

*Dear Readers*

*This Winter edition of our newsletter is devoted to our recent seminar on 'Economy, Conflict and the Private Sector'. It contains papers by the two speakers, David Keen and Phil Champain and, starting on page 17, a report of the seminar itself.*

## **Conflict, Trade and Economic Agendas**

*Dr David Keen, Reader in Complex Emergencies at the London School of Economics, examines here the interaction between the economy, the private sector and violent conflict.*

The most common view of war and trade, at least until rather recently, has been that war is very bad for trade, and trade is very bad for war. In other words, war disrupts trade – by disrupting production, distribution and purchasing power; and at the same time trade is seen as making war unlikely – because it creates prosperity and because, according to the free trade school and the likes of Richard Cobden in the nineteenth century, for example, trade means the countries and businesses acquire such an interest in peaceful conditions that war becomes unlikely.

War does indeed disrupt many kinds of trade and financial flows, while trade and commerce do indeed create important vested interests in favour of peace. An example at the international level, perhaps, is the concern of France and Russia to maintain some kind of relationship with Iraq, which owes them large amounts of money – though we have seen attempts by the US in particular to buy off those with financial interests in Iraq.

I want to focus on some of the ways in which trade may feed into conflict.

First, patterns of trade may fuel the grievances that fuel wars. A classic example is the seizing of land in much of Latin America for export production, for example, coffee. This laid the basis for long-term political struggles over land. The discovery of oil has often added fuel to separatist movements in oil-rich areas, for example in Sudan and Nigeria and even Scotland.

In a great number of countries, trade and investment have not served to promote a widespread distribution of economic resources. Instead, we have repeatedly seen a kind of pact between foreign interests (notably multinational) and local elites. Under these implicit pacts, foreign interests have obtained local resources cheaply, while local elites have been well compensated personally and perhaps assisted in the maintenance of various kinds of autocratic regime. This system has clearly contributed to resentment and sometimes rebellions. Eventually, the corruption and acquisitiveness of local leaders can go so far that the treasury lacks the resources even to suppress rebellion. William Reno has brought out this dynamic in Sierra Leone. And the classic case of such a predatory state was Mobutu's Zaire, where Mobutu grew rich on copper, diamonds and cobalt, while the country as a whole stayed extremely poor.

Second, and this is my main focus here, trade may also fuel war by providing incentives for violence and the means of carrying out violence. Making money as a means of making war may mutate into making money as an end in itself. The aim in a war is not necessarily to win.

The aims in a war may mutate from the political to the economic, and perhaps back again.

Significantly, and this is something noted by Valpy FitzGerald (2001), war expenditure is not always as high as you might think. A major part of the reason is predatory behaviour of various kinds.

This can produce a bizarre situation where a government looks good precisely because it is waging an abusive and predatory war. In Sierra Leone in the early 1990s, civil war raged but inflation was bizarrely low. The World Bank and International Monetary Fund were impressed by this financial management of the military regime. But the low inflation reflected, in part, the fact that soldiers' predatory behaviour was helping to take the burden of war from the treasury and to make the war 'self-financing'.

The case of conflict in Sierra Leone brings out clearly the importance of accumulating resources (as well as the desire to limit conflict) (for example, Keen, 2001). In a bizarre pattern, government soldiers in the early and mid-1990s were observed attacking civilians, engaging in illegal diamond mining, dressing up as rebels, selling arms to rebels, and co-ordinating movements with rebels so as to minimise clashes and maximise the exploitation of civilians. Many of the rural recruits to the army might equally have joined the rebels, under slightly different circumstances. Sending this kind of rag-tag army to diamond-rich areas to suppress a rebellion was a recipe for disaster.

In peace negotiations just before the hand-over to democratic rule in 1996, witnesses reported something distasteful in the warmth with which allegedly opposing commanders embraced each other. Government soldiers and rebels – who made a joint coup in the capital Freetown in May 1997 – shared important interests not just in preserving systems of economic exploitation that had flourished under the cover of war but also in preventing recriminations or prosecutions under a democratic government.

Significantly, the pattern of 'sell-game' during civil war in Sierra Leone has been a variation on a peacetime phenomenon. Collaborative conflict can be seen as a mutation of peacetime corruption, particularly in relation to the diamond economy. Prior to the outbreak of war in 1991, state officials repeatedly participated in the smuggling they were supposed to be suppressing. Anti-corruption drives proved again and again to be a fertile ground for extending corruption. Meanwhile, the corruption of government officials helped to ensure, first, a lack of genuine development in Sierra Leone (including a collapse in education) and, second, a lack of treasury revenue to suppress either smuggling or the growing discontent engendered by precisely this lack of development.

This case seems to show how some peacetime processes are not necessarily a million miles from wartime processes and how a weak state can encourage and shape conflict. Although the prominence of economic agendas has been presented as a characteristic of 'new wars' (for example, Mary Kaldor), it is perhaps more accurate to see their prominence as associated with weak states, whether new or old. It's partly the role of weak states in shaping contemporary conflict that led Martin Van Creveld to suggest that there has been a return to the patterns of conflict of the Middle Ages when weak states were the norm. Diana Lary's study of Chinese 'warlord soldiers' in the early twentieth century shows how soldiers were selling arms to bandits and sometimes 'defeating bandits' by absorbing them.

At the same time as the bizarre cooperation in Sierra Leone, the early and mid-1990s saw another kind of 'sell-game' – this time in Cambodia. After the Paris peace agreement of 1991, exporting timber and gems through Thailand helped the Khmer Rouge to resist UN pressures for disarmament. At the same time, Cambodian government officials and especially the armed forces had become heavily involved in the logging business, helping to denude Cambodia's forests. In 1994, the Defence Ministry was awarded the sole right to licence timber exports and to all the revenue received from those exports. All this gave the armed forces, particularly senior officers, a powerful interest in not eliminating the Khmer Rouge altogether, and the army in fact winked at timber concessions in areas they knew would provide funding for the Khmer Rouge. Between 1994 and 1997, elements of the army came to arrangements with the Khmer Rouge over the control of economic resources in respective areas of influence, and even co-operated in exporting, and in getting the best prices for, some commodities. Some soldiers were even reported to be selling armaments to the Khmer Rouge (Berdal and Keen).

In 1996 a series of high-level defections appeared fatally to weaken the Khmer Rouge.

As Shawcross shows, the threat by the US Congress to impose sanctions on countries aiding the Khmer Rouge eventually seems to have prompted Thailand to close the border in late 1996. This created incentives for Thai officials, military officers, and gem and log traders on the ground to deal directly with elements of the Cambodian government, in turn, encouraging defections from those elements of the Khmer Rouge that had benefited most from doing business with Thai officials. In other words, the defections were, at least partly, linked to 'the Cambodian government's ability to win the Thai gem and log traders to its side'. Ieng Sary and his supporters were offered a pardon and access to lucrative gem and timber concessions within the Cambodian government system (Shawcross).

In Peru, the beneficiaries of continued conflict have included army officers stationed in areas where they were supposed to be suppressing both the drugs trade and the Shining Path. The army tolerated and taxed drug shipments. And army officers repeatedly released captured guerrillas (for a ransom), apparently seeking to perpetuate low-level conflict in drug production areas – thereby legitimating their continued, and highly profitable, presence in these areas (Simpson).

I mentioned the pursuit of financial orthodoxy in Sierra Leone while soldiers upcountry conducted an abusive and 'self-financing' war. It's well worth looking at the 'Report of the Panel of Experts' on the Congo, April 2001. Zimbabwe lowered its defence budget at the very time when its troops were entrenching themselves in the Congo. Large profits from the cobalt, copper and diamond mines in Congo are thought to have gone to members of the Zimbabwean government and army. Zimbabwean officials have also benefited from defence contracts to supply the Congolese army.

Uganda has attracted particularly favourable comment from International Financial Institutions (or IFIs). Uganda agreed with the IFIs to limit defence spending to 2 per cent of GDP. But again, its troops have been mining the war economy of the Congo. Meanwhile, donors have been praising Uganda for increasing its tax revenues, much of which has actually come from taxing logging coming out of conflict zones in the Congo.

As for the Rwandan government, it explicitly describes its military activities in the Congo as self-financing. Rwanda and Uganda have been held up by Britain in particular as rare examples of good governance in Africa, and have received strong support.

An added complication, which has been noted most forcefully in relation to Zimbabwean troops, is that many soldiers know they are HIV-positive and have come to rely on the profits of the Congolese war economy for continued supplies of the expensive drugs they need to control the disease.

