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Transnational Corporations in Conflict Prone Zones:

PUBLIC POLICY RESPONSES AND A FRAMEWORK FOR ACTION

SEPTEMBER 2003

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Executive summary

Private sector activity – including both licit and illicit trade and business – is a significant factor influencing the shape and intensity of many conflicts. With a few significant exceptions, however, there has to date been little effort (from public, private and civil society sectors alike) to engage different types of private sector actor systematically in conflict prevention. The basic thesis of the report 'Transnational Corporations in Conflict Prone Zones: Public Policy Responses and a Framework for Action' is that conflict-sensitive business, and its promotion by public policymaking institutions, could become an important part of a collective and multi-actored effort to create a more peaceful world. Public policy attention to harnessing this potential is urgently required.

The report focuses on one group of private sector actors that plays a major role in many conflicts – Northern-based transnational corporations (TNCs) that are foreign to the conflict context. The focus on this group is not intended to suggest that such corporations have a more significant impact on conflict than other types of actor, but is chosen because there appear to be clear opportunities to influence its behaviour. This includes through exploring options for public policy actors in the North to help catalyse a new approach.

TNCs have over the last decade begun to pay attention to human rights, the environment and other areas of 'corporate social responsibility' (CSR), but typically their understanding of conflict and corporate–conflict dynamics remains under-formulated, and constrained by a lack of skills and experience. For their part, 'home' governments (of countries where TNCs are listed or based), international financial institutions (IFIs) and multilateral organisations, while moving towards increased partnership with TNCs and other private sector actors across a range of policy areas and public life, have yet to explore possibilities for engaging companies to meet their policy targets in conflict-prone zones. Yet, in many countries around the world (Colombia, Indonesia, Nigeria and Sudan, to name a few), TNCs continue to exacerbate conflict, at the cost of local populations' security and prosperity, international stability, and both company and home government reputations.

From the public policy perspective, the task is to identify and develop measures that directly or indirectly seek to: (a) minimise the negative impacts of companies operating in conflict-prone zones; and (b) maximise companies' contribution to peacebuilding. The report aims to inform policymakers in key institutions that have influence over major TNCs with insight into options for

addressing the issue of conflict-sensitive business abroad more effectively.

The report offers an initial definition of the boundaries of 'TNCs and Conflict' as an issue for policymakers in key Northern governments that are home to major TNCs, and multilateral institutions. It starts by highlighting the practical implications of the changing nature of the environment in which TNCs are now conducting business. The report describes the direct and indirect ways in which companies can affect conflict situations, both at a local/micro level, through their security arrangements, employee relations and community relations, and at a national/macro level, through their impact on uneven development and inequitable wealth, bribery and corruption, commerce, human rights and democracy, and the environment. It points to the need for an evolution in the approach of foreign investing companies and policymakers alike, to respond positively to the challenges arising in conflict-prone zones.

A further complicating dimension affecting the relationship between companies and conflict relates to the degree of a company's agency in the conflict, or the level of violence that pre-exists its engagement. This underlines the importance of developing more effective analytical methods for understanding the country context. These are crucial to a conflict-sensitive business approach. Additional strategies for managing corporate-conflict dynamics range from ensuring compliance with relevant legal frameworks, to adopting a 'do no harm' approach that seeks to minimise harmful impacts, to a peacebuilding approach, that seeks to maximise positive potential and address conflict factors. Figure 1 depicts this range of options.

Key findings

Two crucial areas of policy action intuitively present themselves as the likely location of policy responses to TNCs and Conflict. These are: (i) conflict prevention; and (ii) CSR. By surveying the Canadian, German, Norwegian, Swedish, UK and US governments' current activity in these areas, as well as that of the EU, the OECD, the UN and the World Bank, the report maps actual

Figure 1: Strategies for managing corporate–conflict dynamics

and possible policy action on promoting a conflict-sensitive and peacebuilding approach from companies.

Conflict prevention

The report shows that conflict prevention has become a central feature of development policy since the end of the cold war. However, while commitment to mainstreaming conflict prevention across policy areas is articulated by most of the institutions surveyed, little has been done to extend this to policy that influences private sector activity. While there has been some important policy action emanating from recent interest in the relationship between natural resource exploitation and armed conflict, there is an ongoing need both to strengthen resultant initiatives, and to mainstream conflict prevention and conflict sensitivity across other areas – above all across policy areas that influence the behaviour of corporations (eg, promotion of foreign direct investment, trade policy and CSR).

Corporate Social Responsibility

Meanwhile, policy initiatives to promote ethical TNC behaviour in developing and transition countries have also increased in the post-cold war era. In addition, the concept of the private sector having a role to play in supporting development goals through public-private partnerships and pro-poor investment has also now become common currency among the institutions surveyed. Initiatives have emerged to influence corporate behaviour in certain component 'TNCs and Conflict' issues such as transparency, or corporate security arrangements, or with regard to specific commodities. But further inquiry into means of promoting ethical conduct from companies operating in conflict-prone zones is not yet high on policy agendas, where it should be if policy commitments to CSR are to be fulfilled.

An initial typology of policy responses

The report's analysis shows that despite the range of activities across institutions, and their commitment at the highest level to both conflict prevention and CSR as policy goals, in most cases basic questions about the role of TNCs in conflict-prone zones, and both their negative and positive potential, are typically not being asked. Some institutions are beginning to make certain connections between the two areas, in ways that reflect the increasing volume of research into the issue, and that create opportunities for a more coherent approach to corporate activity in conflict-prone zones. In other cases, work is being done that could and should logically be extended to address the issue. Together these 'responses' provide important groundwork for moving the issue forward.

The report presents an initial typology of the kinds of responses that have emerged, or that based on the findings could emerge, at the policy level. These include:

1) Regulating TNC activity in conflict-prone zones – the principal means by which policymakers can influence private activity, but as yet there is no clear international regulatory framework (voluntary, mandatory or mixed) for regulating TNC activities as they relate to violent conflict, though some important initiatives have emerged.
2) Engaging TNCs as partners in delivering conflict-prevention targets as part of development policy – an increasing trend among the institutions surveyed has been to engage the private sector in meeting development goals. This offers long-term opportunities, but at present little is being done as part of this trend to understand the linkages between TNCs and conflict and/ or peace, which represents a major gap.
3) Influencing TNC behavior in conflict-prone zones through project finance and other forms of support to FDI in developing countries – export credit agencies and related actors are

increasingly moving towards addressing the environmental and social impacts of projects but as yet for the most part pay little attention to conflict. Project finance provides governments and IFIs with an opportunity to promote greater conflict-sensitivity among companies, for instance through building conflict impact assessments into their procedures.

4) Convening and facilitating multi-stakeholder dialogue to address TNCs and Conflict or component issues – dialogue is a key component of conflict prevention and peacebuilding. Policymaking institutions at both headquarter and ground level can play an important role as facilitator or convenor, and several initiatives have been launched in recent years that are relevant to TNCs and Conflict.

5) Creating enabling environments for conflict-sensitive TNC activity abroad through development assistance – the multi-faceted relationships between Northern-based policymaking institutions and conflict-prone countries offer opportunities for indirectly promoting conflict-sensitive business, for instance through strengthening states' capacity to cope with TNC investment.

6) Supporting and disseminating research into TNCs and Conflict – policymaking institutions provide financial support to relevant research that is the necessary antecedent to policy development. Civil society activity in related areas also exerts normative pressure on companies themselves, and is itself an indirect instrument of change.

A framework for action

The report assesses the possibility of the convergence of conflict prevention and CSR policy frameworks on the issue of TNCs and Conflict – a convergence that is crucial if policymaking institutions' commitment to either goal is to be fulfilled. Clearly by virtue of their different mandates, IFIs, multilateral organisations and governments (including their development-assistance departments, trade departments, foreign offices, and local embassies or field offices), are each more suited to some kinds of response than others, and have different opportunities available to them for promoting conflict-sensitive business in conflict-prone countries. The report offers a generic framework for action, drawn from the surveys, which could enable policymaking institutions from their different vantage points to promote a more conflict-sensitive and peacebuilding role for TNCs:

1) Ensure that institutional commitment to mainstreaming conflict prevention is fulfilled across all policy areas, and that CSR policy frameworks and instruments are cognisant of both their function in conflict-prone zones, and opportunities for promoting greater conflict-sensitivity among TNCs.

- Appoint a high-level working group to conduct a thorough review of all relevant existing policy instruments and capabilities relating both to CSR and conflict prevention.
- Engage in dialogue with other policymaking institutions to identify where added value might be, and to ensure complementarity at the global level.
- Develop clear institutional priorities on coherence between CSR and conflict-prevention frameworks, in consultation with relevant stakeholders.
- Design strategic and operational frameworks to promote these, including through addressing institutional blockages where they exist.
- Review best practice as evidenced in other institutions.

2) Influence TNC activity in conflict-prone zones through regulation.

- Support and ensure implementation of relevant regulatory instruments (see Figure 3 on p.56).

3) Engage TNCs as partners in delivering conflict-prevention targets as part of development policy.

- Review opportunities for engaging TNCs in support of conflict-prevention policy frameworks.
- Actively engage companies though dialogue and other mechanisms in supporting conflict-prevention work.
- Where experience is developing in this area, document, analyse and disseminate learning.
- Ensure that public-private partnerships for development are both conflict sensitive and cognisant of the peacebuilding potential of TNCs.
- Ensure that when engaging in partnership, public policy goals are safeguarded from distortion by corporate interest agendas.

4) Influence TNC behaviour in conflict-prone zones through project finance and other forms of support to FDI in developing countries.

- Develop guidelines for TNCs investing in conflict-prone zones with regard to TNCs and Conflict, and strategies for conflict-sensitivity and peacebuilding.
- Ensure that all relevant instruments and agencies promote these.
- Introduce conflict impact assessment as part of export credit and other lending criteria.
- Require greater transparency regarding operations as a condition for project finance.
- Promote greater understanding of the links between FDI and conflict.

5) Convene and facilitate multi-stakeholder dialogue to address TNCs and Conflict or component issues.

- Explore opportunities for convening TNCs and other actors to address conflict-prevention and peacebuilding strategies and component issue areas, at both strategic and operational levels in specific conflict-prone country contexts, including at headquarter/ministry; embassy/mission level.

6) Create enabling environments for conflict-sensitive TNC activity abroad through development assistance.

- Develop strategies for enhancing host country environments for conflict-sensitive TNC activity.
- Encourage exporting countries to accept independent experts to monitor for illegal trade in conflict commodities.

7) Support and disseminate research into TNCs and Conflict.

- Dialogue with stakeholders to identify research priorities.
- Develop research into internal institutional role on TNCs and Conflict, including through existing CSR research programmes, review of internal institutional gaps and opportunities, and collection of existing practice and evidence of institutional activity in this area.
- Support and extend the capacity of existing institutional work in this area.
- Support others' research in this area and proactively engage in dialogue on the practical implications of findings.
- Use convening power to raise the profile of the issue and disseminate research findings.

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Acronyms

AA	Auswärtiges Amt (German Federal Foreign Office)
AI	Amnesty International
ACP	African, Caribbean and Pacific states
BCPR	UNDP Bureau for Crisis Prevention and Recovery
BMWA	Bundesministerium für Wirtschaft und Arbeit (German Ministry for Economy and Labour)
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (German Federal Ministry for Economic Co-operation and Development)
BP	British Petroleum
BPD	Business Partners for Development
BSR	Business for Social Responsibility
CAFOD	Catholic Agency For Overseas Development
CDA	Collaborative for Development Action
CHAD	Conflict and Humanitarian Affairs Department (UK DFID)
CIA	Conflict Impact Assessment
CICR	Centre for Innovation in Corporate Responsibility (Canadian)
CIDA	Canadian International Development Agency
CPDC Net	Network on Conflict, Peace and Development Co-operation (OECD DAC)
CPRU	Conflict Prevention and Reconstruction Unit (World Bank)
CRIA	Conflict Risk and Impact Assessment
CSP	Country Strategy Paper
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee (OECD)
DAF	Directorate of Financial, Fiscal and Enterprise Affairs (OECD)
DEG	Deutsche Elasmobranchier Gesellschaft (German Investment and Development Company)
DFAIT	Department of Foreign Affairs and International Trade (Canada)
DFID	Department for International Development (UK)
DG RELEX	External Relations Directorate General (EC)
DITE	Division for Investment, Technology and Enterprise Development (UNCTAD)
DPKO	Department of Peacekeeping Operations (UN)
DRC	Democratic Republic of Congo
DTI	Department for Trade and Industry (UK)
DTIE	Division of Technology, Industry and Economics (UNEP)
EC	European Community
ECA	Export Credit Agency
ECOSOC	Economic and Social Council (UN)
EDC	Export Development Canada
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
EMPRESA	Forum on Socially Responsible and Environmentally Sustainable Business in the Americas

ESIA	Environmental and Social Impact Assessments
EU	European Union
FAFO	Norwegian Institute for Applied Social Science
FATF	Financial Action Task Force
FCO	Foreign and Commonwealth Office (UK)
FDI	Foreign Direct Investment
FEWER	Forum on Early Warning and Early Response
FIAS	Foreign Investment Advisory Services (World Bank)
FIN	Norwegian Ministry of Finance
FriEnt	Grüppe Friedens-Entwicklung (Working Group on Development and Peace)
G8	Group of eight major industrial democracies (Britain, Canada, France, Germany, Italy, Japan, the Russian Federation and the United States)
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GRI	Global Reporting Initiative
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Technical Co-operation)
HRW	Human Rights Watch
IA	International Alert
IBRD	International Bank for Reconstruction and Development (World Bank)
IBLF	International Business Leaders Forum
ICC	International Chamber of Commerce
ICRC	International Committee of the Red Cross
IDA	International Development Association (World Bank)
IFC	International Finance Corporation (World Bank)
IFI	International Financial Institution
IFP/CRISIS	InFocus Programme on Crisis Response and Reconstruction (ILO)
IGO	Inter-governmental Organisation
IIED	International Institute for Environment and Development
IISD	International Institute for Sustainable Development
ILO	International Labour Organisation
IMF	International Monetary Fund
IMTD	Institute of Multi-track Diplomacy
InWEnt	Internationale Weiterbildung und Entwicklung (Capacity-Building International) (Germany)
IPA	International Peace Academy
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
KOMpakt	Consultative Body on Human Rights and Norwegian Economic Involvement Abroad
KPCS	Kimberley Process Certification Scheme
LDC	Less Developed Country
MFA	Ministry of Foreign Affairs
MIGA	Multilateral Investment Guarantee Agency (World Bank)
MMSD	Mining, Minerals and Sustainable Development Project
MNE	Multinational Enterprise
NCP	National Contact Point

NEPAD	New Partnership for African Development
NGO	Non-governmental Organisation
NHO	Næringslivets Hovedorganisasjon (Norwegian Confederation of Business and Industry)
NIZA	Netherlands Institute for Southern Africa
NORAD	Direktoratet for Utviklingssamarbeid (Norwegian Agency for Development Co-operation)
NORFUND	Norwegian Investment Fund for Developing Countries
NRCan	Natural Resources Canada
OAS	Organisation of American States
ODA	Overseas Development Assistance
OECD	Organisation for Economic Co-operation and Development
OHCHR	Office of the High Commissioner for Human Rights (UN)
OP	Operational Policy (World Bank)
PIOOM	Programma Interdisciplinair Onderzoek naar Oorzakenvan Mensenrechten (Dutch human rights research institute)
PPP	Public-Private Partnership
PRIO	International Peace Research Institute (Norway)
PROINVEST	EU-ACP Partnership Programme for the Promotion of Investment and Technology Flows
PRSP	Poverty Reduction Strategy Paper
PSAS	Private Sector Advisory Services Department
PSD	Private Sector Development
PSP	Private Sector Participation
PSPD	UK DFID Private Sector Policy Department (UK DFID)
SIDA	Swedish International Development Agency
SIPRI	Swedish International Peace Research Institute
SME	Small or Medium-sized Enterprise
SRBT	Socially Responsible Business Team (UK DFID)
TNC	Transnational Corporation
TSS	Transitional Support Strategy (World Bank)
UN	United Nations
UN GA	United Nations General Assembly
UN GC	United Nations Global Compact
UN SC	United Nations Security Council
UNCHR	United Nations Commission on Human Rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNITA	Union Nacional Por La Independencee Totale Do Angola (National Union for the Total Independence of Angola)
UNOPS	United Nations Office for Project Services
USAID	US Agency for International Development
WB	World Bank
WSSD	World Summit on Sustainable Development
WTO	World Trade Organisation

1 Introduction

PRIVATE SECTOR ACTIVITY is a significant factor influencing the shape and intensity of many conflicts. A range of private sector and profit-motivated actors have been identified as having an impact on conflict, including those involved in both licit and illicit trade and business (Le Billon *et al*, 2002). With a few significant exceptions, however, there has to date been little effort (from public, private and civil society sectors alike) to engage different types of private sector actor systematically in conflict prevention. This report's basic thesis is that conflict-sensitive business, and its promotion by public policymaking institutions, could become an important part of a collective and multi-actored effort to create a more peaceful world.

The report will focus on one group of private sector actors that plays a major role in many conflicts – transnational corporations (TNCs) that are foreign to the conflict context. The focus on this group is not intended to suggest that such corporations have a more significant impact on conflict than other types of actor, but is chosen because there appear to be clear opportunities to influence its behaviour.[1] This includes through exploring options for public policy actors in the North to help catalyse a new approach.

TNCs have over the last decade begun to pay attention to human rights, the environment and other areas of 'corporate social responsibility' (CSR), but typically their understanding of conflict and corporate–conflict dynamics remains under-formulated, and constrained by a lack of skills and experience (Nelson, 2000).[2] For their part, 'home' governments (of countries where TNCs are listed or based), international financial institutions (IFIs) and multilateral organisations, while moving towards increased partnership with TNCs and other private sector actors across a range of policy areas and public life, have yet to explore possibilities for engaging companies to meet their policy targets in conflict-prone zones. Yet, in many countries around the world

(Colombia, Indonesia, Nigeria and Sudan, to name a few), TNCs continue to exacerbate conflict, at the cost of local populations' security and prosperity, international stability, and both company and home government reputations.

This report aims to:

(i) offer an initial definition of the boundaries of 'TNCs and Conflict' as an issue for policymakers in key home governments, as well as multilateral institutions;

(ii) present and analyse existing and emerging policy initiatives that address this issue from a selection of these institutions through surveying conflict prevention and CSR frameworks; and

(iii) shed light on both the opportunities for and obstacles to developing further public policy action that promotes a more conflict-sensitive and peacebuilding role for TNCs.

TNCs have over the last decade begun to pay attention to human rights, the environment and other areas of 'corporate social responsibility' (CSR), but typically their understanding of conflict and corporate–conflict dynamics remains under-formulated, and constrained by a lack of skills and experience.

The report assumes a world in which foreign investment is promoted and welcomed. The overall benevolence of FDI is debated in an important body of research that seeks to understand the true impact of private sector-driven development in a context of unequal rules governing the global market place.[3] This report does not engage with this deeper ideological debate, although implicitly its focus on the relationship between investing companies and conflict raises related questions.

Two other related and vital areas of policy research are also not included except peripherally. The first of these relates to the current policy and practice of TNCs themselves with regard to conflict. Some companies, as well as non-governmental organisations (NGOs) and others, are manifesting increasing interest in different aspects of this area, with corporate policy and practice on conflict perhaps overall receiving more attention than its public policy counterpart – though far more research and comprehensive benchmarking is still required.

The second area that to date has been largely neglected and urgently requires investigation, relates to 'host' government policy frameworks as they influence the conduct of foreign investing companies in relation to conflict. The present report has focused on home governments and multilateral institutions, working from the basic observation that they exert a significant degree of leverage over corporate behaviour in different ways. The report aims to inform policymakers in those institutions with insight into options for addressing the issue of conflict-sensitive business abroad more effectively. Throughout the report the term 'policy' is thus used to refer to public policy emanating from home governments and multilateral institutions as it affects TNCs investing abroad. Ultimately, a fuller picture of the international policy environment relevant to this issue will require analysis of both corporate and host government frameworks.

The report uses the shorthand 'TNCs and Conflict' throughout to refer to the multi-faceted relationship between transnational corporations investing abroad and the spectrum from violent (or potentially violent) conflict to peace. As the report will show, through increased conflict-sensitivity, companies can anticipate ways in which they might aggravate sources of violent conflict, such as social dividers or poor governance, and can develop and implement strategies to counter these dynamics. The 'business case' for adopting such an approach acknowledges the direct and indirect costs that are imposed on companies when operating in conflict zones (Nelson, 2000). From the public policy perspective, the task is to identify and develop measures that directly or indirectly seek to: (a) minimise negative impacts of companies operating in conflict-prone zones; and (b) maximise companies' contribution to peacebuilding.

Conflict-prone zones are defined in the report to include countries in, emerging from, or at risk of violent conflict, being expressed either as civil war or at more localised levels. Conflict transformation theory views conflict as a natural feature of human existence, an inevitable accompaniment to change. The significant shift in the economic base of a country that a major foreign investment represents is 'change' and thus, even in this general sense, can be expected to lead to conflict. Where conflict leads to violence however, a profound breakdown in human relationships has occurred (Rupesinghe, 1998). Different models have been proposed by organisations working on conflict transformation to help define and categorise violent conflict. The Swedish International Peace Research Institute (SIPRI), for instance, has introduced battlefield-related deaths as an indicator with which to measure the intensity of conflict; the Dutch human rights research institute PIOOM has developed this idea to try to encompass all victims of conflict, including those not directly engaged in fighting; and there are others (Schmid, 2000). Seeking to understand TNCs and Conflict from a preventive perspective, a conflict-sensitive and peacebuilding approach is just as important where companies are operating in countries that are at risk of or prone to violent conflict at either national or local levels (ie, where violence at a given time may be low or non-existent according to SIPRI's indicators) as where the host country is in the throes of conflict or has recently emerged from it. This approach to TNCs and Conflict extends the need for conflict-sensitivity to a large number of developing and transition country contexts.

2 Understanding corporate–conflict dynamics

SINCE THE SECOND WORLD war, rapid globalisation of trade and investment has dramatically changed the nature of relations between states, and brought new actors to the fore in international affairs. Previously resistant countries throughout the developing world have opened up their borders and welcomed an influx of goods, services and capital. As a result, TNCs now reach into every corner of the globe, either directly through investment, or through supplier relationships with local firms. The largest of these corporations earn revenue in excess of that of many medium-sized countries, and their networks of partners and suppliers can number in the thousands. Meanwhile, facilitated by the spread of communications technology and the growth of globalised media, civil society organisations have also taken an increasingly prominent position in international affairs, vocalising discontent with and criticism of governments, private sector actors and international institutions, from differing issue-oriented and political perspectives. NGOs concerned with human and labour rights, as well as with protection of the natural environment, have during recent decades asserted themselves as watchdogs over the transnational private sector – ever ready to publicise and condemn transgressions of local communities' rights to a secure livelihood and a healthy environment. Northern-based NGOs, in particular, due to their influence through the media over Northern consumer and shareholder perceptions, have played a major role in the emergence of a CSR agenda to which large corporations have proved increasingly sensitive – with the more progressive among them now competing to have the strongest image as a good 'corporate citizen' and playing a proactive role in defining the debate and contributing to collective action to this end.

A further crucial factor has led to the emergence of the TNCs and Conflict nexus – and that is the changing nature of conflict itself. Since the final years of the cold war, war between states

has become relatively uncommon, with violent conflict between armed groups and governments, and among communities within states, proliferating around the globe.[4] As a result of their extensive reach and resources, corporations have inevitably become involved in issues of peace and security, traditionally the preserve of state sovereignty and national identity. They increasingly find themselves acting as major players as governance moves upwards to regional and international arenas, downward to local and sub-national institutions, and sideways into the hands of non-state actors (Strange, 1996; Friedman, 1999; Cutler, Haufler and Porter, 1999; Haufler, 2001; Kahler and Lake, 2000).

As a result of their extensive reach and resources, corporations have inevitably become involved in issues of peace and security, traditionally the preserve of state sovereignty and national identity.

Unfamiliar risk and management challenges derived from weak legal frameworks and governance structures confront foreign investing companies in many developing country contexts. These challenges have become increasingly taxing in an era of increased Northern shareholder and media expectation of performance on CSR, and are compounded in conflict-prone zones. Understanding of the interface between TNCs and conflict is nevertheless limited. Conflicts arising between or within TNCs themselves, and how to resolve these, have been subject to detailed analysis within the corporate sector. Such in-depth thinking has not, however, been applied to the role business plays in political conflict in host societies, though, as mentioned above, there are signs that this is beginning to change.[5]

In conventional business analyses, violent conflict is reduced to a risk factor, which is then computed into financial-risk ratings in relation to investment decisions. The primary issue at stake in this approach is the impact that conflict (existing or potential) might have on a company, through imposing increased transaction, security, reputational and other costs (Bowden *et al*, 2001; Nelson, 2000). The reverse dynamic – the impact of a company on conflict – has been under-researched and largely ignored. Some progress has been made, particularly in the 'big footprint' industries such as oil, mining and gas, towards understanding corporate impact on the local physical and social environment, with Environmental and Social Impact Assessments (ESIA) becoming increasingly sophisticated in approach and in some cases legally required. However, ESIA methodologies typically tend to be limited to analysis of corporate impact at the local operational level, are inadequately formulated when it comes to involving community and other perspectives, and do not specifically seek to understand the spectrum of specific corporate–conflict impacts (Goldwyn and Switzer, 2003).

Clearly, different types of industry will face different types and degrees of risk and have different types of relationship with situations of conflict. Businesses where risks are high include not only those in the extractive sectors, but also those involved in major infrastructure projects, or those marketing products or services that challenge local

cultures or products. Risk and responsibility is also related to whether the business needs to have a physical presence in the conflict area, the degree to which it relies on local infrastructure and staffing, and how flexible it is with regard to withdrawing.[6]

Miss World in Nigeria

In November 2002 the *Miss World* beauty pageant was scheduled to be held in the Nigerian capital, Abuja, but was forced to relocate to London after violent protests in the largely Islamic north of the country left more than 100 people dead and threatened to spread to Abuja and the rest of the country.

The Nigerian government had welcomed the opportunity to host the beauty pageant, on the grounds that the event would improve Nigeria's international image and boost tourism in the country.

However, as soon as the pageant's location was announced, human rights advocates called for an international boycott of the contest, protesting against the treatment of women under *sharia* law. Within Nigeria, the decision to host *Miss World* increased the long-standing tension between Muslim and Christian groups, with some Muslim clerics accusing the pageant of promoting indecency and sexual promiscuity, and expressing outrage at initial plans to hold the event during the Muslim holy month of *Ramadhan*.

During the run-up to the competition, violence erupted after a locally published newspaper article about the pageant suggested that Islam's founding Prophet Mohammed might have chosen one of the contestants as his wife. Riots broke out in the northern city of Kaduna, where, two years earlier, 2,000 people had died in religious clashes.

The *Miss World* organisation denies that the beauty contest was responsible for sparking the riots in Nigeria, arguing that blame for the eruption of violence rested solely on the 'irresponsible journalism' behind the controversial newspaper column and the sensationalist reaction of the world press to the ensuing violence.[7]

The ways in which TNCs can contribute to conflict fall into two main categories: the impact of corporate operations on local relationships (local or micro-level impacts), and the impact of foreign investment on the host country's political, economic and natural environments (national or macro-level impacts). The two are intertwined in ways that make them difficult to separate. Problems in the first category are most obviously the responsibility of companies, while those in the second category relate to other spheres of responsibility and require broader action – by companies in partnership with other actors. Traditionally these issues have not been factored into corporate thinking about its proper role, though this is changing rapidly in step with debates about business and development generally. Each case poses particular policy dilemmas for companies, governments, international organisations and NGOs. The impact of different forms of conflict on companies is also clearly critical and provides the motivation for TNCs to develop their approach to operating in conflict-prone zones. However, as this report's aim is to promote public policy action on corporate–conflict impacts, it will stop short of investigating 'conflict–corporate' impacts in any depth.

2.1. Local/ micro-level impacts – corporate operations as a source of conflict

A foreign company's mode of operation in an unstable region can become a source of friction with local groups and of criticism from foreign observers. The most important relationships and issues are outlined below.[8]

2.1.1 Security forces

The relationship between TNC management and local security forces can arouse a range of grievances. In many countries, foreign companies are forced by local law to contract their security services from the government. These governments can be repressive and undemocratic, and the security services personnel they provide – either police or military – may violate the rights of local citizens in the course of protecting the company. Companies may also indirectly assist repressive regimes by providing supplies to security forces, thus becoming implicated in the actions of the government. In other cases, a company may try to avoid being associated with a repressive government by hiring private security forces, but these can also pursue their job too aggressively or violently. They are perceived as protecting the company at the expense of the local people. Rogue private security firms can become a liability to the company that hired them.

Nevertheless, TNCs operating in conflict-prone zones have a legitimate need to safeguard their facilities and personnel. How should a company obtain the protection it needs without contributing to local tension? The responsibility for contracting security services lies primarily with the company, and therefore the resolution of this problem is in its hands. But what steps can home governments and other agencies with influence take to ensure that solutions chosen do not, for instance, end up contradicting both national and corporate commitments to human rights? In many cases, the local and national government is weak or even repressive. The key problem is how to reconcile three goals: continued operation in the country; protection for company operations; and protection of individual human rights. External actors such as foreign governments and international organisations need to establish policies that facilitate appropriate security arrangements for companies in conflict-prone zones. Meanwhile, companies also have an interest in contributing to longer-term reforms that will promote peace and security in countries where they operate.

2.1.2 Employee relations

The relationship between a TNC and its local employees can give rise to major disputes and thereby contribute to conflict. Poor working conditions, from low wages to dangerous and unhealthy practices, can heighten suspicion of local management. In extreme cases, the ill-treatment of employees may reach the level of human rights abuse. And, when different classes of workers, such as particular ethnic groups, are singled out for employment, this can reinforce existing divisions within the society and increase dissension. Often, demand for employees can lead to large-scale migration to areas where TNCs operate, which can contribute to local tensions. When local management is seen as closely aligned with undemocratic elites, then the company itself becomes part of the local political machinery. In many countries, workers are not allowed to unionise or have an independent voice in politics. While relations between management and employees are always fraught with tension and conflict, in unstable environments they can become politicised in a way that heightens social tension and contributes to the emergence of violence.

The dilemma for companies is how to design and implement equitable, non-discriminatory employee relations in an unconducive political and economic environment. Where the government represses workers, it can be difficult for individual companies to uphold higher standards. Where there are deep divisions, based on ethnicity for example, within society, this can be reflected in the workforce and make the implementation of non-discriminatory policies

difficult. The company itself has primary responsibility for forging employee–management relations. What steps can it take to ensure not only that these comply with international standards, but also that developmental and peacebuilding opportunities are maximised? And what can home governments and international organisations do to facilitate and support improvements in those relations?

2.1.3 Community relations

The relationship between the local community and company management has often been the achilles heel of TNC operations. Company facilities are often superior to public facilities in local communities, which can be a source of dissatisfaction. Managers who develop good relationships with some groups and not others leave those others aggrieved. Local managers are often viewed as being aligned with and supportive of local elites, to the detriment of those who seek a political voice in local affairs. Company plans for investment in new projects or expansion of old ones are often implemented without discussion or consultation with local citizens who will be affected. Poor community relations can create suspicion of the company and its intentions. A particularly common flashpoint can be plans to resettle communities away from key areas.

The public policy dilemma is how to encourage companies to increase investment in the local community in a way that does not reinforce tensions or otherwise contribute to conflict, and that maximises developmental and peacebuilding goals.

The public policy dilemma is how to encourage companies to increase investment in the local community in a way that does not reinforce tensions or otherwise contribute to conflict, and that maximises developmental and peacebuilding goals. This includes contributing resources to provide public services that are not supplied by the local or national government, since the company is often the only effective alternative source. Investment in the local community means increased engagement between the company and the local community, with the company improving the transparency of its operations by providing more information about local activity and consulting regularly with the community. Fundamentally, it also means increased dialogue with communities. In cases where resettlement is considered, there needs to be full consultation with stakeholders – and, if necessary, a decision not to proceed taken. The company has the primary responsibility for developing effective relations at the local level, but, as with other issues at the micro level, home governments and relevant multilateral organisations clearly need to have a position on and mechanisms for influencing outcomes.

2.2 National/ macro-level impacts – effects on the existing political, economic and natural environments as a source of conflict

Every foreign investment takes place in a pre-existing political and economic environment. In many conflict-prone countries, the political economy is so weak that the disruption caused by foreign investment has a huge distorting impact on society. If not managed effectively and

countered by peacebuilding measures, this distortion can facilitate behaviour that ultimately contributes to destabilisation and perhaps violent conflict. Even in cases where conflict pre-dates the company's engagement, and is geographically far from its own site, the company becomes involved through the very process of contributing to state coffers. The natural environment is also affected by industrialisation and development, most obviously when this is driven by exploitation of natural resource commodities.

2.2.1. Uneven development and inequitable wealth

Foreign investment in a country is often concentrated in specific locations, which may benefit some parts of the population and disadvantage others. Where economic development was already uneven, that foreign investment can reinforce inequities. Those inequities may fall along class or ethnic lines, further dividing society. The ways in which benefits from foreign investment are distributed can become a source of grievance. The revenues from foreign investment are generally determined through negotiations with the national government. Those in power may use those resources to reinforce their position, at the long-term expense of peace and stability.

