



German Foreign Office
Forum Global Issues

Report on Wilton Park Conference WP848 / 15th Forum Global Issues

INVESTING IN PEACE: SPURRING PRIVATE INVOLVEMENT IN POST-CONFLICT PEACE-BUILDING

Thursday 11 to Saturday 13 January 2007

Introduction

1. The German Foreign Ministry, which co-sponsored the Wilton Park conference “Investing in Peace: Spurring Private Involvement in Post-Conflict Peace-building”, and Germany's Ministry for Economic Cooperation and Development have a history of promoting the topic of sustainable peace in general and the role of business in particular. In April 2004, Germany ensured – despite some controversy – that the Security Council debated the issue of "business and conflict", and enabled Heinrich von Pierer (of Siemens AG) as the first-ever CEO to address the Security Council. At the heart of these efforts lies the conviction that business has a crucial stake in peace-building. While the conference focussed on post-conflict investment, interventions revealed the complexity of the topic. The spectrum ranged from the changing nature of war to corporate philanthropic investments. The starting point for deliberations was a common understanding that responsible private sector investment in post-conflict settings has a crucial part to play in breaking the conflict trap, by creating employment opportunities and providing revenues for depleted state and family budgets, but also by providing hope and a future perspective for war-torn societies and leaders. If peace is understood as more than the absence of violence, and includes prospects of economic development, then businesses have a crucial role to play in providing such a peace.

2. The agenda set out the following questions:

- What is the role of the private sector in peace-building? Is the business of business just doing business, or does business have responsibilities beyond this? What is the business perspective on working *on* conflict vs. working *in* conflict?

- How are conflicts changing and what does that imply for post-conflict reconstruction and peace-building?
- How can the business / investment risks of post-conflict settings be assessed and mitigated to foster private sector investment and development? What is the role of home states, host states, international organisations, NGOs, risk consultants and private security providers in creating an investment-friendly environment in (post) conflict zones?
- What is the role of partnerships among these actors in mitigating risks and fostering investment? How valuable are voluntary codes, guidelines and collective initiatives in enabling conflict-sensitive business practices?
- What lessons can we learn from post-conflict countries and private sector engagement?

Taking risks for peace and profit

3. Why should the private sector invest in post-conflict countries? The answer differs depending on who you ask: business follows business opportunities; policy-makers foster economic development to help build peace; affected communities need income and hope. Seeing that there was consensus on this point, the discussion quickly focused on how investment and operational risks can be mitigated. At best, business risk assessment tools also integrate opportunity assessments, since focussing on risks one-sidedly biases the results towards apprehension. Risk and opportunity assessments are best pursued at different stages – not only prior to investing – since the investment itself can significantly change the risk environment.

4. The extractive industry is frequently required to take the risks of operating in (post-) conflict zones. Energy companies, for example, see themselves confronted with the possibility of 80 percent of the future oil reserves being locked up in state-owned companies (e.g Saudi Arabia) and have to explore new and risky extraction environments. At the same time, many large players in this sector have painfully experienced how their investment and conduct in conflict-affected areas is closely related to risks to their reputation. These ‘above-ground’ risks have become decisive and integral to responsible business operations (see also 8 & 9). Think tanks, NGOs and networks, such as International Alert or the Global Compact, have developed toolkits and initiatives for businesses to learn how to assess and mitigate the impact of risks. The systematic collection of positive experiences in applying such tools could increase their visibility and utility.

5. Other risk-takers include local and diaspora entrepreneurs. They receive far less attention from NGOs and development organisations' Public Private Partnerships (PPP) programmes, but have an important role to play in building a sustainable post-conflict economy. Increasing diaspora investment can also be a sign of stabilisation and thus of potential business opportunities for other private sector investors.

