



## DRAFT

### **“Responsible Business in Conflict-Affected and High-Risk Areas: Guidance for Companies & Shareholders”**

(As of 24 March 2010)

#### 1. INTRODUCTION

The issue of business in conflict-affected and high-risk areas (referred to hereafter as conflict areas) has generated significant interest among companies and investors in recent years. Numerous initiatives and tools have been developed to examine and strengthen international standards, norms, and practices on responsible corporate activities in such areas. Despite this, investors and companies still face many challenges in working to address these issues in a constructive manner. Two major difficulties have been the lack of agreement and common reference point for what constitutes “responsible” business for companies in conflict areas, and the practical challenges particular to such contexts.

**Purpose:** The primary purpose of this guidance document is twofold:

- to assist companies in living up to the UN Global Compact Ten Principles in conflict areas of their operations, so they maximize their long-term financial performance and positive contributions to peace and development, and minimize risks and negative impacts to business and society, and
- to provide a common reference point on the question of companies’ activities related to conflict areas that facilitates constructive engagement, as opposed to divestment, between companies and investors<sup>1</sup> (specifically shareholders and potential shareholders).

This document was developed by the United Nations Global Compact Office, the Principles for Responsible Investment and an expert group comprised of company representatives, investors,

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<sup>1</sup> As used in this document, the term “investors” refers to a number of financial agents including asset owners (such as pension funds, government reserve funds, foundations, endowments, insurance and reinsurance companies and depository organizations); investment managers; and professional service providers engaging with investee companies on behalf of their client financial institutions. Further information on the term is available on the Principles for Responsible Investment’s website at [www.unpri.org/faqs/#whocansign](http://www.unpri.org/faqs/#whocansign).

civil society leaders, UN representatives and others. The guidance complements expectations for responsible practices in peaceful and stable contexts, which continue to apply where instability, conflict, and violations of human rights and political or civil liberties are present. The document draws on, rather than replaces, existing initiatives, guidance and expertise.

**Context:** While the main responsibility for peace and security rests with governments, companies are not neutral actors in conflict areas. As the guidance points in this document explain, certain steps are necessary in order to avoid activities and impacts that exacerbate or fuel instability or conflict. For example, stakeholder engagement practices unintentionally benefiting one population over another may result in inter or intra-community discord; ill-considered social investment projects may undermine and delegitimize a government's role in providing basic services; human rights abuses may result where security forces engaged by a company use excessive force or abuse in protecting staff or company assets; lack of transparency in government relations and revenue provision can exacerbate conflicting parties' grievances and undermine development and accountable governance mechanisms; and the supply of material or financial means, for example via tax revenues, may inadvertently sustain armed violence. In addition to affecting surrounding environments, these impacts often create reputational, operational, and financial risks for companies and their investors. Their mitigation is thus integral not only to successful risk management but to maximizing companies' opportunities to operate profitably and sustainably in conflict-affected and high-risk areas.

Beyond taking steps to ensure their activities avoid inadvertently furthering instability or conflict, companies can and do make meaningful contributions in conflict-affected and high-risk areas. For example, they can support stability by creating job opportunities, generating revenues that advance economic recovery, investing sustainably in local communities, fostering positive community relations through inclusive work environments and stakeholder dialogues, and promoting best practices in human rights and the environment. These contributions can be made by companies of allsorts: small and large, public and private, international and local businesses.

When companies and investors are able to understand and take steps to address complex issues associated with such contexts, they can not only mitigate the risks and negative impacts posed to and/or by corporate activities but they can also play an important role in supporting peace and development, and ensuring long-term financial performance of business.

***The meaning of “conflict-affected” and “high-risk” in this document:***

*There is no single definition for the terms ‘conflict-affected’ and ‘high risk’ areas. In this document, they are used to describe four types of contexts. Countries, areas or regions:*

- *that are not currently experiencing high levels of armed violence, but where significant political and social instability prevails, and a number of factors are present that make a future outbreak of violence more likely (these factors are explained further throughout the document);*
- *in which there are serious concerns about violations of human rights and political and civil liberties, but where violent conflict is not currently present;*
- *that are currently experiencing violent conflict, including civil wars, armed insurrections, inter-state wars and other types of organized violence; and*

- *that are currently in transition from violent conflict to peace (these are sometimes referred to as ‘post-conflict’; however transition contexts remain highly volatile and at risk of falling back into violent conflict).<sup>2</sup>*

All UN Global Compact participants are expected to embrace, support and implement, within their sphere of influence, a set of 10 principles in the areas of human rights, labour standards, environmental sustainability, and anti-corruption in all countries, areas, and regions where they do business. However, conflict areas, which exist in a variety of contexts, present special challenges to conducting business responsibly. Highlighting them here is not intended to discourage private sector investment, but rather to ensure its potential benefits are fully realized. These areas differ significantly from more stable operating environments and require companies and investors to take into consideration additional factors. In general:

- Instability and unpredictable environments make adhering to responsible business practices more challenging;
- Failure to adhere to standard responsible business practices carries additional costs and risks in such contexts, as it can exacerbate tensions and instability; and
- As further elaborated in this document’s four sections, practical and contextual challenges unique to such areas require additional and different approaches.

**Using this document:** The guidance aims to provide a common reference point for companies and investors. It does not offer technical instructions for operationalising best practices or a blueprint for responsible behaviour in all conflict areas. Rather, it provides a foundation for addressing critical issues, and guidance that can be adapted to specific circumstances.

The document categorizes responsible business practices into four sections:

- Core Business,
- Government Relations,
- Local Stakeholder Engagement, and
- Strategic Social Investment.

Each section includes the following:

- Definitions of relevant terminology;
- Opportunities and risks to companies conducting business in conflict areas;
- Guidance points on addressing specific risks;
- Explanatory notes and brief examples illustrating the guidance points; and
- Links to the most relevant tools and resources that provide further operational guidance.

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<sup>2</sup> The following conditions often prevail in conflict-affected and high-risk areas, they are often precursors to violence, and comprise the type of operating environment for which this document will be useful: large scale human rights violations; presence of an illegitimate or unrepresentative government; lack of equal economic and social opportunity; systematic discrimination against parts of the population; lack of political participation; poor management of revenues, including from natural resources; endemic corruption; chronic poverty.

All of the sections are complementary, and good practice with regard to one should not be considered a substitute for another. The annex builds upon existing resources in the field and provides a list of the most relevant tools and initiatives that should be considered when implementing the guidance points.

Companies are strongly encouraged to refer to this guidance at the earliest stages of their operations, including during initial consideration of investment in conflict areas. However, it is designed to be useful throughout. Global Compact participants are encouraged to use their annual Communication on Progress to report on the steps taken with regard to implementing this guidance.

