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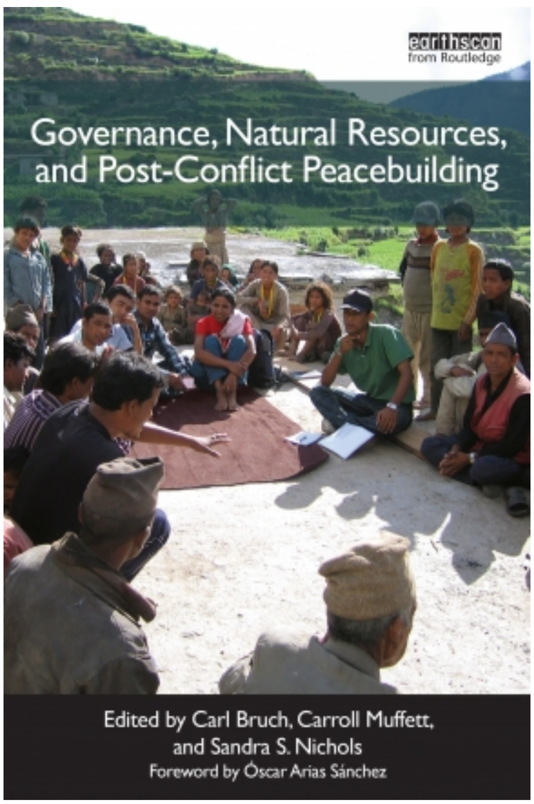

Natural Resources and Peacebuilding: The Role of the Private Sector

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Natural resources and peacebuilding: The role of the private sector

Diana Klein and Ulrike Joras

Over the last decade, the international community has directed increasing attention toward the role of the private sector in peacebuilding in countries emerging from violent conflicts. Because development aid is often neither sufficiently effective nor sustainable to tackle persistent post-conflict challenges, such as unemployment and economic stagnation, private-sector investments are expected to contribute significantly to a country's recovery process. As the literature on private-sector development in post-conflict transformation has grown,[1] so have efforts to attract foreign and domestic investments to high-risk conflict zones.

Natural resources, including renewable resources (such as timber and agricultural products) and non-renewable resources (such as oil and minerals), can generate enormous wealth. Private investments are critical to providing the capital and the technical expertise required to access natural resources. A 2009 report by the United Nations Environment Programme emphasized the relevance of natural resources to economic recovery; sustainable livelihoods; and dialogue, cooperation, and confidence building (UNEP 2009). Yet private-sector investments in natural resources—such as palm-oil plantations in Colombia and oil wells in Angola—have also been associated with conflict.

This chapter examines private-sector peacebuilding activities in the natural resource sector in conflict-affected countries. It begins by providing an overview of the risks and benefits of actively including the private sector in conflict zones. Corporate participation can be vital to peacebuilding, contributing to economic development, dialogue, and reconciliation, but measures have to be taken to prevent companies from aggravating conflicts. The chapter identifies ways in which post-conflict countries can attract private-sector investment, and follows with an analysis of how best to mitigate negative corporate impacts through

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[1] See, for example, Wenger and Möckli (2003), Specker (2009), and GTZ (2008).

conflict-sensitive business practices. The importance of mitigation is illustrated by experiences in Uganda and Colombia. The chapter then explains the need for private investors to pursue conflict-sensitive business practices in order to avoid fomenting further conflict and to ensure good company-community relations. Private-sector contributions to dialogue, confidence building, and reconciliation are discussed, with examples provided from the South Caucasus and Sri Lanka. The chapter ends with a brief conclusion, highlighting that private-sector investments—if managed with conflict-sensitive approaches—can be constructive, rather than destructive, to peace.

RISKS AND BENEFITS OF PRIVATE-SECTOR OPERATIONS IN CONFLICT ZONES

In recent years, two currents of thought on private-sector activity in conflict zones have substantially influenced policy and research in the development and peacebuilding communities. Skeptics emphasize the pitfalls of investing in conflict-prone and conflict-affected countries, and optimists stress its benefits to peacebuilding.

