, goods, and services more readily together in ways that can integrate or fragment societies.

Security, Poverty Reduction and Sustainable Development,
The World Bank and Belgian Ministry for Foreign Affairs, 1999

Although globalisation has brought greater general wellbeing, it has also led to a dramatic decline in wellbeing in certain areas. Growing income disparities within and between countries has also contributed to heightening the risk of conflict. This, combined with the challenge to traditional values that globalisation often entails, creates a breeding ground for political and cultural extremism. While the tensions that develop are often expressed in ethnic or religious terms, the underlying causes are economic, i.e. related to the locus of economic power and political i.e. concerned with real participation in the exercise of power.

Preventing Violent Conflict, The Swedish Ministry for Foreign Affairs, 1999



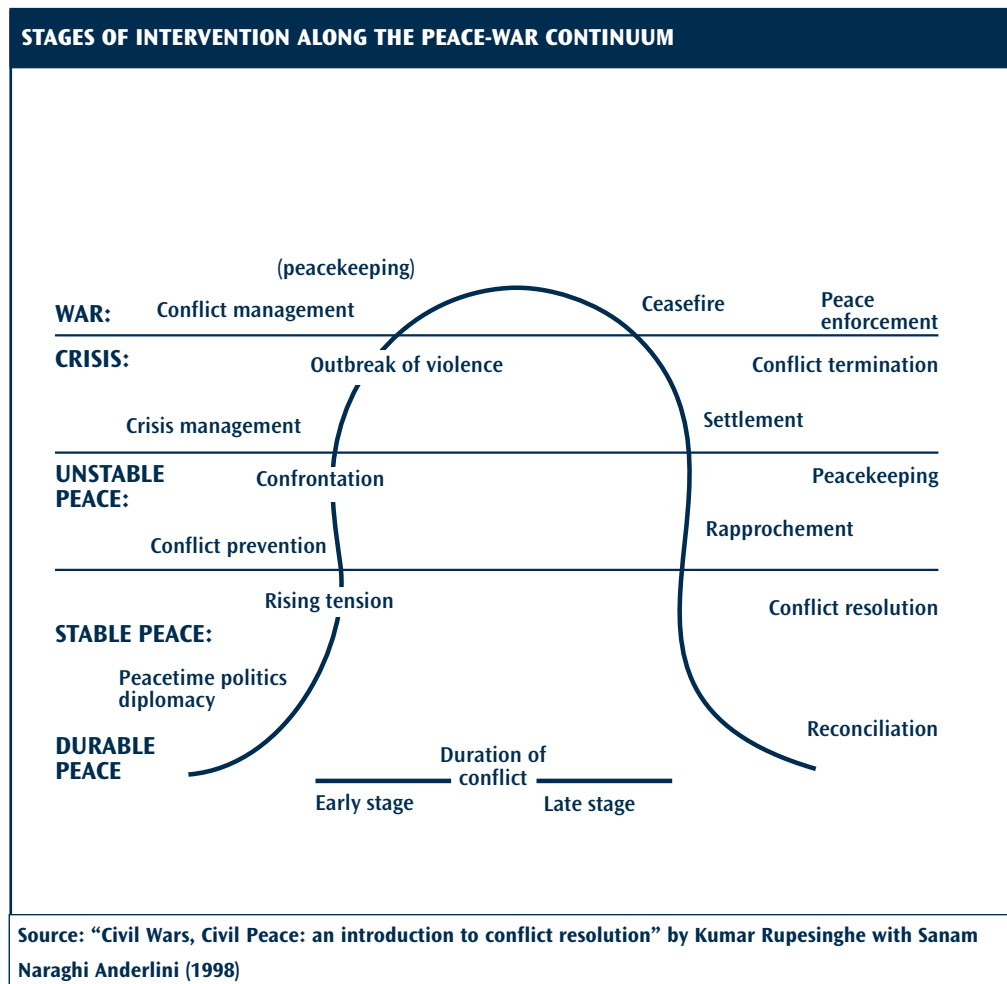
At what stage is the conflict?

Is the conflict already at a crisis situation or is the company facing a situation of potential conflict or post-conflict reconstruction and reconciliation? What are the types of possible intervention that the company can undertake in each case?

All categorisations of conflict are essentially arbitrary. Reality does not allow for neat borders. 'Post-conflict' situations are often, not really 'post' as conflict continues to simmer beneath the surface. Peace-building is not really functionally distinct from conflict prevention...still we need categories to define activities.

Partnering for Peace: A Unified Field Approach,
Allan Gerson, Council on Foreign Relations, 2000

The risks and responsibilities that a company will face in conflict-prone or conflict-ridden situations will depend not only on the causes of conflict, but also on the stage of the conflict. All countries are somewhere along a peace-conflict continuum as illustrated in the diagram below.



Different stages require fundamentally different types of intervention and risk management by all the actors involved, including business. Three broad stages and types of intervention strategy provide a useful framework for analysis and action. They are as follows:

- **Pre-conflict or conflict free** where the focus is on conflict prevention and long-term socio-economic development and peace building.
- **Conflict zone** where the focus is on crisis management and humanitarian relief, whilst continuing to carry out long-term peace building initiatives wherever possible and engaging in diplomacy and peace negotiations aimed towards resolution.
- **Post-conflict** where the focus is on reconstruction and reconciliation with long term peace building initiatives as a core element.

There are close and complex linkages between each stage. Each shares common characteristics and can benefit from some of the same intervention tools. For example, although the need for 'crisis management' is particularly pressing in the second stage, there is an element of having to deal with 'crisis' during the other two stages as well. This takes the form of having to avert impending crisis as a pre-conflict period moves towards violent conflict and having to deal with the repeated cycles of violence and crisis that often occur in post-conflict situations. Intervention activities also need to be focused on longer-term socio-economic development at every stage. This is obviously much more difficult to achieve when violent conflict is actually occurring, but it needs to be an underlying goal in any approach to conflict prevention and resolution. The private sector has an especially important role to play in this process of socio-economic development.

Despite the blurred distinctions and close linkages between each stage, it is useful to view the three stages separately to analyse what role business and other actors can play. Some of the key issues for business and others to consider are as follows:

a) Pre-conflict or conflict free – prevention strategies

More effective prevention strategies would not only save tens of billions of dollars, but hundreds of thousands of lives as well. Funds currently spent on intervention and relief could be devoted to enhancing equitable and sustainable development instead, which would further reduce the risks of war and disaster. Building a culture of prevention is not easy however. While the costs of prevention have to be paid in the present, its benefits lie in the distant future.

UN Secretary General, Kofi Annan, Annual Report to the UN General Assembly, 1999

This stage can be viewed at two distinct levels:

- In countries that are experiencing a **stable peace** i.e. which may have potential conflicts but are not high-risk, the type of action needed is ongoing and systematic peace building and development that addresses any root causes of conflict and minimises the potential of these to flare into violence. Such peace building should focus on creating: a framework for good governance (including an independent judiciary); an open and vibrant civil society and media; an inclusive process of wealth creation; and tolerance of ethnic diversity. The private sector has a potential role to play in each of these areas through its core business activities, social investment programmes and engagement in policy dialogue and civic institution building.
- In higher risk, **conflict prone situations**, the types of intervention needed include all of the above, as well as activities such as preventative diplomacy, fact-finding and mediation missions, peace-keeping operations, arms embargoes, economic sanctions and military deployment and disarmament to tackle specific conflict triggers and to calm high-tension situations. The private sector has a role to play in a few of these areas. For example, upholding economic sanctions, especially if these have been

agreed by the UN system. There is also a possible role in preventative diplomacy for citizen diplomats, including business people, although this has numerous challenges as outlined in Part 5. Most companies, however, have a minimal role in areas such as peacekeeping operations and military deployment, other than those companies that provide logistical support services as part of their core business activities. The use of early warning systems, based on agreed sets of risk indicators, has gained increased acceptance by the international community in recent years. Business can play a potential role here in providing vital information for such systems, especially companies operating in remote communities.

b) Conflict zone – crisis management strategies

Once a conflict prone situation escalates into violence, intervention efforts must focus on managing the crisis and negotiating for peace. Most of the intervention strategies listed above have applicability in this stage of conflict. The areas in which the private sector can play a practical role include the following:

- the responsible management of security arrangements for the company's operations, employees and other stakeholders to minimise the risks of human rights abuses occurring;
- commercial or philanthropic support for emergency humanitarian relief;
- engagement in efforts at resolution, involving diplomacy and peace negotiations;
- on-going efforts, where possible, at long-term socio-economic development projects.

c) Post-conflict – reconstruction and reconciliation strategies

The challenge of rebuilding war-torn societies is infinitely more difficult and complex than is generally recognised. It exceeds by far the challenges of 'normal' development processes, which, in countries emerging from war, are amplified by the legacy of the conflict (physical destruction, lack of resources and manpower, institutional fragility, political volatility, social trauma), by the urgency of the problems, and by the simultaneous challenges of humanitarian relief and of military security.

War Torn Societies Project, UNRISD, 1998

The transition to peace for countries that have faced prolonged periods of unrest or outright civil war is usually a long and tortuous process, accompanied by repeated cycles of violence. There is growing recognition by the United Nations, World Bank and donor governments that post-conflict support must simultaneously address economic, social, military and political issues.

The World Bank's strategy on post-conflict reconstruction has two overall objectives – to facilitate the transition to sustainable peace after hostilities have ceased and to support economic and social development. It outlines an integrated package of assistance in the following areas ⁽¹⁷⁾:

- **Jump-start the economy** through investment in key productive sectors; create the conditions for resumption of trade, savings and domestic and foreign investment; promote macroeconomic stabilisation, rehabilitation of financial institutions and restoration of appropriate legal and regulatory frameworks.
- **Re-establish the framework of governance** i.e. strengthen government institutions; restore law and order; and enable the organisations of civil society to work effectively.
- **Repair important physical infrastructure** including key transport, communications and utility networks.
- **Rebuild and maintain key social infrastructure** i.e. financing education and health, including recurrent costs.
- **Target assistance to the war-affected** i.e. reintegration of displaced populations; demobilisation, retraining and reintegration of ex-combatants; revitalisation of local

communities most disrupted by conflict (through credit lines, to agriculture and micro-enterprises etc.); and support vulnerable groups such as female headed households.

- **Support land mine action programmes**, where relevant, including mine surveys, demining of key infrastructure as part of comprehensive development strategies for supporting a return to normal life of populations living in mine polluted areas.
- **Normalise financial borrowing arrangements** i.e. planning a workout of arrears, rescheduling of debt and the longer term path to financial normalisation.

The private sector – both formal and informal, local and foreign – has a potential role to play in most of the above areas. Most notably in helping to ‘jump-start’ the economy and repairing key infrastructure, but also in areas such as providing tax revenues for government expenditure, retraining ex-combatants, rebuilding social capital and engaging with government and other actors in civil society on a public dialogue about the country’s needs. As a recent report by the World Bank and South Africa’s Centre for Conflict Resolution pointed out, ‘the presence of the private sector is necessary to help rebuild the economy and foster growth. Indirectly, its existence also augments stocks of social capital through repeated transactions and contract agreements that eventually lead to increased levels of trust.’⁽¹⁸⁾

Local businesses, especially small and medium-sized enterprises, play a vital role in post-conflict reconstruction. Such enterprises have a particularly important role to play in job creation. In any country, most new jobs are created by this sector. The creation of jobs and livelihood opportunities can be especially crucial, however, in rebuilding conflict-ridden economies and providing viable and legal livelihood opportunities for former combatants. The informal sector, consisting mainly of micro-enterprises, is a particularly important source of job creation in many post-conflict countries. Targeted support for micro-enterprise initiatives can help to spur growth in this sector. The informal sector may, however, bring its own problems in that it operates outside the law. As the War-Torn Societies Project noted in the case of Mozambique⁽¹⁹⁾ ‘the rapid development of the informal sector has significantly contributed to economic development in the immediate post-war period. It has, at the same time, led to a rapidly growing criminal sector of the economy which escapes control and taxation.’ Another example of the fact that commercial activities – both large scale and micro-enterprises – can be part of the problem or part of the solution depending on how they are carried out and governed.

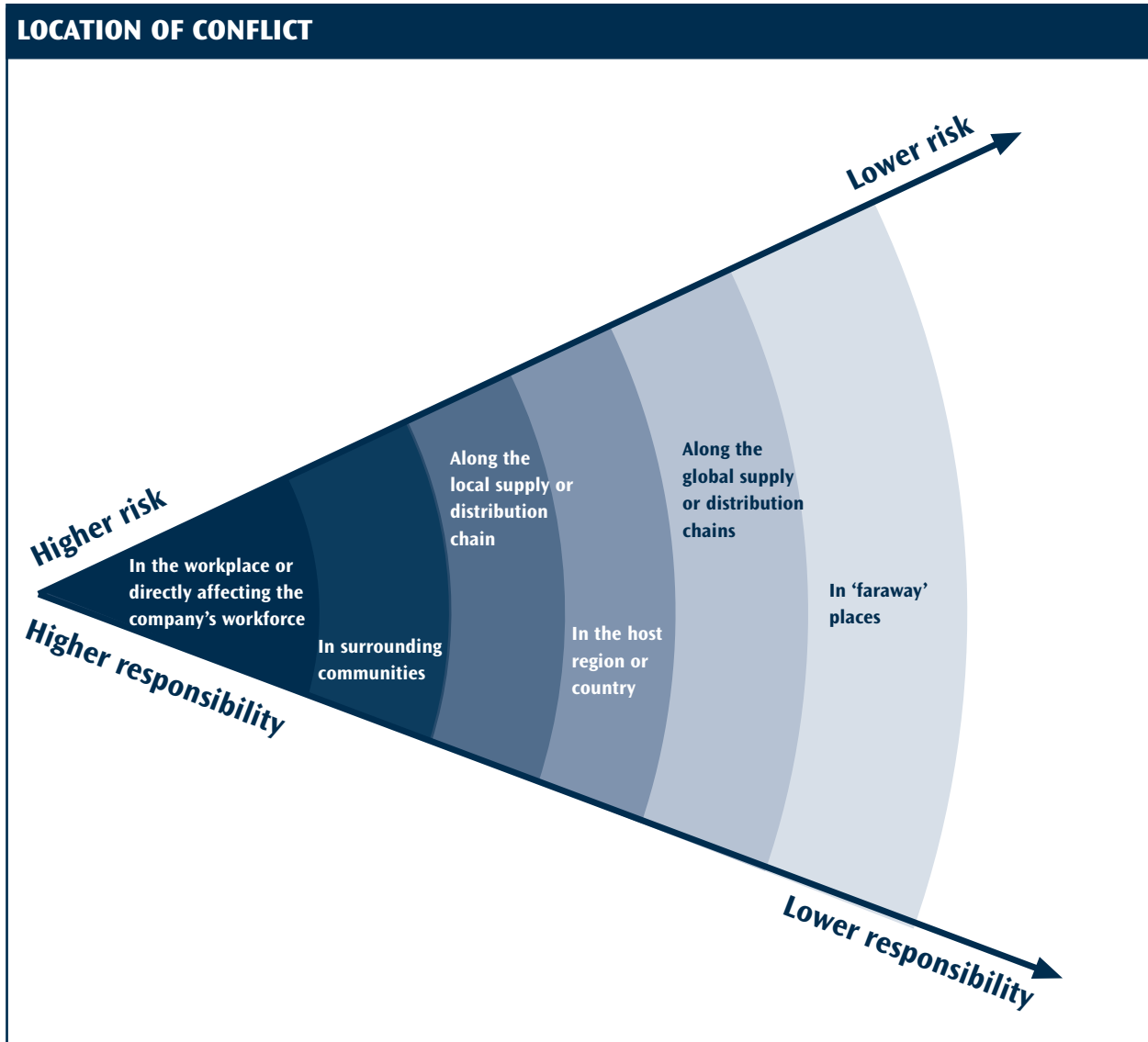


Where is the location of the conflict?

Is the conflict located close to the company's direct business activities or further afield?

How much direct control does the company have in responding to or addressing the conflict?

Business risks and responsibilities will also vary depending on the location of the conflict relative to the company's spheres of control, influence and interest. These can be summarised as follows:



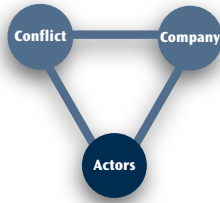
In most cases, the closer the conflict is to the company's direct sphere of influence and interest, the greater is the corporate responsibility to take action and the greater the costs and risks of not taking action. There is clearly a much greater imperative, for example, for a company to take direct action to prevent or tackle conflict that is affecting, or likely to affect, its employees or local communities. Having said this, more remote conflicts can still seriously damage a company's business prospects and may therefore be worth the company engaging in prevention or resolution.

2. THE ACTORS



Who are the other actors?

Who are the other actors and what are their roles, power and positioning relative to both the conflict and the company? How best can the company engage with them either in dialogue or undertaking joint advocacy or practical action?



The status, power and capacity of other actors in a conflict situation and the relationship between these actors and the business community, are also critical factors in determining what role business will play in exacerbating, preventing or resolving conflict. Some of the key actors for business to analyse are as follows:

2.1 Government

It cannot be emphasised enough that governments bear the greatest responsibility to prevent deadly conflict. The Commission believes, that much of what private and non-governmental sectors and intergovernmental organisations can do to help prevent deadly conflict will be aided or impeded by the actions of states.

Carnegie Commission on Preventing Deadly Conflict, 1997

The relationship between business and government – at national, regional and local levels – is a critical factor in determining the legitimacy and acceptance of business by citizens. This is the case for the private sector as a whole, but especially for major players such as those exploiting strategic resources or undertaking large-scale infrastructure investments.

As outlined elsewhere, governments in many transition economies may lack the necessary resources or capacity to carry out their core functions. In such cases, donors and other actors such as the private sector, can play a positive role in preventing conflict by helping to strengthen government institutions through activities such as capacity building, technical assistance and in the case of business, paying taxes.

In other situations, governments may lack legitimacy due to corruption and cronyism. In such cases, the private sector can potentially play a positive role by encouraging better governance. Sometimes, however, private operators are a direct cause of the problem. The lack of probity and accountability in relationships between government officials and private operators is a common feature in many emerging markets and many situations of conflict.

Even companies operating with the greatest of probity may still get ‘caught in the middle’ of power struggles between national and regional level governments. Equally, they are sometimes ‘caught in the middle’ of grievances between the government and local communities. The Niger Delta in Nigeria is one example where this has happened. In such situations, it is increasingly difficult for a major private investor to claim it has no responsibility in influencing these intra-government or government-community relationships. At the same time, NGOs and the general public may deem that an individual company, or the business community in general, has too much influence in public sector relationships and decision-making. This is a delicate balancing act for companies to manage, even in countries with democratically elected governments, let alone those without.

Another issue for foreign investors to consider is the relationship between their host government, neighbouring governments and their home-base government. In regions of strategic importance, for example the Caucasus, this can be a complex and fraught set of relationships, with the company once again ‘caught in the middle’. In certain situations, OECD-based companies can work more closely with their home-country

governments to exert positive influence on improving governance in conflict regions and to address a variety of development and political issues. Some examples of where this is starting to happen are provided on page 125.

2.2 Legal opposition parties

In many conflict sensitive situations, the relationship between the government and opposition parties is a tense and violent one. Governments may be carrying out repressive acts of intimidation against opposition politicians and members of their parties. Equally, opposition parties may be encouraging civil action such as labour strikes, public demonstrations and sabotage of strategic infrastructure. Companies can get 'caught in the middle' of these activities and need to make well-informed decisions on how they interact with the opposition both in public and in private.

2.3 Lawless groups: guerrillas, warlords and paramilitaries

In a number of conflict situations national and foreign companies have regular contact (both voluntary and involuntary) with guerrilla groups, local warlords and/or paramilitaries (quasi official militias). In some cases this contact involves paying 'protection money' to ensure the security of employees and operations and/or ransoms for kidnapped staff. In others it involves illicit commercial dealings and in others attempts at 'citizen diplomacy'. This represents one of the most sensitive areas for a legitimate company operating in a conflict zone. On the one hand, it cannot ignore these players. On the other they are operating 'beyond the law'. This is complicated enough when the current government is not democratically elected or is not seen as legitimate by large groups of the population. It is even more so when the government has been elected through a reasonably fair and open election process. In some cases a local warlord or guerrilla group will have more power and authority in a particular region or community than the official government. Certain parts of Colombia offer an example of this. Companies operating in such an area must then make the decision on whether to stay or disinvest, and if the former who to develop relationships with and how.

2.4 Traditional leaders

Traditional, often community-based leaders, still play an important role in many countries. This is especially the case where there are indigenous populations. In some situations there is a clear local leader with whom a company can establish regular dialogue and consultation processes. In many cases, however, there are local rivalries not only between different traditional leaders, but also between these and the government authorities. Once again, it is all too easy for a company to get 'caught in the middle' when disputes arise. Knowing who the different leaders are and understanding their power bases, interests and grievances can be an important factor in averting conflict or avoiding corporate complicity in a particular conflict situation.

2.5 Non-governmental organisations – national and international

NGOs at their best provide a vast array of human services unmatched by either government or the market, and they are self-designated advocates for action on virtually all matters of public concern.

The Carnegie Commission on the Prevention of Deadly Conflict, 1997

The relationship between companies and non-governmental organisations operating in conflict sensitive areas has undergone some major changes in recent years. At the risk of over-simplicity, the diagram on page 52 illustrates how most business-NGO relationships in the past have been characterised by either confrontation or philanthropic funding. Both of these still occur and still have an important role to play in shaping the way that companies and NGOs meet their core objectives and their responsibilities, especially in poorer countries. At the same time, a number of major companies, development and human rights NGOs have started to establish more

dialogue-based relationships and in certain cases operational and even advocacy focused partnerships. In part this reflects mutual acceptance that there are areas of common interest in the security agenda, even if objectives and responsibilities are different. It also reflects growing understanding of the complexities involved in peace building and conflict resolution and the need to pool limited resources and skills in certain areas. This new approach to dialogue is also a response by business to the effectiveness of various campaigns targeted at specific industries and companies by organisations such as Human Rights Watch, Oxfam, Amnesty International, the World Development Movement, the Free Burma Coalition and Global Witness.

These relationships offer enormous opportunities for developing innovative approaches in areas of conflict. Having said this, they are still fraught with both operational and strategic challenges which consume management time and resources on both sides. They are likely to become increasingly important, however, for any company that is operating in emerging markets and especially conflict sensitive areas.

The *Carnegie Commission on the Prevention of Deadly Conflict* identifies three broad categories of NGOs that offer especially important contributions in areas of conflict. Each of these groups can either be a potential partner for business or a potential campaigner against business:

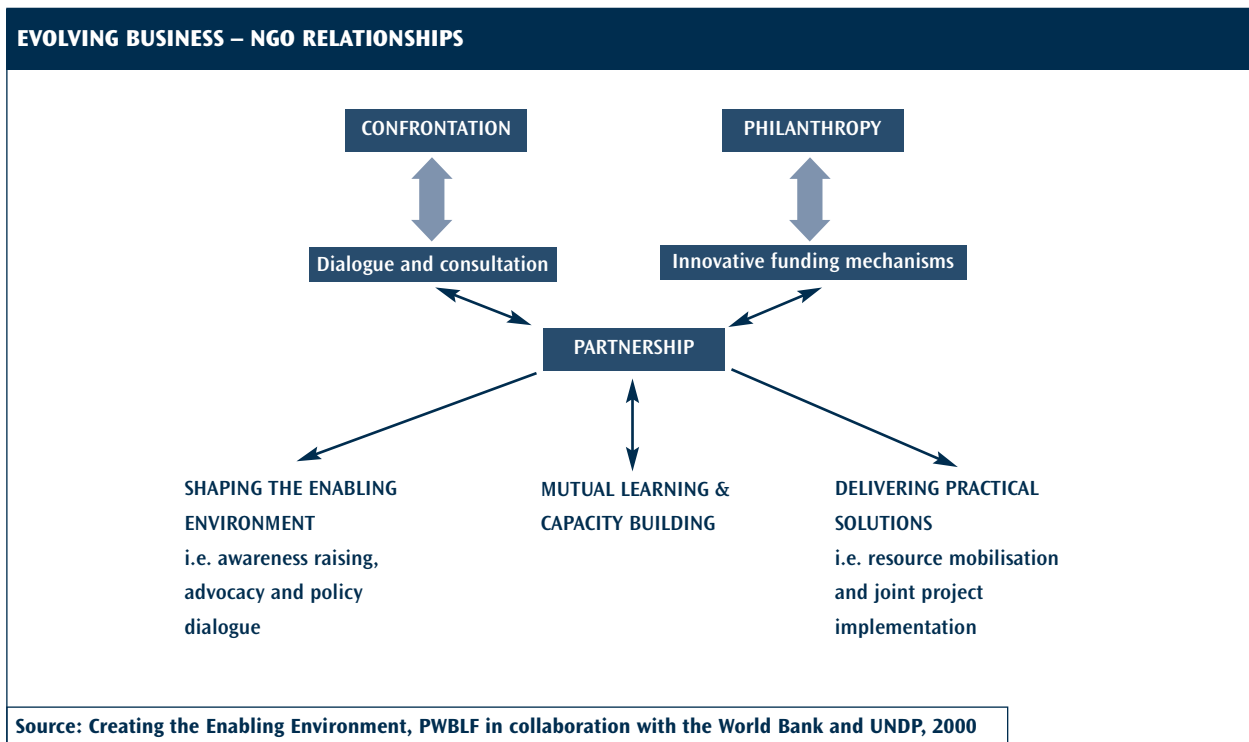
- Human rights and other advocacy groups
- Humanitarian and development organisations
- Track two NGOs with an explicit focus on conflict prevention and resolution, that can help to open the way to more formal peace negotiation processes.

Some of the activities that such NGOs undertake that are of particular relevance to conflict prevention and resolution include the following ⁽²⁰⁾:

- Monitoring conflicts and human rights and providing early warning – made possible by their close contacts with local communities;
- Carrying out education, lobbying and advocacy activities around issues such as human rights, ethnic tolerance, free press, anti-corruption, responsible business practices etc;
- Serving as a neutral forum to convene adversarial parties;
- Undertaking mediation, capacity building and other conflict resolution activities;
- Helping to strengthen civil society institutions and indigenous capacities for coping with on-going conflicts;
- Delivering humanitarian services; and
- Undertaking long-term development programmes.

One key issue for foreign investors to consider is how to identify and develop relationships with appropriate indigenous NGOs in the countries in which they are operating. Some of these will be well known national actors and can be relatively easily identified. Many will be local grassroots organisations (see 2.6). In some countries indigenous NGOs will be an accepted part of national life. In others, with repressive governments for example, this may not be the case. In such situations, NGOs may be controversial organisations. Their work may be perceived as threatening or destabilising and the government's attitude to them may vary between suspicion and outright hostility. The idea of business communicating, let alone co-operating, with them may be discouraged. In addition, the NGOs themselves may be suspicious of entering into dialogue with companies that they see as bearing some responsibility for their society's problems.

Although fraught with complexity, companies cannot afford to ignore the growing role played by national and international NGOs and the need to engage more proactively with them through dialogue or partnership.



2.6 Grassroots community-based organisations

Community-based organisations are especially important for companies operating in remote locations, but are of relevance to any company that wants to minimise conflict and establish mutually beneficial relationships with its local communities. As with traditional leaders, the key challenge for a company is to select which local organisations to work with and how. This is especially difficult in situations experiencing conflict, major change (for example a large new investment) and/or high levels of inequality. In such situations local groups are likely to be politicised and often competitive for both resources and political access. As discussed in other sections, there is a clear need for companies to either develop the necessary in-house skills to undertake effective consultation and analysis and/or identify trusted intermediaries (individuals or organisations) to help them interact with appropriate local organisations. Asking the advice of national and international NGOs can also be useful.

2.7 Bilateral and multilateral agencies

One of the most dramatic changes in the international development and security field during the past five years has been the increase in outreach between the private sector and inter-governmental organisations (IGOs). These organisations range from bilateral development agencies, such as the United States' USAID and the UK's Department for International Development, to multilateral agencies such as the United Nations, World Bank and European Commission. This trend reflects a similar change in attitudes and understanding of each others' roles as that outlined in the section on NGOs. In an era where there is increasing pressure on international aid budgets and where private operators are becoming key investors in developing countries, the value of finding new ways to mobilise the skills, resources, networks and influence of the private sector is being recognised by both bilateral and

multilateral organisations. Equally, the private sector is recognising the value of closer linkages with these governmental bodies in addressing some of the challenges of operating in emerging markets, especially politically sensitive issues such as bad governance and human rights abuses.

At present, however, most business-IGO relationships occur at the level of respective head offices. A challenge for the future is how to mobilise practical partnerships on the ground, especially in areas of conflict. All too often, the country manager of a multinational, or the head of a large local company doesn't even know his or her UN and World Bank equivalents, except maybe in a social setting. Understanding this group of actors and establishing local links with them is another area where companies need to develop their knowledge base and management capacity.

2.8 Religious groups

In certain conflict situations religious groups play a key role. This is especially so where the conflict has issues of religion or identity as an underlying cause. In some cases religious leaders will be playing a role in inciting violence and in others they will be dedicated to conflict prevention and resolution. Relationship building by business can therefore be a high risk process. At the very least, however, companies need to be aware of key religious players, what their role and power base is, and if or how the company can most appropriately interact with them.

The role of religious leaders is particularly beneficial when leaders from different faiths come together and such coalitions offer a real opportunity for business engagement. One example of this occurring was South Africa's *National Peace Accord*, a partnership between business, labour and religious leaders in South Africa during the 1990s (see page 112).

2.9 The media

As with other actors, the role of the media in a conflict situation will obviously vary depending on its power base and objectives. In many conflict prone countries there are restrictions on a free, open and impartial media and the business sector needs to decide, either collectively through its representative bodies, or individually in the case of large operators, what, if any position it is going to take on this. For example, should it be trying to influence government to lift media restrictions? Alternatively, should it be supporting non-governmental organisations that focus on communications and advocacy activities in order to counteract a restricted or biased media? Should it be helping to facilitate stories for international journalists? How should it be communicating its own role both within the country and internationally?

Related to this, companies need to understand linkages between the local and international media. They also need to recognise the different and increasingly sophisticated audiences that these media are playing to. In the past it was relatively easy for a company, especially the major players, to give a media interview and assume that the company's word would be accepted. Today, many recipients of corporate information are more demanding and questioning. We have moved from what Shell describes as 'a 'trust me' world, to a 'tell me' world to a 'show me' world ⁽²¹⁾.

The emergence of new technologies has obvious implications for the relationship between business and the media. The advent of the Internet in particular has created new communications challenges for business, as well as opportunities. In particular, the Internet has become a valuable campaigning tool for pressure groups. As some companies have found to their cost, once information about the company is on the Internet it is difficult to correct, however inaccurate. This challenge is considered in more detail in the section on accountability.

At the end of the day, the media is a tool as much as an actor. It can be used by other actors to promote both peace and violence. Equally, it can be used by business to promote corporate interests or wider societal interests. And increasingly it is used to expose bad business practices – both real and perceived. Developing responsible, professional and systematic media relations is an important factor for any company, but especially for those that are operating in conflict sensitive areas. Again this calls for new skills and competencies.

2.10 Business associations and other companies

There is a strong case to be made for companies operating in conflict prone or ridden societies to undertake collective action. This is especially the case when addressing sensitive issues such as: advocating for improvements in human rights conditions; pushing for better governance structures; calling for a more open media and so on. This action can be undertaken by traditional business associations, for example chambers of commerce, which are representative in nature and often have the benefit of being a mixture of both local and foreign companies. Alternatively, companies can establish more targeted business-led organisations to deal with a specific issue or set of development issues. Some examples of such initiatives in South Africa, Ireland and the Philippines, are reviewed in Part 5. The existence of such business associations or the potential for their creation has important implications for the role that the private sector can play in conflict prevention and resolution.

2.11 Roles for different actors

The diagram on the opposite page illustrates some of the roles in conflict prevention and resolution for different levels and types of actors. It is based on work carried out by Paul Lederach, a leading academic in the field of conflict transformation. Lederach has developed a three level structure for peace-building which illustrates the different roles of various actors at different stages in the process. Although his structure does not include business, it can be usefully adapted to illustrate the potential role that can be played by different levels of management in a multinational company, as well as by local companies (second triangle on the opposite page).

According to Lederach, those best placed to contribute to peace building are the actors positioned in the middle section of the triangle. Part of their role is to ensure that the citizens' voice is heard at the higher levels whilst also educating and guiding the population as a whole. In other words, their impact can be felt both upwards, at a political level, and downwards, at a grassroots or community level. The role of those in the upper tier takes the form of classic diplomacy, including framing the policy agenda. Those at the bottom of the triangle are involved at a personal, individual level helping to heal the scars of the conflict and promoting community level reconciliation.

A similar interpretation can be made for the different levels of management within a typical multinational company. It is often the country or regional managers that bear the immediate burden of dealing with conflict situations, although they rely heavily on support from head office in terms of :

- Providing policy frameworks and operating guidelines; and
- Dealing with international stakeholders and media relations.

They also rely on their local employees and business partners – often small or medium size businesses – to provide links to local communities and grassroots partners.

ROLES FOR DIFFERENT ACTORS IN CONFLICT PREVENTION AND RESOLUTION

Lederach's Triangle Creating coalitions and sharing the burden

Level 1 top leadership

- Military/political leaders
- High publicity/high visibility
- Positional/high stakes

- Peace building
- High-level negotiating
- Ceasefire
- Single personality

Level 2 Middle range leaders

- Respected in society
- Ethnic/religious leaders
- Academics/intellectuals
- Humanitarian leaders (NGOs)

- Problem-solving workshops
- Training conflict resolution
- Peace commissions
- Insider-partial teams

Level 3 Grassroots

- Local leaders
- Indigenous NGOs
- Community groups
- Local health officers
- Refugee camp leaders

- Local peace commissions
- Grassroots training
- Prejudice reduction
- Psycho/social work in postwar trauma

Source: "Civil Wars, Civil Peace: an introduction to conflict resolution" by Kumar Rupesinghe with Sanam Naraghi Anderlini (1998) adapted from Jean Paul Lederach's "Actors and Peacebuilding Foci Across the Affected Populations"

Adaptation of Lederach's Triangle A role for people in business

- CEO/board directors/chairman
- Corporate level policy and public affairs functions

International level

Engagement with home-base governments, intergovernmental agencies, international NGOs and other companies on policy issues, international guidelines etc.

- Regional/country managers of MNCs
- National company CEOs
- National business associations

National/Regional level

Policy dialogue on public sector reform/taxation/corruption/ private sector laws/banking/ human rights/democratisation

- Business unit managers
- Functional experts i.e. community affairs managers
- Managers of small and medium-sized business enterprises
- Employees

Local level

Managing local impacts and relationships for example, workers rights / community consultations / subcontractors activities / social and environmental impacts / enterprise development / NGO capacity building etc.

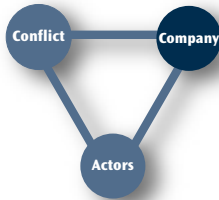
Source: Developed by Nick Killick of International Alert

3. THE COMPANY



What are the company's characteristics?

How does the company's industry sector, size, history and ownership structure influence its risks and responsibilities in situations of conflict? What are the company's 'spheres of influence' and which management functions or business units will be most effective in addressing conflict issues within these different spheres of influence?



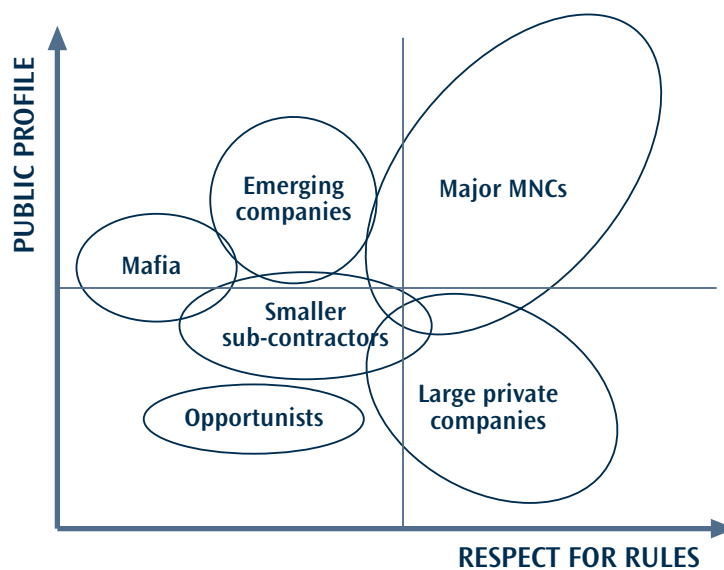
Linked to the nature of the conflict and the role of other actors, the third and final factor that shapes the role of a company in situations of conflict is obviously the characteristics of the company or industry sector in question.

There is a tendency when discussing the role of business in society, or the role of business in conflict, to refer to the private sector as if it were a monolithic community. This is clearly not the case. There are strong distinctions, for example, between the capacities and interests of:

- multinational companies and local companies;
- multinational companies that are direct investors in a conflict sensitive country and those that are physically located elsewhere, but have interests in the country as portfolio investors, or as traders who have supply and distribution relationships with local companies;
- publicly quoted and privately owned enterprises;
- enterprises that operate within the bounds of national and international law and those that carry out activities that are illicit or illegal;
- military or security-focused companies, that provide products and services directly related to armed conflict and violence, and companies that provide non-military products and services, but which may still directly influence the cycle of conflict;
- large-scale companies and medium, small and micro-enterprises.

These different types of commercial enterprise will have different public profiles and a different respect for international rules, resulting in different impacts in any given conflict situation. The following diagram illustrates some examples of these differences.

BUSINESS AS ACTORS IN CONFLICT



Source: The Prince of Wales Business Leaders Forum

There are obviously numerous private sector actors that are acting in an illegal or illicit way in situations of conflict and usually playing a role in exacerbating violence. Some of the implications of such actors are covered on pages 99 to 100. This report, however, focuses on mainstream, legal companies with legitimate purposes that are investing, trading or operating in conflict sensitive countries. For such companies some of the key factors to consider when analysing their potential impacts are as follows:

3.1 What is the type of industry?

Different industry sectors will clearly face different types and degrees of risk and responsibility in situations of conflict. Three key issues to consider are as follows:

a) How likely are the company's operations to be a potential cause of violent conflict?

'High risk – high responsibility' examples would include companies that are:

- exploiting strategic resources such as oil and minerals, especially in countries with a weak or repressive government;
- undertaking major infrastructure projects, especially those that disrupt local livelihood patterns, interfere with ancestral sites or require resettlement and removal of people from their homes;
- marketing products or services that challenge traditional cultures or local products.

b) How high are the likely costs of conflict to the industry?

Costs will tend to be highest for the companies that have:

- large-scale 'on-the-ground' investments in local plant and machinery;
- rely on local infrastructure (ports, electricity etc) to get their products to market;
- employ staff in areas that are most affected by the conflict, especially in remote communities;
- employ local staff from communities or ethnic groups that are directly caught up in the conflict.

The industry sectors most likely to match this profile are again the extractive and infrastructure industry and possibly certain consumer goods companies with extensive distribution networks in conflict ridden countries.

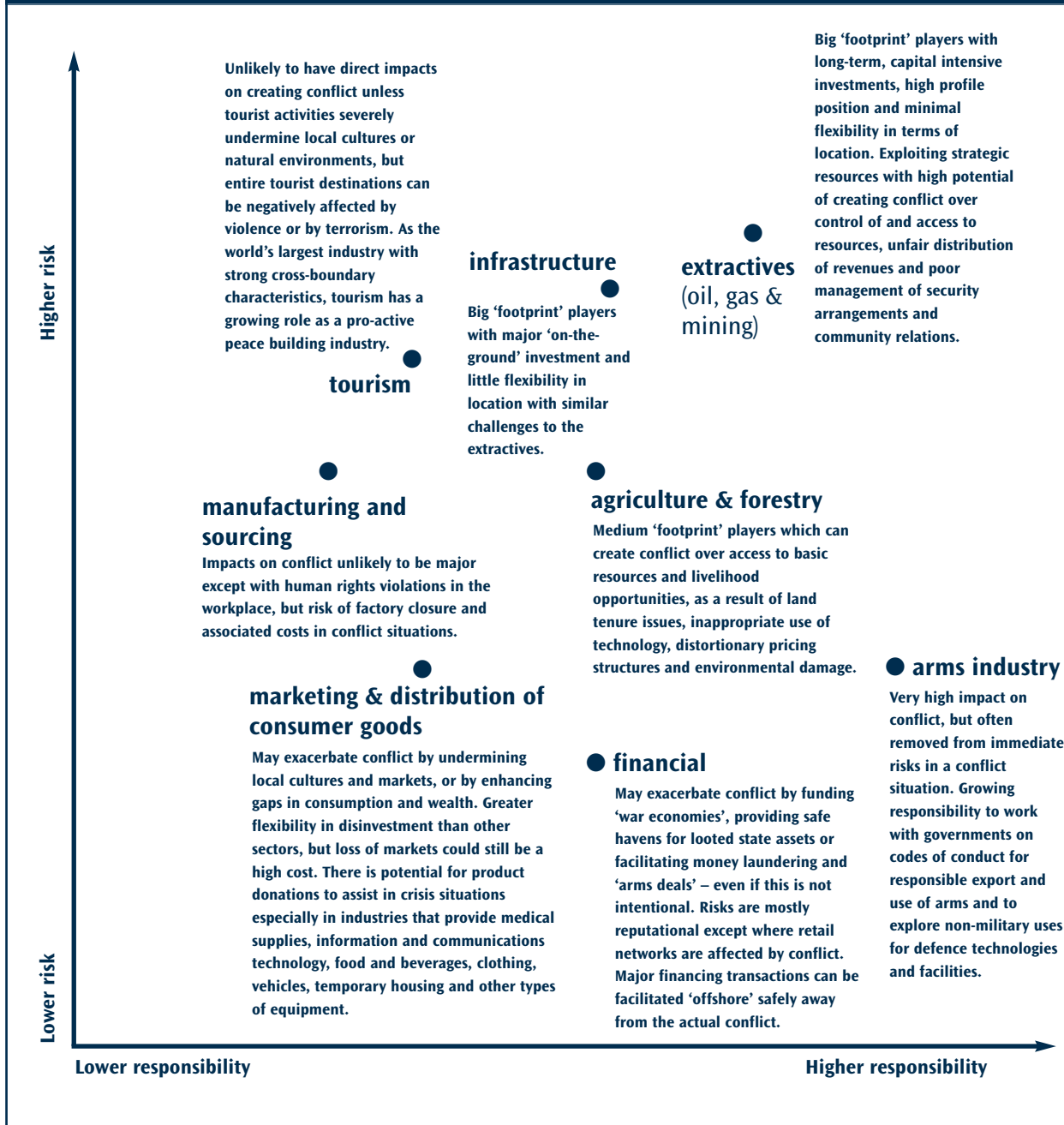
c) How flexible is the company in terms of withdrawing its business activities (i.e. how easy/ expensive is it for the company to disinvest)?