Since this document is intended for reference by companies and investors, the need for constructive engagement between the two is an overarching issue that applies throughout the Guidance. In order for companies and investors to engage constructively on the guidance points below, and to realize opportunities and avoid risks associated with conflict areas, the following steps are strongly recommended:

Companies should:

- Develop policies and procedures for engagement<sup>3</sup> with investors and be open to discussing concerns about activities in conflict areas within this framework. These policies and procedures should be made public;
- Make reasonable efforts to disclose, in a timely manner and taking account of legal and commercial considerations, information that will enhance investors' preparedness and understanding of relevant issues relating to business activity in conflict areas; and
- Ensure the involvement of their boards and senior management on these issues to demonstrate high-level concern for the challenges of operating in such contexts.

Investors should<sup>4</sup>:

- Make reasonable efforts to assess all information and analysis available in the public domain on the issues at hand when engaging companies; and
- Be prepared to act collectively with other investors on areas of common concern under appropriate circumstances.

Implementing conflict-sensitive business practices as articulated in the guidance points below requires engagement and constructive partnerships among all relevant stakeholders. Global Compact Local Networks, which are country-specific, multi-stakeholder platforms, should be considered potential vehicles for such engagement and collaboration.

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<sup>3</sup> As used in this document, the term "engagement" is to be understood as an overall description for a two-way conversation between a company and its shareholders and/or potential shareholders for the purpose of communicating views and concerns on issues that can impact the long-term performance of the company. Such dialogue can vary from regular correspondence to resolutions on company ballots at Annual General Meetings (AGMs), or in-depth meetings over a significant time period. Engagement with companies operating in conflict areas specifically can increase investors' understanding of highly complex situations and access to information regarding companies' activities, promote the development of good policies and risk mitigation strategies related to such activities, and encourage companies' positive contributions to sustainable peace and development.

<sup>4</sup> The PRI Initiative will be producing more practical guidance on "impacting investing" and the integration of ESG issue.

## 2. CORE BUSINESS

“Core business” refers to corporate activities aimed principally at generating profits. This includes operations located at the company’s own premises its branches, subsidiaries and/or joint ventures, as well as trading and procurement links with suppliers.

**Opportunities:** Through responsible core-business operations, a company can make important contributions to the mitigation of risk factors present in conflict areas, and the economic recovery of regions coming out of conflict. Examples include:

- Generating tax revenues for host governments that, if managed responsibly, can help them recover and resume social services to their citizens after war;
- Creating job opportunities, thereby ensuring equitable access to jobs through sensitive human resource policies and bringing diverse groups together to work towards shared and mutually beneficial economic and social development;
- Ensuring the use of local products and services in its supply chains wherever possible; particularly including vulnerable and conflict-affected parts of the population; and
- Ensuring that infrastructure developments around company operations benefit local communities, for example, by emphasizing feeder-roads and facilitating market-access for communities affected by the companies’ operations.

**Risks:** Companies active in conflict areas face numerous challenges to their operations. At the same time, their core business operations can in turn have negative, unintended consequences and impacts if adequate corporate policies and strategies are not in place. The most significant risks and impacts relating to a company’s core business operations are identified below, with guidance on how they can be addressed. Reducing operational risks in the ways suggested below will enhance a company’s ability to create value.

**Risk 1:** A company may fail to adequately assess the context it operates in and its potential to aggravate conflict through its core business activities, and be exposed to heightened risks, such as tensions and disruption in its own operating environment.

**Guidance Point #1:** Companies should ensure that their core business operations are sensitive to conflict dynamics. They can achieve this by adapting existing due diligence measures to the specific need of the context, such as impact assessment practices and policies; the way performance is tracked, and progress reported on.

**Explanatory Note:** *Conflicts can arise from a number of problems that can be inadvertently exacerbated by company investments. Companies should take purposeful steps in order to operate in a manner sensitive to the conflict. This includes three overall dimensions:*

1. *Understand the risks and conflict dynamics present in the operating environment and the potential impacts of its own operations. Examples of these include fuelling corruption, labour issues, or lack of socioeconomic opportunities for local populations. Conflicts can also arise where company behaviour contributes to environmental damage; uses natural resources unsustainably; or restricts access to natural resources such as land and water.*

2. *Adapt operations to minimize negative risks and impacts.*
3. *Adapt operations to maximize potential positive contributions through core business operations.*

*To achieve this, companies are encouraged to:*

1. *Develop internal policies and management systems, increase staff awareness and skills and create incentive structures to promote business practices sensitive to risks and conflicts.*
2. *Conduct a ‘conflict risk and impact assessment’ prior to beginning. This should complement, and not replace, human rights, environmental and social impact assessment processes.*
3. *Continue to regularly monitor the operating environment based on credible and reliable sources of information, from the pre-acquisition phase. This can be in addition to or integrated in other types of information gathering (such as political risk analysis or security assessments).*
4. *Work in partnership with reputable third parties with the relevant local expertise and skills, such as in conflict analysis, mediation and arbitration. Partners can be local and international civil society organizations, development agencies, or think tanks and universities.*
5. *Explore options for contributing constructively to tackle specific risks and conflict issues identified (see paragraph on opportunities above).*

*For guidance, see for instance:*

- *The UN Global Compact [Business Guide for Conflict Impact Assessment & Risk Management](#);*
- *OECD [Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones](#);*
- *IPIECA’s guide [“Operating in areas of conflict”](#).*
- *International Alert’s [Conflict-Sensitive-Business Practice: Guidance for Extractive Industries as developed by International Alert](#). The UN Global Compact’s Principles 7, 8 and 9 provide further guidance on environmental issues;*
- *The UN Global Compact’s Principles 7, 8 and 9 provide further guidance on environmental issues.*

### ***Community grievances causing financial risks for an oil company***

***Issue*** – *Conflicts between local communities and an oil company in Asia over the impacts of the oil operations threatened to cause delays and financial losses for the company.*

***Approach*** - *The company employed four main strategies to engage more effectively with communities: (1) community outreach and interviews with key opinion leaders and decision makers; (2) information dissemination, education, and communication activities for the wider community; (3) perception surveys and participatory workshops to introduce the project and validate initial survey results; and (4) participatory involvement in the formulation of environmental management plans.*

*The cost of this engagement was estimated at approximately US\$6 million on a total project cost of US\$ 4.5 billion (0.13% of total costs).*

***Result*** – *The company calculated that by changing its engagement with local communities, it managed to avoid project delays of approximately 10-15 days, equivalent to an estimated saving of US\$ 50-72 million through timely completion of construction and avoiding contractual penalties.*

*For more information see:*

- *Engineers Against Poverty [‘A Systemic Approach to Project Social Risk Management’](#); and*
- *World Resources Institute [‘Development Without Conflict – the Business Case for Community Consent’](#).*

**Risk 2:** Grievances and disputes may arise from a company’s core business operations among local communities and other stakeholders. They may not be detected at an early stage and constructively and effectively dealt with in a timely manner. As a result, grievances of those affected may be left to fester and lead to increasing tensions.