The distribution of economic activity and resources within a society is primarily the responsibility of governments and in theory is responsive to local needs and demands. Often however, governments may have neither the capacity nor political will to fulfil this responsibility, and the uneven distribution of economic activity and resources that results can contribute to conflict. TNCs alone cannot rectify these issues. While revenue sharing agreements are now seen to offer potential as a policy instrument to address the problems, such measures cannot easily be instituted by a single company. Wider issues of distributive justice within a society cannot and should not be the responsibility of any one company, but companies do have a role to play.

Whether – and if so how – to influence the behaviour of a sovereign government becomes the main policy dilemma. For external actors, the problem is how to support changes in the location of economic activity and the people it affects; and how to set the policy framework for distribution of government resources in ways that produce more equitable development.

2.2.2 Bribery and corruption

In some political environments, bribery and corruption are common features of business. Public officials pursue self-aggrandisement, or their own survival, by demanding payments from anyone doing business. When a foreign investor seeks to develop local natural resources, some of those in and outside government may view this as a bonanza in which they will gain great wealth. In this environment, it can be difficult for a company to escape the necessity of paying for preferential services. The result is the expansion and entrenchment of corruption, in which the company becomes a key facilitator, at all levels of government. All this can reinforce the existing distribution of power and undermine the legitimacy of government. It can also ultimately lead to state collapse and conflict.

When such corruption is pervasive, it can be difficult for any one company to avoid becoming involved. The policy dilemma in this case is how to navigate a system in crisis without reinforcing its worst tendencies through illegal payments to bureaucrats and others. The company certainly has a responsibility to stand aside from corruption, but it cannot

reform the system on its own. Companies may be able to bring some influence to bear when they act in concert, but often find it difficult to organise such collective action. External actors can put pressure on companies to do this, and on local governments to clean up their governance systems.

2.2.3. Commerce

Commerce itself can become a source of conflict when it provides the resources for violence. Would-be combatants have access to global markets for both legitimate and illicit trades. The exploitation of natural resources – diamonds, timber, oil and others – provides the financial resources for forces at war to buy arms. The arms trade supplies the weapons for conflict and repression, and arms manufacturers are in a global competition to develop new markets and maintain old ones. Many companies involved in commodities trading are legitimate firms caught up in global networks of commerce in which the source of the commodities can be difficult to trace. In particular, in countries devastated by violent conflict, these transactions provide those who benefit from war with the wherewithal to continue the conflict, and can undermine efforts to establish peace. Companies and whole industries have come under public attack for feeding this dynamic.

The policy dilemma is how to allow legitimate trade in commodities to continue while simultaneously keeping those commodities, and the proceeds from their sale, out of the hands of combatants. Clearly, no one company can resolve this dilemma. It calls for collective action on the part of an industry sector, which may or may not be easy to achieve depending on the particular industry. Co-operation in avoiding purchasing commodities from conflict areas is vital. The regulation of these transactions, however, falls primarily on the governments controlling the territory where the commodities are obtained, and the countries to which these goods are exported. International organisations can establish mechanisms that facilitate the monitoring of these transactions.

2.2.4. Human rights and democracy

Many of the issues already raised touch in one way or another on issues of human rights and democracy. There is some debate over whether human rights abuses are a prelude to violent conflict, but there is no doubt that the international community condemns them. There is extensive debate over whether democracy brings peace between and within nations, but there is little doubt that democracies are less likely to perpetrate human rights abuses. Many companies operating in countries where human rights abuses are common have been accused of supporting a repressive status quo. But respect for the rule of law and an effectively functioning judiciary promote human rights and more favourable business environments alike.

The policy dilemma here is how to influence a political system without either destabilising it or transgressing legitimate sovereignty. A single company cannot change the entire political system, but it can contribute to a better environment by treating employees and the local community well, refusing to pay bribes, and ensuring that its security arrangements are appropriate. Companies can band together to speak out against human rights violations, and to use their collective influence in promoting respect for the rule of law and human rights. In this situation, external actors may put pressure on the local government and support local resistance and reform efforts.

2.2.5. Environmental degradation

Foreign investment is associated with a number of harmful effects on the environment, which may in turn contribute to conflict. First, resource development itself can lead to destruction of biodiversity and the pollution of land and water. Competition for scarce resources may evolve into conflict over diminishing arable land or drinkable water. Second, industrial development depletes resources, concentrates populations in urban areas, and can lead to higher levels of consumption and waste. Finally, to the degree that foreign investment is unevenly distributed geographically it may lead to higher levels of pollution and degradation in some regions, harming some sections of the population disproportionately. All these influences can create grievances that may trigger violence.

The policy dilemma here is how to encourage better environmental outcomes while promoting sustainable development. In this case, all the actors involved have some responsibility to act. Companies have a responsibility to operate in a manner that is not wasteful and that respects the environment. The local government needs to establish an environment policy framework incorporating both incentives and enforcement. The international community can contribute technology, training and resources, as well as encouraging best practice from companies.

2.3. Degree of causality

A further complicating dimension needs to be considered in seeking to understand the corporate–conflict relationship. This relates to the degree of a company's agency in the conflict, or the level of violence that pre-exists investment. Developing analytical methods for understanding the context and existing or potential conflict dynamics at both local and national levels, and the potential for investment to impact on these either positively or negatively, is of paramount importance in the search for a conflict-sensitive business approach.

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2.4. Strategies for managing corporate–conflict dynamics

The range of possible strategies for managing corporate–conflict impacts is shown in Figure 1. 'Compliance' with relevant legal frameworks, and 'do no harm' both relate to minimising negative corporate–conflict impacts.[9] In addition, through possessing a vast array of skills, resources, expertise and capacity, TNCs can exert a range of potentially positive impacts on conflict dynamics, though they do not yet have the strategic commitment or practical tools in place to fulfil this potential. The 'peacebuilding' section of Figure 1 relates to this role. Figure 2 details the kinds of interventions that companies can make towards peacebuilding, focusing on three key

areas: core business, social investment and policy dialogue. Core business relates to the impacts that a company can have through its core business operations (in the workplace, the marketplace and along supply chains). Social investment relates to community development, philanthropy programmes and similar activities. Policy dialogue is a term used to describe business engagement in dialogue with governments and other stakeholders, advocacy and institution building, and can relate to the difficult structural issues that often underpin conflict. Conflict-sensitivity and a peacebuilding approach in the three areas need to be strategically designed in concert with each other.

Figure 1: Strategies for managing corporate–conflict dynamics[10]

Beyond compliance and 'do no harm', companies can proactively contribute to peacebuilding by engaging in innovative social investment, stakeholder consultation, policy dialogue, advocacy and civic institution building, ideally through collective action with other companies.

Beyond basic compliance, companies should be aware of their ability to create or exacerbate violent conflict through their real and potential socio-economic, political and environmental impacts. Building on this awareness, they should develop and implement policies and procedures to minimise any damage that may result from their own business operations or those of their business partners.

At the very minimum, companies should comply with national regulations (even if host governments are not effectively implementing or monitoring these) and internationally agreed laws, conventions and standards. This includes any emerging international normative framework for governing corporate conduct in conflict zones.

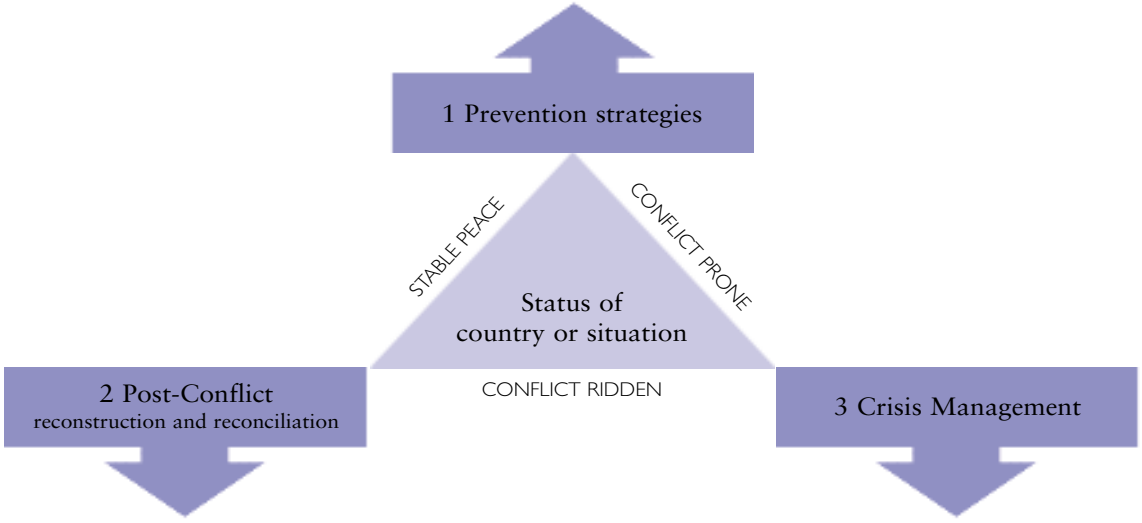
Figure 2: Framework for types of business engagement

CORE BUSINESS ACTIVITIES
1. Implement social and environmental policies and management systems which include guidelines on human rights, anti-corruption and use of security forces
2. Undertake pre-investment conflict impact assessments and monitor real impacts on an on-going basis
3. Consult with stakeholders on a systematic basis
4. Ensure diversity in workplace practices and hire local people
5. Aim for widespread wealth creation and support for local livelihood opportunities

SOCIAL INVESTMENT
1. Build capacity of local civil society organisations
2. Invest in community-based development and participation
3. Support local education, health and enterprise development programmes
4. Fund activities that promote diversity, tolerance and civic education

POLICY DIALOGUE
1. Engage in dialogue with other companies and governments to address national development needs and tackle structural issues that underpin conflict such as corruption, inequality and human rights abuses.
2. Fund think-tanks and research on these issues
3. Undertake publicity and media campaigns to promote peace

What can business do specifically?



What can business do specifically?

CORE BUSINESS ACTIVITIES
1. Provide commercial support in rebuilding infrastructure and investing in productive sectors
2. Do so in a way that builds local human capital and business capacity, especially for smallscale businesses, and respect diversity

SOCIAL INVESTMENT
1. Focus on projects that target affected populations and ex-combatants, taking into account points 1-4 at top of the page
2. Support NGOs active in reconciliation efforts, voter education etc.

POLICY DIALOGUE
1. Participate in truth and reconciliation commissions
2. Support weapons hand-in, amnesty and demobilisation programmes
3. Provide funding and managerial support to build the capacity of government services, including judicial systems and police forces
4. Support initiatives to attract foreign investment to post-conflict regions
5. Build capacities and governance systems for the local private sector

What can business do specifically?

CORE BUSINESS ACTIVITIES
1. Supply relief products, equipment and services on a commercial basis in areas such as:
   - Water and sanitation
   - Shelter and site planning
   - Food, nutrition and health services
   - In doing so, follow Red Cross guidelines for humanitarian assistance
2. Ensure integrity of the company's own security arrangements when operating in a conflict zone

SOCIAL INVESTMENT
1. Partner with NGOs and governments on product donations
2. Support work of humanitarian and development efforts in other ways

POLICY DIALOGUE (Collective action)
1. Put pressure on politicians to negotiate or to remain out of regional conflicts (other than as peacekeepers)
2. Provide secretariat services and logistical support for peace negotiations
3. Engage directly in peace delegations or negotiations if appropriate and within an agreed framework

3 TNCs and Conflict – recent research trends

IN THE DEVELOPMENT POLICY community, analysts have compared different types of socio-economic development dynamics and correlated them with the outbreak of violence. A number have explored the so-called 'resource curse', in which investment in a particularly valuable commodity located in a poor country does not, paradoxically, promote development, but instead leads to political breakdown (Karl, 1997; Auty, 1998; Sachs and Warner, 1995; Davis, 1995; Ross, 1999; deSoysa, 1999, 2000; Lichbach, 1989). The sudden development of a natural resource may undermine economic development and industrialisation by shifting local resources into one sector of the economy, distorting exchange rates, and making the rest of the economy uncompetitive (the so-called 'Dutch disease' in reference to the Dutch experience of development of its natural gas resources, which initially led to the neglect of other productive sectors). This research indicates that the exploitation of resources is a mixed blessing for poorer nations.

In the past decade, there has also been increased attention to environmental degradation as a contributory factor in conflict situations. This literature explores the ways in which resource scarcity (rather than resource abundance) can be linked to violent conflict. The development of natural resources can lead to their depletion or to the degradation of other resources upon which livelihoods depend. Homer-Dixon and his colleagues have been at the forefront in exploring these links, analysing the paths by which environmental degradation and depletion cause or exacerbate tensions between groups and become an important source of conflict (Homer-Dixon, 1999). Homer-Dixon argues that resource scarcity drives elites to capture existing resources and marginalise others, which becomes a source of grievance. Conflict itself exacerbates resource scarcity and environmental degradation in a vicious circle leading to political collapse. Foreign investors who develop local resources and degrade the environment therefore indirectly contribute to the outbreak of conflict. Based on this analysis, sustainable

development policies by both governments and industry can be viewed as a conflict-prevention strategy – and conflict prevention itself can contribute to sustainable development (Switzer, 2002).

A key relevant area of academic and policy debate concerns the relationship between foreign investment and government respect for human rights (Richards *et al,* 2001; Henderson, 1996; Meyer, 1996). Some argue that foreign investment can lead to development, economic growth and support for democracy. Others argue that foreign investors support and reinforce repressive regimes and authoritarian rule in order to protect their investments (Pegg, 1999; Manby, 1999; Lopez and Stohl, 1989; Frynas, 1998).[11] In Nigeria, Ecuador, Sudan and elsewhere, resource development by foreign investors often has the support of government policymakers while at the same time incurring local group opposition (Burke, 1999). The ways in which benefits from investment are distributed can divide local communities and groups, and may exacerbate existing inequities in power and wealth. Investment by its very nature can have traumatic effects on existing social and economic institutions, bringing change and upheaval.

The 'Economic Causes of Conflict and Civil Strife' project at the World Bank has explored the links between economic factors and civil conflict. This research argues that the more a country is dependent on commodities for a majority of its export revenues and economic growth, the more likely it is to suffer a political breakdown (Collier, 1999). Collier argues that the massive revenues yielded from exploiting valuable commodities leads to competition among elites for control over the resources, with 'greed' leading eventually to corruption and conflict. Foreign investors may well be implicated in this dynamic, as it is the revenue from these corporations that fuels the conflict. These findings imply a range of possible conflict-prevention actions that the private sector could be encouraged to take, from withdrawing investment in certain instances to taking steps to ensure that revenues are distributed equitably and the national economy is more diversified.[12] NGO campaigns, for instance those of Global Witness around 'conflict diamonds', the logging industry and the role of oil investment as a source of corruption and conflict, have played a key role in prompting and complementing this research by putting the links between resource exploitation and conflict into the public spotlight. Southern NGOs speaking from perspectives directly affected by these dynamics have also contributed important testimony and analysis (Johnson, 2003).

Related research focuses on the network of transactions possible in a global economy that can link legitimate and illegitimate businesses, funding corruption and supplying weapons and sustenance to rebels and repressive governments alike. Duffield and others argue that the globalisation of markets provides numerous entry points for illegal businesses to access legitimate circuits of exchange (Duffield, 2000; Reno, 2000). Thus, for instance, those with an interest in seeing the continuation of conflict and a breakdown in government can gain control of resources such as diamonds and sell them to brokers, who then put them into legitimate distribution channels worldwide (Smillie, Giberie and Hazleton, 2000; Burkhalter, 2002; Goreux, 2001; Oppenheimer, 1999; Smillie and Giberie, 2001; van der Stychele, 2001).

Across the board, there is consensus that TNCs can be critical actors in contemporary conflicts. The role of the media and advocacy groups in highlighting this has been just as important as that of academic and policy researchers. As we have seen, there is an extensive and growing literature on the economic causes of conflict and the links between patterns of development and foreign investment and the outbreak of violence. Meanwhile there is also a small but significant body of research into the potential peacebuilding role of companies (Nelson, 2000; Haufler, 2001; Wenger and Möckli, 2002). International Alert and others are also engaging with the private sector to investigate the practical strategies that legitimate foreign investing companies can adopt to manage their operations in a way that is sensitive to conflict.

Oil companies' practical engagement in conflict prevention in Azerbaijan

In late 1999, International Alert (IA) began an initiative to engage transnational oil companies investing in Azerbaijan in multi-stakeholder dialogue with others towards a goal of preventing oil investment from acting as a trigger for conflict. The approach aims to generate dialogue, and where practicable build partnerships within and between different sectors in society.

Azerbaijan is situated in a politically volatile region and faces many challenges domestically, regionally and internationally. Of most concern domestically are the massive IDP/refugee problem; chronic poverty and unemployment; corruption; over-dependence on oil and the impact of the current expansion in the industry; environmental devastation; a fragile democracy; and the question of President Aliyev's succession. Regionally, the country remains officially at war with Armenia and is threatened by conflict in neighbouring or nearby states, particularly Chechnya, Georgia and Daghestan. Internationally, competition between the USA, Russia, Turkey and Iran for geopolitical and commercial influence in the region leaves Azerbaijan vulnerable to the conflicting demands of competing interests.

The end of the Soviet Union, exposure to market forces, and an economy built on decades of failed communist policies precipitated a collapse in domestic industries in Azerbaijan. Since then significant foreign investment into the oil sector and related industries, such as construction and communications, has reversed this decline and contributed to strong economic growth. But this investment has simultaneously created difficulties of its own, with export revenue dependent on oil and oil products and the remainder of the economy struggling. Over the next few years investment in the oil and gas industry is set to increase substantially, potentially exacerbating these imbalances. The danger is that the prospect of large inward flows of foreign investment and guaranteed revenues from oil will provide a false sense of security, masking the urgent need for profound and far-reaching reform of the country's democratic and economic base.

The business case for a conflict-prevention approach

The IA project in Azerbaijan was conceived in the belief that companies investing in the country could be engaged not only in the socially responsible management of their own operations, but also in tackling some of the underlying, structural causes of conflict in the region. The rationale for engagement from the companies' perspective is that reputations and profits suffer when violent conflict breaks out, regardless of the causes. Preventing conflict, therefore, becomes a business interest and necessitates involvement in issues that may lie outside the company's core operations.

Building partnerships

The initial objective focused on creating mutual understanding and a platform for joint analysis as a necessary precursor to developing partnerships on specific projects. One of the first priorities was to identify representatives from a range of stakeholder groups (including oil companies) which have (or could develop) a commitment to engage in dialogue to bring about change. Over the course of a series of dialogues, a number of themes emerged as being critical to the peaceful development of Azerbaijan in the context of the exploitation of its oil reserves. With differing degrees of success, the dialogue developed programmes to address these challenges based on the same principle of multi-stakeholder engagement. The original goal of conflict prevention is retained and can be considered as the combined effect of the portfolio of programmes:

1. Supporting the development of local business in order to diversify the economy

The most progressed of the project's initiatives is the work on supporting business diversification through a body known as the Business Development Alliance (BDA). The BDA is not a traditional business development organisation, but rather a unique network of international and local companies and business associations, government, international and local NGOs and the wider international community. It is a multi-functional, multi-stakeholder body drawing together the expertise and resources of its broad membership base to identify and implement initiatives that contribute to diversified and sustainable economic development of Azerbaijan. It is based on the principle that

partnership and co-ordination are the most effective means of achieving this goal. While IA helped to set the BDA up, it now has its own secretariat and staff. It receives some financial support from oil companies.

2. Strengthening civil society

Through the dialogue process, the under-development of civil society in Azerbaijan had been identified as a serious long-term problem for the country. The lack of dialogue and partnership between the NGO and private sectors, particularly the oil industry, was also seen as a potential problem. There were fears that unrealistic expectations of the oil boom within the society at large coupled with a growing perception that Western oil companies were 'in league' with a corrupt government could lead to serious difficulties in the future.

As a means of addressing these issues, IA has been working with an American NGO, ISAR, on a number of initiatives designed to forge closer links between NGOs and the private sector, both TNC and domestic. The sub-projects include: a volunteer programme; thematic dialogues leading to information exchange and practical initiatives; and a programme of training in CSR.

3. Democratic development

IA has been working with a local organisation, Himayadar, to establish an Oil Information and Resource Centre. The purpose of the Centre is help ensure Azerbaijan's oil and gas resources are used for the benefit of all, including the most vulnerable and the poorest, through improved transparency. The Centre is a comprehensive library on the oil industry in Azerbaijan that is open to all. Its core functions include research, lobbying and dialogue facilitation. As with other initiatives, it aims to accomplish its objectives through close co-operation with both oil industry and government.

4. Regional stability

The region's conflicts, between Armenia and Azerbaijan over Nagorno-Karabakh, in Georgia over Abkhazia and South Ossetia, and ongoing geopolitical tension, continue to prevent realisation of its economic and political potential. At the same time, under-development, poverty and unemployment are intensifying divisions within each country, threatening increased internal instability, and further radicalising public attitudes to existing conflicts. Since 2002, IA has been engaged in an initiative that seeks to engage the private sectors (local and TNC) in Armenia, Azerbaijan and Georgia, in regional economic initiatives that will contribute to conflict reduction in the Southern Caucasus. To date, the project has undertaken substantial research into the economic drivers of conflict (and, conversely, the potential for economic co-operation). Under this framework, IA has also begun a conflict impact assessment of the Azerbaijan and Georgian sections of the Baku-Tbilisi-Ceyhan pipeline with a view to developing recommendations for companies, governments and NGOs.

Conclusions and lessons learned

Identifying and promoting a role for the private sector in conflict prevention and peacebuilding remains a relatively new and, for some, controversial, subject. IA's work in Azerbaijan, and its engagement with oil companies there, is based on the belief that businesses do have a legitimate role in addressing the underlying causes of conflict, even though these frequently fall outside what might generally be considered to be their direct sphere of influence. The key therefore lies in high-quality, frequent and meaningful engagement with all stakeholders as a basis for building relationships, developing an informed analysis of the problem and establishing sustainable partnerships. It is this approach to relationship-building and analysis that will open the door to a peacebuilding role for the private sector.

International Alert
http://www.international-alert.org

International Alert, together with the Canadian NGO the International Institute for Sustainable Development, is also developing a methodology for Conflict Risk and Impact Assessment (CRIA). The focus of this research is on identifying gaps in existing corporate-assessment tools from a conflict-sensitive perspective, and developing enhanced approaches to enable companies more effectively to understand and manage their relationship with conflict at all levels. The consulting agency, Collaborative for Development Action, Inc. (CDA), as part of its Corporate Engagement Project, uses a different approach to work with private sector actors towards a better understanding of conflict impacts. The CDA work has thrown critical light on the impact that cash injection, traditional social investment projects and local hiring practices can have on stability in local communities if not made in a conflict-sensitive manner, and has provided recommendations on ways in which these impacts can be mitigated. Political and Economic Link Consulting (PELC) is another consultancy dedicated to advising companies operating in conflict-prone zones and adding to the literature on this (Berman, 2000).

Policy research, on both TNCs and Conflict and broader considerations of the interaction between economics and conflict is, by virtue of the complexity and recent origin of the issues involved, still at an exploratory stage.

Recently, there have been attempts to draw conclusions for policymakers from these different strands of research into the links between TNCs and conflict, particularly with regard to preventing the worst-case scenarios of corporate involvement in civil violence. The International Peace Academy's 'Economic Agendas in Civil Wars' project and the Norwegian Institute for Applied Social Science (FAFO)'s Programme for International Co-operation and Conflict Resolution (PICCR), have sought to build on the research into the economics of conflict by exploring the legal and other policy instruments available for understanding corporate 'complicity' in conflict, and for making companies accountable for their actions in conflict zones. This research has also included an inquiry into the prospects for creating an international convention on regulating conflict-promoting economic behaviour (of which TNC activities in zones of conflict are one aspect) (see box on p.54). The present report is a further example of the effort to understand the policy implications of the TNCs and Conflict debate, with an emphasis on exploration of policy options for promoting operational conflict-sensitivity and the peacebuilding potential of TNCs.

It should be noted that policy research, on both TNCs and Conflict and broader considerations of the interaction between economics and conflict is, by virtue of the complexity and recent origin of the issues involved, still at an exploratory stage. The mounting body of research has nonetheless provoked debate in the United Nations, the World Bank, the European Union, the Organisation for Economic Co-operation and Development (OECD) and diverse foreign offices, over appropriate policy – with, as yet, unfortunately, little result. A few major initiatives have evolved and will be reviewed in this report. On the whole, however, while TNCs and Conflict now appears on agendas, most public policy institutions have done little in terms of explicit policy formulation to take the promotion of conflict-sensitive business forward.

4 Identifying relevant policy frameworks

THIS REPORT AIMS to map the existing and emerging policy initiatives relevant to TNCs and Conflict. Clearly, from the public policymaking perspective, be it that of government, IFI or IGO; in the field or at headquarters, a wide range of component issues and policy areas are relevant, and need to be considered as part of the effort to promote a more conflict-sensitive approach from business. Recognising this, the report focuses on two crucial 'macro' policy areas that intuitively present themselves as the likely location of actual and possible policy responses to TNCs and Conflict. These are (i) conflict prevention, and (ii) CSR.

4.1. Conflict prevention

Violent conflict within states has become the most common form of conflict in the post-cold war era, as discussed in earlier sections. High levels of civilian casualties, human rights abuses and refugee flows mean that civil wars generate humanitarian crises, posing serious challenges to the international system. It is now an established tenet in development circles that conflict causes massive humanitarian suffering, undermines development and human rights, stifles economic growth and generally is one of the most prevalent causes of poverty in many parts of the world. In response, conflict (or crisis) prevention and/ or management has emerged as a central feature of development policy over the last decade, with input from academics, practitioners and NGOs. Key conceptual approaches have been introduced by different actors in the debate – ranging from UN Secretary-General Kofi Annan's notion of a 'culture of prevention', to academic Mary Andersen's 'do no harm' thesis – and there are now recognised instruments for promoting conflict prevention and the strengthening of peace constituencies through development co-operation, humanitarian assistance, and other areas of foreign policy. The current dilemmas revolve around which

instruments can help prevent crises; and how development agencies can ensure that their own activities do not unintentionally exacerbate conflict – at both macro political and more localised levels (Mehler and Ribaux, 2000).

Instruments that are now common across diverse multilateral and bilateral institutions include: early warning – reporting and analysis; staff training; impact assessment; and institutionalisation and capacity-building. NGOs such as Fewer, International Alert and Saferworld are in ongoing dialogue with policymakers about more effective mainstreaming of conflict prevention and sensitivity. Clearly, as the surveys presented below reveal, one broad area where there is still much work to be done relates to extending the 'culture of prevention' to policy areas that influence the behaviour of corporations, including Foreign Direct Investment (FDI) promotion, trade policy and CSR.

The research into conflict-prevention policy for this report was conducted with the following questions in mind: What priority is given to conflict prevention by the institution? How much attention is given within this to the role of the international private sector – both in terms of the negative impact that some forms of international private sector activity can have on conflict, and its potential role as an actor in peacebuilding? If this is not being addressed, is the institution fulfilling its commitments to conflict prevention? And, what opportunities exist in current instruments and frameworks for enhancing this?

4.2 Corporate social responsibility

The policy debate on CSR has run in historical parallel to that on conflict prevention, being similarly responsive to post-cold war realities. Key challenges in its conceptualisation remain – especially its character and origins as a Northern-driven agenda (Ward *et al*, 2002). Some policymaking institutions, such as the UK's Department for International Development (UK DFID), have been important protagonists in pulling the debate towards the goal of greater inclusion of Southern perspectives across the range of CSR policy responses.[13] Greater inclusion of developing country and local community perspectives in CSR efforts would also enhance prospects for CSR initiatives themselves to avoid feeding conflict dynamics. Other sets of issues relate to the need for improved co-ordination between policymaking institutions' work on CSR; the need to find ways to build on current initiatives and take them forward; the need to identify and share lessons learned on selecting and managing partnerships; and the need for CSR to be more fully integrated into policymaking (Fox, 2002).

With regard to policymaking on CSR, key questions asked by the research were: What instruments exist for promoting CSR and, specifically, ethical TNC behaviour in developing or transition countries? Is attention given to the possible negative impacts of companies in conflict zones, or to their peacebuilding potential? Many of the issues considered in CSR agendas relate to issues relevant to TNCs and Conflict – as outlined above, environment, human rights, labour etc – but within such frameworks, is there any recognition of the specific dangers that arise in conflict-prone zones? Are corporate citizenship programmes themselves encouraged to be conflict-sensitive? If not, can the institution be said to be fulfilling its commitments?

By surveying what each institution is doing in these areas, the research aimed to identify where linkages between the two overarching frameworks are being made – to discover both where explicit 'policy responses' to TNCs and Conflict exist, and where opportunities for greater synergy between conflict-prevention and corporate-behaviour goals might lie.

5 Summaries of findings

THE REPORT WILL NOW present summaries of the findings of its research, demonstrating which institutions are doing what on the TNCs and Conflict issue, and where there is potential for action. The research approach has been necessarily broadbrush, involving an initial selection of key governments (a sample of those with notable overseas TNC presence – Canada, Germany, Norway, Sweden, the UK and the USA) and IGOs (a sample of those with the greatest influence over TNCs, and presence in conflict countries, namely the EU, the OECD, the UN and the World Bank), followed by reviews of websites, in order to identify key agencies and frameworks, and of policy documents, in order to understand their details and note those with relevance to TNCs and Conflict. Initial summaries were then drafted and shared through personal follow-up with key policymakers and staff within the institutions, and feedback invited. Analysis of highlights is presented below, institution by institution. Full summaries of CSR and conflict-prevention policy activities and their relevance to TNCs and Conflict are presented in Annexes 1 and 2.

Clearly, much more detail on each institution, and each relevant initiative within these, would be useful to shed light on the opportunities for and obstacles to moving the TNCs and Conflict issue forward, and reaching a more in-depth understanding of policy responses and options. It was also beyond the scope of the report to match the research precisely against the issue areas identified as components of TNCs and Conflict in Section 2, apart from in the table of regulatory instruments on p.56. (These areas are, however, highlighted where possible.) The research cannot, moreover, claim to be entirely systematic, in that inevitably more detail was available from some institutions than others; in addition to which it was impossible to stay abreast of all new developments. Meanwhile, national and institutional differences across different bodies made direct comparability difficult.

Clearly, the concept of 'TNC' itself is not unproblematic, given that, as discussed in earlier sections, corporations from different sectors will relate to and impact upon conflict in different ways, and this in itself determines the policy choices available for influencing them. Lack of in-depth understanding of these different linkages is a further constraint. It is hoped however that the report's weaknesses will be mitigated by its utility as a policy resource and stimulus to action on promoting a more conflict-sensitive and peacebuilding approach from TNCs investing in conflict-prone zones, as an important component of a collective effort to build a more peaceful world. The report is offered with recognition that follow-up research and broader consultation with each featured institution and with others is required to verify and adapt the basic framework of recommendations that is put forward.

5.1 Governments

5.1.1 Canada

Canada's Human Security Programme, which sits within the policy framework on Governance and Accountability of the Canadian Department of Foreign Affairs and International Trade (DFAIT), addresses issues relating to corporate behaviour where it impacts on security. Of major significance for the TNCs and Conflict policy agenda is the programme's recognition of the economic dimensions of civil conflict and, specifically, of a constructive role for the private sector in human rights, democratic development, environmental protection, disaster response, peacebuilding and conflict prevention when operating abroad – though the Canadian government has yet to follow this up with any more explicit advice on what a conflict-prevention or peacebuilding role for business might be. The Canadian Peacebuilding Initiative, jointly run by DFAIT and the Canadian International Development Agency (CIDA), has not to date had any specific focus on the peacebuilding potential of Canadian companies, although CIDA is considering development of a resource paper aimed at demonstrating how TNCs in conflict zones have successfully responded to conflict. There are, moreover, anecdotal accounts of Canadian missions abroad facilitating dialogue with Canadian companies on conflict-related issues (eg, in Colombia, see box on p.61).

Canada has a dynamic and full agenda on promoting and understanding the linkages between CSR and sustainable development, articulated in its 'Sustainable Development Strategy 2001–03', and including active research into the leverage points where FDI could be harnessed to support development goals, and an internal review of its own activities. The opportunity presented by the range of projects and programmes in this area is not being maximised to promote conflict-sensitivity among Canadian companies at present, however.

Canada's export credit agency, Export Development Canada (EDC) has developed a system of information exchange with DFAIT on human rights issues. As part of its approach to risk analysis, it is also advanced in its understanding of the impacts of investment projects on political violence, for which, unusually, it has a specific methodology.

At the level of dialogue and research, Canada has shown strong early interest in the TNCs and Conflict issue – prompted in part by the recent negative experiences of Canadian company, Talisman in Sudan. Canada has been an active participant in the Kimberly Process, with Canadian Special Representative Robert Fowler playing a pivotal role in the UN Security Council committee responsible for implementing sanctions against the Angolan rebel movement UNITA, targeting illicit diamonds and other sources of financial support for their military effort. More broadly, Canada has supported discussion of the issue, particularly through multilateral fora such as the UN, the G8 group of major industrial democracies, the Organisation of American States (OAS),

and the OECD; through conference participation and facilitation; and in the form of funding to researchers and NGOs working on related issues. These include the Centre for Innovation in Corporate Responsibility (CICR), whose work has included organising a Business Leaders workshop for local and international businesses to address finding ways for businesses to contribute to stability in the Middle East; and a joint project between International Alert and the International Institute for Sustainable Development to develop Conflict Risk and Impact Assessment (CRIA) tools. Canada was also a key supporter of the 1999 International Peace Academy conference on 'Economic Agendas in Civil Wars', Partnership Africa Canada's work on conflict diamonds, and CDA's Corporate Engagement programme. Most recently, DFAIT has sponsored the NGOs IISD and IIED to conduct research into existing voluntary codes of conduct for companies to discover their relevance to operating in zones of conflict.