The April 2001 Panel of Experts Report states that the number of conventional battles between rival armies in the Congo has tended to decrease over time, with increased attention being paid to economic exploitation. Where there has been conflict, it has been mostly in areas rich in cobalt, copper, diamonds. The report also gives evidence of Ugandan commanders inciting violence between rebel groups, apparently so as to remain in regions rich in gold and coltan.

Of course, there is every reason for Rwandans to make every effort to prevent a repetition of the 1994 genocide, and there is no doubt that many genocidaires took refuge inside the Congo. But an October 2002 UN Panel of Experts report says that while Rwanda claims to have stayed in the Congo to hunt the Hutu Interahamwe militia responsible for the 1994 genocide, in fact this is serving as cover for its army's desire to strip minerals.

The Observer newspaper also made an investigation and found many diplomats, fighters, aid workers and refugees reporting that Rwandan soldiers were cynically prolonging their stay in the Congo and collaborating with their supposed enemies. Tactics appear to include stalling on the disarmament of the Interahamwe, exaggerating the numbers of Interahamwe in the Congo who took part in the genocide, persistently making little effort to engage the Interahamwe in battle, and even selling arms to the Interahamwe. One Rwandan trained rebel fighter said his orders were no longer to pursue the Interahamwe. 'Rwanda came here to fight the Interahamwe but its objectives have changed. These

days, we only pretend to fight them – it's all politics.' (Astill; see also International Crisis Group, 'Storm Clouds over Sun City').

So here one gets a very sinister picture – not entirely dissimilar to the dynamic in Sierra Leone where the RUF has sometimes apparently been maintained as a useful threat that justifies abuses by parties other than the RUF. Rwanda has been withdrawing troops from the Congo, but some observers note that arrangements are being made to continue economic exploitation – for example, through the use of sympathetic militias.

Let me sum up some of the means of making money in the 'war economies' that have grown up around so many contemporary conflicts. These war economies have often centred round particular regions controlled by rebels or warlords and linked to international trading networks. A war economy may involve, for example, extracting benefits by means of pillage, extracting protection money, controlling trade, exploiting labour, controlling land, appropriating aid, or through institutionalised benefits accruing to the military (such as salaries). It may also involve smuggling people and it may include remittances from an émigré community. ('War economy' is sometimes taken to include all the economic activities – legal and illegal – during a war.)

It is helpful to distinguish different kinds of economic activities:

[1] The exploitation of some is impeded by war. This includes most industrial production, particularly those requiring high levels of organisation and infrastructure and those designed to meet predictable local demand. Tourism tends to be badly hit by war, though many countries – like Egypt, Kenya and Sri Lanka – go to considerable lengths, like the mayor in 'Jaws', to play down the threat. Some people point to the importance of tourism in Gambia, and the relative unimportance of valuable minerals, as a reason for its relative peace.

[2] The exploitation of some commodities is consistent with civil conflict. These tend to be low-tech, high value products like alluvial diamonds. Offshore oil can be exploited while conflict is raging, as in Angola; or inland oil that is far from centres of conflict (as in the deserts of Algeria) or has lots of external or private military protection.

[3] The exploitation of some commodities is actually more profitable in conditions of conflict. This includes exploiting shortages, notably of food; trading in arms; selling stolen goods; another aspect of exploiting people who've fallen below the law is the hyper-exploitation of labour in agriculture and congested towns; felling timber has flourished in the absence of ecological restrictions or legal impediments during conflict in Cambodia; the drugs trade may sometimes be particularly profitable in the absence of government supervision or taxation, with local monopolies bolstered by violence. According to the UN, the illegal drug trade is now worth around 250 billion pounds a year, or 8 per cent of world trade.

Even where trade in a particular sector or commodity is not more profitable under conflict, conflict can allow new groups to move in on the profits (see, for example, Martinez). These are often young armed men. Various militaries have been particularly adept at using conflict to preserve their political and economic privileges and to forestall democracy. It is difficult to think of a country with serious ongoing conflict where the military does not have some kind of involvement in the drugs trade.

Trading profits in wartime usually have an international dimension.

When it comes to portraying disasters and disaster-response, a common focus in the media and in aid-agency discourse is on the humanitarian intervention, usually depicting the West as (potential) saviour. However, we also need to be sure to ask: what are the interventions that are already taking place before the aid ever arrives. For example, what are the flows of resources from a disaster area, and the flows of arms into it?

The profits of warfare may include loans raised on the basis of future revenues – for example, the Angolan government has repeatedly raised loans on the basis of oil deposits and the rebel UNITA movement on the basis of diamond deposits. This finance can be very destabilising. James Fairhead shows how in Congo/Zaire foreign mining interests quickly deserted Mobutu and started funding Laurence Kabila's rebels when Mobutu's number was up.

The interaction of internal and external interests can also be seen in Afghanistan. Local religious, political and economic agendas have continually been complicated by external interests helping to fund conflict.

For example, Russia and Iran have for some time been backing the anti-Taliban coalition, to a large extent because they have been interested in preventing the construction of a pipeline that would take oil and gas from the Caspian sea region across Afghanistan to Pakistan. Conversely, Pakistan's support for the Taliban was until fairly recently backed by the United States, which was hoping to isolate Iran from the oil supply (Iran being the quintessence of evil until recently) and to assist the commercial interests of the Saudi-US company Unocal, in which George Bush senior has had a significant interest.

Falling support for governments and rebels from the Cold War superpowers has often fed into an increasing emphasis on funding fighting through internal predation (Jean and Rufin). One example is the predatory behaviour of the rebel group UNITA – cut off from Cold War funding – in Angola. In Afghanistan, it appears that most of the foreign aid and armaments supplied during the Cold War to the government and to mujahadeen resistance units were actually sold off to obtain liquid funds. With the end of the Cold War, the Afghan government found itself unable to pay for its militias, leading to the breakdown of government in 1992 and a period of more or less rampant warlordism in 1992-96, when a variety of warlords used their trading connections with neighbouring countries to pay their militiamen and fund their violence. (Uzbekistan, Tajikistan, Pakistan, Iran). Conrad Schetter argues that looting not only promised immediate profit but helped maintain a general feeling of insecurity, underlining the necessity for the continued existence of combat units to protect particular areas and groups.

It seems to have been the Taliban's ability to offer a more stable environment for traders – and a lesser number of militia checkpoints for traders to pay their way through – that helped make the Taliban regime possible and helped to raise the resources with which the Taliban could incorporate some of these militias into its own armed forces. Conversely, the sudden collapse of the Taliban which you will remember from the aftermath of September 11<sup>th</sup> and the US bombing of Afghanistan – was partly the result of the speedy desertion of many of these forces (see, notably Schetter).

There seems to be a difference between rebel movements with coherent political ideologies who feel the need to attract civilian supporters by undertaking reforms in areas they control and by limiting abuses of civilians – on the model of Mao – and on the other hand what we might call warlords, whether in early twentieth century China (as discussed by Lary) or contemporary West Africa, who have a more purely predatory agenda and often move from one area to another, forcibly extracting resources as they go. Philippa Atkinson has suggested that Charles Taylor's system in Liberia owed something to both models, and to some extent he was concerned to construct a viable economic system in areas he controlled, limiting outright abuses – perhaps helping to explain how he could actually win a Presidential election (see also Olson on 'stationary' versus 'predatory' bandits, and discussion in Mkandawire, 2002).

Contemporary conflicts have often taken on a paradoxical quality. A concern with economic accumulation has often prompted actions that are counter-productive from a purely military point of view. This really underlines the point that war is not only about winning. One of these counterproductive actions is selling arms to the other side (see, for example, Thomas de Waal and Gall's book on the Russian army selling arms to rebels in Chechnya). Another paradoxical act is economically-motivated raiding that predictably radicalises its victims and encourages support for a rebel group. In Sudan, for example, northern Sudanese militia raids on a variety of groups preceded and helped to create their affiliation with the rebel Sudan People's Liberation Army (Keen, 1994). Similarly, attacks on civilians by the rebel Revolutionary United Front predictably alienated the very

civilians that the rebels said they were trying to recruit and represent. Meanwhile, government soldiers' violence against civilians impeded any government efforts to win hearts and minds in the war against the RUF.

One thing it's important to stress, I think, is that the emergence of violent criminal economies is a global phenomenon that may be here to stay, rather than an aberration in the third world that can be dismissed as temporary and marginal.