**Guidance Point #2:** Companies should make a publicized commitment to resolving disputes constructively. In the first instance, this should be attempted through dialogue with the affected parties. In addition, effective dispute resolution systems and grievance procedures need to be in place that allow affected parties to file complaints.

**Explanatory Note:** *In conflict areas, communities typically experience high levels of stress and trauma, for example through prevailing insecurity, violence or displacement. Imprudent company practices may add further grievances to this already strained situation. Due to the preexisting strain on the population and the constantly changing, businesses need to pay particular attention to regularly tracking and adapting their operations to mitigate their negative impacts. In order to monitor performance and develop a social license to operate, companies should:<sup>5</sup>*

- 1. Establish a constructive relationship with local communities through community engagement and dialogue as essential elements of impact assessments and monitoring (see also Section 4 on Stakeholder Engagement).*
- 2. Establish dispute resolution mechanisms according to existing standards to settle disagreements and grievances arising among community members negatively affected by core business operations standards.*
- 3. Observe these practices with additional safeguards to ensure broad participation of the community, and the safety of those participating. Companies should take appropriate steps to ensure that community members can raise grievances freely and safely, and in the knowledge that their concerns and complaints will be dealt with in an objective and timely manner. Relevant stakeholders need to be informed about existing company policies and how specific challenges observed will be addressed.*

*For guidance, see for instance:*

- International Council on Mining and Minerals [‘Handling and Resolving Local-Level Concerns and Grievances’](#);*
- John F. Kennedy School of Government, Harvard University: [‘Grievance Mechanisms for Business and Human Rights Strengths, Weaknesses and Gaps’](#);*
- And the website of the [IFC’s Compliance Advisor Ombudsman](#).*
- [“Protect, Respect and Remedy: a Framework for Business and Human Rights”](#). Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, John Ruggie (particularly paragraphs 92-95).*

**Risk 3:** Core business activities may violate international human rights, humanitarian and criminal law or may lead to accusations of complicity, endangering the lives and safety of civilian populations and leading to legal liabilities, reputational and financial risks for companies.

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<sup>5</sup> Local Global Compact Networks can assist in multi-stakeholder review mechanisms.

**Guidance Point #3:** Companies should adhere to both national and international law throughout their core business activities, integrating international human rights standards, humanitarian and criminal law into policies, strategies and operational guidance. To that end, companies should have effective systems in place to promote and monitor compliance with these regulations.

**Explanatory Note:** *Systematic and large-scale violations of human rights, humanitarian and criminal law frequently accompany violent conflict, and can be both a cause and a consequence of conflict and instability. What begins as small-scale and apparently ‘one off’ violations, can quickly escalate into large-scale abuse. In order to avoid complicity with violations of laws and corruption, companies should therefore:*

1. *Put measures against complicity in human rights violations and other relevant legal standards at the heart of risk management for their companies.*
2. *Develop corporate policies and systems throughout the company to ensure effective adherence to all relevant legal standards.*
3. *Mainstream policies and systems throughout the company, such as by providing training to employee and develop adequate indicators for compliance.*

*For guidance see, for instance,*

- *The “Business and International Humanitarian Law: An Introduction to the Rights and Obligations of Business Enterprises under International Humanitarian Law”.*  
[http://www.icrc.org/Web/Eng/siteeng0.nsf/htmlall/p0882/\\$File/ICRC\\_002\\_0882.pdf](http://www.icrc.org/Web/Eng/siteeng0.nsf/htmlall/p0882/$File/ICRC_002_0882.pdf));
- *The BLIHR “Guide for Integrating Human Rights into Business Management”*  
<http://www.integrating-humanrights.org/>).
- *The Final Report of the ICJ Expert Legal Panel on Corporate Complicity in International Crime*  
<http://www.business-humanrights.org/Updates/Archive/ICJPaneloncomplicity>)
- *The Extractive Industry Transparency Initiative (EITI).*
- *The [Global Compacts’ Principle 2](#) provides guidance on different forms of complicity and how companies can avoid becoming complicit.*
- *The Labour Principles of the United Nations Global Compact: a Guide for Business.*

#### ***Law-suits over involuntary resettlement of communities***

**Issue** - *In the context of the construction of a dam in Asia, a company was allegedly involved in involuntary resettlements of local populations. It was claimed that as many as 23,000 people suffered economically as well as socially through the loss of property, environmental degradation and the destruction of communities.*

**Result** - *Altogether more than 8,000 plaintiffs filed a law-suit against the company in its home country, seeking USD 165 million in compensation. The company was accused of illegal acts during various phases of the project, including the feasibility study, the design-phase and while performing supervision. The court has recently rejected the claim arguing that the accusations had to be dealt with in the host country of the dam. The plaintiffs have announced to appeal against this ruling.*

*For more information see [www.redflags.info](http://www.redflags.info)*

**Risk 4:** Abusive behavior by security forces engaged by a company to protect staff and plants (e.g. excessive use of force and resulting human rights violations) may expose the company to liability risks for the violations committed.

**Guidance Point #4:** Companies should manage security services provided by private as well as public security forces, in accordance with evolving good practices including the Voluntary Principles on Security and Human Rights.

**Explanatory Note:** *In conflict-affected and high risk areas, companies hire private security providers or work with public security providers to protect their operations and personnel. If security providers, for instance, use excessive force, this can result in human rights violations, such as killings, beatings, rape or torture. This type of action may implicate the individuals or company employing them, especially where there is a history of abuse; creating legal liabilities under both domestic and international laws. This may be the case even where the company did not intend or order the actions.*

*Companies are encouraged to:*

- 1. Join the Voluntary Principles on Security and Human Rights (VPs) where possible and/or adapt their guidance.*
- 2. Build such standards into contracts with security providers where possible.*
- 3. Screen potential security providers' track records, including their human rights records, and ensure they have requisite policies and codes of conduct that reflect good practice in security provision.*
- 4. Consult regularly with host governments and local communities about the impact of security arrangements on those communities.*
- 5. Record and report any credible allegations of human rights abuses by security providers in company areas of operation to appropriate host government authorities.*

*For guidance, see, for instance,*

- The "Red Flags", especially explanation and case examples under 'Engaging Abusive Security Forces' (<http://www.redflags.info>).*
- The Voluntary Principles on Security and Human Rights (<http://www.voluntaryprinciples.org/>) provide guidance for companies for reducing the risks of complicity in human rights violations by security providers.*
- Voluntary Principles Performance Indicators ([http://www.international-alert.org/pdf/Voluntary\\_Principles\\_on\\_Security\\_and\\_Human\\_Rights.pdf](http://www.international-alert.org/pdf/Voluntary_Principles_on_Security_and_Human_Rights.pdf)).*
- World Bank MIGA and Anvil Mining ([http://www.miga.org/documents/VPSHR\\_Toolkit\\_v3.pdf](http://www.miga.org/documents/VPSHR_Toolkit_v3.pdf)).*

**Risk 5:** Core business activities may inadvertently supply financial or material means that facilitate armed violence, causing reputational, legal, operational and financial risks for the company.