The first school of thought focuses on the negative effects companies have on violent conflicts. Seen primarily through a conflict-economies lens, its adherents associate private-sector activities with sustaining, prolonging, and reigniting violence.[2] They credit the extractive sector—including timber, oil, mining, and gas—with the greatest negative impact because of its potential to finance violence, degrade the environment, violate human rights, exacerbate inequalities, and increase corruption. New investment risks rekindling violence and undermining reconstruction efforts. Injecting a new source of income into a post-conflict environment can lead to clashes between those who believe they have been economically disadvantaged by the new developments and those who have profited from them. Therefore many policy initiatives—which were developed over the last two decades to improve business-sector conduct in areas of conflict—address extractive industries. Efforts include the Extractive Industries Transparency Initiative, the Voluntary Principles on Security and Human Rights, and the Kimberley Process (Rich and Warner 2012; Shankleman 2012; Grant 2012; Bone 2012).[3]

The second line of thinking considers the private sector an important engine of growth and development: companies can reduce poverty, create employment, speed post-conflict reconstruction, and thereby contribute to peacebuilding. During the transition from conflict to peace, economic recovery—including the role of

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[2] See, for example, Global Witness (1999) and ARD (2003).

[3] A notable exception is the Colombia Guidelines on Human Rights and International Humanitarian Law (Guías Colombia) initiative, which aims to reduce the negative impact on human rights and security of nonextractive companies operating in Colombia (Kelly 2013). For more information on the Guías Colombia, see www.ideaspaz.org/publications/posts/507.

the private sector—has been increasingly prioritized, alongside political and security objectives, such as elections, reconciliation, and security sector reform. Because many conflicts are driven, at least in part, by economic causes, economic development is assumed to be an important component in the transition from conflict to peace.[4] Private companies can provide crucial skills and capital, which are lacking in countries emerging from conflict. In addition, the mere fact that private businesses are investing in a conflict-torn country can boost national confidence, public trust, and social capital across conflict divides (Mills and Fan 2006; GTZ 2009). A lack of private-sector activities, on the other hand, leads to a smaller peace dividend, persistently high poverty levels, a frustrated population, and, hence, a higher risk of renewing violence.

Positive consequences of private-sector activities for peace result either from accidental side effects of companies' everyday business operations or from targeted business activities.[5] Simply by doing business, companies can reduce economic deprivation by, for example, providing jobs and creating income for poor households. Some entrepreneurs may also deliberately seek to reduce violence by engaging in mediation or by hiring excombatants who might otherwise resume violence that could plunge a country into yet another armed conflict (Banfield, Gündüz, and Killick 2006).

Most companies, however, engage neither in conflict nor in peacebuilding. Instead they simply try to cope with the new conditions in a conflict-affected zone. Most businesses will protect their operations by increasing security installations and changing their mode of production or means of transporting supplies and products.

ATTRACTING PRIVATE INVESTMENTS TO POST-CONFLICT SETTINGS

Attracting national and international investments to conflict-affected areas is a problem for most countries emerging from armed conflict. Persistent political instability, high crime rates and security risks, small markets, and poor infrastructure often characterize the investment climates and deter investors. Natural resources are often the primary source of income in countries emerging from conflict. Since human resources are scarce and require a long time to develop, natural resource exploitation can provide income relatively quickly after the cessation of violence, or even as violence continues. And although hairdressers, mechanics, and other small-scale businesspeople may be able to restart their businesses relatively easily, unfavorable economic environments typically discourage larger, particularly foreign, investors.

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[4] See, for example, Collier (2006).

[5] For further discussion of the difference between accidental and deliberate corporate engagement in peacebuilding, see Feil et al. (2008).

Regulatory and institutional reforms—preferably at a very early stage after a conflict has ceased—and enticements such as tax incentives can help to make foreign private investors more willing to enter post-conflict countries (Collier 2009). Also, the Multilateral Investment Guarantee Agency of the World Bank and bilateral export credit agencies, such as the United Kingdom's Export Credits Guarantee Department and the U.S. Overseas Private Investment Corporation, insure companies against political risks to encourage private investments in dangerous environments. But such inducements favorably influence investment decisions only when business opportunities exist and risks are limited (Bray 2004; Morisset 2003).