Mark Duffield suggests that Africa is usually regarded as facing a problem of development and Eastern Europe and Russia as facing a problem of transition. Both are seen as progressing, haltingly, towards a liberal democratic future. Complex emergencies themselves are often seen as a temporary deviation from normality, a substantial hiccup on the road to liberal peace. But it is worth stressing that certain kinds of contemporary disorder are proving extremely durable, particularly since various kinds of illicit global trade are often successfully confronting states that lack the ability or will to control such trading. These states are not only in war-affected countries but also in neighbouring countries where the profits from smuggling may defeat and corrupt any government attempt to rein in a transnational war economy. Collapsing states have sometimes created space for new kinds of transnational conflict, with foreign countries backing factions within the collapsed state, and often getting an economic return. Examples include Congo/Zaire and Afghanistan. These strategies have political as well as economic dimensions.

Institutions in the West – for example, multinationals and banks – are also likely to have some involvement in these war economies. The role of Swiss banks in the German war economy has recently been highlighted. The profits of plunder have to be put somewhere. A contemporary parallel is the role of Singapore – another country with in some ways a squeaky clean image – in banking the proceeds of Burma's destructive opium trade as well as supplying the Burmese military and lobbying on the government's behalf within the UN and the regional group of states known as ASEAN. Attempts to rein in Western corporations involved in war economies can be seen as driving business elsewhere. A good example are the recent attempts to prevent diamonds from conflict zones from being traded in the Belgian diamond market, and fears that this could drive business towards Israel and India. Countries with little or no money laundering legislation can be used as an entry points to global financial markets. Luxembourg and Austria have been among the main centres for money laundering. Lebanon's status as a key financial centre was battered by its own civil war, but has been restored, partly by making sure that the banking system offers extreme privacy for its clients and by extension a refuge for money that may be tainted (Addison et. al.). Cyprus has also benefited in this way. Again, regulation can be an economic threat. So there is a real question here about state sovereignty and the extent to which it still exists.

Underlining the point that it is dangerous to draw a rigid line between war and peace is Manuel Castells' argument in his book 'End of Millenium' (which I recommend), the argument that the new criminal networks in Russia were formed in the 1987-93 period for the sake of proceeding with the pillage of Russia (in large part through privatisation). There was a wild competition to grab state assets. The partial criminalisation of business in Russia has been linked to the transition from a command economy to a market economy operated without institutions (banks, accounting systems, means of enforcing contracts) that organise and regulate markets. The process has been accelerated by the collapse of state agencies, which became unable or unwilling to control this criminalisation. In Russia, weak institutions for enforcing market transactions have fed into violence and a demand for private security. At the same time, the poor pay and redundancies in the state security sector have created an abundant supply of people ready to exercise various kinds of force on behalf of private clients. Again, there is a connection between the criminal economy and a weak state. But the state is not totally weak; indeed, individuals have used their bureaucratic positions and connections to carve out profitable spheres in a process of mass privatisation.

The Russian criminal economy is linked up with global markets – through money laundering, currency speculation, and selling off oil, other precious minerals and weapons. Significantly, the globalisation of

financial markets and the speed of financial transactions has assisted in money laundering, often giving criminal organisations the upper hand in their battle with more geographically-constrained national security services, among whom co-operation and information-sharing have not always been well developed. At the same time, some criminal organisations have also exploited strategic international alliances with each other.

Organised crime like drug trafficking demands some kind of penetration of the state, intimidating and bribing politicians, judges, officials and journalists. In this sense, crime may be embedded in the law.

The economist Paul Collier, head of research at the World Bank, has also been working on economic agendas in civil wars.

Collier basically argues that recent conflicts have been driven overwhelmingly by greed rather than political grievances. The attention to international trade networks is potentially helpful. But Collier takes the 'greed' perspective to an untenable extreme.

Collier chooses a number of proxies he sees as likely to produce economically-motivated violence (for example, heavy reliance on exports of primary products, low education levels) and a number of proxies for grievance (for example, economic inequality), and then finds that the first set of proxies are much more closely correlated with the occurrence of civil wars than the second set.

Key reasons why grievances in themselves do not often lead to rebellions, he suggests, are variations on the collective action problem: in particular, the perception that participating in a grievance-led rebellion, especially in the early stages, carries a lot of personal risks and that the optimum outcome is that other people rebel on your behalf – a preference that doesn't operate when violence is bringing immediate pay-offs.

I'll mention four main criticisms of Collier. First, grievances have not gone away just because ideological conflicts are less in evidence.

Collier goes so far as to say that it is pointless asking a rebel group about their grievances since rebels will always emphasise grievances even when their motivation is greed. It is almost as if economics is trying to abolish politics, sociology and anthropology, and to declare: no more listening required! Yet if we follow this approach we may be left with a lot of numbers and very little real understanding of conflicts.

As Mark Duffield has observed, the Collier/World Bank research tends to delegitimise protest. It could be a neat way to obliterate the grievances of anyone unhappy with the status quo. One should keep in mind the long and not very glorious colonial traditional of dismissing every rebellion as criminal.

Second, some of Collier's conclusions rest on a rather dubious selection of proxies. Why, for example, should low literacy levels be taken as a proxy for 'greed' (as in Collier) rather than for 'grievance'? The case of Sierra Leone shows that deficiencies in education can be a major grievance, and those who take the trouble to listen will learn this soon enough.

A third problem with the Collier analysis is the lack of attention to the manipulation of conflict by ruling elites for profit and power. Collier touches on this problem only extremely briefly. His whole weighing of greed and grievance focuses on rebel movements, even though governments and government forces may do as much to propel and deepen civil conflict. This includes the use of conflict by elites to make money and to suppress opposition.

A fourth, related point is that we really need to understand how greed and grievance interact.

Mechanistic, economistic analysis begs a number of vital questions. If economic goals are important, under what circumstances are they pursued through violence? What is the role of institutions in influencing these decisions? To the extent that violence is seen as rational, what were the conditions that led violence to be seen as rational?

In many ways, it is odd that research emanating from the World Bank even uses the word greed. The pursuit of economic self-interest has been lauded and encouraged by the World Bank, and market ideology may feed into a desire to acquire commodities through violence if they are not obtainable by peaceful means. Suddenly, what had previously been lauded is now implicitly condemned as 'greed'.

Looking at the political economy of war, and the functions of war, is relevant to debates about sanctions. If rulers are benefiting economically from the manipulation of shortage and politically from the suppression of dissent under conditions of conflict, then generalised sanctions may actually help them. Many in Serbia argue that Slobodan Milosevic and his cronies actually courted international sanctions, which reinforced a sense of siege in Serbia and increased the profits of trading controlled by this clique. A similar argument can be made in relation to Saddam Hussein.

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## **Engaging the Private Sector in Conflict Transformation – an overview of possibilities and challenges**

*In his paper Phil Champain draws on the work being done by International Alert, where he leads the Business & Conflict Programme, to involve international and local businesses in conflict transformation.*

### **Introduction**

The purpose of this paper is to give an overview of current thinking on private sector engagement in conflict transformation. The debate on this topic has got to a stage at which there is a degree of consensus that business has a role to play in a sphere of activity that remains dominated by civil society and government actors. Private companies are both part of the problem and also potentially part of the solution.

In Africa, the oil industry has been a source of conflict in the Niger Delta since the 1960s. The diamond and timber trade provides a source of income for rebel groups and predatory state governments in Sierra Leone and Liberia. The recent military defeat of UNITA by the MPLA in Angola has opened up new opportunities for a more positive and transparent approach to oil revenue sharing, although scepticism persists amongst those lobbying for greater accountability and corporate social responsibility amongst the oil majors. The recent withdrawal from the Congo (following a drop in the price of tantalite) of the Rwandan 'military-industrial' machine that widely plundered coltan further illustrates the central importance of natural resources, and the operations of businesses that exploit these, to sustaining violent conflict in Africa.