**Guidance Point #5:** Companies should carefully monitor, including through tracking systems, business relations, transactions as well as flows of funds and resources to ensure that they are not providing funding and support to armed actors for the purpose of aiding or committing violence.

**Explanatory Note:** By buying commodities through supply chains controlled partly or wholly by armed actors, financial or in-kind support and donations, or extortion payments to armed actors, companies may sustain violent conflicts or contribute to their escalation.

For guidance, see for instance

- The Kimberley Process, designed to curtail the trade in ‘conflict diamonds’ ([www.kimberleyprocess.com](http://www.kimberleyprocess.com)).
- The OECD Financial Action Task Force (<http://www.fatf-gafi.org>).
- International Alert’s Conflict-Sensitive-Business Practice: Guidance for Extractive Industries as developed by International Alert, Flashpoint Issue on dealing with armed groups ([http://www.international-alert.org/pdfs/conflict\\_sensitive\\_business\\_practice\\_all.pdf](http://www.international-alert.org/pdfs/conflict_sensitive_business_practice_all.pdf)).
- Red Flags, especially explanation and case examples under ‘financing international crimes’ ([www.redflags.info](http://www.redflags.info)).

### ***Making payments to armed groups resulted in legal and financial risks***

**Issue** – A fruit company made payments to a paramilitary organization - designated a terrorist group by the US Government - in a South American country where the company had held operations. The company argued to have paid the money in order to protect its employees.

**Result** – The company faced a criminal complaint for supporting a terrorist organization. The complaint was settled by the company paying a USD25 million fine. Other related charges against the company were filed subsequently by family members of people targeted and killed by the paramilitary organization. The plaintiffs argued that the funds paid by the company made the company complicit in crimes such as extrajudicial killings, torture, crimes against humanity, war crimes and forced disappearance which were committed by the paramilitary organization.

For more information, see: the [Business and Human Rights Resource Center](#).

**Risk, Guidance Point and Explanatory Note on Corruption:** to be finalized in close collaboration with the Anti-Corruption Working Group.

#### **Risk 6: ...**

Corruption is another widespread feature and issue in conflict and high risk contexts, often facilitating for example the financing of violence and aggravating grievances among populations that can fuel conflict.

#### **Guidance Point #6: ...**

Include cross-references to other guidance points that are also related to corruption issues.

#### **Explanatory Note: ...**

Companies are encouraged to:

1. Place particular emphasis on due diligence against corruption, by adopting stringent anti-corruption measures and regulations against financial misconduct
2. ...

For guidance, see, for instance:

### 3. GOVERNMENT RELATIONS

“Government Relations” refers to interactions between the company and government officials, agencies and organizations. All companies interact with governments in the course of standard business operations in a variety of ways and at multiple levels, from the local to municipal/provincial and central government. These relations address, for example, the granting of licenses, the payment of taxes, the use of public services, contractual relationships, and include legitimate public and private lobbying activities to influence the operating environment for business. For companies that operate across borders, government relations include interactions with both home and host governments.

**Opportunities:** Constructive government relations in conflict areas are an under-developed area of responsible business practice. However, examples of companies engaging with governments on conflict-related issues and broader governance structures suggest that in addition to being critical to successful risk management and ensuring that the company ‘does no harm’, when managed well a company’s government relations can make important contributions to peace and sustainable development.

Specifically, through their relations with governments companies can directly contribute to peace-building processes. For example, local business coalitions may effectively promote the ‘peace dividend’ of a political resolution to a conflict, and international companies may be able to draw on political and material resources from outside the context. Companies can also encourage the development of appropriate norms, institutions, and governance mechanisms to address or forestall the economic, political and social grievances that drive conflict. For example, companies can support transparent and accountable mechanisms to govern the allocation, transfer and use of water, land and other resources, or the development and enforcement of effective labor laws, taxation and other business regulation.

In turn, carefully considered government relations may be an effective means to avoid actual or perceived complicity in human rights violations by government actors, reducing the risk of litigation or the company becoming a ‘proxy target’ for community grievances against a government. In addition to protecting the reputation of the company, constructive government relations on particular issues may also improve company-government relations in other operational areas, and translate into a competitive advantage. Further, stronger governance practices are a central feature of a stable operating environment for business and are therefore in the long-term interests of companies, and a compelling proposition for investors.

The most significant risks and impacts relating to government relations in conflict areas are included below, with guidance on how they can be addressed:

**Risk 1:** A company may wrongly believe itself to be a ‘neutral’ or ‘non-political’ actor (termed the ‘myth of neutrality’), in a conflict area, and assume that inaction or withdrawal are the only available courses of action when prompted to engage with governments on conflict-related issues.

**Guidance Point #1:** Companies should recognize that through their presence in a conflict-affected area they influence the dynamics of the environment and trajectory of a conflict. Whilst withdrawal may be the only responsible action in some circumstances, a wide range of opportunities for constructive corporate engagement exist in most situations.

