

# The Role of the Private Sector in Conflict Prevention: Progress, Prospects and Challenges.

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## **Introductory Comments:**

### *Ladies and Gentlemen, Colleagues, Members of the Global Compact Policy Dialogue:*

First, I would like to express my gratitude to the organizers of the Global Compact and their Colombian partners for organizing this important meeting and for the honor of inviting me here today to share my perspective on the importance of conflict prevention and of the opportunities for the private sector to contribute to its improvement.

Over the course of the last four years, the Global Compact -- with the support of several governments, notably of Switzerland and Canada -- has provided a unique forum for companies, labor and advocacy groups, conflict specialists and governments to come together to work out collective solutions to address urgent challenges of conflict prevention and conflict management.

It has provided a platform for dialogue and learning for all of us.

Through it, companies have gained a greater awareness of their role in conflict and the potential contribution they can make to conflict prevention by safeguarding human rights and human security;

Non-governmental organizations have become more sensitized to the concerns of business in this area and have recognized the importance of cooperative engagement;

And conflict specialists, conventionally focused on the political and military dimensions of conflict, have gained invaluable insights into the underlying, and often complex, political economy that sustains many contemporary armed conflicts in an era of globalization.

Most important, the process has resulted in both a better understanding of the critical nexus of business and conflict and better practical policies by which companies, NGOs, labor groups, governments and the UN can strengthen conflict prevention.

Companies, governments, NGOs and the UN have come here for a range of different reasons.

For my part, I come to this issue from a concern for improving our capacity to prevent conflicts, to protect and promote human rights, and to ensure the conditions for sustainable and peaceful development.

Many of you here have a direct-- and even personal experience-- of armed conflict and much to teach those of us who do not. For my part, I would like to place your experience in a wider, comparative context, to provide a “big picture” of the problem we face, the challenges it poses, and the prospects for further progress in addressing it.

### **The Political Economy of Conflict and the Role of Business:**

In a recent speech to the UN Security Council, Secretary-General Kofi Annan said:

‘The economic dimensions of armed conflict are often overlooked, but they should never be underestimated. The role of business, in particular, can be crucial, for good and for ill.

Private companies operate in many conflict zones or conflict-prone countries. Their decisions – on investment and employment, on relations with local communities, on protection for local environments, on their own security arrangements – can help a country turn its back on conflict, or exacerbate the tensions that fueled conflict in the first place.’<sup>1</sup>

It is, of course, the aim of this meeting to explore the role of business in shaping conflict dynamics, “for good and for ill”. To understand this, I think it necessary to first examine the broader context of the political economy of armed conflict generally.

Since the 1990s , there has been an emerging trend of increasingly *self-financing* conflicts.

Observers have attributed this trend to two simultaneous and profound shifts in the global political and economic order: the end of the Cold War and the rapid liberalization of the global marketplace.

The end of the Cold War brought to a sudden end the largesse of superpower patronage. Active and aspiring combatants, insurgent movements as well as state militaries, were forced to seek out alternative sources of war finance.

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<sup>1</sup> UN Secretary General speech to the Security Council, 15 April 2004.

In many cases, state support by regional patrons became more important than ever, particularly for embattled governments.

But, relative to earlier periods, combatant groups increasingly gained economic sustenance from an wider array of non-state sources, including the traditional fallbacks of plunder and pillage, rudimentary systems of war taxation and the capture of relief aid and diaspora remittances.

In cases, such as in Colombia, where countries are rich in lucrative natural resources, oil, precious minerals, timber and cash crops, particularly illicit narcotics such as opium and coca, have become a major source of war revenues.

The parallel liberalization of the global economy, and with it, the erosion of state-based regulation, has expanded the opportunities for combatants to gain access to licit and illicit global trade and capital markets, enabling them to transform these captured assets into guns and money.

These developments have several important implications for conflict management and conflict prevention.

1. *Warfare has become increasingly privatized.* State and non-state combatant groups are very often economic entrepreneurs as well as fighters; securing economic assets is essential to their military campaigns and self-financing. Increasingly, they target lucrative assets, and local and international business operations in order to deny the resources to their enemies and to extort or seize them for direct financial gain.

*This entails obvious risks for companies in terms of security of plant and personnel.*

2. Both directly and indirectly, *conflicts involve a wider number of non-state actors*, including a greater role for transnational organized criminal groups, middlemen who help translate illicit wealth into licit wealth; rogue companies who seek out profit opportunities created by the lawlessness and chaos of conflict.

Very often, in the context of lawlessness and rapid shifts in local authority, it becomes difficult to distinguish legitimate and productive economic activity from predation and illicit exploitation. Where contracts are made and broken through violence, they are not a reliable guide of determining legitimate property rights.

Just as the activities of organized criminal groups may lead some to conclude that the insurgencies have no legitimate political or other cause and are merely another form of economic crime, so, too, some might conclude that the activities of some rogue companies and middlemen means that ALL business activity in conflict zones is complicit and illegitimate.

