The Private Sector

In an address to the United Nations Security Council in April 2004, U.N. Secretary-General Kofi Annan highlighted the important role that private companies can play—good or bad—in the world's most conflict-prone countries: "Their decisions—on investment and employment, on relations with local communities, on protection for local environments, on their own security arrangements—can help a country turn its back on conflict, or exacerbate the tensions that fuelled the conflict in the first place."[1]

In recent years, grassroots campaigners and U.N. panels have documented the alleged complicity of multinational companies in a wide range of conflict situations—from human rights abuses in oil-rich Sudan and Nigeria, to the trafficking of diamonds and timber from the Congo and Sierra Leone, to the misuse of financial services for arms purchases and terrorist acts. In light of these reports, corporations are increasingly aware that in addition to fueling violence, investments in a conflict situation can seriously taint a company's reputation, and may even become a legal liability.[2]

In one prominent case, the Canadian petroleum company Talisman Energy was forced to sell its oil interests in Sudan following accusations that it had contributed to the 20-year-long civil war. Beginning with the completion of an export pipeline in 1999, crude oil produced by the Talisman-led consortium contributed as much as $500 million a year to government revenues. These payments were alleged to have contributed to a doubling of the government's defense budget in the same period and thus to the "scorched earth" campaign to clear people out of the country's oil fields. In at least one reported instance, helicopter gunships and other military aircraft used the consortium's landing strip as a staging point for attacks on civilians.[3]

In March 2003, having been targeted in a class action suit in New York, Talisman sold its share in the oil consortium to the Indian energy firm ONGC Videsh. Yet even as this initiated a boom in Talisman's share value, the company's retreat from Sudan posed a complex dilemma. On the one hand, it demonstrated to the oil industry that questionable investments or activities could affect a company's reputation and lower its stock value (by up to 15 percent in Talisman's case). On the other hand, the withdrawal of top multinational investments from unstable countries could ultimately reduce international scrutiny of these places, lessening pressure on remaining firms to adhere to minimum social and environmental standards.[4]

There are also instances where the private sector has been instrumental in helping bring hostilities to a close. In Sri Lanka, an attack on the international airport in July 2001 marked a turning point in the decades-long conflict between the Sinhalese majority and separatist Tamils. Prominent business leaders from both sides formed Sri Lanka First to build grassroots support against the war. The group helped coordinate a million-person demonstration in September, and during the subsequent election it campaigned on behalf of legislators who favored a negotiated settlement. These actions helped move the Tamil separatists and the government toward a cease-fire in early 2002.[5]

Companies should play a role in reducing conflict rather than contributing to it. To do so, however, they will need to develop guidelines for managing social risks, strengthening transparency and accountability, and forging collaborative relationships—thus enabling managers to navigate difficult

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Building the Chad-Cameroon pipeline

situations more responsibly.

First and foremost, the consequences of business and development projects must be better understood. By analyzing the likely impacts of conflict on company operations, as well as the impacts of corporate activities on local communities and the broader social fabric, companies would have the opportunity to refocus their core business operations, social investment activities, and public policy strategies on the goal of minimizing harm. To spur their adoption, governments could require export credit agencies (ECAs) and other lenders to conflict-prone areas to make such assessments a condition for preferential access to finance. Similarly, the World Bank's private-sector lending arms and the ECAs could establish guidelines for the assessments, similar to those they use for the environment.[6]

Increasing the transparency of corporate actions will also be essential. The nongovernmental Publish What You Pay initiative seeks to ensure transparency of extractive project royalties and other payments to governments. And the U.K. government–led Extractive Industries Transparency Initiative calls on host governments to be more transparent about the use of these revenue streams. Boosting the capacity of civil society in host countries to hold governments accountable for how these funds are spent is the other necessary building block.[7]

Clear and internationally agreed norms of legal accountability for corporate complicity in gross human rights violations, war crimes, and violations of U.N. sanctions are needed. Corporate accountability could be upheld through the International Criminal Court or through domestic civil courts using mechanisms like the Alien Tort Claims Act in the United States. While voluntary codes of conduct that address human rights and corruption—such as the U.N. Global Compact—are valuable starting points, a degree of enforceability based on internationally agreed minimum standards is critical.[8]

Private-sector actors can also form valuable partnerships with governments, development agencies, and civil society organizations in areas of ongoing or potential conflict. These can enhance corporate sensitivity and legitimacy while reducing risk, thus increasing overall investment. Multistakeholder assurance groups set up under the supervision of the World Bank, for example, have strengthened the accountability of governments and project operators for delivery of social programs and mitigation of project impacts in the case of the Chad-Cameroon and Baku-Tblisi-Ceyhan pipelines.[9]

The price of getting private-sector investments wrong has reached unprecedented heights. Corruption, patronage, and war profiteering are destabilizing countries and causing unjustified human suffering. But if ethics, regulation, and incentives support the shift, responsible business can become a leading force for peace.

—Jason Switzer, International Institute for Sustainable Development