**Explanatory Note:** *Through their interactions with government, both local and international business can marshal significant material and political resources to support political will and government capacity to address, resolve and forestall conflict.*

*In South Africa, Northern Ireland and Sri Lanka, the local private sector contributed to peace-building efforts by:*

- *providing material support to peace negotiations;*
- *adopting hiring and workplace policies that cut across ethnic or racial divides (e.g. the Sullivan and MacBride Principles in South Africa and Northern Ireland, respectively); and*
- *mobilizing public opinion (e.g. a public campaign run by a group of trade associations in 2001 encouraged Sri Lankan citizens to speak out on the urgency of peace).*

*Engaging with governments on conflict-related issues can be more sensitive for international companies, given concerns that their actions may be considered unwelcome interventions. However, in a number of cases international companies have contributed through:*

- *articulating the shared interest of government and business in peace and stability (e.g. convening business roundtables or multi-stakeholder conferences on the benefits of human rights observance and a stable operating environment).*
- *strengthening local governance capabilities (e.g. supporting human rights training of the judiciary and other branches of the government, and through strategic social investment partnerships with government actors). Cross-reference: See Guidance Point 4 in the strategic stakeholder investment section*
- *supporting international best practice in resource governance (i.e. through initiatives that provide forums for business-government engagement on transparency and accountability, such as the Extractive Industries Transparency Initiative (EITI) (See Annex, ref. XX) and the CEO Water Mandate (See Annex, ref. XX)).*

*For guidance see, for instance:*

- *“The Role of Local Business in Peacebuilding” by the Berghof Research Centre for Constructive Conflict Management; See Annex, ref. XX.*
- *“How Business Can Encourage Governments to Fulfil their Human Rights Obligations”, a Good Practice Note by the UN Global Compact’s Human Rights Working Group; See Annex, ref. XX.*

### **Responding to Incidents of Violence**

**Issue** – *Silence and/or withdrawal from conflict areas are not the only, nor necessarily the best, ways to minimize risks.*

**Approach** – *In response to the bombing of a community meeting close to its operations in Southern Africa, a company employed a three-fold strategy;*

1. *Writing a letter of protest to the government, issuing a public statement condemning the incident and calling for a full and public inquiry.*

2. *Re-iterating an offer to train the local authority responsible for resolving re-settlement issues that were a source of tension.*
3. *Initiating and co-hosting a multi-stakeholder forum on the most effective means of creating the right business climate for investment without the fear of perceived complicity in human rights violations, leading to the establishment of a local UN Global Compact network.*

**Result** – *A government relations strategy which sought to (a) generate political will (i.e. the letter of protest and public statement) and support stronger governance capacity (i.e. the offer of re-settlement training); (b) address the immediate incident and its causes; and (c) promote the shared interests of business and government in peace (i.e. through the multi-stakeholder forum.)*

**Risk 2:** Human rights violations by government actors may expose the company to liability risks for direct complicity in violations committed under international law. Further, perceptions that a company is indirectly complicit in, or somehow benefits from rights violations may make it a focus of local tensions and violent action, and international attention, negatively impacting its operations and reputation.

**Guidance Point #2:** Companies should take all necessary measures to avoid actual and perceived complicity in human rights violations by government actors in relation to all aspects of the company’s operations. This includes conducting assessments of the risk of being complicit, indirectly or directly, in the illegal use of force and/or gross human rights violations, and the development of policies, practices and operational guidance on government relations with regard to, for example, ‘threshold’ risk profiles for dis/investment, environmental protection and natural-resource management, the rights of labor and indigenous peoples, and the use of public security forces.

*For additional guidance on complicity, see also Guidance Point 3 in the preceding section on core business. For guidance on the development of appropriate mechanisms governing resource-use, including Free Prior Informed Consultation or Consent, see Guidance Point 1 in the following section on local stakeholder engagement.*

**Explanatory Note:** *In some situations, the risks of substantive or perceived corporate complicity in human rights violations by governments are greater, such as when*

- *the government is unable or unwilling to*
  - (i) *adhere to international law regarding the use of force, and/or*
  - (ii) *develop or enforce appropriate governance systems, for example, regarding the use and transfer of water, land and other natural resources, the distribution of revenues, and respect for indigenous or labor rights.*

*International sanctions clearly indicate these risks, and may set legal limits to investment or engagement with governments. However, the absence of formal sanctions does not in any way preclude these risks.*

- *government bodies at different levels and in different regions are in conflict, or have significantly different aims and views,*
- *there is no identifiable government.*

*Risks are also greater for companies:*

- *involved in sectors strategically important to the government or the conflict (i.e. the security,*

- *extractive, infrastructure, and telecommunications sectors, amongst others),*
- *with significant or sustained interaction with the government (e.g. through joint-venture arrangements) and/or as a large source of tax revenue (i.e. the risk being that the company is seen as implicitly supporting the government, and so becoming a proxy target),*
- *that contract or materially support public security forces.*

*However, all companies are exposed to government-related risks in these areas, regardless of their size or sector. For example, employees may be affected by the (illegal) use of force and/or gross human rights violations, requiring company engagement with local or national authorities; a company may usefully develop policies and operational guidance on this, and similar issues identified through risk assessments, for example, on providing employees with the legal support needed for a fair trial in accordance with internationally accepted norms.*

*The risks of complicity are higher in each of these situations, but in many cases there is also greater potential for government relations to be constructive. Increasingly, the expectations of the international community for companies to conduct their government relations in a conflict area in light of this are also higher. This highlights the need to effectively communicate with stakeholders about the company's approach to government relations.*

*A number of multi-stakeholder initiatives are being developed to respond to complicity concerns in specific industries. For guidance see, for instance:*

- *The Voluntary Principles for Security and Human Rights, increasingly employed by the extractive industries,*
- *The Swiss Initiative on Private Military and Security Companies, which aims to promote a 'Global Code of Conduct for Respect of Human Rights and International Law' in the global security industry; See Annex, ref. XX.*
- *The Global Network Initiative which aims to protect and advance freedom of expression and privacy in the Information Communications Technologies sector; See Annex, ref. XX.*

**Risk 3:** By engaging in corrupt practices in their relations with government officials, companies may expose themselves to the risk of litigation whilst undermining the development and strengthening of accountable governance mechanisms. Regardless of their propriety, failing to be sufficiently transparent with other stakeholders about commercial and political relations with government officials may presents risks to the operations and reputation of a company.

**Guidance Point #3:** Companies should develop clear policies and robust management practices to counteract corrupt relations with government officials; within legal and commercial constraints, companies should promote transparency with host governments, and be as transparent as possible with other stakeholders about the content and form of government relations.

**Explanatory Note:** *A lack of transparency may foster the perception of corruption and corporate complicity in abuses and poor governance mechanisms. Through silence and inaction the company risks being seen as indifferent to a situation or, at worst, as benefiting from it, potentially leading to its operations being politicized and targeted by parties in the conflict.*

*Further, companies can bring significant expertise in financial accounting mechanisms – expertise through which they may contribute to strengthening accountability mechanisms in weak governance*

zones. In light of commercial constraints, engagement with government actors on corruption and transparency, and communication with stakeholders on that engagement can be most effective through collective initiatives such as the EITI and local Global Compact Networks.

For guidance see, for instance:

- The OECD "Anti-Corruption Instruments and the OECD Guidelines for Multi-National Enterprises"; See Annex, ref.XX.
- The Global Compact's Principle 10 and the underlying United Nations Convention against Corruption provide further guidance on how businesses can work against corruption in all its forms, including extortion and bribery; See Annex, ref. XX and XX.