I am not saying this is the case, and I do not believe it to be true.

The point is that the lines between legitimate/illegitimate business and licit/illicit trade become very unclear.

*For companies, the choice of continuing investments or operations in conflict zones now also entails important, often fateful, reputational risks.*

3. *Conflict support networks extend beyond borders of the affected country.* They are often rooted in regional conflict formations and regional informal economies. As important, they have systematic global economic connections. While most conflicts are raging in the developing world, most of the means for fighting them, arms and money to purchase arms, flows from the developed world.

### **The Role of Business: For Good and For Ill, But Never Neutral**

Just as they are but one of a wider set of actors in conflict settings, multinational companies constitute only one potential North South link to conflict dynamics. But it is an important one.

I have already sketched out some of broad conditions which have brought companies into the political economy of armed conflict.

Here I would like to bring your attention to the critical connections between Business and Conflict in two main areas: investment and operations.

How these activities are managed can mean the difference between conflict prevention and conflict promotion

#### *1. Investment:*

Many conflict settings are characterized by weak and unaccountable governments or, worse, by repressive and corrupt leaderships that routinely rely on corruption and patronage to retain power. These behaviors undermine both security and development and heighten grievances among those who are politically excluded and economically marginalized.

While companies have a preference for a stable, predictable business environment and for local partners who will honor contracts, too often, companies will settle for less. In so doing, they actually undermine the prospects for predictability and stability.

In oil-rich Angola, MNC contractual payments to the Angolan government fueled massive corruption and permitted the Angolan government to divert billions of dollars in oil revenues off the books, often to finance military campaigns, and always to the detriment of the Angolan people, besieged by two decades of conflict and abject poverty.

This points to the importance of strengthening the transparency of investments, on the part both of companies and of host governments. As will be addressed in other sessions of this meeting, both the NGO-sponsored Publish What you Pay Campaign and the UK-Sponsored Extractive Industry Transparency initiative offer opportunities for companies to join with other stakeholders in developing appropriate standards for transparency and for devising fair and effective methods of implementation.

Improving transparency is not a panacea, but it is a crucial first step for conflict prevention: it allows a clearer understanding of what governments and companies are actually doing, information that will allow affected populations a greater opportunity to hold their governments accountable and to prompt governments to distribute economic wealth more equitably and more productively.

For companies, improved transparency will bring the direct benefits of enhanced reputation and reduced temptations for bribe-making and bribe-taking, and more gradually, help build a more predictable and stable business environment.

## *2. Operations:*

In conflict settings, local company operations and projects offer a number of opportunities for making effective contributions to conflict prevention.

Very often, however, companies that find themselves targets of violence or otherwise caught up in community tensions are under pressure to react to and deal with the immediate crisis, rather than understanding how their own practices and policies may be fueling grievances and tensions and how they may alter operations such that they “do no harm”.

In some cases, this method of ad hoc crisis management leads to misguided responses:

Why should building a school be expected to reduce local grievances, if those grievances concern environmental despoliation?

Why should cash compensation to putative community leaders be expected to assuage entire communities when only a few benefit?

As these examples show, ad hoc responses of crisis management not only fail to address the critical problems but can create further problems down the line.

Routine operational policies including siting decisions, hiring practices, and security measures all can have profound impacts on the well-being of the local community and on wider conflict dynamics. As operations expert Luc Zandvliet, observes, these decisions are “Never Neutral”.

Very often, even well-intended efforts to compensate the local community, through direct financial payments, through community projects, through employment schemes, or to safeguard personnel and operations can have unintended negative impacts. While some of these challenges, particularly the provision of security involves some very difficult dilemmas, others are predictable and more easily avoided.

Companies are long used to conducting political risk assessments of proposed and ongoing projects. Typically, these exercises are aimed at identifying risks to operational security and productive efficiency. That is, they are one sided.

Only recently have companies begun to look at the other side; that is, to examine the risks that their routine operations may pose to conflict dynamics and community well-being. Due in large part to the efforts of the Global Compact and to studies undertaken by NGOs such as the Collaborative for Development Action and International Alert, we now have a greater awareness of the practical operational decisions that may unwittingly fuel conflict and of the need to build this knowledge into careful and thorough conflict impact assessments.

Undertaking Conflict Impact Assessments before projects are launched is a cost-effective way of anticipating and lessening the risk of conflicts that can harm local communities as well as compromise company operations. Conflict Impact Assessments will help to identify critical problem areas before they occur, allow companies to target their resources to those preventive measures that are most appropriate and necessary to ensuring that operations “do no harm”, and to provide benchmarks for monitoring progress.

### **Challenges and Prospects:**

Over the last three years, the Global Compact and parallel initiatives by companies, NGOs, international organizations and some governments have made huge progress in identifying policy priorities and developing practical tools for business to adopt for conflict prevention. The Global Compacts Nine Principles and its on-going promotion of practical guidance in the areas of transparency, conflict impact assessment, and private-public partnerships has provided an invaluable source of accumulated knowledge and best practices.