In the Caucasus, the re-emergence of the oil industry in the Caspian in the 1990s and the recent sanctioning of the Baku-Tbilisi-Ceyhan oil pipeline is attracting close attention from those wary of the predatory development trajectories of 'Petro States' and the need for better ways of assessing the conflict risks of major private sector investments in unstable regions. In addition, in the face of trading restrictions imposed by the frozen conflicts between Georgia and the breakaway regions of Abkhazia and S.Ossetia, and between Armenia and Azerbaijan over Nagorny-Karabakh (together with the controlling influence of Russian policy in the region), illegal trading routes have emerged as alternatives to legitimate trade. The use of these black markets (eg. from Turkey through Georgia and across the S.Ossetian border to Russia) by traffickers of drugs, light weapons and other illicit goods fuels instability and blocks the benefits that thriving, licit business could bring to the region. In the North Caucasus, according to some reports, profiteering from illegal economic activities is a major contributor to sustaining violence in Chechnya, with, for example, both Chechens and Russian military personnel profiting from illegal trade in oil.

In Asia the positive role that the private sector can potentially play in supporting and influencing peacebuilding has come to the fore most markedly in Sri Lanka. Following a crippling economic downturn and a persistently harsh business environment (particularly after the LTTE attack on Sri Lanka's main airport in July 2000), businesses based in southern Sri Lanka established a campaigning collective called Sri Lanka First. As peace talks build between the LTTE and the GoSL, Sri Lanka First and the business community in general (including the Tamil diaspora) continue to explore ways of contributing to stability through investment strategies and campaigning activities. Similarly, the Muslim Business Council (MBC) in the Autonomous Region of Muslim Mindanao (ARMM) is actively seeking to influence the economic development policies of the Manila based government of the Philippines, thereby contributing to conflict prevention through appropriate investment that will help meet the grievances of the excluded communities of Mindanao. And in Nepal the interim Prime Minister has articulated the crippling effects of the Maoist rebellion on the tourist industry and the need to put an end to the conflict if wary investors are to return (sentiments which may well be echoed in Indonesia following the recent and horrific bombing outside a nightclub popular with tourists in Bali).

One thing this brief snapshot serves to show is that there exists in many countries affected by conflict an alternative economy that is different from the Western capitalist model. Some would say<sup>1</sup> that this is symptomatic of those communities excluded from the dominant global economy finding alternative means of survival. Are these economies the result of inequitable development policies by Western governments bent on the liberalisation of trade at any cost? Do they enable those who profit from conflict to perpetuate the violence? Are such economies sustained by greed rather than by grievance? These are all important questions and as such I make reference to them, since they relate to the context within which the private sector operates, a context which private companies have a role in shaping, together with governments and civil society.

However, the central purpose of this paper is to throw some light on the specific contribution the private sector can make to conflict transformation and the challenges this poses for companies, NGOs and governments alike. This contribution can be tentative or ambitious; with the company working alone or with others; at a micro or macro level.

## **Thinking about engaging the private sector – some considerations**

Before homing in on this task, a few observations of 'on the ground realities'. First, the business community is not homogeneous. Much of the focus of the debate on business & conflict is on transnational corporations (TNCs), with European and US governments holding an increasing number of seminars and conferences on this subject, to assess how companies operating abroad can contribute to peacebuilding. But TNCs are not the whole picture. In some conflicts they are not part of the picture at all. The local business sector (by which I mean companies more than 50% locally owned and with

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<sup>1</sup> For example, Mark Duffield's work looking at how economic marginalisation together with the proliferation of light weapons and the large revenues generated by the exploitation of natural resources in many countries is creating an alternative political and economic system in itself. Mark Duffield refers to this response as 'reflexive modernity' that manifests itself in 'networked wars'.

their HQs in the conflict region itself) is of particular relevance to conflict transformation, offering opportunities for engagement, given their stake in the conflict, that TNCs do not. More on this later.

Second, each conflict has its specific dynamic, an obvious point perhaps, but important when assessing the role of the private sector. In attempting to design generic frameworks, tools and understandings to progress private sector engagement in conflict transformation, the specificity of conflict must be considered and puts constraints on those wanting to design neat 'models' and theories.

Third, process is key. In an increasingly output driven working environment, with target setting, deliverables and logframes to the fore, the importance of process-driven engagement that focuses on relationship building, stakeholder ownership and problem solving is in danger of being downgraded. In finding long-term solutions to complex conflicts, the importance of building relationships between the conflicting parties and of establishing high degrees of ownership amongst the different stakeholders is central. The role of third parties can be an important part of this process – but not necessarily so.

Fourth, regulation has its place. Regulation of the private sector and those that determine the environment within which the private sector operates, has an important role to play. This has been most marked with respect to the extractive sector and TNCs. For example, the sanctioning of UNITA mined diamonds in Angola severely dented Jonas Savimbi's income and hence the ability of UNITA to continue to wage war.

Fifthly, a private enterprise is not an NGO or a government ministry. It has its own culture, mandate and motivations. Profit (and the provision of services from these profits) drives a business venture, rather than 'cause', which is more the territory of an NGO. Attempts to engage businesses in conflict prevention must take account of the particular characteristics of the private sector and of the specific company in question.

Finally, wars have their leaders/freedom fighters and so do peaceful movements for social and political change. Where are the enlightened private sector leaders who see a new vision for corporate governance in the 21<sup>st</sup> century – a vision that can harness the power of the private sector for peace rather than as a contributor to the growing divisiveness within our societies? Whatever the role of the private sector in transforming conflict, leaders please come forward.

These six observations are echoed in six key questions put to a group of local business leaders in Sri Lanka in November 2002 by Brian Whittaker, CEO of the Business Trust in South Africa, which has played such an important role in the country's transition from apartheid to post apartheid. In developing a strategy for private sector engagement in social and political change, he argued that it would be useful to consider the following: Who will lead? What does the context demand? Which companies will work together? Who will they reach out to? What projects will they lead? Who will be the intermediaries?

These questions and the observations above may provide a basis from which to attempt to draw out some general points about how the private sector might engage in conflict transformation. However, given the specificity of conflict and the diverse nature of the private sector, it is best to be mindful of the limitations of such an approach.

## **Conflict transformation processes and the private sector**

Boiling down conflict transformation process, one could simply say that it involves getting the right people together in the right environment to discuss the right issues. Clearly, this is not a simple task, as anyone involved in conflict transformation can testify. A meeting is called and key parties do not turn up. The dialogue is held at a venue controlled by one party or the other and therefore not deemed safe, stifling interaction and honest debate. The key issues are swept under the carpet, to be replaced (or high-jacked) by ones which are not really relevant to the conflict. And so on. There is much trial and error, persistence sometimes rewarded by an encounter that hits some of the right notes. But this takes time and patience – and constant analysis.

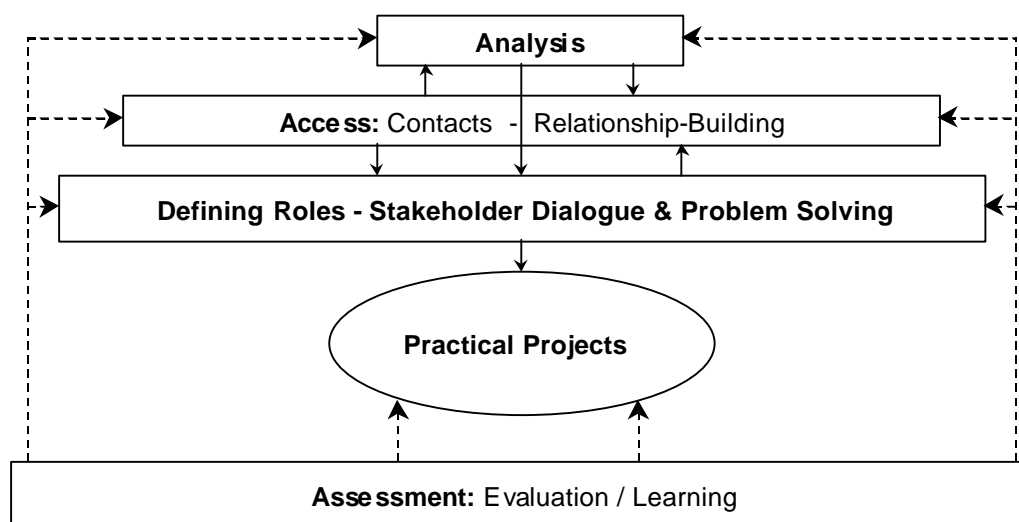
Analysis of conflict is something that the private sector is gradually coming to grips with. The risks of operating in a conflict zone need to be factored into any business venture. However, traditional private

sector methods of risk assessment are not generally geared towards analysing the causes of conflict, the actors in it, or the part played by the company itself in the conflict. Conflict transformation actors, including private sector companies, need to respond to ‘what the context demands’. The context therefore needs to be constantly analysed and assessed.