### ***Intra-Government Tensions***

**Issue** – Projects that generate large government revenues may exacerbate tensions between conflicting parties, for example between different regions or a region and a central government. The risk of a company becoming a target for these tensions increases with a lack of transparency about the terms of a project, however companies often feel their ability to be transparent is restricted by legal and commercial considerations.

**Approach** – Recognizing concerns about the role oil and gas development could play in the relationship between the regional and central government in a conflict-affected country in the Middle East, a company sought conflict-sensitive ways to structure its agreements regarding two oil and gas interests with the regional authority. Prior to entry, the company undertook due diligence and extensive stakeholder engagement, both locally and internationally, to: a) assess the exact nature of the risks posed by, and to, the projects, and b) identify strategies to minimize those risks.

The resulting strategy the company employed included:

1. Requiring the boundaries for one of the projects be redrawn to lie solely within the area under the recognized control of the regional authority.
2. Negotiating an option for the company to leave the project after a set period, to allow the regional and central governments time to resolve outstanding legal and political issues associated with the creation of production-sharing agreements.
3. Making public the payments made to the regional government to support infrastructure and capacity building projects in the region.
4. Confirming the mutual commitment of the regional government and the company to transparency and promoting respect for and compliance with human rights principles, including through the EITI and the Voluntary Principles on Security and Human Rights.

**Result** – A creative strategy developed through extensive stakeholder consultation, and in collaboration with government actors, that reduced risks to the company through (a) clarifying the content and structure of relations between the company and different government actors, and (b) encouraging transparency and promotes human rights observance.

## 4. LOCAL STAKEHOLDER ENGAGEMENT

**Local Stakeholder Engagement** refers to the day-to-day consultation and communication strategies employed by the company for the purpose of building ongoing, permanent relationships with local communities where the company operates. Local Engagement, which can be complementary to global stakeholder engagement, may take place with local communities, local civil society, international NGOs operating locally, and advocacy groups, and may address a wide array of issues, including company policies, core business operations, and social investment.

### **Opportunities:**

Constructive stakeholder engagement, by the company and its contractors, establishes a sound means of communication and builds a relationship of trust with all concerned parties, so as to position the company as a predictable entity in a context of distrust and violence. By engaging around issues important to local stakeholders, the company demonstrates respect for local actors, willingness to listen to local people, and genuine concern for community well-being. Through early and continued engagement, business has the opportunity to develop a more predictable and stable working environment (as concerns can be addressed early on rather than spiraling out of control) and spend less management time consumed with responding to conflict issues. Furthermore, through regular, constructive engagement with local stakeholders, companies will have an opportunity to bring together parties otherwise potentially in conflict but who may have common needs. This, in turn, can lead to fostering positive relationships between conflicting groups, reduce the possibility of violent conflict, and improve the likelihood of a stable operating environment. Furthermore, a company can encourage or support the activities of reputable independent third parties working to build representative governance structures and decision making processes in local communities. This in turn can improve the quality of engagement between the company and the community.

The most significant risks and impacts relating to local stakeholder engagement in conflict areas are included below, with guidance on how they can be addressed:

**Risk 1:** Lack of engagement may increase company costs and resource-strain. A lack of ongoing, proactive engagement means that stakeholders have few options other than to resort to non-constructive behavior as a way to attract attention. Work stoppages, media coverage and questions by shareholders can result in a company spending valuable time and resources responding to conflict.

**Guidance Point #1.** Companies should establish strategic and rigorous stakeholder engagement mechanisms across company and contractor operations to demonstrate that the company is accessible and accountable.

**Explanatory Note:** *The company should develop a proactive and conflict-sensitive stakeholder engagement strategy, approved and directed by company management, including establishing key performance indicators for engagement practices. The stakeholder engagement strategy should be operationalized throughout all company departments and company’s contractors.*

*Companies are encouraged to:*

- 1. Ensure proactive and inclusive community consultation, referencing current international standards on Free Prior Informed Consultation or Consent, to attain meaningful and substantive community input into company decisions that impact them.*
- 2. Implement formal and transparent communication procedures, including publication of meeting minutes and a registry for commitments made by the company.*
- 3. Develop a formal grievance procedure agreed upon with stakeholders, taking into account different approaches to grievance based concerns and criminally induced violence.*
- 4. Invest in front-line conflict management capacity for staff and management to professionalize around the issues of conflict resolution, consensus building, and facilitating community meetings.*
- 5. Support capacity building of local stakeholders in the ability to genuinely be part of decision-making role, including the involvement of civil society.*
- 6. Ensure that all policies affecting local stakeholders (hiring, compensation, security, etc.) are viewed through a ‘conflict lens’ which would consider whether the policies increase the likelihood of conflict or the likelihood of stability/peace.*
- 7. Utilize conflict analysis tools to understand the impacts of stakeholder engagement activities that increase, or decrease the likelihood for conflict*

*For guidance, see for instance:*

- Reference International Finance Corporation’s Performance Standards on Social and Environmental Sustainability,*
- Reference UN Special Representative on business and human rights reports <http://www.business-humanrights.org/SpecialRepPortal/Home>,*
- Reference "Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets." <http://www.odi.org.uk/resources/download/1436.pdf>*
- Reference “Getting it Right: Making Corporate-Community Relations Work” Mary B. Anderson and Luc Zandvliet, CDA, Collaborative Learning Project*

**Risk 2:** Company actions may exacerbate inter- and intra-community tensions and increase the likelihood of violence directed at company. Taking a narrow approach to stakeholder engagement, for example excluding local civil society, community leaders and armed groups, or engaging with the “wrong” leadership may lead to inter-community conflict, by making people feel that they need to compete for access to company decision makers and company benefits. For example, dealing with one party to the conflict can be perceived by its adversaries as siding with that group and can make corporate operations a target for violence. At the same time, conferring legitimacy to those involved with the conflict may expose the company to the risk of extortion, rewarding violence or becoming complicit to human rights abuses.

**Guidance Point #2:** In the context of existing inter- and intra-group tension, take a broad, inclusive and legal approach towards stakeholder engagement.