5.1.2 Germany

The German government is one of the most progressive in terms of promoting a role for the private sector in poverty reduction, as articulated in the German Federal Ministry for Economic Co-operation and Development (BMZ)'s 'Poverty Reduction: A Global Responsibility' (2001), and manifested in its extensive recent engagement in public-private partnerships (PPPs) for development. Germany also accords conflict prevention a high priority in policymaking across government, as articulated in its 'Comprehensive Concept on Civilian Crisis Prevention, Conflict Resolution and Post-Conflict Peacebuilding' (2000). The links between these two policy frameworks are very weak however, and have in practice been limited to promoting economic development in post-conflict countries. While there is some emphasis on social responsibility as part of this, the need for conflict-sensitivity and a peacebuilding approach from German companies has not been addressed.

Although Germany has actively supported the UN GC and is engaged in promoting CSR, for instance through an emphasis on the OECD Guidelines and its Roundtable on Codes of Conflict initiative, this has only been relatively recently and no attention is paid to TNCs and Conflict. This is perhaps in part because German industry has not relied on 'big footprint' sectors – but with German companies active around the world, Germany, with its serious policy-level commitment to mainstreaming conflict prevention, needs to put a higher priority on TNCs and Conflict. BMZ's policy framework for assistance to Africa, 'African Challenge', recognises that raw materials such as diamonds and oil can often be used to fuel conflict and prolong crises, but does not follow-through to look at managing these trends, or to consider broader issues of TNCs and Conflict. Some awareness of this need is demonstrated by the high-level policy dialogues on 'Business in Conflict Situations', and 'Public Bads: The Economic Dimensions of Conflict', organised by InWEnt (Capacity-Building International), that BMZ funded during 2001–02, and a similar event scheduled to take place in 2003 funded by UNEP and the Germany Ministry for Environment, and in the analytical work on war economies by FriEnt (Working Group on Development and Peace), a working group of government agencies and NGOs. Germany has also funded the work of CDA.

The BMZ Caucasus Initiative supports a tri-country co-operative approach to preventing conflict between Armenia, Georgia and Azerbaijan, and the BMZ Central Asia Concept aims to address conflict and promote co-operation in Kazakhstan, Khyrgistan, Uzbekistan and Tajikistan, and eventually Turkmenistan. Both recognise there is an important role for the private sector in the post-conflict reconstruction process, but this is confined to stimulating economic growth to reduce poverty. The wider links between TNCs and Conflict are not acknowledged.

The German government sets a high priority on co-ordinating policy across the board in the interest of crisis prevention. In order to fulfil its potential as a leader in this field and promote the role of foreign investing companies in crisis and conflict prevention, increased connections between and even within individual agencies and ministries need to be achieved.

5.1.3 Norway

Conflict prevention is a fundamental component of Norwegian foreign policy and development assistance, which is characterised by an overarching commitment to peacebuilding. In addition to the important role played by the Ministry of Foreign Affairs (MFA) at the diplomatic level in peace processes around the world, conflict-prevention tools and instruments to enhance development assistance have been developed and steps taken to mainstream them. Norway has played a pivotal role in the Sri Lankan peace process and has actively engaged national level Sri Lanka business partners as part of this. Where conflict prevention relates to trade and private sector activity abroad, much remains to be done, however. The Norwegian government invests considerable amounts of money in private sector development, but there is little overlap with conflict-prevention activity of the kind that might foster synergy on the role of TNCs in conflict-prone zones. Despite a strategic and practical commitment to engaging Norwegian companies in investing in developing countries and supporting their efforts to do so, as articulated in the 'Strategy for Norwegian Support for Private Sector Development in Developing Countries' (1999), and instruments such as the Norwegian Investment Fund for Developing Countries (NORFUND), the Norwegian government shows little awareness of the particularities of operating in conflict zones, the potential conflict impacts, or the peacebuilding potential of Norwegian companies. There is, moreover, a lack of co-ordination between different government agencies working on CSR.

The Norwegian Consultative Body on Human Rights and Norwegian Economic Involvement Abroad (KOMpakt) is an important forum for promoting socially responsible business, and acknowledges companies' 'value added' potential in terms of CSR. The Confederation of Norwegian Business and Industry (NHO), which heads KOMpakt, has produced a report on *Responsible Engagement in Conflict Zones*, which is a landmark document in terms of conceptualising the TNCs and Conflict issue for Norwegian companies. However the NHO's awareness of the importance of the issue has yet to spread to other government ministries.

At the level of dialogue and research, Norway has played a role in the growing discourse on the economics of conflict, funding NGOs such as the International Peace Academy, the International Peace Research Institute (PRIO) and FAFO, as well as the UN GC, and organising a side event during its presidency of the UN Security Council on economic agendas in armed conflict.

5.1.4 Sweden

Conflict prevention has been an integral part of Swedish foreign policy for some time, and Sweden's 'Preventing Violent Conflict: Swedish Policy for the 21st Century' (2001) includes as a stated priority the need to develop trade and investment as instruments of conflict prevention, including through collaborating with the business community. Little in the way of follow-up projects or programmes has been undertaken however.

Conflict prevention is central to the objectives of SIDA, the Swedish government's central agency dealing with international development issues, as outlined in its 'Perspectives on Poverty' (2002). This policy paper draws a strong link between the incidence of poverty and armed conflict, and recognises the role that an inequitable distribution of resources (including natural resources) can play in triggering conflict. 'Preventing Violent Conflict' also recognises the role of economic

Corporate Actors in Zones of Conflict: Responsible engagement – a checklist from the Confederation of Norwegian Business and Industry (NHO)

1. Legitimate purpose of business operations (right intention)

What are the goals of our activities in this area? Are they acceptable from a stakeholder point of view?

2. Reasonable hope of success

If the company enters into an area with the aim of constructive engagement, it must consider whether it is likely to succeed in achieving this goal: is it realistic to assume that our engagement will work constructively?

3. Direct and indirect responsibility (double effect)

Intended ends and means: what do we aim to achieve through our company's activities? What kinds of means should we choose to reach our goals? What standards should we follow in terms of protecting employees, human rights and the environment?

Side-effects: What types of harmful side-effects can we foresee? What steps can we take to prevent or minimise these?

Proportionality: How can we make sure that harmful side-effects are not greater than the positive effects? Will the harmful effects affect one group while the positive effects affect another? In short, do we cause more harm than good in the host country?

Indirect complicity: Are we unintentionally complicit in someone else's wrongful acts? Do we aid and abet an oppressive and corrupt regime? Do we assist in prolonging an ongoing conflict by making it possible for one of the parties to continue its wrongdoings?

4. Legitimate authority

Are decisions that have major social consequences made at the right level within the company? What is the corporation's legitimate role in society, in terms of its purpose?

5. Openness

What are our goals for the whole investment as well as for individual operations? What possible harmful effects can be expected? What measures should we take to prevent and/or minimise these? It is vital that companies publicly declare their answers to these questions, and that they subsequently report whether their goals have been achieved and to what extent the measures taken had the desired effect.

6. Additional question: corporate identity and integrity

What kind of company do we wish to be? What do we want people to associate with our brand name and logo? What kind of action complies with the company's self-understanding? Is there anything we would never do or never wish to be involved in?

Confederation of Norwegian Business and Industry (NHO)
http://www.nho.no/csr

agendas in fuelling conflicts, and Sweden has made a significant contribution to international efforts to control trade in conflict commodities.

CSR, meanwhile, is a new, though growing, area of interest to the Swedish government, with the Swedish Partnership for Global Responsibility (that now co-ordinates activity on CSR) created in 2002. Its main area of work to date has been promoting the OECD Guidelines and the UN GC. In May 2002,

in partnership with SIDA and International Alert, the Swedish Partnership for Global Responsibility organised a two-day workshop for SIDA and MFA staff and Swedish companies on 'Business and Conflict', but other than this it has not developed any initiatives on TNCs and Conflict.

SIDA is beginning to develop policy instruments geared towards harnessing the private sector to its development goals, as articulated in 'Approach and Organisation of SIDA Support to Private Sector Development' (2001), but this does not examine the need for conflict-sensitivity on the part of foreign investors despite its overall commitment to conflict prevention and peacebuilding.

Sweden is also a key supporter of relevant work by NGOs, such as International Alert and IPA. The National Board of Trade has also produced a study on the connections between trade and conflict prevention, and has plans to set up a project group of representatives of different ministries, agencies and others to further improve understanding and to frame Swedish policy in this area.

Despite these important projects, more practical steps are needed to mainstream conflict prevention across Swedish company activities. Although an integrated approach, bringing together instruments from different policy areas and different government ministries and public authorities is identified in 'Preventing Violent Conflict' as a key mechanism for achieving the diverse goals that together can amount to conflict prevention, institutional compartmentalism remains a problem, both in the government itself and in SIDA.

5.1.5 UK

The UK has done some important work explicitly exploring TNCs and Conflict – taking a lead on two key policy initiatives (the Extractive Industries Transparency Initiative (EITI), and the Voluntary Principles on Security and Human Rights), and hosting various other discussion fora. This early recognition of the issue was in part fuelled by the fact that 'big footprint' UK companies frequently operate in zones of conflict. In addition, the UK has well-developed policy frameworks and instruments with regard both to conflict reduction and CSR – both of which offer potential to take the issue further.

The importance of a conflict-sensitive approach by UK companies investing abroad is articulated in several key policy documents, including the Department for Trade and Industry (DTI)'s 'Business and Society: Corporate Social Responsibility' (2002), 'Targeted Conflict Reduction Strategies', produced by DFID's Conflict and Humanitarian Affairs Department, and DFID's African Conflict Prevention Pool strategy document 'Tackling the Economic Causes of Conflict' (2003) – though these have yet to be followed-up with concrete recommendations. As part of its effort to sensitise development-assistance programmes to conflict, DFID has also developed Conflict Assessments that map conflict and responses to it, and are aimed at assisting development of conflict-reduction strategies. The methodology has been influential among other donors, and incorporates recognition of economic drivers in conflict.

In addition to referring to TNCs and Conflict in key policy documents, the UK has funded a conference on 'Business and Conflict', held in 2000 jointly with International Alert and the Prince of Wales International Business Leaders Forum, and, in 2002, a roundtable of policymakers from key governments interested in debating ways of taking the issue forward. It is a key funder of NGO work on relevant issues, including International Alert's project engaging oil companies in conflict prevention in Azerbaijan, as well as of the UN GC, but little else in the way of practical programmes has been pursued.

DFID has a number of agencies and instruments designed to engage the private sector in development goals and promote CSR that all could and should be sensitised to conflict. While a recent *Issues Paper* on CSR, due to be published soon, included discussion of the links between business and conflict, little else has been done in practice. More broadly, the UK's recent decision to restructure its

CSR activities within DFID by disbanding the Private Sector Policy Department (PSPD) and Socially Responsible Business Team (SRBT) raises questions as to future co-ordination of the CSR work generally – and conflict-sensitive business in particular. Follow-up on promoting the OECD Guidelines has also been surprisingly poor. Given DFID's central focus on the private sector as an engine of growth, as articulated in several policy documents including 'Promoting International Development through the Private Sector' (2002), the opportunities for working with the private sector on conflict reduction are significant. There is real need for greater understanding of and action upon the links between foreign investment and conflict prevention/ peacebuilding if the UK is to fulfil its potential as a leader in this area and its commitments to conflict prevention and CSR.

Joint inter-departmental initiatives, such as the Africa and Global Conflict Prevention Pools, as well as the Interdepartmental Working Group on CSR, reflect a degree of co-operation between

Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative (EITI) was launched by UK Prime Minister Tony Blair at the September 2002 World Summit on Sustainable Development in Johannesburg. The initiative seeks to bring governments, companies, IFIs and NGOs together to create an international framework for promoting transparency of payments by companies in the extractive industries to governments, revenue authorities and state-owned companies, including taxes, royalties, rental payments and signature bonuses. Initially, supporters of the initiative are to be invited to make a voluntary endorsement of these goals, but the prospect of shifting ultimately to a mandatory framework has not been ruled out by participants. The EITI is founded on the belief that lack of accountability for revenues received from natural resources can exacerbate poor governance and lead to corruption, poverty and conflict. The initiative takes its inspiration directly from the earlier NGO campaign 'Publish What You Pay'.

Norway, Italy, Indonesia and the Central African Republic have been committed to supporting the initiative from its inception. Now, countries with major extractive industry interests, such as Algeria, Australia, Belgium, Botswana, Equatorial Guinea, Netherlands, Senegal, South Africa and the G8 states, are keen to engage on the substance of the initiative. Extractive companies backing the EITI include Anglo-American, BHP Billiton, BP, Rio Tinto and Shell, with others, including Talisman, TotalFinaElf and Statoil, expressing interest in getting involved. Over 65 NGOs, mainly of the 'Publish What you Pay' coalition, are also on board, with Global Witness, Transparency International, Save the Children, Oxfam and CAFOD most actively involved in the EITI development. Finally, the New Partnership for African Development (NEPAD), the IMF, the World Bank and the United Nations Development Programme (UNDP) are also engaging as important partners in the process.

In February 2003, a two-day workshop was held in London to consider the best mechanisms for meeting the goals of the EITI. It was attended by representatives from 23 governments, 19 companies, nine IGOs and ten international NGOs. A set of Draft Reporting Guidelines was produced in April 2003 and forms the basis for further discussion and action. In June 2003, the UK government hosted a follow-up international conference aimed at reaching final agreement on a Statement of Principles to underpin the EITI, and on action to take it forward. The gathering was attended by representatives from 70 governments, companies, industry groups, international organisations, investors and NGOs.

The EITI represents a positive step towards moving TNCs and Conflict forward as a policy issue, through its explicit recognition of the links between conflict and lack of transparency of revenues from resource exploitation. The challenges facing EITI implementation are many, but it is hoped that progress through the rest of 2003 will lead to its adoption by the majority of participants. Thereafter, effective reporting, monitoring and data collection will be key to its success.

For more information:
http://www.dfid.gov.uk/news/News/files/eiti_core_script.htm

the major agencies that need to work together to promote conflict-sensitivity among British businesses operating abroad. Greater co-ordination across ministries and agencies, and ongoing prioritisation of CSR by DFID are, however, needed to yoke private sector and trade policy closer to conflict-prevention targets.

5.1.6 USA

The USA played a key role in the development of the Voluntary Principles on Security and Human Rights – an initiative of major significance to the TNCs and Conflict agenda – and has demonstrated commitment to controlling certain conflict commodities – with a Special Negotiator for Conflict Diamonds sitting in the State Department, and most recently an Initiative Against Illegal Logging being launched. Beyond this it has shown little awareness of TNCs and Conflict however. There is some emphasis on CSR apparent within different government agencies, and a commitment to engaging corporations in public-private partnerships for development, particularly at USAID where the new Global Development Alliance is working to engage US corporations in delivering development goals, including in conflict countries.

GDA is an important new initiative with great potential for contributing to a more conflict-sensitive and peacebuilding role for business. Its inclusion of conflict prevention in the agenda of its partnership forging is significant. Its mandate and funding must be maintained for it to bear fruit in terms of policy-making on TNCs and Conflict however. There is also interest within the USAID Conflict Management Office of the importance of the private sector as an actor in peacebuilding, however to date little in terms of guidelines or analysis of the relationship between companies and conflict/ peace has been developed. Both the GDA and the Office of Conflict Mitigation and Management are new within USAID, and it is not clear yet whether or not they will work closely together.

Despite numerous initiatives, US government agencies have overall been slow to incorporate conflict prevention into their planning – in contrast to their European counterparts.[14] A lack of policy articulation and efforts to develop tools and mechanisms across the administration to mainstream a conflict prevention approach is a key obstacle to the US government doing more on TNCs and Conflict.

Meanwhile, no single agency is in charge of promoting human rights or for ensuring that US firms operating overseas uphold best practices regarding CSR. Most interaction with the private sector and CSR issues takes place through the Department of State in the Under Secretary for Economic Affairs bureau and through the GDA within USAID. The Voluntary Principles are administered by the Global Affairs Under Secretary, while the OECD Guidelines are administered by the Economic, Business and Agriculture Bureau. The Department of Commerce acts as the lead government agency promoting free trade. An increase in linkages between CSR efforts and the Department of Commerce is therefore important.

The Voluntary Principles initiative (as well as older initiatives such as the Foreign Corrupt Practices Act) is a good example of how, when the US puts itself behind an idea, the rest of the world is encouraged to follow. As the world's major superpower, with a large international corporate presence, US commitment to monitoring corporate activity in conflict zones and promoting increased conflict sensitivity among corporations could be very significant. However the current trend away from any form of interference with corporate activity does not bode well for this potential being fulfilled.

The Voluntary Principles on Security and Human Rights

The Voluntary Principles on Security and Human Rights is a breakthrough set of guidelines designed to guide extractive industry companies in maintaining the safety and security of their operations within a framework that ensures respect for human rights. The Principles are the result of a collaborative dialogue between governments, companies involved in the extractive and energy sectors, and NGOs with an interest in human rights and CSR.

The US and UK played a key role in instigating and facilitating the drafting process of the Voluntary Principles, which began in 1999. The governments of the Netherlands and Norway joined the project in 2002 and the governments of Canada and Australia have also expressed an interest in supporting the initiative. The process has been supported by seven major US and UK-based companies involved in the extractive industries (ChevronTexaco, ConocoPhillips, BP, Shell, Rio Tinto, Freeport McMoran and more recently, ExxonMobil) and nine major NGOs (including Human Rights Watch, Amnesty International, International Alert, The Lawyers Committee for Human Rights, The Fund for Peace, The Prince of Wales International Business Leaders Forum, and Business for Social Responsibility). Together these organisations have discussed, drafted and agreed the text of the Principles. The initiative is a good example of how partnerships between business, government and NGOs can play a role in addressing component issues of TNCs and Conflict.

The Voluntary Principles are framed around three major sets of issues:

- the criteria that companies should consider as they assess the risk of their security arrangements being complicit in human rights abuses;
- relations with private security forces; and
- company relationships with state security forces.

The Principles provide guidelines to companies on how to incorporate international human rights standards and emerging best practices into their policies and decision-making procedures. These procedures include:

- consulting with local governments and communities about the impact of the company's security arrangements;
- promoting principles related to human rights within company practices; and
- reporting security breaches as and when they take place.

Research into country-level experiences in order to understand how companies are implementing the Principles is now going hand-in-hand with the establishment of a cross-sectoral Executive Committee to oversee this research and to screen companies and governments wishing to become involved. The committee will be made up of representatives from two companies, two NGOs, the US and UK governments and one other government, and will convene more frequently than the current bi-annual meetings between the partners in this process.

While the dialogue and trust-building involved in the process have been important, active implementation of the Principles is now vital for the credibility of the initiative. The Principles are evidence of the increasing policy-level attention being paid to the TNCs and Conflict issue, however their ultimate success in enabling companies to balance security and human rights will depend on the extent to which the dialogue can extend beyond the conference rooms of the convening governments, and be translated into the policies and practices of companies and governments in the near future. Detailed advice to managers on how to implement the principles is urgently required.

For more information:
http://www.state.gov/g/drl/rls/2931.htm

5.2 Inter-governmental organisations

5.2.1 European Union

The EU is one of the leading international bodies affirming the importance of peacebuilding and conflict prevention and has been involved in developing policy frameworks and institutional capacity to this end since the 1990s. Key policy documents include the 'Programme for the Prevention of

Violent Conflicts' (2001) and the 'Communication from the Commission on Conflict Prevention' (2001), with the External Relations Directorate General (DG Relex) the focal point for addressing the issues through its Conflict Prevention and Conflict Management Programme. More recently, the EU has begun to address CSR, with the Commission Communication 'CSR: A Business Contribution to Sustainable Development' (2002) forming the basis for the European Strategy on CSR. The businesses of the EU's member states account for a large portion of the world's foreign investment in conflict zones, and its commitment to taking the TNCs and Conflict issue seriously is vital.

The links between the two policy frameworks and the need for the EU to take a role in promoting conflict-sensitive European business abroad are beginning to be made, most strongly with regard to the need to control conflict commodities. Private sector activities are listed as a potential 'root cause' of conflict in the 2001 Conflict Prevention Programme, where the EU also recognises trade in natural resources as a 'cross-cutting' issue relevant to conflict prevention. As follow-up, the EU has engaged with the Kimberley Process and is conducting background research towards a draft communication on regulating trade in timber. The TNCs and Conflict issue was meanwhile addressed, largely due to the efforts of NGOs, in discussions leading up to the Communication on CSR, although it was not included in the final text. The Commission's commitment to promotion of CSR is important, but the voluntary basis of the Communication means there are question marks over its implementation, and failure to take on board recommendations from the European Parliament on the need for binding guidelines for companies operating in zones of conflict was a missed opportunity. The Multistakeholder Forum on CSR, which is an ongoing platform to promote convergence on CSR policies throughout EU institutions, was also pressured by NGOs to include a roundtable on business in conflict zones. Although this idea was ultimately abandoned, the broader Sub-Group on the Development Dimensions of CSR does have potential to continue addressing the issue.

The DG Trade's '2001 Overview of the Trade and Investment Programme' focused on FDI and related positive and negative impacts. The Overview supported the launch of negotiations to set up a coherent basic framework of multilateral rules on FDI as part of the next World Trade Organisation (WTO) multilateral trade negotiations. FDI and conflict was not focused upon, although this would have been in line with the EU's commitment to mainstreaming conflict prevention across policy areas.

The EU has not yet placed any major emphasis on the role that private sector actors could play in supporting development-policy goals. The recent 'Communication on the Participation of Non-State Actors in EC Development Policy' (2003), does not fully address the role of the private sector envisaged by the EU, nor is it clear on the different roles the private sector might play, including in conflict prevention.

5.2.2 OECD

The OECD's prominent role in debates about corporate governance and responsibility is mostly co-ordinated by the Directorate of Financial, Fiscal and Enterprise Affairs (DAF). Of key significance to TNCs and Conflict are the organisation's 'Declaration and Decision on International Investment and Multinational Enterprises' (revised 2000), and the 'OECD Guidelines for Multinational Enterprises' (revised 2001). While at present these omit any specific reference to conflict prevention being an area of concern to companies, complaints against companies operating in conflict zones are increasingly common through the mechanism of the National Contact Points that OECD member states must set up and the Guidelines have great potential for imposing increased accountability on companies through this mechanism. In 2002 a working party developed a 'Background Note on MNEs in

Situations of Violent Conflict and Widespread Human Rights Abuses', which focused on extractive industries and the issues of security management and safeguarding local populations in the immediate vicinity of a company's operations, as well as the possible role of multinational enterprises (MNEs) in the broader context of civil strife.

Work by DAF on combating corruption, especially the 'Convention on Combating Bribery of Foreign Public Officials in International Business Transactions' (1997), is also central to the TNCs and Conflict debate, although it does not give any explicit recognition to the links between corruption and conflict. DAF's 'Principles of Corporate Governance' (1999), a set of non-binding corporate governance standards, are similarly important to combating corruption and promoting transparent business, but do not make an explicit link to conflict as part of this.

Although the OECD is not a donor body, its Development Assistance Committee (DAC), provides a forum for development ministers from member countries to work together, and its work on conflict prevention has been crucial in guiding member states' own policies in this area, particularly through the 'DAC Guidelines on Helping Prevent Violent Conflict' (2001). The DAC Network on Conflict, Peace and Development Co-operation (CPDC Net) has an important convening function in this area. Business and conflict has been identified as a component of the CPDC Net's 2001–04 programme of work, and an important review of relevant OECD policy frameworks is underway to identify ways in which the OECD can promote the issue.

The OECD groups 30 of the world's richest countries in a setting where economic and social policy may be discussed and developed. With active relationships with some 70 other countries, the organisation has a global reach. Given the concentration of global economic power and corporate-headquarter activity in OECD countries, the grouping's potential for influencing more concerted action on TNCs and Conflict is unique. It has a pivotal role to play in encouraging a more conflict-sensitive and peacebuilding role for corporations operating abroad. The institutional gap between the OECD's activities on conflict prevention and those on regulating the private sector is just beginning to narrow, and this is an important development for global efforts on TNCs and Conflict. Much more needs to be done, however, if the OECD is to fulfil its potential in catalysing a more conflict-sensitive role for TNCs.

5.2.3 UN

The UN has moved from confrontation with the private sector during the 1970s, towards seeing it as a partner in pursuing its objectives, including the promotion and protection of security, human rights and development goals. At the highest level, there is recognition of the need for the private sector to play an increased role in conflict prevention. The principle of engaging companies as partners in support of UN principles is firmly established. In 2001, the Secretary-General, Kofi Annan presented the UN's first-ever 'Report on the Prevention of Armed Conflict' which contained 29 specific recommendations related to preventing conflict. The report included recognition of the role business can play in helping to avoid or overcome conflict, and stressed the need for TNCs to go about all their activities with a social conscience: 'I encourage Member States and the private sector to support the Global Compact in the context of the United Nations conflict prevention efforts. In particular, I encourage the business community to adopt socially responsible practices that foster a climate of peace in conflict-prone societies, help prevent and mitigate crisis situations, and contribute to reconstruction and reconciliation'.[15] The UN recently moved to establish an inter-agency group, chaired by the Department of Political Affairs, to make proposals and elaborate a plan of action regarding the political economy of conflicts. The work of various UN agencies on CSR themes also offers potential.

5.2.3.1 UN Security Council (UN SC)

There is great interest in the economic factors contributing to conflict within the UN SC, and this has had a major impact on galvanising international debate on the issue. The imposition of UN sanctions on commodities whose trade is associated with fuelling specific conflicts has become relatively common since the 1990s, and these sanctions have played a role in weakening their various targets, if not actually terminating conflict. UN SC Expert Panel reports have pointed out the importance of financial flows in sustaining conflict, and the role of the financial sector in facilitating illicit transactions in 'conflict commodities'. Most recently, the Expert Panel on Illegal Exploitation of Natural Resources and Other Forms of Wealth from the Democratic Republic of Congo (DRC) interestingly made reference to companies operating in the DRC contravening their commitments under the OECD Guidelines. The UN has also played a vital role, through its endorsement of the Kimberley Process in 2000, in making this a truly international agreement.

Certification schemes for conflict commodities

From 1998 onwards, NGOs have campaigned for recognition of the link between armed conflict in Africa and the trade in 'blood' diamonds. Public pressure resulted in the first international meeting of the diamond industry, including producer countries, in 2000 in Kimberley, South Africa. The Kimberley Process Certification Scheme (KPCS) for rough diamonds is the result of three years of intensive negotiations that started there and then. A combination of innovative NGO investigation, an image-sensitive commodity, and a TNC (De Beers) that quickly realised the potential commercial risk posed by association with conflict, got the process off to a good start. In November 2002, states, industry representatives and NGOs managed to reach consensus on a document outlining the political as well as the practical aspects of a worldwide certification scheme for rough diamonds. The approach is that the gems can only be traded when accompanied by a certificate stating that the diamonds do not come from a conflict source, issued by a state that is a member of the KPCS. Implementation started on 1 January 2003. Although the UN is not a formal signatory, it has been essential to the process through its publication and dissemination of Panel of Expert reports, through its leverage on governments, and through its formal endorsement of the KPCS from December 2000. Every year, the UN General Assembly is presented with a report on the KP negotiations and a new resolution is endorsed – the most recent being UN GA resolution 56/263 (2002), as well as UN SC 1459 (2003).

Although 2003 will largely be a practice run for the KPCS, and the scheme has its weaknesses, it has without doubt made the international diamond trade more transparent. From July 2003 onwards, countries that do not have national legislation in place based on the KPCS have not been able to trade in rough diamonds with KPCS members. Because all the major mining and trading states (Angola, Botswana, Canada, European Community countries, Russia, South Africa, and the USA) are founding members, a growing number of others have applied for KPCS membership.

A remaining challenge is the lack of a credible independent monitoring system. NGOs regard this as essential to making the scheme effective. However, in April 2003, consensus was reached on the comparison of national diamond production and trading statistics as one means of identifying anomalies in the trade.

Public awareness of blood diamonds has helped put war economies and trade in commodities to finance wars on the international agenda, with, as a direct result, consideration of the need for transparency in oil revenues, and of the role of other commodities in conflict elsewhere. Whether to deal with the link between these other commodities and armed conflict by certifying them, following the same route as the Kimberley Process, is an ongoing debate, however. Certifying coltan would effectively mean an embargo on coltan from the DRC.[16] Embargo as a tool should be used sparingly because of the harm it can do to local and informal economies. A barrel or a pipeline cannot be smuggled. To stop oil revenues being used to buy weapons, voluntary industry self-regulations, such as are negotiated by the 'Publish What You Pay' campaign with TNCs, are perhaps a better way forward.

Timber is harvested in various countries in conflict, such as Liberia and the DRC. Certification could be an option at the industry level. Environmental concerns about timber logging confuse the argument for certification of timber as a conflict commodity, however. Legal harvesting can be done unsustainably, while illegal harvesting might follow indigenous rules. Certifying the timber industry by auditing of books, and controlling logging activities through aerial photography, could lead to a more transparent timber industry. An embargo on the trade in timber from specific countries in conflict, such as Liberia, could, in the short run, be a more effective way to stop timber revenues funding armed conflict.

Diamond certification through the Kimberley Process can set an example to be followed with other commodities, although a certification scheme is not necessarily the best method in other cases. But the public pressure, progress made, and co-operation of civil society and industry in the process will inspire further discussion to make trade in conflict goods more transparent.

Fatal Transactions/ Netherlands Institute for Southern Africa (NIZA)
http://www.niza.nl/fataltransactions.

5.2.3.2 UN Global Compact (UN GC)

The UN GC was created with the express intention of catalysing a more constructive and proactive role for business in supporting peace and development, and it is doing important work to foster action around partnerships involving TNCs that seek to promote the core values of the UN. It is additionally, since the 2000–01 'Dialogue on The Role of the Private Sector in Zones of Conflict', eager to work on TNCs and Conflict initiatives with companies, other UN agencies and NGOs, and promotes partnership and networks to this end.

The UN GC 'Nine Principles' do not directly address company conduct in conflict zones, though they do provide a strong statement of existing standards in the areas of human rights, labour and the environment. There are, however, few mechanisms to ensure that the companies comply with the Principles, and companies are able to pick and choose those they wish to adopt, rather than having to adopt all of them systematically. Due to a lack of resources and the voluntary approach of the initiative, GC staff do not monitor companies' submissions or initiatives, although the GC is considering building capacity to address dilemmas involving companies' commitment. Critics argue that the GC does more to legitimise the image of big business and to enhance its public relations profile than to improve social and environmental standards in the countries where TNCs are operating.

The full agenda of the GC 'dialogues', which have moved their focus across large and complex areas, has also raised questions about the seriousness of the GC's output. The focus on companies in conflict zones has quickly been succeeded by sessions on sustainable development, HIV-Aids and supply-chain management. While the UN GC initiative is hugely important in terms of promoting action and understanding of the private sector's role in development, and of fostering collective action and understanding between different sectoral groups, there is a danger that its limited capacity within the overall UN system, and its wide-ranging agenda, will undermine its credibility, and the importance of its work to date.

5.2.3.3 UN Commission on Human Rights (UNCHR)/ Office of the High Commissioner for Human Rights (OHCHR)

UNCHR, the UN's inter-governmental body addressing human rights, and its secretariat, OHCHR, have in recent years begun to address the link between business and human rights. The compelling links between business and rights protection have forced the issue onto the agenda, and have been

UN GC Dialogue on the Role of the Private Sector in Zones of Conflict

Priority issues identified in the Dialogue on the Role of the Private Sector in Zones of Conflict were: transparency, conflict impact assessment, multi-stakeholder dialogue in conflict zones and revenue sharing, and research papers were collectively produced through the dialogue life-span.[17] As a follow-up, the UN GC has organised a series of regional workshops to take place around the world through 2002–04, in order to make company managers on the ground more aware of the options for and limits of conflict prevention by the private sector. The regional events seek to translate the policies and guidelines identified during the Dialogue on the Role of the Private Sector in Zones of Conflict into practical on-the-ground recommendations that are relevant to the local context, with feedback from the workshops working to improve the recommendations and tools.

Organisations are continuing to develop various outputs from the Dialogue. International Alert, together with the Canadian NGO, International Institute for Sustainable Development, is taking the Business Guide on Risk Assessment forward into a comprehensive Conflict Risk and Impact Assessment (CRIA) methodology, initially for extractive sector industries operating in conflict-prone zones. This research is engaging a wide range of corporate actors, including those from the original UN GC network, and will be discussed in the ongoing UN GC regional workshops.

The UN GC relies on voluntary governmental contributions for its funding. Denmark, France, Italy, Germany, Norway, Sweden, Switzerland and the UK have all contributed to its trust fund, with others making pledges – for instance Canada which will be funding one of the upcoming regional dialogues.

For more information:
http://www.unglobalcompact.org/Portal/

taken up by a working group, the Working Group on the Working Methods and Activities of TNCs, within the Sub-Commission on the Promotion and Protection of Human Rights – a group of experts whose explicit mandate is to address pertinent and emerging human rights issues.