From the standpoint of the conflict transformation practitioner, conflict analysis is best done in a participatory way, drawing on the understanding of those involved in the conflict. As such, it is not a desk-based enquiry, but rather a process of identifying stakeholders and engaging them in collective analysis of the conflict. As such, the analysis itself is part of the longer term conflict transformation process. It serves to support a process of relationship building amongst stakeholders and to determine the key causes of conflict and the roles each different stakeholder (including in this case private companies) can play in helping to resolve it.

Practical projects will be an outcome of this defining of roles and issues. Some may focus on a company’s core business, over which it has a high degree of control (eg. employment practice, developing human resources, creating jobs, etc.). Others may be philanthropic or part of a company’s social investment strategy (eg. education and health programmes). The most challenging interventions by private companies will be characterised by ‘policy dialogue’ (eg. with government to support the judiciary or police, combating corruption, supporting political reform, etc.). Although a company will be able to control its core business activities, its social investment and policy dialogue will require partnerships with others to design and implement effective projects that respond to the contextual analysis.

Constant analysis, defining roles/relationships through dialogue and project response are the three key building blocks for private sector engagement in conflict transformation (see Fig.1 below). They are the ‘right hand’ of the conflict transformation practitioner and would appear relevant therefore to any conflict transformation process. They are not however, so familiar to the private sector, since there are a number of factors at work, which make company involvement in these processes problematic. Additional catalysts are required to cement the building blocks.



*Fig.1: Conflict Transformation Processes – the building blocks.*

## **Key catalysts for private sector engagement in conflict transformation**

Private sector companies are not generally regarded as ‘trusted social partners’, to coin a phrase from Brian Whittaker. In Georgia for example, local businesspeople are spoken about by civil society organisations in the same breath as the mafia and ineffectual politicians. In Sri Lanka big businesses in the South are wary of accusations against them of economic colonisation of the North and East, reminiscent of the reputation of the Christian business community in Mindanao amongst Muslim

communities. The oil companies operating in the Niger Delta are seen by many as complicit in the theft of billions of dollars from the communities there that continue to suffer poverty and environmental degradation despite huge oil revenues to Federal and State government.

Much of this negative attitude towards the private sector is justified. The case for the defence is more or less built on different interpretations of roles and responsibilities. Whose responsibility is it to address issues of governance, territorial integrity and security? The government? Civil society? Or the private sector? 'All' I hear you say, and yes, sure. However, to what degree is each responsible? Who should take the lead? What role should each play? Are there some things the private sector cannot/should not do? Are there dangers in encouraging the private sector to play particular roles?

There are certainly dangers, particularly if a company chooses to try and control a process that it should rather assist and influence. The influential *Business of Peace* report<sup>2</sup> identifies three spheres of private company activity that can potentially contribute to conflict transformation. It is important that the roles applied to each of these activities are appropriate to the context. This is beginning to be recognised by some companies. However, in IA's view, the theory of applying appropriate company roles, particularly in conflict zones, has yet to be applied with much success in practice.

As previously mentioned, core business relates to the impacts that business can have through its core business operations (in the workplace, the market place and along supply chains); social investment relates to what are often company funded social or environmental projects that benefit the community but not the company directly (benefit usually coming in the form of enhanced reputation); and policy dialogue is a term used to describe business engagement in dialogue with governments and other stakeholders, advocacy and institution building. Policy dialogue can relate to the difficult structural issues that often underpin conflict such as corruption and cronyism, human rights abuses, inequitable distribution of revenues and patronage and lack of democratic process.

In general terms, a company plays a lead role in relation to its core business. In this sense, getting its own house in order (through appropriate employment practices, procurement policies which encourage local contractors, etc.) is a prerequisite to working with others on more far reaching initiatives.

Social investment projects in conflict zones are best done in collaboration with others so that they can target the pertinent social issues and avoid duplication of what other companies are doing. However, companies in general show a tendency towards leading and controlling these projects and the processes that determine them, mainly because the company's reputation is the dominant driver, and, since reputation is linked to competitive advantage, the company will hold its cards close to its chest. The Oil Industry Forum in Azerbaijan was an attempt to encourage greater levels of collaboration on oil company social investment programmes, but has yet to realise its full potential for these reasons. The inability of private sector companies to relinquish control on setting social investment agendas in conflict zones means that many of the projects are at best ineffectual in transforming the conflict (because the issues do not come from shared analysis with stakeholders), and at worst have the potential to make the conflict worse.

If a supporting role is preferential for social investment, it is a must for policy dialogue. Companies will be the first to accept that they cannot be the sole provider of solutions to what are very complex problems. It may well be that in engaging in higher risk processes that, for example, aim to strengthen governance and combat corruption, companies take a back seat in order to minimise the threat to their business. Certainly, strength in numbers is advisable when tackling more controversial and sensitive issues. Although partnerships are more evident in these types of intervention, there is significantly less involvement of companies at this end of the scale.

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<sup>2</sup> *The Business of Peace: the private sector as a partner in conflict prevention and resolution*, IBLF, IA, CEP, 2000  
CCTS Newsletter 19 Winter 2002/3

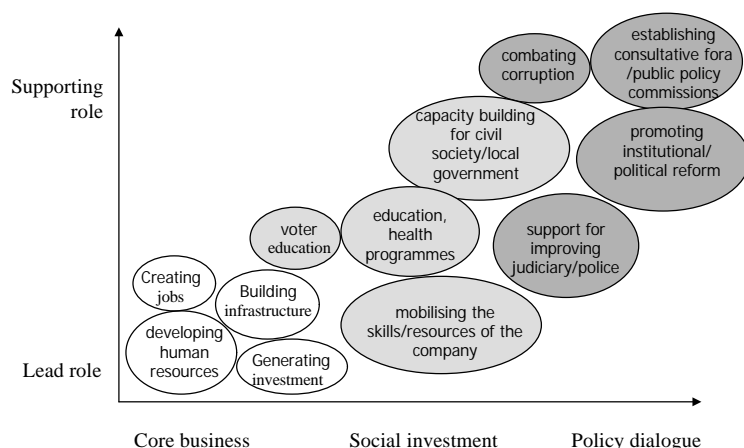


Fig.2 – Company interventions in conflict transformation – implications for roles and responsibilities.

Core Business practice, then, is the responsibility of and therefore closely controlled by the company. Social investment and policy dialogue however require a supporting role from the company in processes that will also involve civil society and government. Confusing these different roles can create problems and hinder conflict transformation processes. Getting it right will help consolidate engagement in conflict transformation.

The defence also includes the fact that the private sector does not have the skills and tools needed to engage in conflict transformation processes. Commitment is one thing. Having the ability to act on this commitment is another. Corporate Social Responsibility (CSR) has provided a useful framework for company executives to consider its wider role in society, and has led in recent years to a number of initiatives involving training for company executives in the role of the private sector in environmental and social issues. CSR is a valuable, though not particularly new, idea. One of the most significant landmarks was the intervention of the entrepreneur and businessman Joseph Chamberlain who applied himself and the business community to the plight of 19<sup>th</sup> century Birmingham.<sup>3</sup> More recently, BP has taken things a step further by designing a course on society, the environment and the role of the company with Cambridge University, for all its senior executives. In designing their CSR approaches, both Chamberlain and BP’s CEO John Browne emphasised the need for collective action. ‘Real progress will only be possible when companies, governments and other interested parties agree to work together through a set of mutually supportive steps’<sup>4</sup>.

However, traditional CSR, whilst increasingly emphasising collaboration and partnership (often most problematic when it comes to companies working together) will not in itself necessarily transform conflict. To begin with, CSR takes the company as the starting point. The acronym demands this – *corporate* social responsibility. With conflict transformation however, the *country/conflict* needs to be the starting point. The role and the responsibility of the company will emerge through the analysis of the conflict in the country. This is not to say that the company should not consider what benefits it can potentially gain from a conflict transformation approach, or that project response should not consider

<sup>3</sup> For Chamberlain, who applied his business brain to the deterioration of the city’s infrastructure in the wake of urban deprivation and disease that accompanied the high economic growth of the period (an approximate and unprecedented 3%) ‘it is only the community acting as a whole that can possibly deal with evils so deep-seated as to those to which I have referred’ – from *State Socialism and Moderate Liberals*, 28 April 1885, C.W.Boyd. ed., Speeches.I. 163-5.