Once again, the companies that will find it hardest to withdraw, especially in the short-term, will be those with:

- the largest local investments in terms of assets committed; and
- longest investment horizons in terms of timescale;
- for the natural resource-based companies there is the obvious added 'inflexibility' of having to be where the resources are, especially in the case of non-renewables such as oil and minerals.

The diagram on the following page illustrates some of the conflict-related risks and responsibilities of the following industries: extractives (oil, gas and mining); infrastructure; tourism; agribusiness and forestry; finance; the arms industry; and manufacturing, sourcing, marketing and distribution of consumer goods.

INDUSTRY RISK-RESPONSIBILITY PROFILES



NOTE: Readers interested in gaining further insights into the way different companies and industry sectors think about and respond to conflict, are referred to the Fall 2000 Issue of Harvard International Review and an article entitled *Corporations and Conflict: How Managers think about War*. Written by Jonathan Berman, President of Political and Economic Link Consulting, which advises clients on commercial operations in regions of armed conflict, the article identifies the private sector players most likely to be active in areas experiencing conflict. These are: natural resource firms; infrastructure companies; flight to quality beneficiaries (i.e. companies such as international banks, which benefit from people wanting more secure services and products than can be provided by local companies); firms with expertise in conflict; and firms with expertise in the region.

3.2 What size is the company?

Larger companies are an obvious focus when looking at the role of business in conflict. In general, they control more resources and have more influence than their smaller counterparts. They are more likely to be the cause of disputes over access to resources and they offer a clear target for aggrieved parties and the media. Small and medium-sized companies, however, also have a vitally important role to play in development, especially in the process of livelihood creation, and are therefore key players in peace building and post-conflict situations even if they are less likely to be players in causing the conflict.

3.3 What is the company's historical context?

The company's own history and the history of its investment in a specific country may also provide useful indicators of its potential role in creating, exacerbating or helping to resolve conflict. For example:

- does the company have a values statement and principles of business practice?
- how long have these been applied globally as opposed to only in the company's home market?
- how long has the company been investing in the country in question?
- how important is the particular country or business unit to the company's overall operations and profit?
- what have relations been like between the company's senior executives and relevant political leaders in the past;
- has the company had a community affairs programme in the country in the past and how effective has this been?
- has the company made an effort to employ and train local people over a period of time?

3.4 What is the ownership structure of the company?

The ownership profile of a company or a particular project can also influence its risks and responsibilities in conflict situations. Three key questions to consider in the case of domestic companies are:

- concentration of ownership;
- links between the company's shareholders and government officials or their families; and
- level of foreign ownership.

Foreign-owned companies may face higher risks in conflict-sensitive regions due to factors such as:

- local antagonism towards foreign capital and values;
- less locally-relevant management experience and knowledge of the complexities and issues involved in the local situation and therefore more potential to make life threatening mistakes;
- links to the international media (for example kidnapping the manager of a multinational company will get more coverage internationally for a local cause than kidnapping the manager of a locally owned company).

On a project-specific basis, foreign companies can adopt different financing and management structures to help mitigate political and other types of risk in conflict zones. For example, they can enter into joint ventures with locally-owned or state-owned companies, which may be more acceptable to host communities and governments, although not necessarily so. They can also apply for political risk insurance from commercial providers or sources such as the World Bank's Multilateral Insurance Guarantee Agency (MIGA), which is likely to have an increasingly important role to play in attracting foreign investors to post-conflict regions.

The legal jurisdiction of foreign-owned companies may also have some impact in terms of their potential role in conflict. Companies, such as US-based corporations, that face litigation and criminal lawsuits in their home countries for undertaking activities such as accepting foreign bribes or failing to meet certain labour, human rights or environmental standards, are much less likely to engage in such actions. To the extent that these actions create or exacerbate conflict, such companies are less likely to be a direct cause of conflict than those that are not subject to such legal restraints in their own home countries.

Multinational companies, which increasingly have both multinational operations and a multinational ownership profile are the most likely companies to face international pressures for corporate responsibility, as outlined in the box below.

MULTINATIONAL AND NATIONAL COMPANIES

Multinational companies are an obvious target from the perspective of organisations attempting to gain international media attention and to influence corporate behaviour. These companies have become important and high profile actors on the global stage and are often major investors in individual countries. This is especially the case for 'big footprint' players – companies in the extractive, infrastructure and heavy industry sectors that make long-term and often substantial investments in their countries and communities of focus. It is also increasingly the case for consumer goods companies with global production and distribution systems and for the financial sector. Many of these companies have global brands and are leaders in their industry sector. As such, they are an obvious focus for media and stakeholder attention. There is more information available on their activities – both positive and negative – and it is relatively easy to identify and target their senior managers.

On an individual basis, however, these companies are usually not as omnipotent as some of their critics claim. Their 'power' is tempered by a combination of competitive pressures, regulatory and voluntary frameworks, public opinion and the sheer logistics of managing multi-dimensional operating units on a global basis. In today's world, most of them operate through an increasingly complex network of business relationships, ranging from joint ventures to contractual agreements. In some cases the company has a majority ownership and hence some control over these business relationships. In many cases it has varying degrees of influence rather than control.

Having said this, there is no doubt that these companies play a leadership role, in terms of both their global profile and the size of their operations and investments. This role brings with it a certain 'burden of leadership'. Multinational companies are in the

'spotlight' and the manner in which they respond to changing societal challenges and expectations will have an important 'demonstration effect' for the business community in general.

At the same time, however, in most conflict prone or war-ridden countries, national companies (especially those owned by government or closely linked to government officials) often play a key role in inciting, preventing or resolving conflict. Sometimes these national companies are in joint ventures, or other forms of alliance with multinationals. Often they operate alone, beyond the direct influence of foreign shareholders, western consumers, global media coverage and international operating standards in areas such as human rights and the environment.

In a number of cases, for example South Africa and the Philippines, locally owned companies have played a positive role in conflict prevention and resolution. In others, locally owned companies have been a negative factor due to a combination of cronyism, corruption, active engagement in war economies and in some cases illegal activities such as drug trafficking and illicit arms dealing.

A key challenge for international donors and civil society organisations engaged in the debate on corporate responsibility is to move beyond the 'usual suspects' in the circle of multinational companies and engage these national companies, especially state-owned enterprises and large-scale players, such as the national oil companies in certain emerging markets. Multinational companies can play a useful role in this process in terms of:

- encouraging their joint venture and other business partners to be more proactive in adopting corporate responsibility policies, and
- sharing both lessons and tools with others.

3.5 Is the company engaged in collective corporate action?

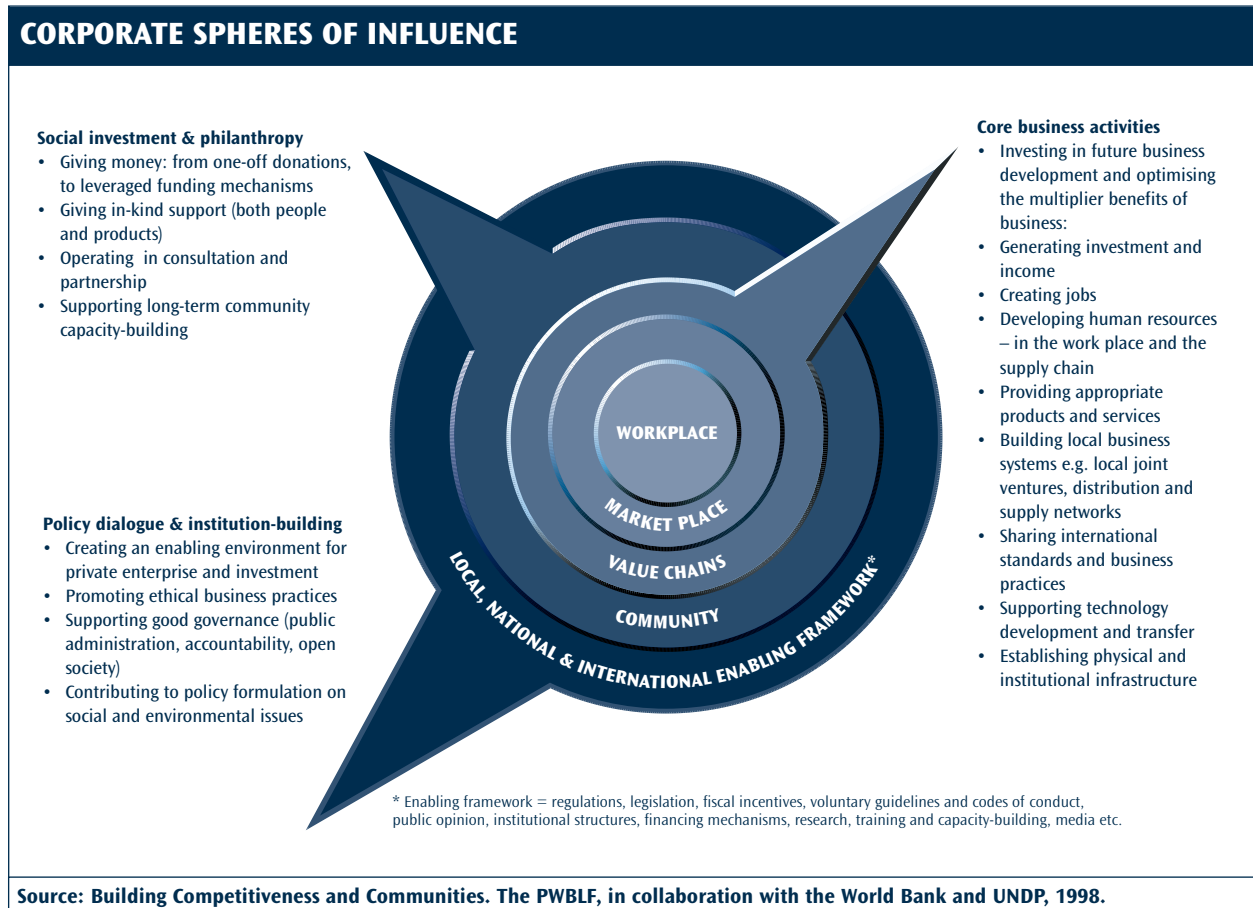
Whilst an individual company is likely to have the greatest control and responsibility in the way it runs its own business operations, its ability to influence structural change in conflict situations is likely to be much greater through engagement in public policy dialogue, advocacy and civic institution building. These latter areas are not easy for companies to engage in on an individual basis. Apart from the time, managerial and financial resources needed to do so, there are also questions of legitimacy and representation for individual companies or business leaders engaging at this structural or macro level. Based on this, another useful question to ask is the extent of a particular company's engagement in traditional business associations or business leadership groups and the potential for increased engagement in such action.

3.6 What are the company's spheres of influence?

A final and critical point to consider when analysing the potential role of a company in conflict prevention and resolution is its different spheres of control and influence. Three key spheres of influence can be identified:

- The company's **core business operations** in the workplace, in the marketplace and along the value chain (i.e. what the company does to source, produce and distribute its products and services);
- The company's **social investment and philanthropy activities** in local communities and wider communities of interest;
- The company's engagement in **public policy dialogue, advocacy and civic institution building** with host governments at the local, regional and national level and with inter-governmental agencies at the international level.

These are illustrated in the diagram below. The next section outlines some of the different types of engagement that business can undertake specifically in conflict prevention and resolution through each of these three spheres of influence.



SUMMARY OF KEY QUESTIONS FOR ANALYSING CORPORATE ENGAGEMENT IN CONFLICT

<p>WHAT ARE THE CAUSES OF CONFLICT?</p>	<p>It is rarely one isolated factor operating alone that acts as a root cause or trigger for violent conflict, but normally a combination of factors. Protracted civil conflicts of the type we are seeing in Colombia, Nigeria, Indonesia and elsewhere, are characterised by enduring economic under-development and exclusionary social, economic and political systems. In such countries, it is the imbalances created by the narrow concentration of wealth and power and a failure or inability to fulfil fundamental human needs for security, to recognise distinctive identities and to provide effective and legitimised participation in society which have contributed to violence and conflict. Addressing and transforming such fundamental problems can only be achieved by society as a whole. No company or group of companies is responsible for creating or resolving these problems alone. They can, however, play some part in either exacerbating or helping to solve them, depending on the actions they take.</p>
<p>AT WHAT STAGE IS THE CONFLICT?</p>	<p>It is useful to think in terms of three broad categories of intervention:</p> <ul style="list-style-type: none"> • Prevention strategies to stop violent conflict from occurring in the first place, to prevent it from becoming worse, or to avoid it reoccurring after peace has been negotiated; • Crisis management strategies which are especially relevant when violent and sustained conflict is actually happening and people are dying or becoming refugees; and • Reconstruction and reconciliation strategies to help rebuild war-torn societies. <p>Different industries can contribute in different ways to all three of these strategies. The responsibilities of business and its ability to make a positive difference are probably greatest in the areas of conflict prevention and post-conflict reconstruction, whilst the business risks are usually highest in the area of crisis management.</p>
<p>WHERE IS THE CONFLICT LOCATED?</p>	<p>A company will face more obvious risks if violent conflict is having a direct impact on the company's operations, either in the workplace or along the local supply or distribution chain. Equally, it will normally have greater ability and responsibility to take action and to control the nature of its actions, if they relate to its own immediate business operations. A company will have less ability, usually less interest and often less legitimacy (especially if acting independent of other companies) to intervene in conflicts that are occurring further afield and not directly affecting its immediate operations.</p>
<p>WHO ARE THE OTHER ACTORS?</p>	<p>Companies operating in conflict sensitive or conflict-ridden locations have to understand and respond to the motivations and capacities of an even wider range of actors and stakeholders than normal. Some of these actors may have a direct interest or stake in either supporting or undermining the company's own operations. Others may not have a direct interest in the company <i>per se</i>, but their actions may have the power to indirectly affect it, often in a negative manner. A company must therefore be able to analyse the power and capacity of other actors, their level and nature of involvement with the conflict, and their relationship with the company. Multinational companies need to consider actors and stakeholders operating in both host countries and communities and at the international level. The latter may not be directly affecting the course of a specific conflict, but they can influence the nature of the company's engagement in this conflict through campaigning and other activities.</p>
<p>WHAT ARE THE COMPANY'S CHARACTERISTICS?</p>	<p>The risks, roles and responsibilities of a particular company in any given situation of conflict will depend mainly on the company's industry sector. Different industries have very different risk-responsibility profiles based on factors such as their potential to directly cause conflict, their flexibility of withdrawal or disinvestment from conflict situations and the likely cost of conflict to their operations. Other factors that will have some influence include the company's size, ownership structure and history in a particular country and its range of management functions and spheres of influence.</p>

Examples of corporate engagement

4

1. Core business operations
2. Social investment and philanthropy
3. Public policy dialogue, advocacy and civic institution building
4. Developing key performance indicators



The private sector and security are linked in many ways, most obviously because thriving markets and human security go hand in hand. Global corporations can do more than simply endorse the virtues of the market, however. Their active support for better governance policies can help create environments in which both markets and human security flourish.

Kofi Annan, Secretary General, United Nations, August 1999

The pressures on transnational companies to avoid doing harm and to exercise their legitimate influence for good are growing. Responsible companies have long understood a duty of care towards their employees. More recently, they have accepted that the bounds of their responsibility should be extended to embrace protection of the environment. Today, civil conflict and human rights violations present them with new challenges and dilemmas for which few have shown themselves prepared, but which, ignored or badly handled, have proved hugely damaging to reputation.

Sir Geoffrey Chandler, Chair Amnesty International UK Business Group
Human Rights: Is it any of your business?, 2000

FRAMEWORK FOR TYPES OF BUSINESS ENGAGEMENT

CORE BUSINESS ACTIVITIES

1. Implement social and environmental policies and management systems which include guidelines on human rights, anti-corruption and use of security forces
2. Undertake pre-investment conflict impact assessments and monitor real impacts on an on-going basis
3. Consult with stakeholders on a systematic basis
4. Ensure diversity in workplace practices and hire local people
5. Aim for widespread wealth creation and support for local livelihood opportunities

SOCIAL INVESTMENT

1. Build capacity of local civil society organisations
2. Invest in community-based development and participation
3. Support local education, health and enterprise development programmes
4. Fund activities that promote diversity, tolerance and civic education

POLICY DIALOGUE

1. Engage in dialogue with other companies and governments to address national development needs and tackle structural issues that underpin conflict such as corruption, inequality and human rights abuses.
2. Fund think-tanks and research on these issues
3. Undertake publicity and media campaigns to promote peace

What can business do specifically?

I PREVENTION STRATEGIES

STATUS OF COUNTRY OR SITUATION
 STABLE PEACE / CONFLICT PRONE

CONFLICT RIDDEN

III POST-CONFLICT reconstruction & reconciliation

What can business do specifically?

CORE BUSINESS ACTIVITIES

1. Provide commercial support in rebuilding infrastructure and investing in productive sectors
2. Do so in a way that builds local human capital and business capacity, especially for small-scale businesses, and respect diversity

SOCIAL INVESTMENT

1. Focus on projects that target affected populations and ex-combatants, taking into account points 1-4 at top of the page
2. Support NGOs active in reconciliation efforts, voter education etc.

POLICY DIALOGUE

1. Participate in truth and reconciliation commissions
2. Support weapons hand-in, amnesty and demobilisation programmes
3. Provide funding and managerial support to build the capacity of government services, including judicial systems and police forces
4. Support initiatives to attract foreign investment to post-conflict regions
5. Build capacities and governance systems for the local private sector

II CRISIS MANAGEMENT

What can business do specifically?

CORE BUSINESS ACTIVITIES

1. Supply relief products, equipment and services on a commercial basis in areas such as:
 - Water and sanitation
 - Shelter and site planning
 - Food, nutrition and health services
 - In doing so, follow Red Cross guidelines for humanitarian assistance
2. Ensure integrity of the company's own security arrangements when operating in a conflict zone

SOCIAL INVESTMENT

1. Partner with NGOs and governments on product donations
2. Support work of humanitarian and development efforts in other ways

POLICY DIALOGUE (Collective action)

1. Put pressure on politicians to negotiate or to remain out of regional conflicts (other than as peacekeepers)
2. Provide secretariat services and logistical support for peace negotiations
3. Engage directly in peace delegations or negotiations if appropriate and within an agreed framework

1. Addressing conflict through core business operations

The companies that are able to support conflict prevention and resolution through their core business operations are those that are either physically located in conflict prone or ridden locations, or those that have trading or procurement relationships with such countries. In considering how companies can play a role through their core business activities it is useful to distinguish between:

1.1 Companies carrying out commercial activities that are not aimed directly at addressing the prevention or resolution of conflict, but are capable of influencing the cycle of conflict both negatively and positively. For example, the extractive industry, infrastructure, manufacturing and tourism sectors. In conflict sensitive countries the manner in which these companies conduct their business operations can either help to alleviate violent conflict or cause it to happen (even if unintentionally). If violent conflict does erupt, these companies may close down their operations or withdraw employees. If they chose to stay they will tend to go into 'self-protection' mode, focusing on the security of their people and assets and attempting to continue with their business despite the conflict.

1.2 Companies that provide products and services on a commercial basis that are directly aimed at meeting needs arising from an existing conflict or post-conflict situation. For example companies that provide construction, procurement and logistical support services and emergency relief products (such as tents, medical supplies, telecommunications equipment and vehicles) to governments and humanitarian agencies on a contractual procurement basis. These companies will play a more pro-active role directly linked to the cycle of conflict. They will usually increase their level of activities in crisis situations, for example by helping to provide water, sanitation and shelter for refugees, or logistical support such as vehicle maintenance and physical infrastructure for armed forces. Natural and man-made disasters and post-conflict reconstruction will provide commercial business opportunities for such companies. The role of this group of companies is likely to become more important if governments increase the level of humanitarian and reconstruction work that they subcontract to the private sector. This is likely to happen if the private sector demonstrates that it can deliver emergency services, sometimes working with the military, more cost effectively and efficiently than governments, NGOs and donor agencies. The fact that these companies are providing direct support to tackle a particular conflict does not mean that their impact is automatically beneficial. If these operations are not carried out with sensitivity to the nature and causes of the conflict, or recognition of the need to include affected populations in project implementation, they can serve to exacerbate or sustain violence rather than resolve it.

UNDERTAKING CORE BUSINESS ACTIONS FOR CONFLICT PREVENTION AND RESOLUTION...

In both groups, regardless of their particular products or services, companies can help to prevent or decrease conflict by:

- undertaking pre-investment conflict impact assessments and monitoring their real impacts on an on-going basis;
- consulting with stakeholders in a systematic and accountable manner;
- promoting greater ethnic understanding and tolerance by ensuring diversity in their workplace practices and by hiring local people;
- aiming for more widespread wealth creation and supporting

local livelihood opportunities by using local suppliers wherever possible, by training local people and by transferring appropriate competencies and technologies to host countries and communities;

- stamping out practices of bribery and corruption in their own workplace and in doing so 'leading by example' for others;
- addressing human rights abuses that may arise as a direct result of their business activities or security arrangements, by putting policies in place and rigorous management and compliance systems to implement them.

2. Addressing conflict through social investment and philanthropy activities

Although a company's social investment or philanthropy budget is a tiny fraction of the resources that it mobilises through its core business activities, these budgets are not insubstantial. In a 1998 study of 50 multinational companies for example, The Prince of Wales Business Leaders Forum calculated the combined value of their corporate foundations and community investment budgets (not counting the value of employee volunteering time, cause related marketing budgets or other sources of corporate social investment).⁽²²⁾ The social investment/ philanthropy figure for these 50 companies alone was almost equivalent to the annual operating budget of the United Nations Development Programme.

Well-targeted and sensitively managed corporate social investment can play a vital role in building human capital, ethnic tolerance, education and health services. It can also build the institutional capacities of NGOs and local governments. As described on page 127, however, even philanthropic funds can exacerbate conflict if not delivered in consultation with local communities and partners and/or if too much money is 'thrown at a problem'. The process and methodology used is as important as the amount donated.

Companies making social investments that help to prevent conflict or to provide disaster relief usually fall into two broad categories:

2.1 Companies operating *in situ* i.e. companies with commercial operations in a particular conflict sensitive or war-ridden location, who want to make a wider social contribution through donating money, products and services or engaging employees in community-based or other social activities;

2.2 Companies operating outside a conflict region who want to make a social contribution to a conflict sensitive or war-ridden location even if they don't have direct business operations or immediate commercial interests in this location. They can use the same methodologies as above, but will not be 'on the scene' as permanent partners and investors.

INVESTING IN SOCIAL PROGRAMMES FOR CONFLICT PREVENTION AND RESOLUTION...

In both cases companies can increase the impact of their social investment and philanthropy activities by:

- Supporting activities or civil society organisations that can have a direct impact on preventing or resolving conflict such as: local enterprise development; education; health programmes; activities that promote ethnic diversity, tolerance and civic action; disaster relief; community peace building and reconciliation efforts; voter education etc.
- Mobilising the core competencies of the company i.e. management skills, products, services and networks and not simply money;
- Developing innovative funding mechanisms when they do give money, which leverage each dollar as effectively as possible and which build more sustainable funding structures in local communities;
- Building delivery partnerships with donor agencies, NGOs, local authorities, the media and other companies;
- Consulting with beneficiaries and encouraging genuine participation in decision-making on social programmes;
- Understanding what they want out of their social investment programmes and partnerships, for example, direct business benefits, public relations value, employee development opportunities, general 'feel-good' factor – and looking for the most strategic fit between corporate and partner interests and community needs;
- Reviewing ways in which their social investment can help to build community capacities and empowerment, instead of only supporting 'bricks and mortar' and welfare type projects. In short, looking for ways to help break cycles of dependence and charity rather than perpetuating them.

3. Addressing conflict through engagement in public policy dialogue, advocacy and civic institution building

There is growing recognition of the role that business can play by engaging in policy dialogue with governments and other stakeholders on the difficult structural issues that underpin conflict such as:

- the existence of corruption and cronyism
- human rights abuses
- inequitable distribution of tax revenues and patronage
- lack of democratic process
- inequitable or inadequate access to economic opportunities, education, health services
- lack of indigenous business development and job creation
- the need for security and judicial reform.

This is a complex area for corporate intervention and one that is fraught with dilemmas in terms of accountability, legitimacy and authority. This is especially the case in the field of conflict prevention and resolution, and particularly so in conflict-prone countries with weak and/or repressive and corrupt regimes. It is an area, however, that is increasingly difficult for companies to ignore, especially multinationals and large-scale domestic companies physically located in these countries.

3.1 Individual influence or advocacy – A key issue, especially for multinationals, is choosing whether to adopt the tactics of public advocacy or private influence in trying to change the behaviour of governments and other key political actors. In part this choice depends on whether the government in question is a host government in a politically fragile or conflict-ridden society or a parent government in an OECD country. In the first case, it is often easier and more effective to influence change by having private discussions ‘behind closed doors’ rather than carrying out a public advocacy campaign. It is especially difficult for individual companies to play an advocacy role when they are long-term investors in a region of conflict and political sensitivity. In most situations, companies operating in their individual capacity will engage through influence rather than advocacy.

3.2 Collective influence or advocacy – A key message of this report is the potential for collective corporate action. This is especially valuable in the area of engagement in public policy dialogue and advocacy. It is easier, for example, for a group of foreign and/or national companies to jointly approach a repressive government to advocate for structural reforms in the society, rather than trying to do so individually. It is also easier, and usually more effective, for companies to work together in addressing international public policy issues. Even with collective action, however, there are situations where a private dialogue with key political actors is more effective in terms of building necessary trust, than having a public campaign or conversation.

ENGAGING IN PUBLIC POLICY AND INSTITUTION BUILDING FOR CONFLICT PREVENTION AND RESOLUTION...

The practical ‘tools’ and mechanisms that companies can use to engage in public policy and institution building range from high-level consultative fora (with the aim of exchanging ideas and building trust) to practical hands-on programmes (with the aim of using business resources and skills to build the managerial and administrative capacity of public officials). These mechanisms include the following (with some examples on the next page):

- Cross-sector leadership fora, consultative bodies and public policy commissions
- Corporate funded think-tanks and research programmes

- Publicity and media campaigns
- Business ‘peace delegations’
- Private sector advisory and capacity building mechanisms
- Logistical and management support services for peace negotiations or constitutional talks
- Support for weapons hand-in and demobilisation programmes
- Voter education
- Corporate engagement in truth and reconciliation commissions
- Support for improving judicial and police capacity and quality.

EXAMPLES OF BUSINESS ENGAGEMENT

	CORE BUSINESS ACTIVITIES	SOCIAL INVESTMENT &	
PREVENTION	<p>1) Implement social and environmental policies and management systems which include guidelines on human rights, anti-corruption and use of security forces <i>On a global basis</i>, Shell, BP, Rio Tinto, British Telecom, Premier Oil, Nokia, Novo Nordisk, Norsk Hydro and Statoil have all revised their business principles to include explicit statements on human rights. Several have hired human rights specialists and produced management primers to help their employees understand some of the complexities and management dilemmas involved with embedding these commitments in day-to-day operations.</p> <p>2) Undertake pre-investment conflict impact assessments and monitor impacts on an on-going basis A growing number of companies are carrying out social and environmental impact assessments which form a critical element of understanding potential linkages to conflict.</p> <p>3) Consult with stakeholders on a systematic basis In the <i>Philippines</i>, WMC the Australian mining company has supported indigenous communities to obtain Certificates of Ancestral Domain from the government. This will improve their security of tenure over traditional lands and enhance their ability to control the access of WMC and other companies to these lands. The company has respected the choice of one community to deny it access to their lands for exploration. In the <i>UK</i> BP has engaged in systematic dialogue with the Inter Agency Group (CAFOD, ChristianAid, CIIR, Oxfam UK, and Save the Children Fund) on its activities in <i>Colombia</i>.</p>	<p>On a <i>global basis</i> in 1996 Shell consulted with employees and stakeholders in over 50 countries on their changing expectations of the company.</p> <p>4) Ensure diversity in workplace practices and hire local people In <i>Ireland</i> the Counteract and Future Ways programme has developed an equity, diversity and interdependence standard for companies to implement in the workplace (see page 114)</p> <p>5) Aim for widespread wealth creation and support for local livelihood opportunities In <i>Mozambique</i>, the AGRIMO company has established a cotton out-growers scheme for small-scale producers, providing seeds, micro-credit and know-how, with the government setting prices. In 1995/6 about 1,000 farmers produced 80 tonnes of cotton. By 1998, 15,000 farmers were supplying 5,000 tonnes to AGRIMO. In the <i>UK</i> the Ethical Trading Initiative has been established as a partnership between business, government, trade unions and NGOs to improve working conditions and livelihood opportunities in developing countries. In <i>Southern Africa</i> the Peace Parks Foundation has been established as a partnership between governments, the private sector and local communities to promote conservation, ecotourism and job creation across ethnic and national boundaries.</p>	<p>1) Build capacity of local civil society organisations In <i>Vietnam</i> PricewaterhouseCoopers runs training courses in accounting, budgeting and financial reporting for NGOs. In <i>India</i> McKinsey & Company are sharing management skills with NGOs</p> <p>2) Invest in community-based development and participation In <i>southern Africa</i> Rio Tinto has established several foundations focused on community-based development (see page 91). In other countries national and foreign investors are professionalising their community investment programmes to build more genuine participation and partnership with local communities.</p> <p>3) Support local education, health and enterprise development programmes In <i>Kazakhstan</i>, Chevron and Citibank have supported a business development centre run by the United Nations Development Programme with funding, management support and technical advice. In <i>El Salvador</i>, a group of private sector companies established FUSAL, a health foundation aimed at supporting the rural poor and developing community based health programmes. In <i>Indonesia</i>, immediately after the 1998 economic crisis and in the face of growing social and political unrest, fifteen multinational companies worked together with an Indonesian NGO, The Community Recovery Programme, with support from UNDP, the World Bank and the Asian Development Bank to</p>
CRISIS MANAGEMENT	<p>1) Supply relief products, equipment and services on a commercial basis Hundreds of companies have contractual procurement agreements with the United Nations and other humanitarian agencies to supply products (ranging from food and water to sophisticated equipment) and services (ranging from engineering and logistical support to advice) to regions in crisis. In <i>Kosovo</i>, for example, Inmarsat supplied mobile satellite phones to the Red Cross, which were used by refugees to make over 32,000 calls by June 1999. Toyota delivered over 600 vehicles into the region, airlifting over 40 at the height of the crisis. More detailed examples of the UK-based Crown Agents and US-based Brown& Root are profiled on page 107.</p>	<p>2) Ensure integrity of the company's own security arrangements when operating in a conflict zone In <i>Colombia</i> and <i>Nigeria</i>, BP and Shell respectively have fundamentally reviewed their security arrangements and developed and signed revised rules of engagement with security forces on the advice of NGOs such as Human Rights Watch and Amnesty International. <i>Internationally</i>, a group of major extractives companies are in dialogue with the US and UK governments and selected NGOs to develop a set of principles of managing security arrangements with state and private forces.</p>	<p>1) Partner with NGOs and governments on product donations In <i>Kosovo</i> Microsoft worked with UNHCR and other companies to develop a refugee registration system (see page 108) In the <i>USA</i> leading pharmaceutical companies and humanitarian organisations have established the Partnership for Quality Medical Donations (see page 109) In <i>Kosovo</i>, Yorkshire Water donated some US\$330,000 worth of water purification equipment and one million purification tablets to provide clean drinking water for refugees. In <i>Bosnia</i>, the British health products retail chain, Boots, linked its store recycling programme to a bombed out pharmacy in Otaka. Recycled shop-fittings from the UK were used to refit the Bosnian facilities destroyed by war.</p>
POST-CONFLICT	<p>1) Provide commercial support in rebuilding infrastructure and investing in productive sectors In <i>Kosovo</i>, Commerzbank AG has become a joint shareholder with a group of inter-governmental institutions of the Micro Enterprise Bank (MEB). The first bank to be licensed in Kosovo since the recent conflict, MEB will provide account management, money transfers and loans to small and micro-enterprises. Commerzbank, as the only private bank among the shareholders, will concentrate on providing foreign-related banking services. In <i>Mozambique</i>, the Beira Corridor Group has used a mix of social and commercial investment in support of basic infrastructure and health provision. In the <i>Middle East</i> tourism professionals and desert guides from Israel, Jordan and the Palestinian authority are working together to develop regional tourism packages. Similar initiatives are underway through the Egyptian-Israeli Tourism Co-operation programme. In the <i>USA</i> Peaceworks is developing trading relationships with suppliers who are former adversaries (see page 117) In <i>Kosovo</i> DHL played an important role in helping to re-establish distribution and logistics soon after the war.</p>	<p>In <i>Guatemala</i>, the Industries for Peace Programme was established with the support of two national firms – Grupo Mega and IDC – to work with local authorities and communities in promoting foreign investment and improving the supply and export linkages of local small and medium companies. For example, 7 villages that suffered severely from the war are part of a programme to produce snowpeas for export to the European market.</p> <p>2) Do so in a way that builds local human capital and business capacity, especially for small-scale businesses, and respects diversity In the <i>Balkans</i>, the Swiss-Swedish construction company ABB has encouraged diversity and improved ethnic relations in the workplace through a programme to bring Serbs, Kosovars and Bosnians together to work on rebuilding war-damaged electricity infrastructure.</p>	<p>1) Focus on projects that target affected populations, and ex-combatants taking into account points 1-4 above In <i>Guatemala</i> a training centre owned by local businesses worked with USAID's Office of Transition Initiative, to offer reduced rates for re-training former guerrilla combatants In <i>Rwanda</i> Glaxo Wellcome worked with RefAid to establish health centres for some returning refugees. In <i>Japan</i>, the Keidanren – Japan's premier business organisation – created a fund to mobilise Japanese corporate donations for UNHCR and has raised over US\$20 million to-date.</p>

PHILANTHROPY

establish Business Links. Facilitated by The Prince of Wales Business Leaders Forum, this initiative will develop links between larger companies and small businesses with the aim of building local enterprise and job creation and preventing further violence. In *Azerbaijan*, Agip the Italian energy company is working with the government on a malaria control programme which will impact about 1.5 million people.

4) Fund activities that promote diversity, tolerance and civic education

In *South Africa*, media and communications businesses have joined forces with NGOs to establish the Worldwide Media Network which will develop materials and communications networks primarily through local and regional media, to support peace education and increased understanding on human rights issues.

In *Ireland*, Oracle worked with the State of the World Forum in 1999 to donate 100 internet-ready computers to Catholic, Protestant and integrated schools in Belfast, as part of a Computers for Co-existence initiative.

In *Israel*, the Abraham Fund is building relationships between Israel's Jewish and Arab citizens. Founded by Alan Slika, an American businessman and philanthropist and Eugene Weiner, an Israeli rabbi and professor of sociology, the initiative is attracting support from a number of multinational companies and has reached over 30,000 children and trained more than 2,500 teachers to teach about co-existence and democracy.

POLICY DIALOGUE, ADVOCACY & INSTITUTION BUILDING

1) Engage in dialogue with other companies and governments to address national development needs and tackle structural issues that underpin conflict such as corruption, inequality and human rights abuses.

National examples that focus on how business can support the nation's development objectives include the work of NBI in South Africa and PBSP in the Philippines (see page 112-115) and Instituto Ethos in Brazil.

International examples of cross-sector dialogue to promote peace and stability include:

- *The World Economic Forum* established a *Transitions to Peace* programme with the *Peres Center for Peace* in 1998
- *The State of the World Forum* launched a *Coexistence and Community Building Initiative* to develop practical relationships between different cultures, races, religions and ethnic groups
- *The Business Humanitarian Forum* was established in 1999 to promote better understanding and partnerships between business and the humanitarian community (page 123)
- *The Fund for Peace*, established in 1998 brings together business and human rights organisations in the USA
- *Business for Global Stability* will be launched in September 2000 at the *Enterprise Millennium Summit*, as a non-profit organisation aimed at getting the global business community involved in a systematic way in conflict prevention and resolution and peace building.

2) Fund think-tanks and research on these issues

In *Azerbaijan*, Statoil and BP Amoco have supported the production of a series of reports on subjects such as nation-building, human rights, corruption and the clan system. In the *UK*, the British Angola Forum, based at the Royal Institute for International Affairs and funded largely by business, addresses subjects such as the links between business, conflict and human rights concerns in Angola.

The *International Institute of Peace Through Tourism* is supported by a variety of companies, such as American Express and will host a major summit on the role of tourism in peacebuilding in Jordan in late 2000. The Institute is also forming a Coalition of Partners for World Peace through Tourism which consists of a global network of tourism associations promoting practical projects that build peace.

3) Undertake publicity and media campaigns to promote peace

In the *UK* Body Shop has run a number of campaigns around peace issues, including a major initiative to support the Ogoni people in Nigeria

In the *USA*, Ben & Jerry's established the "1% for peace" initiative in 1998 which campaigned to direct 1% of the US defence budget to fund peace projects. In 1996, the company joined with other US corporations to establish a new political action group Business Leaders for New Priorities, to encourage reductions in US military spending.

In *South Africa* Shell ran a major public awareness campaign before 1994 to promote the importance of democratic and peaceful transition

Globally the Italian company Benetton ran a campaign for UNHCR to increase public awareness of refugee issues.

In *South Africa*, the aviation company Safair has worked with the World Food Programme to develop new drop technology to distribute food in areas that are too dangerous for ground movement.

2) Support work of humanitarian and development efforts in other ways

In *Angola*, Statoil and BP are supporting the British and Angolan Red Cross to set up health care training programmes for local volunteers and to operate five health posts which are serving thousands of people in meeting basic healthcare needs, as well as landmine victims.

In *Azerbaijan*, the Western oil companies are assisting humanitarian organisations that support refugees and internally displaced persons from the Nagorno-Karabakh conflict.

The *UK* non-profit RedR – Engineers for Disaster Relief – is supported by a variety of companies and volunteers.

1) Put pressure on politicians to negotiate or to remain out of regional conflicts (other than as peacekeepers)

Examples of the former are provided by companies in *South Africa* (page 112) and *Ireland* (page 114). In *Zambia*, the business community played a pro-active role in convincing the Zambian government to stay out of the conflict in the DRC, which has created heavy economic costs and political tensions for other countries that have got involved such as Zimbabwe.

2) Provide secretariat services and logistical support for peace negotiations

In *Mozambique*, the British company Lonrho provided logistical and financial support to the peace negotiations between the government and RENAMO;

In *South Africa*, the Consultative Business Movement provided the secretariat for the country's transitional constitutional talks.

3) Engage directly in peace delegations or negotiations if appropriate and within an agreed framework

The role played by *South African* companies in meeting with the ANC in Zambia prior to its un-banning in South Africa. The Young Businessmen's Society brings together individuals from Turkey, Greece and both communities in Cyprus to discuss areas of common interest

In *Guatemala*, members of the business community, together with local authorities, indigenous and women's groups participated in the establishment of the Peace Accords.

2) Support NGOs active in reconciliation efforts, voter education etc.

In *South Africa* the Consultative Business Movement mobilised corporate management and financial resources to support voter education and polling during the country's first democratic elections in 1994.

1) Participate in truth and reconciliation commissions

The private sector has provided public support for, and participation in, truth and reconciliation commissions with varying degrees of success, in Chile, Guatemala and South Africa.

2) Support weapons hand-in, amnesty and demobilisation programmes

In *El Salvador*, the Movimiento Patriótico contra Delincuencia, a weapons turn-in programme, was planned and partly funded by the private sector.

3) Provide funding and managerial support to build the capacity of government services, including judicial systems and police forces

In *South Africa* the Business Against Crime initiative has helped build police capacity and tackle crime (page 101).

In *Indonesia*, Freeport McMoran worked with the Indonesian government to help improve the country's court system.

In *Venezuela*, Statoil has worked with UNDP and Amnesty International on a project to train Venezuelan judges on how to deal with human rights issues.

4) Support initiatives to attract foreign investment to post-conflict regions

In the *Balkans*, American and European companies have been providing private sector advice through groups such as the Transatlantic Business Dialogue and the South East European Co-operation Initiative.

In *Israel* the Peres Peace Center has facilitated dialogues between Israeli, Palestinian and foreign investors and government officials to improve the investment climate in this region (see page 119)

In *Kosovo* SCS Alliance Bank has worked with various UN Agencies to establish a pre-investment fund aimed at attracting more foreign investment. Public-private pre-investment funds, risk-insurance structures and other types of incentive have a critical role to play in revitalising foreign and local investment in post-conflict regions.

5) Build capacities and governance systems for the local private sector

Local and foreign chambers of commerce and other business support associations can play a key role.

In *Azerbaijan*, an Enterprise Development Committee to support local business is being set up in consultation with international companies, the NGO community, government and local business associations.

4. Developing key performance indicators

The adage ‘if you can’t measure it you can’t manage it’ has applicability in assessing both a country’s and a company’s potential for creating, exacerbating, preventing or resolving conflict.

Having identified key causes of conflict or conditions for peace, it is possible to develop indicators at both a country and a corporate level that can be useful in tracking how a particular country or company is performing against these causes or conditions. In many cases it is possible to also develop specific measures or proxies for each of these indicators which provides a valuable tool for benchmarking one country or company against others, or one period against another.

4.1 Country-level indicators

Until relatively recently, the only universally accepted indicators for assessing a country’s performance were Gross National Product or Gross Domestic Product. Over the past decade there has been growing acceptance that these are inadequate for assessing a country’s human and sustainable development prospects, let alone its potential for either peace or conflict. The result has been the emergence of new measures that include the United Nations’ *Human Development Index*, a growing number of sustainable development indices, country competitiveness indices and the Transparency International *Corruption Perceptions Index*. In the past few years work has also been carried out by the donor agencies on developing conflict-sensitivity indicators to provide an early warning system for countries or regions at risk.