6. One common practice to mitigate security risks in post-conflict situations is to contract private security companies (PSC). These companies are profit-driven businesses with typical business dynamics, such as accountability, codes of conduct, Corporate Social Responsibility (CSR), and shareholders (public or private). Defence budget cuts in donor countries make PSCs a reality of post-conflict activities and an important service provider to state security organs and businesses alike. While the misconduct of some PSCs has brought disrepute to the entire industry, most responsible private security companies engage in risk consultancy rather than paramilitary activities. The industry's self-conception highlights its role as a business-enabler, which provides a safe working environment. To what extent business engagements with PSCs hinder building trust with stakeholders and the community remained unclear. Participants also disagreed whether a strong PSC presence, as in Afghanistan, undermines the development of state capacities, since resources spent on PSCs are lacking for training and equipping a police force.

CSR and core business in conflict contexts

7. One of the mottos of the German G8 Presidency, which started on 1 January 2007, can also be understood as a Corporate Social Responsibility (CSR) message: giving globalisation a human face. The acknowledgement of the importance of CSR was another underlying theme in many discussions. The "social licence to operate" and understanding that "business cannot succeed in societies that fail" were recurring statements. CSR notions can range from philanthropy to CSR (which makes the business case in a long-term framework) to 'Corporate Security Responsibility' (CsecR), which directly emphasises the responsibility of businesses regarding security and conflict prevention. Particularly in post-conflict settings, CSR cannot simply involve doing business-as-usual and philanthropy, but instead must entail a review of business-as-usual practices. This is also the underlying notion of the concept of 'conflict-sensitive business practice'. Consequently, a corporation taking CSR and CsecR seriously may also have to reject a business opportunity on the grounds of risks to reputation and CSR consciousness. This has happened inter alia in Sudan and Myanmar.

8. Progressive forms of CSR and conflict-sensitivity can permeate through corporations. This includes both fostering a strong corporate culture based around a normative identity, as well as practical issues, such as integrating CSR targets and objectives into job descriptions, appraisals and bonus-systems. One practical example from the extractive sector is the integration of the Voluntary Principles in training of security staff. Corporations also need to adapt their philanthropic activities in conflict contexts; they cannot disregard circumstances. For example, giving to one community and not another can feed existing conflicts. Conflict-sensitivity in core business and CSR practices is not only crucial for private sector investors, but applies equally to the other major international actors (development agencies, International Financial Institutions, NGOs).

9. A crucial prerequisite for conflict-sensitivity is to know the conflict context and stratifications. Employment policies can, for example, be informed by varying degrees of CsecR: from actively recruiting ex-combatants, to taking account more generally of age (e.g. in regions with a strong youth bulge), ethnicity and gender, or giving locals management positions, possibly after investing in their training and education. Similarly, CSR or philanthropic investment can specifically target topics, which are also conflict factors, such as drinking water projects in Yemen. Partnerships with local stakeholders help identify and define those conflict-relevant topics and target projects. Businesses are not able to deal with all aspects of the micro-complexities alone.

10. When discussing expectations regarding CSR and CsecR, the problem of free-riders and non-performers is always highlighted. There is a trend for soft rules to develop frequently into law over time, and for industry benchmarks to become increasingly pervasive. There are also competitive advantages in “doing the right thing”, through shareholder and pressure as well as employee choices. Additionally, some Chinese and other, sometimes ‘junior’, companies are increasingly looking for external financing, partnership and stock-market listings, all leading to performance measurements that go beyond mere financial accounting.

Partnerships, self-regulation and initiatives

11. The primary responsibility for peacekeeping and peace-building lies with the public sector and the international community. Alongside this consensus, partnerships for enabling post-conflict investment are important. Examples of partnerships vary in degree of institutionalisation, level of engagement and involvement of stakeholder groups. Both international, loose networks, such as the Global Compact, and highly targeted systems, such as the Kimberley Process Certification Scheme, are widely regarded as important mechanisms for multi-stakeholder engagement with conflicts.

12. Ideally, partnerships bring together mutual interests and complementary skills or knowledge. One example is business advising governments – often new governments after conflicts – on how to plan processes. South Africa is again a good example of this. At the same time, there is a fine line between lobbying and assistance, and businesses have to be aware of their lack of democratic legitimacy.