The research and advocacy work of OHCHR, which has included publication of *Business and Human Rights: A Progress Report* (2000), is crucial for lending normative weight to arguments for a more proactive corporate engagement on human rights issues. The Working Group on TNCs has been doing important work over the past year drafting 'Norms on the Responsibility of TNCs and Other Business Enterprises with Regard to Human Rights', whose specific attention to conflict zones makes it a potentially significant instrument for influencing TNC behaviour in conflict-prone areas. The Norms were adopted by a Sub-Commission session in August 2003. They will now be redrafted in the form of a convention – a process likely to take some years. There is strong opposition to the Norms, even at this stage, from some quarters however, and more broadly, OHCHR activities in the area of business and human rights seem to have slowed down following the appointment of a new High Commissioner for Human Rights.

5.2.3.4 UN Development Programme (UNDP)

UNDP is advanced among development organisations in terms of its commitment to forming partnerships with business. The UNDP Division for Business Partnerships co-ordinates the organisation's relationships with the private sector, which take place at three levels: global, where UNDP seeks to create coalitions of companies and other stakeholders to reduce corruption, strengthen the rule of law, disseminate information and communications technology, and protect human rights; national, with UNDP facilitating dialogues among stakeholders; and local, with UNDP supporting business partnerships based on local priorities.

Partnering with business for reconstruction in Afghanistan

In December 2001, the Swiss NGO Business Humanitarian Forum (BHF) brought together development agencies and private sector companies in order to discuss the potential for cross-sectoral co-operation on projects that aimed to rehabilitate the vital infrastructure of Afghanistan. The overall objective of the initiative was to lay a solid platform for the wider development of the country's economy and create a stable economic atmosphere for future investment, thereby avoiding a return to violence.

In June 2002, BHF and the UNDP-BCPR agreed to work in partnership to develop a number of these projects in accordance with the guidelines of the Afghan National Development Framework, which led to the first joint UNDP-BCPR/BHF mission to Afghanistan in October of that year. The mission received the unanimous support of the relevant Afghan ministries and marked the start of the implementation phase of the initiatives pilot project, a generic medicines production plant in Kabul.

The project was intended to provide Afghans with the means to produce essential medicine locally (such as basic antibiotics and analgesics) and to manage and own the production process themselves, creating numerous employment opportunities. The European Generic Medicines Association (EGA), an association of 400 European generic medicines companies, plans to donate the relevant machinery, training and initial raw materials needed to set up the production plant in Kabul as part of their 'Access to Medicines' programme. The plant is due to be operational in 2003, by which time it would be operated by trained Afghans and owned entirely by the Afghan private sector. As well as this pilot project, other projects based on the same terms are being developed in other emergency sectors such as pharmaceuticals, food, energy, construction and housing. The next phase of project implementation will involve the building of an electricity generation plant by ABB, a multinational energy company, and several flour mills by the Morshedi Group, giving Afghans the means to produce their own high-quality flour rather than relying on imports by aid agencies.

The proposed public-private initiative corresponds to Kofi Annan's call for more partnerships between UN agencies and the private sector, and is based on the rationale that the business and development communities share a common interest in the stabilisation and economic development of post-conflict countries. Furthermore, BHF and UNDP have found that an increasing number of private companies are willing to contribute their resources and expertise to infrastructure projects in such countries as a means of stimulating economic development. The initiative is a unique model that builds on a philanthropic donation by an established business, recruits interested local investors, and makes use of the credibility of an international organisation and the support of the local authorities. If implemented successfully in Afghanistan, the UN could apply this model to other post-conflict reconstruction situations.

For more information:
http://www.bhforum.ch

In 'UNDP and the Business Sector – Working Together to Fight Poverty', areas for possible co-operation are outlined and reflect the focus areas listed above – including crisis prevention and recovery. While a systematic approach has been developed for other key areas of co-operation with the private sector (such as the environment and combating HIV-Aids), crisis prevention and recovery has yet to be approached systematically, though it is logical to expect this will take place in due course. Experience to date has been ad hoc – companies have worked with UNDP on reconstruction in East Timor and supporting small business development in Angola, for instance. The Division for Business Partnerships has produced a toolkit for local UNDP offices to guide them on initiating partnerships with business generally, though this does not offer any specific advice on partnering in post-conflict zones. Through the Bureau for Crisis Prevention and Recovery (BCPR), a pilot project is about to begin in Afghanistan that will bring together Western companies with

local investors to focus on priority reconstruction areas. If successful, this approach could be replicated elsewhere, providing the foundations for a more strategic approach. While BCPR does not use any particular tool-set for understanding the potential conflict impacts of such projects, screening of investors is automatic, and a wider conflict-prevention strategy, including conflict analysis to understand the impacts of projects, is being developed.

UNDP also promotes CSR, plays a role in the EITI, and works closely with the UN GC – promoting it at the national and regional levels around the world (including its work on companies in conflict zones). UNDP also is involved in important capacity-building work with governments on such key TNCs and Conflict issues as revenue sharing, and the organisation envisages that it could play a more strategic role in this regard.

5.2.3.5 UN Conference on Trade and Development (UNCTAD)

UNCTAD is the lead UN agency involved in promoting FDI internationally, but has no specific focus on conflict as part of this remit. UNCTAD's focus is on working with local governments in order to assist them in attracting FDI, and on research and policy analysis. It is interested in corporate governance issues, promoting transparent accounting procedures, and promoting pro-development investment – and its work as a leading source of information and analysis on these issues, and specifically on TNCs, represents an important opportunity for it to promote more conflict-sensitive investment internationally. The next UNCTAD ministerial conference is in Brazil in 2004, and this could usefully open a dialogue on TNCs and Conflict in order to begin identifying ways forward.

5.2.3.6 UN Environment Programme (UNEP)

UNEP promotes the idea that the private sector has a crucial contribution to make in promoting sustainable development, and its Division of Technology, Industry and Economics (DTIE) is active in working directly with the private sector around the world. UNEP is a co-founder of the Global Reporting Initiative (GRI), which is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. GRI has no specific focus on conflict but is interested in furthering its understanding of conflict issues. UNEP's new Post-Conflict Assessment Unit extends the programme's work in areas of the world where the natural and human environment has been damaged as a direct or indirect consequence of conflict, and includes a focus on future challenges for industry as part of this. UNEP's Finance Initiative, which aims to promote responsibility in the finance sector, has recently begun work mapping out the links between insurance, banking, asset management and conflict.

5.2.3.7 International Labour Organisation (ILO)

The ILO is an important standard setter for TNCs and could usefully develop standards on employment in conflict-prone zones. The ILO has in fact just commenced a research project, together with the Graduate Institute for International Studies in Geneva, researching dimensions of employment in post-conflict recovery, one strand of which will focus on the private sector. The research will be published in 2005 and feed into ILO and other partner organisations' policy. Meanwhile, through the ILO InFocus Programme on Crisis Response and Reconstruction (IFP/CRISIS) it has active projects throughout the world, including in conflict countries where TNCs play a large role such as Central Africa, Colombia, Sri Lanka, Sudan and Venezuela. It focuses on post-conflict reconstruction and conflict prevention in terms of socio-economic reconciliation and development (through training, job-creation,

entrepreneurship development and related programmes, and an emphasis on social dialogue). The ILO is in a good position to engage with the international private sector in order to help maximise companies' potential contribution to peacebuilding. IFP/CRISIS emphasises the key role businesses can play to avoid or alleviate crises and has produced various tools for this. The most recent and relevant of these, *Business and Decent Work in Conflict Zones: a 'Why?' And 'How?' Guide*, will be published during 2003. The programme actively seeks partnership with business in reaching its objectives.

5.2.4 World Bank

The Bank has made a commitment to addressing the causes and effects of conflict in the context of its development goals. Its mandate against interfering in political affairs is apparently not a barrier in this regard. Its work through the Conflict Prevention and Reconstruction (CPR) Unit is valuable in offering technical support to Bank agencies and others on conflict analysis and expertise, and research through the Banks' Development Economics Research Group has been ground-breaking in generating understanding of the links between private sector activity and conflict. The Bank has also been a key funder of the Collaborative for Development Action 'Corporate Engagement in Conflict Zones' project, and of the Business Partners for Development project, jointly with Care International.

The Bank also plays an important role in developing and promoting international standards for measuring environmental and social impacts, and for other areas of CSR, such as stakeholder engagement. However its International Finance Corporation (IFC) has no specific conflict impact assessment methodology or policy on investment in conflict-prone zones. The Multilateral Investment Guarantee Agency (MIGA) recently published a brochure: 'MIGA in Conflict-Affected Countries' – reflecting a recent but important articulation of its capacity to influence FDI in conflict-prone zones. The emphasis is on the agency's ability to offset risks of investing in conflict through its access to special trust funds and technical assistance programmes, rather than promoting an enhanced role for companies themselves. The CPR Unit was consulted in drafting this document.

Bank work on CSR has a developing country focus, led by the CSR Practice Agency, which is geared towards creating enabling environments for CSR. Its indirect influence over TNC activities in conflict zones in this context is significant – however, the Bank's commitment to mainstreaming conflict-sensitivity has not been extended to this work.

The Bank is increasingly collaborating with the private sector in pursuing developmental goals, but these partnerships with TNCs have not been harnessed to contribute to conflict prevention and peacebuilding. While Operational Policy (OP) 2.31 does state a commitment to working with the private sector in conflict prevention, there are as yet few instances of this happening, and the commitment is far from being integrated. A major exception is the Chad–Cameroon Pipeline project, which involves a number of oil and gas companies, the World Bank and respective governments, and is designed to mitigate the possible conflict impacts of the project.

Despite its policy and various instruments related to conflict and conflict assessment, key areas of Bank activity remain insensitive to the conflict that can be generated by development assistance. Above all the links between the economic reforms promoted by the Bank and political instability are still not understood. While its work on promoting standards in foreign investment is important and offers opportunities for promoting a more conflict-

sensitive role for companies, the overarching macroeconomic framework within which this work takes place is also of crucial developmental significance. The IFC's overall impact on developmental issues such as poverty reduction is frequently challenged, with failure to nurture local industry and entrepreneurs a particular area of concern. MIGA work has also been widely criticised by NGOs and activists for backing projects whose social and environmental impacts have been negative.

Chad–Cameroon Pipeline

The Chad–Cameroon Pipeline project is an ambitious multi-stakeholder revenue-sharing scheme led by the World Bank. The $3.7 billion project consists of the development of 300 oil wells in Doba, southern Chad, and the 1,070 km pipeline from these oil fields to an offshore oil-loading facility on Cameroon's Atlantic Coast. The project involves the governments of Chad and Cameroon, the World Bank Group (World Bank, the IFC and the International Development Association), and three foreign oil companies providing the private equity: ExxonMobil (40%), Petronas (35%) and ChevronTexaco (25%). It is expected that the project will yield $500 million in revenues for Cameroon and $2 billion for Chad over a production period of 25 years. This equates to $80 million per year in extra revenue for the government of Chad and will virtually double its current GDP. Construction began in 2000 and is scheduled for completion in the summer of 2003.

Chad is one of the poorest countries in the world, with about 80% of the population living on less than $1 a day. The country has a history of civil war, and is currently experiencing extreme political instability, with an armed rebellion in the northern part of the country and ongoing insecurity in the south. The Chad government has increasingly begun to crack down on human rights activists and journalists since the potential of the oil project was realised, and has reportedly jailed the only opposition member of the parliament, Ngarlejy Yorongar, for speaking out against the pipeline project. According to the 1999 US State Department human rights report for Chad, there have been incidents of extra-judicial killings, torture, rape, restricted press freedom, an ineffective judiciary and the closure of human rights and environmental organisations. Massacres of hundreds of unarmed civilians in the oil-bearing region of Doba in southern Chad in 1997 and 1998 have never been investigated.

Cameroon exhibits similar characteristics of unstable government, and its regime was recently declared the most corrupt in the world for the second year running by Transparency International. In particular, observers have noted that revenues from oil development in Cameroon are largely unaccounted for despite the fact that public disclosure of the use of oil revenues is part of the World Bank and IMF economic reform programmes in the country.

To address the concerns put forward by critics, the Bank has been very flexible in the design of the pipeline project. Prior to the project's launch, the bank held nearly 900 public consultative meetings at village level in both countries, human environmental surveys, meetings with international and national NGOs, land valuations and discussions with the private sector. The Bank developed a Revenue Management Plan for Chad that seeks to isolate petroleum revenues and target these, in a transparent manner, to the key poverty-alleviation sectors of health, education, rural development, infrastructure, water resources and environment. The Revenue Management Plan stipulates that 80% of each government's share of the revenue must be spent on these sectors. Furthermore, the Bank is supporting a wide array of participatory, cross-sectoral projects with the aim of managing their development in a sustainable manner. They include an Indigenous People's Plan to mitigate the impact of relocation on people living near the oil producing regions, an SME Capacity-Building Facility that seeks to strengthen links between the small- and medium-sized enterprise (SME) sector and the oil companies; an independent Inspection Panel to investigate and report on the outcomes of the project; and an International Advisory Group to monitor the use of pipeline profits and encourage good governance, transparency and effective management of the oil revenues. Prior to the approval of the project, the Bank developed an extensive Environmental Assessment Plan and set up an External Compliance Monitoring Group to implement this plan with the local governments.

In response to concerns expressed by external observers, and to requests to investigate the sustainability of the pipeline project, the Inspection Panel released a detailed report in 2002, which found that, in spite of the efforts

that had been made, the project was not in compliance with parts of at least ten separate bank policies and procedures. Experience so far has shown that there are difficulties in monitoring the revenue-sharing practices of the Chad and Cameroon governments effectively. In fact, the first $10m of the grant money paid to the Chad government was spent on arms for the security forces rather than on the promised education and development projects that the Revenue-sharing Strategy outlined.[18] In addition, the diversion of $4.5m to weapons purchases from the $25m bonus given to Chad by the consortium of oil companies raises further questions about the government's capacity to manage oil revenues in a positive way for its population. The impact that the project will have on local communities has also been heavily criticised. The pipeline itself is buried only one metre underground and therefore has a high potential for leakage, as has been the case with similar projects in the Niger Delta. Also, a group of Bagyeli pygmies from Cameroon, whose homeland is bisected by the pipeline, have reportedly contracted new epidemics such as AIDS, malaria and bronchitis brought in by construction workers, as well as rapidly losing areas of their land and forests that are needed to sustain their hunter-gatherer way of life.[19] External and internal critics have argued that a more thorough appraisal of sustainability and risks should have been made to ensure proper compliance by the governments involved, *prior to* the flow of any revenues. According to the Inspection Panel's report, regulations for revenue sharing are not enough; revenue sharing must 'be the subject of continuing monitoring, review and assessment by an independent body'.[20] The report emphasised that the human rights situation was 'far from ideal' and that the ongoing repression of critics of the government make questionable the bank's commitment to informed and open consultation.[21]

For more information:
http://www.worldbank.org/afr/ccproj/

6 An initial typology of policy responses

EARLIER SECTIONS OF THIS report have sought to provide a framework for understanding corporate–conflict dynamics at both macro and micro levels, and to chart the emergence of 'TNCs and Conflict' as an issue of concern for both companies and policymakers. The summaries presented above and in Annexes 1 and 2 reveal that the issue is definitely beginning to climb public policy agendas. At the same time, they underline how recent this is, telling us as much about opportunities to promote the twin goals of minimising harmful and maximising positive impacts of TNCs in conflict-prone zones, as they do about existing policy responses in this area.

Below is an initial typology of the various kinds of policy responses that have emerged, or that, based on the data, could emerge, to enable policymakers to address TNCs and Conflict – either as an issue in its own right or through a particular component issue. The different categories have been selected by drawing on a synthesis of the various frameworks and instruments highlighted by the data, in order to give these some kind of early conceptual clarity. Clearly, individual governments, IFIs and other IGOs all have different competencies here – deeper research into these is necessary to build on these findings.

Section 7 will return to analysis of the two overarching policy frameworks under review, conflict prevention and CSR, in order to shed light on possibilities for their much needed convergence on TNCs and Conflict. This section will also offer a generic framework for action.

6. 1 Regulating TNC activity in conflict-prone zones

Regulation is obviously a principal means through which policymaking institutions can influence private sector activity of all kinds. In the case of regulating TNC activities as they relate to the incidence of violent conflict, there is as yet no clear international regulatory framework, though as

the survey will have shown, there are key instruments, both entrenched and of recent origin, that have direct relevance to the issue – particularly, but not exclusively, where private sector activity can be linked most directly and causally to violent conflict (Le Billon and Lilly, 2002). UN sanctions on trade in conflict commodities, the KPCS, the OECD Anti-Bribery Convention, and the possibility of the EITI eventually becoming binding are examples. The UK Pensions Act, which requires pension funds to inform investors about their social policy commitments and to disclose any ethical considerations raised by shares in their portfolios (though with no specific reference to conflict impacts) is an example of how stock-market regulations can impact on corporate behaviour in relevant areas.[22] Public sector project finance, such as provided by export credit agencies, can be another regulatory instrument of sorts. It is discussed separately below

Debate is ongoing about the merits and potential of existing regulatory instruments available for influencing private sector impacts on conflict and conflict prevention. As already mentioned, think-tanks such as the IPA, FAFO and others have been involved in exploring the legal dimensions of TNCs and Conflict as one part of a broader project on economic agendas in civil conflict. This has included mapping existing international humanitarian and commercial law to try to identify where companies' legal accountability can be established with regard to conflict, and reviewing national jurisdictions to identify their extra-territorial reach over companies operating abroad.

The private sector is often hostile to government regulation because of its associated costs, although regulation can bring the advantage of setting clear standards and creating a level playing field within an industry or sector, ensuring that every company has to abide by the same rules. Paradoxically, a greater incentive for rogue companies to act irresponsibly can emerge with the imposition of regulation because introducing the threat of punitive action increases the financial rewards for those that manage to evade the controls. There can also be resistance within governments to introducing regulation unless the costs involved are outweighed by the benefits to society.

Given antipathy to mandatory regulation, a range of 'voluntary' regulatory measures is promoted by governments and multilateral organisations that place less restrictive requirements on company behaviour. With voluntary regulation, the private sector is seen more as a partner than an actor that the state has a responsibility to control in the public interest, with the regulatory body playing the part of a facilitator or instigator. Private sector actors have in many cases themselves taken steps to regulate their own conduct, in order to demonstrate a commitment to responsible behaviour, and as a way of measuring social and environmental performance. Debate about the advantages of different mechanisms is ongoing, with critics of voluntary codes pointing out that their enforcement depends on what suits business and on the goodwill of the companies involved, and that, despite a plethora of codes in place, malpractice continues (Howen and Petrasek, 2002). In some cases however, voluntary codes can provide an opportunity to explore and develop future public regulation (Haufler 2001). The polarised positions that threaten to consolidate around the UK Coalition Corporate Social Responsibility (CORE) Bill provide a current example of the ongoing 'mandatory vs. voluntary' debate, with one camp proposing that stock-market regulations insist on companies reporting on ethical performance, and the other rejecting this course. In fact, many experts are now in agreement that the debate is sterile. The current reality of private sector regulation is that voluntary approaches to CSR are rooted in a legal context, and the relationship between the voluntary and the mandatory is constantly evolving (Ward, 2003). The KPCS, for instance, is an innovative combination of an inter-governmental framework of national controls with industry self-regulation. The EU's active engagement with the Kimberley Process and legislation that calls on member countries to establish control mechanisms and comply with the

Private sector activities In zones of conflict: legal issues and options

To date, most policy efforts to address the negative impact of private sector activities have focused on voluntary measures, such as codes of corporate conduct. While important, voluntary measures alone are unlikely to be sufficient to change the behaviour of economic actors. The development of legal accountability is essential to create clear distinctions between acceptable and unacceptable practices, while also reducing the potential for economic activities to fuel war. In the long term, robust legal mechanisms could set clear expectations, achieve effective accountability and reduce impunity.

Impunity

There is no law specific to private sector activities in conflict zones, and few legal mechanisms available to hold companies accountable for bad behaviour in relation to war economies. Endemic corruption or the effects of war can render the laws and institutions of host states weak and often unenforceable. The reach of home-state legislation is limited, while the applicability of international criminal and humanitarian law is only beginning to be explored. While most companies may be law-abiding, the absence of clear and enforceable norms leaves business entities to their own devices. This impunity encourages a 'race to the bottom', in which more unscrupulous activities gain greater financial rewards.

Complicity

There is currently little normative, conceptual, or legal consensus on what business activities constitute complicity in violations of national and international laws related to conflict. Some define such complicity as any business activity in a war zone. Others relate it to profiting from violence, whether the act has been committed directly by the company or by partners and agents. Still others restrict the term to economic collusion with rebel groups. The absence of an agreed definition risks obscuring crucial legal distinctions, while simultaneously creating a disincentive for constructive corporate engagement in vulnerable or war-torn societies.

International Regulatory Framework on Corporate Behaviour

Creating a global regulatory framework, derived from existing norms of international criminal and humanitarian law, could provide an overarching and robust legal approach to complement voluntary initiatives. An international legal definition of the problem of corporate–conflict impact could empower states to regulate corporate behaviour within their jurisdictions or help to clarify companies' international legal obligations. Business entities, their finance and insurance providers, and their investors would benefit from there being a consistent legal approach.

Strengths

- Establishes a common playing field for all private sector actors.
- Clearly defined standards of accountability provide an improved basis for consistent, transparent and fair judgments.
- Endorsement by legitimate bodies may improve acceptance of voluntary measures that are currently hotly contested.
- Extends legal expectations and sanctions to all relevant economic actors, including those host states that, through lack of democracy and good governance, exempt themselves from correction by their own constituencies.

Limitations

- Lack of a readily identifiable legal framework; while international criminal and humanitarian law provide a useful and logical starting point, their applicability to private sector actors is underdeveloped. For example, business entities are not currently subject to the jurisdiction of international criminal tribunals, the status of business entities and of certain 'illicit activities' under international humanitarian law is unclear, and the status of state-owned enterprises in relation to issues of sovereign immunity remains uncertain.
- Efforts to evade regulation could lead to new forms of corrupt and illicit economic behaviour.
- To be effective, any internationally agreed legal norms should be compatible with national legislation of host and home governments. Currently, there are wide discrepancies among national jurisdictions on a

number of relevant issues, including juridical extra-territoriality, the legal standing of corporate actors in criminal and civil law, and definitions of aiding and abetting.
- Implementing a robust international regulatory framework is likely to meet resistance from some states, as well as technical barriers.

Domestic Legislation

Compels private sector actors to ensure their business practices are within the law. Examples of the most effective national legal instruments are the US Foreign Corrupt Practices Act and the US Alien Tort Claims Act. Around the globe, conflict between the obligations of private legal persons under public international law and the absence of a legal recourse to redress violations has become a growing issue.

Strengths

- More likely to be rapidly adopted.
- More likely to be robustly enforced.
- Regulations may be grafted on to existing legal and judicial regimes and resources.
- May provide for alternative regulation if enough countries implement legislation.

Limitations

- Potential for diffuse and contradictory standards.
- Potential for a race-to-the-bottom phenomenon.
- Lack of universal jurisdiction may impede enforcement.

Advocating the creation of international instruments or extending and strengthening existing national and international mechanisms

A robust and thorough international normative framework would reinforce and legitimise incremental and focused measures, and would allow for regional applications.

There already are rights and duties under international law to which corporations are directly bound. Among these are: UN conventions and agreements to which most states are signatories, like the ILO standards and the Universal Declaration of Human Rights. These agreements are complemented by a range of other resolutions and conventions, including the OECD anti-corruption and anti-bribery measures and non-binding principles of corporate governance, and the UN GC. In theory, these and other instruments – such as the International Criminal Court and the Convention on Transnational Organized Crime – could be amended or expanded to make explicit the responsibilities of private sector actors in conflict zones, and to define and prohibit specific practices. Definition at the level of international law will be crucial for improving co-ordination among national and international regulatory bodies, and the development of more effective multilateral regimes.

In addition to their core projects in New York and Oslo, IPA and FAFO have undertaken two co-operative research projects aimed at promoting a normative consensus on the most problematic manifestations of impunity and complicity in war economies. The projects are working to identify what existing international and national law might apply to private sector activity in conflict zones.

1) A comparative survey of private sector liability for grave violations of international law in selected national jurisdictions. Examines the similarities and differences between national legislation with respect to business entities' liability under civil and criminal law for commission of or complicity with violations of human rights and humanitarian law, under domestic jurisdiction and international law.

2) A commentary on the liability of private sector actors for grave violations of international law. A comprehensive commentary mapping the norms of international law as they may apply to economic actors in conflict areas, clarifying the legal issues involved in the complicity and immunity of economic actors in the violation of international law.

International Peace Academy http://www.ipacademy,org and
FAFO Institute for Applied International Studies http://www.fafo.no/piccr/index.htm

process go some way to making this voluntary initiative mandatory, as does the obligation on participating states to develop supporting legislation (Ward, 2003).

As the surveys have shown, governments and IGOs are working at different levels to promote standards across particular industries, or working with particular business associations to develop codes of conduct on various issues. At present there is no one voluntary code of conduct for companies operating in zones of conflict; however the OECD Guidelines for Multinational Enterprises feature prominently in the discourse as an instrument that could usefully be strengthened, particularly because of its unusual implementation procedure, through the National Contact Points (NCPs).[23] The 2005 Guidelines review, the Background Note of the OECD Working Group, and OECD-DAC interest in the TNCs and Conflict issue together present a key opportunity for companies' responsibilities in zones of conflict to be articulated at the international level. The UN Sub-Commission on Human Rights Draft Norms is also important, making direct reference to international humanitarian law in conflict zones, as are the US/UK Voluntary Principles on Security and Human Rights and the EITI as it currently stands.[24] While different countries surveyed have supported the development of ethical codes for national companies (for instance DFAIT's support to the development and promotion of the voluntary International Code of Ethics for Canadian Business), none of these has yet tackled the issue of companies operating in conflict zones. Research into the relevance of other existing codes, and further debate about the need for an international conflict-specific code of conduct is required.[25]

Figure 3: Overview of regulatory instruments matched to TNCs and Conflict issues[26]

	National legislation	International law	Codes of conduct, guidelines, principles and standards	Implementation: reporting, monitoring and enforcement
Security arrangements	**Arms export controls	**Geneva Conventions and Additional Protocols I and II **UN Convention against the Recruitment, Use, Financing and Training of Mercenaries **International Convention for the Suppression of the Financing of Terrorism	**US/UK Security and Human Rights Voluntary Principles **UN Draft Norms on the Responsibility of TNCs and Other Business Enterprises with Regard to Human Rights **UN Code of Conduct for Law Enforcement Officials and Basic Principles on the Use of Force and Firearms by Law Enforcement Officials	** Monitoring by the International Committee of the Red Cross (ICRC)
Employee relations		**ILO Tripartite Declaration of Principles concerning Multilateral Enterprises and Social Policy **ILO Declaration on Fundamental Principles and Rights at Work	UN Global Compact ** UN Draft Norms on the Responsibility of TNCs and Other Business Enterprises with Regard to Human Rights **OECD Guidelines for Multinational Enterprises **Social Accountability 8000 **Global Sullivan Principles	**Global Reporting Initiative
Community relations		**ILO Convention on Indigenous and Tribal Peoples **UN Convention on the Elimination of Racial Discrimination	**UN Global Compact **UN Draft Norms on the Responsibility of TNCs and Other Business Enterprises with Regard to Human Rights **World Bank Resettlement Guidelines **OECD Guidelines for Multinational Enterprises **Social Accountability 8000 **Global Sullivan Principles	**UN Working Group on Indigenous Populations

Bribery and corruption	**US Foreign Corrupt Practices Act	**OECD Convention on Combating of Foreign Public Officials in International Business Transactions **OAS Inter-American Convention Against Corruption **Council of Europe Criminal and Civil Conventions on Corruption	**Wolfsberg Principles **UN Draft Norms on the Responsibility of TNCs and Other Business Enterprises with Regard to Human Rights **IMF Code of Good Practice on Transparency **Second EU Money Laundering Directive **OECD Guidelines for Multinational Enterprises **Corporate Integrity Pacts **Extractive Industries Transparency Initiative (EITI)	**Financial Action Task Force (FATF) **Basel Committee for Banking Supervision (BGBS) **Global Reporting Initiative **Group of States Against Corruption
Commerce	**Bilateral sanctions (eg, US government sanctions on Sudan and the Sudan Peace Act)	**UN Security Council Resolutions for Angola, Sierra Leone, DRC, Liberia and Cambodia **EU Sanctions **UN Convention to Combat Transnational Organised Crime	**Kimberley Process Certification Scheme **Forest Stewardship Council standard **OECD Guidelines for Multinational Enterprises	**UN sanction bodies **UN expert panels
Uneven development and inequitable wealth			**UN Draft Norms on the Responsibility of TNCs and Other Business Enterprises with Regard to Human Rights **Extractive Industries Transparency Initiative (EITI)	
Human rights and democracy		**UN Declaration on Human Rights	**UN Global Compact **UN Draft Norms on the Responsibility of TNCs and Other Business Enterprises with Regard to Human Rights **Amnesty International Human Rights Guidelines **The Red Cross Movement's Code of Conduct on Humanitarian Assistance **OECD Guidelines for Multinational Enterprises **Social Accountability 8000 **Global Sullivan Principles	**UN treaty bodies **UN Economic and Social Council committees **Special rapporteurs and independent experts **Global Reporting Initiative
Environmental degradation		**Rio Declaration of the UN Conference on Environment and Development	**IFC environmental impact standards **UN Global Compact **UN Draft Norms on the Responsibility of TNCs and Other Business Enterprises with Regard to Human Rights **OECD Guidelines for Multinational Enterprises	**UN Forum on Forests **World Bank Inspector Panel

6.2 Engaging TNCs as partners in delivering conflict-prevention targets as part of development policy

There has been a significant move over the last few years towards policymaking institutions thinking about ways to engage the private sector as a partner in delivering development co-operation. Emanating from international discourse on sustainable development, fora such as the International Conference on Financing for Development, held in Monterrey in March 2002, and the UN World Summit on Sustainable Development, held in Johannesburg in September 2002, have underlined present-day recognition of the inequities of the globalised world economy, and commitment to harnessing the potential of TNCs to contribute to developmental goals (IIED, 2002). Whereas in the past there might have been an element of mutual distrust or antipathy between business, civil society and governments, partnerships are now seen as providing opportunities to address each actor group's concerns, and to share out action according to core competency. Partnerships involving business, civil society and governments (and/or international organisations) are in vogue. This trend provides a significant opportunity for TNCs to fulfil their potential to contribute to peacebuilding, but much more research needs to be done in order fully to understand its implications for TNCs and Conflict.

The term 'partnership' is often used as a catch-all in development circles. Essentially it relates to engaging companies in financing implementation of development goals, in a context where public sector funding for international development has drastically diminished, and donor countries struggle to meet the accepted UN target of 0.7% of GNP for overseas development assistance. Partnership can encompass dialogue to reach cross-sectoral agreement on complex social issues that involve multiple agendas and where there are no clear lines of responsibility (see below). The concept also embraces taking proactive steps to encourage TNCs to invest in developing-country contexts as part of reaching policymaking institutions' development-strategy targets (for instance, by building up infrastructure in key sectors). The term is also sometimes used to refer to promotion of FDI in developing countries in and of itself, on the assumption that FDI has a de facto impact on development, and to more straightforward outsourcing of public sector projects – which is becoming increasingly common. Promotion of FDI to this end will be discussed in the next section.

The majority of the institutions surveyed have either pioneered or incorporated into their strategy the paradigm shift towards harnessing private sector investment to international development, as an engine of poverty reduction and employment creation, and source of skills and services. This is reflected in the surveys, and articulated in key policy-strategy documents.[27] Canada, Sweden, the UK, the ILO, UNDP as well as the UN Secretary-General, stand out as referring in policy documents to the potential role of the private sector as a partner in conflict and crisis prevention relating to conflict.[28] The UNDP BCPR project in Afghanistan and the ILO's research and publication on this perhaps go furthest towards implementing this goal.

Partnership is potentially a useful policy response to conflict prevention and peacebuilding efforts, particularly where companies have a long-term presence. Its co-operative nature, if effectively managed, will involve establishing trust and mutual respect between different actors, enabling them to tackle complex social problems. Meanwhile, it offers a route whereby TNCs can become formally engaged in delivery of policymaking institutions' conflict prevention and peacebuilding targets. Much more research and thinking needs to be done, however, to give companies operating in conflict contexts better advice on how to be conflict sensitive, and to ensure that corporate conduct does not undermine developmental goals. There are, moreover, criticisms

levelled at the increasing role of the private sector in development, revolving around the idea that voluntary project-based engagement offers companies huge reputational gains that protect them from having to review practice more fundamentally.[29] Meanwhile, it is possible that policymaking institutions' own agenda-setting and independence will become constrained by the need to maintain good relations with companies (Utting, 2000). With regard to conflict, worse-case scenarios emerge where corporate interests arguably become key drivers in setting foreign-policy goals. In engaging the private sector in development and conflict-prevention or peacebuilding programmes, policymakers must guard against potential loss of independence.

Key thinking on appropriate methods for building effective partnerships features in an emerging body of analysis that is beginning to identify areas of best practice (UNDP, 2001; BPD, 2002; BSR, 2002). This needs to be extended to analyse the relationships between conflict and the spectrum of types of public-private partnership for development.