4.2 Company-level indicators

As with the country level, until recently corporate performance measures revolved solely around financial and market performance, using a variety of metrics. This remains the case for most companies. Over the past decade, however, there have been a variety of efforts to develop internationally agreed standards, indicators and metrics for corporate environmental performance and various efforts are now underway to do likewise in terms of corporate social performance. Corporate performance indicators and metrics can have relevance at three main levels of operation:

- project or factory level (where very specific indicators and metrics can be applied)
- business unit and/ or national level (where metrics would need to be aggregated)
- in the case of multinational companies, corporate or international level, (where even further refinement and aggregation is required)

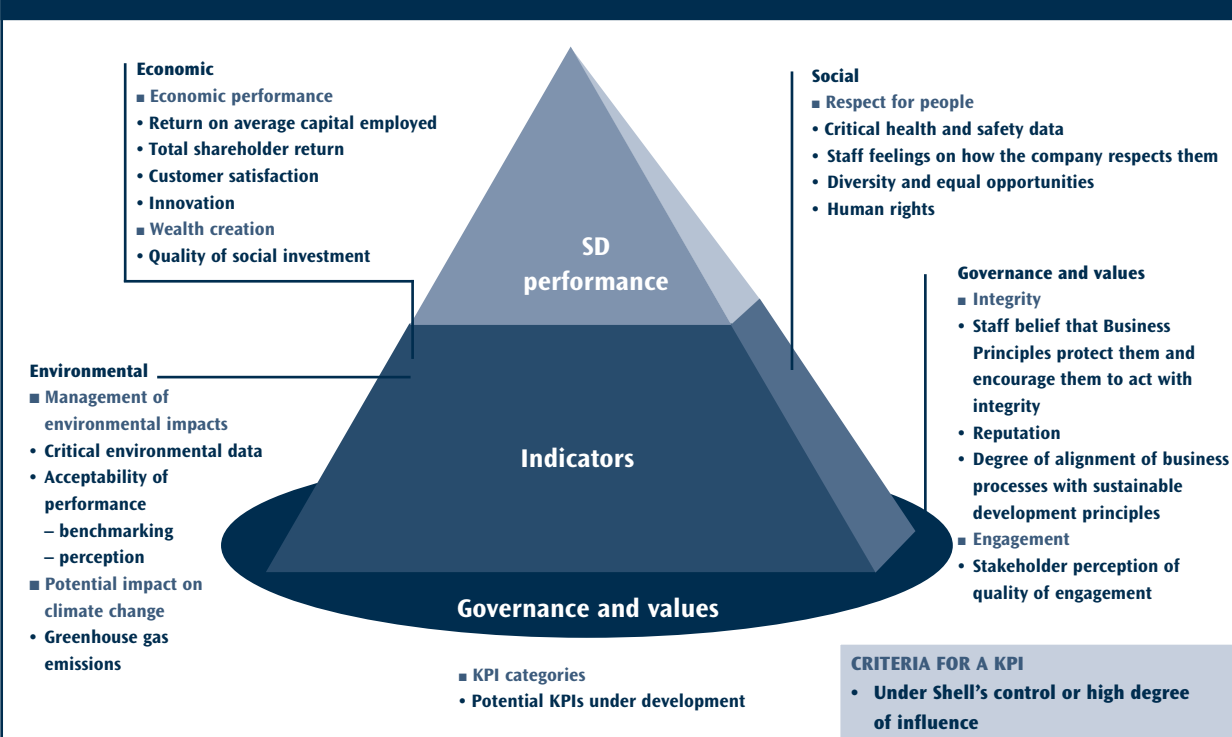
At each of these levels it is possible to identify a number of economic, social and environmental indicators that could be a useful guide in assessing whether a company’s activities will contribute to the causes of conflict or the conditions of peace. In its 1998 report *Building Competitiveness and Communities*, The Prince of Wales Business Leaders Forum identified five main areas where responsible companies can make a contribution to their host countries and communities. These five areas provide a useful framework for thinking about broad conditions for peaceful and progressive societies. They also provide a framework for developing both country level and company level indicators. They are as follows:

- Strengthening economies (in a way that is both efficient and equitable)
- Building human capital
- Promoting good governance (at both the corporate and national level)
- Protecting the environment
- Assisting social cohesion (including support for human rights)

These five areas have been used in the table on page 72 to provide a list of possible indicators that companies could think about in assessing their own performance in

conflict prevention and resolution and analysing the countries in which they are investing. The list is not exhaustive. At the same time it is probably too long for most companies to develop metrics for each of the indicators. Too many metrics makes the process overly complex, time consuming and unlikely to be sustainable or replicable over a large number of business units and locations. Although broad frameworks may be similar, different companies and industry sectors will require different indicators and metrics to reflect the issues that are most important to their own business and set of stakeholders. An example of Shell's progress on developing Key Performance Indicators for sustainable development is provided in the box below.

SHELL'S KEY PERFORMANCE INDICATOR FRAMEWORK



... We see key performance indicators (KPIs) as the logical basis for setting targets and driving continuous improvement across our operations and for developing standards of reporting and verification.

Stakeholder views are vital in the process because KPIs must be critical to the business and relevant to the concerns and expectations of those who have an interest in our progress.

The support and guidance of senior management within Shell has been provided by the Sustainable Development Council. Staff from the businesses and corporate centre have helped in developing our approach and providing expert views in areas such as HSE, finance, strategy and policy.

We are looking to develop seven or so KPI categories to fit with a framework spanning

the economic, environmental, social and underlying governance and values aspects of our performance (see diagram above).

We developed a list of two or three potential KPIs for each category as the starting point for dialogue. We then held 33 meetings with stakeholders drawn from the following groups: shareholders, NGOs, labour organisations, academia and government. We received a wealth of suggestions, which we systematically recorded, analysed and categorised using a series of screening criteria (including those shown above). The Group verifiers provided advice on the verifiability of input received.

The key learning for us was that statistics alone are poor measures of performance. These need to be complemented by measures of quality and value-added, although how to do this is not always clear.

The Sustainable Development Council approved a timetable for testing the practicalities of an initial list of KPIs and for tackling those requiring longer-term study.

We shall introduce KPIs progressively over the next one to five years as we develop the necessary systems and implementation guides. We shall report on them in future Shell Reports and continue the dialogue with our stakeholders on their development. www.shell.com/KPIS

Source: How do we stand? People, Planet and Profits: THE SHELL REPORT 2000, page 32

EXAMPLES OF PERFORMANCE INDICATORS FOR PEACEFUL AND PROGRESSIVE SOCIETIES

	Country indicators	Company indicators
STRENGTHENING EQUITABLE ECONOMIES	<ul style="list-style-type: none"> Distribution of tax revenues – purpose, location and equity of distribution Existence of pro-competition market based legislation Nature of land tenure system and private property rights Existence of local capital markets Openness of government tendering processes, especially for strategic resource and infrastructure projects Integration of social and environmental objectives into privatisation programmes and infrastructure projects Size of indigenous business community Level and nature of foreign investment Evenness of economic development along ethnic and geographic lines % of GDP generated through natural resources/ primary commodities Flexibility of the labour market 	<ul style="list-style-type: none"> Corporate financial measures on profitability, total shareholder return, EVA, ROACE etc. Tax revenue generated for host government(s) Direct jobs created Wages paid and differentials Size of local distribution and supply chains (i.e. other local livelihoods supported) Investment in technology transfer Export revenues generated for host countries Listing on local stock exchanges % of shareholders from employees
BUILDING HUMAN CAPITAL	<ul style="list-style-type: none"> % of GDP spent on education and training % of GDP spent on health and nutrition projects Position of country on UNDP's Human Development Index Population growth rate and density Level of access to basic services such as water and sanitation, energy Signatory to ILO Conventions on labour and working conditions 	<ul style="list-style-type: none"> % of local people employed at management level Investment in management and technical training of local employees Investment in basic skills training Performance statistics for occupational health and safety Existence of standards and monitoring on labour rights (link to international standards) Level of social investment (money, products and management time) in education, training, health and nutrition programmes in host countries and communities
SUPPORTING SOCIAL COHESION and HUMAN RIGHTS	<ul style="list-style-type: none"> % of people living below the poverty line Level and structure of unemployment (numbers of marginalised youth) Representation of minority groups in key economic and political decision-making positions Existence of fundamentalist religious groups Legal framework that supports a vibrant and representative civil society Signatory to the Universal Declaration on Human Rights (UDHR) Record of assessments by the UN High Commission of Human Rights and coverage by Amnesty International External refugees or internally displaced people as % of total population Level of criminal activity 	<ul style="list-style-type: none"> Diversity profile of employees relative to local context Number of complaints relating to cultural sensitivity of products, services or advertising Public support for the UDHR Existence of standards and monitoring for the use of public or private security forces Level of social investment (money, products and management time) in activities that promote diversity, tolerance and civic education and tackle unemployment % of social investment spent on capacity and institution building Level of community participation in social investment programmes
ENCOURAGING GOOD GOVERNANCE AND ACCOUNTABILITY	<ul style="list-style-type: none"> Regular, free and fair elections Existence of an independent and effective judiciary Impartial and professional police force and military Existence and profile of active opposition parties Acceptance of an independent and free media Transparency of tax distribution and public finances Position on Transparency International's Corruption Index 	<ul style="list-style-type: none"> Existence and monitoring of international standards for good corporate governance, bribery and corruption Number of bribery and corruption incidents Engagement in local business associations Number of consultations with government officials on key governance issues Number of community and public consultations on social and business issues
PROTECTING THE ENVIRONMENT	<ul style="list-style-type: none"> Signatory to international environmental treaties and conventions Existence and effectiveness of environmental regulations Fiscal or market incentives for efficient resource usage Support for investments in environmental technology 	<ul style="list-style-type: none"> Existence and monitoring of international environmental standards Data on resource usage and emissions Capital investment in relevant technology Number of public consultations and complaints related to environmental issues Life-cycle impacts of products and services

Dealing with key management challenges

5

1. Dealing with repressive regimes
2. Benefiting from 'war economies'
3. Developing a nation's strategic assets
4. Managing security arrangements
5. Facilitating or facing criminal activities
6. Tackling corruption
7. Supporting humanitarian relief operations
8. Engaging in diplomacy and peacemaking
9. Rebuilding trust
10. Creating cross-sector dialogue and partnerships
11. Ensuring accountability
12. Limiting the means to wage war



For brave businessfolk, there are rich pickings in grim places. But there are also immense obstacles and risks. Pipelines can be blown up by terrorists. Contracts can be torn up by crooked partners. Fragile economics can collapse. And in recent years, firms doing business in countries with unpleasant governments have been pilloried by non-governmental organisations (NGOs), endangering that most priceless of assets, their good name. To succeed in difficult countries, firms must learn how to overcome these obstacles and minimise the risks.

Business in Difficult Places, The Economist, May 20th 2000

In the past, companies claimed they were fulfilling their social obligations by providing housing, education and health care for their workers and their workers' families; they said their presence was automatically good for the local people because it provided jobs. But increasingly businesses in war zones find that they are paying taxes and bribes to and seeking protection from governments which are causing the war. Others find they have to pay protection money to or do business with rebel movements. Now, many companies are coming to accept a broader context for their operations and making a commitment to the people of the country they are working in, not just its government and laws.

War, Money and Survival, International Committee of the Red Cross, 2000

BUSINESS AND CONFLICT: From the margins to the mainstream of the international business press Cuttings from The Financial Times – OCTOBER 1999 TO JULY 2000



Whether the impact of business is good, bad or indifferent and whether it can play a proactive role, reactive role or no role at all, will depend on the three sets of factors outlined in Part 3:

- **the nature of the conflict;**
- **the role and position of other actors; and**
- **the characteristics of the company itself.**

The dynamic linkages between these factors will result in a wide variety of situation specific risks and responsibilities for different companies and industry sectors. Given their complexity and dynamism it is not possible to provide simple ‘checklists’ or easy answers as to how companies can respond to situations of potential or existing conflict. At best one can provide a framework for analysis and general guidelines for addressing specific management challenges.

The following section of the report aims to illustrate some of these specific challenges. The twelve examples covered raise especially difficult and complex management dilemmas for companies trading or investing in areas subject to conflict. They include both:

- structural challenges at the macro-level that raise strategic policy issues for corporate executives; and
- day-to-day management challenges at the micro or operational level of the individual enterprise.

Although reviewed individually there are strong links between most of these management challenges. In many conflict situations a company will have to address several of them at the same time. Each of them is the subject of widely differing perspectives and is worthy of a detailed report in its own right. The following section attempts only to highlight some of the key issues. Research references, website addresses and useful contacts are provided in the Appendix for readers wanting more information.

1. Dealing with repressive regimes

Businesses generally believe that investment is a better way to influence unsavoury local regimes than isolation. There is a strong faith among business people that exposure to the standards of international business, coupled with jobs, economic benefits and the simple presence of foreigners, will have a positive moderating influence on undesirable regimes.

John Maresca, President Business-Humanitarian Forum

Investment in conflict-torn regions: War, Money and Survival, ICRC, 2000

As to the approach that companies should take regarding countries embroiled in conflict or threatened by such situations, there are two opposing views: constructive engagement and non-involvement. Non-involvement, the approach generally supported by NGOs, is based on the view that a company's involvement in a ‘problem country’ brings with it the risk of aggravating the situation.

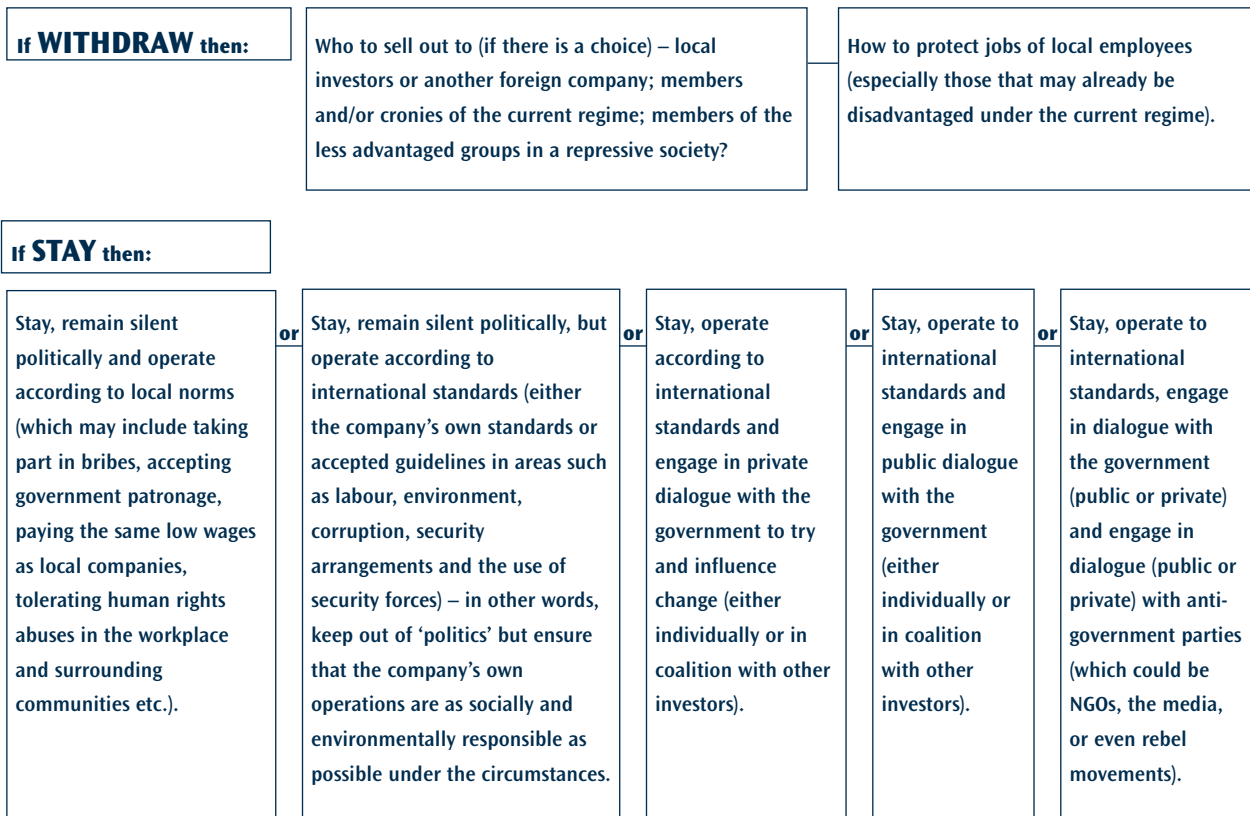
Philippe Spicher, Centre Info

Rating corporate conduct in war-torn settings: War, Money and Survival, ICRC, 2000

One of the most difficult choices for multinational companies is the question of if and how to deal with governments that are repressive, authoritarian or undemocratic. In some cases these governments may be subject to official sanctions or boycotts, declared either by the United Nations or unilaterally by other governments. In such cases, the type of sanctions will determine the extent to which multinational companies can invest.

In many cases, however, official sanctions are either not in place or are limited in scope, despite the country having a poor human rights record, authoritarian government or high levels of corruption. Such countries may be the targets of NGO and media campaigns, but multinational companies are legally free to invest in them. In such cases, the decision to invest, remain or divest, is a business decision at the discretion of the company in question.

In certain cases the company has to make the decision of whether to make an initial investment in such a country. In others it may already be operating in a country when the nature of the regime changes, for example as the result of a coup d'etat or even an election that ushers in a more repressive or corrupt government. Some of the key questions that a company has to ask when already operating in such a country are as follows:



As the experiences of companies operating in apartheid-era South Africa and other 'pariah states' have illustrated, none of these options are simple. Decisions vary for different companies depending on factors such as:

- their industry sector and the degree of flexibility that this provides for manoeuvre (oil and mining companies, for example, obviously have to be where the resources are physically located, which severely restricts ability to relocate other than at high cost to the company);
- the time horizon and scale of their investments, which again influences flexibility; and
- the location of their home base (given that governments, consumers and activists in different home countries will have different reactions to whether the company should remain invested or not).

For most companies, their decision will be based on an extensive risk-reward analysis. The existing and potential political, security, operational and reputational risks and rewards of staying, are weighed up against the costs and benefits of withdrawal. Even with such calculations, however, the final decision often comes down to a value judgement. Such judgements are based not only on a commercial risk-reward assessment, but also on the company's corporate values, its commitment to its employees and other people in the country in question and its judgement on whether staying will do these people (as well as its business) more good than harm.

As Sir John Browne of BP describes it, 'There are times when we have to make judgements. Do the circumstances in a particular country make it possible for us to meet our own standard of care? Can we be positively and constructively engaged? Or are we asking our staff to do things which are simply undeliverable? We faced that situation in South Africa a decade ago. We face it in parts of the Middle East today. And in Russia. Each circumstance and each judgement is different, and of course, they can change over time. They're not easy judgements – because they are often taken across a cultural divide – and they are not taken lightly. ⁽²³⁾ BP's policy position on withdrawal or 'staying-in', is that it will try to stay in a country and play a positive role, except in situations where:

- Its ability to maintain the safety and security of its employees is compromised; and
- It becomes impossible to operate in accordance with the company's business policies.

It is not unusual for companies of the same industry sector and nationality to make different choices. Burma is a current case in point, where US oil companies Texaco, Amoco, Arco and Baker Hughes have withdrawn their investments, whilst Unocal has decided to stay, together with its French operating partner TotalfinaElf. UK-based Premier Oil, with a US\$200 million investment in a gas project in Burma, was officially requested to disinvest by the British government in April 2000. This was a request rather than a legally binding demand, given that official economic sanctions against Burma by the UK and other European governments are limited. As of writing, the company has made the decision to remain invested, with its Chief Executive arguing that: 'we believe constructive engagement is more likely to bring progress in countries like Burma'. ⁽²⁴⁾

Many other non-oil companies with brand reputations to protect have left Burma, spurred by factors such as the activism of the Free Burma Coalition (described in the box on the following page) and the imposition of American government sanctions on new investments by American companies. For these businesses, the reputation risks and management costs of staying outweighed their assessment of the business benefits of remaining invested, let alone the contribution they felt that they could add to the country's citizens.

Experience illustrates that whatever the decision – to withdraw or remain – there is unlikely to be consensus, even within the company, let alone between the company and its various stakeholders. Even with hindsight, it is often not possible to state categorically which decision was best for the countries and citizens involved. As Peter Schwartz and Blair Gibb argue with the case of Shell and South Africa in their book, *When Good Companies do Bad Things*, "...most South African activists would say that the boycott did contribute to ending apartheid and that Shell got it wrong. Most Shell employees would still disagree, believing that they made a positive difference by staying". The authors go on to comment that, "the question of investment / disinvestment in countries with repressive regimes is one of the most contentious of all questions of social responsibility."

THE FREE BURMA COALITION: ‘Constructive engagement’ or withdrawal ?

The Free Burma Coalition (FBC) is an umbrella group of organisations around the world working for freedom and democracy in Burma. It is a good example of how the internet has been used to mobilise activists, students, academics and exiles from around the world. It works with student activists at over 100 colleges, universities and high schools in the US and Canada, as well as concerned citizens in about 26 other countries.

The coalition takes as its basic starting point the need for multinational companies to withdraw completely from Burma. It is currently co-ordinating several campaigns targeted at selected multinational corporations, citing the words of Nobel Laureate Aung San Suu Kyi: “We want investment to be at the right time – when the benefits will go to the people of Burma, not just to a small, select elite connected to the government. We do not think investment at this time really helps the people of Burma...If companies from Western democracies are prepared to invest

under these circumstances, then it gives the military regime reason to think that they can continue violating human rights.”

FBC supports a variety of activities ranging from consumer boycotts, to media coverage, shareholder activism, influencing government purchasing mandates and supporting US-based lawsuits, for example against Unocal. The Free Burma Campaign cites almost 30 major multinationals that have divested from Burma since 1992, in part as a response to its campaigning activities. These include names such as PepsiCo, Heineken, Carlsberg, Hewlett Packard, Amoco, Texaco, Motorola, Seagram, Eastman Kodak and Best Western. FBC is currently running campaigns against the oil companies, especially Unocal and Totalfina, and the Japanese auto maker Suzuki.

The US government has now declared sanctions against Myanmar. These sanctions permit US companies to fulfil their existing investment contracts but not to make new investments.

To stay or leave – different viewpoints...

Human Rights and Economic Engagement, Unocal’s website, 1999 www.unocal.com

Unocal would not tolerate the use of forced labour or other human rights abuses in any of our projects. We are proud of our record of improving the lives of people wherever we work. We are equally proud of the benefits provided to the people of Myanmar through our investment in the Yadana project. ...the Yadana energy project is helping to promote peace and prosperity through the Myanmar-Thailand region. We offer this project as a model of corporate responsibility in a developing country.

Letter to Unocal Board Member, Free Burma Coalition website, 1999 www.freeburmacoalition.org

...The Yadana pipeline has turned out to be a major liability rather than an asset for Unocal, a company which by its own admission is not performing well in general. When Unocal executives talk of “discarding” unprofitable ventures, the Burma pipeline should be at the top of their list. Unocal’s joint venture with one of the world’s most notorious regimes gives a terrible image to the company and to Board Members like you. Unocal is deeply associated with the heroin thugs of Burma but has not earned anything from it. Please have the courage to use your influence to speak out for Unocal’s withdrawal from Burma.

The critical issue for companies that make the decision to stay in a country that has a repressive or corrupt government is how do they make ‘a positive difference’. At the very least, any company deciding to stay in a country with a repressive government should undertake to ‘do no harm’ in the way it runs its own business operations. It should also undertake as many of the following actions as possible:

1. Proactively and systematically review the different ways it can help to alleviate or tackle the causes of local conflict through the company’s core business activities (including its supply and distribution chains) and its social investment and policy dialogue activities.
2. Operate according to internationally acceptable standards and guidelines – for example: the Universal Declaration of Human Rights; ILO Labour Standards; UN conventions on the use of arms and security services; the OECD guidelines on bribery and corruption etc.
3. If possible, allow for independent verification of the company’s activities in the country;
4. Support the development of civil society organisations through social investment projects that provide funding and management skills;
5. Where possible support training of local judiciaries, police forces and state security forces on international human rights standards

6. Collaborate with other companies, local and foreign, in efforts to address politically sensitive issues of bad governance, in particular corruption, human rights abuses, freedom of speech and association, security sector reform, and improved government transparency and accountability. Aim to influence government officials individually when opportunities arise;
7. Assess, preferably with other business players, the value and risks of entering into dialogue with, or even supporting, anti-government groups.

The private sector, especially large-scale investors and business-led coalitions, can be a powerful force for change in countries with repressive governments. The role played by South African and foreign companies in South Africa during the 1980s and early 1990s offers one example and is profiled on page 112.

2. Benefiting from ‘war economies’

Although societies as a whole suffer economically from civil war, some small identifiable groups do well out of it. They thus have an interest in the initiation, perpetuation and renewal of conflict... Effective policy intervention should reduce both the economic incentives for rebellion and the economic power of the groups which tend to gain from the continuation of social disorder.

Doing Well Out of War, Paul Collier, The World Bank, 1999

In recent years there has been a growing focus on the economic factors that sustain civil wars by funding rebels, government armies and other violent criminal elements in society.

Barter and cash-based trade in primary commodities is one way in which government and rebel factions alike are funding their war efforts and creating ‘war economies’. In his 1999 paper *Doing Well out of War*, Paul Collier of the World Bank argues that, ‘the presence of primary commodity exports massively increases the risks of civil conflict. Specifically, other things equal, a country which is heavily dependent upon primary commodity exports, with a quarter of its national income coming from them, has a risk of conflict four times greater than one without primary commodity exports.’⁽²⁵⁾

There is strong evidence on the negative role in violent conflicts played by legal and illegal trade in commodities such as diamonds from Angola, Sierra Leone and the Congo, oil from Angola and the Sudan, timber and rubber from Liberia and opium from Burma and Afghanistan. There is also the longstanding example of complex links between governments, state armies, rebel factions and the drug barons in Latin America.

These primary commodities have varied routes to market. For example:

- In some cases, as with drug trafficking, the trade in these commodities is illegal along the entire value chain;
- In others, direct and illicit barter take place between arms traders and local intermediaries who are representing different warring interests;
- In many cases, however, primary commodities that have been illegally sourced are smuggled across borders and find their way onto the open world market through legal routes. This has been the case with diamonds from several warring countries in Africa, which have passed through reputable national and multinational companies *en route*;
- In other cases, the trade is legal along the entire value chain – as with oil for example – but may be enabling governments to fund the needless continuation of conflict to the detriment of their citizens.

The two latter cases raise serious questions for the private companies involved in various parts of the value chain. In particular, what role are these companies playing in supporting the continuation of war by providing revenues – either directly or indirectly – for warring governments and rebel factions?

Apart from barter and cash-based trade in primary commodities, governments and rebel factions employ various other methods to fund their war efforts. These include:

- Controlling access to critical infrastructure facilities – such as ports, airports, electricity installations and extracting payments from private sector operators, humanitarian agencies and others to use these. In Somalia, for example, local warlord militia extract highway tolls along the route between Mogadishu and Merca port;
- Limiting and controlling access to basic commodities – making it difficult or impossible for local populations to obtain food, water, medical supplies etc. and then charging extortionate amounts of money for these goods. The cost burden of this approach usually falls most heavily on the poorest sectors of society;
- Kidnappings and other forms of corporate extortion;
- Mortgaging future revenues from the country's assets – the Angolan government, for example, is said to have borrowed against the next 15 years oil production to purchase sophisticated Russian weapons ⁽²⁶⁾ and in Rwanda, the Hutu government used future tea harvests as collateral for weapon supplies from Egypt. ⁽²⁷⁾

There is a complex chain of actors involved in, and benefiting from, these 'war economy' activities. In any particular value chain there may be a mixture of legal and illegal interests and public and private operators in action. These include:

- governments and their armies
- individual politicians
- rebel factions and warlords
- mercenaries, private security organisations and arms suppliers
- opportunistic businessmen and traders
- criminals and organised crime syndicates
- credible national and multinational companies – either through international trade chains or through their direct investments in war-torn economies and in some cases, investments in and payments to areas controlled by rebel factions.

The examples on the following three pages illustrate the actors and complexities involved in some of the 'war economies' in Africa and some of the international NGO campaigns aimed at multinational companies investing in these economies.

It is likely that the subject of 'war economies' and how they are funded will gain increased prominence over the next few years. One thing is clear, with mounting NGO activism and media attention on this subject, coupled with growing UN and government action the companies involved in commodity trading – especially the oil, mining and timber companies – and the banks that finance them, have another 'agenda item' to add to their list of corporate responsibility issues. Are their activities helping to fund and sustain war economies? If so, what actions can they take to limit negative impacts? What potential is there for collective action both within the 'war economy' in question and internationally? The action steps outlined on page 79 offer some guidelines, together with the recommendations of recent reports on 'war economies' by NGOs such as Human Rights Watch, Global Witness and Amnesty International. Some of these are summarised in the following profiles and relevant websites and references are provided in the Appendix.

OIL AND DIAMONDS IN ANGOLA

Angola offers a useful example of the actors and complexities involved in a ‘war economy’ where both government and rebel forces are using revenues from a combination of legally and illicitly traded commodities to fund their respective war efforts. A high percentage of revenues from the trade in Angolan diamonds, which has been both illicit and official, has been funding the UNITA rebel movement. At the same time, revenues from official oil production are funding Angolan government forces in the country’s resurgent civil war. Both products end up in Western markets through value chains that include well-known multinational companies and are funded by well-known multinational banks – all operating legally.

In the case of the diamonds, there has been criticism that international diamond traders have not been sufficiently responsible in controlling the purchase of Angolan rough diamonds, many of which have been smuggled illegally from Angola before being sold through legal channels on the world market. Much initial criticism was targeted at De Beers, the world’s largest diamond company which has its origins in Africa. The company has subsequently stopped purchasing diamonds from Angola. (see pages 83 and 24). In early 1999 the Angolan government established a joint venture, Ascorp, with Israeli entrepreneur Lev Leviev who has cutting and polishing outlets in Russia. Leviev is now the sole official buyer of Angolan rough diamonds. He insists that he has never purchased diamonds from the UNITA rebel movement and that all his diamonds will have government certification.

In the case of oil, there has been criticism that the foreign oil companies and banks operating in Angola have not been proactive

enough in influencing the Angolan government to be more transparent and accountable about the way it is using its oil revenues. A article in the Independent newspaper in the UK on 27 February 2000, entitled *Angola’s oil boom fuels civil war*, argued that, “huge sums paid by oil companies go into the pockets of politicians and the military with no benefit to the people. The great boon for the oil companies is that virtually all of Angola’s oil reserves lie offshore, under the waters of the southern Atlantic, safely out of reach of the civil war. So although their activities are central to the continuation of war – indeed it could hardly continue without them – they remain blissfully unaffected.

The situation is complicated further by the fact that there are Angolans on both the government and rebel sides ‘cutting deals with each other.’ As the Economist points out in a September 1999 article, *Angola’s Endless War*, ‘Government ministers and generals sell weapons and fuel to UNITA; UNITA sells diamonds mined in its areas to official government buying offices.’⁽²⁸⁾

In October 1999, an international campaign *Fatal Transactions* was launched by a group of four European NGOs to promote more vigilant and responsible practices in the diamond industry in Angola and elsewhere (see page 83). In December 1999, another report and campaign, *Crude Awakening*, was launched by Global Witness, a British-based NGO, aimed at the banks and oil companies operating in Angola. This is profiled briefly in the box below. Human Rights Watch have also set out recommendations for oil and diamond companies in their report *Angola Unravels*, published in September 1999.

A crude awakening

In December 1999 Global Witness launched a campaign aimed at oil multinationals and banks investing in Angola. These companies include British-based BP, French-based Elf Aquitaine (now TotalfinaElf), US-based Exxon Mobil, Norwegian-based Norsk Hydro, Dutch-based ING Barings. British-based Lloyds bank and Swiss-based UBS bank. In its background report to the campaign, entitled *A crude awakening*, Global Witness states that, ‘as the main generators of revenue to the government of Angola, the international oil industry and financial world must accept their complicity in the current situation. As such it is imperative that these companies change the way they conduct their affairs, creating new levels of transparency.’

The campaign calls on the banks and oil companies to undertake a variety of actions. For the oil companies these include:

- adopting policies of ‘full transparency’ on the companies’ relationships and funding arrangements with the government, including all payments ranging from

signature bonus payments to social investments;

- establishing a formal coalition to support the IMF in its calls for greater transparency and accountability of the government’s revenues and expenditures, especially the manner in which it is spending oil remittances;
- consulting with the World Bank, IMF, UN agencies, international NGOs, representatives of Angolan civil society and government to form a broad alliance for transparency;
- publicly supporting the development of Angolan civil society and insisting on the government respecting its obligations on the Universal Declaration of Human Rights;
- undertaking independent audits of the impacts of company social programmes.

The campaign calls on the foreign banks to undertake other actions, including the following:

- publishing all loan arrangements that have been made with Angola;
- refusing to make further loans without radical changes in the transparency and accountability of the Angolan government’s

financial management and without independent audits of military budgets and expenditures;

- making public the details on Angolan funds and large bank deposits coming from Angola.

Most of these proposals represent major policy and management difficulties for the companies involved. Not least of these is the challenge of oil companies from different countries, and with different sensitivities to international activist campaigns, being able to co-operate on sensitive issues that question the government at the same time as they are bidding competitively for new government- controlled concessions. Despite this they are likely to face increasing pressure to enter into dialogue with different players on how to respond in a more pro-active and practical manner. One example of increased cross-sector dialogue on the challenges of operating in Angola is the British-Angola Forum, profiled on page 123 which is supported by some of the leading banks and energy companies active or interested in Angola.

OIL IN THE SUDAN

Apart from a period of peace between 1972 and 1983, civil war has ravaged Sudan for almost 50 years. The current conflict pits the army of the Sudanese government against the largest opposition force, the Sudan People's Liberation Army (SPLA). It is exacerbated by constantly shifting alliances and inter-factional fighting between various militias allied with the government and SPLA, and in some cases trained by foreign private military firms. Whilst ethnicity plays a key part in the conflict, the existence of oil and foreign oil companies operating in Sudan has become an increasingly important factor in the war. In its May 2000 report, *Sudan – The Human Price of Oil*, Amnesty International states ⁽²⁹⁾ “The drive for oil and territorial control over the oilfields is central to the war between the government and armed opposition forces, as well as ongoing conflict between the various militia factions.”

The direct link between the war and oil exploration became increasingly apparent during 1999. NGO campaigns and growing media coverage shone the spotlight especially strongly on Talisman Energy, a Canadian company with a stake in a consortium that also includes the China National Petroleum Corporation (CNPC), Malaysian state-owned Petronas and Sudapet, the national oil company of Sudan. Both Talisman and PetroChina (a subsidiary of CNPC which offered 10% of its shares on international exchanges in 1999) have faced shareholder pressure as a result of their Sudanese investments. Some of the key concerns raised by NGOs, shareholder activists, the media and a report commissioned by the Canadian government (see page 24) are as follows:

- Serious human rights abuses have been committed by government and opposition forces in their efforts to clear civilian populations away from oil production and pipeline areas. Thousands of people have lost their lives, their homes

and their livelihoods as a result. Civilian populations have also become key ‘pawns’ in the intensified fighting between various armed factions around the oil-rich areas. In both cases, foreign oil companies are being criticised for ‘turning a blind eye’ to these abuses.

- There has been evidence that security arrangements between the oil companies and government forces, aimed to protect company staff and assets, have also resulted in human rights abuses. In particular, there have been allegations of the use of child soldiers to protect oil installations.
- There has been evidence that infrastructure built to support the oilfields, such as airstrips, has been used by government forces for military operations targeted at the civilian population.
- As Amnesty International points out in its report, “there is a clear connection between the new-found oil wealth and the government’s ability to purchase arms.” This, together with efforts by different warring factions to either gain control of or to sabotage the oilfields and pipeline, serves to intensify and perpetuate the fighting.

Companies with investments in Sudan, especially the oil companies, are under increasing pressure to respond to these criticisms. They need to demonstrate that they are operating according to international standards, at least within their immediate spheres of influence, and are working collectively, wherever possible, to encourage better governance and negotiation between the Sudanese government, SPLA and militias.

Sudan – The human price of oil Amnesty International’s Recommendations to oil companies

Whilst Amnesty International takes no position on economic or other sanctions, disinvestment or boycotts, we consider that companies have a responsibility to contribute to the promotion and protection of human rights wherever they may operate.

Amnesty International therefore calls on oil companies present in Sudan:

- To ensure that their operations in Sudan do not contribute to the violation of international human rights law and human rights in Sudan;
- To investigate, where possible, reports of human rights violations within the company’s sphere of activity, to raise concerns about reported violations with the government of Sudan or the Sudan People’s Liberation Army as appropriate and to encourage all sides to the conflict to observe international humanitarian law and to take steps to protect the civilian population;
- To raise with the government of Sudan the conditions for the return of civilians forcibly displaced from their homes in Western Upper Nile and Unity States;
- To ensure adequate human rights training for any security personnel they employ to protect their staff and business interests and to ensure that all security personnel adhere strictly to international human rights standards, including the United Nations Code of Conduct for Law Enforcement Officials;
- To ensure that it is not involved in the transfer of military, security or police equipment, weapons, training or personnel likely to be used to commit human rights abuses;
- To refrain from employing those who have been responsible for human rights violations as security personnel and to raise with the government of Sudan concerns regarding the use of private military and security companies to train government-allied forces to protect oil installations;
- To ensure, in line with the ILO conventions, that company staff are not placed at risk of human rights violations as a consequence of the company’s presence in Sudan;
- To press the appropriate authorities to guarantee unrestricted access for humanitarian agencies and independent human rights monitors, including United Nations special rapporteurs, to Western Upper Nile and Unity States;
- To give guarantees that the company’s infrastructure will not be used for military purposes that would result in human rights violations;
- To give guarantees that the company will not be silent witnesses to human rights violations.

THE GLOBAL CAMPAIGN AGAINST 'CONFLICT' DIAMONDS

Few campaigns targeted at a particular industry have achieved such momentum so quickly, or raised such complex issues, as the global campaign against 'conflict diamonds'. The following quote from the International Herald Tribune captures the heart of the issue ⁽³⁰⁾. "Where they are mined responsibly, as in Botswana, South Africa or Namibia, diamonds can contribute to development and stability. But where governments are corrupt, rebels are pitiless and borders are porous, as in Angola, Congo or Sierra Leone, the glittering stones have become agents of slave labour, murder and wholesale economic collapse. While market manipulation guarantees their price in world markets, the portability and anonymity of diamonds have made them the currency of choice for predators with guns in modern Africa."

There is overwhelming evidence that illicit trade in diamonds has played a key role in funding and perpetuating war efforts and related human rights abuses in Sierra Leone, Angola and the Democratic Republic of the Congo. In October 1999 an international consumer campaign, **Fatal Transactions**, was launched by Global Witness, Medico International, the Netherlands Institute for Southern Africa and Novib. Its goal is to alert the public about the link between diamonds and the funding of war in Africa and to pressurise diamond companies to establish policies, controls and management systems to ensure greater transparency and accountability in the sourcing of diamonds. The campaign has attracted extensive media coverage around the world, raised consumer awareness and helped to mobilise the diamond industry and governments into joint efforts to stop the trade in 'conflict diamonds'. It has also raised a dilemma for the diamond industry in the countries which have taken a more responsible approach to mining, trading and cutting diamonds. In countries such as Botswana, South Africa and Namibia, for example, the diamond mining industry is a critical source of job creation and export revenues and it is estimated that some 800,000 people in India depend on cutting and polishing diamonds for their livelihood.

The core challenge, therefore, is to stop the illicit trade in diamonds that is funding violent conflict, whilst supporting and strengthening the legal trade in diamonds and ensuring that middlemen and consumers make a distinction between the two. This is easier said than done, given the ease of portability and the difficult process of tracking the source of diamonds that end up in the major buying centres of Antwerp, Mumbai, New York and Tel Aviv. Rough (uncut) diamonds are easier to track, but once they have been cut, tracking and certification becomes extremely difficult.

De Beers, which controls some 60% of the world's uncut diamonds, responded from an early stage in the Fatal Transactions Campaign. Although conflict diamonds represent only 4-10% of the world market, the company recognised the potential danger of an effective consumer campaign. If consumers are unable to tell if the diamonds they are buying fund wars or not, they may start boycotting the industry. Alternatively, if the company and its business partners can brand their diamonds as 'conflict-free' this could offer a valuable marketing edge, especially as De Beers prepares to give up its longstanding

monopoly on purchasing uncut diamonds. As a result the company has taken measures to address its own role as a possible conduit for conflict diamonds. It has stopped buying Angolan diamonds and has closed its buying offices in west and central Africa. In March 2000 it started issuing guarantees that its diamonds are not sourced from conflict zones in Africa and in July it announced that its clients must also sign a code of conduct. Apart from individual action, De Beers and more gradually other players in the industry, have co-operated with the United Nations, and governments in bringing together key diamond producing and importing countries in order to discuss industry reform. Key issues that are being addressed include:

- The strengthening of government controls in producer and importing countries, including mandatory publication of import and export statistics and the development of an international certification scheme for certifying the origin of rough diamonds;
- Efforts by the international community to impose and strictly monitor bans on diamonds from conflict countries, except where certified as legitimate by the governments in these countries;
- More research on linkages between conflict diamonds and the arms trade; and
- Voluntary initiatives by companies and industry associations operating at different stages along the supply chain to improve buying controls, consumer information, transparency and accountability and to penalise companies exposed as dealing in illicit or conflict diamonds.

In July 2000, at the biennial World Diamond Congress in Antwerp a nine-point plan was agreed to establish a system for tracking diamonds from mines through to international trading centres. This will be policed by a new **International Diamond Council**, which will consist of producers, manufacturers, traders, governments and international organisations. Despite the fact that much work still needs to be done, this example illustrates how quickly business, governments and civil society organisations can mobilise around a particular issue if the pressures and incentives are strong enough. In the wake of the Fatal Transactions campaign, activism by US NGOs led by Physicians for Human Rights, increased consumer awareness, media vigilance and growing government intervention, it is in the clear interests of De Beers and other legal diamond companies to find a solution that protects the integrity and image of the industry.

3. Developing a nation's strategic assets

The potential for private sector operators to create or exacerbate violent conflict is especially high when they are developing and managing a nation's strategic assets. These assets can be:

- strategic natural resources, such as oil, gas, water and minerals;
- strategic infrastructure installations, such as large dams, utility networks for telecommunications, electricity or water and port facilities;
- a combination of both, which is often the case with the development of major resource-based projects.