13. Another example of partnerships and networks are the different voluntary codes and principles which are frequently devised by businesses in cooperation with NGOs and sometimes also home state governments. This is another case of complementary skills, with NGOs and local groups bringing in important perspectives that are not usually of concern to senior management. Differentiation was made between ‘types’ of NGOs: those merely advocating and whistle-blowing and those pointing out misconduct but willing to cooperate with corporations to develop better policies and practices, and those working on development goals. While each group has a social function, it is important for whistle-blowing advocacy groups to be aware of local perspectives. For example, Northern consumer groups can be disconnected from what local people see as their own priority concerns, and can be detrimental to local livelihoods, which may in turn fuel local conflicts.

14. Another form of partnership presented and discussed in detail was PPP schemes for development cooperation, which bring together business opportunities and development cooperation aims. The diversity of PPP projects reveals the flexibility of this tool: they include classic philanthropy, post-conflict reintegration efforts for ex-combatants, as well as conflict mitigation courses for families. The PPP tool is also important in reducing business risks: PPPs can make a difference for undecided companies. PPP has a pioneer function in conflict settings and countries where ODA does not exist. It is applicable in specific cases where business shows an interest but requires both financial and political support to realise ideas. Currently, the impact of development organisations’ PPPs on conflict is not being systematically assessed. For the full peace and development potential of PPP programmes to unfold in post-conflict regions, it is important that local entrepreneurs and diaspora investors are addressed more strategically within PPP frameworks. These groups are both willing to take risks in post-conflict settings and have an interest in sustainable economic development.

15. During the discussions, the limitations of partnerships and voluntary initiatives also became apparent. These limitations concern both process and substance: if compliance is not monitored and non-compliance is not sanctioned, initiatives may remain weak window-dressing activities. Concerning substance, it is much easier to tackle corruption driven by greed than corruption driven by need. For the latter, a much broader approach is required than solitary transparency initiatives.

16. For initiatives and partnerships to be successful, they have to develop and learn. For example, previously companies could only join the Extractive Industries Transparency Initiative (EITI) if their home governments signed up. Meanwhile, this has changed, allowing South African companies to join EITI directly. Relatively new PPP programmes require a thorough evaluation of their benefits and successes – in particular for post-conflict settings – thus helping to develop this tool further. However, sometimes the benefits of initiatives are intangible, for example when transparency initiatives help to form and set new norms and standards, rather than having specific, measurable aims.

Crucial timing and planning

17 Case studies highlighted the complex challenges of post-conflict settings. At the same time, some of these complexities are predictable and could be dealt with more effectively with a clear analysis and planning of the post-conflict phase – e.g. before a peace agreement is finally signed. There was a clear statement that “post-conflict transition requires attention and support”. This attention involves a careful plan for post-conflict reconstruction and investment, driven by local perspectives and ownership. The sequencing and timing of post-conflict intervention and investment is fundamental. Both the international community and business representatives were reminded that ‘a quick fix is no fix’, while ‘an early win’ paves the way for development. Post-conflict planning cannot simply use a template, since local perspectives and ownership are crucial for sustainable peace, and local contexts differ widely.

18 Research by Paul Collier and his colleagues regarding the importance of the sequencing and pacing of post-conflict investment have shown the highest inflow of resources in post-conflict settings occurs between years 1-4, while absorptive capacity is at its highest level 3-6 years into the post-conflict phase. Political attention and multi-donor relief funding often focus only on the short-term, while development cooperation prioritises democratic institution-building over economic investment. Security is the first prerequisite for business, but creating an investment-friendly climate and business-enabling environment is often neglected in peace-building strategies.

19 Research has delineated the sequence of investment by different sectors after violent conflicts. While trade and (shadow) economies continue during wars, telecoms are among the first to enter as violent conflicts winds down, followed by post-conflict construction and

junior exploration companies. Once there is a regulatory framework, others follow, notably banks, which in turn generate further investment and economic development.

20. In addition to the planning of post-conflict phases and industry sequences, post-conflict countries require long-term support and commitment. This runs counter to both business logics of quarterly reports and political election cycles, but is crucial for the sustainable development of economies in post-conflict countries. For example, turning around the macro-economic dynamics of the 'resource curse' in a failed state requires large efforts by host state governments, businesses, donor countries and the international community encompassing areas of economic policy and regulation, the strengthening of the rule of law, as well as how businesses conduct their activities.