'Partnership' in Iraq

Critics of the US Bush administration have from the outset of its coming to power highlighted relationships between its policies, particularly its energy and environmental policy, and the business interests of President George Bush, Vice President Dick Cheney and numerous other key figures – particularly in oil and engineering.

Private sector provision of logistical support for military operations, and 'partnering' to deliver reconstruction targets in post-conflict settings is an increasingly common approach globally. As such, the prominent role anticipated for the private sector in the reconstruction of Iraq is not in and of itself remarkable.

But NGOs such as Oxfam have not been the only voices to argue that: 'The need for Iraqi leadership and ownership contrasts sharply with the US government's plans to control early economic reconstruction, and ensure that companies from the US and its allies capture the reconstruction dividend.'[30]

From the outset of the Iraq crisis, observers raised concerns about the US companies that looked likely to secure major US Agency for International Development (USAID) contracts as part of the reconstruction of Iraq. Apparent determination to award contracts to these at the expense of others, and in the absence of consultation with the UN, has exacerbated concerns. While more controversial bidders, such as Halliburton, formerly headed by Cheney, are no longer in the running for USAID post-war reconstruction contracts, exclusion of companies from countries that opposed the allies' action against Iraq is further evidence of the politicised approach to reconstruction.

The credibility of the allied occupation of Iraq is undermined by, among other factors, the seemingly secretive and non-competitive manner in which contracts have been awarded for its reconstruction. The question of how companies should behave once operating in Iraq, and what provision for a conflict prevention or CSR approach is built in to public-private contracts, is also critical.[31]

6.3 Influencing TNC behaviour in conflict-prone zones through project finance and other forms of support to FDI in developing countries

Often, corporations investing in developing countries are able to raise the necessary finance from the international financial markets and/or private banking institutions. If the risk associated with the project is very high, however, this may not be possible. Export credit agencies, in underwriting large contracts in developing countries, are increasingly moving towards addressing the environmental and, to a lesser extent, social impacts of projects – in recognition of the impact these factors have on economic viability, and in response to increasing scrutiny from civil society. Some are becoming more explicit in the criteria upon which they extend export

credit, although in both Germany and the UK, for instance, NGOs concerned with these issues remain dissatisfied. Project finance provides governments and IFIs with an opportunity to promote greater conflict-sensitivity among companies, through building conflict impact assessments into their calculation procedures. Export Development Canada appears to be taking a lead in this area, by factoring investments' potential impact on political violence into its risk assessment, and with a specific methodology for understanding these impacts. However, the impact of investment in conflict-prone zones is generally overlooked. While the World Bank's MIGA has produced a booklet on conflict-affected countries, its risk assessment methodology for understanding conflict impacts remains undeveloped, as does factoring conflict impacts into lending requirements – a major gap given World Bank overall policy commitment to conflict prevention.

Given that FDI is promoted as the panacea for development problems, possible linkages to conflict and mitigating strategies need to be thoroughly investigated.

Each of the institutions surveyed is in its own way committed to promoting FDI in poorer countries, offering a range of additional instruments to advise and support companies in mitigating the risks of this – for instance Canada's Industrial Co-operation Programme, Norway's NORFUND and Investment Support Facilities, the work of what was UK DFID's SRBT and the EIB's Investment Facility. Despite some attention to ethical conduct, these agencies and instruments are overwhelmingly blind to corporate–conflict dynamics. With the exception of the UK SRBT, which has acknowledged the TNCs and Conflict issue in a forthcoming Issues Paper on CSR, they at most articulate a role for business in post-conflict reconstruction (as does the German Development Bank (KfW)). Only Norway, through its NHO, offers guidelines on responsible engagement in conflict zones as part of this work. There is a serious need for these same governments' policy commitment to conflict prevention to be mainstreamed across policymaking to influence the private sector.

Several of the institutions surveyed express a commitment to ensuring that the rules governing the international financial system support developing countries. Given that FDI is promoted as the panacea for development problems, possible linkages to conflict and mitigating strategies need to be thoroughly investigated.

6.4 Convening and facilitating multi-stakeholder dialogue to address TNCs and Conflict or component issues

Dialogue is a key component of conflict prevention and peacebuilding, enabling the construction of shared analysis and improved relationships (International Alert, 1997). The process of establishing multi-stakeholder initiatives through dialogue is thus in some respects an end in and of itself; however these initiatives must remain purposeful in order to avoid frustration on all sides with 'talking shops'.

Governments and other policymaking institutions are key participants in multi-stakeholder dialogue, playing the role of third-party

facilitator or convenor, and lending needed support and institutional backing to an initiative. Several such initiatives have been launched to discuss complex issues of direct relevance to TNCs and Conflict. The role of the UK and US governments, for instance, was key in the development of the Voluntary Principles on Security and Human Rights. With less concrete outputs to date, the OECD DAC CPDN is also attempting to bring together different sectors to help formulate conflict-sensitive development-assistance policy, including involving the private sector. Meanwhile, the EITI is of major significance in mobilising collective action on the need for improved transparency of revenue, recognising that lack of transparency in resource-rich producing countries can fuel conflict.

In the area of CSR, companies are keen to network with other companies and actors in order to share lessons and be informed by best practice. Collective action also helps to undermine the efforts of less scrupulous companies to free-ride on the efforts of others. In this regard, policymaking institutions can play an important role by helping to facilitate company networking, in order to bring businesses together around particular issues that they would not otherwise address. The UN GC is an excellent example of this, offering participating companies a forum for learning, dialogue and outreach, and providing a means for the UN to interface with the private sector in a more structured fashion. Acting bilaterally or in partnership with one other government, each of the governments surveyed have hosted or facilitated useful dialogue events on related TNCs and Conflict themes.[32]

On the ground in conflict-prone zones, local embassies and missions, as well as development agencies and others can all play an important role in advising companies, and facilitating dialogue between companies and other actors. Again, more research, including into case studies and examples, as well as inquiry into the possibility of guidelines that embassy staff could use in structuring this liaison, is required.

A role for embassies

In February 2002, the Canadian embassy in Colombia organised an event, together with the Canada–Colombia Chamber of Commerce, on human rights and ethical investment in Colombia – a follow-up to an earlier event on the same theme held in 1999. The event was part of the embassy's ongoing effort to dialogue with Canadian companies on CSR and its implications in the Colombian context, and brought together representatives of Canadian companies, local business associations, government, diplomatic services, the UN, and NGOs. While the event did not articulate a specific focus on the pitfalls of operating in conflict-prone zones, speakers addressed issues of human rights, environment and security. As a follow-up to this event, the embassy will be supporting a UN GC regional meeting as part of its Dialogue on the Role of the Private Sector in Zones of Conflict, due to take place in Bogotá in 2004.

6.5 Creating enabling environments for conflict-sensitive TNC activity abroad through development assistance

The relationships and agreements that policymaking institutions have with developing country governments can enable them to have an indirect effect on private sector activities. The World Bank, in particular, has played a key role, together with the IMF, in catalysing the globalisation of trade and investment, but all bilateral donors have policy programmes to promote FDI and private sector development through various means.

As discussed above, it is important that these policies begin to take into account the conflict dimensions of trade and foreign investment. Efforts to build up the capacity of developing countries to themselves promote and engage in CSR (of institutions surveyed in this report, the World Bank,

Canada and the UK have taken a lead) are also important (Fox *et al*, 2002). Meanwhile, the promotion of good governance by donor agencies, including public sector reform and sound economic management, has a direct bearing on the kinds of issues discussed in Section 3 of this report, such as lack of transparency in revenue flows, the decentralisation of the economy and corruption. Aid conditionality and economic supervision should be directed at strengthening states' ability to cope with TNC investment, including through building-up finance ministries' capacity, promoting economic diversity and local private sector development, and strengthening the rule of law. International aid can also assist governments and regional organisations to consolidate their own regulation and enforcement mechanisms with regard to natural resource governance, in itself a conflict-prevention measure. The suspension of aid and assistance to rogue or war-mongering governments is also an option.

A whole range of bilateral and multilateral co-operation policy instruments and programmes is relevant here that was not emphasised in the research for this report. With specific regard to transparency of resource revenues at the developing country end, the EITI is clearly again of major significance. The UNDP and others have a role to play here. The Chad–Cameron Pipeline Project has been heralded as an important model for how resource distribution can be managed – through partnership – in ways that can help prevent conflict. Its weaknesses are also an important source of learning.

6.6 Supporting and disseminating research into TNCs and Conflict

Policymaking institutions play an important role in providing financial support to researchers seeking to understand the links between TNCs and Conflict, and economic activity and conflict more broadly. Thorough understanding of the economic factors and dimensions of conflict, and investigation into the ways in which they can be influenced to bring about the transformation of violent conflict, are necessary antecedents to the development of policy in this area. For the last few years the World Bank project on this theme, and the donor-funded work of various NGOs, consultants and academics, as well as the UN Global Compact, have all made significant contributions to the overarching aim of harnessing the private sector's potential contribution to peace. The surveys sought to capture key recent projects being funded by policymaking institutions.

Influencing corporate activity in conflict zones through different instruments is meanwhile dependent on the normative pressure mounted by civil society advocacy campaigns. These have been particularly active over conflict trade issues, and key drivers of both policy and corporate response. States remain the most important actors in terms of legislation and enforcement. Yet civil society groups have played an increasing role in shaping a new generation of instruments and policies defining ethical norms and mixing voluntary compliance, market-based incentives and independent monitoring. In addition to generating further understanding of the issues, support to civil society activity also acts as an indirect policy instrument, through shaping normative environments (Le Billon, 2002).

Policymaking institutions can also play a role in disseminating such research, including to TNCs, in order to assist them in addressing relatively new issues that they are not used to dealing with. Dissemination of research in turn creates networks to foster learning and the development of best practice.

Local and international NGOs: driving the TNCs and Conflict debate

A large number of NGOs are working on issues relevant to TNCs and Conflict – through campaigning on and researching into the activities of companies with regard to relevant issues in conflict-prone zones. These organisations reflect a wide range of perspectives, from local to international; and target audiences from consumers to industry representatives and national governments – and employ an equally wide range of methods to achieve their objectives.

There are numerous local NGOs operating from their community or country perspectives, that lobby TNCs on the ground, and provide testimony of their negative impacts. The Movement for the Survival of the Ogoni People (MOSOP) and the Ijaw Council for Human Rights, for instance, both engage with companies at the community level in the Niger Delta, reporting on the role that oil companies have played in environmental and human rights abuses. The Polé Institute in the DRC has conducted and disseminated research into the role of commodities such as oil and coltan in fuelling conflict in the DRC.

In addition to increasing local capacities to address TNCs and Conflict issues, these and other organisations in conflict countries provide detailed and on-the-ground perspectives that can both bring about positive change and support international advocacy efforts.

International NGOs have used their own and other evidence of negative corporate impacts to execute targeted campaigns aimed at bringing about either disinvestments by companies operating in particular areas, or reform of existing corporate policy. Direct action campaigns, consumer boycotts, litigation, shareholder activism, lobbying of governmental authorities, as well as more discrete engagement and dialogue with companies, have all featured. In addition to documenting human rights abuses in the vicinity of corporate operations, Human Rights Watch (HRW) has several business and human rights campaigns, most notably in oil-producing areas of Africa. HRW also plays a role in relevant international policy dialogue fora. Amnesty International lobbies companies to take into account the human rights impact of all aspects of their operations and to use their legitimate influence to support human rights in all countries in which they operate. Amnesty has also used its field research and investigation experience to engage in policy dialogue, for instance playing a key role in drafting the UN Norms on the Responsibility of TNCs and in the KPCS. The engagement and dialogue approach to help companies live up to human rights standards is also employed by the Human Rights and Business Project of the Danish Institute for Human Rights, which aims to develop concrete achievable human rights standards for companies, and to help companies live up to those standards in practice through training and advisory services. The International Committee of the Red Cross meanwhile seeks to establish strategic partnerships with the private sector in conflict-affected countries that are mutually beneficial, based on clear ethical criteria, initiating a dialogue at headquarters and field levels with the aim of promoting fundamental humanitarian principles that are relevant to companies in such situations.

By highlighting the links between the exploitation of natural resources and human rights abuses, particularly where the resources are used to fund and perpetuate conflict and corruption, NGOs such as Global Witness have initiated public awareness campaigns targeting consumers and shareholders of particular TNCs. Examples of this are the disinvestment campaigns against oil companies in Sudan and Burma, a campaign on 'conflict timber' emanating from Cambodia and more recently from Liberia, and in the 'Fatal Transactions' campaign against the laundering of conflict diamonds through legitimate trade. The Fatal Transactions campaign was orchestrated by a coalition of NGOs led by Global Witness and directly led to the KPCS. The International Peace Academy and FAFO have conducted valuable research into a range of policy instruments that might be relevant for curtailing the negative links between economic activity and conflict.

NGOs that work closer to companies, offering advice on CSR, use engagement with TNCs to improve the ethics of corporate practice. The International Business Leaders Forum offers targeted advice to companies on a range of key issues: corruption, conflict, human rights and development. Business for Social Responsibility (BSR) provides information, tools, training and advisory services to make corporate social responsibility an integral part of business operations and strategies. Engineers against Poverty aims to improve the CSR programmes of engineering services companies through brokering and supporting multi-sector partnerships between the state, private and civil society sectors and by developing innovative pro-poor engineering initiatives. The Fund for Peace convenes roundtable discussion groups of companies, NGOs and others to explore the challenges of operating in complex political environments.

Others focus their energies on lobbying public sector agencies to use their influence to demand improved corporate accountability. The German NGO World Economy, Ecology and Development focuses on engaging governments and the OECD in constructive dialogue with civil society in OECD countries and in countries that are recipients of export finance on issues relating to transparency and social and environmental sustainability. The Halifax Initiative is a Canadian coalition of development, environment, labour, human rights and faith groups, that works through research, education, advocacy and alliance-building to fundamentally transform the international financial system and its institutions to achieve poverty eradication, environmental sustainability and an equitable re-distribution of wealth, including through a focus on improved export credit agency practice. The Publish What You Pay campaign, led by George Soros and representing a coalition of more than 130 NGOs, has raised the importance of transparency of resource-related payments, and aims to help citizens hold their governments accountable for revenue management, encouraging wealthy countries' governments to require extractive TNCs to publish net taxes, fees, royalties, and other payments made. The campaign has led to the British government's launch earlier this year of the EITI.

In the conflict transformation field, some NGOs are beginning to focus on the peacebuilding potential of private sector actors. This includes International Alert's Business and Conflict programme, which aims to promote and catalyse the peacebuilding practice, principles and policies of extractive-sector TNCs and local businesses in partnership with multilateral agencies, governments and NGOs, and includes working with oil majors in Azerbaijan and development of tools to assist companies to be more conflict-sensitive. The Centre for Humanitarian Dialogue has established partnerships with oil companies in Aceh, Indonesia, to promote a cease-fire, and in Burma to monitor human rights abuses. The Swiss Business Humanitarian Forum seeks to develop and co-ordinate specific projects involving the business and humanitarian sectors to achieve sustainable economic development in post-conflict and developing areas. The US-based Institute of Multi-Track Diplomacy (IMTD) develops both theory and practice regarding the role of business in peacebuilding. IMTD has examined the important role that the business community has played in resolving various conflicts, with the idea that these examples if properly documented could act as a catalyst for other business leaders to take a more active role in their own communities.

Although many of these NGOs mobilise much of their funding through public awareness campaigns and membership, most rely to some extent on public sector support.

7 Towards a framework for action

THIS REPORT HAS PROPOSED two overarching policy frameworks as critical to understanding policy responses to TNCs and Conflict: CSR, and conflict prevention. As the survey data indicates, there is evidence that some early linkages are now being made between these two areas. This is encouraging for efforts to move the issue forward; however, given the fundamental commitments made by institutions under each framework, much more needs to be done. The conventional separation of the two frameworks is unhelpful and illogical, with grave implications for their overall effectiveness and for prospects for enhancing the positive impacts of companies operating abroad.

7.1. Mainstreaming conflict prevention to address corporate activity

Conflict resolution or transformation is the process of addressing the complex structural causes of conflict, and working with those concerned to redefine relationships and bring about a change in the conflict context. To this end, relationship-building across sectoral and social divides is key. Conflict transformation practitioners advocate the use of 'multi-track diplomacy' – actors at different levels of society engaging in peacebuilding work (Lederach, 1995). However, the role of the private sector as one such actor has only recently begun to receive attention within the field (Nelson, 2000; Champain, 2002). Similarly, within development-policy circles, despite an overarching commitment to conflict prevention, the twin goals of minimising the harmful impacts of TNCs' operating in conflict zones, and maximising their positive peacebuilding potential, have not yet fully been explored, as the report has shown.

The most advanced linkages between private sector activity and conflict-prevention policymaking emanate from recent interest in the relationship between natural resource exploitation and armed conflict. The focus has been on preventing conflict resources from financing

belligerents, with the UN, the EU, the World Bank, and the Canadian and UK governments playing a lead role among those institutions surveyed by this report, though most institutions surveyed acknowledge these trends in some way. Broader policy reforms on economic diversification and greater access to international markets, commodity price stabilisation, environmentally and socially sound management of resource exploitation, and accountability of resource revenue distribution are also advocated – with the EITI emerging as part of the last of these. (Le Billon, 2002).

The issues around commodities and conflict are far from resolved, and ongoing attention from policymakers and other actors who have played a key role in the emergence of these initiatives is required. Looking beyond the focus on conflict trade however, of the governments and IGOs surveyed, Canada, Sweden and the UK, as well as the OECD-DAC, UNDP, UN GC and the ILO have gone furthest in perceiving linkages between private sector activity and conflict-prevention or peacebuilding policymaking, each mentioning the relationship between corporations and conflict, and their potential to contribute to peacebuilding efforts, in key policy documents. However, even among these leaders, there has been little in the way of follow-up with concrete ideas, recommendations, projects or programmes.

Most of the institutions surveyed have stated commitments to mainstreaming conflict-prevention frameworks across all areas of government.[33] Failure to address in full the implications of this for corporate activity is thus a major weakness in current policy practice.

7.2 CSR in zones of conflict

Explicit efforts to influence the behaviour of TNCs operating in conflict zones, though by no means widespread, are more common than explicit efforts to factor them into peacebuilding. These efforts tend to focus on direct or indirect conflict-feeding dynamics (the two lower strata of the triangle discussed in previous sections). The positive potential of TNCs to contribute to peacebuilding has, so far, received the least attention. Initiatives that have emerged also tend to focus on particular component TNCs and Conflict issues such as transparency (EITI) and security arrangements (Voluntary Principles), on a range of issues, or on particular commodities whose exploitation in certain contexts is associated with violent conflict (such as diamonds, timber and coltan), or the focus is at the level of dialogue and research as in the case of the UN GC.

Beyond these issue- and sector-specific initiatives, there are three basic dimensions to policy to promote socially responsible business abroad, each of which typically fails to factor-in either the need for conflict-sensitivity or the peacebuilding potential of TNCs. The overall effort to promote socially responsible business abroad is severely undermined by this blindspot. These dimensions are:[34]

(i) *Promoting ethical standards and corporate citizenship* (through binding or voluntary regulation; codes of conduct, for application either along supply chains or within specific sectors or companies; labelling initiatives; guidelines for companies on environmental or social issues; dialogue with companies). While a range of codes has relevance to TNCs operating in zones of conflict, as we have seen, none has yet been developed explicitly to guide or regulate company behaviour in conflict zones (with the exception of Norway's NHO Guidelines, which are not a fully developed code). Nor have the impacts of imposing standards on suppliers been analysed from a conflict-sensitive viewpoint. Meanwhile policymaking institutions need to promote greater awareness of the unintended conflict impacts that can accrue from corporate social investment programmes undertaken as part of corporate citizenship.

(ii) *Public-private partnership*. As discussed above, policy drives to harness the potential of the private sector to contribute to meeting development goals through public-private partnership also show no awareness of the conflict risks that can arise from private sector investment in conflict-prone zones, or of the specific peacebuilding potential on offer. The implications for corporate–conflict dynamics have not been fully explored, but urgently need to be.

(iii) *Pro-poor investment*. Engaging the private sector to help meet development goals by promoting investment in less developed countries or otherwise high-risk contexts often include criteria on ethical behaviour, but none offers guidance on challenges that might be encountered in conflict zones, or seeks to understand what the negative impacts might be. Export credit agencies and other lending and support mechanisms typically demand environmental and social impact assessment on projects to be undertaken, but have limited scope for assessing conflict impacts (the exception is Canada's EDC).

Conflict prevention and CSR continue to be thought of as separate spheres of policymaking – a bureaucratic misconception that must be overcome if either is to fulfil its stated goals and ensure that business is a force for peace.

7.3 Conclusions

Policy responses are emerging to the spectrum of corporate–conflict impacts. To date, these have tended to focus on negative dynamics feeding conflict directly or indirectly (the bottom two strata of the triangle). The positive potential of TNCs to contribute to peacebuilding has, so far, received the least attention. Given the gravity of the conflict-feeding impacts, with possible TNC complicity in loss of life and in human rights abuses, this prioritisation is understandable. Efforts to minimise harmful impacts remain at an early stage, and much more work needs to be done on understanding issues of legal accountability and on making existing instruments effective. Meanwhile, the focus of policy responses to TNCs and Conflict also needs to extend to unlocking the peacebuilding potential of companies operating abroad. This is particularly pertinent given that there are significant moves to engage foreign investing companies in meeting development goals as part of a growing CSR agenda, with as yet little thought given to what the implications of this drive might be for corporate–conflict impacts, or to how positive impacts on peacebuilding can be ensured. Conflict prevention and CSR continue to be thought of as separate spheres of policymaking – a bureaucratic misconception that must be overcome if either is to fulfil its stated goals and ensure that business is a force for peace. To achieve impact, the two need to be integrated at both strategic and operational levels.

7.4 Recommendations

Clearly, by virtue of their different mandates, IFIs, multilateral organisations and governments (including their development-assistance departments, trade departments, foreign offices, and local embassies or field offices), are

each more suited to some kinds of responses than others, and have different opportunities available to them for promoting conflict-sensitive business in conflict-prone countries. While specific recommendations for each institution emerged during the research, a deeper process of consultation is required to verify these than has been possible within this report. Below is a generic framework for action, drawn from the surveys, which could enable policymaking institutions from their different vantage points to promote a more conflict-sensitive and peacebuilding role for TNCs:

1) Ensure that institutional commitment to mainstreaming conflict prevention is fulfilled across all policy areas, and that CSR policy frameworks and instruments are cognisant of both their function in conflict-prone zones, and opportunities for promoting greater conflict-sensitivity among TNCs.
   - Appoint a high-level working group to conduct a thorough review of all relevant existing policy instruments and capabilities relating both to CSR and conflict prevention.
   - Engage in dialogue with other policymaking institutions to identify where added value might be, and to ensure complementarity at the global level.
   - Develop clear institutional priorities on coherence between CSR and conflict-prevention frameworks, in consultation with relevant stakeholders.
   - Design strategic and operational frameworks to promote these, including through addressing institutional blockages where they exist.
   - Review best practice as evidenced in other institutions.

2) Influence TNC activity in conflict-prone zones through regulation.
   - Support and ensure implementation of relevant regulatory instruments (see Figure 3 on p.56).

3) Engage TNCs as partners in delivering conflict-prevention targets as part of development policy.
   - Review opportunities for engaging TNCs in support of conflict-prevention policy frameworks.
   - Actively engage companies though dialogue and other mechanisms in supporting conflict-prevention work.
   - Where experience is developing in this area, document, analyse and disseminate learning.
   - Ensure that public-private partnerships for development are both conflict sensitive and cognisant of the peacebuilding potential of TNCs.
   - Ensure that when engaging in partnership, public policy goals are safeguarded from distortion by corporate interest agendas.

4) Influence TNC behaviour in conflict-prone zones through project finance and other forms of support to FDI in developing countries.
   - Develop guidelines for TNCs investing in conflict-prone zones with regard to TNCs and Conflict, and strategies for conflict-sensitivity and peacebuilding.
   - Ensure that all relevant instruments and agencies promote these.
   - Introduce conflict impact assessment as part of export credit and other lending criteria.
   - Require greater transparency regarding operations as a condition for project finance.
   - Promote greater understanding of the links between FDI and conflict.

5) Convene and facilitate multi-stakeholder dialogue to address TNCs and Conflict or component issues.

- Explore opportunities for convening TNCs and other actors to address conflict-prevention and peacebuilding strategies and component issue areas, at both strategic and operational levels in specific conflict-prone country contexts, including at headquarter/ministry; embassy/mission level.

6) Create enabling environments for conflict-sensitive TNC activity abroad through development assistance.

- Develop strategies for enhancing host country environments for conflict-sensitive TNC activity.
- Encourage exporting countries to accept independent experts to monitor for illegal trade in conflict commodities.

7) Support and disseminate research into TNCs and Conflict.

- Dialogue with stakeholders to identify research priorities.
- Develop research into an internal institutional role on TNCs and Conflict, including through existing CSR research programmes, review of internal institutional gaps and opportunities, and collection of existing practice and evidence of institutional activity in this area.
- Support and extend the capacity of existing institutional work in this area.
- Support others' research in this area and proactively engage in dialogue on the practical implications of findings.
- Use convening power to raise the profile of the issue and disseminate research findings.

Endnotes

1. The report confines itself to discussion of TNCs whose headquarters and shareholders are based in the North.

2. CSR is used in this report to refer to the range of overlapping concepts that feature in the debate about the proper relationship between business and society, including socially responsible business, corporate citizenship and ethical business.

3. In the UK, Action Aid, Christian Aid, CAFOD, Oxfam and others spearhead NGO activity around these issues. See Oxfam (2003) *Rigged Rules and Double Standards: Trade, Globalisation and the Fight Against Poverty* (Oxford, UK: Oxfam).

4. Between 1989 and 2000 more than 90% of armed conflicts took place within rather than between states (Wallensteen and Sollenberg, 2001).

5. See BP *National and Regional Review – Southern Caucasus*, 2003; the high level of corporate engagement in the UN Global Compact's 'Dialogue on the Role of the Private Sector in Conflict Zones'; and Goldwyn, R. and J. Switzer (2003) 'Assessments, Communities and Peace – A Critique of Extractive Sector Assessment Tools from a Conflict Sensitive Perspective' (London, UK: International Alert/International Institute for Sustainable Development).

6. There are also industries that directly profit from conflict, such as armaments, private security provision and certain illegal trades. These are not the subject of this report. The impact of different sectors on conflict is an area that needs further research, with the bulk of work to date focusing on extractive industries (see Nelson, 2000 for an initial typology). Those governments that have taken promotion of CSR furthest (for example, the UK through its Department for International Development (DFID)) have developed frameworks for understanding the use of different policy tools in different sectors with regard to business and development. This work could usefully be extended to analysing conflict dimensions. But most policymaking institutions have not approached the issue in such detail, and in recognition of this, a more generalised approach is taken in this report, though where possible sectoral distinctions are highlighted.

7. Interview with International Alert, May 2003.

8. This overview of issues is necessarily generalised, and does not extend to challenges specific to particular business sectors or areas of operation. Nonetheless, the issues highlighted are likely to affect most TNCs, either directly, or indirectly, through supply chains.

9. The 'do no harm' concept is borrowed from recent research into minimising negative impacts of humanitarian aid and other development assistance (Anderson, 1999), and lends itself well to understanding corporate–conflict dynamics (Goldwyn and Switzer, 2003).

10. Figures 1 and 2 are adapted from Nelson, J. (2000) *The Business of Peace: The Private Sector as a Partner in Conflict Prevention and Resolution* (London, UK: International Alert, International Business Leaders Forum and Council on Economic Priorities).

11. Human rights advocates generally assume that human rights violations are a precursor to conflict. Some research demonstrates, however, that as human rights violations increase, the result may be increased government repression, leading to *less* violent conflict – although this is likely to be unsustainable (Meyer, 1996).

12. There are countries with both abundant resources and high growth rates that do not appear to have suffered the resource curse, notably Botswana, Malaysia and Mauritius. They are all very open economies, and have diversified somewhat into manufacturing.

13. Although, as the survey will show, DFID's longer-term commitment to this debate is not clear.

14. Woodrow Wilson International Center for Scholars 2001 conference on the role of foreign assistance in conflict prevention.

15. Kofi Annan in Resolution 28 of the report.

16. Columbite-tantalite — coltan for short — is a dull metallic ore which when refined can hold a high electric charge and is used in manufacturing of computers, cell phones etc.

17. Haufler, V. (ed) (2002) 'The Role of the Private Sector in Zones of Conflict: Case Studies of Multi-Stakeholder Partnership', (New York, USA: UN Global Compact); Bennett, J. (2002) 'The Role of the Private Sector in Zones of Conflict: Conflict Prevention and Revenue-Sharing Regimes', (New York, USA: UN Global Compact); (2002) 'The Role of the Private Sector in Zones of Conflict: A Business Guide to Conflict Impact Assessment and Risk Management', (New York, USA: UN Global Compact); (2002) 'The Role of the Private Sector in Zones of Conflict: Recommendations on Transparency', (New York, USA: UN Global Compact).

18. 'Chad oil pipeline under attack for harming the poor', *The Guardian* (27 September 2002).

19. 'Don't cry for Clare', *The Guardian* (15 May 2003).

20. Inspection Panel, Investigation Report for the Chad–Cameroon Petroleum and Pipeline Project, 2002, paragraph 271.

21. Inspection Panel, Investigation Report for the Chad–Cameroon Petroleum and Pipeline Project, 2002, paragraph 217.

22. The 'Publish What You Pay' campaign also sought to harness this area of regulation to address extractive sector companies' payments to host governments by making it mandatory to report the scale of these companies' investment in all countries of operation as part of listing conditions.

23. The only code with a comparable implementation provision allowing for scrutiny of companies' respect for human rights is the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (Howen and Petrasek, 2000).

24. Others with relevance to TNCs and Conflict include the Global Mining Initiative, the UN Global Compact Nine Principles, and the Global Reporting Initiative.

25. IISD and IIED have just begun some baseline research into voluntary codes of conduct and their relevance to companies operating in conflict zones – sponsored by Canadian DFAIT.

26. Adapted from D. Lilly and P. Le Billon, 'Regulating Business in Zones of Conflict: A Synthesis of Strategies', ODI 2002.

27. See Canada's 'Sustainable Development Strategy 2001–03', the German BMZ's 'Poverty Reduction: A Global Responsibility' (2001), Norway's 'Strategy for Norwegian Support for Private Sector Development in Developing Countries' (1999), Sweden's 'Approach and Organisation of SIDA Support to Private Sector Development' (2001), the UK DFID's 'Promoting International Development through the Private Sector' (2002). Within the UN system, UNDP, the UN GC, UNEP and

the ILO all emphasise partnering with companies to meet UN goals, and the World Bank is placing an increasing emphasis on partnering companies to reach development goals. The EU has placed less emphasis on the private sector in supporting development-policy goals, despite framing its CSR strategy in terms of companies contributing to sustainable development, and its recent 'Communication on the Participation of Non-State Actors in EC Development Policy' (2003) does not focus on the private sector.

28. See Canada's Human Security Programme; Sweden's 'Preventing Violent Conflict: Swedish Policy for the 21st Century'; the UK DFID's 'Targeted Conflict Reduction Strategies and African Conflict Prevention Pool strategy document (2003); the UK DTI's 'Business and Society: CSR' (2002); the ILO IFP-Crisis website; UNDP's 'UNDP and the Business Sector – Working Together to Fight Poverty'; and the UN Secretary-General's 'Report on the Prevention of Armed Conflict' (2001), resolution 28.

29. In fact the incentives for companies to partner with policymaking institutions are more numerous – listed by Business for Social Responsibility to include: achievement of social and environmental objectives, increased access to resources, upgraded access to information and risk management, building of social capital, growing of human capital, improved operational efficiency, organisational innovation, maximised efficacy of products and services, and finally, enhanced reputation and credibility (BSR, 2002).

30. Oxfam (2003), 'Iraq's Reconstruction and the Role of the UN' (Oxford, UK: Oxfam).

31. See Nelson, J. and J. Moberg (2003) 'Rebuilding Bridges: Opportunities and Challenges for Responsible Private Sector Engagement in Iraq's Reconstruction' (London, UK: International Business Leaders Forum).

32. Canada, together with UK DFID, organised a conference on 'Developing Countries and CSR' in 2002. Germany's BMZ together with InWEnt convened high-level policy dialogues on 'Business in Conflict Situations', in 2001, and 'Public Bads: The Economic Dimensions of Conflict' in 2002. In 2001, Norway hosted both a 'Symposium on the Role of the Private Sector in Enhancing Productive Capacity in Least Developed Countries' and the 'Globalisation Project Conference: The Social Dimension of Globalisation'. Sweden's MFA has been running TNCs and Conflict Training Seminars, and in 2002 convened a session on business and conflict, that was facilitated by International Alert. The US and UK role in co-convening the Voluntary Principles on Security and Human Rights Working Group, and the UK lead on the EITI have been significant. The UK also co-convened together with IA a conference on business and conflict in 2000, as well as a roundtable discussion for policymakers from other institutions on the same theme in 2002. The Norwegian KOMpakt is a permanent body whose function is to promote dialogue on relevant CSR issues.

