


Promoting a Conflict Prevention Approach to OECD Companies and Partnering with Local Business



OECD DAC CONFLICT, PEACE AND
DEVELOPMENT CO-OPERATION NETWORK
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‘Working with business

Another widening space for stronger partnerships is with business – local, national and international – to help maximise its positive economic and social contributions and to ensure against feeding into the negative dynamics of conflict. At times this involves dialogue between external partner governments and firms that are taking actions that worsen violent conflict ...

... A widening community of business actors internationally is already moving to adopt new approaches to corporate social responsibility, and pursuing a “triple bottom line” of profitability, social responsibility and good environmental practices. Enlightened economic self-interest of firms can lead them to engage as corporate citizens working to help solve local problems, including the threats of violent conflict. Donors should support these trends by taking steps such as raising awareness of conflict prevention issues among national and international business communities.’

EXTRACT FROM THE OECD DAC
GUIDELINES ON HELPING PREVENT VIOLENT CONFLICT,
INCLUDING A POLICY STATEMENT, ENDORSED IN 2001
BY MINISTERS AND AGENCY HEADS

INTERNATIONAL ATTENTION has turned in recent years towards understanding the economic dynamics of conflict – with a particular emphasis on the ways in which natural resource exploitation can fuel armed violence. Research into these dynamics has emerged from a spectrum of actors – from major multilateral institutions such as the World Bank, to both Northern and Southern based NGOs. Several OECD governments have responded: a) at the international policy level, by supporting efforts to control trade in illicit commodities and promote more equitable distribution of resource revenue; and b) through developing policy frameworks for assistance to conflict-affected regions that include recognition of the relationship between resource exploitation and conflict.¹ The twin challenge of strengthening international regulatory mechanisms and promoting equitable natural resource management in conflict-affected governance contexts will continue to loom large on the conflict prevention horizon in the near future.

Increasing attention on economic drivers of violent conflict also raises additional questions for development sector actors. The private sector has for too long been ignored by those concerned with conflict prevention: companies are powerful actors that have a role to play in transforming violent conflict. This relates both to foreign investing companies and local companies that are indigenous to conflict contexts.² Ensuring that both OECD company activities and development support to local business ‘do no harm’, and that opportunities for actively engaging private sector actors in conflict prevention and peacebuilding are sought out, represent important new areas of development and peacebuilding. Despite their recognition by the OECD DAC in its *Guidelines on Helping Prevent Violent Conflict*, quoted above, more needs to be done by OECD development actors to move beyond recognition to action.

OECD-COUNTRY COMPANIES OPERATING IN CONFLICT-AFFECTED COUNTRIES: CHALLENGES FOR DEVELOPMENT

For governments, as shown in a recent report by International Alert, the aim of minimising the negative and maximising the positive impacts of such companies with regards to violent conflict straddles a complex of policy areas – with the primary entry-points being corporate social responsibility (CSR) and conflict prevention.³ Linking these two overarching frameworks, a few governments have articulated recognition of the responsibility of companies to behave ethically in conflict-affected countries, and their potential to have a positive impact on conflict prevention efforts.⁴ To date however, concrete initiatives to back these policy statements up are rare.

OECD Guidelines for Multinational Enterprises (MNE Guidelines)

There has been considerable reference and controversy surrounding the *MNE Guidelines* as related to OECD companies operating in conflict-affected countries – particularly with regard to the alleged misconduct of certain companies in the Democratic Republic of Congo (DRC).⁵ Whilst significant challenges present themselves, the *MNE Guidelines* are the only government-backed mechanism that also has provisions for implementation

to promote accountability of company conduct. They are cited by numerous companies as a reference point in designing ethical strategies, and offer unique potential in the quest for promoting better outcomes from rich-country investment in conflict-affected countries. Apart from the UN Expert Panel on DRC, other high-level references to the *MNE Guidelines* as a means of promoting responsible behaviour of companies in conflict zones include UK Prime Minister Tony Blair’s call for a clampdown on exploitative company behaviour, made after a tour of West Africa in 2002.⁶ It is vital that they be strengthened in this regard. Two key hurdles need to be overcome in order to ensure that their potential to contribute to conflict prevention is met, and that the regulatory environment for corporate conduct is clarified. The OECD DAC CPDC Network, as a repository of expertise and commitment to conflict prevention within the OECD, has an important role to play in making this happen:

(i) Clarification on operating in conflict zones

International norms and expectations regarding corporate behaviour are constantly evolving – and recent revisions of the *MNE Guidelines* have proved valuable in addressing these. The guidelines cover a range of important integrity issues that represent useful guidance for companies operating in contexts where

host country law, regulation and/ or institutions are weak, but they do not have much to say about corporate responsibilities regarding human rights abuses, or critical aspects of corporate behaviour in conflict situations.⁷ Whilst the Committee on International Investment and Multinational Enterprises (CIME) has produced a useful paper on ‘Multinational Enterprises in Situations of Violent Conflict and Widespread Human Rights Abuses’ (2002), this does not progress far in terms of identifying these challenges, simply inviting companies to ‘improve management in the immediate vicinity of their operations (especially of security forces and resettlement operations)’. Given increasing citation of the *MNE Guidelines* in relation to companies operating in conflict areas, this is a major weakness that needs timely attention.

The CPDC Network should set up a Joint Task Force together with CIME in order to develop a new chapter to the *MNE Guidelines* on this issue. Useful clauses would include best practice on security arrangements (regarding which a new international code for the extractive sector, the *Voluntary Principles on Security and Human Rights*, offers a useful standard and is already supported by the Dutch, Norwegian, US and UK governments); transparency of revenues and revenue-sharing; and the importance of using conflict analysis and impact assessment tools when operating in conflict-affected countries.

(ii) Strengthening implementation

The second challenge relates to implementation. Whilst the *MNE Guidelines* are a voluntary code, National Contact Points promote them in the national context, providing a unique grievance mechanism for concerned parties to draw government attention to alleged breaches. But from the human rights and conflict prevention perspective, the typical positioning of NCPs within government poses problems. Usually middle or junior ranking civil servants in the investment department of trade or finance ministries, few have legal or human rights training. Governments should consider separating out the important promotional aspect of NCPs’ brief from the investigative watchdog function, which requires a different skills set and agenda, in order that those cases concerning human rights abuses or complicity in conflict that are brought be impartially and professionally investigated. NGOs and others concerned by this approach are also frustrated by a ‘creeping confidentiality’ surrounding cases, which undermines directives that NCPs should be fully transparent.⁸

As part of working to ensure that this OECD instrument maximises its potential to promote best practice and ensure accountability from companies operating in conflict countries, the CPDC Network has an interest in reaching out to counterpart agencies in order that they in turn prioritise internal advocacy with NCPs, including through providing training and awareness-raising, and seconding staff to work alongside them. Political will to make this important instrument effective is vital.

Practical recognition of the importance of engaging home companies in seeking more positive outcomes when operating in conflict countries should be a key component of mainstreaming a conflict prevention approach. Development actors should be sharing their conflict prevention expertise and working for closer co-operation on conflict-sensitivity with other ministries, in order to ensure that private sector activities do not undermine public sector goals. There is also a range of priorities within their traditional areas of work with developing country governments and other stakeholders that should be embraced. Recommended policy options would encourage donors to:

1. Cooperate with other ministries and agencies to promote conflict awareness and sensitive conduct of OECD home companies

- Work with other ministries to promote guidelines and awareness of conflict-sensitivity to companies both at home and through in-country missions – including through strengthening the capacity of OECD National Contact Points to implement the *MNE Guidelines* for Multinational Enterprises.
- Support other emerging international standards and regulatory regimes on company conduct in conflict countries.⁹
- Work with other ministries in order to mobilise investment to post-conflict settings, including through offering risk-sharing instruments, post-conflict rehabilitation of key infrastructure, and tapping diaspora potential.
- Ensure that investment backed by public money is conflict-sensitive by promoting conflict impact assessment tools to Export Credit Agencies and Multilateral Development Banks.¹⁰

2. Work with recipient governments to promote enabling environments for conflict-sensitive investment¹¹

- Build capacity of finance ministries to cope with large-scale foreign investment, offering technical

assistance in budget management, using tools such as OECD Best Practices for Budget Transparency or the IMF's Code of Good Practice on Fiscal Transparency.