As outlined elsewhere in this report, conflict around strategic resources and infrastructure installations can be driven by a variety of factors. These factors usually relate to questions of ownership, control and distribution of the costs and benefits from such activities – both within the country in question and between the country and its neighbouring states.

3.1 Cross-border disputes associated with developing strategic resources

In some cases, resource and infrastructure developments have implications which span national boundaries and private operators can find themselves caught up in geo-political conflicts and regional tensions, as well as internal conflict. Two current examples of such tensions are offered by the oil and gas developments in the Caucasus and the Ilisu dam development in Turkey.

OIL, GAS AND GEO-STRATEGIC INTERESTS IN THE CAUCASUS

The end of the Cold War opened up business opportunities for foreign direct investment in the newly independent countries of the former Soviet Union. Azerbaijan, for example, with its potentially large reserves of oil and gas, has attracted new investments from a number of foreign oil companies. It offers a good example of the potential conflicts and management challenges, at both a micro- and macro-level, associated with developing a nation's strategic assets in a region that is politically, as well as economically strategic and unstable.

Investors and local businesses in Azerbaijan are faced with a daunting range of both national and regional challenges. These include:

- New and ongoing tensions in and/or with Dagestan, Armenia, Georgia, Nargorno-Karabakh, Russia, Iran and Turkey, which are caused by a mix of ethnic, political and resource issues;
- Geo-political disputes and complex political manoeuvring over the routes of export pipelines, with the Caspian basin having become a key strategic area of US foreign policy;
- Uncertainty over political succession and the fragility of democratic institutions;
- The threat of Islamic fundamentalism spreading across Central Asia;
- Social and political tension over refugees and internally displaced populations (it is estimated that refugees and IDPs from the conflict with Armenia over Karabakh make up 10% of the 8 million inhabitants of Azerbaijan);
- Severe environmental concerns;
- Over-regulated economies, over-zealous tax authorities and under-

resourced infrastructure, making it difficult not only for foreign investors, but also local businesses to get established let alone succeed;

- High levels of corruption, rising crime, including kidnapping and other security risks;
- Build-up in arms – both internally and on a regional basis;
- High social expectations, especially of the western investors, coupled with growing unemployment and poverty as the economy undergoes fundamental restructuring;
- Economic migration within Azerbaijan as people look for jobs related to the oil industry (which currently provides over 50% of the state budget), resulting in the decline of rural communities, growing disillusionment, especially amongst the younger population in Baku, and growing reliance on a single industry sector which cannot create enough jobs for all the people wanting them;
- Restrictions on the actions of civil society organisations, many of which are associated with political opposition groups;
- Continuing human rights abuses.

What are the positive and practical steps that foreign investors can take in such a situation? Four key issues stand out:

- Helping to develop a diverse and thriving economic base;
- Furthering democratic development;
- Managing societal expectations of the oil industry; and
- Helping to enhance regional stability.

The ability for individual companies to take action on their own is limited. There is potential, however, for companies to work collectively and with other actors such as governments, international donors and civil society in each of these areas.

THE ILISU DAM AND THE POLITICS OF WATER

Water is likely to be a major cause of international conflicts in the 21st Century...Ilisu must be considered a political project predominantly motivated by the strategic interest of the Turkish government to strengthen its position vis-à-vis Syria and Iraq, and to control the unruly Kurdish areas. The environmental problems of the project are unresolved and no lessons from the abysmal social record of earlier GAP projects have been learnt.

Statement by Berne Declaration, a Swiss public-interest group of 16,000 people.

As part of the Southeastern Anatolia or GAP project consisting of dams and power plants in the Kurdish region of Turkey, the Turkish government is planning a dam at Ilisu on the Tigris river, 65 kilometres upstream from the Syrian and Iraqi border. An international debate has emerged between private sector contractors, governments and NGOs in several European countries around the political, social, environmental and cultural implications of the dam.

The issues

As of January 2000, some of the concerns raised during 1998 and 1999 by the media and NGOs were in the process of being addressed. Serious issues, however, remained unresolved in the areas of:

- Conflict: the project has already been criticised for exacerbating civil conflict between the Kurdish people, specifically the PKK guerrilla movement, and the Turkish state. Several NGOs argue that the building of the dam will provide an opportunity for 'ethnic cleansing' and removal of Kurdish populations from the area. There are also serious concerns about increased tensions between Turkey and its neighbours, given its upstream position on the Tigris river and potential ability to pressurise or blackmail the other riparian countries. NGOs claim that the proposed project contravenes core provisions of the UN Convention on the Non-navigational Uses of Transboundary Waterways (signed in 1997 by 103 UN members with the exception of Turkey, China and Burundi). The dam has attracted protest from the Syrian and Iraqi governments and the Arab League. The British government, among others, has called for public assurance from the Turks that downstream flows will be maintained at all times;
- Human rights: in particular the appropriate level of consultation and compensation of local populations and the need to develop a comprehensive and internationally acceptable resettlement plan, including public agreement on how many people will be affected (a number which differs widely depending on the source but is estimated to be between 12,000-25,000 people);
- Culture: in particular better consultation, agreement and plans on how to preserve as much as possible of the archeological heritage of the ancient, part-Kurdish town of Hasenkeyf, which is currently threatened by the dam;
- Environment: concerns here are wide ranging, but focus in particular around issues of water quality, the need for waste water treatment plants, the possible increase in infestations of malaria and leishmaniosis, and the danger of sedimentation.

The international actors

A variety of environmental and human rights NGOs have been actively campaigning against the project. These include: Friends of the Earth; the Kurdish Human Rights Project; Amnesty International; and the Swiss-based Berne Declaration. Their key targets have been:

- The governments and export credit agencies (ECAs) of Austria, Germany, Italy, Japan, Portugal, Sweden, Switzerland, the UK and the USA. The World Bank declined to fund GAP projects in 1984 and will not become involved in Ilisu. External financing will therefore depend on official export credits and guarantees from these ECAs to private companies in their respective countries that have been contracted to the Build-Operate-Transfer scheme for the dam;
- Private contractors that have been involved to-date. These include: Sulzer Hydro and ABB Power Generation (Switzerland); Balfour Beatty (UK); Impregilo (Italy); Skanska (Sweden) and Nuro, Kiska and Tekfen (Turkey). Union Bank of Switzerland has been arranging the finance package.

In July 2000, a cross-border parliamentary committee of the British House of Commons recommended that the government should block an application by Balfour Beatty for export guarantees to help cover its part in the international consortium.

The NGO campaign has raised growing questions for western governments and the OECD on the value and appropriateness of export guarantee programmes in general. The Financial Times newspaper argued in a July 14 2000 editorial, linked to the Ilisu dam, that such guarantees can lead to waste, distorted markets, inappropriate projects in developing countries and even corporate bribery and corruption.

The above example illustrates the varied and complex range of issues, actors and countries involved in one strategic infrastructure project. A project that on the surface has great potential to bring economic growth and progress to the surrounding region, but on further analysis has even greater potential to create internal and cross-border conflict.

3.2 Internal sources of conflict associated with developing strategic assets

The section on causes of conflict in Part 3 covered a number of ways in which the development of strategic assets can lead to internal conflicts, especially in countries suffering from bad or weak governance. This creates both political and operational challenges for the companies involved. Three of the key management challenges can be summarised as follows:

- a) Control vs. influence
- b) Distribution of costs and benefits
- c) Creating a 'honey-pot' effect through large-scale investments

a) Control vs. influence

I don't think there is any place in the world where we actually own the oil we produce. We work through leases and licences and if anyone thinks that power in such relationships lies exclusively with the oil companies they should come and see how things work in Venezuela or Azerbaijan... or in Alaska. ...But to say that companies have no power would be as much of a caricature as saying that they are all powerful.

John Browne, CEO British Petroleum, Speech to the Council On Foreign Relations, 1997

In the case of most strategic resource and infrastructure developments, the private operators (especially foreign investors) do not own a majority share in the initiative. In most cases majority ownership remains in the hands of the national government and the private operator enters into a business agreement with the government. This can take many forms ranging from a joint venture to a variety of service and management contracts, licences, leases, concessions, build-operate-transfer and build-operate-own schemes. In some cases joint venture or operating partners are other foreign or local companies. In many cases they are local state-owned enterprises. The private operator may have a large degree of control over day-to-day operations if they have a management contract or concession, but only varying degrees of influence over strategic policy decisions.

Despite this lack of ownership and direct control, foreign investors are being called on to be more pro-active in influencing the manner in which governments exploit their strategic resources in order to make them more responsive to the needs of local citizens. Pressure is coming from two main groups of stakeholders:

- local public opinion and activism in the countries where assets are being developed. This pressure is especially strong and is itself a cause of violent conflict, when the country's citizens are not seeing many benefits from the development of these assets;
- international pressure groups who argue that the companies should be doing more to get their host government partners to adhere to international governance and human rights standards.

Pressure on companies to respond to the demands of these two groups is much higher when host governments are repressive and/or corrupt. In short, even when private operators do not have majority ownership or control of strategic assets, they are under growing pressure to influence the development of these assets in a way that benefits the country's citizens and not simply a ruling elite.

b) Distribution of costs and benefits

In the case of **strategic export commodities** such as oil, gas and minerals, private operators normally enter into exploration and production agreements with host governments. In simple terms, the private operators bring risk capital, technology and expertise to the project and the host government provides access to the resources and a variety of tax benefits and other incentives to attract this private investment. In some cases the companies also pay the host government signature bonus payments to

pay for initial exploration rights. 'Rent' and revenue agreements vary widely, but if exploration is successful and production proceeds, the host government will benefit from royalties, taxes, export revenues and in some cases equity holdings.

The benefits or costs that accrue to citizens from the development of these strategic resources will depend on:

- the % of tax revenues, royalties and export revenues distributed from the government's central treasury to support socio-economic development in the country in general, for example health and education vs. non-productive uses such as money siphoned off due to corruption and incompetence, money spent to bolster the political power bases and patronage systems of political leaders, money spent on non-productive 'prestige' projects, and money spent to fund internal or external war efforts;
- the % of tax revenues, royalties and export revenues channelled directly back to local governments and communities in the regions and localities from which the resources have been extracted; and
- whether the extraction of these resources has resulted in net environmental and socio-economic improvements or damage, especially at the local level in communities surrounding the project and, where relevant, project pipelines. For example, how many local people have benefited from increased employment and livelihood opportunities vs. those that lost their livelihoods as a result of the project; how effective and appropriate has the transfer of technology been; how many people have benefited from the project's social investment programmes, etc?

Private operators managing exploration and production projects have the highest degree of control in the third of these three areas. It is increasingly rare for large multinationals not to carry out socio-economic and environmental impact assessments for their exploration and production operations. Having said this, there is still wide variation in the level of management and financial resources dedicated to this process by different companies, as well as in the rigour of monitoring and verification. There is also the challenge that most state-owned entities, locally owned companies and foreign mining and petroleum 'minors' (i.e. smaller foreign companies) are still far behind the multinationals in undertaking such assessments and management programmes.

Private operators have varying degrees of power in the first two areas, in terms of influencing the way government revenues from the development of strategic resources are distributed. Usually their influence decreases rather than increases once the exploration phase moves to production and host governments become less reliant on the company's capital, technology and expertise. There are positive examples, however, where a combination of pressure from foreign investors, inter-governmental agencies and local and international NGOs is resulting in new legislation to ensure that citizens do see more of the benefits of strategic resource extraction. Proposals for the controversial Chad-Cameroon pipeline, for example, include a revenue allocation plan that will earmark funds specifically for social projects such as education, and will have NGO representation on the governance structure for these funds. Recent developments in Nigeria are another example, although progress is slow and difficult as summarised in the box on the following page.

PASSING REVENUES BACK TO OIL PRODUCING REGIONS

For over 200 years, the economic exploitation of the Niger Delta has been a source of tension and conflict. In successive centuries, the slave trade, the trade in palm oil and, most recently, crude oil exploration have bred resentment amongst the region's indigenous population and provided a focus for organised resistance.

Although the current conflict can be partly traced to inter-ethnic disputes and demands by minority groups for greater participation in the political process, the overlay of oil production and inequities in the distribution of the proceeds have exacerbated tensions. The widely held perception amongst communities within oil producing areas is that they have suffered adverse social and environmental consequences of oil production, while realising none of the benefits. Over the past 40 years, hundreds of billions of dollars worth of oil have been extracted from the Niger Delta region of Nigeria, but its seven million inhabitants remain poor and many lack even the most basic amenities.

In an attempt to quell discontent over the living conditions in the Niger-Delta and in order to reverse what the government has acknowledged as 'decades of criminal neglect', President Obasanjo has put forward legislation to facilitate development in the region with federal government assistance. The proposed Niger-Delta Development Commission (NDDC) will be the primary government body formulating policies and guidelines for the development of

the Delta region and will:

- Identify factors inhibiting the development of the region;
- Ensure that funds released for various projects are properly utilised;
- Assist in developing and implementing policies for sound and efficient management of the region's natural resources; and
- Liaise with the various oil mineral prospecting companies on matters of pollution prevention and control.

Funding for the Commission will be made up of 0.5 percent of oil companies' exploration and production budgets and half of the 13 percent of government oil revenues which, according to the constitution, should go to each oil producing region. Despite President Obasanjo's backing, however, the NDDC is already facing difficulties. The legislation to establish the Commission has been held up in the national assembly over the definition of which states officially make up the Niger-Delta and a dispute over the location of the headquarters. Even if established, the Commission will be under severe pressure to win credibility amongst the peoples of the Delta. Previous government attempts to establish a functioning development commission, notably the Oil Minerals Producing Areas Development Commission, have collapsed amid accusations of politicisation, under-funding and corruption.

In the case of **infrastructure development** private operators will normally enter into a tender process with national, regional or local governments. The nature of this process will vary according to the type of infrastructure (for example water, telecommunications, energy, transport) and the extent, timing and objectives of infrastructure privatisation in the country. In some cases, for example, private operators will simply be signing management contracts with state-owned enterprises, in others they will be taking an equity share in the infrastructure project.

The costs and benefits that accrue to citizens will depend on factors such as the:

- manner in which revenues from privatisation proceeds are used, for example to support socio-economic development and environmental improvements vs. non-productive uses;
- distribution of taxes and royalties paid by the private operators to the government;
- level of burden-sharing associated with any resettlement and unemployment resulting from the infrastructure development; and
- access that citizens, especially poorer communities, have to the end-services provided by these infrastructure developments (such as water, electricity etc.).

Violent conflict is most likely to arise in situations where local communities suffer high costs from a new infrastructure development or do not benefit from the services it provides. For example, they may suffer as a result of resettlement leading to loss of land, livelihoods and in some cases religious or cultural sites. Equally, they may be excluded from accessing the public services offered by the project, such as energy, water or transport, due to inappropriate technologies, high pricing structures, inflexible service delivery or lack of support services. In such situations the private operator may bear the brunt of community anger. This can result in escalating security risks, sabotage of services (for example fraudulent connections), loss of revenues and in some cases undermining of project viability and sustainability.

As with the extraction of strategic resources, companies involved in big infrastructure projects can play a key role in averting conflict by:

- carrying out base line studies and socio-economic impact assessments at a pre-investment stage; and
- implementing programmes and consultation mechanisms to address issues such as resettlement, disputes over land rights, access to services by poorer communities and so on.

Companies such as Suez Lyonnaise des Eaux, Vivendi, Generale des Eaux and other members of the World Bank's Business Partners for Development programme are currently undertaking a series of pilot projects and joint learning activities to increase delivery of affordable water services to poor urban communities (see page 124).

c) Creating a 'honey-pot' effect through large-scale investments

Many conflicts have resulted from a history of outside incursions into traditional land, environmental contamination or violations of sacred places. This has been further compounded by the marginalisation of indigenous people through racism and prostitution.

Reinventing the Well: Approaches to minimising the environmental and social impact of oil development in the tropics, Conservation International, 1997

A related challenge in most strategic and large-scale projects is the creation of a 'honey-pot' effect. The inflow of major investment into a specific location can attract thousands of people, resulting in a variety of unplanned, and often unintended, demographic, social, cultural, environmental and political changes, which can lead to violent conflict. This is especially the case if the location was previously isolated, poor, and populated mainly by indigenous communities, as is common in many resource-based exploration and production projects.

A major investment will not only bring unprecedented amounts of money and potential livelihood opportunities to a region or community, but will also result in infrastructure developments, such as roads, railways, seismic lines and pipelines, which can open previously uninhabited or sparsely habited areas to unplanned migration and colonisation. In short, the arrival of hundreds of employees and contractors working directly for resource extraction and infrastructure projects, may be exacerbated by the arrival of thousands of other people – often poor and unskilled – hoping for a better life as a result of the initial investment.

Some of the consequences of this 'honey-pot' effect are as follows:

- arrival of too many people in search of jobs can put unmanageable pressure on existing social services, infrastructure and government capacity (to the extent that these exist in the first place). This will be especially serious when livelihood opportunities do not increase at the rate hoped for by these migrants (which is often the case given the capital intensive nature of these industries);
- these new arrivals can create tensions with existing inhabitants as a result of different ethnic backgrounds and cultural norms, increased competition for local jobs and resources and/or destabilisation of traditional power structures;
- tensions may also rise as a result of increased inequality due to the fact that a small but significant number of local people will be employed by the private operators and start earning considerably more than the rest of the local population. This is likely to be exacerbated if 'local' employees are hired mainly from the country's cities and other locations rather than from the communities surrounding the project;
- rural and urban areas that have lost people to the 'honeypot' location may also suffer a deterioration in conditions, increased inequality and rising insecurity;
- contact between indigenous populations and new arrivals can lead to transmission

Key principles for community development programmes

Good community relations involves both engaging community members in an ongoing process of public consultation and dialogue and demonstrating to communities that they will derive sustainable benefits from a company's operations. Promoting community development, then, is a key component of good community relations.

1. Consult with community members and key stakeholders
2. Build trust
3. Clearly define goals
4. Develop appropriate capacity – especially if the company is setting up its own programme
5. Mobilise core competencies
6. Set measurable goals
7. Forge partnerships
8. Plan for sustainability

Source: *A Community Development Guide for Companies, International Finance Corporation, 1999*

of disease. Even something as seemingly innocuous as a common cold can be deadly for indigenous populations and at the very least, can place a further burden on poorly funded local health services;

- there may be an increase in prostitution, alcoholism and drug dealing, with negative social and health consequences;
- unplanned colonisation often leads to land speculation, land disputes and unsustainable deforestation and agricultural practices;
- the resulting environmental degradation, together with any environmental degradation directly caused by the project itself, can lead to further pressures on local resources and social 'coping mechanisms';
- increased dependence on outside fund flows and aid may lead to the rejection of traditional livelihood pursuits without replacing them with new sources of sustainable and locally-controlled wealth creation;
- there may be conflict over access to a company's social investment funds, especially if these are allocated indiscriminately and without adequate community consultation and planning;
- tensions may also arise if local community development programmes are carried out in isolation from broader regional development strategies;
- there are often unrealistic expectations on the part of both indigenous communities and migrants of the role that private operators can play in creating jobs and providing social investment. This is especially a problem when the government is providing inadequate public services and local people start to view the company as an alternative to government;
- if unmet, these expectations can turn to anger resulting in sabotage of project facilities, armed robberies, kidnapping and murder;
- increased insecurity can lead to increased use of state and private security forces by the project operators, with the potential to cause human rights abuses and further conflict.

Some of these 'honey-pot' effects may be beyond the control of private operators. Many of them, however, can be minimised if companies are aware of their potential impacts and willing to establish policies and operating procedures to address them. These could include:

- undertaking social impact assessments and ongoing monitoring and evaluation;
- training and awareness raising of company employees;
- hiring anthropologists and other relevant specialists;
- integrating stakeholder consultation procedures into corporate decision-making;
- managing security arrangements in a sensitive manner;
- making every effort to maximise the local benefits and value-added 'multipliers' of all the company's investment activities – both core business activities and social investment. Of particular importance will be the creation of local livelihoods, the development of human capital and the strengthening of local civic institutions;
- developing innovative community development programmes and social funding structures which can be locally managed and sustained after the resource development or infrastructure project is finished.

All of the above approaches – relating to both the company's core business operations and its community development programmes – require a serious investment in corporate time and money. Through investing in this type of consultation and due diligence, however, companies can at least minimise some of the more negative aspects of the 'honey-pot' effect associated with large-scale developments. They can also do everything in their power to ensure that host countries and communities achieve net benefits from such developments. Having said this, the role of responsible government remains absolutely critical. The beneficial and peaceful development of a nation's strategic assets is not, and can never be, the responsibility of business alone.

The International Finance Corporation has developed a set of principles for community programmes, to assist its private sector clients. These are listed in the box opposite. The profile below uses the example of Rio Tinto to illustrate some practical lessons from one company that has developed local foundations in some of its areas of operation.

BUILDING LOCAL COMMUNITY FOUNDATIONS: The experience of Rio Tinto

Companies that are long-term investors in a particular location have a clear motivation for establishing local community development programmes. In most cases these programmes will consist of a combination of:

- the way in which the company supports local development via its core business activities, for example by using local suppliers and training local people; and
- the way in which the company makes social or philanthropic investments in the local community (the focus of this profile).

As outlined on page 127, even well-intended and seemingly benign social investments can become ‘part of the problem’ rather than ‘part of the solution’ depending on how they are structured and managed. A key question a company must address is whether or not to extend its community activities beyond the area directly affected by its operations i.e. the wider or even nation-wide community. If the decision is to involve the wider community then one approach that a number of companies have adopted, in conflict areas and elsewhere, is the establishment of separate, but company supported foundations or trusts.

Rio Tinto has over the years established different structures for local foundations in Australia, southern Africa and Indonesia. Some key lessons can be drawn from them as follows:

- A separate legal entity means that the foundation or trust can effectively mobilise funds and resources from other donors, both private and public. The Rössing Foundation in Namibia, for example, has undertaken projects both with other corporate funders, who did not have a similar development vehicle themselves, as well as with the national government, UN Agencies and international NGOs.
- An independent structure, if multi-financed, can continue beyond the life of the company’s own operation providing not only continuity but, hopefully, sustainability.
- Linked to the above points, it is possible to hand over projects on completion to the community or local/national government. This has been the policy of the Rio Tinto Foundation in Zimbabwe. Following consultation and the request of the local community, the Rupike Dam and Irrigation Scheme was built for local farmers and once established, was handed over to the local community.
- An independent management structure may allow for greater community participation and control than if the programme is an integral part of the company’s own management structure: particularly where the project is situated far from the company’s operations. All the Rio Tinto foundations have a majority of trustees who are not company employees. They are able to bring development expertise to the programmes and to complement the skills and experience of the professional management teams that the foundations tend to attract because of their independence. As independent organisations the foundations are also capable of making quick decisions. The Rio Tinto Foundation in Indonesia was able to mobilise resources speedily to deal with drought and forest fires in East Kalimantan for example. Being seen by the wider community as independent, with well-known and respected figures as trustees, enhances the credibility of both the foundation and the company.
- Providing an endowment, for example, a grant of company stock or linking the foundation’s funding to the company’s revenues or profits (with minimum funding levels agreed for unprofitable years) can help to provide a secure source of funding and facilitate long-range planning. Rio Tinto Zimbabwe passed over company shares to its foundation in the 1970s, the income from which funds the programmes. The Palabora Foundation in South Africa receives a % of pre-tax profits with a minimum agreed level.
- There is a challenge to ensure that there is a linkage between the foundation’s values, objectives and management disciplines and those of the company. All the Rio Tinto foundations have a senior business manager, often the local Chief Executive, as one of their trustees which ensures that the linkage remains sound.
- Although the foundation’s budget represents a fraction of the commercial investment made in the core business there is a strong case to undertake the same types of impact assessments, analyses and project evaluations on its activities as on the company’s core operations.

4. Managing security arrangements

The widening gulf between rich and poor, and a growing sense of disenfranchisement and militancy among those who are losing out, means that business travellers' security is becoming more precarious as they push into markets whose trade barriers they have blown down.

Caught in Capitalism's Crossfire, The Financial Times, 1999

Another key management challenge is how companies handle the security of their employees and physical assets in situations of violent conflict caused by war, criminality or a combination of both. Most companies operating internationally are facing an increase in security risks covering a wide range of countries, as the map on page 15 illustrates. The source of such security risks varies. It can include the activities of warring factions and organised crime. It can also include hostile actions undertaken by local communities who have grievances against a particular company or project, usually because they feel they are not deriving sufficient benefits or because they are facing high socio-economic and environmental costs as a result of the investment. In some cases companies are caught in the middle of all three of these sources of violence, as has been the case in Colombia.

Some of the specific security risks faced by companies operating in conflict situations are as follows:

- being caught in the crossfire of battle, either heavy fighting or sustained guerrilla and counter-insurgency action;
- having employees or contractors kidnapped (for purposes which include extorting money, making political gestures, achieving military advances, gaining media attention and airing grievances against the company or government);
- having operations and vital infrastructure sabotaged by terrorist activity, criminals, guerrilla groups or local community activists (for similar purposes);
- facing armed robbery;
- being hijacked.

The Shell Report 2000 provides an example of these risks. It states that, 'In 1999 10 countries in which Shell operates faced war or major security disturbances. Employees were kidnapped in four countries and in at least six countries murders, shootings and armed robberies occurred at or around retail forecourts. Shell companies in 28 countries experienced severe security incidents, including one bomb attack. ...In 117 countries (107 in 1998) Shell companies use security staff to manage security risks, the majority of whom are contractor personnel. While the number of countries using armed contractor security is equal to 1998 (21 countries), the overall level of armed security, including government forces, has increased.'⁽³¹⁾ Shell is one of a small number of companies that has developed group-wide security guidelines and these have been updated in the past year.

When faced with security risks a company must be able to develop effective response strategies that do not contribute to increased tension and violence. Most responses require some type of security arrangement. Such security arrangements should protect the company's key stakeholders and installations without undermining the security of people in surrounding communities and especially without causing human rights violations in these communities. This seemingly simple point is fraught with complexity from both a strategic and day-to-day management perspective.

Some of the particularly sensitive issues are:

- What type of training, equipment and freedom of decision-making is given to staff and internal security people?

- Should the company pay or equip government security forces, either the police or military, to provide added protection and does it have any influence on the way these forces carry out their operations?
- Should the company hire private security services and if so, how does it check the background and integrity of their personnel, screen for previous human rights violations and control their activities?
- Whether the company is engaging state or private security forces, what ‘rules of engagement’ or contractual agreements do they operate under? Do these rules comply with United Nations law enforcement codes of conduct?
- What process does the company have in place if public or private security forces that are guarding its installations commit human rights violations against local communities?
- Is the company automatically opting for an armed solution to address local tensions without exploring longer-term preventative measures such as better consultation and engagement with local communities?
- Should the company communicate with and/or pay off rebel factions or paramilitary forces to protect its assets and people?
- Should it ‘go it alone’ or tackle these issues in collaboration with other companies?
- How transparent can the company be about its security arrangements without undermining the safety of its employees and others?
- What responsibility does the company have for setting standards and monitoring the security arrangements of its contractors, joint ventures and other business partners?

In recent years companies operating in conflict zones have tried different approaches to all of these questions and have learnt some difficult lessons – both in terms of stakeholder relationships in the countries in question and in terms of their international reputations. Two areas that have been particularly problematic are: the relationships between companies and state security services – both military and police; and the use of private security services.

4.1 Dealing with state security services

In theory, a company should be able to rely on state-funded security services, paid for out of taxes, to protect its people and assets. In many developing economies, however, these services often lack the necessary capacity, in terms of size, skills and equipment, to protect business interests against rebel factions or criminal activities. They may also themselves be the source of human rights violations against local populations. The latter is especially likely if:

- the country is facing internal strife;
- the armed forces are not suitably trained or disciplined; and/or
- the government is not accepted as legitimate by all of its citizens.

In such cases the company can get caught not only between the government forces and different rebel factions, but also between the government forces and local communities.

Human rights abuses and repressive behaviour by the military or police in the vicinity of a company’s operations can lead to serious repercussions for the company’s reputation both locally and internationally. Even if the company cannot be held directly responsible for such actions, it can be accused of complicity – especially when it is funding, equipping or providing local information and intelligence to the state forces. Examples where this has happened include:

- Enron in India, which has been campaigned against by Human Rights Watch as a result of its support for local police forces which have carried out repressive acts

- against local populations protesting against the Dabhol Power Plant (see page 24).
- Shell in Nigeria, BP in Colombia, Rio Tinto in Indonesia, and Unocal and Premier Oil in Burma are other examples of companies that have been accused of complicity with state security forces which have carried out repressive acts against their own citizens.

In all these cases, the companies have been caught in the difficult situation of needing to protect their people and assets, but having to rely largely on inadequate and often repressive state resources to do so. The extent to which individual companies can influence, let alone control, the behaviour of these state forces remains an area of debate. One thing is clear however. The NGO campaigns of recent years and the growing attention of OECD governments on this issue means that major companies can no longer claim they have no responsibility for influencing the way state forces behave, especially in the vicinity of the company's own operations. They are under growing pressure to develop individual and industry-wide guidelines for managing their engagement with these forces.

In its 1999 report on *Conflict Prevention and Post-Conflict Reconstruction*, the UK International Development Committee, made the following recommendations on how companies should interact with government security forces: 'We recommend that any code of practice adopted by the private sector on operation in conflict-sensitive areas include a commitment from industry not to purchase or provide arms, security equipment or advice for state security services. Relationships with any government in this area should involve simply payment of tax, clear expression of appropriate security requirements, discussion of how the industry and government might work as partners to invest revenue equitably back into the country and region, and representations to government on human rights abuses.'

4.2 The growth in private security and military services

Defence is becoming privatised and international private military firms are proliferating. In some countries mercenaries sell their services for mining and energy concessions and set up affiliates in air transport, road building and trading. And more and more, the clients of mercenaries are multinational corporations seeking to protect their mining interests in conflict-prone countries.

Human Development Report, UNDP, 1999

In recent years the world has witnessed an increase in the privatisation of security and violence. The factors that are contributing to this trend include:

- state failure and inability to provide adequate public security in many conflict ridden countries;
- reluctance on the part of the international community to intervene in internal conflicts, especially in Africa; and
- declining defence budgets and downsizing in many OECD countries, which has led to a greater willingness on the part of governments to use the private sector to perform functions previously undertaken by national armies and an increase in former military personnel available for private employment.

Examples of this trend towards privatisation range from the growth of unauthorised militias and local warlords, to the illegal activities of narco-guerrillas and mercenaries, to the legal and legitimate, but sometimes controversial activities of private security and military companies. The following section focuses on these latter activities. International Alert defines private security and military companies as, "corporate entities which offer a range of security and military services to governments and companies in conflict situations. Private security companies differentiate themselves from private military companies in that they predominantly offer defensive, as opposed to offensive, services."⁽³²⁾

To date the main clients of private military companies have been governments in developing countries which are fighting internal wars with inadequate military forces. Private security companies, on the other hand, are used by a wide variety of companies, humanitarian agencies, embassies and governments in conflict zones or areas with high levels of crime and violence. Their services are usually employed when the level of support from state security is deemed insufficient, inadequate or inappropriate. Privatised security solutions can range from local collective action by companies themselves (a neighbourhood watch approach) to a range of externally and commercially provided services covering areas such as advice, training, protection of people and vital installations, intelligence gathering and logistical support.

From the perspective of corporate responsibility there are two major areas to consider when looking at the activities of private security and military companies:

- The responsibility and ethical behaviour of the private security and military companies themselves;
- The responsibility of the company (or indeed humanitarian agency or embassy) that is hiring their services.

a) Corporate responsibility of private security and military companies

A number of experts in the international security field recognise the emergence of private security and military companies as an inevitable outcome of strategic shifts since the end of the Cold War. As David Shearer of the International Institute for Strategic Studies points out, “Private security firms are not about to go away. Their existence and impact should be debated in an environment that recognises their reality and the current reality of international affairs.”⁽³³⁾ In short, the issue is increasingly how these firms can be regulated and made more accountable and transparent, rather than whether they should exist in the first place. Having said this, their existence raises important questions for the role of the state in providing security (in both developed and developing countries) and will continue to be debated.

Some key concerns relating to the control, motives and accountability of these firms, especially the private military companies, are as follows:

- Who are they accountable to? Is their over-riding motive to increase revenues for their owners and shareholders? If so, does this mean that it will be in their direct interest to sustain or even exacerbate violent conflict so that they can continue to earn revenues and meet their commercial objectives?
- Linked to the above, do they respond to genuine security needs and realities in client countries or do they manipulate or distort these, sometimes in collusion with corrupt officials in client governments, to increase demand for their services?
- How are these firms paid? One of the areas of controversy surrounding the work of PMCs, especially in Africa, has been their management and ownership links to mining companies and mineral concessions. Critics argue that certain governments in war torn countries, short of foreign exchange, are paying private military companies with strategic and irreplaceable national assets that far outweigh the value of the security services provided.
- How accountable are these firms to the governments in their home-base countries? Are their relations with their home governments’ defence and intelligence communities transparent or covert?
- How far should accountability and transparency go? Should private security firms be accountable only to their shareholders, their clients and their home-base governments, or to a wider public and civil society community? If the latter, how does this affect the genuine need for secrecy or confidentiality when it relates directly to the protection of peoples’ lives?
- Who are their ultimate shareholders or owners? Several high profile private military companies have complex ownership structures characterised by offshore registered

companies, nominee directorships and discretionary trusts, which make it difficult to trace and identify ownership interests. It is even more difficult to ascertain links between ownership interests and those of client government officials, other companies operating in conflict zones and arms traders. Such complexity creates ideal conditions for corrupt and illicit practices, which are difficult to track, let alone prove conclusively.

- What are the linkages between private military companies and arms traders? How easy is it for these two commercially driven groups of actors to collude with each other, either legally or illicitly, to increase the flow of arms to countries that cannot afford them?
- When developing country governments are the client, especially in existing conflict situations, does the involvement of private, usually non-indigenous military support serve to exacerbate tensions with national security forces or help to build bridges? Does their presence make it easier for governments to avoid necessary security sector reforms? Alternatively, does it provide suitable training and support that helps to improve local military capacities, including discipline and codes of conduct?
- Do client governments and companies have access to information on the private security or military firm's recruitment practices and operating methods? What sort of controls do these clients have on the private security or military firm, especially in fast-moving and politically sensitive situations?
- What sanctions or penalties can be implemented if private security or military firms are responsible for carrying out human rights abuses or failing to adhere to international laws of armed conflict?
- Even if these firms operate with legitimacy and high standards, what is the broader value-added that they provide relative to alternative approaches? For example, how do their costs compare to UN and government supported peacekeeping forces? Beyond the question of costs, do they really help to resolve conflict or merely provide military solutions that may stop fighting in the short-term, but do nothing to address the underlying causes of conflict over the longer-term? Should the latter be their role anyway, or should they stick to their core competencies of providing security and military solutions?

These questions remain the focus of extensive debate and disagreement. Opinions vary markedly between NGO campaigners, the media, the private security and military companies, and the commercial enterprises and governments that hire their services or host their head-offices. There is a clear need for increased regulation and self-regulation. There is debate, however, on the appropriate levels, structures and balance of such regulation. A number of private security and military companies, for example, claim that they have developed their own internal, self-regulated codes of conduct covering who they will have as their clients, who they will hire and how they will operate in the field. Their critics argue that these are insufficient without some system of external monitoring. Even if sound voluntary guidelines are implemented and adhered to, some minimum level of legislation is still needed to ensure that all private security and military firms meet agreed standards of responsibility, not just the more responsible ones. South Africa, for example, passed a *Foreign Military Assistance Act* in 1998 that must be followed by any private security firm operating from South Africa. The USA has some regulations in place and the UK, among other countries, is currently reviewing its policies in this area. It is clear, however, that national legislation will be insufficient on its own. This is an area that calls for international rules or guidelines to ensure a 'level playing field'. The roles and responsibilities of private security and military firms will continue to be controversial and extensively debated in the coming years. So too will the role and responsibilities of the companies that hire their services.

b) Corporate responsibility of companies hiring private security firms

Apart from regulations and the use of voluntary codes of conduct by private security firms themselves, growing attention is being placed on the policies, operating standards, monitoring and accountability procedures used by the companies that hire their services. How do client companies ensure that the activities of these private forces do not exacerbate human rights violations or sustain violent conflict, but serve only to protect the company's employees and assets against such violence and where possible, to help stabilise or resolve the violence?

4.3 Corporate responses to dealing with state and private security forces

Companies are responding to the growing pressure for greater responsibility and accountability in the management of their security arrangements in four main ways:

- They are establishing internal security guidelines, compliance systems, training programmes and learning networks within their own corporate structures. In doing so, they are drawing on international frameworks such as the United Nations 'Basic Principles on the Use of Force and Firearms by Law Enforcement Officials' and 'Code of Conduct for Law Enforcement Officials'. They are also consulting with and drawing on the security recommendations made by NGOs such as Human Rights Watch and Amnesty International (a summary of which are outlined in the box on the following page);
- They are starting to look at the issue of security management from a more strategic and integrated perspective, recognising that it is in reality a spectrum of activities ranging from long-term preventative measures to short-term armed security and crisis management measures. Longer-term preventative approaches can include support for integrated community engagement and social investment programmes and even efforts to influence security sector reform (such as dialogue with governments and support for programmes to train the military, police and judicial services on international human rights and law enforcement standards);
- Linked to this they are recognising the need for regional security strategies, rather than managing security of the company in isolation from the security of its local communities and other neighbours; and
- They are entering into dialogue with each other and with governmental agencies and NGOs to explore the potential for establishing international guidelines and industry-wide codes of conduct in this area.

Shell and BP – are two of a select number of companies that have developed company-wide guidelines and compliance systems for their employees and contractors on the management of both state and private security services. Prompted in part by public reaction to allegations of their complicity in human rights violations in Nigeria and Colombia respectively, both companies have revised their 'rules of engagement' with security forces to include UN frameworks and to incorporate feedback from NGOs such as Amnesty International and Human Rights Watch. In its *Shell Report 2000*, Shell reported publicly on how its own operations, joint ventures and contractor firms are complying with the company's security guidelines. BP has established a learning network between its employees in Colombia, Azerbaijan and Algeria to share experiences and good practices in the area of security arrangements.

Collective action – The U.S. State Department is currently working with the U.K. Foreign and Commonwealth Office (FCO) on a tri-sector initiative on *Private Security and Human Rights in the Extractive Sector*. This initiative, spearheaded by the Bureau of Democracy, Human Rights and Labour in the U.S. State Department and the Global Citizenship Unit in the FCO, seeks to establish a set of voluntary principles and guidelines that companies can use to help prevent human rights violations stemming from legitimate corporate security arrangements. The U.S. and U.K. Governments are joined in this effort by a number of leading British and American

human rights and conflict resolution NGOs and major American and British oil, gas and mining companies. The three areas of focus for discussion and drafting of the voluntary principles and guidelines are:

- Developing a better method of country risk analysis and information sharing to improve co-ordination and understanding of the potential human rights issues that may arise from security arrangements.
- Developing guidelines and human rights safeguards where security arrangements exist between companies and governments.
- Developing guidance governing the use of private security companies or individuals.

In conclusion, during the past two years the responsible and accountable management of security arrangements has become an important item on the corporate responsibility agendas of a growing number of companies. Any company employing the services of private security firms, or working with state security forces, should consider the guidelines outlined in the box below and look to the management processes already developed by companies that have taken a lead on these issues.

SECURITY GUIDELINES FOR COMPANIES

Security arrangements in general

Violence and instability in a number of countries today make it necessary for companies to defend their personnel and property by armed guards and/or by arrangements with state security forces. These arrangements can be among the most dangerous in terms of human rights violations and harm the company, its employees and its reputation.

A company should therefore ensure that its own personnel and any security forces engaged by them are familiar with and committed to international guidelines and standards for the use of force in policing, in particular the UN Basic Principles on the Use of Force and Firearms and the UN Code of Conduct for Law Enforcement Officials, which:

- set strict limitations on when forces and firearms can be used;
- require a reporting/review process when they are used;
- require that abusive or unlawful use is punishable.

Companies should develop their own rules of engagement for calling in or contracting with state security forces and for the company's own security forces, should make public the terms of any such contracts, and take positive steps to ensure that any training or equipment provided by them to public or private security forces is not used to violate human rights. These would include rules on who carries arms, what the company supplies in kind to security forces, and the amount and nature of the control and influence exerted by the company over the security forces.

Companies should also, when recruiting staff, screen backgrounds for any previous violations of human rights violations. In addition to the above areas, for many of which agreed international standards now exist, companies can improve their ability to promote human rights by:

- Including security arrangements in their strategic planning and policy-making processes;
- Consulting international and local NGOs on country-specific factors relating to the human rights climate that may influence or that may be affected by business decisions;
- Providing training for their managers and their staff in these matters, preferably with input and assistance from appropriate NGOs.

Security arrangements – specific recommendations

There will be significant variations from country to country in the type of security arrangements that are most appropriate, but the following recommendations are likely to be widely applicable in areas of conflict:

- Companies should insert clauses into any security agreement signed with government or any state entity, requiring adherence to international agreements and norms on human rights and humanitarian issues. These security arrangements with state entities should be made public to allow for external monitoring, apart from operational details that may jeopardise lives.
- Companies should insist on screening the military, police and security officials who are assigned for their protection. They should seek to ensure that no soldier or police agent credibly implicated in human rights abuse be engaged in their protection.
- Careful background checks should be undertaken to ensure that former police or military officers who work as private contractors or as part of company security staff have no history of human rights abuses or paramilitary involvement
- Companies must make absolutely clear to the police and military defending them – as well as to company staff and sub-contracted personnel – that human rights violations will not be tolerated, and that companies will be the first to press for investigation and prosecution if any abuses occur.
- Whenever credible allegations of human rights abuses surface, companies should insist that the security force members implicated be immediately suspended and that appropriate internal and criminal investigations be launched.
- Companies should actively monitor the status of such investigations and press for resolution of the cases. If the investigations or prosecutions are stalled, companies should publicly condemn the failure to conduct or complete the investigations.
- Any material assistance by companies to the security forces should be non-lethal and subject to external auditing.