33. It should be noted that international security agendas have been affected dramatically by the 2001 attack on the World Trade Center and subsequent events. The implications of the 'war on terror' for ongoing prioritisation of conflict prevention are not clear, which in turn has implications for public policy attention to TNCs and Conflict. For commitment to mainstreaming conflict prevention see: Canada's DFAIT Human Security Programme; Germany's 'Comprehensive Concept of the Federal Government on Civilian Crisis Prevention, Conflict Resolution and Post-Conflict Peacebuilding' (2000); Sweden's 'Preventing Violent Conflict: Swedish Policy for the 21st Century' (2001); UK DFID's 'Eliminating World Poverty – Making Globalisation Work for the Poor' (2000); the EU's 'Programme for the Prevention of Violent Conflicts' (2001); the World Bank's 'Operational Policy 2.30 Development Co-operation and Conflict' (2001); and the UN Secretary-General's 'Report on the Prevention of Armed Conflict' (2001).

34. This categorisation is distilled from the survey research for this report. Alternative and more developed typologies on public sector roles in CSR are available in Fox *et al* (2002), and DFID (2003).

35. 'Role of the Private Sector in Unstable Areas' in Communication from the Commission on Conflict Prevention 11 May 2001 COM(2001) 211, page 20.

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Annex 1

Surveys of governments' CSR and conflict prevention policy

Canada

Corporate Social Responsibility – key agencies, policy frameworks and instruments

Canada puts a strong international emphasis on CSR, with the Department of Foreign Affairs and International Trade (DFAIT), responsible for Canada's foreign and economic policy, defining it as at the 'intersection of globalisation and human security issues'. There are a number of other departments also working on CSR issues, including the Canadian International Development Agency (CIDA), Natural Resources Canada (NRCan), Environment Canada, Industry Canada and Export Development Canada.

DFAIT's approach to CSR focuses on working in partnership with the private sector and NGOs to promote the reflection of internationally agreed norms and standards in the overseas operations of Canadian companies. Canada sees the OECD Guidelines as an important component of CSR work, and has established a National Contact Point (NCP), which sits across departments within DFAIT, to promote the Guidelines in Canada and contribute to the resolution of problems that may arise. DFAIT promotes a voluntary approach to corporate action. Recently it has sponsored the NGOs IIED and IISD to conduct research into existing voluntary codes of conduct for companies and their relevance to conflict.

CIDA is the official development-assistance agency of the Canadian government. The agency's 'Sustainable Development Strategy for 2001–03' emphasises the value of partnerships between different groups in society, and the important role of the private sector in contributing to sustainable development. CIDA also recently published a consultation paper entitled 'Expanding Opportunities: Framework for Private Sector Development', exploring the leverage points where FDI can support development goals, and is awaiting feedback from outside groups. CIDA has undertaken an internal assessment of its activities on CSR, and in the follow-up on the World Summit on Sustainable Development (WSSD), has been working with other government departments to develop a policy framework for activities related to the private sector and sustainable development.

The Industrial Co-operation Programme (ICP) within CIDA provides financial support and advice to Canadian firms investigating long-term business activities in developing countries. Historically it has promoted CSR and helped to achieve CIDA's mandate by requiring companies to examine how their ventures will have positive impacts on the environments and societies where they seek to work. As yet it has not developed any particular guidelines for operating in conflict-prone zones. Much of CIDA's ICP and NGO funding goes towards supporting initiatives to strengthen capacity for economic development at macro and micro levels. Foreign Investment Advisory Services (FIAS), for instance, to which CIDA contributes, including through working with the International Finance Corporation (IFC) to ensure greater coherence, helps developing and transition country governments design initiatives to attract FDI.

NRCan is working at promoting CSR in the natural resources sector and is making an increasing contribution to sustainable development. NRCan is an active participant in the NCP for the OECD Guidelines. NRCan's Minerals and Metals Sector (MMS) is active in investigating both the social dimension of sustainable development and CSR. This includes publishing a 'Catalogue of Social Practices by the Minerals and Metals Industry', which illustrates practices by Canadian companies; and a background paper on the social dimension of sustainable development as it applies to the minerals and metals industry, which is currently in draft form.

Canada's official export credit agency, Export Development Canada (EDC), is mandated to support and promote Canadian trade and prosperity through providing credit insurance, contract insurance, political-risk insurance, and through financing foreign purchases of Canadian goods and services to companies investing abroad. EDC's 'Code of Business Ethics' defines its commitment to legal and ethical conduct, the environment, human rights and prohibitions against bribery and corruption. Projects will be declined if they are deemed to cause significant environmental effects that cannot be mitigated or justified by the anticipated positive impacts on the host country. EDC is also guided by the human rights policies and practices formulated by the government, and has established a system of information exchange with DFAIT on its Human Country reports. EDC has an advanced understanding of the impacts companies can have on conflict as part of its conceptualisation of political risk, recognising that negative impacts on political violence at both the micro and macro level will in turn increase risk. There has been continuous improvement of its political risk-assessment framework, particularly in the last few years, and EDC has a copyrighted methodology that it uses for this.

Conflict prevention – key agencies, policy frameworks and instruments

The Canadian government places a strong emphasis on the importance of human security and sees both preventing conflict and peacebuilding as 'essential goals'. DFAIT sponsors a number of conflict-prevention initiatives. It has a stated commitment to the role of non-state actors and believes that, while national governments have the primary responsibility for preventing violent conflict, many other actors also have an important supporting role to play, including civil society, the private sector and IGOs.

DFAIT addresses conflict through two central channels: the Canadian Peacebuilding Initiative (launched in 1996 jointly with CIDA) and the Human Security Programme. The Canadian Peacebuilding Initiative aims to assist countries in conflict in their efforts towards peace and stability, and to promote Canadian peacebuilding capacity and participation in international peacebuilding initiatives. The Peacebuilding Initiative consists of the Canadian Peacebuilding Programme, administered by DFAIT, and the Canadian Peacebuilding Fund, administered by CIDA. To date the Initiative has not had any specific focus on the peacebuilding potential of Canadian companies.

CIDA is also host to the Compendium of Operational Frameworks for Peacebuilding and Donor Coordination, which contains operational frameworks and guidelines developed by bilateral and multilateral organisations, and acts as a forum for discussion on various issues.

The Human Security Programme was created in 1995 and addresses conceptual and policy issues around conflict prevention, gender and peacebuilding, children in armed conflicts, and the control of light weapons. Positioned within DFAIT's policy framework on Governance and Accountability, the Human Security Programme also deals with issues surrounding CSR where they impact on human security, recognising a constructive role for the private sector in human rights, democratic development, environmental protection, disaster response, peacebuilding and conflict prevention in the communities where they operate – though what exactly a conflict-prevention role for business might be in practice has not yet been articulated.

CIDA views peacebuilding as an important goal of overseas development assistance (ODA). All of CIDA's departments address conflict to varying degrees. The multilateral programme hosts the Peacebuilding Initiative, the Policy Branch considers conflict prevention through its Human Rights, Democracy and Good Governance initiative and CIDA's Partnerships Branch provides a forum for NGOs, civil society and the private sector to address conflict. CIDA works in partnership with developing countries to strengthen the long-term foundations of peace, human security and sustainable development. These efforts are aimed at building a tradition of conflict avoidance as well as effective institutions of conflict resolution in societies undergoing rapid economic and social change.

CIDA's role in the Peacebuilding Initiative is to manage the Canadian Peacebuilding Fund, which aims to serve as a catalyst that will stimulate local sustainable initiatives.

Projects and programmes relevant to TNCs and Conflict

The Human Security Programme of DFAIT, together with 15 international companies, other governments and the World Bank, supports 'Corporate Options: Constructive Engagement in Conflict Zones,' an initiative of the NGO Collaborative for Development Action.

DFAIT funds the Centre for Innovation in Corporate Responsibility (CICR), whose work has included organising a Business Leaders Workshop for local and international businesses to address ways for businesses to contribute to stability in the Middle East. DFAIT also funds the work of other NGOs researching the links between private sector activity and conflict, including a joint project between International Alert and IISD to develop conflict impact assessment tools for the private sector, and the

new work of IISD and IIED on voluntary codes of conduct in conflict. It was a key supporter of the 1999 International Peace Academy conference on Economic Agendas in Civil Wars, and Partnership Africa Canada's work on conflict diamonds.

Canada has been an active participant in the Kimberly Process, with Canadian Special Representative Robert Fowler playing a pivotal role chairing the UN Security Council committee responsible for implementing sanctions against the Angolan rebel movement UNITA, targeting illicit diamonds and other sources of financial support for their military effort.

Following the Summit of the Americas Conference in Canada in 2001, Canada played a role promoting the Americas Conference on CSR. The conference, whose theme was 'Alliances for Development', took place in Miami in September 2002. CIDA partly sponsored a conference hosted by the Schulich School of Business in June 2003 on Canadian corporations and CSR.

DFAIT supported the development and promotion of the voluntary International Code of Ethics for Canadian Business, which was initiated by Canadian businesses. This Code covers community participation/ multi-stakeholder dialogue, environmental protection, human rights, anti-corruption and anti-bribery, and employee rights. DFAIT organised workshops across the country to promote the Code.

In May 2002, CIDA and the UK Department for International Development co-hosted a roundtable on 'Developing Countries and Corporate Social Responsibility' in Bali, Indonesia. The goal of the roundtable was to contribute to the development of CSR policy and activity, particularly in terms of its impact on the poor in developing countries. The discussion aimed to increase involvement of southern stakeholders, and indirectly to positively influence the official WSSD outcomes, and to be a catalyst for continued dialogue.

CIDA is considering the development of a Background Resource Paper aimed at demonstrating how TNCs in conflict zones have successfully responded to conflict-generated humanitarian crises, and proposing possible pathways forward. It is also exploring the possibility of a training toolkit on CSR and conflict for the use of embassy staff.

CIDA's Multilateral Investment Fund's Small and Medium Enterprise Facility funds the EMPRESA Forum on Socially Responsible and Environmentally Sustainable Business in the Americas, which is leading a pilot project on analysis of CSR activities and practices, training, partnership-building and awareness-raising in the region.

CIDA is also continuing its co-operation with the World Bank on CSR issues, including through the World Bank Trust Fund on Public Sector and CSR.

NRCan's MMS participated actively and financially in the Mining, Minerals and Sustainable Development Project (MMSD), and continues to support and to participate in the work of the International Institute of Sustainable Development on relevant issues. In 2001, MMS also sponsored and assisted in the organisation of several important international roundtables on CSR issues affecting the sector.

Germany

Corporate Social Responsibility – key agencies, policy frameworks and instruments

Together with German missions around the world, the German Federal Foreign Office (AA) works closely with the Federal Ministry of Economics, the German chambers of commerce abroad and the German Office for Foreign Trade to support and advise German companies operating abroad. Although this includes the expansion of German businesses into developing countries, the German government does not offer any specific directives to companies on conflict issues.

The Federal Ministry for Economic Co-operation and Development (BMZ) is the central government ministry dealing with development, and BMZ promotes private sector development and social responsibility in German companies as a means of alleviating poverty. Germany also seeks to support the interests of developing countries in multilateral fora such as the WTO and the EU, in discussions of environmental and social standards with German companies, and through voluntary commitments to codes of conduct for the private sector, such as the UN GC. There is a nationwide roundtable on codes of conduct, mainly focused on manufacturing industries and labelling. BMZ has no work on guidelines for companies operating in conflict zones.

BMZ's Programme of Action 2015, 'Poverty Reduction: a Global Responsibility' (2001) argues that poverty and violence can be mutually enforcing. Poverty reduction must entail creating a climate where the private sector can flourish, and harnessing the potential of the private sector is essential for poverty reduction. However, there is no clear link made between the private sector and the role it can play in conflict or conflict prevention.

The government is increasingly using public-private partnerships (PPPs) to link the needs of development co-operation with corporate interests and expertise. BMZ set up a special PPP facility in 1999 and more than 800 new PPP projects have been launched since then. In future, all development projects are to be examined to identify opportunities for PPP. No specific attention to the uses of PPPs in conflict-prone zones has yet been paid though there is initial interest in exploring options. There has been no attempt to draw lessons from PPPs in conflict-prone zones to date, however.

BMZ works with the German Investment and Development Company (DEG), to carry out its projects. DEG is a subsidiary of the German Development Bank (KfW Group) and focuses on financing private companies in developing and transition economies. KfW places an emphasis on conflict and promotes financing investment for community building, post-conflict reconstruction, and peacebuilding. It seeks to design projects that promote dialogue between conflicting parties, and while it does not explore or analyse the role that the private sector can play in conflict and conflict prevention, its linking of investment and peacebuilding, and efforts to promote projects in this regard are important. KfW also has a private sector participation (PSP) programme that examines whether and when the private sector can be involved in a development project.

DEG only takes on projects that meet criteria related to environmental standards, development goals and social responsibility. The last criterion includes a focus on commitment to uphold human rights, ILO and other international standards, supporting certification to international standards; and discussion of CSR.

The Ministry for Economy and Labour (BMWA) works with German industry to promote CSR. BMWA houses the OECD National Contact Point – though no cases against German companies have been brought to date. The ministry promotes the OECD Guidelines through its export credit programme, Hermes Burgschaften (it provides a brochure on export credits that includes four lines mentioning the Guidelines and directs readers to the ministry website where a German language version is available for download). The ministry does not, however, require corporations to acknowledge receipt or acceptance of the Guidelines. Hermes has been heavily criticised by NGOs for its slow introduction of social and environmental criteria into its lending. While guidelines were adopted in 2001, these are non-binding and not very transparent, and include no methodology for understanding the impact of projects on conflict.

The government also recently passed legislation requiring that its pension funds report on the social and environmental aspects of their investments as well as the financial performance.

Conflict prevention – key agencies, policy frameworks and instruments

The AA promotes a culture of conflict prevention and dialogue, and peace and conflict research receive significant support, with the Policy Planning Staff currently setting a very high priority on conflict-prevention activities. German foreign policy is marked by its emphasis on multilateral action, and is embedded within EU policy and support to the UN. Its approach to conflict is outlined in the 'Comprehensive Concept of the Federal Government on Civilian Crisis Prevention, Conflict Resolution and Post-Conflict Peacebuilding' (2000). The Concept calls for crisis prevention strategy to be co-ordinated at the national and international levels, to include a role for non-state actors, and to be informed by a commitment to long-term action, including poverty reduction and democratisation.

There is a Directorate-General for the United Nations, Human Rights, Humanitarian Aid and Global Issues within the AA. It focuses on the intersection of different tasks of the government, such as conflict prevention, peace-keeping, the fight against poverty, human rights protection, the conservation of natural resources, and combating international crime, as well as humanitarian aid abroad, for example in the wake of natural disasters or during conflicts. The Directorate-General's policy statements assert the importance of co-operation to advance respect for human rights, social justice, sustainable development and democracy – and refer to the business community in this context.

BMZ has devoted increased attention to crisis prevention since the mid-1990s, with two main objectives: eradicating the structural causes of

violent conflicts by improving economic, social, ecological and political conditions in partner countries; and establishing mechanisms of non-violent conflict management. BMZ believes that economic globalisation is occurring more quickly than political globalisation, and therefore fostering democracy and political stability must be a focus for conflict-prevention strategies.

In an attempt to mainstream conflict prevention throughout its activities, BMZ has added a new set of 'crisis indicators' to its analytical tools for its annual country-by-country programme planning, as an early warning instrument. It is also in the process of developing Peace and Conflict Impact Assessment tools. The newly created Civil Peace Service is a specially tailored development instrument for reconciliation and mediation in partner countries. Through training provided by the Civil Peace Service, BMZ is deploying 'peace experts' to regions in conflict to bring all parties to the discussion table, provide support to victims of war and help achieve reconciliation. 'All parties' has not to date included private sector actors however. BMZ's Principles of Intervention emphasise a 'Do No Harm' approach, and state that although it is necessary to take risks when trying to manage conflict, the concept should always prevail. However mainstreaming of this principle is at an early stage.

BMZ's Country Concept is an important planning, management and steering instrument for its country-specific work and forms the basis for implementation of BMZ's development-policy objectives. Different ministries, implementing agencies and NGOs are involved in the design of these objectives. As yet, the contribution of the private sector to peacebuilding has not been factored into them.

BMZ's policy framework for assistance to Africa, African Challenge, recognises that raw materials such as diamonds and oil can often be used to fuel conflict and prolong crises, but it does not follow through to look at managing these trends, or at broader issues of business and conflict.

The Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) is a government-owned corporation for international co-operation. GTZ's work encompasses not only the dissemination of technical knowledge, but also the transfer of organisational and business-related know-how. A commitment to promoting sustainable development guides the organisation's work, including through an emphasis on the need to involve stakeholders and local organisations in planning and decision-making. GTZ works primarily with BMZ, but also with other government departments and international clients. The corporation has been one of the leading organisations in addressing conflict management and technical co-operation in crisis prevention, and has produced substantial research in the area. In order to increase awareness of the connection between development co-operation and conflict, and to enhance the potential of development co-operation in this field, GTZ has a Crisis Prevention and Conflict Transformation Programme. Funded by BMZ, the programme's main focus is on developing concepts and instruments for crisis prevention, conflict transformation and peacebuilding and on applying these to development co-operation, with the aim of institutionalising it. The programme aims to raise awareness of the link between development co-operation and conflict, and to boost the potential of development co-operation in this sphere.

GTZ uses conflict impact assessments that attempt to identify all the intended and unintended impacts of technical co-operation measures on the dynamics of conflict and peacebuilding processes. This instrument plays an important role before, during and after the implementation of assistance measures.

GTZ has produced a number of strategy papers including 'Guidelines on Conflict Analysis for Project Planning and Management' (2001) and 'Guidelines on Conflict Impact Assessment for Development Projects' (2001).

Projects and programmes relevant to TNCs and Conflict

The BMZ Caucasus Initiative supports a tri-country co-operative approach to preventing conflict between Armenia, Georgia and Azerbaijan. BMZ Central Asia Concept aims to address conflict and promote co-operation in Kazakhstan, Khyrgistan, Uzbekistan and Tajikistan, and eventually Turkmenistan. Both recognise an important role for the private sector in the post-conflict reconstruction process but this does not acknowledge the wider links between TNCs and conflict, and is confined to stimulating economic growth as a means of poverty reduction.

BMZ supports the work and is a member of FriEnt, a group of seven German government agencies, NGOs and networks that exchange experiences on their work in the field of crisis prevention and conflict management. The aim is to deepen their knowledge about successful ways of using development policy to further peace, and to create the opportunity for closer co-ordination and consultation between the members of the working group. FriEnt has done important analytical work on war economies, and BMZ also supports other research into commodities and conflict topics by NGOs, as well as the corporate-engagement project of Collaborative for Development Action.

BMZ, along with a number of other government ministries, supports the work of Capacity-Building Germany/ InWEnt, which, during 2001 and 2002, organised two high-level conferences on business and conflict: 'Business in Conflict Situations', and 'Public Bads: The Economic Dimensions of Conflict', reflecting an incipient interest in furthering this issue. The Ministry for Environment is sponsoring a conference on a related theme to take place in October 2003.

GTZ has produced important research into the field of crisis prevention, including 'Peacebuilding, Crisis Prevention and Conflict Management: Technical Co-operation in the Context of Crises, Conflicts and Disasters', (2002) and 'Crisis Prevention and Conflict Management in Technical Co-operation' (2000). It has also produced country studies on Nepal, Malawi, Bosnia-Herzegovina and Uganda, as well as subject-related studies on strengthening peace constituencies, developing education and youth focus on crisis prevention, and gender mainstreaming in crisis prevention. GTZ also implements a number of the PPP projects that are adopted through BMZ. GTZ is currently implementing around 50 CSR projects, but with no focus on their impacts in conflict-prone zones.

Norway

Corporate Social Responsibility – key agencies, policy frameworks and instruments

The Ministry of Foreign Affairs (MFA) is responsible for formulating aid policy and strategies for co-operation with individual countries, and has primary responsibility for the conduct of companies operating overseas.

The Ministry of Trade and Industry is working on creating a framework to enable Norwegian industry, the business community and the SMEs to be innovative and competitive within the 'global knowledge economy'. Generally the Ministry of Trade and Industry is not heavily involved in international aspects of CSR, although it does participate in the Norwegian Consultative Body on Human Rights and Norwegian Economic Involvement Abroad (KOMpakt) (see projects and programmes) and is responsible for follow-up to OECD work on corruption. The ministry also works with Norwegian companies on ethics, hosting a seminar on 'Ethics in Boardrooms' in 2002.

The Ministry of Finance (FIN) is responsible for economic policy and the regulations governing the government Petroleum Fund and the National Insurance Scheme Fund. It hosts the National Contact Point for the OECD Guidelines.

Other ministries are also involved in aspects of the CSR agenda, such as the Ministry for the Environment, which has engaged on the timber issue.

In 1999, the government adopted a 'Strategy for Norwegian Support for Private Sector Development in Developing Countries', recognising business's important role in reducing poverty through job and income creation, and calling for approaches to supporting private sector development in developing countries. The Strategy outlines a number of alternative ideas for support to the private sector at the local level – including through addressing legal, institutional and political framework conditions – and a separate secretariat with responsibility for development issues is being established in the Norwegian Confederation of Business and Industry (NHO), in an effort to promote partnerships between the Norwegian private sector, NGOs, governmental authorities and local business. However, no attention has been paid to the role of Norwegian companies in conflict zones under the Strategy.

The Norwegian Investment Fund for Developing Countries (NORFUND) is a government-supported company that acts as an instrument to assist the government's promotion of private sector expansion into developing countries. NORFUND has a number of programmes that offer to share the risk of such expansion with Norwegian companies. The projects the fund supports are intended to have a positive local development impact, through employment creation and adherence to international environmental and social standards, but there are no guidelines or analysis within NORFUND to address the impact of investment on conflict, or the potential contribution of companies to peacebuilding.

The Norwegian Agency for Development Co-operation (NORAD) encourages Norwegian firms to pursue investment opportunities in developing countries through its Investment Support Facilities. These

support feasibility studies, joint ventures, training and investing in basic infrastructure – again in an effort to lower risks. New guidelines for the facilities are being developed in consultation with the MFA, but while there has been discussion about linking these to the KOMpakt, there has not been any interest in including guidelines for operating in conflict zones.

Revenue from Norway's petroleum activities is transferred to the Petroleum Fund, which is intended to function as a reserve for future expenditures and is not earmarked for any specific purpose. The fund is invested abroad, managed by Norges Bank according to guidelines developed by FIN. The main objective is to invest the capital in such a way that the fund's international purchasing power is maximised, taking into account an acceptable level of risk. An Environmental Fund was established on 31 January 2001, with NKr1 billion of capital, rising to NKr2 billion in 2002. The Environmental Fund invests only in shares in companies that satisfy certain environmental criteria.

Conflict prevention – key agencies, policy frameworks and instruments

Norway aims to play a lead role in developing an integrated approach that encompasses humanitarian assistance, peace and reconciliation, and development. Conflict prevention and the consolidation of fragile peace processes have high priority.

Within the MFA there is a Minister for Foreign Affairs and a Minister of International Development. Norwegian development co-operation is articulated in the strategy of NORAD (the government agency that facilitates and co-ordinates implementation of development co-operation) for 2002–05. 'NORAD Invests in the Future', aims to focus on: social development; economic development; peace, democracy and human rights; environment and natural resource management; humanitarian assistance in the event of conflicts and natural disasters; and women and gender equality. All development co-operation must help combat poverty. Partners in and beneficiaries of development co-operation are first and foremost the central government and local authorities, as well as civil society, and the business sector.

Norway places an emphasis on integrating human rights into all policy areas, co-operating closely with national and international NGOs. The MFA's White Paper No.21, 'Focus on Human Dignity: A Plan of Action for Human Rights' (2000), asserts the importance of human rights to Norwegian foreign policy, laying the foundation for an increasing focus on human rights internationally.

In 2002, in response to the Millennium Development Goals, the government adopted an 'Action Plan for Combating Poverty in the South towards 2015', committing Norway to increasing development assistance to 1% of gross national income by 2005, but with an emphasis also on more equitable trade and debt-relief systems. The Action Plan recognises the importance of peacebuilding and conflict prevention, and the opportunities presented for economic development in post-conflict environments, though this aspect is not prioritised.

NORAD's Handbook on Human Rights Assessment (2001) aims to help identify the impacts/effects on human rights of NORAD's projects and programmes. It is a basic guide on human-rights impact analysis, but does not include conflict analysis or impact assessment guidelines.

The MFA supports the work of a range of research institutes and NGOs working on conflict-related issues. Of particular note, it funds the Norwegian Institute for Applied Social Science (FAFO), which, through its Programme for International Co-operation and Conflict Resolution (PICCR), has an important Economic Agendas in Conflict project, as well as the International Peace Research Institute (PRIO). It also supports the work of the International Peace Academy in this area, the UN GC, the International Peace Research Institute and work at the World Bank.

Projects and programmes relevant to TNCs and Conflict

The MFA has a well-developed business and human rights programme, KOMpakt. Since 1998, KOMpakt has been an important forum for dialogue between the leading industrial and commercial associations, trade union organisations, human rights and aid organisations, research institutions and government agencies. Its mandate is to focus on the commercial aspects of the connection between human rights and economic involvement abroad. KOMpakt is charged with considering measures to promote experience gained on the incorporation of human rights considerations into business strategies, and assessing problem areas and possible approaches towards economic involvement in countries in which violations of human rights occur. It has three Working Groups – focusing respectively on normative issues and the relationship of Norwegian policy to international fora and standards; business aspects and company experience; and political dimensions.

KOMpakt, headed by the NHO, acknowledges that business enterprises have an ethical responsibility not only for what they should avoid, but also for positive action.

In 2000, NHO presented KOMpakt with a booklet 'Socially Responsible Companies: What? Why? How?' which serves as a practical tool for businesses interested in corporate social responsibility. It has also produced a handbook, 'Business and Human Rights' that sets out some of the dilemmas facing Norwegian companies, and includes nuanced discussion of the need to assess the overall contribution of commercial presences, both positive and negative, in a given country, as well as an action checklist, the 'NHO Human Rights Checklist'. Building on this work, in February 2003 it published a report on 'Responsible Engagement in Zones of Conflict', including a checklist for companies interested in devising their own strategies for dealing with conflict.

Importantly, at an early stage of preparing for its presidency of the UN Security Council in 2002, the government considered making 'Economic Agendas in Armed Conflict' a focus theme. Ultimately it was decided to abandon this idea and focus on the administrative function of the presidency, though Norway did organise a side event with members of the Security Council and research community on this issue.

The 'Business Opportunities' website, linked to NORAD's website, provides an information service for Norwegian and foreign companies interested in contributing to programmes and projects financed or co-financed by NORAD. It includes information on tender notices, contract awards and private sector development-support schemes, through service provision etc.

A 'Matchmaking Programme' has been set up to encourage sustainable and profitable joint ventures between Norwegian companies and companies in South Africa, Sri Lanka and India – however the links between TNCs and Conflict are not explored through this.

As part of the MFA's Partnership for Development focus, it hosted a 'Symposium on the Role of the Private Sector in Enhancing Productive Capacity in Least Developed Countries' in January 2001.

Norway has played a pivotal role in the Sri Lankan peace process and has actively engaged Sri Lankan private sector partners as part of this.

In 2001, the MFA, in co-operation with other ministries, initiated a 'Globalisation Project' to examine key issues related to the globalisation process. The government believes that globalisation has yielded sizeable welfare benefits, but it also poses significant challenges. The project has commissioned studies from research institutions on different aspects of globalisation, and has organised a number of conferences, including one on the social dimension of globalisation, related to labour standards, the work of the ILO, and CSR. A broad-based 'Dialogue Forum' has been appointed, with about 80 members drawn from NGOs, trade unions, business organisations, the private sector and the academic community. A White Paper on this, no. 19, was presented to parliament in March 2003.

Sweden

Corporate Social Responsibility – key agencies, policy frameworks and instruments

CSR is an area of growing policy interest to the Swedish government. In 2002, the Department for International Trade Policy within the Ministry of Foreign Affairs (MFA) launched the Swedish Partnership for Global Responsibility, with the purpose of promoting constructive co-operation between the government, the business sector and other sectors of society. Its aims centre on promoting human rights and labour rights, combating corruption, and improving social and economic conditions, as well as on boosting the competitiveness of participating companies. The initiative is designed to raise awareness among Swedish companies of CSR issues – specifically, their possible commitments under the OECD Guidelines, and the UN GC – and to prompt action in relation to these commitments. The principal responsibility for the initiative rests with the MFA, but in close co-operation with the Ministry of Industry, Employment and Communications, and the Ministry of the Environment.

Sweden, like many EU countries, has a large public constituency that favours responsible business. To date the Swedish government has done little to ensure that all Swedish firms act responsibly everywhere they operate, though it is now proactively promoting the OECD Guidelines as a tool. Sweden's National Contact Point (NCP) convenes three to four times a year. Since 2000, it has translated the OECD Guidelines into Swedish,

hosted a seminar, developed a web-page and published an introductory handbook. In February 2003, two instances of corporate misconduct were brought to the NCP's attention, leading to an intensification of its activity. In response to the UN Panel Report on the Illegal Exploitation of Natural Resources and Other Forms of Wealth in the DRC, the NCP wrote a letter to a Swedish company asking for more information about its involvement in that country.

The MFA Department for Export Promotion and Internal Market (EIM) is responsible for trade development and promotion, including through export credit guarantees. The Swedish Export Credit Guarantee Board provides all its customers with information on rules on bribery, the OECD Guidelines and the Swedish Partnership for Global Responsibility. In the OECD Working Party on Export Credit and Export Credit Guarantees, Sweden recently proposed that members should ensure that Export Credit Agencies inform clients about the OECD Guidelines.

The Swedish International Development Agency (SIDA) is the Swedish government's central agency dealing with international development issues, and administers two-thirds of development co-operation financing from the government, with the other third administered by the MFA. SIDA has a Private Sector Development Division in the Department for Infrastructure and Economic Co-operation (INEC). Private sector development (PSD) is considered one of the factors necessary to reduce poverty, described as such in 'Approach and Organisation of SIDA support to Private Sector Development' (2001), which also provides a conceptual framework for best practice in providing PSD support in developing countries. The objectives of SIDA's support to PSD are creating conditions for sustainable companies, and facilitating the internationalisation of private sector companies. The need for conflict-sensitivity on the part of foreign investors, and the potential peacebuilding role for business is not, however, examined as part of SIDA's approach to PSD, despite the agency's commitment to conflict prevention, although it does recognise the economic causes of many conflicts.

Conflict prevention – key agencies, policy frameworks and instruments

The Swedish government began a study of conflict prevention within the MFA in 1996–97, leading to the 1999 'Swedish Action Plan on Prevention of Violent Conflict', co-ordinated by the MFA Policy Planning Group. Its aim was to encourage new attitudes in diplomacy, international and peace-promoting activities and development co-operation, based on a shift in focus from late stages of crises to early warning. Conflict prevention was declared from this time to be an integral part of Swedish foreign and security policy. A steering group and a secretariat for conflict prevention was created in the MFA to realise the Action Plan. Included in the five major goals of the Action Plan is identification of structural risk factors including economic stagnation and inequitable distribution of resources. The fifth goal, to strengthen Sweden's capacity for international conflict prevention in various policy areas, includes trade. However there is no explicit identification of the private sector as a key actor in conflict prevention.

Swedish thinking on conflict prevention is articulated further in a 2000–01 government communication 'Preventing Violent Conflict: Swedish Policy for the 21st Century', which informs the Swedish parliament on implementation of the Action Plan, and where conflict prevention is identified as a priority area for Swedish foreign policy. International economic co-operation through trade and investment is again recognised as a key feature of promoting conflict prevention. More specifically, one of the stated priorities for the Swedish government for the near future is 'to develop the potential of trade and investment as instruments of conflict prevention, *inter alia* by collaborating with the business community'. Meanwhile, the economic agendas fuelling some civil conflicts are recognised and discussed, and Sweden's contribution to strengthening international efforts to control trade in illicit commodities is also identified as a priority for the near future.

There are a number of policy instruments identified for use in conflict prevention that come from different policy areas within the Swedish system, and the 2001 document calls for a coherent strategy in employing these. These instruments include structural and direct conflict-prevention instruments (for example, those strengthening protection of social and economic human rights; supporting reform and development of various sectors of society; support for the development of democratic institutions; and measures to promote respect for international law and human rights) as well as targeted economic and financial sanctions (freezing assets abroad), and short-term humanitarian assistance. Unarmed observers of armed forces are examples of direct instruments in the stability and physical-security area. None of the conflict-prevention policy instruments identified from the different policy areas are presented in such a way as to make explicit reference to the role the private sector might play in introducing or sustaining them.

Conflict prevention is central to SIDA's objectives, as outlined in 'Perspectives on Poverty' (2002). The policy paper draws a strong link between the incidence of poverty and armed conflict, and recognises the role that an inequitable distribution of resources (including natural resources) can play in triggering conflict. SIDA's support for conflict-resolution activities is guided by its 'Strategy for Conflict Management and Peacebuilding' (1999). Other SIDA strategies play a major contributory role, including strategies in respect of individual countries and the 'Action Programme for Peacebuilding, Democracy, and Human Rights' (1998). In 2000, SIDA made an assessment of lessons learnt about its support to conflict management and the peacebuilding process, in order to apply them to new strategies. A report is in the pipeline.

Swedish humanitarian assistance focuses on alleviating the consequences of natural disasters and armed conflicts. Priorities are given to countries that lack resources of their own to deal with conflict. SIDA has a Humanitarian Assistance and Conflict Management department. It channels much of its humanitarian assistance work through Swedish NGOs and agencies, international organisations and UN bodies; Swedish companies are not brought into the process.