- Promote transparency of natural resource revenues, including through supporting and engaging home companies and recipient governments in the Extractive Industry Transparency Initiative.
- Assist in strengthening the rule of law and effective enforcement.
- For countries with large on-the-ground corporate presence, prioritise security sector reform.
- Target corruption.
- Support local civil society initiatives that seek to monitor corporate activity, government transparency, and revenue expenditure.
- Promote economic diversification, particularly in resource-rich economies. OECD countries can assist in this by removing tariff and non-tariff barriers, and encouraging the development of local business.
- Reduce countries' exposure to price shocks – for instance through exploring automatic stabilisation mechanisms such as adjusting debt servicing in response to price shocks.
- Promote awareness and monitoring of CSR through encouraging participation of recipient countries in international fora and initiatives, facilitating access to information on existing principles for both recipient governments and local companies, and creating institutionalised incentives for investors, eg. through public procurement.

3. Work through in-country missions to engage home companies in conflict prevention and peacebuilding

- In-country missions have a critical convening power in conflict contexts, having access to governments, civil society and private sector actors. This should be used, through more effective partnerships between development agencies and embassies, to raise awareness of relevant codes, standards, tools and legislation among home companies.
- Share analysis of conflict factors with companies in order to harness their resources and commitment to contribute to conflict prevention goals.
- Promote multi-stakeholder approaches to peacebuilding that engage home companies.

PARTNERING WITH LOCAL BUSINESS

From experiences in Sri Lanka, Northern Ireland, South Africa, the Philippines and elsewhere there is evidence that as well as being 'part of the problem', local

companies can be 'part of the solution' – and support conflict prevention and peacebuilding through a range of management strategies, advocacy efforts, and partnerships with other actors.¹²

In 2001, for instance, several key events in Sri Lanka's conflict had a major impact on the economy and the private sector – not least an LTTE attack on Colombo's airport. The damage that this brought to the country's tourism industry and other sectors prompted several high-profile Colombo-based business leaders to initiate pro-peace campaigns. Business-led peace advocacy helped to bring a new prime minister to power on a peace ticket.

In the intervening period, Colombo business has been less vocal in calling for commitment to an increasingly challenged peace process – although most recently, some new initiatives do seem to be emerging. But in the provinces, a coalition of peace activists is emerging from private sector ranks – led by the newly formed Business for Peace Allianc (BPA).

The BPA represents a network of representatives from Chambers of Commerce from all around Sri Lanka, including Sinhala, Tamil and Muslim business people – and thus in itself is a strong gesture of reconciliation. Co-facilitated by International Alert and the UNDP 'Invest in Peace' project, the BPA meets every six weeks, each time hosted by a different regional Chamber. Representatives talk about 'what peace can do for business and what business can do for peace', and are developing ideas for joint ventures and social investment projects.

It is too early to evaluate the lasting impacts on peace and stability in Sri Lanka of these initiatives. But what the anecdotal evidence from Sri Lanka and elsewhere does show is that there can be an urge towards peace vested within business. Recognition of this from development agencies, and rigorous analysis of the relationship between local business actors and both violent conflict and peacebuilding, is now required to see how this energy can best be supported. Whilst this is a new area of concern and interest to conflict transformation practitioners, it presents development agencies with a range of opportunities and challenges for future work, including:

1. **Extend conflict-sensitivity mainstreaming to address development policy that affects the private sector** – including macro-economic reforms, private sector development, support to SMEs, and micro-credit. At present, the dominant interaction between development agencies and local business relates to assistance towards economic policy reform and support to private sector development. But despite the positive and negative links that exist between business and conflict, application of conflict-sensitive development approaches stops short of engaging in these policy areas – at either macro or micro levels. Such a wide gap undermines the consistency of conflict-sensitivity mainstreaming, and needs to be closed.
2. **Engage local business actors in peacebuilding activities.** Local companies are powerful actors, many of whom have a vested interest in peace and stability – but at present for the most part they are an untapped resource. Beyond ensuring that development sector interactions with local business meet with best practice on conflict-sensitivity, acknowledgement of the peacebuilding potential of these actors also needs to be reflected in peacebuilding approaches and project design. A broadening out of common definitions of ‘civil society’ to include local business actors when designing development and peacebuilding strategies is long overdue. Rolling out CSR training and business ethics can be an important first step towards this engagement in some cases.