Source: Human Rights Watch and Amnesty International

5. Facilitating or facing criminal activities

With increased access to world-wide markets, the internet, cellular communication, international banking facilities and other tools for moving information and resources across great distances at high speed, those involved in such nefarious pursuits as drugs, the illegal arms trade, the sex trade, terrorism, gambling, money laundering, the black market, racketeering and other such nasty pastimes have been able to become more effective in their own endeavours and to take advantage of the increase in power and reach that comes with working together. ...many of these actors are involved behind the scenes in conflict situations, benefiting from the continuation of the violence while having no direct interest in the particulars of the conflict. Although they will never come to the table as part of any formal peace talks, their power is great.

Louise Diamond, People Building Peace, 1999

Open borders and new technologies have increased opportunities not only for legal business activities, but also for illegal and illicit ones. This has rapidly become a global problem posing a threat to the integrity of banking and judicial systems and in many cases underpinning conflict. The problem is especially serious in developing and transition economies with weak legal and judicial systems, poorly trained and equipped police forces and cronyism between criminal elements and those in positions of governance. All too often these illegal activities are linked not only to criminality, but also to violent conflict, ranging from armed robberies, to the funding of terrorism and rebel armies.

These criminal activities pose increasing risks and responsibilities for companies aiming to be good citizens. There are obviously numerous examples of supposedly legal and reputable enterprises acting as 'fronts' for criminal activities, with the full knowledge of some of their executives. Our focus here, however, is on companies that have every intention of adhering to the law, but find themselves unwittingly caught up with organised crime either as a target or as an innocent (but effective) conduit.

Examples could include:

- Companies facing high levels of violent criminality in the locations in which they are operating, for example, armed robberies and car-jackings. This is often a problem in post-conflict situations when former combatants have not been effectively disarmed or given alternative livelihood opportunities. It is also a problem in situations of high inequality and unemployment, where there is a burgeoning underclass, especially unemployed youth, and where guns are cheap and available;
- Kidnapping of company employees by criminal gangs to raise money and other forms of extortion – such as companies having to pay 'protection fees' to lawless factions in conflict zones and facing product sabotage;
- Banks getting caught up in money-laundering schemes run by criminal syndicates. In many cases these schemes support repressive governments, rebel armies, war economies and illegal trade in arms;
- Companies facing computer-based sabotage;
- Investments in local joint ventures or trading relationships where local partners are acting as a 'front' for criminal syndicates, the mafia, rebel factions, or even government armed forces;
- Actions of one, or a small number, of company employees who are engaged in criminal activities, fraud, bribery and corruption.

These different examples obviously pose different risks, costs and responsibilities for companies. In some cases the risks and costs are reputational. Examples of this could include a bank being exposed in the press for laundering money from illegal arms trading, or a diamond dealer facing public censure for unwittingly buying diamonds from illicit sources that are funding rebel factions in Africa. In other cases, the

company may face material losses of property or money, or more seriously the loss of life of employees. When a company knows it is the potential target of criminal activities it will normally pay for security, which raises a variety of other financial costs and reputational risks (as outlined in the last section).

Companies investing in or trading with countries that are experiencing high levels of violent crime, or illegal activities such as financial fraud and drug trafficking, need to:

- Analyse the range of risks and responsibilities that they face;
- Implement internal policies, controls and risk management systems to deal with these in a responsible and cost-effective manner; and
- Review the potential for taking collective action against criminal activities.

Examples of collective action include: companies working together on establishing common standards against bribery and corruption (see next section); the banking sector establishing industry wide-control systems to tackle money laundering; and companies establishing joint programmes to tackle gun control or violent crime in general. An example of the latter is South Africa's *Business Against Crime* initiative which is outlined opposite. In both Guatemala and El Salvador, local companies have also been involved in helping to plan and fund weapons turn-in programmes as part of post-conflict reconstruction aimed at limiting criminal violence.

Most experts in this field predict that organised crime will become a more serious and widespread problem in coming years spurred by increasingly sophisticated communication technologies, ease of travel, increase in global trade, strategic alliances between criminal organisations and the failure of nationally based law enforcement systems to keep up. ⁽³⁴⁾ Fraud and money laundering, in particular, are likely to become more endemic. There will be increased pressures on legitimate businesses to improve their control systems to protect themselves against being unwitting 'middlemen' or victims in this process. As Control Risks Group argues in its *Outlook 2000* report, "the diversification of transnational fraud, money laundering and corruption, where the battlefield is no longer in the back street but the boardroom, has made governments increasingly concerned with obligating business to self scrutinise."

This is easier said than done. Individual banks, for example, are moving billions of dollars and thousands of transactions through their systems every day. Given the growing sophistication of criminal organisations it is not easy to identify which fund flows are legal cross-border business deals and which are laundered drug money or proceeds from illegal arms trades or illicit diamond sales. The *Outlook 2000* report captures the challenge well, when it says, "It may take several people years to investigate an act of money-laundering that took seconds to perpetrate."

The wider problem of internet-based or cyber crime is also likely to increase. Integralis, one of Europe's largest information technology specialists found in a survey of 800 of Europe's major companies that 95% predicted a rise in internet-related crime. This can range from losses due to viruses, electronic theft, hacking, information misuse and commercial espionage.

The ability of criminal syndicates to get sanctuary from repressive regimes in conflict ridden countries and to recruit from the unemployed and marginalised groups in these societies, makes such countries especially vulnerable to organised crime. It also makes the companies trying to do business in these countries particularly vulnerable. In such circumstances, sound risk analysis and rigorous risk management systems, supported by collective corporate action wherever possible, offer companies the best hope of avoiding being the target of, or conduit for, criminal activities and violent crime.

SOUTH AFRICA'S BUSINESS AGAINST CRIME INITIATIVE

The presence of crime and the fear of crime affects the whole of society. It is an issue that can threaten the stability and development of communities; undermine the authority of the state; and adversely affect the development of the economy and inward investment. Crime also has a significant detrimental impact on individuals and corporations who are affected by it.

The rising level of violent crime is one of the most serious threats to the stability, prosperity and international reputation of the newly democratic South Africa. The country has one of the highest violent crime and murder rates in the world. These crime rates are underpinned by poverty, unemployment, sub-standard housing and quality of life issues. The situation is complex and needs skill in defining and prioritising interventions by government and the private sector. Further, the solution is unlikely to be short term and interventions need to increase public sector efficiency and eradicate underlying societal causes.

In 1995 in response to this problem, Business South Africa, the umbrella organisation for all the country's chambers of commerce, launched the Business Against Crime programme. Initially run by the National Business Initiative (see page 112) BAC is now an independent entity. It has the following mission: To leverage the resources of our businesses and communities to support government in the reduction of crime to sustainable levels required for a successful standing in the world community.

Business Against Crime operates under a national banner focusing on nation-wide crime priorities, with six provincial affiliates addressing grassroots crime issues within the provinces. The province of Gauteng is the country's industrial and commercial heart and has faced especially high levels of crime. Since

the inception of BAC-GAUTENG in 1998, activities and successes have included the following:

- Two anti-hijack reaction field team units have been established and recovered over R15 million in stolen property
- A Victim Support Programme is effective in 45 police stations, supported by Community Policing Forums and has reached approximately 160,000 individuals
- Support Partnerships involving local companies are in place in 53 police stations in Gauteng
- Two of the province's most strategic police stations have been refurbished with business support
- CCTV has been implemented in the Central Business District of Johannesburg
- The Gauteng Crime Information Centre has been made operational
- Over 300 members of the South African Police Service have been trained in management skills through the Joint Universities Public Management Education Trust
- A Youth Against Crime initiative has been inaugurated in schools.

6. Tackling corruption

Corruption is the dry rot undermining aid. It destroys development, it frightens away genuine foreign investors, it perverts societies. It tends to heighten cynicism about the value of free markets and free trade – the key motors for development since 1945. ...Corruption also impacts on corporate performance. It adds to shareholder risk. And it contributes to ecological damage. Worst of all, it can lead to serious social unrest and the abuse of human rights.

Richard Newton, Group Vice President, BP, 1999

Corruption is one of the factors often underpinning situations of bad governance, state failure and violent conflict. It sits on the borderline between being a legal and illegal activity depending on the type and level of corruption and the jurisdiction within which the act is occurring. Until recently, for example, certain European governments provided tax deductions for bribes paid overseas by their national companies, whilst the payment of such bribes has been a criminal offence for American companies since 1977.

Corruption is certainly not a new problem, but in the last five years it has achieved growing, and long overdue, prominence on the international agenda. Inter-governmental agencies and multinational companies alike, have become more vocal about the damage that it does to both business and society. This has been accompanied by a growing recognition that it is in the interests of business, government and civil society to work together on addressing the corruption issue. The result has been some major developments on the international governance agenda. These include the following:

- In 1997, 29 OECD states, plus 5 others agreed to an OECD *Convention on Combating Bribery of Public Officials in International Business Transactions*, which came into force in February 1999, although by May 2000 only 20 of the 34 signatories had ratified it and there had been no prosecutions. The convention has served to internationalise (at least for OECD members) the *US Foreign Corrupt Practices Act*, which has been in force since 1977 and empowers US courts to prosecute any company listed on the New York Stock Exchange for bribing foreign officials – even if the offence takes place abroad.
- In 1997, for the first time in its history, corruption was publicly raised in a World Bank President's speech at the Annual World Bank/IMF meetings. Since then the bank has established an anti-corruption unit, issued anti-corruption guidelines, created a blacklist of companies found guilty of corruption in connection with World Bank projects, and joined with the OECD to establish a *Global Corporate Governance Forum* to lead governance reform in emerging market economies. The IMF and the regional development banks have adopted similar measures both in connection with their own internal governance and in relation to the advice that they give to governments.
- In 1996 the United Nations passed a resolution called the *UN Declaration Against Corruption and Bribery in International Commercial Transactions*. Under this resolution UN members agree, in theory, to make bribery a crime, stop tax deductability of bribes and encourage the development of business codes of conduct.
- In 1996 the International Chamber of Commerce revised and strengthened its rules of conduct on extortion and bribery in business transactions.

- Initiatives have also been taken by the Organisation of American States, the Commonwealth and the Council of Europe to promote better corporate governance and anti-corruption frameworks.
- The international NGO Transparency International (TI) which is dedicated to increasing government and corporate accountability and curbing both national and international corruption, has seen its number of accredited chapters increase from five in 1994 to 75 in 1999. Since 1995 it has produced an annual *Corruption Perceptions Index*, a league table of nations ranked according to the perceived levels of corruption in each country's public service and government. In 1999 it added a new index, the *Bribe Payers Perceptions Index*. This ranks 19 leading exporting countries in terms of the degree to which their corporations are perceived to be paying bribes abroad.

Despite this increasingly coherent international framework for action, corruption remains a serious problem in many countries around the world. It is a problem that responsible multinational companies and national companies cannot afford to ignore. Laurence Cockcroft, a board member of Transparency International, points out that “multinational companies are investing more than US\$150 billion annually in nearly 50 countries which fall below the intermediate point in TI's Corruption Perception Index – in other words in countries which may be confidently described as fairly to very corrupt.” In a 1999 survey of major international companies based in the USA and northern Europe, Control Risks Group found that corruption emerges as the most significant concern holding these companies back from otherwise attractive investments in emerging markets. As John Bray of CRG points out, “You can invest honestly almost anywhere, but the more difficult the place the more management time is required to do things properly. The cost in time and effort may not justify the commercial returns.” A recent study by Professor Shang-Jin Wei of Harvard University, for example, has shown that a rise in the level of corruption from that of Singapore, which is very low, to that of Mexico, which is very high, can be equivalent to raising the marginal tax rate by over 20%.⁽³⁵⁾

DEFINING THE CORRUPTION ISSUE

The ‘corruption issue’ can be usefully viewed at the two inter-related levels of corruption in the public sector and in business. In both cases it can occur locally, nationally and internationally. It is also useful to distinguish between ‘grand’ corruption, which involves those who make or influence major policy decisions, for example on privatisation and government procurement programmes worth millions of dollars, and ‘petty’ corruption, which involves more junior public officials, such as customs officers, policemen, magistrates. In defining the issue from a corporate perspective, Shell lists the following generic forms of corruption in the company's management primer *Dealing with Bribery and Corruption*:

- bribery (and the related areas of facilitation payments, gifts and hospitality, conflicts of interest, and using intermediaries);
- fraud;
- vulnerabilities in contracting and procurement;
- illegal information brokering;
- organised crime; and
- money laundering.

There are three main ways in which companies can play a role in tackling corruption:

- Implementing and monitoring anti-corruption policies in their own business operations;
- Engaging in and influencing the public policy debate on corruption and helping to build the necessary enabling frameworks to tackle corruption at local, national and industry levels; and
- Influencing international public policy on bribery and corruption.

6.1 Tackling corruption within the company

This is obviously the most direct action that a company can take. It can have useful 'knock-on' effects if the company insists that its local business partners, suppliers and contractors follow the same standards, however difficult this is to achieve in practice. Control Risks Group estimates that over 90% of America's international companies have formal anti-corruption codes and about 85% of European companies. There is a growing body of 'good practice' in implementing these codes, such as training programmes for employees and business partners, and other compliance measures such as: annual declarations by senior managers that they have conformed to the company's anti-corruption codes; confidential hotlines; or formal agreements with business partners that they will abide by the company's codes. To date, however, most companies have a long way to go in embedding these training and management systems into their global operations.

6.2 Addressing corruption at the national, local or industry level

Within the countries in which they are investing, foreign investors and large national companies are slowly starting to take a more pro-active and public stand against corruption. Some of them have supported or got actively involved with local Transparency International chapters, for example. Several British companies are discussing with the UK's Department for International Development how they may work together in selected countries to support national anti-corruption programmes, ranging from practical advice to financial support. There is growing discussion around ideas such as the establishment of 'Corporate Forums on Corruption' or 'Corporate Integrity Pacts', where major companies operating in a particular country can agree to abide by common, voluntary rules and guidelines. Efforts are underway in both the oil and defence sectors to establish common, industry-wide principles in this area. Despite the sense of momentum, real progress at this collective level remains slow. It is the area of probably greatest potential, however, for companies to work together with the goal of influencing both public policy and the ethical behaviour of public officials, as well as the way the companies run their own operations in a specific country or industry sector.

6.3 Influencing international public policy

A small, but prominent group of European business leaders supported the efforts of Transparency International in lobbying European governments to ratify the OECD convention. In particular they focused on the need for their governments to make international corruption a criminal offence and to end tax-deductability of bribes paid to officials abroad. Board members of companies such as ABB, Siemens, Daimler Benz, Pirelli, Robert Bosch, Coopers & Lybrand, Solvay, France Telecom and Société Générale de Belgique, signed a joint and open letter to OECD economic ministers in 1997 on the eve of discussions about the convention. A number of major companies have also participated in efforts by the World Bank, OECD and the Commonwealth to develop international guidelines for corporate governance. Members of the ICC have also been increasingly vocal, pro-active and public in their calls for the need to establish international instruments to eliminate corruption.

Principles of Conduct for the International Red Cross and Red Crescent Movement and NGOs in Disaster Response Programmes

1. The humanitarian imperative comes first.
 2. Aid is given regardless of the race, creed or nationality of the recipients and without adverse distinction of any kind. Aid priorities are calculated on the basis of need alone.
 3. Aid will not be used to further a particular political or religious standpoint.
 4. We shall endeavour not to act as instruments of government foreign policy.
 5. We shall respect culture and custom.
 6. We shall attempt to build disaster response on local capacities.
 7. Ways shall be found to involve programme beneficiaries in the management of relief aid.
 8. Relief aid must always strive to reduce future vulnerabilities to disaster as well as meeting basic needs.
 9. We hold ourselves accountable to both those we seek to assist and those from whom we accept resources.
 10. In our information, publicity and advertising activities, we shall recognise disaster victims as dignified human beings, not objects of pity.
- The code of conduct also includes the recommendations for host governments in disaster-affected countries, donor governments and intergovernmental organisations.

www.ifrc.org

7. Supporting humanitarian relief operations

All people and communities – even in disaster – possess capacities as well as vulnerabilities. Where possible, we will strengthen these capacities by employing local staff, purchasing local materials and trading with local companies.

Red Cross Code of Conduct on disaster relief

If conflict sensitive situations escalate into civil war or other types of widespread and sustained violence, crisis management becomes the defining feature of intervention and protection. This can range from military engagement to humanitarian disaster relief. Depending on the location and nature of their operations, different industry sectors and companies can play a useful role in supporting humanitarian and disaster relief. This can range from:

- Commercial construction and management of refugee camps and the provision of products, equipment and logistical support on a contractual basis; to
- Philanthropic support for relief efforts, including cash and product donations and employee volunteering efforts.

Both the commercial and philanthropic involvement of companies in disaster relief have increased in recent years and are likely to continue doing so. The commercial engagement of business is being driven by growing recognition on the part of both donor and host governments that the private sector can often provide essential products (such as food, water, tents, vehicles and medical supplies) and practical solutions (such as logistical and engineering support) faster, more efficiently and more cost effectively than they can do so themselves. Governments are also relying increasingly on NGOs to deliver a wide range of relief services creating opportunities for both co-operation and competition between the NGO and private sectors.

The philanthropic engagement of business reflects the fact that both NGOs and governments are looking to the private sector to help meet public funding shortfalls, whilst the private sector is identifying increased reputation and strategic benefits to being a partner in humanitarian relief efforts. As the examples on pages 108 and 109 illustrate, leading companies are moving beyond a 'cheque-book' approach to philanthropy, where the company simply provides cash, to a more strategic approach structured around longer-term alliances with NGOs that draw on the company's core management competencies, and in some cases its products and services, to address humanitarian needs. Major humanitarian agencies such as the Red Cross, CARE International and Oxfam are starting to work more strategically in this way with business.

As non-governmental actors, including commercial entities, have become more centrally involved in disaster and humanitarian relief over the past decade, there has been a growing need for agreement on ethical and technical standards and operating principles. In 1994, the International Red Cross and Red Crescent Movement worked with a group of leading emergency relief NGOs to develop a voluntary code of conduct for disaster relief, which is summarised on the left. This code is applicable for use in natural disasters as well as situations of armed conflict. The code is not directed at business, but it provides a useful framework for any company that is operating in crisis situations and/or supporting humanitarian relief. Several companies with procurement and service contracts to the UN and to other humanitarian agencies have made a public commitment to operate according to these principles. There are also several joint public-private initiatives underway to develop standards and quality assurance systems for the provision of specific products and services, such as vehicles and plastic sheeting.

One humanitarian issue that offers potential for greater collaboration between governments, civil society and business is the increasingly co-ordinated international effort to:

- Ban the use, production, stockpiling and sale, transfer and export of antipersonnel mines
- Carry out demining and mine awareness programmes in countries that are heavily mined
- Implement rehabilitation and support services for landmine victims and their families.

It is estimated that there are some 80 million landmines already buried in over 65 countries and a further 100 to 200 million mines in stockpiles around the world. Over 25,000 people are killed or maimed by these landmines every year. Apart from their destructive impact on human life and health, landmines also contaminate communities and millions of acres of productive land, impeding efforts at economic reconstruction, resettlement and reintegration in post-conflict situations. Most of the countries seriously affected are in the developing world and lack the resources needed for de-mining and for rehabilitating landmine victims. In the words of Jody Williams, Co-ordinator of the International Campaign to Ban Landmines (ICBL) and co-recipient of the 1997 Nobel Peace Prize, “The end result is an international community now faced with a global humanitarian crisis”.

Over the past decade there has been increased collaboration both within and between governmental bodies and civil society to address this crisis. In 1992 ICBL was established as a network of six civil society organisations. Today the network represents over 1,100 NGOs in over 60 countries. During 1997 it worked closely with national governments and international agencies on the Mine Ban Treaty, which has now been signed by 137 countries and ratified by 100 as of July 2000. Also in 1997, the UN established the United Nations Mine Action Service (UNMAS) to ensure a more effective, proactive and co-ordinated UN response to landmine contamination.

The private sector is already playing a small role in efforts to address the landmine crisis, both commercial and philanthropic. There is potential, however, for increased engagement. From a commercial perspective increased efforts are needed to help convert landmine factories to civilian production, especially in post-conflict countries. The private sector can also play a valuable role in the commercial provision of products and services for de-mining. These range from the provision of mine detectors, survey equipment, cutting tools, medical supplies, vehicles, communications and demolitions kits, to services such as site surveys, risk assessments, technical advice and mine awareness training. One recent initiative is a partnership between several insurance companies, the UN, commercial de-mining firms and NGOs to undertake a major risk assessment of mine clearance. The aim is to speed up and lower the costs of demining by giving operators and insurers a better idea of the risks involved and how they can be managed.

From a philanthropic perspective, companies can support NGOs and UN agencies active in de-mining and rehabilitation efforts through the provision of finance, *pro bono* technical assistance and product donations. Examples include the following:

- The Japanese Alliance for Humanitarian De-mining Support, which consists of a group of companies offering their respective expertise to improve the effectiveness of demining. Companies include IBM Japan, which is providing basic software, Onron which is providing sensor technology and Geosearch.
- The Rehabilitation Services Database, a partnership between the Landmine Survivors Network, UNMAS and the UN Office for Project Services (UNOPS), with corporate support, to identify and access resources and services available for landmine survivors and their families. Jeff Wright Internet Production, ESRI and Geofunctions have provided technical and product support for the database.
- Beyond Demining, is a partnership in Mozambique between Aid to Artisans (a US-based NGO), UNOPS and the private sector, aimed at helping people impacted by landmines to develop craft businesses, for local and international consumption.

The following three pages illustrate some other examples of how companies can directly support humanitarian and disaster relief efforts on a commercial basis and on a social investment or philanthropic basis.

COMMERCIAL SOLUTIONS FOR DISASTER RELIEF AND RECONSTRUCTION

a) The example of UK-based Crown Agents

The Crown Agents was privatised in 1997 after 160 years of operating as a public sector entity. In 1999, the company's procurement, freight and logistics services and its specialised Emergency Response Team (ERT), contributed to humanitarian assistance and post-disaster reconstruction in several countries, facing either man-made or natural disasters. These included: Albania; Kosovo; Macedonia; Turkey; Sierra Leone; and East Timor. Activities have included the following:

- During the forced evacuation of Albanians from Kosovo, ERT organised the airlift of relief supplies to meet the needs of refugees arriving in their thousands in Albania and Macedonia. In June 1999, ERT team members established a tented camp in central Albania for 5000 refugees.
- At Pristina University Hospital, British government funding enabled health specialists employed by the Crown Agents to work with local and KFOR medical staff to establish a new accident and emergency unit. The company later helped to set up an intensive care unit and supplied medical consumables, along with drugs bought for the hospital's central pharmacy on behalf of *Pharmaciens Sans Frontières*.
- A private UK-based company, Greenshields Cowie, has been in the forefront of Crown Agents' logistics operations for Kosovo and elsewhere. In 1999/2000 the company arranged nearly 100 air charters of emergency aid on behalf of international donors. Airlifted humanitarian assistance supplies have included vehicles, food, bedding and healthcare, from Britain, Denmark, Germany, Greece Italy and Spain.
- As part of the British government's response to the violence that followed the referendum on independence for East Timor and in a joint operation with the Swedish Rescue Services Agency, ERT provided support to the UN Humanitarian Co-ordinator in Dili with transport, office and satellite communications facilities.
- Following the Lomé peace agreement in July 1999, ERT was engaged in DFID's second Disarmament, Demobilisation and Reintegration programme in Sierra Leone, establishing a further four demobilisation centres.
- Crown Agents in partnership with three other international companies has established a subsidiary called Global Development Four to provide vehicle logistics solutions in emergency situations. In 1999 GD4 established a vehicle workshop in Kosovo which employs over 30 local staff and services over 100 vehicles in the region supporting the development community. This is a good example of how a foreign company has trained and employed local people and invested in building local capacities.

b) The example of US-based Brown & Root

Brown & Root Services (BRS) are part of the US-based Halliburton Company, one of the world's largest diversified energy services, engineering and construction companies. Like The Crown Agents, BRS provides a range of technical, logistical, engineering and construction services in conflict and post-conflict zones and during disaster situations. It is a for-profit company listed on the New York Stock Exchange and provides these services on a commercial basis. Its clients are primarily international agencies, governments and government departments, such as the US Ministry of Defence.

Examples of its activities include the following:

- **Bosnia, Hungary & Croatia** – Operation Joint Endeavour: BRS built 19 base camps and operated 32 camps. It performed 24-hr maintenance for 2,495 tents and 167 facilities and set up and operated dining and laundry facilities. Its operations peaked at an employment level of 1,296 expatriates and 5,531 locals. The company also provided logistics support for Balkans peacekeeping operations employing 469 expatriates and 2800 local employees.
- **Marshall Islands** – U.S. Army/FEMA: During a serious drought situation the company worked with the US Army and FEMA to provide thousands of people with a clean water supply. The whole process took less than 10 days to a country located over 5000 miles away.
- **Somalia** – Operation Restore Hope: BRS supported 18,400 US troops and trained a Somalian workforce of 2,500. It operated and maintained 9 base camps in widely dispersed, remote locations and restored power and water to the US Embassy compound and Mogadishu Airport. The number of local people trained and employed by the company outnumbered US expatriates by a factor of about 10:1.
- **Rwanda** – Operation Support Hope: The company supported 2,415 soldiers operating in the region. It provided and operated water filtration plants, procuring water trucks in Europe and transporting them to Zaire in less than 11 days.
- **Haiti** – Operation Uphold Democracy: BRS supported 18,000 US and UN troops at two sites in Haiti. It built and maintained all US buildings, processed more than 27 ships and 45,000 passengers, and received 242 aircraft and 480 vehicles.
- **Saudi Arabia & Kuwait** – Weapons Demilitarisation: After the Gulf War, the company collected and repacked 214,000 tons of ammunition and destroyed captured Iraqi missiles and ammunition. It completed a job scheduled to take 15 months in 8 months without major accidents or serious injuries.

SOCIAL INVESTMENT & PHILANTHROPIC SOLUTIONS FOR DISASTER RELIEF & RECONSTRUCTION

a) Mobilising information and communications technology for humanitarian purposes

Reliable and accessible communications are critical in all emergency situations, whether these are due to man-made crises or natural disasters. Communications equipment can help to enhance security, facilitate the efficient procurement of relief supplies and make the process of handling thousands of refugees easier, more effective and more humane. The following vignettes illustrate how some information technology and communications companies have played a role in recent crises. In every case they have worked in partnership with either NGOs and/or international agencies such as the United Nations High Commission on Refugees (UNHCR). The examples also illustrate how companies can donate not only money and products to support disaster situation needs, but also facilitate the sharing of skills and the volunteering time of their employees.

- Developing a system for refugee registration: In the 1999 Kosovo crisis **Microsoft** volunteers worked with industry partners such as Hewlett Packard, Compaq, Securit and ScreenCheck, together with NGOs such as the International Organisation for Migration, to create a portable and easy to use refugee registration system. In less than two months the group developed, field-tested and deployed refugee registration kits according to UNHCR specifications. Included in these kits were computers, digital cameras, signature pads, special ID card printers, and related hardware and software designed especially for this project. They also trained relief and government workers on how to use the system and in its initial period of use, nearly half a million refugees were registered.
- Also in the recent Kosovo crisis, **British Telecom, Dell, Newbridge Networks, Nortel Networks and Oracle** collaborated in order to provide satellite telephones and other communications to refugees in Albania.
- **IBM** supports the Red Cross's Disaster Relief website (www.disasterrelief.com) which receives visitors from 160 countries and has resulted in a dramatic growth of online donations to the Red Cross.
- **Cisco Systems** supports UNDP's Netaid.org initiative aimed at raising awareness on humanitarian issues and making it easier for companies, NGOs and individuals to get involved in making donations or volunteering. Netaid's website received millions of 'hits' between September 1999 and May 2000, raised over US\$12 million and mobilised the involvement of about 3,000 NGOs and 200 companies to support humanitarian objectives. It recently launched an e-giving site to deliver Mother and Baby Survival Kits to women and traditional birth attendants in Rwanda and an Online Volunteer Facility, which enables knowledge-based professionals, such as doctors, teachers and translators to provide volunteer support to NGOs over the internet. The site's content includes: project profiles of development success stories from the field; frontline reports on the work of individuals who are making positive contributions to their communities; and NetAid SOS, which has information on crisis situations to which the online public can subscribe.
- In 1995-6 **Cable and Wireless** worked with CARE International to develop, field test and deliver portable communications kits, consisting of radios, chargers and satellite telephones specially adapted for use in emergency situations. Part of the agreement with Cable and Wireless involved the secondment of one of the company's senior emergency response specialists to CARE's own Emergency Response Unit.
- In 2000 **Ericsson** worked with UNDP, the UN Office for the Co-ordination of Humanitarian Affairs and the Red Cross to establish a major Disaster Response Programme. This initiative is a response to the growth in scope and severity of natural and man-made disasters, and the fact that local communications systems are often extensively damaged in such situations, whilst the communications systems used by different humanitarian agencies vary widely in quality and often suffer incompatibility problems. Although the problem has been widely recognised, for many agencies and NGOs the purchase and management of more effective systems has usually been too costly. Ericsson's Disaster Response programme will provide communications aid, from the installation of microwave links and base stations to the provision and maintenance of mobile and satellite phones, for humanitarian relief workers in natural and man-made disaster areas. The programme will rely heavily on Ericsson's offices in more than 140 countries. Its overall aim is to support faster and more co-ordinated approaches not only to disaster response, but also to preparedness.

b) Managing medical donations for humanitarian purposes

In theory drug donations by pharmaceutical companies, especially for use in emergency situations, sounds highly beneficial to both NGO and government recipients and to the ultimate beneficiaries of these donations. Critics of donation programmes argue, however, that companies are donating medicines that are: often unsuitable for the needs of their target beneficiaries; past their expiry date; and donated for the 'wrong' reasons such as public relations benefit, tax breaks or because it costs less to donate unwanted drugs than to destroy them. Whilst leading pharmaceutical companies recognise that mistakes have been made in terms of suitability and expiry dates, they argue strongly against the criticism that they are cynically engaging in drug donation programmes for purely selfish reasons without giving serious consideration to the impacts of such donations. Over the past few years there has been growing engagement between pharmaceutical companies, NGOs, academic institutions and government bodies to address these issues and to find mutually acceptable solutions. This has resulted in innovative programmes by individual companies and new alliances such as the US-based Partnership for Quality Medical Donations.

The Partnership for Quality Medical Donations (PQMD) is a consortium of US-based pharmaceutical companies and voluntary organisations. Established in 1999, PQMD aims to:

- Develop and promote sound donation practices by donor and recipient organisations;
- Represent members' interests before national and international organisations responsible for policy formation affecting drug product donations and distribution;
- Encourage documentation and academic study of the health care and socio-economic impacts of donated medical products and services;
- Encourage media coverage of member projects and programmes that serve to promote replication of donation projects which provide high levels of favourable outcome for the populations served.

Members currently include the following profit and non-profit enterprises: AmeriCares; the Catholic Medical Mission Board; Interchurch Medical Assistance Inc.; International Aid; MAP International; and Project HOPE; Abbott Laboratories; Bristol-Myers Squibb; Eli Lilly and Company; Johnson & Johnson; Merck & Co.; Pharmacia and Upjohn; Pfizer Inc; SmithKline Beecham; Parke-Davis, a Warner Lambert Company; and Wyeth-Ayerst Pharmaceuticals.

In 1999, PQMD worked with WHO to revise and endorse its Guidelines on Drug Donations. The organisation also funded research by Harvard's School of Public Health on the impact of drug donations and undertook a fact-finding mission to Croatia with the World Bank to investigate ways to improve emergency donation programmes.

Examples of **individual company programmes** aimed at donating medical supplies and support to conflict zones and post-conflict reconstruction, include the following:

- **SmithKline Beecham** has developed a unique programme through which the company earmarks some of its normal manufacturing inventories specifically for donations. It has established strategic global partnerships with five NGOs: Catholic Medical Mission Abroad; AmeriCares; InterChurch Medical Assistance; MAP International and Project HOPE. The initiative focuses on ongoing programmes and disaster relief in war zones and natural disasters. The fundamental philosophy of the programme revolves around the concept of 'planned giving' whereby SB works with its NGO partners to anticipate needs and provides extra amounts of selected products to ensure immediate availability in emergency situations. In 1998 the programme distributed medicines to more than half a million people in 36 countries, including a number of war zones.
- **Glaxo Wellcome** has established a programme aimed at providing a long-term strategic response to health needs following disasters. This initiative recognises that media, public and donor interest often fades from emergency situations once immediate problems have been addressed. For example, the company has supported RefAid to develop healthcare centres serving refugees returning to Rwanda. It also funds a medical training officer to work with the Mines Advisory Group in a number of countries where landmines pose a significant problem for people returning to their homes.

8. Engaging in diplomacy and peacemaking

To-date there are relatively few publicly available examples of individual business leaders or their companies becoming actively engaged as bridge-builders, intermediaries and negotiators in situations of potential, existing or post conflict. This is obviously a politically sensitive, high-risk area for business engagement. It is one which should only be undertaken after careful consideration and consultation, and preferably within agreed legal or UN frameworks for diplomacy. Several key issues need to be considered (some of which have been reviewed in the section on operating in repressive regimes):

- Should business-led efforts at diplomacy and peacemaking be carried out privately, behind close doors or publicly in a more transparent manner?
- Should they be carried out solely between representative/ elected bodies (for example elected governments, official employers associations and trade unions) or with these bodies as well as other non-governmental actors (for example rebel factions, community leaders etc)?
- Should individual business leaders take a proactive role or should they focus on working in a collective manner with other business leaders? If the former, who gives the individual legitimacy and a mandate to undertake this role?

There is obviously no single or simple answer to the above questions. Different approaches will make sense for different situations.

One intermediary organisation that has been actively promoting the diplomacy and peace-building role of business is the US-based Institute for Multi-Track Diplomacy.

THE INSTITUTE FOR MULTI-TRACK DIPLOMACY

The Institute for Multi-Track Diplomacy (IMTD) was founded in 1992 with a mission to develop a systems approach to peace-building, drawing on the different approaches, skills and resources of nine different dimensions or tracks. These are as follows:



The institute carries out research and studies on these different tracks and organises seminars and workshops to develop skills for conflict resolution and peace building. It promotes twelve principles of multi-track diplomacy which are: relationships; long-term commitment; cultural synergy; partnership; multiple technologies; facilitation; empowerment; action research; invitation; trust; engagement; and transformation.

In 1995, IMTD started to explore the intersection between business and peace building. Their initial focus was a series of consultations with business leaders in East Asia, specifically Taiwan and Hong Kong, followed by a survey of business people throughout Asia. This survey confirmed that while business people were generally unaware of the issues or resources available for

peace building in the region, they were interested in exploring a more active role for the private sector. In 1996 the Institute expanded its contacts to business leaders, as well as academics, politicians and activists in India and Pakistan. IMTD is currently working with The Management Development Institute of India and the Lahore University of Management Sciences on a series of three-day executive seminars for business leaders focusing on peace building and conflict resolution. The seminars will use case studies to illustrate the role that the business community has played in other intractable conflicts in Cyprus, Israel-Palestine, South Africa and Northern Ireland, with the aim of exploring the potential role of Indian and Pakistani business leaders in social peace building.

Some of the ways in which IMTD believes business can play a role are as follows:

- The business community has developed organisational and human technologies relevant to societies emerging from deep-rooted conflict, such as skills in leadership, complex systems change, visioning, strategic planning, participative decision-making, teamwork, managing diversity and whole systems thinking.
- Business has a global network of contacts, alliances, services and communications that can be powerful resources to a conflict resolution process.
- The business world has access to the capital needed to make an investment in peace building.

8.1 Peacemaking actions of individual business leaders

There are few cases where individual business leaders have engaged directly in supporting peace negotiations. The case of Tiny Rowland, the late founder of British company Lonrho, and his personal engagement in facilitating the peace process in Mozambique is one that is well-known in conflict resolution circles. Together with the role played by a Catholic lay order, the Community of Saint'Egidio, Rowland helped to initiate and sustain a dialogue between the different factions in Mozambique's civil war, regional leaders in South Africa, Malawi, Zimbabwe and Zambia and politicians in Europe. He also provided funding and transportation for participants to attend peace negotiations in Africa and Europe. Although he played a key role in the peace process, assessments on the legitimacy of his personal interventions are mixed.

Most critics argue that the risks of undue influence and lack of democratic process are too high when individuals such as this engage directly in peace negotiations. This is especially the case if they do so outside agreed legal and/or United Nations frameworks for diplomacy. Critics also argue that the link between engaging in peace diplomacy and protecting direct commercial interests (especially those of an individual company) is unacceptable. In the case of Rowland, for example, Lonrho's business interests in Mozambique and the surrounding region were extensive at the time and facing high costs as the result of the civil war (see research by Alex Vines on page 21).

Some people would argue, however, that such individuals can be highly effective, provided they have appropriate motivations and a genuine interest in building peace. This may be the case, but there are sufficiently strong grounds for concern about the diplomatic role of individual business leaders to ensure that this type of intervention is likely to remain a rare exception. There is a far greater role for companies to engage in collective action when it comes to diplomacy and peacemaking.

8.2 Engaging in collective action for peacemaking

As has been argued elsewhere in this report, it is often less risky and more legitimate and effective for companies to adopt a collective approach when addressing sensitive societal or political issues such as corruption, human rights abuses, bad governance and peacemaking.

This was the case with the delegation of South African business leaders and newspaper editors, led by Gavin Relly the late chairman of the Anglo-America Corporation, who travelled to Zambia to meet with the African National Congress (ANC) in 1985 when the party was still in exile. There is little doubt that most South African companies benefited from the apartheid system for many years and did not act as early, or do as much, as they could have done to speak out in favour of political change. It is also fair to say, however, that growing pressure on the South African government by some of these companies in the 1980s helped to force the pace for change in the country. Equally, by establishing links with ANC leaders in exile, the South African business community made a clear statement that it acknowledged the ANC's legitimacy and vital role in achieving a peaceful political transition. At the same time, the business leaders were able to convince the ANC of the benefits of a market economy and agreed to play an active public role in supporting the transition and reconstruction process. The establishment of the Consultative Business Movement, which later joined with the Urban Foundation to become the National Business Initiative, is probably one of the world's best examples of collective corporate action in peace building. This and examples of collective corporate action in Ireland and the Philippines are profiled on the following pages. They offer useful lessons and ideas for practical business action in other conflict situations.

COLLECTIVE CORPORATE ACTION: South Africa

In order to play a role in divided societies, business has to organise itself collectively. This does not necessarily mean that ordinary organised business bodies such as chambers of commerce can play this role. These are often seen too much to have their member companies' vested and short-term interest at heart. It does not rule these bodies out if they can acquire the credibility with different parties in a conflict. But often it is easier and more pragmatic to create a specific body that rises above short-term business interests and one that can take specific steps to build credibility with the different parties.

Theuns Eloff, CEO the National Business Initiative, South Africa, 1999

'Business' is not monolithic. There are thousands of 'businesses' in South Africa, ranging from big corporations such as Anglo American to the panel beater on the corner. When evaluating the role of business in the past, this must be taken into account.

Individual business leaders (in their personal capacity), individual companies (as part of their policies) and business organisations have all played a greater or lesser role in the successful political transition of the past eight years. This took many forms, some of which are described here:

Putting pressure on the apartheid government

Often without public knowledge, business pressurised the apartheid government during the late 1970s and 1980s to change its policies. Sometimes the motivation to do this was moral; more often than not it was based on enlightened self-interest. Apartheid was, in the end, not good for business. Pressure came also from organised business – sometimes in general terms (e.g. from the Federated Chamber of Industries and ASSOCOM), sometimes more specifically (e.g. from the Urban Foundation focused on influx control and housing policy).

Facilitating contact with political leadership

In the late 1980s, when it was clear that the country's political situation was rapidly heading for deadlock, individual business leaders and companies facilitated contact between business and political organisations clearly representing the majority of South Africans – externally, the ANC, and internally, the United Democratic Front (UDF). The aim was to build relationships between business and political leaders, including those from the Nationalist government and parties such as the Inkatha Freedom Party (IFP). The ultimate goal was to see whether business could play a facilitative role between the politicians – again, for moral and patriotic reasons, but also because the country's economy was in steep decline. The Consultative Business Movement (CBM) was established in 1988 to play this role, after lengthy consultation and a ground-breaking meeting between 40 business and 40 community leaders.

Engaging in the peace process

The slow and sometimes frustrating process of relationship building paid off in the early 1990s when business (spearheaded by CBM, but later including organised business such as the South African Chamber of Business/SACOB and the Afrikaanse Handels-Instituut/AHI) joined forces with church and labour leaders to play a

significant role in the peace process. This led to the signing of the National Peace Accord in September 1991. In implementing the Accord, business played a role in the regional and local peace committees, not only providing financial assistance, but also making available human resources and leadership (e.g. the Chairperson of the National Peace Committee, John Hall, was an executive of Barlow Rand). As the first multi-party negotiating process since the unbanning of the country's political movements, the peace process laid the foundation for CODESA and the multi-party negotiating process at Kempton Park.

Supporting the multi-party negotiating process

During the constitutional negotiations, business played two important roles: through the CBM, it provided the secretariat to CODESA and all of the administration for the multi-party negotiating process. Outside the process, it continued to pressurise the political parties to reach a settlement as soon as possible. Business also intervened and played the role of shuttle diplomat when deadlocks loomed or occurred. One of the lesser-known interventions was the production of two documents by CBM on regional competencies and finances (with the full co-operation of the parties and expertise from South African and international constitutional advisors). The first of these provided the negotiators at Kempton Park with the formulas on regional competencies for the Interim Constitution helping them overcome a potential stumbling block.

Assisting the 1994 elections

Business played various roles in the country's first democratic elections. It brought the Zulu-based Inkatha Freedom Party into the election process, for example. In 1994 CBM created the Business Election Fund which mobilised nearly R50 million in cash and in-kind and ran a major media campaign on the importance of free, fair and successful elections. It also mobilised some companies to help with logistics around the elections, such as transporting ballot papers to areas where none were available.