**Explanatory Note:** *Develop an inclusive and participatory engagement strategy with broad, rather than narrow representation of the community.*

1. *Ensure that “official” or elected representatives enjoy broad support among their constituency Take collective action in stakeholder engagement.*
2. *Use multiple venues for engagement; informal sports events or festivals, formal meetings with official representative, public meetings, advisory board of informal leaders, etc. Make sure that some venues are public so that all people have access to the same information.*
3. *Perform in depth stakeholder mappings to understand positions and interests of each group within the context, and to develop a strategy of engagement for each group.*
4. *Take a cautious approach to engaging with criminal or armed groups, recognizing that in some cases talking to aggrieved parties can aid in exercises of due diligence to accurately understand the conflict context. However engaging with criminal or armed groups at a business level exposes company to allegations of bribery, corruption and illegality because transparent contractual relationships are difficult, if not impossible.*
5. *Reference current international laws and standards for guidance on financial transactions regarding interactions with groups listed on international terrorist lists. Take a broad and inclusive approach to providing opportunities, such as jobs, in the community. Ensure that job programs that integrate ex-combatants into the local economy do not create competition for benefits with local stakeholders who chose to remain out of the conflict.*

*For guidance on stakeholder engagement, see for instance:*

- *International Alert’s Conflict-Sensitive Business Practice: Guidance for Extractive Industries; Flashpoint 6: Dealing with Armed Groups*
- *IFC. "Stakeholder Engagement: A Good Practice Handbook for Companies: Doing Business in Emerging Markets." <http://www.odi.org.uk/resources/download/1436.pdf>*
- *CDA Collaborative Learning Project – Corporate Engagement Project. Stakeholder Consultation Issue Paper. [http://www.cdainc.com/cdawww/pdf/issue/issue\\_paper\\_stakeholder\\_consultation\\_november\\_2004\\_Pdf.pdf](http://www.cdainc.com/cdawww/pdf/issue/issue_paper_stakeholder_consultation_november_2004_Pdf.pdf)*

**Risk 3:** International attention to business activities in conflict areas may increase a company’s reputational risks. When the community does not have access to the company to constructively address small scale grievances and concerns, the company misses an opportunity to relationship-build and gain local support, creating a space for outsiders (advocacy groups, politicians, criminal elements) to gather popular support against the company, cause an unstable working environment, and generate negative international press.

**Guidance point #3:** Companies should engage proactively with civil society, NGOs, international organizations and advocacy groups to establish an independent and informed third party.

**Explanatory Note:** *Companies should develop an inclusive and participatory engagement strategy with broad, rather than narrow representation of local civil society.*

**Companies are encouraged to:**

1. *Take collective action in stakeholder engagement. Work with Local Global Compact Network to*

*contribute to local solutions.*

2. *Engage with independent and informed third parties as a way to communicate company's business principles, values, and commitment to UN Global Compact Principles.*

*For guidance, see for instance:*

- *Extractive Industry Transparency Initiative, <http://eitransparency.org/>*
- *CSR Europe. "Proactive Stakeholder Engagement: A Practical Guide for Companies and Stakeholders." [http://www.csreurope.org/data/files/toolbox/Stakeholder\\_engagement.pdf](http://www.csreurope.org/data/files/toolbox/Stakeholder_engagement.pdf)*
- *Business for Social Responsibility (BSR). "Guide to Engaging with NGOs." [http://commdev.org/files/1922\\_file\\_BSR\\_Guide\\_to\\_Engaging\\_NGOs.pdf](http://commdev.org/files/1922_file_BSR_Guide_to_Engaging_NGOs.pdf)*

**Risk 4:** Poor, insufficient or late engagement may heighten security risks for business activities. Taking an outcome-focused approach towards engagement, rather than a participatory and inclusive process, may cause people to feel that they have not been consulted on matters that affect their lives. An increase in tensions between the company and community can escalate into obstructive behavior against the company, and in a worst case, a shutdown of business activities.

**Guidance Point #4:** Companies should incentivize and reinforce constructive & peaceful company-community engagement.

**Explanatory Note:** *In a view to approaching communities as partners in preventing and managing conflict, rather than approaching them as a risk factor, companies are encouraged to:*

1. *Identify and legitimize constructive leaders who advocate a non-violent approach.*
2. *Focus on engagement as a transparent, open and ongoing "consultative" process aimed at meeting both stakeholders' and company's needs, instead of viewing it as a "negotiated" process.*
3. *Clearly define, with stakeholders, goals, desired outcomes, and mutual expectations regarding communication, relationship building, and respectful engagement.*
4. *Recognize the importance of non-tangibles like building trust, respect and a sense of neighborliness are as important as material benefits the company may have to contribute.*

*For guidance on constructive engagement, see for instance:*

- *Reference Getting it Right: Making Corporate-Community Relations Work" Mary B. Anderson and Luc Zandvliet, CDA, Collaborative Learning Project*

### **Oil Operations**

**Issue** – *Companies operating amidst conflict often see communities as a risk to their operations. They therefore seek to minimize contact with such communities as a risk-mitigation strategy.*

**Approach** – *Recognizing that a strategy of company isolation would increase risks to the company's project, a company in Latin America actively sought ways to maximize contact with local communities to: a) be better informed about the exact nature of the risks and threats to corporate activities and b) use the reputation the company has within the community as a means to minimize risk, both through the influence communities may have over illegal armed groups (both guerilla groups and paramilitary groups), as well as by being informed or warned by the community about possible threats. Several of the community engagement strategies that the company employed are:*

1. *Knowledge and awareness of the political operating environment by employing experienced community affairs staff and working closely with the community.*
2. *Knowledge and understanding of the direct and indirect impacts of corporate activities, including security, economic, cultural, and social impacts.*
3. *Senior Management of the company being entirely local, enabling, in this context, an alignment of the personal values of its staff with the business objectives of the company.*

**Result** - *Stakeholder focused management systems and a concerted effort to be part of the community provides the company with the social capital that has become fundamental to operating successfully in a conflict area.*

## 5. STRATEGIC SOCIAL INVESTMENT

Strategic Social Investment refers to the voluntary, and sometimes legally mandated, contributions by companies to help local communities and broader societies where they operate address their development priorities and take advantage of socioeconomic opportunities created by private investment, in ways that are sustainable and are aligned with strategic business objectives. Social investment does not include resources spent on core business activities such as local hiring, contracting, waste management, or land compensation, but core business activities can be leveraged in a socially beneficial way to complement social investment activities.

**Opportunities:** Companies, no matter the size, may have the opportunity to optimize their resources spent to deliver long-lasting, positive-impact programs that benefit local and regional communities, when social investment is strategically aligned with core business activities. With proactive community consultation and strategic planning, any social investment projects that the company chooses to undertake can help to mitigate unintended negative impacts related to resource transfer in conflict-affected or high risk areas. Doing so ensures that social investment leaves a positive legacy that produces sustainable and long-term benefits, serves as a means to bring conflicting groups together rather than exacerbate existing tensions and divisions, and helps to gain support among local community for business activities located in areas of high risk and international critique.