21. Learning from the past and perceiving the future must be part of post-conflict state and economy-building. Mere 'reconstruction' of the same elements that led to conflict would be detrimental. At the same time, local traditions and ways of execution have to be accounted for. Forward-looking techniques, such as scenario methodologies have been helpful in post-conflict settings, both for the private sector and public policy planning. In South Africa, for example, business and government representatives used such techniques to pool expertise. Such forward-looking perspective may also help cultivate a culture of prevention instead of the culture of reaction vis-à-vis conflict dynamics.

Local, national and international dynamics of post-conflict investment

22. Much of the discussion was dominated by a view of business as large, transnational corporations. At the same time, local business has the best possible reason to invest in post-conflict areas and is an important actor for locally-driven and sustainable peace. An example is the Turkish-Armenian business development council with its offices in Istanbul and Yerevan. In this connection it is important to note local, intermediate and global businesses are part of the same spectrum and do not act in isolation.

23. The business spectrum is interlinked with the political framework and actors in the home state, the host state and at the international level. Peacekeeping and peace-building are essentially publicly lead efforts and must remain in the international public sphere of responsibility. New research has revealed a clear correlation between UN efforts in conflict prevention and the mitigation and reduction of wars. While these efforts can play an important role in providing a secure environment for business investment as well as business opportunities (e.g. mobile phones for international staff), some warn about frequently missed opportunities and even negative effects of these operations for the fragile and slowly emerging local economy of a post-conflict country. Contracts are preferentially

awarded to international companies rather than local entrepreneurs, while skilled local and diaspora elites are recruited for international organisations rather than local economic capacity being developed. This is another reason for careful planning and sensitive practices in post-conflict countries.

24. More research, data and the involvement of experts in these technical problems could be beneficial. Highlighting successful practices and learning from experience would also help. One such successful practice could be for transnational corporations to foster strong relationships with host governments and communities simultaneously. For example, if the company's tax payment to the central government is not redistributed to local communities, then working with local communities on how they can use legislation to access financial resources may help. Ideally, this kind of corporate engagement leads by example, with the central government following suit, as in one case in Lebanon. In another case in Sierra Leone, the cooperation with local leaders was not as successful, given corruption at the local level hindered the community at large benefiting from corporate activities.

25. Private sector engagement in post-conflict countries therefore best addresses different levels simultaneously, without becoming another level of government itself. Instead, building trustful relationships with stakeholders at all levels was seen as a key for sustainable corporate investment in conflict-affected regions.

Case studies

26. Experiences in Afghanistan, Algeria, Angola and DRC, Bosnia, and Sri Lanka were also discussed:

- **Afghanistan:** Much of Afghanistan's reconstruction effort is jeopardised by the security situation and the criminal dynamics related to poppy cultivation. Since this cultivation is normally in the hands of small-scale farmers who are simply trying to secure a livelihood for their families, crop destruction is not a sustainable solution. In the discussion of possible subsidy products, the full complexity of the problem became apparent.
- **Algeria:** There are difficulties evolving from a centralised socialist economy to a free market, amidst internal strife. Representatives from Algeria called for more FDI, particularly in the tourism sector, since this creates many jobs. Besides traditional economic development through FDI, remittances of the Algerian diaspora in Western Europe are an important source for investment. Foreign investments and their

impact, namely creating of jobs and prosperity, are all important means to curb illegal migration.