Enhancing the socio-economic transition

In the aftermath of the election, when the euphoria had worn off, business leaders realised the importance of business playing a role in the critical socio-economic transition following the political transition. Many companies focused their corporate social investment programmes on the Reconstruction and Development Programme. In 1995 business leaders also merged two business organisations in the socio-economic development field (the Urban Foundation and CBM) into the National Business Initiative (NBI). In the last four years, the NBI has enhanced the private sector's contribution to socio-economic delivery by developing nationwide, replicable programmes in housing delivery, education quality, local economic development and local government capacity building. A few of its results are as follows:

- It assisted the National Department of Housing to design and implement a system through which capital subsidies for first-time homeowners could be awarded and converted into sub-economic housing. This has resulted in 1,000,000 subsidies awarded by mid-1999 of which 850,000 have been converted into houses.
- The NBI's Educational Quality Improvement Programme (EQUIP) focuses on improving governance, planning and management of schools and is currently being implemented in about 300 schools, helping to improve the education of over 200,000 pupils from disadvantaged communities. It aims to reach 750 schools and almost 600,000 children by 2001.
- The NBI has started a five year programme to improve technical education, establishing a Colleges Collaboration Fund to transform the country's 152 technical colleges, aimed at meeting world-class standards and enhancing employment opportunities.
- NBI runs a Local Government programme bringing business management principles (such as financial and strategic planning) to local authorities and a Local Economic Development programme which works with enterprising communities to create income and employment generating opportunities, especially in tourism and small enterprise development.
- NBI established Business Against Crime, now run as an independent entity (see page 101).

In 1999 NBI facilitated the establishment of **The Business Trust** which it now manages. This initiative is mobilising some 1 Billion Rand from over 100 South African and multinational companies to address: job creation, specifically in tourism; and education, specifically the school system. Its executive Board of Trustees comprises top business leaders and government ministers, offering an excellent model of public-private co-operation and the channelling of corporate resources to address urgent national needs.

An ongoing commitment

Business can rightfully say that it has contributed substantially to the success of the political transition in South Africa. If, however, it wants to reap the fruits of this labour, it will have to continue to intervene and facilitate constructively – but this time in the field of socio-economic development and, more specifically, job creation, human capital development and institutional capacity building. As business played a facilitative role in building relationships during the political transition, so it must now engage in building constructive social relationships and partnerships between business, labour and government. This does not mean that the 'natural' tensions between the three groups should be wished away, but that their leadership must find a *modus vivendi*, in their common interest and that of the country. This is the essence of the challenge that lies ahead – one that will take longer and demand more patience and endurance than the heady few years of political transition.

Adapted from a paper by Theuns Eloff, Executive Director of the National Business Initiative written for ACCORD magazine, 1999.

COLLECTIVE CORPORATE ACTION: Northern Ireland

Conflict has had a negative impact on business and economic growth in Northern Ireland where there has been ongoing violence between Protestants and Catholics for the last thirty years. In the early 1990s, Northern Ireland's business community began to acknowledge the explicit link between protracted sectarian conflict and slow economic growth. The companies forming the Northern Ireland Confederation of British Industry (CBI) decided that if they wanted to improve the economic situation they were obliged to become strategically engaged in the peace process. As the representative voice of regional business opinion, as well as an independent non-party political organisation, the CBI was well-positioned to lead a private sector peace initiative. The CBI helped Northern Ireland work towards peace in two ways – it operated both as a policy think tank and as a political lobbying group.

Business as a Policy Think Tank

In 1994, the Northern Ireland CBI produced a publication that it referred to as 'the peace dividend paper'. This spelled out an economic rationale for peace. The paper examined the negative economic impact of violence in Northern Ireland identifying:

- Increased security costs for the private sector, especially in sectors such as retailing;
- A commercial image problem that made foreign investors reluctant to invest in Northern Ireland; and
- Emigration of some of Northern Ireland's brightest young people, including many would-be entrepreneurs.

The peace dividend paper also argued that if violence ceased, public money currently spent on law, order and protective services could be reinvested into other sectors. More funds for education and infrastructure could help boost further economic growth. The media and politicians adopted the term 'peace dividend' from the CBI paper and began using it extensively. By approaching peace from a business angle, the CBI helped to change the terms of debate and to infuse new momentum into the peace process.

Business as a Lobbying Group

In 1996, approximately two years after the peace dividend paper was published, the CBI joined with six other trade and business organisations to create the Group of 7. The Group of 7 includes the CBI, the Hospitality Association for Northern Ireland, the Institute of Directors, the Northern Ireland Chamber of Commerce and Industry, the Northern Ireland Growth Challenge, the Northern Ireland Economic Council, and the Northern Ireland Committee of the Irish Congress of Trade Unions. As the collective voice of Northern Irish economic interests, the Group was immediately endowed with considerable authority. The Group chose to use its influence to advance one principal message – Northern Ireland must make a 'stark choice' between a future of peace and prosperity and a destiny as 'one of the world's most irredeemable trouble spots.'

In October 1996, the Group of 7 invited representatives of all nine political parties involved in the peace talks to a meeting in Belfast. Collective meetings, rather than individual ones, reflected the Group's strategy of political co-operation and impartiality. Over the next 21 months, the Group of 7 had five further meetings with

the various political parties contributing their input to the political debate.

The Group of 7 also continued to lobby for peace in other ways.

Tactics included:

- Media statements: At critical junctures the Group of 7 released press statements to keep up public pressure on politicians to make peace.
- Individual appeals: The Group of 7 also lobbied individuals, at one point disseminating a letter to business colleagues and asking them to distribute it to their employees.

Lessons

While the resolution of the Northern Ireland conflict is far from certain, there is cause for measured optimism, particularly regarding the constructive role that civil society – and particularly the business community – can play in building peace. In Northern Ireland, private sector industry associations joined with trade unions to form a strong and effective partnership for political change. Rather than play the traditional role of financial supporters, the business community chose to serve in a more substantial way as a think tank and as a lobbying organisation or pressure group. However, the Group of 7 wielded its influence intelligently and sparingly, acting only when it felt its contribution was necessary to advance the political debate. Of course, business alone cannot build peace.

Adapted from a case study by Jordana Friedman and Rachel Stern, Council on Economic Priorities

COLLECTIVE CORPORATE ACTION: The Philippines

Recent Philippine history has seen two periods when the country experienced economic crisis, political unrest and instability (in some cases leading to violent conflict). In 1970-72 immediately before Ferdinand Marcos' imposition of martial law and in 1983-86 following the assassination of Aquino and leading up to the EDSA Revolution (February 1986). In the early 1970s, the country was coming out of a period of slow growth following an election that was inflationary and led to a devaluation of the peso. In the mid-1980s, the economy was in recession, the peso was devalued sharply, inflation was in excess of 50%, business failure and worker layoffs were in record numbers, unemployment (and underemployment) were high, and the incidence of poverty (especially urban poverty) involved around 45% of the population. In both periods, communist insurgency was on the rise. Street demonstrations occurred at least weekly with increasing violence between the military and demonstrators.

Philippine Business for Social Progress (PBSP) was born out of this crisis. In its early stages it was not a collaborative effort or partnership with government, but an effort to provide a business response to the crisis situation in which government was perceived as unable or unwilling to respond to many of the real economic and development needs of the people. The risk of business being seen as 'subversive' by the government (NGOs and community organisers, for example, were seen as subversives by the Marcos regime) was managed by creating an organisation that could share risk through a coalition of companies. PBSP's board leadership, drawn from the highest and most visible levels of business, projected an image of moderation and legitimacy needed to deal with critics.

The companies supporting PBSP recognised that they needed professional social development workers to organise community projects – a skill business did not possess. As a result, while PBSP's board leadership and governance structure came from business, professional social workers and development workers were hired to manage the organisation's programmes.

Earliest projects addressed government development deficiencies: housing, basic social needs (health services, water, nutrition), and squatter resettlement. These could not be sustained by a private effort due to the large costs involved and as a result, PBSP switched to community-based and managed projects focused on areas such as:

- Organisational support and economic assistance for co-operatives;
- Micro-enterprise development through community-based partners;
- Agricultural credit financing through farmer co-operatives; and
- Smaller projects managed by local organisations direct to beneficiaries.

For a ten year period (1975-86), PBSP set itself up as a local donor and resource generator, making resources available to local NGOs and people's organisations (church social action centres, farmer associations, school-based organisations, co-operatives etc.) which served as the delivery mechanism down to the grassroots. PBSP

also invested in a strong training and community organising arm that continues today as a training institute.

In the 1984-85 recession, PBSP actually expanded its programming through a member-company programme that helped organise corporate community relations projects. Companies facing the need for mass layoffs and closure of certain plants, ran the risk of potential unrest and the responsibility of supporting their laid-off workers. PBSP established an initiative to help these companies manage such situations given that the threat of unrest was very real due to the deteriorating political situation. PBSP's Membership Unit helped to organise over 30 company programmes that worked with communities within and around plant sites.

The Personnel Management Association of the Philippines (PMAP) also engaged in a community relations programme for its members funded by the ILO. Around 50 companies participated in this initiative during the 1980s. Projects ranged from housing, creation of livelihood opportunities, health services, education and training. Other business organisations helped companies set up in-house commissaries and consumer co-operatives to help their employees source products (e.g. food) at lower rates.

Since 1986, when the Philippines held democratic elections, PBSP has partnered with government in a wide range of programmes built on the experiences of its work during crisis periods. A number of other business-led coalitions have now been established to complement or publicly support government or governmental processes. They include:

- **Corporate Network for Disaster Response (CNDR)** – A coalition of business and corporate foundations set up in 1990 in response to the earthquake and 1991 Mount Pinatubo eruption. Today this is an institutional mechanism for dealing with natural and man-made disasters.
- **National Citizens Movement for Free Elections (NAMFREL)** – A coalition of business and other organisations created in 1984 to promote and monitor fair elections.

Adapted from a paper by Mike Luz, Asian Institute of Management and former Director of Philippine Business for Social Progress.

9. Rebuilding trust

Social capital is not just the sum of the institutions that underpin a society – it is the glue that holds them together.

What is Social Capital? The World Bank

One of the greatest ‘costs of conflict’ is the loss of social capital in a society and economy. In essence, the concept of social capital refers to the interpersonal relationships and the formal and informal networks and associations that help to build mutual trust, common purpose and a sense of community. These networks and associations link people together in a social compact that makes society more than the sum of its individual parts. In periods of conflict it is almost inevitable that these linkages are badly damaged or break down altogether, with individuals and communities focused on their own survival often at the expense of others.

Robert Putnam at Harvard University, who undertook much of the initial ground-breaking work on social capital, argues that there is a strong causal relationship between the existence of civic community and the attainment of good governance and sustained socio-economic development. Putnam describes a civic community as one that is characterised by:

- active participation in public affairs;
- equal rights and obligations for all;
- solidarity, trust and tolerance; and a
- a set of norms and values that are in turn embodied in, and reinforced by, distinctive social structures and practices of co-operation.

In looking at social capital it is useful to consider the role of both horizontal, voluntary associations and more formalised vertical associations. Together these help to forge ties within and across communities. The World Bank ⁽³⁶⁾ argues that, ‘horizontal ties are needed to give communities a sense of identity and common purpose, but without ‘bridging’ ties that transcend various social divides (e.g. religion, ethnicity, socio-economic status), horizontal ties can become a basis for the pursuit of narrow interests...’ Formalised institutional structures such as government, the rule of law and civil and political liberties play a critical role in serving as these ‘bridging ties’. The World Bank identifies seven key sources of social capital. These are: families; communities; firms; civil society; the public sector; ethnicity; and gender.

The private sector can play an important role in either undermining social capital or in helping to build and rebuild it. Some of the practical ways in which business can play a positive role are as follows:

- Engaging in repeated **business transactions and contract agreements**, which can help to augment stocks of social capital and over time lead to increased levels of trust. The example of PeaceWorks on the page opposite illustrates this point.
- **Building trust in the workplace** through proactive policies and programmes on ethnic diversity and interdependence between different groups that are, or have been, in conflict. This is illustrated by the example of the Counteract and Future Ways programme in Ireland.
- Carrying out **cause-related marketing programmes** that encourage increased ethnic tolerance and understanding of different perspectives in society. US-based Timberland and Italian-based Benetton are two companies that have carried out such campaigns. Benetton’s campaign was implemented in partnership with the United Nations High Commission on Refugees and emphasised the need to respect the human dignity of refugees despite their tragic circumstances.
- Supporting the establishment, re-establishment or strengthening of **institutional structures** and associations in conflict sensitive or post-conflict societies. For

example, ensuring that there are active business coalitions working together to pursue both direct business interests and wider societal goals, such as Guatemala's Industries for Peace Initiative, the National Business Initiative in South Africa and Philippine Business for Social Progress. Another example is companies supporting reform in state security and judicial systems, by influencing change, providing management expertise, or supporting training programmes. An example of this is an innovative partnership between the Norwegian oil company Statoil, Amnesty International and the United Nations Development Programme in Venezuela. Statoil is providing funds for the two humanitarian agencies to train Venezuelan judges in observing international law on human rights. According to Staffan Riben, President of Statoil Venezuela, "We can't stand passively by when these rights are breached or international law is ignored in countries where we have operations."

- Publicly supporting an active and robust **civil society and free media**, through influencing policy and providing practical support for civil society organisations through social investment programmes that offer funding, product donations and management expertise.

BUILDING TRUST THROUGH BUSINESS VENTURES: PeaceWorks

PeaceWorks brings together divided rivals like the Arabs and Israelis in viable enterprises that also lay the practical groundwork for reconciliation... In our world, business is the driving force for change – whether for good or bad, the profit incentive fuels today's society. That gives the business community an enormous power; but also, arguably, a duty to use the magic of market forces to heal broken communities...

Give Profit a Chance, Newsweek, January 31st 2000

PeaceWorks is a U.S. corporation whose goals are to maximise economic returns while promoting co-operation in regions of conflict around the world. It does this through establishing joint business ventures among people of different, often conflicting backgrounds, under conditions where such a union would normally be impossible. From such ventures the company sources gourmet food products and other high-quality goods for retail to its consumers in the United States.

Since its establishment in 1994, the company has developed international distribution networks across eight food sectors, working with over 50 distributors and reaching over 5,000 food outlets. Examples include:

- **Moshe & Ali's Sprat's** – an award winning line of Mediterranean and Middle Eastern spreads, made in an Israeli factory that purchases its raw materials and packaging from its Arab neighbours;
- **Azteca Trading Co.** – a line of salsas and exotic spreads which is manufactured with raw materials sourced from indigenous farming co-operatives, which include seven previously rival tribes, in the war-torn Mexican state of Chiapas;
- **Wafa** – a premium hazelnut chocolate bar that is produced by Arabs and Israelis in a co-operative venture in Israel. 10% of the price of each bar sold is donated by PeaceWorks to an NGO called Seeds of Peace. This NGO brings together young people from conflict-ridden regions, such as Bosnia, Palestine and Israel, to study conflict resolution and co-existence.

In May 2000, PeaceWorks entered into partnership with the United Nations Office for Project Services (UNOPS), the World Bank's Post-Conflict Unit, Guatemala's Industries for Peace (INDUPAZ) network and AGREXPRONT, an association of exporters, to build new businesses between former adversaries in Guatemala.

PeaceWorks' theory of fostering business collaboration between former adversaries and people of different backgrounds operates on three levels:

- At the personal level, as people interact on a daily basis, cultural stereotypes will be shattered and individuals will realise the benefits of working together;
- At the business level, as companies operate and profit together, they will gain a vested interest in preserving and cementing these prosperous relationships; and
- Finally, as the region develops economically, people and governments will be encouraged to continue their efforts towards co-existence.

Daniel Lubetzky, the founder and president of Peaceworks, sums up his business as follows, "If enough people have an economic stake in co-operation and there are enough examples of such ventures, then a critical mass will be reached that can be the guardian of peace."

BUILDING TRUST IN THE WORKPLACE: Counteract and Future Ways

The workplace in Northern Ireland is one of the few places where people meet together. Other spaces such as the family, neighbourhood, school, church and leisure facilities tend to be deeply segregated. The workplace has therefore at times been the place of deepest silence, but also a place of great potential to model the benefits of transforming conflict – both in terms of meeting business goals and in terms of investing in social capital.

Future Ways and Counteract

A key challenge for companies operating in conflict zones or areas of post-conflict is how to use the working environment to build trust and to celebrate diversity and interdependence between the different ethnic or religious groups that have been at the heart of the conflict. The experience of Northern Ireland offers a variety of examples on how companies are attempting to achieve this.

One example that involves a range of companies is the work being undertaken by Counteract and Future Ways. These are two non-governmental organisations that have come from different histories, but have begun working with each other to move the concept and practice of trust-building from the periphery to the mainstream of organisational life. They are working with a variety of businesses, voluntary and public sector organisations in this process.

The programme directors argue that, ‘ultimately flawed relationships and mistrust affect overall business results. However, many of these costs have been silently factored in by business over the last thirty years.’ The two organisations have adopted different approaches with companies to help them start investing in equity, diversity and interdependence in their offices and factories. These approaches include:

- **Training activities, consultations and advisory services;**
- **Research programme and surveys –** the Future Ways programme has recently completed a detailed analysis and series of case studies on how different organisations, including companies, have developed practical approaches to moving from ‘partisan’ cultures to more ‘neutral’ and ‘diverse’ cultures;

- **The development of the Equity, Diversity and Interdependence (EDI) standard.** This has been developed as a quality tool designed to support companies and other organisations to mainstream the principles of fairness, diversity and mutuality into the workplace. The team who have developed the standard explain that, ‘it is based on three inextricably linked principles that we believe form a negotiated process for peace-building. The search for equity and fairness is the underpinning of any democratic society. At the same time we are different. Recognising and valuing our differences as individuals and as members of different ethnic, political or religious groups is the mark of a civil society. However, equality approaches are likely to fail and the affirmation of diversity is likely to ‘ghettoise’ unless our interdependence with one another is acknowledged. We are shaped by our relationships and our potential as human beings and as a society are dependent on the breadth and depth of these relationships and networks, in the workplace and elsewhere.’

BUILDING TRUST THROUGH REGIONAL DEVELOPMENT: The Peres Center for Peace

In 1997, Nobel Laureate Shimon Peres founded the Peres Center for Peace. This is a non-partisan and non-profit organisation with a mission to contribute to building an infrastructure for peace in the Middle East that promotes socio-economic development, co-operation and mutual understanding. It is funded from private contributions, corporate sponsorships, foundations and international governmental donations, together with money generated through project activities. The center carries out co-operative Palestinian-Israeli projects and regional initiatives in areas ranging from economics and technology to agriculture, to health, youth, education and culture and the media.

Its activities in these areas range from dialogues, networking, training and capacity building events, to the facilitation of international investment, creation of equity funds and implementation of multi-million dollar regional development initiatives. The center is working in partnership with over 100 regional and international entities, including business, to implement these activities. The private sector not only provides core funding to the center, but also acts as a project partner in a number of major programmes. Four of the center's current programmes that directly involve companies are profiled below. All of them bring together Palestinian and Israeli business leaders, sometimes with business people from other countries and other key actors in the peace transition process. The center has gained international recognition for its efforts to 'privatise peace' by bringing business and other non-governmental actors to the core of the peace building process.

The Peace Technology Fund

This fund is a prime example of the Peres Center's efforts to "privatise peace". It was launched in 1998 with initial capital of \$60 million (comprised equally of Palestinian, Israeli and International funds) with the goal of making equity investments in private sector companies in the West Bank and Gaza. The fund will make minority investments in Palestinian companies in a wide range of industries, agro-business and services, with an emphasis on joint ventures with Israeli and international companies. Managed by the IFC, Evergreen Canada Israel Investments. Ltd. and Capital Investment Corporation, the Fund aims at building lasting business links between Palestinian and Israeli companies, while promoting economic development in the West Bank and Gaza. The Peres Center serves as a consultant to the fund, holds a seat on the advisory board and is actively involved in the Fund's operations and policies.

Peace Infotech

The Peres Center created the Peace Infotech programme to promote intensive research and development, the establishment of Israeli-Palestinian joint ventures, and demand-driven training programmes in the area of information technology. The initiative comprises a growing network of corporate partners including Visuality Systems, Hewlett Packard, Matot Multimedia, Beyond 2000, Sapiens and the Gartner Group. The initial stages of the programme were funded by the Canadian government and focused on cultivating private sector interest in its activities. A Memorandum of Understanding has recently been signed between

the Belgian high-tech company Lernout & Hauspie (L&H) and the Peres Center to jointly develop the second stage of the programme. L&H have pledged a major investment to be matched by an equal investment raised from other sources by the Peres Center.

The Palestinian-Israeli Business Development Group

Together with leading Palestinian and Israeli private sector partners, the Peres Center is working towards the creation of an action-oriented forum designed to set new trends in Palestinian and Israeli business relationships. Guided by a core group of senior Palestinian and Israeli executives from leading companies, the BDG will design practical solutions towards overcoming current business challenges relevant to each of the various business sectors. Maintaining a parallel dialogue with Palestinian and Israeli decision-makers, the BDG aims to provide an important and necessary interface between business leaders, political decision-makers and experts.

The Transition to Peace initiative

In 1999, the Peres Center and the World Economic Forum (WEF) initiated the "Transition to Peace Initiative" – an inter-regional peace building programme, focused on the Middle East, South Africa, Northern Ireland and Bosnia. It operates through the network of the WEF's Global Leaders of Tomorrow programme, and under the patronage of prominent peacemakers such as Shimon Peres, Archbishop Desmond Tutu and Senator George Mitchell. The programme is focusing on issues such as economics and human resource development. Its goal is to undertake a multi-regional "case study" of peace in transition, while providing innovative, practical support to projects 'on-the-ground'.

10. Establishing cross-sector dialogue and partnerships

Across the world, huge companies that once shrugged off the United Nations as a worthy, if often ineffectually bureaucratic, do-good agency are now viewing it as a valuable partner. And the United Nations, for a change, is not only welcoming their help but seeking it out.

New York Times, December 10th 1999

New social partnerships are not a panacea. Nor are they easy. Even when they have the potential to solve a particular societal problem they often fail. Establishing and sustaining a mutually beneficial partnership is rarely simple, especially with non-traditional allies.

Partnership Alchemy, The Copenhagen Centre, 2000

In the vast majority of conflict situations the business community has neither the skills, nor the resources or mandate to act alone. One of the most important actions that the private sector can take in such situations is to explore the potential for working together with other sectors, both government and civil society. 'Working together' can take a variety of forms. These include: engaging in regular two-way dialogue and consultation; entering into joint commercial arrangements; or establishing partnerships with a wider societal objective. The latter may have the purpose of:

- jointly influencing public policy at local, national or international levels;
- mobilising resources (financial, managerial and material) for joint programme or project implementation;
- developing better understanding and building trust between different organisations and sectors.

Anecdotal evidence, supported by a small but growing body of empirical research, suggests that such partnerships can provide added value to both their participants and society-at-large. Having said this, many of them face substantial practical and strategic challenges. These range from bridging diversity in terms of the participants' different objectives, operating processes and time-scales, to issues such as addressing power imbalances, assessing the value-added of such partnerships and responding to concerns about representation and legitimacy.⁽³⁷⁾

In building such partnerships a key management challenge for business is to invest in capacity building for its employees, at both head-office level and in the field, to enable them to develop:

- Better knowledge of other sectors and the benefits of cross-sector working; and
- The necessary stakeholder consultation and partnership building skills to make it happen.

This type of learning is often best achieved on an experiential basis, through actually engaging in cross-sector dialogue, project visits and partnerships.

Despite the challenges of working across traditional sector boundaries, both governmental agencies and civil society organisations are recognising the potential for increased dialogue and partnership with the private sector. Over the past five years there has been a dramatic growth in this area. For example:

10.1 Civil society organisations

Non-governmental groups, ranging from human rights and environmental organisations to church groups and research institutes, are engaging with business in a more pro-active manner to address issues of conflict. In some cases the dialogue or partnership revolves around improving business practices in areas such as human rights and corruption. Examples of this would include the Fund for Peace, profiled on page

123, the corporate engagement programme of Amnesty International UK, profiled on page 136, and the dialogue between BP and the Inter-Agency Group, summarised on page 135. In other cases, the purpose of coming together is to jointly influence policy reform or carry out joint projects. The Partnership for Quality Medical Donations, profiled on page 109, is one example. The International Federation of Red Cross and Red Crescent Societies, is another example which has made a strategic commitment to work in partnership with business to meet its core objectives of: disaster preparedness and response; health care; and the promotion of humanitarian principles and values. It is working with a variety of companies including IBM and Ericsson profiled on page 108. In almost all cases of business-NGO partnerships or dialogues, a key goal is to improve mutual understanding and trust.

10.2 Donor governments and intergovernmental agencies

Bilateral and multilateral development agencies are facing growing budget and resource constraints at the same time as they face growing urgency and complexity in tackling international development, conflict prevention and resolution. Over the past five years they have recognised the vital importance of harnessing the skills, resources and networks of the business sector, not only to leverage extra funds, but also to apply different and more integrated approaches to solving complex problems. For example:

- The World Bank's *Comprehensive Development Framework*, written by the Bank's President James Wolfensohn in 1998, places partnership between governments, intergovernmental agencies, NGOs and the private sector at its heart. Although focused on development in general rather than conflict specifically, this framework provides a useful guide for areas of potential partnership. The Bank has also established a number of new initiatives aimed at working with the private sector on specific development and conflict resolution issues. Two of these are profiled on page 124.
- In 1999, the United Nations Secretary General, Kofi Annan, launched *The Global Compact*. This calls for the private sector to play a more pro-active role at both the policy and practical level in addressing issues related to human rights, labour and the environment, all of which underpin the existence or prevention of conflict. In July 2000, representatives from leading companies, NGOs, labour organisations and UN agencies met with Kofi Annan to confirm their support for and engagement in this initiative.

THE UN GLOBAL COMPACT

The Global Compact asks the private sector to embrace, support and enact a set of core values within their sphere of influence in the areas of labour standards, human rights and environment practices. This can be done through individual corporations and business associations.

Human Rights

- Businesses should support and respect the protection of internationally proclaimed human rights; and
- make sure they are not complicit in human rights abuses.

Labour

- Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- the elimination of all forms of forced and compulsory labour;
- the effective abolition of child labour; and

- eliminate discrimination in respect of employment and occupation.

Environment

- Businesses should support a precautionary approach to environmental challenges;
- undertake initiatives to promote greater environmental responsibility; and
- encourage the development and diffusion of environmentally friendly technologies.

Businesses can make the Global Compact work by: taking a lead in corporate citizenship; embracing and enacting the nine principles; working with UN agencies; and advocating for a strong UN.

www.globalcompact.org

- Individual UN agencies, such as the United Nations High Commission for Refugees (UNHCR), the United Nations Development Programme (UNDP), the World Health Organisation (WHO), the United Nations Children Fund (UNICEF), the United Nations Environment Programme (UNEP), the International Labour Organisation (ILO), the United Nations Office for Project Services (UNOPS) and the United Nations High Commission for Human Rights (UNHCHR) are entering into new types of dialogue and partnership with the private sector to address a variety of issues linked to conflict prevention and resolution. UNHCR, for example, is working with companies to: achieve increased efficiency in its operations (for example Microsoft on page 108); improve the quality of goods and services delivered in the construction and management of refugee camps (for example partnerships with Glaxo Wellcome to fund health centres in Rwanda and Unocal to build refugee shelters in Azerbaijan); raise awareness of refugee problems (for example the Benetton advertising campaign on page 116); and to support reintegration and livelihood opportunities for refugees in post-conflict regions. During 2000 UNOPS also established a variety of new business partnerships with a direct focus on conflict prevention and resolution, over and above the wide range of contractual relationships it already has with the private sector. These include: establishment of a business advisory council and public-private partnerships to build small enterprises and support de-mining programmes in countries such as Guatemala (page 117) and Mozambique (page 106).
- National governments are also recognising the potential of developing new types of partnership between relevant government departments and the business community. In the case of OECD governments, new alliances are forming between their departments of development, foreign affairs, and commerce, and companies that are headquartered in their country, which have investments and business interests in emerging markets. Brief summaries of some of the initiatives being undertaken by the British, United States and Norwegian governments are profiled on page 125. There is enormous potential for the establishment of national-level alliances between government, business and civil society in post-conflict countries. Existing efforts at national cross-sector partnerships in countries such as South Africa (page 112), Guatemala (page 68) and Mozambique, offer useful lessons. One of the proposals for the *Global Compact* is to establish such cross-sector partnerships in developing countries, especially those in conflict or post-conflict situations, using the convening power of the United Nations in co-operation with national and international business organisations.
- Proposals have also been made for the establishment of a *Global Peace Transitions Council*, consisting of experienced and internationally respected representatives from intergovernmental organisations, civil society and the private sector. ⁽³⁸⁾ The aim of such a council would be to offer more holistic and integrated approaches to some of the inter-disciplinary issues associated with peace-building and to share guidelines, good practices and lessons on an international level.

CROSS-SECTOR DIALOGUES FOCUSED ON PEACE BUILDING

There is common ground to build on. Governments, business and humanitarians share a goal: meeting the needs of people, whether we look at them as citizens, as shareholders and customers, or as victims of war and persecution. Businesses could offer more concrete opportunities to people suffering from exclusion, by supporting education projects and providing training and especially job opportunities. Business in many countries, far from being party to unacceptable behaviour, could play a positive role in inducing governments to improve human rights standards.

Sadako Ogata, UN High Commissioner for Refugees, International Herald Tribune, November 25th 1999

The Business-Humanitarian Forum

Established in 1999, the Business-Humanitarian Forum brings together international business leaders and heads of humanitarian agencies from both governmental and non-governmental organisations, ranging from the International Committee of the Red Cross to the United Nations High Commission for Refugees. The Forum aims to improve the relationship and communication between these two groups and to dramatically increase the support that each gives to the other. Its ultimate goal is to increase cross-sector co-operation in order to foster the development of stable, prosperous and democratic societies in areas of real or potential crisis or conflict. To-date the BHF has convened several meetings in the USA and Europe, where case studies have been shared of both positive and negative experiences between companies and humanitarian agencies. A privately sponsored, non-profit organisation has now been established in Geneva to take this initial work forward. John Maresca, founder and President of the Forum, explains, “the Forum’s basic thesis is that business investors in potentially unstable countries have a direct interest in the work of humanitarian organisations in these areas. These organisations help to stabilise crisis-torn countries so that investment becomes possible. At the same time, they receive considerable support from business in the form of voluntary grants and donations”.

The Fund for Peace

The Fund for Peace, Foreign Policy Roundtable brings together corporate and human rights representatives for a sustained dialogue on how to achieve common goals. Established in Washington DC in 1998, the FPR was initially supported by 7 companies and 13 human rights NGOs. Initial discussions identified two key themes and areas of agreement: promotion of the rule of law world-wide and support for open societies. From the outset the FPR operated under a ‘set of ground rules’: that all discussions would be off the record, that all participants would be from the two constituencies without government representatives as permanent members, and that everyone participated in his/her personal capacity without necessarily committing their organisations. This created face-to-face dialogue and built personal relationships and trust among the participants over time. In the first year, the group met every month for one day. Among the most noteworthy achievements is that good personal relationships were established – a network of contacts that penetrated into corporations and human rights

NGOs in ways not possible in the past. Also, stereotypes from either side were demolished, as participants from both constituencies learned how the others worked. Both sectors also discovered they have in common a ‘penchant for action,’ which led to the creation of working groups in the second year. Additional companies have also joined (now 10, with 6 interested, and approximately 20 NGOs/experts). Into the second year, the working groups have focused on corruption, Nigeria, Indonesia and joint advocacy. They are also working on a set of joint principles and a management primer on ‘How to Partner’. These working groups meet on their own schedule, while the plenary group meets for a half day every other month.

The British-Angola Forum

Founded in 1998, the British-Angola Forum brings together companies, other organisations and individuals concerned with affairs in Angola. It aims to become a centre of excellence for quality debate, information, and research on Angola and to provide its members with an opportunity to share knowledge and build relationships across the social, cultural, political and commercial spectrum. It is a non-profit, apolitical and independent forum run under the auspices of the Royal Institute for International Affairs (Chatham House). The development of the Forum’s programme is overseen by George Joffe, Director of Studies at Chatham House and Alex Vines, a Director of the NGO Human Rights Watch, who is a leading advocate on human rights issues, especially in Africa, and the role of business in addressing these issues. The initial phase of work has been focused on the development of a lecture series. This has covered a range of issues relating specifically to human rights, conflict and the role of private investors in Angola. Future plans for the Forum include corporate briefings, establishment of a web page, including translations into Portuguese and the establishment of a research and publications programme. In its first year of operation, the forum has already helped to provide a ‘neutral space’ for participating companies to meet with human rights activists, politicians, journalists and academics who have differing views on the role that foreign investment and specific companies are playing in Angola’s current state of conflict. The Forum is supported by companies that represent some of the major investors in Angola and currently include: BP; British Aerospace, Chevron, De La Rue, De Beers, HSBC Equator Bank, Ranger Oil, and Odebrecht Oil and Gas Services.

THE WORLD BANK: The Post-Conflict Unit and Business Partners for Development

Over the last five years the World Bank has made strategic policy changes that have major relevance for the role of business in development and in conflict prevention and resolution. Three trends of particular relevance have been:

- Outreach to, and increasing institutionalisation of, relationships with the private and NGO sectors;
- Increased commitment to address corruption as a major factor undermining development;
- Increased focus on playing a more proactive role in post-conflict reconstruction and reconciliation activities.

The following vignettes focus on two specific initiatives that illustrate the World Bank's new direction in these areas:

1. The Post-Conflict Unit

In 1997, the World Bank issued *A Framework for World Bank Involvement in Post-Conflict Reconstruction*. Endorsed by the Executive Directors, this framework has formed the basis for the Bank's increasingly pro-active approach in addressing the causes and consequences of violent conflict. Some of the actions taken by the Bank between 1998 and 2000 include the following:

- Establishment of a Post-Conflict Unit within the bank's social development department. The aim of this unit is to serve as a centre of expertise and to build coalitions both within the World Bank and between the Bank and other bilateral and multilateral agencies, civil society and the private sector in the areas of conflict prevention and post-conflict reconstruction. It plays a key role in all the following initiatives.
- Implementation of a new operational policy on *Development Assistance and Conflict*. This policy outlines the Bank's role in three areas. Firstly, integrating a sensitivity to conflict in the Bank's development assistance to all member countries – for example promoting economic growth and poverty reduction in a manner that also promotes social cohesion and minimises potential causes of conflict. Secondly, Bank engagement in areas currently affected by conflict and thirdly, the provision of transitional support in areas emerging from conflict.
- Creation of a Post-Conflict Fund. This fund makes grants ranging from US\$25,000 to US\$ 1 million to governments, NGOs, academic institutions and international agencies that are carrying out innovative initiatives aimed at creating local conditions for sustainable peace and economic growth.
- Evaluation of the Multilateral Insurance Guarantee Agency (MIGA) programme to provide political risk insurance aimed at increasing private sector investment in post-conflict regions.
- Development of a set of instruments aimed at improving conflict analysis and impact indicators.
- Support for research, workshops and dialogues on the potential of cross-sector partnerships and the role of the private sector in post-conflict reconstruction.

One research project of particular relevance to business is on, 'The Economics of Civil Wars, Crime and Violence'. This aims to identify and analyse the economic causes and consequences of civil wars, crime and violence and to make policy recommendations for tackling these.

2. Business Partners for Development (BPD)

BPD is a programme designed to study, support and promote the creative involvement of business as partners alongside governments and civil society for the development of communities around the world. Its objective is to produce solid evidence of how the dynamics of tri-sector partnership can yield mutual benefits to generate both business benefits and development impact.

The initiative is an informal network of over 130 private companies, central and municipal governments, non-governmental organisations and donor agencies. It is structured around four sector or thematic clusters, each with a variety of focus projects, drawn from 20 different countries. A Knowledge Resource Group is responsible for pulling together and disseminating the lessons learned on tri-sector partnerships. The latter group is co-managed by The Prince of Wales Business Leaders Forum and Civicus, an umbrella organisation for civil society actors around the world. The clusters are as follows:

- **Natural resources cluster**, focused on the role of the oil, gas and mining sectors and co-convened by BP, WMC Resources, CARE International and the World Bank Group (WBG);
- **Water and sanitation cluster**, focused on the delivery of affordable services to poor urban communities and co-convened by WaterAid, Generale des Eaux and the WBG;
- **Global Partnership for Youth Development**, co-convened by the International Youth Foundation, Kellogg and the WBG;
- **Global Road Safety Partnership**, co-convened by the Red Cross and Red Crescent Societies and the WBG.

The first three clusters all have some relevance for the role of business in the prevention or resolution of conflict, given that development of natural resources, access to basic services, infrastructure development and the existence of groups of disadvantaged and disaffected youth are all potential sources of violent conflict.

Some examples of projects being studied by the BPD programme in conflict sensitive regions are as follows:

- BP's programme 'Working for Casanare' in Colombia;
- Hydro Conseil's investment in restructuring the public water service in the shanty towns of Port-Au-Prince in Haiti;
- Rio Tinto's closure of the Kelian gold mine in Indonesia;
- Vivendi and Mvula Trust's management of water services in peri-urban areas in South Africa;
- Ayala Corporation's programme to enhance economic and social opportunities for out-of-school youth in the Philippines.

DONOR GOVERNMENTS WORKING WITH BUSINESS: The UK, USA and Norway

In recent years a number of OECD governments have started to work more proactively with leading multinational companies headquartered in their countries to address the challenges of poverty eradication and conflict prevention in emerging markets.

The British Government

In the UK various government departments, such as the Foreign and Commonwealth Office (FCO), the Department for International Development (DFID) and the Department of Trade and Industry (DTI) have launched initiatives to work with British companies on issues of global corporate responsibility, public-private partnership, poverty elimination, human rights and conflict prevention and resolution. For example:

- In 1997, DFID established the **Business Partnership Unit** to work with companies in the UK and developing countries with the aim of providing information, guidance and challenge funding for partnerships between business and other sectors aimed at eliminating poverty.
- In 1997 it helped to establish the **Ethical Trading Initiative**, bringing together companies, NGOs and trade unions.
- In 1998 the Foreign and Commonwealth Office established the **Global Citizenship Unit**, with the goal of drawing the Foreign Office into the growing debate on responsible business issues and to provide interested companies with advice on how best to operate responsibly in third countries.
- In 1998, the FCO set up the **Human Rights Project Fund**. This provides grants to UK-based and local NGOs, international agencies, media and academic institutions in a number of priority areas. It also encourages partnerships and joint funding with other agencies and the private sector. In 1999, for example, the HRPF and Shell Pakistan jointly funded the Human Rights Education Programme (HREP) in Pakistan.
- In 1999, DFID funded the establishment of a **Resource Centre for the Social Dimensions of Business Practice**, with the aim of providing analysis and action research on the links between business and poverty eradication. The centre was initially established by a consortium of 9 development NGOs, consultants and academic institutes, managed by The Prince of Wales Business Leaders Forum.
- DFID's **Conflict and Humanitarian Affairs Department** is currently developing a strategy to work with business on conflict prevention and resolution.
- In May 2000, DFID and the FCO jointly hosted an **international conference on 'Business and Peace'** in partnership with The Prince of Wales Business Leaders Forum, Council on Economic Priorities and International Alert, bringing together over 100 practitioners in business, government and civil society from over 10 countries.

The United States Government

The U.S. Government increasingly recognises the importance of working with U.S. companies abroad to develop innovative approaches to conflict prevention and resolution. For example:

- USAID's **Office of Transition Initiatives** is building partnerships on the ground with U.S. and local companies in post-conflict situations in several countries. Examples have included: dialogue with

international mining companies on the diamond trade in Sierra Leone; work with local companies in Kosovo to help revitalise a major brick-making factory and meet local demand for home construction and rehabilitation; facilitation of workshops with business, government and civil society in Nigeria to address issues of corruption and conflict resolution; and a programme with local businesses in Guatemala to re-train former guerrilla combatants.

- The **State Department** is actively developing an initiative to work with U.S. oil companies together with non-governmental organisations to address human rights and governance issues in countries such as Nigeria, Colombia and Indonesia. Among the near term objectives of the initiative is working with companies to ensure that their security arrangements with state security forces and private security companies are undertaken in ways that minimise the risk of human rights abuses while taking into account companies' legitimate security needs.

The Norwegian Government

The Norwegian and other continental European governments are also starting to develop new linkages between the public and private sector in the areas of international development, humanitarian relief and human rights. Examples in Norway include:

- In December 1997, the Norwegian government established **KOMPakt – 'The Consultative Body for Human Rights and Norwegian Economic Involvement Abroad'**. Its purpose is to contribute towards debate and practical activities in the interface between Norway's global economic involvement and human rights. The body includes representatives from over 15 Norwegian business associations, trade unions, non-governmental organisations, academic institutes and representatives of the Ministries of Foreign Affairs; Trade and Industry; Petroleum and Energy; and Development Co-operation (NORAD). KOMPakt meets in 5-6 plenary sessions a year, holds seminars on topical issues and has three permanent working groups looking at policy and practical issues relating to business and human rights. One of the practical outcomes has been the production of a checklist on human rights for business and industry produced by NHO, the Norwegian Confederation of Business and Industry. This identifies 12 of the key articles in the Universal Declaration on Human Rights that have relevance to business and then provides comprehensive business checklists for each of these articles.
- The Ministry of Foreign Affairs and Trade Council have also worked together to establish **NOREPS – The Norwegian Emergency Preparedness System**, which works with about 20 Norwegian companies and NGO partners to provide relief products and services, as well as personnel to disaster relief areas. Preparedness stocks comprising relief items and lifesaving equipment have been established both in Norway and in disaster-prone areas to ensure that supplies can be airborne in less than 24 hours. Teams of workers are also prepared to take part in relief operations within 72 hours.

11. Ensuring accountability

As we look to the next five years ... there is every indication that we are moving squarely into an age of accountability in which the full spectrum of a company's activities and relationships is likely to be increasingly monitored and questioned by stakeholders.

Engaging Stakeholders, Sustainability and UNEP, 1996

A management challenge that relates to all of the others is the growing pressure on companies to be more accountable, on more issues, to more stakeholders, in more locations than ever before. Companies operating in politically sensitive and conflict-ridden locations are often under greater pressure than most to be more accountable, even though the enabling framework needed to ensure genuine accountability is usually missing or inadequate in such locations.

As defined in Part 2, corporate accountability has two main components:

- The ability and willingness of the company to understand, manage, measure and verify its positive and negative social, economic and environmental impacts everywhere it operates; and
- The ability and willingness of the company to report on these verified impacts and engage in two-way dialogue about them, with a growing variety and number of stakeholders, ranging from shareholders to local communities.

In practice, almost every word in the above definition is loaded with practical management challenges. In the typical multinational company there are hundreds of locations, where thousands of employees, contractors and other business partners, are carrying out millions of different tasks and interacting with a vast array of stakeholders every day. The challenge of ensuring that all these people understand the company's values, policies and operating guidelines, let alone have the necessary skills to adhere to and account for them, should not be underestimated.