Projects and programmes relevant to TNCs and Conflict

The Swedish government is interested in furthering understanding of the links between the private sector and conflict, and this has been demonstrated recently. In addition to supporting conflict-prevention research, for instance that undertaken by the Stockholm International Peace Research Institute and the International Institute for Democracy and Electoral Assistance, the Swedish MFA is a key supporter of the International Peace Academy project on the economic agendas of civil war. In May 2002, International Alert was invited to run a training seminar introducing the issue to MFA and other government and SIDA staff, as well as to Swedish companies.

During 2002, the secretariat of the Swedish Partnership for Global Responsibility held working seminars on specific issues with participants from the business sector, trade unions, NGOs and public administration. The seminar themes varied but were relevant to developing understanding on TNCs and Conflict, including Business in Humanitarian Situations, CSR in Developing Countries and Business and Labour Standards. While the Partnership initiative is still new, there is interest among project staff in learning more about the role of companies in conflict zones.

The National Board of Trade has produced a study on the connections between trade and conflict prevention, and has plans to set up a project group of representatives of different ministries, agencies and others to further improve understanding and to frame Swedish policy in this area. Its main goals are to establish a conflict-prevention dimension to EU trade policy and to strengthen co-operation on this with the business community. The National Board of Trade has also been a supporter of the OECD Guidelines and has sent out a questionnaire to companies about these.

UK

Corporate Social Responsibility – key agencies, policy frameworks and instruments

The UK Foreign and Commonwealth Office (FCO) promotes corporate citizenship as a means to secure the future prosperity and global presence of UK business, as well as supporting peace and stability and enhanced quality of life worldwide, including promoting human rights. The FCO set up a Global Citizenship Unit in 1998 to work to support international corporate citizenship initiatives. This was subsequently renamed the Corporate Citizenship Unit, and its strategy paper 'Corporate Citizenship: Helping Make Globalisation Work' (2000) calls for its work to be mainstreamed across government.

In order to promote corporate citizenship, the FCO – in conjunction with Trade Partners UK, a trade promotion body run jointly by the FCO and the Department for Trade and Industry (DTI) – has adopted a range of instruments, including advising companies on issues such as human rights; encouraging other governments to promote corporate citizenship; promoting international guidelines and standards on corporate behaviour; working with business and NGOs on specific issues, such as security arrangements; and facilitating dialogue between business, local NGOs and

host governments. The UK embassy and high commission network overseas has an information disseminating and actor-convening role, with Commercial Officers attached to these providing a contact point for companies.

The DTI is the central government agency dealing with businesses and private sector activity in the UK. A key area of work is promotion of corporate social responsibility standards and practice among British business. The post of Minister for CSR was created in 2000. 'Business and Society: CSR' (2002), surveys the government's actions to promote CSR to date, and sets out key policies for the future. The report is largely framed in terms of UK-focused CSR, but it does include a short section on 'CSR and Globalisation' where reference to conflict as an issue of concern to business is made in passing.

Following the 2000 revision of the OECD Guidelines, the DTI became the first government ministry among the OECD countries to produce a publication promoting the Guidelines. The DTI booklet was designed to raise awareness of the Guidelines and encourage their use amongst UK inward and outward investors, including through explaining the function of the National Contact Point – although beyond this, follow-up to promoting the Guidelines has been limited.

The Commonwealth Development Corporation (CDC) is a UK government instrument for investing directly in commercial activities in poor countries. The 1999 Commonwealth Development Corporation Act made the CDC a public limited company, a partnership between government and the private sector. CDC Group plc has investment requirements to ensure the majority of funds are used for pro-poor development (70% of funds go to poorer countries, and, in any five-year period, 50% of investments should be in sub-Saharan Africa and South Asia). However the CDC offers no guidelines to investors on conflict.

The Department for International Development (DFID) is the UK government department responsible for promoting development and reducing poverty. DFID considers the private sector, provided it acts in a socially responsible manner, should be the main driving force behind pro-poor economic growth. The department's 2000 White Paper 'Eliminating World Poverty – Making Globalisation Work for the World's Poor' calls on UK companies investing abroad to adhere to the revised OECD Guidelines for Multinational Enterprises. DFID has also produced an Issue Paper entitled 'Promoting International Development through the Private Sector' (2002), which focuses on: the role of FDI in development; the role of the private sector in making globalisation work more effectively for poor people; and the need to encourage more socially-responsible business.

The Private Sector Policy Department (PSPD) was established within DFID to provide its development goals with focus and direction. The department's work included: encouraging CSR in domestic and international companies; strengthening the international financial system; and assisting poor countries to develop policy to attract investment. Within the PSPD, the Socially Responsible Business Team (SRBT) was set up in 2001 to work on issues relating to CSR in developing countries, taking the leading role within DFID on issues such as ethical trading, codes of conduct, tri-sector partnerships, business and conflict, socially responsible investment, the UN GC and the OECD Guidelines for Multinational Enterprises. It had no work on specific conflict issues. The PSPD was dismantled in April 2003 under a Policy Division Reorganisation, leaving a Private Sector Initiatives Department and an Investment Climate and Competition Team, but no overarching body to co-ordinate this work, and leaving the important CSR work under the SRBT to be absorbed across different departments. A soon-to-be-published *Issues Paper* on 'DFID and CSR' includes discussion of business and conflict. But overall there is uncertainty as to the future of CSR as a priority for DFID, which does not bode well for its promotion of TNCs and Conflict.

The Labour government commitment on coming to power to modernise company law, recognising its potential in relation to CSR objectives, led to an independent review, whose final report was published in July 2001. A Modernising Company Law Bill was subsequently drafted, however a large coalition of NGOs were disappointed with the scope of the bill, and launched a campaign putting forward an alternative, the Corporate Responsibility (CORE) Bill, demanding mandatory reporting on ethical issues, which the NGOs plan to bring before parliament.

The Export Credit Guarantee Department (ECGD) is the UK's official export credit agency, reporting to the Secretary of State for Trade and Industry but outside the DTI. The ECGD helps UK manufacturers and investors trade overseas by providing insurance and/or finance to protect them against non-payment and by underwriting finance packages to support the sale of capital goods and/or overseas projects. Since 1991, the ECGD has used a risk-assessment regime that screens applications for environmental, social or human rights impacts. This 'Impact Questionnaire' asks for information on the potential social and environmental impacts of investments, security arrangements, and discriminatory practices. The ECGD is currently undertaking a public consultation on impact analysis, including on a draft new impact questionnaire, and a discussion of whether the ECGD should publish information on projects under consideration. Projects are categorised according to high, medium or low potential impact on the environment, health and safety, and social and/or human rights, and the ECGD will decline support if adverse impacts are high. Conflict prevention is not part of the ECGD's mandate, although sustainable development, human rights and governance have become so under the newly created 'Business Principles'. The ECGD also promotes full implementation of the OECD Anti-Bribery Convention.

Conflict prevention – key agencies, policy frameworks and instruments

DFID sees violence as a major obstacle to development, and thus seeks to integrate conflict reduction into country, regional and global programmes. This is explicit in both DFID White Papers, 'Eliminating World Poverty – A Challenge for the 21st Century' (1997) and 'Eliminating World Poverty – Making Globalisation Work for the World's Poor' (2000).

Within DFID, the Conflict and Humanitarian Affairs Department (CHAD) aims to maintain an overview of policy, and provide advice and support on a range of conflict-related issues, actors and policy developments. It provides back-up to DFID's regional departments. CHAD has identified 'targeted conflict-reduction strategies' – including: promotion of social cohesiveness and inclusion (one aspect of which is encouraging international business to behave responsibly in conflict situations as well as promoting dialogue and co-operation); improvement of international mechanisms for settling disputes and preventing conflict; limitation of the means of waging war; security sector reform; protection of human rights; and support to post-conflict peacebuilding.

Funding partners' work in the field of conflict prevention is clearly a key instrument for achieving UK foreign policy and development-assistance objectives. CHAD, the Global Conflict Prevention Pool and the African Conflict Prevention Pool (both chaired by the FCO but using the pooled resources of the FCO, DFID and the Ministry of Defence), have combined resources of £206m for the period 2001–04. Reference to the role of the private sector in conflict is only made in passing in the Global Pool, however the Africa Pool is in the final stages of developing its strategy, 'Tackling the Economic Causes of Conflict' (2003), which explores the links between conflict and resource exploitation and other economic factors, and includes recognition of the positive role that private sector actors could play in conflict prevention.

As part of its effort to sensitise development-assistance programmes to conflict, DFID has developed 'Conflict Assessments' that map conflict and responses to it, and seek to assist development of conflict-reduction strategies. The methodology has been influential among other donors, and incorporates recognition of economic drivers in conflict.

Projects and programmes relevant to TNCs and Conflict

The FCO has played a key role since 2000, together with the US State Department, as convenor in the development of the Voluntary Principles on Security and Human Rights – a key policy response to TNCs and Conflict. It also publishes and widely disseminates an 'Annual Report on Human Rights', which includes sections on both conflict prevention and corporate social responsibility (however these are two quite separate areas in the report).

Following the WSSD in Johannesburg in September 2002, the UK government, through DFID, has also taken the lead on co-ordinating the Extractive Industries Transparency Initiative. This important process could have major ramifications for the impact of foreign direct investment on potential and existing conflict levels.

The PSPD supported the work of the World Bank's Business Partnership for Development, which has deepened understanding of tools for promoting socially responsible business, including in conflict-prone zones (though with no specific focus on this).

The SRBT supported the Business Links Asia programme, which operates to bring concerted action by ethically minded multinationals to transfer skills and technology to local small and medium-sized enterprises. It has provided technical assistance to the leather industry in

Indonesia, for example. SRBT also supported the Resource Centre for the Social Dimensions of Business Practice, as well as the Ethical Trading Initiative, an alliance of companies, NGOs and trades unions working to improve labour standards in supply chains, using a 'base code', rooted in the ILO standards – though with no focus or position on these processes in conflict zones.

In 2000, the FCO Corporate Citizenship Unit began work developing a Manual on Global Citizenship, and as part of this began to look at the potential impact of responsible businesses in the area of conflict prevention, conflict resolution and post-conflict rehabilitation. However this project seems to have ground to halt.

Also in 2000, DFID co-funded a conference on 'Business and Conflict', in collaboration with International Alert, the Prince of Wales Business Leaders Forum and the Council on Economic Priorities, with the objective of starting a more open debate on what the government could and should be doing with and for the corporate sector in this area, and developing a partnership with business. In July 2002, DFID also hosted a roundtable discussion of key policymakers interested in pushing the business and conflict-prevention agenda forward. In May 2002, DFID co-hosted a roundtable discussion on developing countries and CSR with the Canadian CIDA.

USA

Corporate Social Responsibility – key agencies, policy frameworks and instruments

The US Department of State is the diplomatic arm of the US and the lead government agency dealing with foreign affairs. This includes a focus on promoting CSR related activity, through encouraging corporations to respect human rights, fight corruption, promote the rule of law and good governance, and engage in philanthropy. The Department provides funding for public-private partnerships, recognises achievements by corporations (for instance with the annual Award for Corporate Excellence), facilitates dialogue, and upholds international standards. The US Secretary of State and Assistant Secretary of State have made public statements at the WSSD in Johannesburg and elsewhere, on the critical role of public-private partnerships in development.

The State Department is made up of a number of Under Secretaries, who each take responsibility for implementing various government policies. Four of the six Under Secretaries have a focus on international human rights, CSR, and/or economic development.

The Political Affairs Under Secretary is responsible for integrating political, economic, global, and security issues into US bilateral and multilateral relationships. There are six geographically defined bureaux and one functional bureau that report to this Under Secretary. The geographic bureaux co-ordinate the conduct of bilateral US foreign relations, and the Bureau of International Organisation Affairs engages in multilateral diplomacy, developing and implementing the policies of the government within the UN and other IGOs.

The Under Secretary for Arms Control and International Security houses the Bureau of Political-Military Affairs. This bureau is host to the Office of Contingency Planning and Peacekeeping (OCPP), which co-ordinates the preparation of interagency political-military plans and supervises the State Department's Enhanced International Peacekeeping Capabilities (EIPC) programme. This programme is designed to train peacekeepers for international missions.

The Bureau of Political-Military Affairs is also host to the Office of Mine Action Initiatives and Partnerships (PM/MAIP). It strengthens internal mechanisms for mine action, co-ordinates the development of public-private partnerships, and advances de-mining technologies.

The Global Affairs Under Secretary houses the Bureau of Democracy, Human Rights and Labour (DRL). The DRL is committed to supporting and promoting democracy programmes throughout the world and oversees initiatives and policies to promote and strengthen democratic institutions, civil society and respect for human and worker rights. The DRL ensures that human rights and labour conditions in foreign countries are taken into account in the US policymaking process. In support of these efforts, it prepares and submits to Congress annual reports on human rights practices and religious freedom in countries around the world. As the nation's primary democracy advocate, DRL is responsible for overseeing the Human Rights and Democracy Fund (HRDF), which was established in 1998 to address human rights and emergencies. DRL uses resources from the HRDF, as well as those allocated to Regional Democracy Funds, to support democratisation programmes around the world.

In 2000, the DRL, in collaboration with the UK FCO, developed the Voluntary Principles on Security and Human Rights. The Principles are meant as guidelines for corporations that need to provide security for their employees and installations in zones of violent conflict. They advocate the use of risk assessment, and establish guidelines for how companies should interact with public security forces and private security forces. The principles were written with the participation of extractive industry executives, labour unions and NGO representatives.

The Under Secretary for Economic, Business and Agricultural Affairs serves as the senior economic official at the Department of State. The Under Secretary advises the Secretary of State on international economic policy and leads the work of the State Department on issues including trade and bilateral relations with America's economic partners. It formulates and carries out foreign economic policy, interacting with US firms and investors. It is the main agency dealing with international trade agreements, and provides assistance to US companies operating in foreign markets, seeking to ensure that US business sector interests are in line with and incorporated into foreign policy. It also promotes the OECD Guidelines and administers the US National Contact Point. It is the agency responsible for encouraging US firms to abide by the guidelines, and for mediating disputes about corporate behaviour that may be in violation. The State Department has also appointed a Special Negotiator for Conflict Diamonds, within the Bureau of Economic and Business Affairs.

The Export Import Bank and the Overseas Private Investment Corporation have been under pressure on CSR issues, but as yet have not done much.

The US has in the past implemented two key legal instruments that have come to play an important role in emerging policy responses to TNCs and Conflict. These are the Alien Tort Claims Act of 1789, which grants jurisdiction to US Federal Courts over 'any civil action by an alien for a tort only, committed in violation of the law of nations or a treaty of the United States', and the Foreign Corrupt Practices Act of 1977. The Alien Tort Claims Act has been used to sue global corporations that are deemed to have committed human rights abuses within their foreign operations. Exxon, Rio Tinto, Royal Dutch/Shell, ChevronTexaco, Coca-Cola, Talisman, The Gap and Unocal are among the defendants in pending cases related to human rights abuses. The use of the Alien Torts Claims Act is an important instrument for the United States to exercise its international power to further the case for better understanding of the links between TNCs and Conflict, however there are concerns that its wide use at the moment at the instigation of human rights activists could lead to its being challenged by Congress in the near future.

The Foreign Corrupt Practices Act prohibits corrupt payments to foreign officials for the purpose of obtaining or keeping business. The Department of Justice is the chief enforcement agency, with a co-ordinate role being played by the Securities and Exchange Commission (SEC). As a result of SEC investigations in the mid-1970s, over 400 US companies admitted making questionable or illegal payments to foreign government officials and politicians. Congress enacted the FCPA in an effort to bring a halt to this bribery and to restore public confidence in the integrity of American business. The Act has had a significant impact on how American firms do business internationally, and led to US support for the OECD Convention on Combating Bribery of Foreign Public Officials which was signed in 1997, in order to secure a level playing field in this area.

USAID

The United States Agency for International Development (USAID) is an independent agency that receives general direction and foreign policy guidance from the Secretary of State in order to deliver bilateral aid. USAID has taken a strong stance in favour of public-private alliances, and established a new office to promote and develop them throughout the organisation.

The Global Development Alliance (GDA) is a new initiative within USAID based on a business-oriented model. It is based on the realisation that non-state actors are now important participants in the donor community. The GDA intends to foster partnerships between USAID and other actors to achieve a number of goals, including leveraging private financing of development assistance and advocacy by the private sector. The GDA wants to match USAID projects and goals with core business goals. The GDA does not directly manage programmes but works with those units that do within USAID. GDA will seek to build public-private alliances for economic growth, trade and agriculture; global health; and democracy, conflict and humanitarian assistance.

The GDA has published *Tools for Alliance Builders* for USAID staff who are planning new alliances, including steps for due diligence in selecting partners. These are meant to provide a framework for assuring that all partners have the same or compatible goals; that contracts contain appropriate exit clauses, responding to Congressional concern about corporate 'welfare' and corporate interests distorting development objectives.

GDA is working with British Petroleum, DFID and Indonesian partners to work out how best to manage the income that will be generated from a BP gas plant in Papua New Guinea, so as to make community development and poverty reduction more sustainable. The GDA has also put out requests for proposals for public-private alliances in their Annual Programme Statement that require a focus on critical development sectors, including conflict.

The GDA Incentive Fund will support high profile public-private alliances. A number of new alliances have been formed, and existing ones re-cast. Most have focused on economic development and environmental issues. However, there is also the Civil-Military Partnership, which aims to foster civil-military relations appropriate to a democracy. USAID partners with the Democratic Institute for International Affairs, the Center of for Civil–Military Relations of the Naval Postgraduate School, and regional institutes abroad. The West Africa Gas Pipeline alliance involves four countries in West Africa, and is designed to facilitate collaboration among neighbouring countries, diversification and regionalisation of their economies. USAID aims to enhance the capacity of governments in negotiating a pipeline agreement with the gas pipeline project team headed by Chevron. The GDA is also working in Nigeria on a community development/conflict prevention project. It is also working on water scarcity issues in alliance with Hilton Hotels and NGOs. The GDA website includes a list of USAID/GDA activity.

Conflict prevention – key agencies, policy frameworks and instruments

Issues of war and peace are addressed through the Department of Defence, Department of State, and the National Security Council. The State Department has the primary responsibility for conflict prevention, though this is not particularly well advanced as a policy framework. Conflict prevention activities generally are addressed country by country and not in an overarching set of policies. The State Department pursues conflict prevention through traditional diplomacy, implementation of sanctions, distribution of foreign aid through Economic Support Funds (ESF), and technical assistance. Within its 'Generic Political Military Plan' (2001), the Department does recognise the need to understand what role the international private sector plays in local conflict, but there is no discussion of how this sector can engage in conflict prevention or peacebuilding.

The government also established a State Failure Task Force, which has done a lot of work on seeking to anticipate instability and conflict.

The US provides funds for a variety of programmes directed at specific regions and conflict related issues. For example, the Africa Peacekeeping Operations Fund promotes regional peacekeeping, conflict prevention and resolution and sanctions enforcement. The Africa Regional Stability Fund promotes democratic transition, conflict resolution and the ability of the US military to operate in the region and build African capacity to deal with crises. The focus is on military issues, HIV/ AIDS, support for peace plans, etc. For countries in transition, the Department of State funds the Education and Democracy Initiative to promote citizen participation, information and communications technology, and partnership with World Bank and other donors, and universities. The Great Lakes Justice Initiative works for good governance and anti-corruption, and targets funds to NGOs and grassroots groups. The African Crisis Response Initiative (ACRI) seeks to help African nations to respond to humanitarian crises and peacekeeping missions in their region.

In fiscal year 2002, USAID responded to 75 disasters in 60 countries – 50 natural disasters, and 25 complex or human-caused emergencies. USAID seeks to address the root causes of these humanitarian crises by helping to create transparent, accountable systems of governance, and through a focus on conflict-prevention activities.

USAID has been interested in the use of foreign assistance in conflict prevention for a few years now, and sponsored a conference with the Woodrow Wilson International Centre for Scholars on the role of foreign assistance in conflict prevention in January 2001. Its current strategy includes enhanced collaboration and co-ordination with other governmental and nongovernmental aid providers (including businesses), and a bottom-up approach that involves local actors. It believes that by working with private sector companies and other non-traditional players, US foreign assistance will have a much larger impact.

The Office of Transition Initiatives (OTI) deals with countries that are undergoing political and economic transformation, often linked to conflict. The OTI has focused on citizen security, including reintegration of ex-combatants, mine action, and dealing with internally displaced persons. The OTI also supports democratic political processes, through transparency, civil society development, and civil-military relations. The OTI was deeply involved in the KPCS and helped draft significant reports on the issue.

USAID's Bureau for Africa's Office of Sustainable Development, Crisis Mitigation and Recovery Unit hosts ConflictWeb, an online resource and information centre, designed for use by organisations and individuals involved in conflict prevention, mitigation, and management; humanitarian assistance; and conflict resolution, recovery, and post-conflict reconstruction (transition towards a sustainable, secure and durable peace). ConflictWeb seeks to provide the development practitioner with an entry point into the field of conflict.

USAID's Regional Economic Development Services Office for Eastern and Southern Africa (REDSO/ESA) has launched the Conflict Pilot Activity Fund (CPAF) and the Conflict Quick Response Fund (CQUICK) to support facilitative activities in conflict prevention, mitigation and response in cross border areas in the Horn of Africa and the Great Lakes Region. CPAF supports pilot activities that have the potential to produce lessons that can be applicable in other regions. Such activities are limited to 24 months and $250,000 per activity or project, although requests in the region of $100,000 are favoured. CQUICK supports activities requiring urgent response to a conflict or potential conflict situation. Typically a CQUICK project can be a meeting, workshop, mission, or conference. Activities are limited to six months and up to $50,000 per activity or project.

USAID recently established the Bureau of Democracy, Conflict and Humanitarian Assistance. Within this bureau there are two new offices: the office of Democracy and Good Governance (DG) and an office for Conflict Mitigation and Management (CMM). The DG aims to strengthen democracy and good governance worldwide through promoting a variety of political and institutional reforms, and capacity-building across strategic areas. CMM was founded based on the recognition of an increasing lack of capacity of states globally to deal with problems that are potential causes of conflict and instability. In response, this new initiative aims to structure its programmes and external relationships to deal more effectively with this problem. The CMM will arrange technical assistance and other field support for USAID missions with conflict management and mitigation programmes; fund research and development on conflict prevention, mitigation and resolution in developing countries; and organise training on the subject for USAID staff and implementing partners.

CMM analyses how to better understand conflict. Their FY 2003 funding initiatives include a focus on natural resources that illicitly generate finance to fuel conflicts, and identification of means for deciding the allocation of resources and revenue such as from oil in conflict countries.

Efforts developed and implemented by DCHA/CMM are expected to involve continued close co-ordination with the US foreign affairs community, particularly the State Department, and an increased number of alliances with entities such as the US Institute for Peace, the Department of Defence, indigenous religious institutions dedicated to conflict prevention and resolution, and other NGOs. DCHA/CMM is to cultivate co-ordination of policy, promote greater information sharing, increase co-ordination, and avoid duplication of efforts and resources for programmes dealing with conflict.

Annex 2

Surveys of inter-governmental organisations' CSR and conflict prevention policy

European Union

Corporate Social Responsibility – key agencies, policy frameworks and instruments

DG (Directorate General) Employment and Social Affairs is the central commission agency dealing with CSR issues, although CSR is also considered within other DGs, particularly DG Trade and DG Environment. The Commission Communication 'CSR: A Business Contribution to Sustainable Development' (2002), forms the basis for the European Strategy on CSR. The strategy is designed to complement and promote existing initiatives by companies themselves and by other organisations such as the OECD and UN.

The Communication is the result of a public debate launched by the Commission's Green Paper in 2001 entitled 'Promoting a European Framework for Corporate Social Responsibility'. Both the Green Paper and the Communication are unequivocal that CSR must be a voluntary initiative, defined as voluntary social and environmental business practices, linked to their core activities, that go beyond companies' existing legal obligations.

A resolution on the Commission's CSR Green Paper, passed by the parliament in 2002, requested that the EC Communication make specific proposals on business and conflict prevention: applying conflict diamonds certification, extending the Voluntary Security Principles, and creating a legally binding framework with sanctions for companies contributing to conflict. These recommendations were not reflected in the final Communication.

The Communication laid the foundation for the European Multistakeholder Forum on CSR, a platform to promote transparency and convergence of CSR policies throughout EU institutions. The Forum, launched in October 2002, will run until mid-2004, when a report will be presented to the Commission, containing results and recommendations for further action. Chaired by the Commission, it brings together European representatives of employers, business networks, trade unions and NGOs, and is a deliberate step to engage with the private sector in developing EU frameworks. It includes roundtables on a number of sub-themes. Despite some lobbying from NGOs to include the role of companies in conflict zones as one of these themes, there will not be a roundtable on this issue, though there is an opportunity for it to be addressed in the work of the Sub-Group on the International Dimensions of CSR.

The EC approved the creation of an EU-wide accreditation standard for socially responsible investment in 2003. The standards will be developed along the lines of a 14-point code launched in 2002 by the Dutch Association of Investors for Sustainable Development. The Paris-based European Sustainable and Responsible Investment Forum (Eurosif) is responsible for drawing up the standards. The standards are being promoted as a response to concerns that the socially responsible investment sector is taking too light an approach towards practical implementation of international voluntary codes of conduct, and this accreditation mechanism could partially address the problem, but no mention of investing in conflict zones is included.

DG Development is a major player in the Cotonou Agreement. This trade, aid and political treaty between the EU and 77 African, Caribbean and Pacific (ACP) states came into force on 1 April 2003, after being ratified by all 15 member states of the EU. For the next five years, the agreement is worth €16 billion and focuses on reducing poverty, preventing violent conflicts and improving governance in these countries. One part of the Agreement now states that respect for human rights, democratic principles and the rule of law become essential elements of the Agreement. This means that ACP countries that do not fulfil these criteria risk the withdrawal of allocated funds. To encourage trade, Cotonou will employ Economic Partnership Agreements (EPAs) as the framework for relations between the EU and the ACP. The EPAs are partnership agreements to support free trade and development, but focus more on bilateral partnerships than on partnerships with the private sector. Despite the emphasis on conflict prevention within the Agreement, little work has been done to assess the impacts of foreign investment on conflict.

One instrument, in particular, that could be used for promotion of responsible private sector engagement in conflict countries is the EU–ACP Partnership Programme for the Promotion of Investment and Technology Flows (PROINVEST). The overall objective of the programme is to increase investment in the ACP regions, leading to economic growth, job creation and the strengthening of the private sector. Specifically, the programme seeks to promote investment and inter-enterprise co-operation agreements (ICAs) in key sectors (eg, agro-industry, tourism, mining, light engineering, building materials, etc), including strengthening the role of the Investment Promotion Agencies (IPAs) and intermediary private organisations in the ACP Regions. PROINVEST is a new initiative and does not yet address the specificities of investing in conflict zones.

DG Trade frames discussion of CSR within its Multilateral Issues programme. It has no programmes related specifically to conflict countries, and is not leading on the CSR process within the Commission, though it is part of the CSR Multistakeholder Forum and generally supportive of further use of the voluntary CSR initiatives mentioned above. There is opportunity for DG Trade to do more in the TNCs and Conflict debate. It organises multi-stakeholder seminars on Sustainable Impact Assessment (SIA) of trade agreements as part of its trade policymaking process. DG Trade is trying to work closely with the 60 private companies that make up 'CSR Europe', the leading business network on CSR in Europe, to integrate their experiences in developing countries covered by SIAs into the consultation process. This mechanism could be expanded to incorporate conflict impact assessment dimensions of trade agreements. The Trade and Investment Programme within DG Trade has expressed an interest in CSR issues, although not within a conflict context. The 2001 Overview of the Trade and Investment Programme focused on FDI and related positive and negative impacts. The Overview supported the launch of negotiations intended to set up a coherent basic framework of multilateral rules on FDI as part of the next WTO multilateral trade negotiations. No focus on FDI and conflict is included but logically it could be. The Commission's drive for regulation of FDI has been a major part of the WTO Doha trade agreement negotiations.

The task of the European Investment Bank (EIB), the EU's financing institution, is to contribute towards the integration, balanced development and economic and social cohesion of member states. The EIB's principal task is to fund investment within the EU, but it also operates in more than 120 countries in the EU's framework of external co-operation and development. The EIB will channel €3.9 billion to ACP countries in 2003–07, providing long-term capital investment for private sector development. While commercial interests are key for the EIB, it must appraise potential projects in terms of environmental impact (there are formal protocols within the community directives on this) and social impacts (though there are no formal protocols on this). Its investments have to be in support of countries' poverty-reduction strategy papers, and closely co-ordinate with country-support and regional strategies. Its lending should attach greater significance to TNCs and Conflict.

The EIB's new Investment Facility is an autonomous unit, specifically oriented towards international development. The Investment Facility will attempt to promote investment in least developed countries, and in those committed to economic reform and post-conflict adjustment. Priorities are set by the Country and Regional Support Strategies of the Commission, with the aim of risk sharing. Guidelines have been produced, outlining operational principles applicable throughout the project cycle. At the appraisal stage, these include: consistency with the country/regional support strategy, financial viability and sustainable development, including economic, social and environmental issues. Within this 'social sustainability' the appraisal will cover issues of discrimination, child abuse, resettlement, and mitigating transmissible disease (among other things). The Investment Facility was created under the framework of the Cotonou Agreement in June 2000. It has prioritised the development of the private sector in its central objective of poverty reduction. It seeks to support both local enterprises and FDI, with special emphasis on the development of the local financial sector, particularly capacity-building and technology transfer, and public or private public-infrastructure projects.

The EU has not yet placed an emphasis on the role that private sector actors could play in supporting development-policy goals. In its recent 'Communication on the Participation of Non-State Actors in EC Development Policy' (2003), the role of the private sector envisaged by the EU is not fully addressed, nor is there clarity on the different types of private sector actor concerned.

Conflict prevention – key agencies, policy frameworks and instruments

The EU is one of the leading international bodies affirming the importance of an enhanced capacity for peacebuilding and conflict prevention, and has been engaged in a process of developing policy frameworks and institutional capacity to deal with the increase in violent conflicts in the post-cold war period since the 1990s. The EU has made a number of commitments to prioritising the prevention of violent conflict and has developed a series of key policy statements and institutional changes, based on recognition of the linkages between development, poverty and conflict, and the role of development co-operation in conflict prevention. Conflict prevention has been recognised as a central aim for both foreign and development policy, with the Common Foreign and Security Policy (CFSP) being the most significant EU instrument for conflict prevention at the political level – in addition to other measures at its disposal such as external assistance, diplomacy, human rights policy, trade policy, humanitarian aid, and social and environmental policies.

Key EU policy statements related to conflict prevention include the 'Programme for the Prevention of Violent Conflicts' (2001), the 'Communication from the Commission on Conflict Prevention' (2001), the 'Cotonou ACP–EU Aid and Trade Partnership Agreement' (2000), and the 'Communication on the Participation of Non-State Actors in EC Development Policy' (2002). DG Relex is the focal point for addressing conflict issues, through its Conflict Prevention and Conflict Management Programme. The establishment of the Conflict Prevention Unit (CPU) and Policy Planning and Early Warning Unit (PPEWU) in 1999 were important institutional developments for taking EU conflict-prevention work forward. Increasingly, country and regional strategy papers have been informed by conflict analysis and conflict impact assessment, and early warning tools and civilian personnel for crisis management have been developed.

The 2001 'Communication on Conflict Prevention', reviews main instruments in the field and puts forward recommendations for specific actions. The four main objectives of the Communication are:

i) making more co-ordinated use of EU instruments to get at the root causes of conflict;
ii) targeting specific causes of conflict (including 'cross-cutting' issues such as the drugs trade, small arms, natural resources, human trafficking and private sector activity in unstable countries. The Commission intends to consider all of these issues by bringing forward concrete proposals for consideration within the appropriate international bodies (ie, the UN, G8, and OECD);
iii) improving EU capacity to react quickly to nascent conflicts; and
iv) promoting international co-operation with all the EU's partners (NGOs, UN, G8, OECD, etc). The role of the private sector in unstable areas is explicitly referred to in the Communication, and the link is made to the EU actively promoting OECD Guidelines for Multinational Enterprises.[35] However no specific projects, programmes or policies are envisaged to address the issue further.

The key instruments for ensuring an integrated approach to conflict prevention within the EC are the Country Strategy Papers (CSP). The main focus of these is on development assistance, with CSPs written with the object of promoting development co-operation as the vehicle to sensitise development to conflict. The Commission is in the process of reviewing its CSPs from a conflict-prevention angle, using conflict indicators to look at issues such as ethnic composition, political and economic power, natural resources and the control of security forces. To this end, DG Relex has produced a 'Checklist of Root Causes of Conflict', which includes several areas that relate to TNCs and Conflict: collusion between private sector and civil service, income dependency on a limited number of sectors, and management of natural resources. However these are not explored more fully. These conflict indicators are being produced by the Conflict Prevention Network (CPN), a network of academic institutions, NGOs and independent experts active in the field of conflict prevention, supported by the Commission. The tool is used for analysing the impact of development initiatives.

Following up on the 2001 Communication, the Commission published a report in March 2002, outlining what activities had been undertaken to meet its goals. With particular reference to the strategy to tackle 'cross-cutting issues' that may create tensions or conflict, the Commission has supported a number of projects. Of particular note, DG Relex has played an active role in the Kimberley Process, and prepared a Council Regulation implementing the Certification Scheme throughout the EU. The June 2002 Presidency Report on the implementation of the programme emphasises the need to combine all the policies and instruments at the EU's disposal to prevent conflict, including trade policy and the use of CSR initiatives and agreements. Research into the options for preparing a communication on the timber trade and conflict is also underway, led by DG Relex and DG Environment, though as yet it is unclear where this will lead.