RECOMMENDED ACTION ON BUSINESS AND CONFLICT FOR THE OECD DAC CPDC NETWORK

1. Set up a Working Group of CPDC Network members and external experts, tasked to develop a set of *Guidelines for Engaging OECD Companies in Conflict Prevention* for development agencies. These should detail practical policy options for maximising the positive and minimising the negative impacts of company activity in conflict countries, including:
 - Important areas of co-operation with other ministries to promote a conflict prevention approach to OECD companies.
 - Priorities for working with recipient governments in order to promote enabling environments for conflict-sensitive investment.
 - Working through in-country missions in co-operation with embassies to engage home companies in conflict prevention and peacebuilding.
2. Set up a Joint Task Force with OECD CIME to work towards clarified guidance for OECD companies in the *MNE Guidelines* as they relate to operating in conflict-affected countries. The Joint Task Force should also work through National Contact Points in order to strengthen implementation.
3. Follow existing and promote new research into areas of the Business and Conflict nexus where important knowledge gaps remain – including:
 - The peacebuilding potential of local business actors and policy options for development actors in seeking to catalyse this (International Alert has a new project in this area).
 - Ongoing search for legal mechanisms with which to impose accountability on OECD companies that are complicit in feeding conflict (IPA and FAFO have work in this area).
 - Positive and negative linkages between different industry sectors and conflict, real costs imposed on companies by conflict, and practical tools for companies (International Alert and Collaborative for Development Action have work in these areas).

ENDNOTES

- ¹ Including the UK's African Conflict Prevention Pool's 'Tackling the Economic Causes of Conflict' (2003) and DfID Conflict Assessments; Germany's BMZ 'African Challenge' and FriEnt initiative; Sweden's 'Preventing Violent Conflict: Swedish Policy for the 21st Century' (2001); and at the European level, the EC 'Communication on Conflict Prevention' (2001), which has led to follow-up from DG Relex on conflict commodities.
- ² Nelson, J. (2000) *Business and Peace: The Private Sector as a Partner in Conflict Prevention and Resolution* (London, UK: International Alert, IBLF, CEP).
- ³ Banfield, J. et. al (2003) *Transnational Corporations in Conflict-Prone Zones: Public Policy Responses and a Framework for Action* (London, UK: International Alert).
- ⁴ Including Canada's Human Security Programme; Sweden's 'Preventing Violent Conflict' (2001); and the UK's DfID Targeted Conflict Reduction Strategies, and African Conflict Prevention Pool strategy.(2003). The Netherlands also has a policy on this that will shortly go before parliament.
- ⁵ UN Security Council, 'Final Report of the Panel of Experts on the Illegal Exploitation of Natural Resources and Other Forms of Wealth of the DRC,' [S/2002/1146] 16 October 2002.
- ⁶ *Financial Times*, 7 February 2002.
- ⁷ Feeney, P. 'Strengthening the OECD Guidelines: Promoting Proactive Corporate Engagement', in *Peaceful Profits: Approaches to Managing the Resource Dimensions of Armed Conflict* (IPA, forthcoming 2004).
- ⁸ Feeney, P. *Making Companies Accountable: An NGO Report on Implementation of the OECD Guidelines for Multinational Enterprises by National Contact Points* (RAID, October 2002).
- ⁹ See Banfield, J. et. al (2003), op. cit., for discussion of these, as well as research papers produced by the joint International Peace Academy and FAFO 'Economic Agendas in Armed Conflict' project, <http://www.fafo.no/nsp/ecocon.htm>
- ¹⁰ International Alert (2004, forthcoming), *Export Credit Agencies and Multilateral Development Banks: The Case for Conflict Impact Assessment*.
- ¹¹ This is not a comprehensive list but highlights key areas that are prioritised by available research. Many are areas in which development agencies are already active, though without an articulate recognition of the business and conflict agenda. See Berman, J. & Webb, T. *Race to the Top: Attracting Global Sustainable Business – Business Survey Report*, commissioned by the World Bank, 2003; Fox, T et. al (2003) *Public Sector Roles in Strengthening Corporate Social Responsibility* (Washington, USA: World Bank); Bannon, I. & Collier, P. (eds.) (2003) *Natural Resources and Violent Conflict: Options and Actions* (Washington, USA: World Bank, 2003); *Breaking the Conflict Trap: Civil War and Development Policy*, (Washington, USA: World Bank, 2003).
- ¹² International Alert is currently deepening understanding of this actor group in conflict transformation, through analysing case studies from around the world during an 18-month research project up to 2005, at present funded by UK DFID and USAID. This will include developing recommendations for development sector actors regarding partnering with local companies and informal sector business in peacebuilding.

BUSINESS AND CONFLICT PROGRAMME



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