Some of the practical challenges associated with ensuring corporate accountability are outlined below. Several of these are especially pronounced in situations of conflict.

11.1 What to account for and how to measure it

What are the key activities that a company operating in a politically sensitive or conflict-ridden situation should account for? Related to this, what are the specific indicators and measurements it should use to most accurately reflect these activities and impacts?

Ideally a company should be able to account for and measure the conflict-related impacts and risks associated with its:

- core business activities;
- social investment and philanthropy programmes; and
- any public policy dialogues or government interactions that it is involved in.

These impacts and risks may be economic, social, environmental or political in nature and may be quantifiable or intangible, objective or subjective. They will be different for different types and sizes of company and for different local conditions and causes of conflict. Identifying the most appropriate impacts and risks and then deciding on indicators for each is far from easy.

Take the seemingly simple issue of measuring the impacts of philanthropy or community investment, for example. An obvious indicator to consider would be the amount of money that a company has spent on its community investment programmes in a particular location. It would be reasonable to assume that more corporate money allocated to such programmes is better for local communities than

less. This is not necessarily so. A number of companies have discovered to their cost that large infusions of money into poor communities can sometimes lead to more tensions and conflict rather than help to solve problems. This can be due to a variety of factors including the following:

- Is the company 'throwing money' at a project that the community does not need or want and failing to undertake appropriate consultation to discover this beforehand?
- Even if the company does undertake consultation, there may be different opinions within the community on what the money should be used for. Whose opinions are the most valid? Is there a danger of the company responding to the more vociferous, aggressive, articulate or powerful groups of individuals to the detriment of others?
- How high is the likelihood that criminal elements in the community or rebel factions will gain access to social investment funds and use them in ways that exacerbate violence rather than solve it?
- Is there a temptation for the company to put funding into 'bricks and mortar' projects that are easier to measure and 'take photographs of' vs. what may be more valuable investments in activities such as management capacity and institution building that have intangible outcomes?
- Even if the company addresses all of the above issues, there is the added challenge of 'unintended consequences'. How are these monitored and measured?
- What about the longer-term impacts of a particular social investment? How long is the company responsible for sustaining a project, such as a school or hospital, for example?

In short, a summary of how much money a company has put into local communities is a useful, but often insufficient measure, to fully understand and account for the impact of this social contribution.

Similar complexities arise when looking at how a company measures and accounts for its security arrangements, its local recruitment policies, its sourcing and distribution activities and so on. In each case, however, the exercise of looking at possible risks and impacts and reviewing possible indicators for measurement helps to improve the company's understanding of its role in conflict prevention and resolution. It is also useful for the company to distinguish between inputs, outputs and impacts when looking at each of the above areas.

Another key question is how does the company combine anecdotes, stories and examples of process, with facts, figures and 'hard statistics' in assessing and accounting for corporate impacts? A company's social and political impacts, which are especially important in conflict situations, are often difficult to quantify – certainly more so than environmental or economic impacts. Linked to this, process issues, such as the quality of community participation in a company's social investment programmes, or the effectiveness of internal management procedures, are often as important as tangible outcomes. To capture these non-quantifiable or non-tangible issues, anecdotal evidence can be a useful adjunct to quantified information.

The companies that are playing a pioneering role in developing systems to increase their accountability and external reporting are beginning to develop a range of input/output and process indicators to help capture these complexities and to provide a framework for measurement and benchmarking. The box on page 71 summarises Shell's current efforts to develop such indicators.

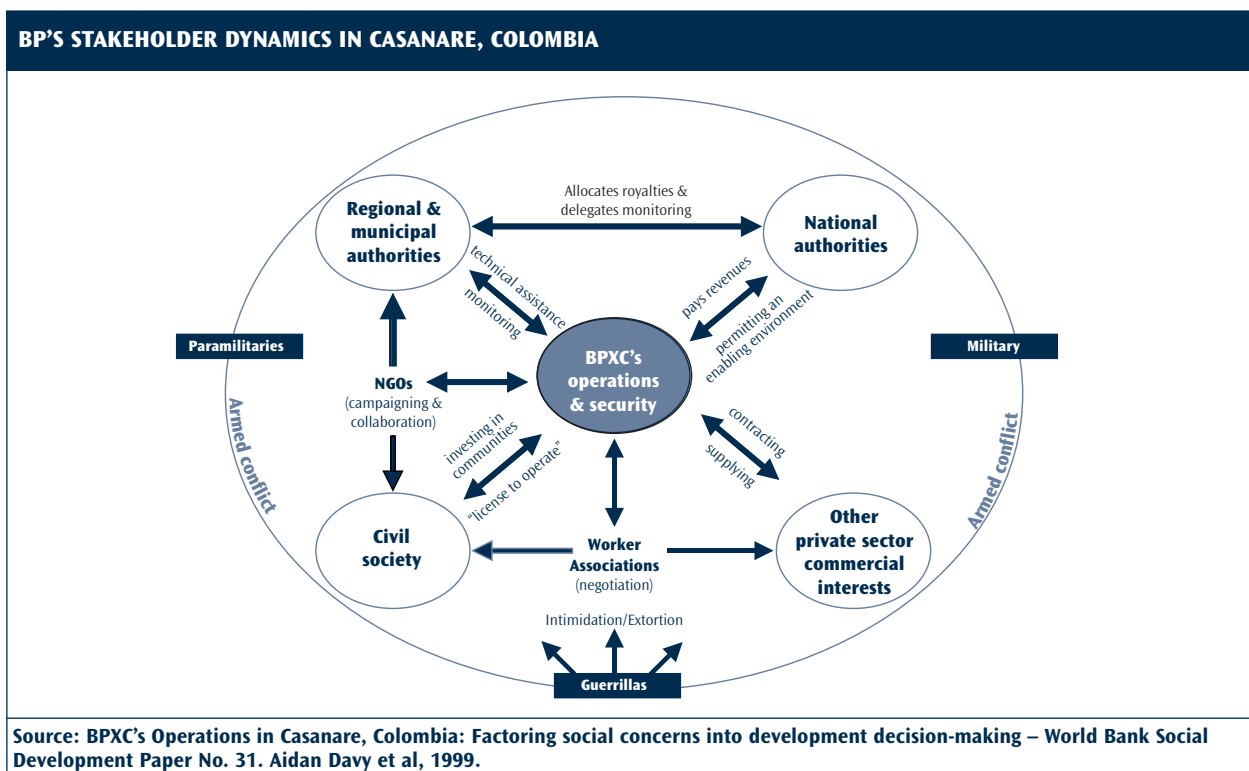
11.2 Who to consult with and report to

Who are the stakeholders that the company should consult with in the process of measuring its impacts and who are those it should report to afterwards? Are there dangers in sharing information on local communities with other actors in regions of conflict?

The process of stakeholder consultation is more complex, sensitive and risk-laden in conflict situations compared to more stable environments. Companies need to do in-depth stakeholder analysis in order to gain a clear understanding of the power and capacity of key local, regional, national and international actors. They also need to understand how these different actors affect, and are affected by, both the conflict and their own operations.

In countries where there is an ongoing armed conflict stakeholder engagement practices that are standard or indeed progressive ways of doing business under peaceful conditions, can become sensitive issues or have unforeseen consequences. Working in an armed conflict environment, public consultation with communities, although essential, might generate security risks for many stakeholders. Public disclosure of plans or other information can lead to this information being used by illegal armed groups in a way that harms innocent people. Information in conflict situations can often feed innuendo and result in events being misinterpreted and falsely reported. Gossip and inaccurate reporting can trigger threats from illegal armed groups.

An example of this happening is provided by a dilemma faced by BP in Colombia during the last decade. The company was required by the environmental authorities to hold community consultations on environmental and social issues. The aim of this requirement is to guarantee that companies do listen to their neighbours and that any commitment or agreement is recorded and honoured. In order to comply with this obligation, the company agreed with communities to take videos of the meetings. But this practice subsequently was seen by some outside the region as potentially putting those filmed at risk. The company responded by stopping the use of video and relying on more traditional recording methods such as written minutes. The complex stakeholder dynamics that BP faces in Colombia are illustrated in the diagram below:



11.3 Getting third party verification

How realistic is it for the company to get genuine third party verification in conflict situations?

The need to have external verification of a company's social and environmental statements is increasingly recognised, both by the companies that have embarked along the road of social, ethical and environmental accountability and by their stakeholders. Such companies are using a creative mix of well known auditors, such as KPMG, PricewaterhouseCoopers and SGS, and non-governmental organisations – both local and international – to undertake this process.

In many politically sensitive or conflict-ridden countries, however, the activities of local NGOs are severely restricted. Even international NGOs and auditors find it hard to get confidential access to a company's local communities and employees. In such cases, genuine and detailed third party verification is difficult, despite probably being more valuable than in more stable conditions to a company that is concerned with protecting its reputation.

11.4 Managing perception vs. reality

How does the company deal with situations when perceptions of its performance in a particular location are different to the reality?

The challenge of managing a company's image in today's internet world is captured in the following quote from Esther Dyson in the *Harvard Business Review*, "In the networked world, you cannot – and cannot expect to – control your company's image; the best you can do is influence it. Anything and everything about a company can be known – every slipup, every policy, every practice. You can't control what people say about your company. On the Internet, they'll say anything they like, which may be a mixture of fact, fiction and opinion."⁽³⁹⁾ This challenge is even greater in situations of conflict.

In conflict zones information is not only sensitive and difficult to verify, but often purposely distorted by different groups in order to meet propaganda and other political objectives. Even when this is not the case, emotions are high, events change rapidly and one person's 'fact' is another person's 'conjecture'. The situation is complicated further when information from one location, especially remote locations, is then relayed around the world and used, often with adaptations, by different media, NGO campaigns and other stakeholders.

This can have two broad consequences from the company's perspective:

- Stakeholder perceptions of what a company is doing in a particular situation may be different to the reality. Corporate managers, both locally and at head office, need to acknowledge this fact, understand why incorrect perceptions may have emerged and do everything they can to correct these with accompanying facts, examples and where possible site visits.
- Head office management's perceptions of what their employees, contractors and other business partners are doing 'on the ground' may be wrong. Information that reaches a company's head office from external stakeholders may in fact be a more accurate assessment than the reports they are getting from their own staff 'on the ground'. For this reason, if no other, companies operating in conflict situations should be especially receptive to information from all sources, including NGOs campaigning against them.

In some cases it is relatively straightforward to correct misperceptions. In many cases it is not, especially if a misperception finds its way onto the internet. Equally, there will be occasions when a company and its stakeholders simply cannot agree or see things in the same way, even when they have the same set of facts at their disposal. The company may

feel that its critics have misinterpreted or misrepresented the facts to meet their own campaigning objectives. Equally, the critics may feel that the company has done the same for public relations purposes. Reading through media and NGO reports on a company's activities in a particular conflict zone and the company's own assessments and written responses to these reports is a useful exercise in understanding this challenge.

The over-riding management challenge for the company is to verify its facts as much as possible, acknowledge the existence and strength of different perceptions and try to reconcile the differences by regular stakeholder dialogue and transparency.

11.5 Global vs. local accountability

Where should the company's priorities lie when investing in stakeholder dialogue and consultation? How does a company balance the time, money and effort it expends on being more accountable for its operations to different stakeholders globally and locally. Are its 'global' stakeholders (for example international pressure groups, the media, western consumers, shareholders and home-base governments) more important than its stakeholders in the locality and host country where the relevant operations are occurring?

Most development, environmental and human rights NGOs operating in OECD countries with a focus on improving conditions in developing countries, genuinely have the interests of the local people in these poorer countries at heart. Their campaigning actions have often played a critical role in pressurising companies to improve operating standards and to be more accountable to local communities 'on the ground'. Their campaigning actions, however, do not always represent the true interests of the poor in these locations. International campaigns can sometimes divert the company's resources from addressing practical issues at the local level where it is operating, to managing communications and perceptions at the global level where its reputation is being challenged. Equally, an international campaign, however well intentioned, may pressurise the company to take actions locally that end up being less beneficial to local people than the existing situation.

There is also the question of whether companies should apply global standards on human rights, corruption, working conditions etc. or different standards for different situations. There is little doubt for the companies that have already started to focus on increased accountability, that they should apply consistent standards throughout their global operations. Actually implementing this commitment, however, in very different and often difficult local circumstances, is not always easy.

11.6 Regulations vs. voluntary approaches

What is the appropriate balance between regulatory and voluntary frameworks in influencing corporate behaviour and ensuring accountability. What are the best voluntary approaches for a company to follow?

Another area of debate in terms of corporate accountability is the appropriate balance between regulation and voluntary approaches. Most responsible companies recognise the need for a base level of regulation in areas such as labour and environmental standards, human rights, corruption and corporate governance. Such regulation is critical for achieving a 'level playing field' and engaging companies that would not be willing to adopt voluntary standards for managing their impacts on society. In most conflict sensitive or conflict ridden countries, however, the governance and administrative structures are often too weak, corrupt or lacking in capacity to ensure that regulatory standards are monitored and adhered to. This is the case even with national legislation, let alone internationally agreed conventions such as *The Universal Declaration on Human Rights* (UDHR) and the ILO's *Labour Conventions*. In such situations, whilst multinational companies are increasingly vulnerable to lawsuits back

in their home country for misdemeanours carried out abroad, most national companies can get away with low standards of behaviour.

For companies willing to move beyond regulatory compliance, to adopt voluntary standards, there is another challenge. What standards, benchmarks, recommendations and guidelines should they follow? In recent years there has been a proliferation of these standards covering a wide range of corporate responsibility issues. They have been issued by a variety of actors, including international agencies, national governments, NGOs, academic bodies and industry associations. Some are broad statements of intent, others intensive systems of accreditation. Getting a clear picture of this constantly changing *smorgasbord*, let alone deciding which approaches to incorporate into the company's own policies and operating standards and how to account for these, has become a complicated and time-consuming process.

To-date there are no formal guidelines that specifically cover business operations in conflict sensitive or conflict-ridden countries. Guidelines on 'business and human rights' and 'the use of security forces', such as those produced by Amnesty International and Human Rights Watch, come the closest to highlighting issues that are particularly important in areas of conflict (see page 98). The Red Cross guidelines on humanitarian assistance (see page 105), although not directed specifically at business, also offer a useful framework for companies to consider when operating in conflict and disaster zones. Companies should also refer to relevant UN instruments such as:

- the Universal Declaration on Human Rights;
- the ILO's Conventions on labour;
- the UN Code of Conduct for Law Enforcement Officials;
- and the UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials.

11.7 Deciding how much is enough

How much is enough in terms of the time, money and management effort that a company should allocate to assessing and monitoring its societal risks and impacts in conflict zones and elsewhere? Where should business focus its limited resources on addressing wider societal issues? Who decides this and how do companies and their stakeholders balance their expectations of each other?

Another strategic challenge in terms of corporate accountability is the critical question of 'how much is enough?' Whilst accepting that the private sector has an increasing role to play in conflict prevention and resolution and in society in general, it cannot do everything that its growing range of stakeholders demand of it.

In particular, business is not, and should not become, a substitute for government. There is a real danger in remote communities and countries where government is weak or lacks widespread support and legitimacy, that large companies become relied on too heavily to fulfil public roles that they are not equipped to carry out and cannot sustain long-term. Even public-private partnerships can have the consequence of 'letting governments off the hook' instead of forcing them to meet the needs of their citizens.

This is especially a problem when new, large-scale investment comes to a country or local community. A recent survey carried out in Azerbaijan by the Baku-based Institute of Peace and Democracy and the New York-based Council On Economic Priorities ⁽⁴⁰⁾, for example, highlighted the high, but potentially unrealistic expectations that local people had of the Western oil companies starting to invest there. 67% of the 1,000 people polled in different cities believed that there would be a rapid improvement in living standards thanks to the work of the Western oil companies. When asked if they personally, or anyone they knew had benefited directly from the presence of these companies, 60% answered no. Such statistics suggest the likelihood of unmet expectations and the emergence of possible resentment targeted at the oil companies.

Nor can business take on the many roles played by non-profit, non-governmental organisations, ranging from the media and church groups, to specialised development and conflict mediation organisations. It can, however, take actions that either support or undermine the activities of these organisations. This is especially the case in countries that lack an open and active civil society.

As outlined on page 17, most companies are facing increased pressure to be more competitive, cost effective and efficient, as well as to be more socially responsible and accountable. Despite the rhetoric and real potential of ‘win-win’ situations, in many cases difficult choices and trade-offs usually have to be made. As a result, it is important to understand where and how a particular company or industry sector can add the greatest societal-value. The company and its stakeholders can then focus attention and resources on how the company delivers and accounts for this, rather than having unrealistic expectations of what business can achieve.

11.8 Accountability of the NGOs

Who are the non-governmental organisations accountable to?

As NGOs, especially international players, place growing pressure on business, especially multinational companies, to be more accountable, the question needs to be asked ‘who are the NGOs accountable to?’. In general terms, NGOs derive their legitimacy from:

- the individual members, general public and government donors who fund them; and
- from their ‘moral cause’.

They do not, however, have the same legal accountability criteria that a publicly quoted company has to its shareholders. As they call on companies to be more

accountable, some of these NGOs, (and certainly some of the companies they are targeting) suggest that they themselves need to develop similar guidelines of good practice and establish internal management, measurement and reporting systems to account for their own impacts and activities. As *The Economist* magazine argued in a January 2000 article:

“Aid and campaign groups, or NGOs, matter more and more in world affairs. But they are often far from being ‘non-governmental’, as they claim. And they are not always a force for good. ...The general public tends to see them as uniformly altruistic, idealistic and independent. But the term ‘NGO’, like the activities of the NGOs themselves, deserves much sharper scrutiny.”⁽⁴¹⁾

One effort to develop a voluntary framework for NGO accountability has been the development of the Red Cross, Red Crescent Society and NGO *Guidelines on Disaster Relief* (see page 105). Another has been International Alert’s *Principles for Conflict Transformation Work* (summarised in the box on the left). At a project level, impact assessments and evaluations are often carried out as part of the requirements for receiving donor funding from the public sector. As more government agencies fund NGOs to deliver

services and carry out research and advocacy campaigns, this level of project or programme-based evaluation will increase. Relatively few NGOs, however, have started to carry out the comprehensive organisation-wide social and environmental auditing and reporting that they are calling for from companies.

INTERNATIONAL ALERT’S Guiding principles for conflict transformation work

The core of conflict transformation work is the building of sustainable peace. This involves a process of profound change, transforming situations characterised by violence and fear, thereby creating an environment in which reconciliation, social justice and participative democracy can take root. The principles outlined here are designed to guide this process.

1. Primacy of people in transforming conflicts
2. Humanitarian concern
3. Human rights and humanitarian law and principles
4. Respect for gender and cultural diversity
5. Impartiality
6. Independence
7. Accountability
8. Confidentiality
9. Partnerships
10. Institutional learning

For details on each principle see www.international-alert.org

11.9 Engaging stakeholders

Having decided which stakeholders to engage with, what are the best mechanisms for achieving this in a manner that is efficient, effective and mutually beneficial?

Developing mechanisms for engaging with different stakeholders in a systematic, on-going and transparent manner is one of the key management challenges that companies face in ensuring accountability. Such mechanisms must be capable of facilitating a genuine process of two-way dialogue through which the company can share information and issues with its stakeholders, but also listen to and learn from them.

From the company perspective, there is the ongoing need to define and refine the boundaries of corporate responsibility, in conflict situations and elsewhere, and to 'keep ahead of the issues' as these boundaries of responsibility shift and expand. The best source of information and analysis on these shifting boundaries is likely to be different stakeholder groups such as consumers, investors, employees, competitors, NGOs, local communities, government officials, the media, academics and opinion formers. Equally, these different stakeholder groups need to understand the economic, technical and managerial constraints that the company faces and how these affect the choices it makes. This mutual understanding is critical for developing realistic expectations about the contribution that business can make to conflict prevention and resolution and its ability to account for this contribution. Establishing such understanding requires the use of a variety of communication tools and the creation of explicit processes for engagement. These will vary for different stakeholder groups, different industries and different situations.

Corporate engagement with non-governmental pressure groups can be especially challenging for both sides. As outlined elsewhere in the report, such engagement can be confrontational, consultative or collaborative. Often it is a combination of all three, even within one relationship between a particular company and NGO. Some of the world's most respected human rights advocates and campaigning organisations, such as Amnesty International, Human Rights Watch, Oxfam and Save The Children, now recognise the need for increased consultation and collaboration with business. They see these as increasingly important processes not only for influencing changes in corporate behaviour, but also for jointly addressing issues of common interest to business and civil society, such as improving governance and tackling corruption. At the same time, their core commitment to promoting human rights, community development and the environment means that these NGOs reserve the option to confront and campaign against the same companies they are consulting and collaborating with, when these companies are deemed to have 'got it wrong'.

In practice this usually makes for uneasy engagement between business and pressure groups. It is often the companies that have been the most pro-active in engaging constructively with pressure groups, rather than the corporate laggards in their industry, that face the most persistent and stringent demands for continuous improvement. They may invest management time and money in addressing a particular problem or situation, only to receive renewed criticism and negative media for 'not doing enough' or for 'getting it wrong on another issue or situation'. Despite this uneasiness, corporate engagement with pressure groups and other NGO stakeholders is likely to become increasingly important in areas of conflict and elsewhere. The companies that have taken a leadership role in this area and helped to develop effective tools and processes for engagement are likely to benefit in the long term.

The profiles on the following three pages illustrate the challenge of engaging stakeholders from the perspective of both business and NGOs. The first profile summarises some of the tools and processes that Shell and BP have used in recent years to communicate more proactively and openly with their key stakeholders on social, economic and environmental issues. The second profile offers a viewpoint from the chair of Amnesty International's UK Business Group on engaging with the private sector.

ENGAGING STAKEHOLDERS: The experience of Shell and BP ⁽⁴²⁾

BP and the Royal Dutch/Shell Group, in different ways and for different reasons, have both been the target of activist campaigns relating to their activities in conflict-afflicted areas such as Nigeria, Peru and Chad in the case of Shell and Colombia, Angola and Algeria in the case of BP. The details of these situations and the companies' responses to them have been extensively covered elsewhere, in the media and in academic, NGO and business publications and websites. The following profile focuses specifically on some of the communications mechanisms that the two companies have independently developed for engaging in more open and systematic dialogue with their different stakeholder groups on these issues.

Both companies view stakeholder engagement as part of an ongoing process of continuous improvement and recognise the complexities of genuine stakeholder engagement, especially in regions of conflict. They see the process as integral to the management frameworks that they are developing to address the 'triple bottom line agenda' of economic, social and environmental impacts. Whilst both companies remain the target of NGO and media criticism for their actual and perceived social and environmental impacts in conflict regions and elsewhere, the following 'snapshots' illustrate the commitment and investment they are making to engage their stakeholders in a genuine two-way process of information sharing and learning.

Hosting external stakeholder dialogues

The companies have both hosted a variety of dialogues with different stakeholder groups on a range of situation specific and more generic issues. For example:

- During 1996, Shell undertook a world-wide programme of conversations with people to better understand society's expectations of multinationals and to explore the reputation, image and overall standing of the company. This involved 7,500 members of the general public in 10 countries and 1,300 opinion leaders in 25 countries.
- In May 2000, as part of its commitment to developing mutual understanding between the company and international NGOs, senior staff and line managers at BP hosted a workshop on the company's global business. This was aimed at developing NGO knowledge of the energy industry and highlighting key economic, social and environmental challenges and opportunities.
- Shell holds a regular meeting with its key institutional investors to discuss non-financial issues such as human rights and the environment, having started the process in 1998.
- Both companies have held national and community level dialogues, often facilitated by third parties, in some of the most conflict-sensitive areas in which they are operating. In 1998, for example, Shell held dialogues on managing major projects in sensitive regions in Nigeria, Peru and the Philippines. BP has been engaged in local level dialogues on conflict prevention and resolution in countries such as Colombia and Azerbaijan. The 1999 Shell Report recorded that Shell companies had processes in place to engage with communities on issues of local concern in 91

countries and efforts to measure the effectiveness of their engagement and communication procedures in 48 countries.

Participating in other dialogues and learning networks

The companies have also played a lead role in initiatives established by other actors to increase dialogue, learning and mutual understanding on the changing role of business, including in areas of existing or potential conflict. Examples include:

- BP serves as a co-convenor (with CARE International) and Shell participates in the World Bank's *Business Partners for Development* programme (see page 124).
- Shell served as the joint working group leader (with Rio Tinto) and BP participated in a two year programme of the World Business Council for Sustainable Development to define and develop a management framework for corporate social responsibility.
- Both companies are supporting the United Nation's *Global Compact* (see page 121).
- Both have been engaged in initiatives of The Prince of Wales Business Leaders Forum in the areas of human rights, conflict prevention, and partnership capacity building with the UN.

Undertaking private consultations with NGOs

Given the sensitivity of conflict-related issues and the need to build mutual trust and understanding, the two companies have also developed individual and more confidential relationships with leading human rights organisations to get advice and feedback on specific issues or geographies. For example:

- Shell and BP have held consultations with NGOs such as Amnesty International and Human Rights Watch to exchange views on human rights issues and to review ways in which they could improve the scope and rigor of their security arrangements.
- Since 1997, BP has been engaged in regular discussions with a group of five British-based NGOs, called the Inter-Agency Group (IAG). The purpose has been to discuss the social, economic, environmental and political impact of the company's activities in Casanare, Colombia and the types of policies and practices that it needs to develop to address these impacts. The five NGOs are: CAFOD; Christian Aid; Catholic Institute for International Relations; Oxfam GB; and Save the Children Fund UK. After a variety of formal and informal discussions, the IAG issued a set of

Communications technology and the expectations of those who depend on Shell, or who are affected by our activities, have changed dramatically in recent years and continue to do so. Our traditional corporate culture has not necessarily encouraged openness. But we are now trying hard to be more accessible and open in the way we deal with requests for information, and in the style in which we communicate with employees in the Group, the media, opinion formers and the general public. We are also determined to listen more and get involved in the debate and dialogue. Profits and Principles – does there have to be a choice? The Shell Report 1998

recommendations and conclusions in July 1999 entitled, “*Good Intentions Are Not Enough*”. These recognised that the company’s activities, ‘represent an unusual degree of commitment by an oil company’, but recommended areas for improvement to ensure better security and progress for the poor in the Casanare region.

Developing industry guidelines

Another rapidly evolving area of stakeholder engagement is industry-led or multi-sector initiatives to develop, implement and monitor industry guidelines on a particular issue or process. Two recent examples where Shell and BP have been involved are:

- The *Global Reporting Initiative*, a coalition of companies, governments and NGOs to develop a credible, comprehensive and comparable framework to enable companies to report on their ‘triple bottom line’ impacts. Shell is one of the companies piloting the draft reporting guidelines and a representative from BP has participated in GRI meetings and consultations.
- The two companies are also engaged in an initiative on *Private Security and Human Rights in the Extractive Sector*. Led by the US and British governments, its aim is to develop industry guidelines on dealing with public and private security forces (see page 97).

Surveying employee attitudes

The two companies have both made strategic commitments to survey the attitudes and concerns of their employees on a global basis.

- In 1998 BP piloted its *People Assurance Survey*, an employee attitude survey with questions aligned closely to the company’s Commitment to Employees. After surveying group leaders and people reporting directly to them, the survey was distributed to 40,000 BP employees world-wide and key findings summarised in the company’s environmental and social report.
- In 1999 Shell conducted the first *Shell People Survey*, to give employees a chance to share their views about the company’s social, environmental and economic impacts and responsibilities. The survey was conducted in partnership with an independent company, International Survey Research, and distributed in 30 languages to some 90,000 people in over 100 countries. The survey had a response rate of 69% and responses to some of the questions asked were profiled in the Shell Report 2000.

Raising employee awareness and skills

The two companies are both investing in a variety of communications and learning mechanisms to raise the awareness and skills of their employees on the company’s business principles and policy commitments on social, environmental and ethical issues. These mechanisms include business unit, geography and issue-based employee forums, training workshops, management primers and case study materials.

Running global advertising campaigns

Shell and BP have both run advertising campaigns – nationally and internationally – which align their corporate image to different aspects of their social, environmental and economic policy commitments. For example:

- Shell launched a global advertising campaign *Profits and Principles. Is there a Choice?* in 1998 with sustainable development as its core theme. The campaign aims to highlight some of the dilemmas and issues the company faces and to stimulate debate and comment and has addressed issues such as global warming, human rights and biodiversity.
- In 2000, BP launched a global advertising campaign around the theme of *Beyond Petroleum*, as part of its re-branding effort following a series of acquisitions. The campaign highlights the company’s growing investment in natural gas and solar energy.

Using the internet

The two companies have started to use the internet as a key tool in their stakeholder engagement strategies. They are using different approaches, but both are including information and viewpoints on the company’s policies and practices in conflict regions and soliciting feedback on these. The 1999 Shell Report recorded that Shell companies currently have websites in 35 countries and 17 languages. The Shell website records some 4,000,000 hits per month from about 950,000 users (single user session).

Embarking on ‘triple-bottom line’ reporting

Linked to all the above, both companies have made a strategic commitment to reporting on their economic, social and environmental impacts in an increasingly integrated and transparent manner. Their reports use different frameworks and draw on different case studies and profiles, structured around particular businesses, countries or thematic issues. One common element of their commitment to public reporting has been the establishment of both formal and informal processes to obtain stakeholder feedback. Shell, for example, has implemented a ‘Tell Shell’ facility, whereby stakeholders can respond to specific issues and questions raised by the Shell Report, or share other opinions via the mail or the internet. In the period of March to November 1999, 862 ‘Tell Shell’ responses were received from around the world, with particularly strong response rates on the topics of renewables, Nigeria and engagement. Another example of stakeholder feedback was BP’s 1998 environmental and social report. As part of the reporting process the company employed an independent consultant to interview external stakeholders on their perceptions of its social and environmental performance in the countries profiled in the report – Alaska, China, Egypt and South Africa.

We wanted this year’s report to include more than just the ‘official’ views of the company. We commissioned ERM Social Strategies to find out how a range of people felt about the environmental and social performance of each of the business operations featured as case studies. ERM interviewed people from government and regulatory authorities, industry groups, employees, non-governmental organisations and representatives of local communities... As part of the contract we undertook to publish ERM’s commentaries in full and without alteration.

BP Environmental and Social Report 1998

ENGAGING STAKEHOLDERS: A view from Amnesty International's UK business group

A fundamental decision was whether to spend scarce resources in looking for company violations, or to influence fundamental company principles and practice which would be applicable to the entirety of their operations. We chose the latter. ...We did not abandon public protest which remains an important weapon in the wings. But protest is a means to an end, not an end in itself. Protest is relatively easy, engagement difficult.

Sir Geoffrey Chandler, Chair, AI UK Business Group

The Amnesty International UK (AIUK) Business Group was established in 1991 as a small group of individual AIUK members who had business or industrial experience. In recent years it has become increasingly active in influencing both the debate on business and human rights and the behaviour of some leading British companies on these issues.

From the outset, its members have adopted the strategy of engagement with business rather than protest against business, although they have occasionally used the latter when deemed more effective. One of the Group's first activities in the early 1990s was to send a letter to the chairmen of the 50-60 largest British transnational companies asking them for an opportunity to come in and discuss human rights. Although a significant proportion replied to the letter, they were not interested. Sir Geoffrey Chandler, the Group's chairman and a former executive with Shell, recalls how 'we quickly learnt that letters alone don't work, that generalisations are inadequate, and that we ourselves in the early 1990s had no clear views on what we wanted from companies.'

The 1994 Amnesty International campaign on China, an economic 'honeypot' with gross human rights violations, stirred some interest, but there was still a corporate reluctance to engage. Then in 1995, the problems of Shell in Nigeria provided the AIUK Business Group with a platform and a break-through. It began with protest – sending a delegation to Shell Centre, at the same time that almost every NGO was protesting and helping to bring pressure to bear on the company. In an unprecedented confession of corporate culpability, Shell admitted it had profoundly misunderstood the changes in societal expectations that were influencing the world in which it was operating. This was the beginning of a long and constructive engagement between the AIUK Business Group and Shell.

AIUK Business Group's over-riding goal is to harness the influence of the corporate world on behalf of human rights. Its objectives are to encourage companies to: make explicit corporate commitments to human rights; operationalise these commitments; and carry out independent audits of their operations. Its strategy focuses on the following areas:

- **Direct engagement in discussion with companies** – aimed firstly at getting agreement in principle that human rights are a legitimate corporate responsibility and secondly at providing materials, contacts and ideas on how to turn this principle into practice. The materials used by the Group include: the Universal

Declaration on Human Rights; a set of guidelines on Business and Human Rights developed by the Business Group; an analysis of the human rights policies of the Fortune 500 companies carried out by Ashridge Management College; and a management primer produced in partnership with The Prince of Wales Business Leaders Forum, entitled Human Rights: Is it any of your business?

- **Creating a climate of opinion** – through hosting, stimulating and participating in conferences, playing an active role in the debate on corporate responsibility, writing articles, especially for the international business press, and producing a newsletter.
- **Using 'multipliers' to achieve greater scale and leverage** – working with institutions that are already locked into and accepted by the corporate system such as the accountancy and consultancy professions, business schools, and financial institutions and pension funds, especially but not exclusively the ethical investment movement. In particular, the AIUK Business Group has encouraged ethical fund managers to extend their criteria to embrace human rights issues and has more recently started to target major pension funds. The Business Group has also played an active role, as part of an informal NGO coalition, in encouraging a legislative framework in the UK to consolidate change in the field of corporate responsibility.
- **Forging alliances** – the AIUK Business Group is also investigating ways in which it can work more effectively with other NGOs engaged in the field of human rights. In the United Kingdom, these include organisations such as Oxfam, Save the Children and Traidcraft, all of which are developing their own strategies for engaging with the business sector on a variety of development issues.

Some of the lessons that the AIUK Business Group has learnt during its process of active dialogue with the private sector are as follows:

- The need to find a common vocabulary, to speak the language of business and to understand a different viewpoint and different imperatives;
- The need to engage at an effective senior level that has access to the company board;
- Human rights are part of the broader context of corporate responsibility and need to be built in, not tacked on;
- There is a need to extend a company's perception of its legitimate responsibilities to incorporate the defence of civil and political rights. Companies are already involved in human rights – e.g. health and safety of employees – although they don't use that terminology. Civil and political rights need to be argued from within corporate logic, not from without.

Adapted from a talk by Sir Geoffrey Chandler, Chairman AIUK Business Group

12. Limiting the means to wage war

The easy availability of modern weapons tends not only to increase the risks of war, but the civilian suffering caused, and also tends to prolong the conflict... Once wars are over, many weapons do not lie idle but, as in South Africa or Nicaragua, are used by criminal gangs in bus robberies, kidnapping, extortion and street thefts.

A Safer Future: Reducing the Human Cost of War, Oxfam, 1998

The focus of this report has been on non-defence related companies. The arms industry and arms trade have been extensively researched and written about elsewhere and numerous NGOs and academic institutions focus exclusively on these subjects. It would be inappropriate, however, to write about business and conflict without a brief overview of the arms trade and defence industry – both legal and illegal. The following pages aim to summarise:

- some key international trends in the arms trade;
- the challenges that these represent to the achievement of sustainable peace and development, especially in the world's poorer countries;
- some of the efforts, led mainly by governments and civil society, to 'limit the means to wage war'; and
- the type of companies directly and indirectly involved in the defence industry and what they and other non-defence related companies can do to help 'limit the means to wage war'.

12.1 The arms trade

At the outset, it is useful to distinguish between conventional and unconventional weapons. The latter include biological and chemical warfare, which are illegal to produce and export. They are still utilised by terrorist groups and pariah states, but do not represent a major threat in most of the world's countries. Conventional weapons can be further categorised into two groupings:

- Major conventional weapons which include large-scale and advanced weapons systems such as combat aircraft, ships, submarines and all other weapons with a calibre of 100mm or more; and
- Small arms or light weapons which include weapons with a calibre under 100mm and which are man or vehicle portable. These include small arms, ammunition, shoulder-fired anti-tank weapons, anti-personnel mines and other explosives.

Official world military expenditure totals some US\$ 745 billion, with the international arms trade worth an estimated US\$ 55.8 billion in 1998. Major conventional weapons account for the majority of this expenditure, with light weapons making up an estimated 13-15%. The five permanent members of the UN Security Council – the United States, France, United Kingdom, Russia and China, together with Germany – account for up to 90% of official, legal arms sales and the largest recipients are Saudi Arabia, Taiwan, Turkey, Egypt, South Korea, Greece and India. In terms of regional recipients of arms, Asia has been the largest since 1995, accounting for over 40% of the total. Europe and the Middle East are in second place with each occupying about 26% of the market share. Africa and Latin America account for less than 4% of the total official market, with Africa's share being less than 1%.⁽⁴³⁾ This figure does not account, however, for the increased numbers of light weapons that are circulating in Africa and other conflict regions that are second hand and/or illegal and illicit in origin. A report issued in 1999 by a UN panel of 23 experts reviewing small arms and light weapons, noted that there are about 500 million small arms in circulation and that an estimated 40% of world trade in this class of weapons is illegal.⁽⁴⁴⁾

12.2 Changing patterns of supply and demand

The end of the Cold War has resulted in an overall reduction in military expenditure, production and arms transfers. At the same time, it has resulted in a range of supply and demand changes that have had negative implications for the transfer and use of conventional weapons, especially small arms, to states that are most vulnerable to internal conflict and violent crime. For example⁽⁴⁵⁾:

- There is increased competition and pressure to export arms among producer countries in the West and former Soviet bloc. The decline in military expenditure since the end of the Cold War has resulted in over-capacity and stockpiles in their defence industries. This has resulted in structural changes ranging from conversions of military facilities and technologies into non-military uses, to significant industry consolidation. It has also increased competition, between both countries and private firms, to find overseas markets for their products and services. Prices for many conventional weapons have fallen, making them affordable to some of the world's poorest countries and to non-state actors. Whilst controls on arms exports in many countries have tightened, this has not been the case for all arms producers, a few of which have gained a reputation for selling weapons to anyone who has the money or primary commodities to pay for them, with few questions asked;
- There has been an increase in the transfer of weapons to non-state actors, such as insurgency groups, paramilitaries and private military companies;
- Linked to this has been a revival in the black market in arms. Although this is controlled primarily by non-state actors such as rebel factions, crime syndicates and arms dealers, there have also been examples of illicit state involvement;
- Finally, there has been a proliferation in the transfer and the usage of light weapons, many of them second-hand and illicitly traded. These weapons are hard to detect, easy to use, relatively cheap and readily available in many developing and transition countries. They are at the core of most internal conflict and violent crimes. It is estimated that up to 90% of the casualties in today's wars are caused by small arms and light weapons and they have been a key factor in facilitating the engagement of civilians, including children, as active combatants in many conflicts.

12.3 The challenges for states in transition

The potential for violent conflict is exacerbated by the above trends. This is especially the case for states in transition, with weak socio-economic bases, fragile or repressive political regimes and poorly controlled security sectors. Such states potentially face a double cost in buying arms. If not managed responsibly, the purchase of arms can be:

- A direct cause of violent conflict, human rights abuses and loss of civilian lives – due to their increasingly common and indiscriminate usage for both military and criminal purposes; and
- A diversion of limited national budgets from productive economic and social investments to arms that are non-productive and all too often destructive.

UNICEF has estimated that an additional US\$40 billion a year could ensure access for most of the world's people to basic social services such as education, health care and safe water. Its 1997 *State of the World's Children* report argued that "Two-thirds of this amount could be found by developing countries themselves if they realigned their own budget priorities. Redirecting just one quarter of the developing world's military expenditure for example, could provide additional resources to reach most of the goals for the year 2000."

Having said this, it is important to emphasise that all states have legitimate security needs and military expenditure is not bad *per se*. What needs to be prevented are:

- high levels of unnecessary expenditure, which divert limited budgets from other development purposes, such as health and education; and
- the use of arms for internal repression or external aggression rather than for building legitimate security frameworks for a nation's citizens and region.

Examples of progress in controlling the arms trade

- Over 100 governments have signed the Mine Ban Treaty
- EU members adopted a Code of Conduct on Arms Exports in 1998
- An EU Programme for Preventing and Combating Illicit Trafficking in Conventional Arms has been established
- The UN has placed arms embargoes on a number of countries and non-state actors
- Donor agencies are starting to integrate stronger analysis of military spending into their country assessments before dispersing aid and limiting such aid if recipient countries do not agree to curb their military expenditures
- Some departments of trade and defence have started to publicly report on their arms exports and to improve monitoring of the end-use of these exports
- Some OECD countries are also starting to implement stricter controls on the issue of commercial export credits for defence-related or dual-use products that are likely to be used by recipient countries for internal repression or external aggression

12.4 Limiting the means to wage war

A key challenge for the international community, national governments and certain private sector players, is how to limit the means to wage war, especially in developing and transition countries by:

- decreasing and controlling the trade in weapons, especially light weapons;
- removing some of the weapons already in circulation; and
- undertaking appropriate security sector reforms.

Much of the leadership for this must come from governments, although private companies can also play a role in limited areas. This is especially the case for those directly involved in the arms and defence industry, but as the examples below illustrate, non-defence related companies can also make contributions in certain situations.

Reducing and controlling the trade in arms – Three key areas of action are needed here. Firstly, efforts to develop stricter arms export controls and codes of conduct for the legal international arms trade. These should include greater transparency on the part of both governments and defence companies and stricter controls to ensure that arms are not sold to regimes that are likely to use them for international aggression, internal repression, human rights abuses or the continuation of existing armed conflicts. Secondly, an internationally co-ordinated crackdown on illegal and illicit arms sales, focused especially on light weapons and small arms and the role of ‘war economies’ in funding arms flows (see pages 79 to 83). Thirdly, ongoing efforts to wipe out certain types of weapon which are particularly inhumane or indiscriminate, such as landmines, blinding laser weapons and chemical and biological weapons. Progress has been made in all three of these areas over the past five years, driven by a combination of leadership from:

- individual governments (ranging from the UK to Mali);
- inter-governmental bodies such as the European Commission and UN; and
- civil society campaigns such as the International Campaign to Ban Landmines (see page 106) and the International Action Network on Small Arms, which are both global coalitions of human rights and other NGOs.