Measured by where we were on this agenda only 4 years ago, this is significant and important progress.

Yet, there remain several challenges to improving the potential business for business to make a positive contribution of conflict prevention, sustainable development and human rights. How we rise to these challenges will critically shape the prospects for reducing the potential of economic factors in fueling instability and conflict.

At the very first Global Compact meeting three years ago, two issues were raised which I believe are still abiding challenges to further progress: I will call them the problem of “consensus” and the problem of “collective action”

*The Problem of Consensus:*

While there is a growing (and often bewildering) array of proposals as to how companies might strengthen CSR in conflict settings, there is still very little consensus among governments, NGOs, business and affected communities as to what sorts of activities companies are engaged in that are “unacceptable”. Neither national nor international law provides a clear set of principles. In their absence, the problem of impunity, both of conflict-promoting activities of economic actors, and economic malfeasance by combatants and their accomplices remains wide open. There is thus no deterrent to of continued predation and conflict-promoting economic exploitation.

Today, only a few hardcore Human Rights activists would argue that all and any profit making activity in a conflict zone is unacceptable. Many now recognize that business can bring many needed benefits even in unstable and conflict prone areas. Many also recognize that seeking to ban investment and operations in conflict zones is as impractical as seeking to outlaw war itself.

The challenge then, is to work together to establish minimum international norms as to which activities are unacceptable. Existing conventions such as those against smuggling, transnational organized crime, money-laundering and bribery are useful starting points but only go part of the way in clarifying the gray areas between licit and illicit economic activities in conflict zones.

These can be broadened by more systematic inclusion of international human rights and humanitarian law, as well as laws governing conduct in war. While most of these conventions are state responsibilities, they can be applied to individuals and to groups who violate them.

Among the business community, there is an understandable resistance to efforts to establish an international legal norm covering these issues. In particular, there has been a great deal of energy spent on opposing the recently announce UN Sub-commission’s draft *Norms on the Responsibilities of Transnational Corporations*.

I believe this opposition to be misdirected. If legitimate and reputable companies wish to improve the prospects for conflict prevention and sustainable development, then they should seek to work out norms and standards which will clarify and simplify expectations and responsibilities. From this perspective, the UN DRAFT NORMS offer an opportunity for constructive dialogue and consensus building that should not be missed.

## **The Problem of Collective Action:**

Business is by definition better suited to competition than cooperation, Indeed, healthy competition is a hallmark of innovation and productivity. As businesses find themselves increasingly concerned with the wider social, environmental and security impacts of their activities, however, the culture of competition needs to be reconciled with the imperative of cooperation.

In the course of my own work in the last few years, I have repeatedly encountered companies that, in principle, are committed to improving conflict prevention practices, but that, when it comes to implementation, have proven reluctant. The reason cited is always the same: we cannot do it, unless our rivals do it, too. Otherwise, we risk paying the costs in competitive advantage to the benefit of less scrupulous rivals.

This is a real and unavoidable conundrum. And it continues to hamper broader progress by companies in the area of CSR that deals with conflict. But it is not insurmountable.

Very often advocacy groups cite this dilemma as proof of the “failure” of voluntary initiatives, and as an argument in favor of establish hard legal and regulatory solutions. While setting a common playing field would indeed relieve the collective action problems identified above, it is yet a prospect that companies see as a threat to their competitiveness and productivity.

In my view, the debate over which form of regulation is optimal both for companies and for the societies in which they operate, often framed as “voluntary v mandatory” regulation, is a false dichotomy.

In my view, if voluntary self-regulation at the company, industry and sector levels could achieve measurable benefits, then the alternative of mandatory regulation would, in many instances, be unnecessary.

In my view, the choice remains with companies and industries. There is indeed a need to strengthen voluntary self-regulatory standards.

Take for example the *US UK Principles on Security and Human Rights*. This bold initiative, undertaken by a group of progressive Multinationals, NGOs and the governments of the US and the UK, was launched in 2000 to address two of the most critical issues of business and conflict: security and human rights. The initiative has been endorsed by a growing number of governments and companies.

Yet, it has also come under criticism for lack of implementation, lack of transparency, and lack of reliable methods for monitoring actual company performance against the standards, so that reliable assessments can be made of its effectiveness. There is a real risk that those companies that are making progress will be judged wanting, and will be lumped together with poor performers.

It is therefore critical that those who have voluntarily subscribed to the *US-UK Principles* undertake to establish credible monitoring mechanisms in order to demonstrate, rather than merely declare their effectiveness.

In this way, the implementation of voluntary mechanisms can be made obligatory for those who have chosen to subscribe to them. Unless they do so, the default option for resolving the collective action problem may be precisely what companies do not want: external legal regulation.

In closing, I wish again to extend my thanks to the Global Compact and our Colombian hosts for allowing me the opportunity to share my perspective on these issues. And I would like to encourage you over the next days of discussion to return to the core issues of building consensual normative and practical solutions such that businesses can continue to do business and yet “do no harm”.

Thank you.

Gracias.