<sup>4</sup> *Large companies cannot afford to disappoint*, John Browne, in *Visions of Ethical Business*, October 2000.

company reputation and bottom line. But if the analysis does not start from the country situation, then any response will be flawed and the benefits marginal.

This is often because the issues identified through a conflict transformation approach will arguably be different to those of a traditional CSR approach (resulting in dialogue on the wrong issues). For example, in Muslim Mindanao, 'social reforms are the key ingredients to lasting peace and development. Without this the issues that underlay the breakdown of peace and social order will again rear their ugly heads. Lasting peace and development (LPD), therefore, needs a sustained effort at social justice (SJ), good governance (GG) and corporate social responsibility (CSR).  $LPD=(SJ+GG+CSR)^5$ . It is in relating to issues such as good governance and social justice that private companies are challenged most. But these are the issues that are often so central to the transformation of conflict. Engaging in conflict transformation requires a company to engage in issues it may not necessarily put in its CSR policy.

This 'CSR+' or 'country first' approach is missing from current company methods of risk assessment and stakeholder engagement. Furthermore, methods of Environmental and Social Impact Assessment (ESIA) amongst TNCs are not generally applied throughout the whole project cycle; mitigation strategies tend to be reactive rather than preventative; and engagement with stakeholders in ESIA processes (a relatively recent methodology when one considers BP's first ESIA was conducted in 1997) tends to be project based rather than conflict based (and therefore limited to the development site – e.g. a pipeline). The problem with such a narrow conceptualisation of impact area is that it not only excludes impacts that are beyond this corridor (for instance revenue impacts, energy expectations etc.) but it also excludes mitigation measures from any outlying area. Overall, there is a need to embed a different approach throughout the project cycle <sup>6</sup>.

Constant analysis, defined roles/relationships and project response will therefore be enhanced through the provision of conflict sensitive tools and methodologies for the private sector (which put the country first), and through better matching of 'lead' and 'supporting' approaches to private sector interventions.

## **Challenges for the 'non private sector'**

If private sector companies have challenges to face in their attempts to engage in conflict transformation, then NGOs and governments have their own hurdles. Companies cannot just plug themselves into conflict transformation processes. Others must play their part.

There is much to be said for efforts to regulate the private sector and to establish policy frameworks to guide their behaviour. Although there is no comprehensive, integrated framework for regulating 'unethical' private sector activities that may contribute to conflict, there are a number of significant voluntary, coercive and legal initiatives. The United Nations Security Council has applied sanctions to trading in 'UNITA diamonds' in Angola, a precursor to the broader Kimberly process that seeks to trace conflict diamonds from different regions; the UN Secretary General's office has initiated the Global Compact bringing together NGOs and businesses to help develop tools for the private sector operating in conflict zones; there are the International Labour Organisation's conventions on drugs trafficking and the financing of terrorism; the OECD has produced a set of guidelines for multinationals and has its own convention on bribery; a group representing almost all the major extractive mining, gas and oil companies, together with several NGOs and the US and UK governments, produced a set of voluntary principles on human rights and security for the extractive sector in 2000; other voluntary initiatives include the Sullivan Principles and the Global Reporting initiative.

Some of these initiatives are clearly aimed at regulation through coercion, name and shame tactics and legal frameworks such as sanctions. NGOs active in campaigning for more ethical business practices have played an important role in opening the door for dialogue with the private sector. A number of voluntary and self-regulating initiatives have gathered pace, in part due to the success of campaigns

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<sup>5</sup> *Conflict in Mindanao and the peace-building potential of the private sector*, Alternate Forum for Research in Mindanao and International Alert - forthcoming.

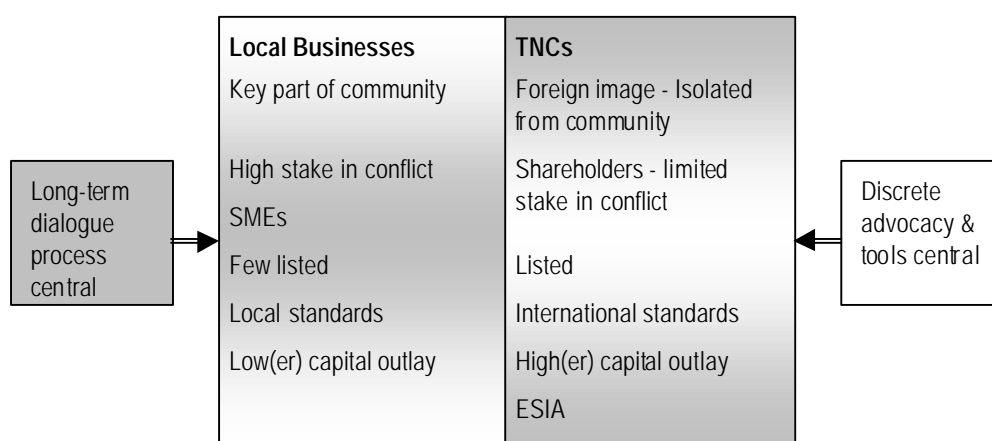
<sup>6</sup> *PCIA for the private sector*, stage one report, Rachel Goldwyn, International Alert 2002.

such as Fatal Transactions (launched in 1999, alerting the public to links between diamonds and the funding of war in Africa). Both approaches are important. Those of us engaged in dialogue with companies in an attempt to find collective solutions to complex problems may not have abandoned 'public protest...but protest is a means to an end, not an end in itself. Protest is relatively easy, engaging is difficult.' (Geoffrey Chandler, ex-Chair of Amnesty International's UK Business Group). The challenge for those outside the private sector is to find a role that can effectively harness the influence of the private sector for the transformation of conflict.

In relation to TNCs, this role is likely to focus more on advocating new approaches to stakeholder engagement and policy dialogue, on tools development to assist with these new approaches (eg. new, conflict sensitive risk assessment methods), and collaboration with companies on social investment programmes. Amongst the TNCs, resource based industries continue to grab most of the attention. This is important since resource based industries are often linked to conflict given the proximity of the natural resources to the conflict, the high value of their products and their strategic importance to the West. Within this group the oil industry is significant, since extracting oil is increasingly technical and specialised and therefore requires production agreements between the host government and Western companies, raising important questions concerning the accountability and responsibility of TNCs and their agreements with governments which are often weak, in transition and corrupt.

Local businesses however, are also central to conflict dynamics in that they are a permanent feature of every society where conflict persists. A functional economy is a pre condition of any peaceful society and local businesses are a central part of this economy. Local businesses arguably have a more complex relationship with political actors and have been more vocal in their support for peace processes than TNCs, since peace not only affects their business, but also the social fabric that sustains them. For these reasons local businesses are more integral and connected to peacebuilding initiatives than TNCs, and the approaches adopted in supporting this engagement subtly different. Dialogue, process and policy dialogue are likely to be the central characteristics of local business engagement in conflict prevention and initiatives involving them are likely to be long term.

This distinction between approaches to TNCs and local business communities is a reminder that we cannot treat the private sector as homogeneous. Conflict transformation approaches involving the private sector are dependent on the context and also the nature of the company involved (Fig. 3).



*Fig 3: Approaches to influencing private companies*

## **Some conclusions**

Conflict transformation approaches focus in large part on creating spaces for dialogue that will assist those actors in the conflict to engage in processes that help identify key issues (needs and fears) and to develop ways of addressing these issues. Middle range leaders are regarded as key players in these

processes since they have access to both grassroots communities and political leadership<sup>7</sup>. Although community, religious, youth, women and government leaders have been effective conflict transformation agents, the private sector has tended to be neglected.

Local business leaders, as important actors in the community, have an important role to play in working with others to transform their societies from ones characterised by violence to those offering peace and stability. TNCs find it harder to see themselves as agents for change in countries where they are perceived as 'foreign'. Expatriate staff often live apart from local communities. Shareholders live even further away. And yet the contribution of the company to the country is often huge in material terms and its potential to effect change very significant. (For example, Kenzo Oshima, UN Under-Secretary General, noted in a briefing to the Security Council on Angola that the entire UN OCHA humanitarian appeal for Angola for 2002 'represents only ten days of Angola oil production, and is equivalent to three weeks' government revenue from oil production').

Furthermore, local and transnational businesses operate in an environment influenced by the economic and development policies of western governments and multilateral institutions. Companies need to get their own house in order, but collective approaches are also central to finding solutions to violent conflict.

In seeking to involve the private sector in finding these solutions, efforts need to be made to develop new forms of collaboration that take forward our collective sense of role and responsibility in contexts where these roles are hard to define. There is also an urgent need to develop new tools and methods of analysis that will help private companies mainstream conflict prevention into their risk assessment and project planning.