Whilst progress has been made, numerous obstacles and loopholes remain, especially in the area of light weapons. In today’s global economy it is extremely difficult for any one government, or indeed group of governments, to monitor, let alone control the movement and end-use of small arms and light weapons. Major defence firms may be operating legally, adhering to codes of conduct on arms exports and working with their national governments and recipient governments to ensure responsible use of the products that they produce. Once the more portable of these products have entered the international market, however, it is not easy to track their end-use. It is particularly difficult to police the use of weapons that are flowing through the shadowy world of illicit arms and commodity traders, drug traffickers, terrorists, rebel factions and certain private military companies. There are also loopholes in most national arms control laws which do not cover third party sales and licensing agreements, for example if a nationally registered company is producing or transferring arms via another country. Despite these obstacles, ongoing and co-ordinated efforts are needed to decrease and control the flow of arms, mainly on the part of governments and international agencies, but with support from defence-related companies and those engaged in war economies. The defence industry has a key role to play in:

- working with governments and civil society to establish guidelines for the responsible production, export and use of arms; and
- exploring non-military commercial opportunities for defence technologies and facilities.

Removal of arms already in circulation – In conflict-prone and post-conflict situations efforts need to be made on disarmament, de-mining operations and demobilisation of armed forces (both state and non-state actors). Each of these areas is highly complex and, as with arms control, must be tackled mainly by governments and international donors. Having said this, the experience of private sector support for weapons turn-in programmes in El Salvador (see page 69) and efforts in some countries by the private sector to provide formal training and job opportunities for ex-combatants, illustrate that it can play a role.

DEFINING THE DEFENCE INDUSTRY

There are a wide and growing variety of private interests active in the ‘defence and security industry’. These range from companies that are actually producing weapons and advising directly on military and security issues, to those that are providing products and services that are not exclusively adapted to military or security uses, but without which the defence industry could not operate. The Global Care investment team at Henderson Investors lists the following industries that supply important components or services to the arms industry ⁽⁴⁶⁾:

- electronic and electrical equipment;
- engineering and machinery;
- information technology hardware and software;
- telecommunications;
- banks and insurance companies; and
- support services ranging from transportation logistics to food, water, clothing and administrative services.

Some of these are ‘strategic military contractors’ that provide supplies and services especially designed to meet military needs. Others provide components and services that can be used inter-changeably for both military and civilian purposes. Some supply armies that are at war with each other, others only supply peacekeepers. Henderson also makes a distinction on what it terms ‘positive arms supplies’ which would include equipment to detect and clear landmines, decontamination kits, and antidotes to chemical and biological weapons. As with other aspects of the role of business in conflict, relationships between the defence industry and violent conflict are more complex than is initially apparent. Many activists condemn the defence industry ‘out-of-hand’ as a cause of conflict, but certain aspects of the industry are crucial for ensuring that legitimate security needs are met and for supporting peace-keeping, disaster relief, post-conflict reconstruction and technology development for non-military purposes. The challenge is to ensure that there are enabling frameworks and corporate management structures in place to facilitate the responsible production, transfer and use of limited and strictly controlled numbers and types of arms.

Companies can also support NGOs that are active in these areas through their social investment and philanthropy programmes, as illustrated in the case of landmines on page 106. There is a role here for any company, not only those in the defence industry.

Security sector reforms – Linked to the above, there is often the need for security sector reform in conflict-prone or post-conflict situations. The state security structure, consisting of the military, the police and the judiciary, has a vital role to play in protecting a nation’s citizens from war and criminal activity. As examples throughout this report illustrate, however, in many internal conflicts these state institutions actually turn against their own citizens. In some cases they are also actively engaged in economic activities that benefit directly from the perpetuation of the armed conflict. In such countries, reform of the security sector is essential for creating the conditions to prevent or resolve violent conflict. Reform can include:

- fundamental restructuring of the armed forces;
- training for the military, police and judiciary on human rights issues and stakeholder dialogue;
- administrative and logistics training and support to increase effectiveness and efficiency;
- increased transparency in reporting state revenue allocation to security and military purposes.

As with the other areas discussed in this section, the main responsibility for security reform lies with governments, both those in conflict situations and donor governments. The private sector has a relatively limited role to play in this area, but it can still be a valuable one. The examples of *Business Against Crime* in South Africa on page 101 and

Statoil supporting the human rights training of judges in Venezuela on page 117, illustrate what is possible. There is also the leadership role that major companies can play in managing their own security arrangements by implementing strict guidelines for their terms of engagement with state forces (see page 97). Private security firms can offer advice and training to state security institutions, but this is a sensitive area which requires further research and monitoring (see page 95).

In conclusion, companies in defence related and other industries can play a role, in partnership with governments and civil society, to limit the indiscriminate availability of arms and to support the development of responsible and well managed security sectors in countries that are facing potential or existing conflict.



Conclusion

What impact can business genuinely have in preventing and resolving violent conflict and in helping to build peaceful and prosperous societies?

The subjects of global corporate responsibility and conflict prevention and resolution are complex and constantly evolving. There are numerous linkages between them and they have implications at the local, national and international level throughout the world. Neither of these subjects lends themselves to easy answers. Violent conflict is situation-specific and there are no simple blueprints or checklists for companies operating, investing and trading in conflict sensitive or conflict-ridden societies. The specific details of what is applicable for preventing or dealing with conflict in one situation may in fact exacerbate it in another. It is possible however to suggest key questions and generic frameworks that can assist companies in:

- Undertaking more rigorous analysis of their individual risks and impacts in any given situation;
- Reviewing different strategies for practical action to help prevent or resolve conflict, whether created or exacerbated by the company or not.

It is hoped that some of the frameworks that have been presented in these pages will contribute to this process. Equally, it is hoped that some of the questions raised and practical examples profiled will inspire other companies, government and civil society actors to be more rigorous in assessing their own risks, roles and responsibilities and to be more pro-active in taking practical steps to address these. The report is intended to be a first step. It aims to provide an overview of a wide-ranging set of local, national and international challenges that affect almost every type of business in almost every country, but especially in the developing and transition economies that are most prone to violent conflict. It raises as many questions as it answers. Each of the key management challenges outlined in Part 5, for example, call for further research, debate and understanding. Each of them could form the basis for developing international guidelines and voluntary codes of conduct, both for business and other actors in government and civil society. Some of them are relevant only for specific industry sectors, such as those developing a nation's strategic assets, others, such as dealing with repressive regimes, crime and corruption, are relevant for all industry sectors and all companies trying to operate internationally. Despite this variety there are some clear messages from the report:

Conditions for peaceful societies

1. An economy whose benefits are distributed equitably enough to provide people with secure livelihoods and a stake in peace;
2. A formal government which is representative, not corrupt, responsive to peaceful movements for change, and encourages a sense of social cohesion through inclusive national identity, while respecting the rights of minorities;
3. Vibrant civil organisations representing all sections of society, including both those who may feel excluded and those, including women's groups, who can build bridges between communities;
4. An independent and effective judiciary which can punish those guilty of human rights abuses; an impartial police force; an independent media which can impartially report on abuses; and
5. The control of the private use of automatic weapons.

Sourced from Oxfam GB

1. Recognising the business case

There is a growing and unavoidable business case for companies to analyse and take action on their role in preventing and resolving conflict. Apart from the direct, 'on-the-ground' costs of being involved in a violent conflict, companies face growing international legal and reputation costs of being seen to be complicit in conflict situations and human rights violations. With a few notable exceptions, conflict is almost always an impediment to private investment. Most companies and industries do better in peaceful and stable societies and thus have a commercial interest, as well as a moral imperative, to help build such societies and to prevent and resolve conflict. The business costs of conflict and benefits of peace are summarised on pages 20 to 26.

2. Building peace and prosperity

All companies, in every industry sector and every country have a critical role to play in helping to build peaceful and prosperous societies. Different actors in the private sector can contribute in different ways and levels of intensity to each of the conditions for peaceful societies listed on the left. They can do so in the way they carry out their own operations and produce their own goods and services and in the way in which they interact with other actors in society. The table on page 72 illustrates some of the ways in which business can contribute directly to:

- Strengthening economies
- Building human capital
- Promoting good governance (at both the corporate and national level)
- Protecting the environment
- Supporting social cohesion and respect for human rights.

3. Dealing directly with conflict

Certain companies and industry sectors have a specific role to play in analysing and addressing their direct roles in creating or exacerbating conflict and in helping to address crisis situations and post-conflict reconstruction and reconciliation. This is especially the case for the defence industry and 'big footprint' companies in the natural resource and infrastructure sectors, but increasingly also the case for international banks and insurance companies, travel and tourism, and the companies that are sourcing from, or distributing goods and services to, disaster and conflict zones. See the frameworks on page 36 and 64, the risk responsibility profiles on page 58 and the table on pages 68-69.

4. Moving from compliance to value-creation

Companies that aim to be world-class need to move beyond strategies of compliance and risk minimisation, although both of these are critical 'starting points' in dealing with their wider societal impacts and relationships, to a strategy of pro-active value-creation. For example, international companies should aim not merely to meet local regulations on labour conditions, but should focus on achieving international standards and on pro-actively looking at ways to build the skills, security and opportunities of their local employees. They should aim to minimise the negative 'multipliers' or 'externalities' of their business operations and maximise the positive ones. They can only achieve this by understanding what these multipliers are and managing them on a systematic basis. Central to this is the development of improved systems for analysing corporate risks and impacts in conflict situations. See the diagram on page 28.

5. Understanding spheres of corporate influence

Companies can pro-actively create value in three main spheres of influence. Firstly, through the way in which they manage and control their own commercial operations and business relationships along their value chains. Secondly, through the way in which they engage with local communities, through their social investment and philanthropy programmes and thirdly, through the way they engage in policy dialogue, advocacy and institution building. See the diagram on page 61.

6. Addressing micro and macro-level challenges

In dealing with conflict situations companies need to recognise the dual challenges of addressing practical problems at the local level of the individual company's operations, and structural problems at the regional, national and international level. The latter range from issues such as promoting good governance, to encouraging security sector reform and more equitable distribution of tax revenues.

7. Taking local, national and international action

Linked to the above, companies (especially multinationals) need to address conflict at all management levels. At the corporate, head-office level, for example, there is the need to establish company-wide policies on issues such as human rights, corruption and security, and the potential to engage in dialogue with inter-governmental agencies and home-base governments to develop international standards and a better enabling environment. At the national, regional or industry sector level, companies can work together to develop common platforms for addressing specific policy issues relating to conflict prevention and resolution with host governments and civil society. At the local level, plant managers and their employees have a critical role to play in carrying out situation-specific risk and impact analyses, consulting with local communities, managing expectations and addressing the day-to-day issues associated with conflict prevention and resolution. One of the greatest challenges for multinational and large national companies is to achieve alignment between the company's policy commitments at head-office level and what is happening 'on-the-ground'. See the diagram on page 55.

8. Supporting collective corporate action

The 'call to action' for business is both individual and collective. Apart from ensuring compliance, minimising risks and aiming for pro-active value-creation in the way they run and control their own operations and business relationships, companies can engage with each other in collective action. This can be useful for addressing local-level practical problems, but especially valuable for influencing change on wider structural issues at the national and international level. Examples of three outstanding national examples of collective corporate action are profiled on pages 112-115.

9. Evolving from assertion to accountability

The traditional role of corporate communications must evolve to a more complex one of stakeholder engagement. This is becoming necessary everywhere, but especially so in conflict situations. The old one-way process of 'public relations' characterised by telling the public about the company's activities and assuming they will accept this information without question, is having to change. It is evolving to a more complex, challenging and often frustrating process of two-way dialogue and the need to be able to account for company impacts rather than merely talk about them.

10. Enhancing the role of government

Business cannot be expected to 'do it alone', especially in dealing with conflict. Governments must still take the main responsibility for preventing and resolving violent conflict. This needs to include: national, regional and local government in the countries where conflict is occurring; governments in the home-bases of multinational companies; and inter-governmental agencies. The role of bad or weak governance in creating the conditions and triggers for violent conflict is increasingly well documented. Business, even acting collectively, cannot be responsible alone for putting pressure on host governments to improve their policies and practices. Multinational companies, and large national companies, can be more effective in addressing conflict in the countries in which they operate if supported by the actions of bilateral and multilateral agencies and, in the case of multinational companies, by their home-base governments. Equally, it is primarily governments that can create the necessary international frameworks to ensure a

base level of social, economic and environmental standards for corporate behaviour thereby creating a more level playing field for pioneering companies. One of the greatest challenges in the field of corporate responsibility, in conflict situations and elsewhere, is how to bring the large mass of private operators towards the levels of responsibility being attained by the world's leading companies. And to do so in a manner that does not create unnecessary regulations and restrictions on business. Governments have an important role to play in this process.

11. Establishing cross-sector partnerships

Linked to the two points above, there is a growing potential and need for companies to engage in innovative cross-sector partnerships with governments and/or civil society organisations. Such partnerships can be useful in addressing policy and structural issues; mobilising resources for practical projects; and improving understanding and trust between different groups and sectors. Although not easy to establish or sustain, such partnerships offer one of the greatest hopes for achieving equitable and sustainable development and for addressing conflict at local, national and international levels. Examples of cross-sector partnerships are spread throughout the report, some driven by business, others by civil society and others by government.

12. Implementing corporate policies, processes and procedures

Linked to all of the above points, there is the need for rigorous and systematic implementation of internal corporate policies and management frameworks for addressing 'business in society' issues, including conflict. These frameworks can be summarised under the five Principles of Corporate Engagement covered in Part 2.

They are:

- strategic commitment;
- risk and impact analysis;
- dialogue and consultation;
- partnership and collective action; and
- evaluation and accountability.

Having these processes in place is essential if companies are going to be able to undertake the necessary analysis summarised on pages 36 and 62, and establish and monitor some of the key performance indicators listed on page 72.

13. Leading by example

Leadership matters irrespective of sector or nationality. Ultimately the challenge is about values-based leadership at every level of the company and at every level of society. The question of whether a company contributes to conflict or helps to prevent it, depends on the values, policies and operating guidelines of the company and the way its employees and business partners accept, interpret and implement these. The same can be said for society-at-large. Here the creation or prevention of violent conflict will depend on the values, rules and norms of the society and the way its citizens accept, interpret and implement these. Corporate, political and civic leaders are needed to help shape these values and guiding principles and to provide the incentives and frameworks in which their respective stakeholders must live and operate. They are needed at local, national and international levels. They have the power to lead their communities, their companies and their countries towards peace and prosperity or towards conflict and poverty. Developing future leaders capable of building peace and prosperity in a complex world, is probably the single greatest challenge we face in the 21st Century. It is a challenge that government, civil society and business must address, both individually and in partnership. Responsible leadership is the *sine qua non* of conflict prevention and resolution.

Appendices

- I** Definitions and points of clarification
- II** References
- III** Bibliography
- IV** Partner profiles
- V** Websites of organisations profiled in the report
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Appendix I: Definitions and points of clarification

Given the complexity of the issues covered, the wide variety of definitions used and the diversity of opinions that exist on the subjects of corporate responsibility and conflict, the report is based on a number of ‘starting assumptions and definitions’. In brief, they are as follows:

1. Conflict terminology used

A thesaurus and glossary of early warning and conflict prevention terms produced in 1998 by Erasmus University, offered over 400 definitions. There are a plethora of terms in common usage. These include: peace-building, co-existence, conflict prevention, structural stability, conflict resolution, complex emergencies, crisis management, peace-keeping, conflict transformation, reconciliation, rehabilitation and post-conflict reconstruction.

For the sake of clarity and consistency the following conflict terms and approaches are used in the report:

- **Conflict terms** – the terms conflict prevention and resolution are used as ‘umbrella terms’ to cover the range of possible interventions – by business and other actors – between peace and violent conflict.
- **Stages of conflict** – A three stage framework for assessing corporate engagement in conflict prevention and resolution is used. This framework covers: pre-conflict; conflict zone; and post-conflict. These stages are not necessarily a linear continuum and many societies move back and forth between them.
- **Conflict vs. violent conflict** – the report focuses on situations of violent conflict. At the risk of stating the obvious, conflict is an integral aspect of the human condition. In many situations, if mediated appropriately, it can be a positive force for change. It is the violent, armed expression of conflict that is addressed in this report. As a result, the report will not focus on subjects such as labour disputes, industrial relations, supply chain issues, lawsuits and consumer boycotts except to the extent that these are either a cause of, or response to, situations of violent conflict. The report focuses instead on the challenges for companies operating in areas – countries, regions or localities – which are either prone to violent conflict or ridden by violent conflict.

2. Corporate responsibility terminology used

There is wide variety in the usage of terms such as corporate citizenship and corporate social responsibility. In some companies these terms are used simply to cover the company’s philanthropic or community investment programmes. Whilst such programmes can make a valuable contribution, they are only the ‘tip of the iceberg’. A growing trend in recent years has been the movement of corporate responsibility issues from the margins of senior management’s consciousness to the mainstream. Led by the integration of health, safety and environmental issues into the management of core business activities, a growing number of companies are starting to address wider social issues, including human rights, in the way they run their day-to-day business operations. Terms such as the triple-bottom-line (economic, social and environmental), sustainable development, values-based management and societal value-added are increasingly used by these leading companies.

This report uses the ‘societal value-added’ framework developed by The Prince of Wales Business Leaders Forum, which is based on a company’s three key spheres of influence:

- The impact of a company’s core business activities (which are considered absolutely crucial to any understanding of corporate responsibility);
- Its social investment and philanthropy activities;
- Its engagement in public policy dialogue, advocacy and institution building.

Any company, irrespective of industry sector, can interact with different stakeholder groups and play a role in conflict prevention and resolution in all three of these spheres of influence. At a very minimum it should operate in compliance with national laws and international conventions and aim to ‘do no harm’ as a result of its actions in each of these three spheres of influence. Preferably it should aim to proactively ‘do good’ in each sphere by not only minimising its negative social, economic and environmental impacts (especially those that may create or exacerbate conflict) but by optimising positive impacts and societal value-added.

3. Focus on countries in transition

Sporadic examples of violent conflict present security problems in some of the world's most established democracies. These may be the result of externally or internally inspired grievances, intolerance or terrorism. They include examples such as the Oklahoma and World Trade Center bombings in the USA, and a spate of bombs in 1999 targeted at ethnic minorities and the gay community in the United Kingdom. There is always the danger that such incidents escalate. In most situations, however, this is prevented from happening by a combination of accountable governments, sound security and judicial systems and healthy civil societies. The business sector in these countries can, and in many cases does, play a valuable role in conflict prevention as a member of civil society. Whilst these examples of violent conflict represent a source of concern, they are not covered by this report.

The report focuses instead on countries or regions that are prone to, or ridden by, sustained periods of violent conflict, ranging from local or regional unrest to full-blown civil and inter-state wars. These are mainly countries undergoing fundamental political, social and/or economic transition and are usually, although not exclusively, 'developing countries' or former communist countries. They demonstrate a wide variety of characteristics. Most of them, however, share some common 'structural problems' which make them particularly prone to conflict. Such states present special challenges for business – both foreign investors and local companies – and are the focus of this report. Northern Ireland and Israel are two examples covered in the report that have faced sustained periods of violent conflict, but are not developing or former communist countries. They have useful lessons to share with others, however, on the role of business in resolving violent conflict.

4. Focus on multinational and large national companies

The report focuses mainly on the activities of multinational companies, especially the 'big footprint' players. These are companies in the extractive, infrastructure and heavy industry sectors that make long-term and often substantial investments in their countries and communities of focus. Having said this, the report recognises that in most conflict prone or war-ridden countries, national companies (especially those owned by government or closely linked to government officials) often play a key role in inciting, preventing or resolving conflict. Examples of some of these are provided. It also recognises the important role that can be played by medium, small and micro- enterprises. These are especially important in terms of job creation. Lack of employment and livelihood opportunities, especially the existence of marginalised and disaffected youth and

minority groups, are a major source of conflict. SMEs and informal sector enterprises offer the greatest hope for creating such opportunities in many countries. Although the report provides a brief profile in the appendix of the arms industry and a section on private security firms, its focus is on companies outside the defence and security sectors. These sectors have been extensively researched and written about elsewhere.

5. Business as a Partner

The focus of this publication is the specific role that the private sector plays, or can play, in creating, preventing or resolving situations of violent conflict. It takes as its starting point that the core competency of business is wealth creation, but argues for wealth creation that is not only efficient, but also more sustainable and equitable. Despite the emphasis on the private sector, however, the report recognises that in most conflict situations business does not have the skills, resources or mandate to act alone. An underlying theme is therefore the need for business to work with other sectors and actors. In particular, the report emphasises the critical importance of government – specifically responsible and responsive government – and an active civil society.

6. Frameworks rather than detailed case studies

The publication provides an introduction to the role of business in conflict and offers frameworks for analysis and action, supported by brief examples. These examples are aimed at being illustrative rather than exhaustive assessments of a particular conflict situation, or a particular company or industry sector. Most of them are drawn from highly complex situations and would require extensive description and analysis to provide a balanced view of the different perspectives that, by definition, characterise each conflict. Several of the examples have already been the subject of more detailed studies and where relevant the report provides website addresses and references for these.

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Appendix IV: Partner profiles

International Alert (IA) is a non-governmental organisation which works for the just and peaceful transformation of violent conflicts. IA seeks to advance individual and collective human rights within societies afflicted by violent conflict by helping to identify and address the root causes of the violence and contributing to the transformation of the conflicts. IA runs peacebuilding programmes in four geographical areas: the Great Lakes region of Africa, Sri Lanka, West Africa and the Caucasus as well as a number of advocacy programmes which seek to address the underlying causes of conflict.

1 Glyn Street
London SE11 5HT
Tel: (+44) 020 7793 8883
fax: (+44) 020 7793 7975
<http://www.international-alert.org>

The Prince of Wales Business Leaders Forum (PWBLF) is an international non-governmental organisation promoting socially responsible business practices which help to achieve social, economic and environmentally sustainable development. The PWBLF works with leading international companies, multilateral organisations, governments and civil society organisations on a variety of policy issues and practical projects. It is active in some 30 emerging and transition economies.

15-16 Cornwall Terrace
London NW1 4QP
Tel: (+44) 020 7467 3600
fax: (+44) 020 7467 3610
<http://www.pwblf.org>

The Council on Economic Priorities (CEP) is a non-governmental organisation which was established to provide accurate and impartial analysis of corporate social and environmental performance and to promote excellence in corporate citizenship. CEP developed the Social Accountability 8000 standard which is now managed by the CEP Accreditation Agency and certifies companies against a range of social performance indicators. CEP also administers the annual Corporate Conscience Awards which recognises commitments by companies to respect the rights of all stakeholders and to uphold environmental stewardship world wide.

30 Irving Place
New York, NY 10003
Tel: (+1) 212 420 1133
fax: (+1) 212 420 0988
<http://www.cepny.org>

Appendix V: Websites of organisations profiled in the report

Companies, business organisations and consultancies:

ABB www.abb.com	ERM www.erm.com	Northern Ireland Confederation of British Industry www.cbi.org.uk/northernireland/	SustainAbility www.SustainAbility.com
Abbot Laboratories www.abbott.org	Exxon Mobil www.exxon.mobil.com	Northern Ireland Economic Council www.niec.org.uk	Talisman Energy www.talisman-energy.com
Anglo-American Corporation www.angloamerican.co.uk	France Telecom www.francetelecom.fr	Northern Ireland Growth Challenge www.nigc.orr.org.uk	Texaco www.texaco.com
ARCO www.bpamoco.com	Freeport McMoran Copper & Gold inc. www.fcx.com	Novo Nordisk www.novo-nordisk.com	The Body Shop www.the-body-shop.com
Armor Group www.armor-min-action.com	General Electric (GE) www.ge.com	Oracle www.oracle.com	The Corporate Citizenship Company www.corporate-citizenship.co.uk
Baker Hughes www.Bakerhughes.com	Glaxo Wellcome www.glaxowellcome.co.uk	Parke Davis, a Warner Lambert Co. www.parke-davis.com	The TFL Group of Companies www.tfforce.com
Bechtel www.bechtel.com	Granger Telecom www.granger-tele.com	Peaceworks www.peaceworks.com	Totalfina Elf www.totalfinaelf.com
Best Western Hotels www.bestwestern.com	Greenshields Cowie www.khz.nl/greenshields/green_uk.htm	Pfizer www.pfizer.com	Union Bank of Switzerland www.ubs.com
BP www.bp.com	Heineken www.heineken.com	Pharmacia www.pnu.com	Unocal www.unocal.com
Bristol Myers Squibb www.bms.com	Henderson Investors www.npi.co.uk/globalcare	Pirelli www.pirelli.com	Government and political organisations:
British Telecom www.BT.com	Hewlett Packard www.hp.com	Political and Economic Link Consulting www.pelc.net	African National Committee (ANC) www.anc.org.za
Brown and Root Services www.halliburton.com	ING Barings www.ingbarings.com	Premier Oil www.premier-oil.com	Belgian Ministry of Foreign Affairs www.diplobel.fgov.be
Carlsberg www.carlsberg.com	International Chamber of Commerce www.iccwbo.org/index.asp	Pricewaterhouse Coopers www.pwcglobal.com	Canadian Ministry of Foreign Affairs www.dfait-maeci.gc.ca
Compaq www.compaq.com	KPMG www.kpmg.com	Rio Tinto www.riotinto.com	Inkatha Freedom Party www.ifp.org.za
Crown Agents www.crownagents.com	Lloyds TSB www.lloydstsb.co.uk	Robert Bosch www.bosch.com	UK Department for International Development www.dfid.gov.uk
Daimler Benz www.daimler-benz.com	Merck and Co. www.merck.com	Sandline International www.sandline.com	UK Foreign & Commonwealth Office www.fco.gov.uk
Control Risks Group www.crg.com	Microsoft www.microsoft.com	Seagram www.seagram.com	UK House of Commons International Development Committee www.parliament.uk/common/selcom/indhome.htm
De Beers www.edata.co.za/DeBeers/	Motorola www.mot.com	Shell www.shell.com www.shellnigeria.com	UNITA www.unita.org
Dell www.dell.com	Newbridge Networks www.newbridge.com	Siemens www.siemens.com	International Organisations:
Eli Lilly and Co. www.lilly.com	Nokia www.nokia.com	SmithklineBeecham www.sb.com	International Finance Corporation www.ifc.org
Enron www.enron.com	Norsk Hydro www.hydro.com	Societe Generale de Belgique www.generale.com	Organisation for Economic Co-operation and Development (OECD) www.oecd.org
Ericsson Response www.ericssonresponse.com	Nortel www.nortelnetworks.com	Solvay www.Solvay.com	United Nations www.un.org
	Northern Ireland Chamber of Commerce and Industry www.nicci.org	Statoil www.statoil.com	
	Northern Ireland Committee of the Irish Congress of Trade Unions www.ictu.ie		

United Nations Development Programme
www.undp.org

United Nations High Commission for Refugees
www.unhcr.org

UN Global Compact
www.unglobalcompact.org

United Nations Office of Project Services
www.unops.org

World Bank
www.worldbank.org
www.bpd-naturalresources.org

World Health Organisation
www.who.int

NGOs, foundations, academic institutions, civil society networks:

Adopt-a-minefield
www.landmines.org

Aid and Trade
www.aidandtrade.com

Americares
www.americares.com

Amnesty International
www.amnesty.org

Amnesty International UK Business Group
www.amnesty.org.uk

Berne Declaration
www.evb.ch/bd

Business for Global Stability
www.bgs2000.org

Business for Social Responsibility
www.bsr.org

Business Humanitarian Forum
www.bhforum.ch

CAFOD
www.cafod.org.uk

CARE International
www.care.org

Carnegie Commission on Preventing Deadly Conflict
www.ccpdc.org

Carnegie Endowment for International Peace
www.ceip.org

Catholic Institute for International Relations
www.ciir.org

Catholic Medical Mission Board
www.cmmb.org

Centre for Conflict Resolution (South Africa)
<http://ccrweb.ccr.uct.ac.za>

Centre for Defence Studies, Kings College
www.kcl.ac.uk/depsta/rel/cds/index.htm

Christian Aid
www.christian-aid.org.uk

Conservation International
www.conservation.org

Council on Economic Priorities
www.cepny.org

Council on Foreign Relations
www.foreignrelations.org/public

Diamond Trade
www.diamondnews.com

European Network for Social Cohesion
www.ebnsc.org

European Platform for Conflict Prevention and Transformation
www.euconflict.org

Fatal Transactions Campaign
www.niza.nl/uk/campaigns/diamonds

Free Burma Coalition
www.freeburmacoalition.org

Friends of the Earth
www.foei.org

Fund for Peace
www.fundforpeace.org

Global Reporting Initiative
www.globalreporting.org

Global Witness
www.oneworld.org/globalwitness

Greenpeace
www.greenpeace.org

Hague Peace Appeal
www.haguepeace.org

Harvard School of Public Health
www.hsph.harvard.edu/

Human Rights Watch
www.hrw.org

Interchurch Medical Assistance Inc.
www.interchurch.org

International Aid
www.internationalaid.org

International Alert
www.international-alert.org

International Committee of the Red Cross
www.icrc.org

International Federation of the Red Cross
www.ifrc.org

International Action Network on Small Arms
www.iansa.org

International Institute of Peace through Tourism
www.iipt.org

International Institute for Strategic Studies
www.iiss.org

International Organisation for Migration
www.iom.int/

Kompact-Norway
www.odin-dep.no

Landmine Survivors Network
www.landminesurvivors.org

MAP International
www.map.org

Medicins sans Frontiers
www.msf.org

Medico International
<http://members.aol.com/medicointl/>

Mines Advisory Group
www.mag.org.uk

National Business Initiative
www.nbi.org.za

NetAid
www.netaid.org

Netherlands Institute for Southern Africa
www.niza.nl/uk

Norwegian Emergency Preparedness System
www.noreps.com

Oxfam
www.oxfam.org

Oxfam UK
www.oxfam.org.uk

Partnership for Quality medical Donations (PQMD)
www.pqmd.org

Peres Peace Centre
www.peres-center.org

Pharmaciens Sans Frontieres
www.psf-pharm.org

Philippines Business for Social progress
www.pbasp.org.ph

Project HOPE
www.projhope.org

RefAid
www.refaid.org.uk

SA 8000
www.cepaa.org

SaferWorld
www.saferworld.org.uk

Save the Children Fund UK
www.savethechildren.org.uk

The Institute for Multi-Track Diplomacy
www.imtd.org

The Institute for Social and Ethical Accountability
www.accountability.org

The Prince of Wales Business Leaders Forum
www.pwblf.org

www.csforum.org
www.rc-sdbp.org

The War-Torn Societies Project
www.unrisd.org/wsp

Transparency International
www.transparency.de

World Business Council for Sustainable Development
www.wbcsd.ch

World Development Movement
www.wdm.org.uk

World Economic Forum
www.weforum.org

Media:

International Herald Tribune
www.iht.com

The Economist
www.economist.com

The Financial Times
www.ft.com

The Independent
www.independent.co.uk

The Washington Post
www.washingtonpost.com

Appendix VI: Useful contacts

DIRECTORIES

Corporate Social Responsibility

Resources for Promoting Global Business
Principles and Best Practices: A Directory of
People, Organizations and Web Sites

Office of Policy, Economics and Innovation
U.S. Environmental Protection Agency
Washington, DC 20460
Tel: (+1) 202 260-8663
Fax: (+1) 202 260-8662
<http://www.epa.gov/globalresources>

Conflict Prevention and Resolution

Prevention and Management of Violent
Conflicts: An International Directory
European Platform for Conflict Prevention
and Transformation
PO Box 14069
3508 SC
Utrecht
Netherlands
<http://www.euconflict.org>

GOVERNMENTAL

Canada

Department of Foreign Affairs and
International Trade
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Canada
Global & Human Issues Bureau
Tel: (+1) 613 944-0325
fax: (+1) 613 944-1121
<http://www.dfait-maeci.gc.ca>

Norway

Ministry of Foreign Affairs
7, Juni Plass 1
Postbox 8114 Dep
N-0032 Oslo
Norway
Tel: (+47) 22 24-3600
fax: (+47) 22 24-9580

Consultative Body for Human Rights and
Norwegian Economic Engagement Abroad
(KOMpakt)
Tel: (+47) 22 24-3900
Human Rights Division
Tel: (+47) 22 24-3854
fax: (+47) 22 24-3860
<http://odin.dep.no/ud/eng>

Sweden

Ministry of Foreign Affairs
Division for International Law & Human
Rights
Malm torgsgatan 3
Stockholm
Sweden
<http://www.foreign.ministry.se>

United Kingdom

Global Citizenship Unit:
Economic Relations Department
Foreign and Commonwealth Office
Tel: (+44) 20 7270-2680
fax: (+44) 20 7270-3443

Department for International Development
<http://www.dfid.gov.uk>
94 Victoria Street
London SW1E 5JL
Tel: (+44) 020 7917-7000
fax: (+44) 020 7917-0019
Business Partnerships Unit:
Tel: (+44) 020 7917-0380
fax: (+44) 020 7917-0797

USA

US State Department
2201 C Street NW
Washington DC 20520
Bureau of Democracy, Human Rights and
Labor
Tel: (+1) 202- 647-1780
fax: (+1) 202-647-5283

NON-GOVERNMENTAL

Amnesty International-UK
99-119 Rosebery Avenue
London EC1R 4RE
United Kingdom
Tel: (+44) 020 7814-6200
fax: (+44) 020 7833-1510
<http://www.amnesty.org.uk>

Business in the Community
44 Baker Street
London W1M 1DH
United Kingdom
Tel: (+44) 020 7224-1600
fax: (+44) 020 7486-1700
<http://www.bitc.org.uk>

Business-Humanitarian Forum Association
7 bis, Avenue de la Paix
CP 1340
1211 Geneva 1
Switzerland
Tel: (+41) 22 730-8660
fax: (+41) 22 730-8690
<http://www.casin.ch/gover/bhf/index.htm>

Business for Social Responsibility
609 Mission Street/Second Floor
San Francisco, CA 94105-3506
Tel: (+1) 415 537-0888
fax: (+1) 415 537-0889
<http://www.bsr.org>

Carnegie Endowment for International
Peace
1779 Massachusetts Avenue, NW
Washington, DC 20036
Tel: (+1) 202 483-7600
fax: (+1) 202 483-1840
<http://www.ceip.org>

Council on Economic Priorities
30 Irving Place
New York NY 10003-2386
Tel: (+1) 212 420 1133
fax: (+1) 212 420 0988
<http://www.cepny.org>
<http://www.cepaa.org>

Fund for Peace
1701 K Street, NW/11th fl.
Washington, DC 20006
Tel: (+1) 202 223-7940
fax: (+1) 202 223-7947
<http://www.fundforpeace.org>

Human Rights Watch
1630 Connecticut Avenue, NW/S. 500
Washington, DC 20009
Tel: (+1) 202 612-4321
fax: (+1) 202 612-4333
<http://www.hrw.org>

Institute of Multi-track Diplomacy
1819 H Street, NW
Suite 1200
Washington DC 20006
Tel: (+1) 202 466 4605
fax: (+1) 202 466 4607

International Alert
1 Glynn Street
London SE11 5HT
Tel: (+44) 020 7793 8883
fax: (+44) 020 7793 7975
<http://www.international-alert.org>

International Chamber of Commerce
38, Cours Albert 1er
75008 Paris
France
Tel: (+33) 1 4953-2828
fax: (+33) 1 4953-2859
<http://www.iccwbo.org>

International Federation of Red Cross and Red Crescent Societies
Officer for Corporate Relations
PO Box 372
1211 Geneva 19
Switzerland
Tel: (+41) 22 730 4502
fax: (+41) 22 730 4953
<http://www.ifrc.org>

Oxfam
International Secretariat
267 Banbury Road
Oxford OX2 7HT
United Kingdom
Tel: (+44) 186 531-3939
fax: (+44) 186 531-3935
<http://www.oxfaminternational.org>

The Prince of Wales Business Leaders Forum
15-16 Cornwall Terrace
London NW1 4QP
Tel: (+44) 020 7467 3600
fax: (+44) 020 7467 3610
<http://www.pwblf.org>
<http://www.csrforum.com>
<http://www.rc-sdbp.org>

Transparency International
Otto-Suhr-Allee 97-99
D-10585 Berlin
Germany
Tel: (+49) 30 343-8200
fax: (+49) 30 3470-3912
<http://www.transparency.de>

World Business Council for Sustainable Development
160 Route de Florissant
CH-1231 Conches
Switzerland
Tel: (+41) 22 839-3100
fax: (+41) 22 839-3131
<http://www.wbcsd.ch>

INTER-GOVERNMENTAL

The United Nations
United Nations
New York, NY 10017
Tel: (+1) 212 963-1234
<http://www.un.org>
UN Global Compact:
<http://www.unglobalcompact.org>

UN High Commissioner for Human Rights:
OHCHR-UNOG
CH 1211 Geneva 10
Switzerland
Tel: (+41) 22 917-9000
<http://www.unhchr.ch>

World Bank
1818 H Street, NW
Washington, DC 20433
(+1) 202 477-1234
<http://www.worldbank.org>
Business Partners for Development
Tel: (+1) 202 458-9086
fax: (+1) 202 522-2990
<http://www.worldbank.org/bpd>
Post-conflict Unit
Tel: (+1) 202 473 4163
Fax: (+1) 202 522 1669

International Labor Organization
4, route des Morillons
CH-1211 Geneva 22
Switzerland
Tel: (+41) 22 799-7456
<http://www.ilo.org>

SPECIALIST CONSULTANCIES

SustainAbility
11-13 Knightsbridge
London SW1X 7LY
United Kingdom
Tel: (+44) 20 7245-1116
fax: (+44) 20 7245-1117
<http://www.sustainability.co.uk>

Control Risks Group
83 Victoria Street
London SW1H 0HW
Tel: (+44) 020 7222 1552
Fax: (+44) 020 7222 2296

Political and Economic Link Consulting
310 West 97 Street, Suite 53
New York
New York 10025
USA
Tel: (+1) 212 531 0215
Fax: (+1) 212 663 0607

Kroll Associates
900 Third Avenue
New York
NY 10022
Tel: (+1) 212 593 1000
Fax: (+1) 212 593 2631
<http://www.krollworldwide.com>

Appendix V: Acknowledgements

The writing of this report has in itself been a process of building understanding, learning, trust and new partnerships between people from a wide variety of sectors and perspectives. The following people have made a valuable contribution both to the process of mutual learning and to the final product. The subject of business and conflict is a complex and at times sensitive one, with many areas in which it is difficult to achieve consensus. Whilst every effort has been made to incorporate the recommendations and different perspectives encountered in the process of researching and writing this report, the final interpretations are those of the author and do not necessarily represent the views of the people listed below:

- My colleagues on the project team consisting of: Phil Champain and Nick Killick from International Alert; Jordana Friedman from the Council on Economic Priorities; and Harriet Fletcher from The Prince of Wales Business Leaders Forum, who have provided a wealth of background research, useful contacts, editorial input and moral support. They have also facilitated consultations and meetings with representatives from the business, government and civil society sectors in the United Kingdom, the United States and Azerbaijan. These have been key to our understanding of both the challenges and opportunities for business engagement in conflict prevention and resolution.
- Our advisory group, a number of whom shared their time and experience with us on a ongoing and extremely generous basis. They are as follows: John Bray (Control Risks Group); Geoffrey Chandler (Amnesty International); Glynn Cochrane (Rio Tinto); Melissa D’Mello (formerly UK Foreign and Commonwealth Office); Richard Fletcher (Nortel Networks); Bennett Freeman (US State Department); Rolf Lunheim (Norsk Hydro); Alistair Newton (formerly UK Foreign and Commonwealth Office); David Rice (BP); Colin Scott (World Bank); and Sophia Tickell (Oxfam GB). A special note of thanks to Sophia Tickell, whose corporate responsibility framework of ‘do no harm’ and ‘do positive good’ helped to develop my thinking for the corporate responsibility strategies on page 28.
- Our own colleagues in our respective organisations. Special thanks to our CEOs: Robert Davies from the PWBLF; Kevin Clements from IA; and Alice Tepper Marlin from CEP, who have played key roles in getting the issue of conflict prevention and resolution onto the business agenda, and in getting business onto the conflict prevention and resolution agenda. Robert Davies also developed an initial set of Principles for Corporate Engagement, which have been adapted for this report. Other colleagues have helped by researching, reading and commenting on drafts of the report, especially Damien Lilly and Sarah Meek from IA, Malcolm McIntosh, Pia Chaudhari, Peter Currie, Rachel Stern, Georgina Broke and Teresa Fabian from CEP, and Aidan Davy, Frances House and Alok Singh from the PWBLF.
- Other people who played a key role in commenting on the report and/or providing materials and contacts: Sir George Quigley; Roger McGinty; George Wallerstein; Jehan Pereira; Kanaka Abeygunawardana; Hiran Hewawasanthi; Brian Shaad; Simon Starling; and David Killick.
- Polden Puckham for their funding contribution towards the publication of this report and Mike Coates at Folium.
- Alison Beanland who designed the report and Jeff Pedde, who both provided invaluable support throughout.
- The many people whom we met through our advisory group, our case study research and our field consultations, who address the challenges of conflict prevention and resolution on a regular basis in their daily lives. They have helped us to understand not only the complexities involved in bringing business ‘to the table’ as a partner in conflict prevention and resolution, but also the strong desire on the part of many people to make this difficult process work – both at the level of national and international dialogue and at the level of local, practical action. Hopefully this report will make some contribution to increased understanding of both the problems and the potential. Above all, hopefully it will encourage increased efforts at consultation and partnership building between business, government and civil society.

During the past decade the forces of political transformation and economic globalisation have created a world of new opportunities and hope for some, but increased instability and insecurity for others. As we enter the 21st century violent conflict continues to affect the lives of millions of people, undermining human progress and economic development. This has important implications for the private sector, which has become an influential player in many conflict-prone or conflict-ridden countries. From Azerbaijan to Zimbabwe, the potential and reality of violent conflict is becoming an unavoidable business issue. This publication provides a comprehensive and practical overview of the linkages between business and conflict. It outlines:

- Why the private sector can no longer afford to ignore the causes and costs of conflict;
- Some of the key factors that determine whether business plays a negative role by creating or exacerbating violent conflict, or a positive role by helping to prevent or resolve it; and
- The practical actions that companies can take, both individually and in partnership with other actors, to support conflict prevention and resolution and some of the management challenges associated with these actions.

The report is aimed at company managers and other practitioners and policy makers active in the increasingly inter-linked fields of corporate social responsibility, international development and conflict prevention and resolution.



ISBN: 1 899159 59 2