Organisation for Economic Co-operation and Development (OECD)

Corporate Social Responsibility – key agencies, policy frameworks and instruments

The OECD plays a prominent role in debates about good corporate governance. The private sector features prominently in the organisation's work as a result of its basic emphasis on economic growth. The OECD has worked for decades on seeking to influence the activities of MNEs through its member governments. This has included developing policy instruments to guide corporations, and research on CSR generally. Much of this work is co-ordinated by the Directorate of Financial, Fiscal and Enterprise Affairs (DAF). Areas such as human rights, contribution to local economic development, and impact assessment have been explored. From early 2002, the links between MNEs and situations of violent conflict began to be explored – primarily in response to enquiries from members about foreign investments in Burma.

The 'Declaration and Decision on International Investment and Multinational Enterprises' (1977), revised in 2000, is of key importance in debates about TNCs and Conflict, in particular the Guidelines for Multinational Enterprises, which were substantially revised in 2001 in a process involving diverse experts from within the OECD, as well as representatives from the private sector and civil society. Despite the introduction of more material on human rights and transparency into the OECD Guidelines in the last revision, a common criticism is that this remains thin on detail – and also omits specific mention of conflict prevention as a responsibility of companies. The Guidelines are non-binding recommendations to enterprises, made by the 30 member governments and six others (Argentina, Brazil, Chile, Estonia, Lithuania and Slovenia). They constitute a set of voluntary rules of conduct – including information disclosure, employment and industrial relations, human rights, environment, combating bribery, competition, taxation, and science and technology – whose implementation is encouraged and facilitated by OECD members through National Contact Points (NCP).

In 2002, the Working Party on the Declaration developed a Background Paper on 'Multinational Enterprises in Situations of Violent Conflict and Widespread Human Rights Abuses'. It focuses on extractive industries, and on the two issue areas of security management and safeguarding local populations in the immediate vicinity of a company's operations, and also on the role that MNEs can play in the broader context of civil strife. The final version of the note will be published as a paper by the OECD Secretariat. Meanwhile, as part of the Guidelines' implementation procedure, there is significant activity at the national level, examining the conduct of companies operating in particular conflict zones.

The significance of combating bribery and promoting transparent business operations as a contribution to conflict prevention is considerable, and although these links have not specifically been highlighted, the OECD's work on combating corruption is important in this regard. Again this is in large part spearheaded by DAF, and it addresses both the role of private companies in bribing public officials abroad, and internal corporate governance issues.

The 'Convention on Combating Bribery of Foreign Public Officials in International Business Transactions' (1997) is widely viewed by the anti-corruption movement as a landmark document in its attempt to criminalise international bribery. It makes bribery of foreign public officials by company representatives illegal (as it already is in all member states domestically) with penalties that are determined in accordance with members' domestic law. Implementation by members is still ongoing, and the OECD is involved in a second phase of monitoring this. No mention of conflict prevention is included in the Convention's text.

The 'Principles of Corporate Governance' (1999) are a set of non-binding corporate governance standards and guidelines, and stand as a reference point for countries' efforts to evaluate and improve legal, institutional and regulatory frameworks for company operations. They deal with shareholder rights, transparency and roles for boards and members, and aim to encourage transparent and open corporate cultures.

Links between the private banking sector and the illegal arms trade are

highlighted in OECD research and recommendations on money-laundering, and through its support of the Financial Action Task Force (FATF) – an inter-governmental body originally set up by the G7 in 1989). That the traditional secrecy of private banking has provided an outlet for profits from corruption, arms smuggling and other illegal trade – as well as conflict – is now widely recognised.

Conflict prevention – key agencies, policy frameworks and instruments

The OECD's Development Assistance Committee (DAC), is the principal body through which the OECD deals with issues relating to co-operation with developing countries, and it addresses a range of issues relevant to conflict prevention, which began to take a prominent position in thinking about development within the OECD in the mid-1990s. Good governance, capacity development, conflict and peace work is undertaken by the DAC Network on Good Governance and Capacity Development (GOVNET) and the Network on Conflict, Peace and Development Co-operation (CPDC Net).

The DAC began recently to address the role of the private sector in conflict, and business and conflict was identified as a specific part of CPDC Net's 2001–02 programme of work. In addition, an important process of reviewing relevant OECD policy frameworks, initiated by CPDC Net, is planned, in order to identify what position the OECD can take on the issue as a whole.

At present, the only specific policy instrument that directly addresses business and conflict is the DAC 'Guidelines on Helping Prevent Violent Conflict' (2001). A supplement to the 'Guidelines on Conflict, Peace and Development Co-operation on the Threshold of the 21st Century' (1997), this document provides ways for donor governments to honour their commitment to conflict prevention as an integral part of the quest to reduce poverty. The Guidelines cover key issues – including working with TNCs as partners in conflict prevention and grappling with the political economy of war – as well as: security, development and dealing with small arms; regional co-operation; peace processes, justice and reconciliation; and engaging in partnerships for peace. They identify concrete opportunities for donor assistance in support of peace that include: democratisation; inter-community relations; education and cross-cultural training; human rights training; freedom and access to information; the reintegration of uprooted populations; the demobilisation of former combatants; landmine clearing; and the restoration of a capacity for economic management.

United Nations

Corporate Social Responsibility – key agencies, policy frameworks and instruments

UN Global Compact (UN GC)

The UN GC was launched at the initiative of Secretary-General Kofi Annan, and explicitly seeks to promote partnership with the business community in promoting 'corporate citizenship in the world economy', or supporting the principles of the UN, specifically: the Universal Declaration of Human Rights, the Fundamental Principles and Rights at Work of the International Labour Organisation (ILO), and the Earth Summit Agenda 21, that are synthesised in the UN GC Nine Principles. The UN GC supports the expansion of markets worldwide, but with attention to the downside of globalisation, and the need to pay attention to the world's poorest. Companies that wish to participate must make the GC and its principles part of business strategy and operations; publicly advocate the GC; and, through annual reports and other outreach materials, describe ways in which they are supporting the GC and its principles. It is, however, a voluntary code, and not enforceable, operating on a leadership model that aims to bring a critical mass of companies on board. It deliberately seeks to foster co-ordination and partnership among UN agencies themselves, specifically the ILO, the UN Human Rights Commission, the UN Environment Programme (UNEP), the UN Development Programme (UNDP), and others.

An important instrument of the UN GC is its convening of high-level 'dialogues'. These action-oriented meetings seek constructively to engage representatives of business, NGOs, the UN system and others to discuss issues and to try to find 'innovative solutions' to the topical challenges of globalisation. Another is the promotion of learning – through its Learning Forum website and events, where companies are invited to share case studies of action in support of the principles.

Significantly, the first dialogue, running during 2000–01, was the 'Dialogue on The Role of the Private Sector in Zones of Conflict', the main aim of which was to stimulate new efforts by business to engage in conflict-prevention activities. This led to identification by participants of key issues relevant to companies operating in conflict areas: transparency, revenue sharing, multi-stakeholder dialogue and conflict impact assessment tools

United Nations Conference on Trade and Development (UNCTAD)

UNCTAD is the focal point within the UN for matters related to FDI and international trade, geared towards 'promoting development-friendly integration of developing countries in the world economy'. UNCTAD conducts research, data collection and analysis of trends (including on TNCs), is a forum for inter-governmental discussions, and provides technical assistance to developing countries. The Ministerial Conference of UNCTAD meets every four years to discuss issues relating to trade and development – the next meeting will be in Brazil, in 2004.

The UNCTAD Division for Investment, Technology and Enterprise Development (DITE) is responsible for research and policy analysis on international investment. It is in charge of producing the 'World Investment Report' annual series, FDI information databases, the 'World Investment Directory' series, the 'TNCs Journal' (the basic objective of which is to publish articles and research notes that provide insights into the economic, legal, social and cultural impacts of TNCs in an increasingly global economy, and the policy implications that arise) and analytical studies on various subjects, including foreign portfolio investment and insurance.

DITE also hosts the Inter-governmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). ISAR was created in 1982 and is the only inter-governmental group devoted to accounting and auditing corporate issues. Its mandate is: to make a positive contribution to standard-setting at the national and regional level; to take appropriate action to ensure the comparability of disclosure by TNCs; to serve as an international body for the consideration of issues of accounting and reporting falling within the scope of the work of the Commission; and to report to the Commission on TNCs (now the Commission on Investment, Technology and Related Financial Issues) on further steps to be taken in pursuit of the long-term objectives of the international harmonisation of accounting and reporting.

DITE also implements an Advisory Service on Investment and Training (ASIT). The ASIT programme is designed to help developing countries to increase their capacity to attract and facilitate foreign investment, in reviewing their investment policies and in enhancing the positive impact of FDI. Based on international best practice, this is to be achieved by building the capacity of such countries to formulate appropriate investment policies, to put in place an enabling legal and regulatory framework and to establish and maintain an effective institutional support structure with the ability to promote and facilitate foreign investment. ASIT provides training directly through workshops to trainers, government officials including representatives of IPAs and diplomats, and private sector agencies involved in the investment promotion and facilitation process.

DITE has organised meetings to facilitate the dissemination of information about the UN GC.

UNCTAD jointly implements with the International Chamber of Commerce (ICC) 'Investment Guides for LDCs'. The objective of this project is to bring together firms that seek new locations and countries that seek new investors.

United Nations Environment Programme (UNEP)

The majority of the interaction between UNEP and the private sector occurs via the UNEP Division of Technology, Industry and Economics (DTIE) in Paris. The mission of UNEP DTIE is to: encourage decision-makers in government, local authorities and industry to develop and adopt policies, strategies and practices that are cleaner and safer; make efficient use of natural resources; ensure environmentally sound management of chemicals; reduce pollution and other threats to the environment; enable implementation of conventions and international agreements; and incorporate environmental costs.

UNEP promotes a central role for the private sector in sustainable development and is a co-founder of the Global Reporting Initiative (GRI). The GRI is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These guidelines are for voluntary use by organisations when reporting on their economic, environmental and social

performance, including many issues of relevance to TNCs and Conflict, although they make no specific reference to conflict. The GRI incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organisations from around the world.

Since 1994, UNEP and the London-based SustainAbility Ltd have produced various reports on corporate sustainability, reporting through a joint Engaging Stakeholders Programme. This programme is designed to encourage corporate sustainability reporting and keep track of what various companies are doing on this.

UNEP's Finance Initiative, which aims to promote responsibility in the finance sector, has recently begun work mapping out the links between insurance, banking, asset management and conflict.

UNEP's new Post-Conflict Assessment Unit extends UNEP's work in areas of the world where the natural and human environment has been damaged as a direct or indirect consequence of conflict, and includes a focus on future challenges for industry in this area.

UN Office for Project Services (UNOPS)

UNOPS is one of the main executing and implementing agencies of the UN system in the areas of development, post-conflict reconstruction, rehabilitation, human rights, environmental management, job creation and training. It is devoted exclusively to project management and provision of services, and loan supervision. Since 2000, it has proactively sought to work with both the private sector and NGOs to fulfil its mandate, through its Private Sector Partnership Unit. It has also analysed partnerships themselves as part of this work – and has identified four themes: globalisation; lessons learned from partnerships; thematic approaches to partnerships; and geographical approaches to partnerships. It seeks arrangements where each stakeholder brings its comparative advantage to the situation (business bringing technical and market know-how; civil society broadening the legitimacy of partnerships and bringing knowledge of local communities). UNOPS has a dedicated partnership website that seeks to inform potential partners about existing and upcoming projects, as well as inviting proposals for projects. It also hosts a library on partnership. Building on this work, UNOPS recently began offering a service matching UN organisations with socially responsible corporations and NGOs interested in advancing UN goals. These must comply with UN and UNOPS guidelines and make a contribution to meeting major UN challenges and upholding UN values. To guide its work, UNOPS has set up a Business Advisory Council, the only group of business advisers serving a UN organisation. UNOPS has not collected lessons on partnering in conflict-prone zones.

International Labour Organisation (ILO)

The ILO seeks the promotion of social justice and internationally recognised human and labour rights. It is unique among the other UN agencies in that it is a public-private partnership. Employers' and workers' representatives have an equal voice with those of governments in shaping ILO policies and programmes. Also, one of the four strategic objectives of the ILO is to strengthen tri-partism and social dialogue between government, employers and employees. This provides a good entry-point to engage with private sector companies.

One of the key instruments that the ILO uses to engage multinational businesses is the voluntary 'Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy' (1977). The 'MNE Declaration' promotes partnerships and co-operation between business, labour and governments that maximise the positive contributions that investment by MNEs can make to economic and social progress and that help resolve difficulties to which such investment may give rise. It addresses commitments of MNEs, workers' and employers' organisations, and governments in such areas as development policy, rights at work, employment, training, conditions of work and life, and industrial relations.

The Employment Sector of the ILO is the contact point for TNCs. Within this branch, the Management and Corporate Citizenship Programme helps build the supportive systems and the managerial competencies that enable enterprises to be productive, competitive and viable and at the same time meet the increasing social expectations of how business behaves. The programme has created a Business and Social Initiatives Database, a free, full text, online database on the employment and labour dimension of corporate citizenship.

The ILO also has an InFocus Programme on Crisis Response and Reconstruction (IFP/CRISIS). The Programme covers four types of crisis: armed conflicts, natural disasters, financial and economic downturns, and difficult political and social transitions. Its strategy is based on the consideration that 'decent work' matters in crises – as it is a powerful rope that can pull people and societies out of crises immediately, and set them on a more solid development path. Productive jobs give back to crisis victims and their families income, as well as dignity, self-confidence, hope, and a stake in the reconciliation and reconstruction of their communities. The main emphasis of the programme is on employment-related interventions such as promotion of employment-intensive reconstruction and rehabilitation projects, socio-economic reintegration of crisis-affected groups, skills training, local economic development initiatives and the promotion of small enterprises and co-operatives; along with key areas such as social protection, social dialogue and basic rights and principles, including non-discrimination and the elimination of child labour. IFP/CRISIS focuses on: reintegrating conflict-affected groups into employment and civil society; promoting socio-political negotiations, dialogue and reconciliation among the diverse groups; and broad efforts at development and peacebuilding and at tackling conflict's root causes. It emphasises the key role businesses can play to avoid or alleviate crises, and has produced various information and capacity-building tools to that end; most recently, *Business and Decent Work in Conflict Zones; a 'Why? and 'How?' Guide.* The Programme actively seeks partnerships with individual businesses and business associations.

The ILO has also just commenced a research project with the Graduate Institute for International Studies in Geneva, researching dimensions of employment in post-conflict recovery, one strand of which will focus on the private sector. The research will be published in 2005 and feed into ILO and other partner organisations' policy.

Conflict prevention – key agencies, policy frameworks and instruments

United Nations Security Council (UN SC)

The UN SC is the pre-eminent decision-making body in the UN system, with responsibility for issues of war and peace. The Council operates under the UN Charter. Its policy framework is based on the principle of member-state sovereignty, and on the absolute veto powers of Permanent Five members. It articulates no policy regarding partnerships with non-state actors, though these have become a key part of UN work elsewhere.

The Department of Peacekeeping Operations (DPKO) is responsible for establishing peace-keeping and peace-making operations mandated by the UN Security Council. Peace-keeping missions include a conflict-prevention component, given that any such mission eventually turns into a post-conflict reconstruction effort. As part of this, de-mining is an important part of the mission, and often today is performed through multi-stakeholder partnerships of NGOs, businesses, and UN agencies. Peace-keeping missions often hire businesses to support the mission.

The Charter does not give the UN a mandate to address civil conflict unless it is deemed a threat to international security, though increasingly interventions have occurred on humanitarian grounds. The main policy instruments regarding conflict are UN resolutions, peace-keeping missions, peacebuilding missions, and sanctions.

UN sanctions are at present only ever imposed on governments, but do require the active participation of the private sector (including sector-specific companies, and financial institutions). The imposition of international trade sanctions on a multilateral basis is a new phenomenon but has been used with increasing frequency in the post-cold war era. Implementation of sanctions is overseen by special Sanctions Committees who review progress and report back to the SC. The Security Council has become interested in economic factors in war through its analysis of sanctions breaking, and UN Commissions on human rights, Sierra Leone, and war-affected children all included mention of corporate activities.

Sanctions have generally been imposed with a view to curtailing the financial means available to rebel factions and/ or to entice them to peace agreements. The effort to halt 'conflict diamonds' began with a UN SC resolution on Angola, and an embargo. The UN SC has also embargoed diamonds from Liberia and Sierra Leone, as well as logs from Cambodia, for instance.

'Expert Panel' reports have been used to address sanctions breaking, using 'naming and shaming' to identify and publicise private sector actors with links to armed groups. This practice puts pressure on member states to uphold their legal obligations to follow through with UN sanctions and has proved to be a very effective tool for encouraging action by the private

sector. Most recently the Expert Panel on Illegal Exploitation of Natural Resources and Other Forms of Wealth from the DRC published its report which, interestingly, made reference to companies contravening their commitments under the OECD Guidelines for Multinational Enterprises. Although the Panel of Experts reports have been praised for their independence (the experts are appointed by the UN Secretariat and are therefore detached from the particular interests of the Security Council and individual states), there have been some criticisms of this mechanism. The Experts' work has been hampered by a lack of institutional and financial support, and as ad-hoc bodies, they lack institutional capacity to co-ordinate their work over time, which would prevent overlap and repetition.

The Kimberley Certification Process Scheme is a historic inter-governmental effort to regulate the entire diamond trade. Launched by African producer countries eager to protect their trade, and catalysed by NGO pressure, UN endorsement has been instrumental in making the scheme a truly international agreement, crucial to ensuring that affected countries worked on their legislation and practices (though much more work still remains to be done in this area by most countries).

UN Commission on Human Rights (UNCHR)/Office of the High Commissioner for Human Rights (OHCHR)

UNCHR, the UN's inter-governmental body addressing human rights, and its secretariat, OHCHR, have in recent years begun to address the link between business and human rights. The compelling links between business and rights protection have forced the issue onto the agenda, and it has primarily been taken up by the Working Group on the Working Methods and Activities of TNCs, which is within the Sub-Commission on the Promotion and Protection of Human Rights, a group of experts whose explicit mandate is to address pertinent and emerging human rights issues.

Efforts to understand the linkages and promote better practice have included the publication of 'Business and Human Rights: A Progress Report' (2000), discussions within and between the experts of the Sub-Commission Working Group, and support to the UN GC. As an inter-governmental body the UNCHR adopts resolutions on various issues and countries of concern, although it has not as yet done so on business and human rights. The OHCHR on the other hand has played a variety of roles in this area, including: the High Commissioner speaking out on the issue, for instance to the World Business Council and ICC; recognising good business practice; promoting multi-stakeholder dialogues as part of the Global Reporting Initiative; providing research and studies; and developing information and education for the private sector through publications. The OHCHR does not have a political mandate to endorse company activities but is happy to encourage improved standards.

At present, the Sub-Commission has six working groups, including the Working Group on TNCs, which has put out a number of reports linking the activities of corporations with violations of human rights. This Working Group has been doing an important job over the past year drafting 'Norms on the Responsibility of TNCs and Other Business Enterprises with Regard to Human Rights'. The Norms, potentially a key code for guiding corporate conduct in zones of conflict, were adopted by a Sub-Commission session in August 2003. They will now be redrafted in the form of a convention – a process that could take years.

United Nations Development Programme (UNDP)

The mandate of UNDP is to promote sustainable human development. The Programme focuses its development advice on: democratic governance; poverty reduction; information and communication technologies; HIV/AIDS; energy and the environment; and crisis prevention and recovery. UNDP is very positive about partnership with business, which it sees as a central means of achieving its goals. The UNDP Division for Business Partnerships co-ordinates the organisation's relationships with the private sector. It focuses its initiatives with business at three levels:

(i) global, where it seeks to create coalitions of companies and other stakeholders to reduce corruption, strengthen rule of law, disseminate information and communications technology, and protect human rights;
(ii) national, with UNDP facilitating dialogues among stakeholders;
(iii) local, with UNDP supporting business partnerships based on local priorities.

The division has produced a toolkit for local UNDP offices to advise them on initiating partnerships with business.

The UNDP also promotes CSR, and works closely with the UN GC – promoting it at the national and regional level around the world (in some places more effectively than in others). This includes promoting UN GC work on companies in conflict zones, on which it actively dialogues with country offices, which have supported regional UN GC meetings on this theme. Various UNDP projects are also geared towards building the capacity of governments in areas related to key TNCs and Conflict issues such as revenue sharing.

In 'UNDP and the Business Sector – Working Together to Fight Poverty', areas for possible co-operation are outlined and mirror the focus areas listed above – including crisis prevention and recovery.

UNDP is working on a number of projects relevant to this study.

- The Programme is working in Venezuela, together with the government, Amnesty International, and an international company to strengthen government capacity relating to international human rights law.
- In Kazakhstan, UNDP works with an oil company and a bank to provide micro-credit and business-support services.
- In Chile, UNDP is acting as a catalyst in a dialogue among business leaders, civil society groups and government on the roles and responsibilities of business in development.

In the area of IT, UNDP is also engaged in a large number of projects in partnership with private sector actors. In terms of crisis or conflict zones, companies have worked with UNDP in Vietnam to set up a disaster-management network, and in East Timor on reconstruction, specifically of the telecommunications infrastructure. In November 2002, the UNDP, ChevronTexaco Corporation, and the Government of Angola announced the signing of an agreement for the formation of a public-private partnership to support small business development in Angola. While UNDP work with business in other priority areas such as the environment and HIV-Aids has led to a strategic approach, conflict prevention and recovery has to date been more ad hoc and has yet to be worked through systematically – though logically this will happen in due course.

One of UNDP's key policy advisory areas is crisis prevention and recovery. The UNDP Bureau for Crisis Prevention and Recovery (BCPR) aims to help bridge the gap between emergency relief and long-term development. The BCPR assists UNDP country offices to establish themselves and provide a quicker and more effective response to natural disaster reduction, justice and security sector reform, small arms reduction, disarmament and demobilisation, mine action, conflict prevention and peacebuilding and recovery, in support of the UN Secretary-General's agenda on conflict prevention. The Programme is piloting work with the private sector in post-conflict settings in Afghanistan, in the health, communications, food and housing sectors, and is in discussions on working in Sudan. If successful this work could provide a model for UNDP work with business in conflict zones, enabling a more strategic approach to be developed in this area.

World Bank

Corporate Social Responsibility – key agencies, policy frameworks and instruments

The concept of CSR has now been incorporated into World Bank private sector strategy, with World Bank President James D. Wolfensohn stressing the need to transform the Bank into a global leader on social and environmental responsibility for other development organisations, and for the private sector.

Work to promote CSR, initially led by the Business Partnership and Outreach Group, and now the CSR Practice Agency, located in the Private Sector Advisory Services Department (PSAS), has a strong developing country focus. The Bank encourages developing country governments to create enabling environments for CSR – for instance working with the Angolan government on skills development, transparency and social development related to the oil industry; and with El Salvador on education. This work also includes reviewing country-wide CSR frameworks, providing expertise to governments on CSR, and other related research for instance on CSR and supply chains.

Although traditionally the Bank has worked primarily with governments towards its developmental goals, it is increasingly working in partnership with businesses. World Bank private sector partnerships, approach to which is set out in a series of Briefing Notes, usually involve multiple stakeholders, including one or more private sector entities, and possibly governmental and civil society entities.

The World Bank participated in Business Partners for Development, a project-based initiative to study, support and promote strategic partnerships involving business, civil society and government working together for the development of communities around the world, which ran from 1998 to 2002.

Other World Bank Group partnership projects include the Information for Development Program (*info*Dev), a partnership with IMB, Motorola, Telecom Italia and ICO Global Communications and 18 governments; and the Roll Back Malaria Campaign, a global partnership with UNICEF, UNDP, the WHO and the pharmaceutical industry. None of these projects engage private sector partners in conflict issues, but they do set important precedents for public-private partnerships for developmental goals.

Of key importance, the Chad–Cameroon Pipeline Project, which involves a number of oil and gas companies, the World Bank and the respective governments, is geared towards mitigating possible conflict impacts. The Chad–Cameroon Social Pact demonstrates that the Bank is able to act in new ways with new partners, and other similar social pacts could be developed for other investment projects in zones of conflict, instability and corruption.

A key instrument for World Bank loans assistance, in partnership with the IMF, other donors, and individual developing country governments, are Poverty-Reduction Strategy Papers (PRSPs). Local private sector development is a central component of these, and foreign investors are often called on and play an active role during PRSP consultations.

The International Finance Corporation (IFC) is the agency in the World Bank group charged with promoting private sector development, with a mandate to facilitate investment in developing countries, including through providing financing to investors when the risks of the investment are viewed as too high by commercial lenders. The IFC promotes economic reform and a positive business climate for investment. The Corporation supports public-private sector partnerships for sustainable development and has a 'do no harm' policy on social and environmental safeguards, though this is not in the form of any distinct methodology.

The Environment and Social Development Department assists the IFC to develop projects with low environmental and social impacts. The Corporation is currently considering how sustainability principles and key trends should influence its sectoral strategies, project selection and value propositions. It also recently created a new Corporate Citizenship Facility to work with individual private sector clients on CSR.

The IFC has no specific policy on investment in conflict areas, despite the fact that many of its investments are in companies that operate in unstable environments. It operates only in post-conflict areas, and not active zones of conflict, but gives no recognition to where a prevention approach might be required. Its assessment of social and environmental impacts and opportunities are of key potential, but as yet it has not developed any conflict impact assessment criteria. Its Oil, Gas, Mining and Chemicals department hosts a website together with other agencies and partners in the private and NGO world, aimed at promoting best practice with regard to the social impact of oil, mining and gas operations. The 'sustainability initiative' at the IFC is an attempt to go beyond its traditional relationship with the private sector, and to look more pro-actively at supply chains, for example. The IFC has also published a manual on best practice for stakeholder consultation.

The Bank has also launched an initiative for Best Practices in Dealing with the Social Impacts of Hydrocarbon Operations. This is a partnership and dialogue between the World Bank, major oil companies, and NGOs. It does not explicitly deal with conflict prevention, but it does focus on the social impacts of oil development. Best Practice is divided into: consultation with stakeholders; management of government revenues; governance and human rights; mitigation of environmental and social impacts; and social investment.

The Multilateral Investment Guarantee Agency (MIGA) was created in 1988 in order to encourage foreign direct investment into emerging economies, with the goal of poverty reduction. MIGA offers political-risk insurance to investors and lenders, and helps developing countries attract and retain private investment. One of its key goals is 'promoting developmental impact' – defined as improving the lives of people in emerging economies, consistent with the goals of host countries and sound business, environmental, and social principles. MIGA's guarantee coverage requires investors to adhere to World Bank social and environmental standards. It also recently brought out a booklet, 'MIGA in Conflict Affected Countries', an important recognition of its role in this area.

Conflict prevention – key agencies, policy frameworks and instruments

While the Bank's Articles state that 'the Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned', its scope of activity and influence is widely recognised to have a significant influence on political outcomes. World Bank policy is focused on economic development, however in the last five years it has begun to address conflict prevention as a necessary aspect of development and poverty reduction.

Operational Policy, 'OP 2.30 Development Co-operation and Conflict' (2001), asserts the importance of human security, which 'depends upon: the rule of law, basic services, a predictable commercial environment, and personal security and well-being'. The World Bank Group's origin, as an institution created to finance and facilitate the reconstruction of Europe, is reflected in OP 2.30 through the links it makes between conflict and economic instability.

It also includes welcome emphasis on the importance of conflict analysis, which the Bank is following up through developing a Conflict Analysis Framework as an analytic tool; on working in partnership with others, including the private sector, in conflict countries; and on integrating sensitivity to conflict in all Bank assistance.

The Conflict Prevention and Reconstruction Unit has been set up as a reincarnation of the Post-Conflict Unit, a shift which is testimony to the Bank's increasing attention to conflict prevention. The Unit is the main source of research and policymaking on conflict and hosts the PCF Secretariat, which manages the Post-Conflict Fund that provides finance (through grants to support a variety of activities in conflict-affected countries) for physical and social reconstruction initiatives in post-war societies. The PCF was a key funder of the Collaborative for Development Action 'International Corporations Operating in Conflict Areas'.

The Unit is currently developing a database of good practices for development programmes in countries emerging from conflict.

In countries currently experiencing violent conflict, Bank activity is guided by a Country Assessment Strategy (CAS), a transitional support strategy (TSS), or a watching brief. The CAS is a traditional instrument of Bank assistance to a specific country, while the TSS is designed for countries emerging from conflict, and includes priorities such as strengthening public institutions, de-mining, and reintegration of refugees, former soldiers, and displaced persons. A watching brief is an analysis of areas of potential operational activities undertaken while countries are still in conflict.

Though partnership with the private sector in conflict zones is envisaged in passing in OP 2.30, opportunities are not being maximised. The Conflict Prevention and Reconstruction Unit web-page on partnership does not refer to the private sector in any detail, although initiatives such as the Chad–Cameroon Pipeline are important.

The Bank's Development Economics Research Group, under the lead of Paul Collier, has conducted important and hugely influential research into the links between resource development and corruption, and has had a designated programme on the Economics of Civil War, Crime and Violence. Despite Collier's recent departure from the Bank there is ongoing interest in this theme within the team.

The International Development Association (IDA) is the Bank agency that deals with the very poorest countries, those not eligible for loans from the International Bank for Reconstruction and Development. Its procedures and policies are in concert with those of the Bank so it is similarly bound by OP 2.30, though its financing terms differ.

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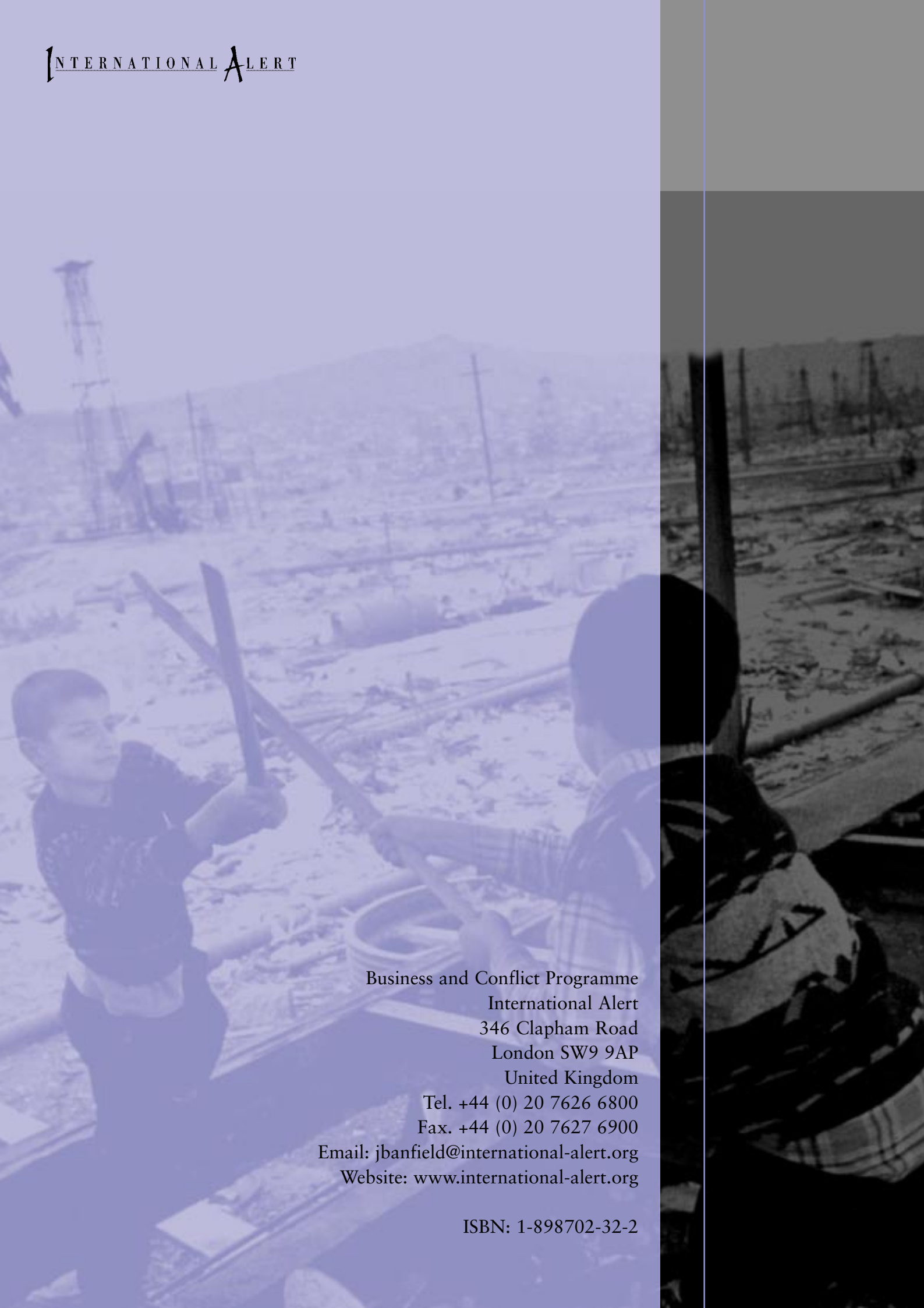

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