- **Angola / DRC:** Investment is now flourishing, with particular interest in the oil sector. Investors from all over the world, in particular Chinese interest is evident. In view of resource curse dynamics, the government is trying to focus investment into other sectors that generate employment such as agriculture. Geographically distributed investment also remains a challenge, with investors focusing on the capital while large parts of the country remain inaccessible due to landmines. The Democratic Republic of Congo (DRC) is at a much earlier stage of post-conflict investment. On the eve of the Presidential elections, the basis of government has been formed, but not much more. At the same time, the enormous resource richness of some provinces is attracting, in particular, new investors. Government representatives from Angola and DRC cite the intricacy of holding up the sanctity of the contract on the one hand (in order to create trust and reliability for business investments) and reforming economic and fiscal policy on the other. They also noted how investments by 'big business' are crucial in post-conflict settings to allow for nation- and state-building (e.g. telecoms and roads). Such investors have important secondary effects, such as drawing business and political attention to post-conflict countries. The discussion of both countries clearly made apparent how a strong regulatory framework is not only important for attracting investment but even more important for directing investment into sectors and regions that are of particular need or interest in post-conflict settings.
- **Kosovo:** In recent years, Kosovo has seen a surge of business interest and activity. For investors, Kosovo has turned into an attractive location, primarily because of its high-quality human capital, its natural resources (especially coal) and not the least its close proximity to Western European markets. Kosovo authorities have also taken steps to reform the economy. One key component of the reform program is the various privatization efforts that are coordinated and implemented by the Kosovo Privatization Authority. It is believed real economic take-off and comprehensive reconstruction of the national economy have been precluded as a result of a variety of factors. Most importantly, Kosovo's unsettled legal status means many investors shy away from a long-term engagement in the country. The authorities in Kosovo are not fully sovereign which means their ability to borrow money and to develop a capital market are curtailed. As a consequence, the Kosovo banking market remains severely underdeveloped. Loans are difficult to secure and new entrepreneurs find it

difficult, if not impossible, to obtain funds. It is widely expected that the final status of Kosovo will be settled by the Summer of 2007.

- **Sri Lanka:** Sri Lanka's conflict, centered in the Northern and Eastern regions of the country, demonstrates in various ways how internal strife can impact development. Surprisingly, the country was able to sustain significant economic growth – both in absolute terms as well as per capita – despite 23 years of conflict. However, a closer look demonstrates growth is almost exclusively occurring in the Southern regions that were unaffected by the war. For the North and the East of Sri Lanka, the conflict remains a waste of resources and loss of opportunities. Realising that private investment has played a crucial role in the South's development, the Government of Sri Lanka is now developing a strategy to bring local and foreign investment to the areas affected by conflict. In cooperation with the Multilateral Investment Guaranty Agency (MIGA) of the World Bank, the Government of Sri Lanka is trying to attain a better understanding of the possible demand for a new insurance programme designed to trigger investment. Additionally, the government is committed to promote diaspora investment in conflict affected areas which, though considerable, has remained concentrated in the South.

Summary of Conclusions

Much is known about what *not* to do in post-conflict settings. More research and data are needed on the dynamics of conflicts and more successful examples from post-conflict regions regarding investments and enabling environments are required.

The following overall conclusions can be drawn:

- 'The' business sector is not a homogenous entity (juniors and seniors, different home states and sectors, etc.). Some sectors and home state businesses – such as local and diaspora entrepreneurs – have a high stake in building sustainable peace and are prepared to take risks;
- The most important role of the private sector in post-conflict settings is taking risks and undertaking its core business in a responsible way. When assessing risks, opportunities must be assessed as well. When investments are made, business should consider not only how it can best act in conflict situations but also how it can affect conflict situations;
- When discussing investment in conflict zones, considering time, sequencing and pacing is crucial, regarding both conflict and investment dynamic;

- Partnerships in different forms and at different levels are valuable in reducing or managing risks in post-conflict settings and in passing on experience. In particular business partnerships have a strong track record;
- A basic regulatory framework is a prerequisite for attracting investment and building an investment-enabling environment. At the same time red tape and excessively high expectations regarding democratic institutions can hinder investment;
- All stakeholders of post-conflict investment and peace development – home states, host states, the international community and the private sector should recall that the cost of failure is high and could result in the re-emergence of violent conflict

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Wilton Park Reports are brief summaries of the main points and conclusions of a conference. The reports reflect rapporteurs' personal interpretations of the proceedings – as such they do not constitute any institutional policy of Wilton Park nor do they necessarily represent the views of rapporteurs.