The most significant risks relating to social investment in conflict areas are identified below, with guidance on how they can be addressed:

**Risk 1:** Increase in existing tensions over resource distribution may jeopardize security of core business operations. The manner in which benefits are distributed can feed into inter-group jealousy and increase fragmentation of societies by creating divisions between classes of “haves” and “have-nots” fuelling competition for resources. Rise in inter- and intra-community, and company-community tensions can potentially create conflictive situations that may jeopardize the security of company’s business activities.

**Guidance Point #1:** Companies should have strategic social investment that is built on existing capacities and that is a component of, not a substitute for, day-to-day local stakeholder engagement and consultation.

***Explanatory Note:** Companies should utilize ongoing stakeholder engagement as a method to inform design and development of social investment projects in conflict areas.*

*Companies are encouraged to:*

- 1. Leverage on-going engagement activities to define the local definition of “fair benefits distribution” in a context of conflict or tension.*
- 2. Ensure, to the extent possible, that benefits are distributed across communities, not only to “host” communities, so as not to exacerbate tensions or competition between rival communities.*
- 3. Decrease “incentives” for local groups to behave in a violent manner in obtaining company resources and projects.*

*For guidance on leveraging engagement for social investment, see for instance:*

- Reference “Getting it Right: Making Corporate-Community Relations Work” Mary B. Anderson and Luc Zandvliet, CDA, Collaborative Learning Project.*

**Risk 2:** Failing to implement a strategic social investment plan can cause a waste of company resources. Social investment projects that are not aligned with core business strategy and competencies can cause the company to undertake activities in which it has limited expertise and knowledge, increasing expenditures on social investment and reducing likelihood of success, thus increasing frustrations and tensions in conflict settings.

**Guidance Point #2:** Companies should employ the same rigor in developing social investment strategies as other aspects of business operations.

***Explanatory Note:** Companies should execute a planned (not ad-hoc) investment strategy that takes into account issues around resource transfer in a heightened-risk zone, with clear and measurable indicators that account for impacts of social investment on the likelihood of increasing or decreasing conflict.*

*Companies are encouraged to:*

- 1. Clearly define objectives that are linked to the conflict-specific business case and link the strategy to other company processes.*
- 2. Take a tri-partite approach that builds on shared common goals and involves the active participation and commitment of both local communities and the government, not providing free social services, ensuring that social investment is strengthening local capacity rather than substituting for government.*
- 3. Employ existing standards and guidance on social investment, such as Principles for Responsible Social Investment (PRSI), which provides guidance to companies and funding institutions that advance the scalability and impact of social investment in relation to the betterment of societies.*

*For guidance, see for instance:*

- Reference IPIECA – Guide to Successful, Sustainable Social Investment for the Oil & Gas Industry, 2008.*

<http://www.ipieca.org/activities/social/downloads/publications/SocialInvestmentGuide.pdf>

- *Reference IFC - Good Practice Handbook and Principles on Strategic Community Investment*

**Risk 3:** Failing to achieve long-term impacts on community’s sustainable development may reduce a company’s return on (social) investment. If communities are not involved in the identification and development of projects or feel no ownership, SI efforts will have no long-term impacts, and yield little goodwill for the company, limiting the benefit of maintaining the company’s strategic operating environment. In a context of violence, this may increase the perception that the company does not care about the community and is a ready target for obstructive action.

**Guidance Point #3:** Companies should implement strategic social investment as an independent activity, separate from company’s obligations to mitigate or compensate for its operations’ impacts.

**Explanatory Note:** *Social investment should be viewed as a complement to, not a substitute for, a conflict-sensitive approach to company’s core business operations.*

*Companies are encouraged to:*

1. *Ensure that social investment strategy is designed around the specific local context, taking into account aspects of conflict and high-risk operations.*
2. *Develop risk mitigation strategies and policies that specifically address social investment programmatic impacts.*
3. *Demonstrate transparency, equity, and fairness in decision making processes so as not to increase perceptions of corruption, favoritism, or competition in a conflict-affected or high risk area.*

*For guidance, see for instance:*

- *Reference Sustainable Business and Peace: A Resource Pack on Corporate Responsibility for Small and Medium Enterprises*

[http://www.unglobalcompact.org/docs/issues\\_doc/Peace\\_and\\_Business/Sustaining\\_Business\\_and\\_Peace.pdf](http://www.unglobalcompact.org/docs/issues_doc/Peace_and_Business/Sustaining_Business_and_Peace.pdf)

**Risk 4:** Undermining government’s role in providing basic services and lack of exit strategy may place greater resource demands and expectations on business. A company-driven social investment approach undertaken in isolation from the government can substitute for government responsibilities, undermine government’s legitimacy in the eyes of its constituencies, place greater expectations on the company and free up money that could be used for warfare. Unsustainable projects - especially the provision of free services in conflict-affected or high risk areas- can, over time, become a perceived entitlement for local stakeholders, creating recurrent expenditures for the company.

**Guidance Point #4:** Companies should ensure that social investment projects are sustainable in a conflict-affected or high risk context and not replacing services which should be provided by the government.

**Explanatory Note:** Companies should design all social investment, no matter the project time frame, with a clear exit strategy, accounting for a community hand-over plan, no free service provision, and continued activity plan without financial input from the company.

Companies are encouraged to:

1. Take into consideration long term impacts of social investment strategy as a method to gauge sustainability of projects.
2. Define how social investment projects will contribute to the company's strategy of managing its impacts on local communities and support sustainable development.
3. Ensure that social investment efforts build on, rather than replaces, existing capacities.
4. Work directly with the National and Local Government to ensure that social investment strategies are in line with regional and local community development plans.
5. Develop an exit strategy in conjunction with local communities, local civil society, and local and national government, to ensure that social investment projects are successfully handed off and taken over by local and national government.

For guidance on strategic social investment, see for instance:

- Reference IPIECA – Guide to Successful, Sustainable Social Investment for the Oil & Gas Industry, 2008.  
<http://www.ipieca.org/activities/social/downloads/publications/SocialInvestmentGuide.pdf>

### **Oil Operations**

**Issue** – Violence between communities (with the risk of becoming a company-community conflict) over employment, contracts and community projects during implementation of a major oil and gas project.

**Approach** – In Africa, all communities knew that an exclusive focus on the most apparent and nearby community would lead to further violent conflict instigated by those left out. Instead, the company brought in an independent mediator to negotiate a benefit distribution agreement between all communities based on 1) population size, 2) ancestral ownership, and 3) disruption they would experience during construction due to proximity. Negotiations took place at three levels: 1) consultation with traditional rulers, 2) establishing principles of final negotiations with three dominant communities, and 3) final negotiations with all stakeholders including all communities, the company, government representatives and contractors.

**Result** – The project was implemented without any conflict between communities or with the company. The project was completed with zero down days due to community unrest.