*Phil Champain*

## **Economy, conflict and the private sector: seminar report**

*Report of a CCTS seminar held on 15<sup>th</sup> January 2003 at St. Ethelberga's Centre for Reconciliation and Peace, Bishopsgate, London EC2*

This seminar, organised by the Committee for Conflict Transformation Support (CCTS), was attended by 35 people and chaired by Michael Randle and Diana Francis. The seminar began with presentations from the two speakers: Dr. David Keen, Reader in Complex Emergencies at the LSE and Phil Champain, head of International Alert's Business & Conflict Programme.

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### **Conflict, trade and economic agendas**

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It is commonly held that there is a mutual antipathy between war and trade, because war disrupts the ability to trade and the prosperity created by trade makes war less likely. David Keen challenged this 'truth', and focused in his talk on the ways in which trade and war can co-exist, or even be mutually supportive.

The type of trade that flourishes on or beyond the edge of the law, such as dealing in arms,

narcotics, or stolen goods, or exploiting the unprotected (whether people or goods), is often *more* lucrative in wartime, because government controls tend to break down. However, it is not only borderline or illegal trade that can co-exist with war. Low-technology, high-value industries are also able to operate successfully in warring countries. Typical of such industry, and common in many areas of conflict, is the extraction of natural resources such as alluvial diamonds, oil and coltan (the ore of tantalum, which is widely used in mobile phones and laptop computers).

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<sup>7</sup> John Paul Lederach  
*CCTS Newsletter 19 Winter 2002/3*

David outlined two significant ways in which trade can fuel war:

- Trade that exploits the majority of the population while enriching only a small elite creates *grievances* that may lead to civil war;
- War makes certain types of trade very lucrative; the *greed* for this income may foment or prolong violence, or even become its primary aim.

David's paper, reproduced above, contains a large number of examples of wars where trade plays one of these roles.

Wars motivated by greed can demonstrate some unexpected characteristics. For example, a warring government may be winning international praise for keeping spending and inflation low while funding its wars through the illegal exploitation of its opponent's (or even its own) national assets – either directly or by turning a blind eye to the predatory behaviour of its soldiers. Paradoxically, the citizens of such a country might be more secure if the government spent *more* on war, since properly trained and paid soldiers would not be so tempted to escalate the violence for their own financial ends. In some cases where the illegal trade is sufficiently profitable, the desire to perpetuate the fighting can even lead one side to sell arms to its opponents. Official collusion in illegal activities such as smuggling or drug running is common in wartime, and militates against any peace agreement. This collusion may even spill over to neighbouring states that are not ostensibly involved in the war. David suggested that a lasting peace may be impossible unless it institutionalises, at least to some extent, these economic interests.

At the same time, David cautioned against an overemphasis on the economic agendas for war. In his view, the analysis made by the economist Paul Collier during his secondment to the World Bank, which essentially discounts 'grievance' and characterises all conflict as the result of 'greed', is untenable. He pointed out that greed and grievance are usually hard to separate, since one generates the conditions for the other; and he stressed the overriding importance of understanding the particular circumstances that led to a conflict if one is to work effectively towards ending it.

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## Engaging the private sector in conflict transformation

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Phil Champain agreed that trade can, and often does, play a negative role in conflict areas. When it exploits the local workforce or plunders natural resources it impoverishes the local population; when it uses the proceeds of illegal trade to fund the continuation of war, and in doing so inhibits the (re)establishment of legitimate businesses, it fuels instability. For these reasons there will always be a role for regulation and properly targeted and managed sanctions in controlling rogue business activity. Nevertheless, Phil also saw a positive role for the private sector, alongside government and civil society, in promoting peace and stability, instancing the growing business involvement in peace processes in Sri Lanka, Mindanao and Nepal. He and his colleagues in International Alert are working with private industry, particularly with multinational oil companies investing in Azerbaijan, to establish processes that can support this positive role.

In his presentation Phil outlined the model that International Alert is developing for promoting private sector involvement – bearing in mind always that the private sector (like conflict areas themselves) is not homogeneous, and that the primary consideration for a business will inevitably be its profitability.

He identified three different types of activity in which businesses can fruitfully contribute to peacebuilding: *core business*, *social investment* and *policy dialogue*.

- Least contentious and easiest to achieve, because they are most directly under a company's control, are the actions that it can take within its *core business* operation. To what extent does it employ local people? How well does it pay? What working conditions does it offer? What training and promotion possibilities does it offer to local workers? Does it use local suppliers? These are activities within a company's day-to-day control; which could be considered the bottom line in corporate social responsibility; but which can have a marked influence on the stability (or otherwise) of the local economy and therefore on its chances of lasting peace.

- **Social investment** projects, in areas such as schools, health programmes and voter education can make a significant contribution to the welfare and peace of the community. These projects are more philanthropic, affecting profitability more obliquely, through enhancing the company's reputation in the host country and 'at home'. They are best undertaken in collaboration with local or regional government or other civil actors, to ensure that they really do fulfil local needs (as well as to avoid duplication with other projects).
- Projects involving **policy dialogue** engage in the more structural causes of conflict, such as combating corruption, supporting improvements in the local judiciary or police force, or promoting political reform. These are furthest from the company's core activity (though still able to affect its operation) as well as being the most controversial and difficult to achieve – and are consequently the area in which least company activity is found. Nevertheless, business involvement in these activities, although inevitably in a secondary and supportive role, in partnership with government and civil society, can improve the chance of success.

Clearly, local businesses will have a different perspective from that of international companies – more in touch with local politics but with less financial leverage. Both have a role to play, individually and in partnership with one another.

Companies are used to analysing and taking account of the risks of any business venture, including those inherent in operating in a conflict zone. What is often missing, but is necessary in all three areas of activity detailed above, is for companies to include in their analysis the causes of the conflict, and the impact of their investment on it (as well as vice-versa). This in turn will involve a more collaborative and less controlling role than is normal for businesses (especially large transnational ones), particularly in the area of *policy dialogue*, if they are to help rather than hinder the process of conflict transformation.

International Alert is treading a difficult path in attempting to engage companies in the complex problems of conflict transformation. Phil concluded by reminding the meeting: "Protest is relatively easy, engagement is difficult".

*The presentations were followed by a plenary discussion, which was continued in two groups during the afternoon (each led by one of the*

*speakers) and concluded with a report-back plenary session. The discussion was wide-ranging – from the responsibility of the individual, through the role of theory in informing practical action, to issues of global economic planning – as participants grappled with the complexity of the subject matter. Nevertheless some common threads emerged and these are summarised below:*

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### **Greed or grievance: do theories matter?**

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Opinions were mixed as to the usefulness of the 'greed or grievance' debate raised by David's paper. Some participants, including those closest to business, felt that there was limited practical value in theorising, and were more interested in concrete advice as to what action they could take to promote peace and stability. Another participant pointed out that it was impossible to give practical advice that was not based on some theory about the cause or causes of a given conflict. Thus, if a company, influenced by the particular economic model proposed by Paul Collier, were to dismiss all alleged grievances as instances of greed, this could cause it to adopt entirely the wrong policies. Other participants felt that theories and economic models can illuminate the causes of conflict, and that their application can have a practical outcome.

Greed is a particularly difficult phenomenon to grapple with, since we see it as natural (anyone faced with gross inequality and discrimination will be 'greedy' for a bigger 'slice of the cake') but at the same time condemn it. In truth, greed is likely to exist on both sides of any conflict, and is likely to perpetuate the conflict if it is unconstrained.

As with any complex problem, we cannot expect to find a simple model or set of ideals that can be universally applied. We need to understand as much as possible about the background and motivation for a specific conflict if we are to be able to assist in resolving it.

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### **The role of the private sector**

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Phil indicated in his presentation that action within a company's 'core business' activity were the least contentious of the three activities he outlined. However, some participants felt that the core business itself is often part of the problem, for example, in extracting wealth and resources

from a country, or robbing it of local opportunities. Certainly, the way a company acts within its core business can make a difference to what happens in a failed or failing state. If, for example, they employ their own security forces in order to protect their installations, this is likely to impede the local government from developing robust security forces of its own (both because of likely pay differentials and because it will tend to emasculate the power of the state forces). Norwegian Police trainers in East Timor, for example, praised the quality of local police recruits but doubted their long-term commitment to the job, given the very low wage that they would earn.

Businesses may contribute more to peace and stability by engaging in the 'policy dialogue' arena by offering financial and other support to state security forces. Similarly transnationals who engage in 'social investment' projects to build local schools or hospitals may at first sight appear to be making a significant contribution to the local populace, but their action may take authority away from the local government. A more 'hands off' collaborative approach might be more beneficial in the long run. The BP representative at the seminar agreed: his company don't want to simply be cheque-writers, but would prefer to identify changes to their behaviour that would reduce the chance of conflict.

The degree to which a transnational company employs local workers and uses local suppliers can also have a marked effect. This is particularly important during or after conflict, when the financial leverage of a large international company might be the best opportunity for coaxing local people who have become part of a 'black economy' back into legitimate business. On the other hand, incoming transnationals often 'poach' local NGO staff with unbeatable salaries (because they speak English) with a deleterious effect on local peacebuilding efforts.

There is a particular problem, too, for non-market economies 'in transition' that makes them especially vulnerable to conflict. Businesses need to be more aware of the role they play here.

In one participant's experience only the multinationals have a role to play in conflict transformation; she argued that local businesses don't have the resources to look beyond their own survival. On the other hand, their closer links with the local community give them a leverage that is not available to the

multinationals. By ensuring that they trade with local businesses, multinationals may have a doubly beneficial effect: assisting economic stability *and* providing local businesses with the resources to engage in peace-building processes.

Governments often use militias to do their dirty work. One participant wondered if the same can be said of international companies, who might look clean themselves but have subsidiaries who 'bend the rules'. This should not happen, of course, if a multinational has a clearly stated ethical position that it communicates to its subsidiaries and subcontractors.

A number of examples were given of businesses making a positive contribution to peace initiatives. In Sri Lanka, for example, businesses are co-operating to invest in peace and stability. In both South Africa and Northern Ireland, business interests have been key in straddling ideologies in a way that government could not. In Azerbaijan, where local politics continue to be unstable and there is a danger of over-reliance on oil production, the international oil concerns have recently entered into a development alliance with local industry, NGOs and other international agencies to analyse the local economic problems and look for ways of broadening the base of the local economy. Nevertheless, it was agreed that the private sector could only play a small part in what is a fragile and complex process.

BP and other international oil companies have established a set of 'voluntary principles' for international Human Rights compliance, and insist that local contractors sign up to these principles too. A side effect of this self-regulation is that companies who are considered too exploitative are kept out of 'the club'. While at least one participant doubted whether voluntary codes could go far enough, and felt that global regulation would always be needed, others valued the commitment behind voluntary codes. 'Having to comply' and 'wanting to make a difference' are miles apart, and the latter can be more productive (as well as being more constructive).

There are conflicting interests in companies too. In Guatemala, for example, the private sector wanted peace but disliked aspects of the peace agreement, especially those dealing with the reform of labour practices. Once again there is no 'one size fits all' advice.

The degree of trust in the private sector varied among participants, with some seeing their very presence in a conflict area as, potentially, part of the problem. Positive or negative, however, it

seems clear that if we leave the private sector out of our discussions in the quest for peace and stability in areas of conflict, we are missing some of the ways in which the conflict can be ended.

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## The role of government

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Some participants were keen to separate the roles of government and business, arguing, for example, that it should always be the role of government to build and run schools and hospitals, funded by the taxes paid by businesses (and individuals). Education was seen as an important factor in confronting exploitation, because it enables individuals to learn about and judge for themselves the relative merits of a range of different ideas and ideals rather than accepting propaganda.

The need for regulation was quite widely accepted, and many participants felt that Western governments, in particular, could do more to recognise and legislate against the power of market forces, where they come into conflict with human rights violations. They must have been aware, for example, of the source of the coltan sold to the West by Rwanda but looted from the Congo, and could have imposed targeted sanctions to prevent the continued plunder. Similarly, it is immoral for affluent countries to collude with the governments of famine-ridden countries by buying their grain reserves for animal fodder in a grotesque demonstration of the power of market forces. Phil commented that authoritarian leaders are very sensitive to how much abuse they can get away with. If this is the case, democratic governments could clearly do more to keep them in check.

However, the power of the state has shrunk. (David suggested that the strong state may only ever have been a transitory phenomenon.) Transnational companies are now wealthier and more powerful than the majority of states. This reduces the power of regulation, and makes dialogue and negotiation more important. Commercial lobbies are increasingly powerful in influencing political policy. One participant suggested that the financing of political parties and elections by business should be banned. He described how the City of London Authority, the oldest 'democratic' government in the UK, is dominated by City businesses, which continue to wield undemocratic powers.

Several participants could not forget that the British and American governments are preparing to declare war on Iraq, underlining the power of

business interests in shaping foreign policy and reminding us that there is work to be done here, as well as further afield.

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## The role of international NGOs and civil society

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David's group, in particular, spent a lot of time discussing the importance of information – both its gathering and its dissemination. When outside agencies (whether businesses, governments or NGOs) intervene in a conflict area, they must ensure that they work to understand local circumstances, so that they can judge the likely effects of their intervention and ensure that it matches local needs.

Outside actors may be able to draw parallels with other conflicts that help to illuminate the local situation. For example, groups from the Caucasus have visited Northern Ireland to see how the peace process is working there and how it might be relevant to them. This can be more effective than the more normal 'colonial' pattern of outsiders dispensing resources and ready-made solutions that may not match the real needs.

David suggested that we should balance needs and expectations. If we promise more than can be delivered we risk disenchantment and a return to violence. Perhaps we should promise less? Some participants were unhappy with the ethics of this argument, likening it to the *realpolitik* of Soviet Russia. Others agreed with David, arguing that if expectations are raised and not fulfilled the resulting demoralisation could lead people to withdraw from the task of rebuilding. It isn't 'all or nothing': one can (and must) proceed step by step, looking in each situation for what can be done to balance political reality with ethical dilemmas.

What can NGOs do to encourage the private sector to engage in reducing or eliminating conflict? Phil argued that international businesses are sensitive to the capability of local NGOs to expose bad practice, and pointed to the work done by Amnesty International's Business Group and the World Development Movement (among others) in monitoring international business behaviour. Local businesses may be harder to persuade, since they are likely to be more intimately involved in the conflict. It is worth looking for ways in which NGOs can encourage local business activity – since broadening prosperity and self-reliance will help to reduce the risk of conflict. One participant suggested

that NGOs might be able to encourage the formation of community sector 'not-for-profit' companies. Another speculated about NGOs taking on the role of 'humanitarian consultants' to industry. (He had read of an international business in Africa providing housing for workers' families on the advice of an INGO, in order to reduce the risk (and cost) of HIV in the workforce.) There was a natural reluctance on the part of most participants to enter into any sort of contractual relationship with industry. NGOs have to retain their integrity and impartiality or their effectiveness is diluted. (For this reason International Alert, for example, takes no money from industry as a matter of policy.) On the other hand, local NGOs, maybe out of economic necessity, frequently seek private sector funding.

International NGOs themselves bear some responsibility for worsening local business opportunities. One participant spoke of the 'international circus' in Kosovo/a being the main employer (apart from the local Mafia). Another with experience in East Timor spoke of the fledgling state's dependence on multilateral agencies. In the short term they do, of course, bring much-needed money and employment into the country. But the INGOs tend to bleed the best people from local professions, making it harder for the local economy to rebuild and leaving a gaping void when they pull out of the region. The main opportunity for new local employment in East Timor is apparently casinos – an option that the new government does not welcome but which is likely to be chosen because the revenue is so badly needed.

At several points during the discussions the relationship between global structures and local events was emphasised. Although, clearly, the latter have to be addressed individually, as and when they occur, it is important not to ignore the need for wider political action. We should not forget our responsibility as individual consumers, employees, voters and citizens to create a conscience in businesses and governments. As the power of the state wanes, that of individuals and groups grows. Our role in influencing events gains importance, and should not be overlooked.

## CCTS: Participating Organisations

International Fellowship of Reconciliation,  
Alkmaar

War Resisters International, London

Richardson Institute for Peace Research,  
Lancaster

Quaker Peace & Social Witness, London

Responding to Conflict, Birmingham

International Alert, London

Conflict Analysis and Development Unit, London

Conciliation Resources, London

Centre for Study of Forgiveness &  
Reconciliation, Coventry

Moldovan Initiative Committee of Management,  
Belfast

Community Development Action International,  
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