Despite advantages such as local knowledge and networks that can assist in reconstruction and ease operations in volatile environments, domestic and diaspora financiers often are no more likely to invest than foreign investors. Although the former may have a lower threshold for realizing investments in the immediate post-conflict phase, they—like foreign investors—only do business if the climate is favorable. Practical attempts to attract diaspora investors, such as in Afghanistan, have largely failed.[6]

A company that does invest in a challenging environment, particularly in the first years after the formal end of a conflict, typically invests either to secure a first-mover advantage or to exploit natural resources that are geographically bound (such as timber and minerals in specific locations). Investors in natural resource sectors have to go where the resources are. Therefore, they are often more likely than other investors to enter fragile post-conflict countries. In fact, investors in natural resource sectors are typically among the first to enter countries emerging from conflict (Bray 2007). Oil companies tend to accept politically unstable environments because the most promising investment opportunities are located there.

Sometimes governments seek private investors or partner with them. After a decade of violent conflict in Nepal between the government and Maoist insurgents (1996–2006), the government actively sought private investments in the form of public-private partnerships (PPPs) to support economic recovery. Nepal's Three Year Interim Plan (2008–2010) sets out the framework for building a prosperous and just Nepal through social and economic reforms, reducing poverty and unemployment, and inspiring national unity (GON 2007). PPPs in priority sectors, such as hydropower, have a central role in the plan and have the potential to serve local communities, generate income and employment, equalize development, and thereby support recovery and peacebuilding. But the sociopolitical environment in post-conflict Nepal hampers investment: there is friction between government authorities, corporate actors, and civil society. Lack of governmental guidance on PPPs and an unstable political environment have discouraged large-scale, capital-intensive investments (Alexander, Gündüz, and Subedi 2009).

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[6] See, for example, World Bank (2005).

MITIGATING NEGATIVE CORPORATE IMPACTS THROUGH CONFLICT-SENSITIVE BUSINESS PRACTICES

Even if the first hurdle of convincing companies to invest is successfully overcome, a further challenge remains—to ensure that investments do not undermine stability. In conflict-prone and conflict-affected areas, the heightened risk of companies escalating hostilities and violating human rights requires safeguards and accountability from private businesses. Companies need to understand the environment in which they operate and how their investments can affect conflict to avoid adding to tensions. This is particularly important for natural resource companies, which tend to have a large environmental, social, and economic footprint.

When an existing conflict or grievance is exacerbated and a security situation worsens, company costs increase both directly and indirectly. Trying to purchase land quickly from local authorities before internally displaced persons return, for example, will most likely cause discord over land. Similarly, the failure to ensure that the local population receives a fair share of economic benefits can cause not only domestic controversy but also international naming-and-shaming campaigns, which damage a firm's reputation and increase costs.[7]

But private companies tend to overlook the link between their impact on a conflict and their own risks and costs. Although most are skilled in analyzing the risks that their operations face in a specific environment,[8] they rarely consider their influence on a conflict, perhaps because they fear liability and lawsuits.[9]

Policy tools such as the diamond-specific Kimberley Process and the security-directed Voluntary Principles on Security and Human Rights have been developed to address the conflict-aggravating impacts of some sectors.[10] In a similar vein, International Alert developed guidance for conflict-sensitive business practices (herein, the CSBP approach), which helps extractive industries (namely, oil, mining, and gas) better understand the contexts in which they operate, so they can take appropriate actions to reduce the risks of and impacts on conflict (see box on next page) (International Alert 2005). The CSBP approach recognizes the two-way relationship between a project and its operating environment. It helps

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7 Examples of conflicts over equitable revenue sharing from natural resource extraction are plentiful. A Canadian oil firm operating in Gabon had to close down temporarily due to violent clashes with local communities who demanded a greater percentage of the oil profits (Global Policy Forum 2004).

8 Foreign companies investing in conflict-affected countries have access to a wide selection of risk-analysis tools and procedures. The analyses are often outsourced to consultants.

9 The U.S. Alien Tort Claims Act and other legal frameworks have been used against companies, and company lawyers are cautious about accepting any company responsibility for affecting an armed conflict. For further information, see, for example, International Alert and Fafo (2008).

10 The concept of conflict sensitivity has spread slowly throughout the policy and business community. See, for instance, UNSC (2008).

in analyzing the conflict at the national and local levels and provides guidance on issues such as corruption and lack of transparency, security arrangements, and compensation. The CSBP approach has been adapted to natural resource sectors other than oil, mining, and gas, including forestry, but there remains a need to further refine the approach for other types of business (GTZ et al. 2006).

The dangers and consequences of companies failing to consider their impact on communities and local sociocultural dynamics are illustrated in the following case studies from Uganda and Colombia.

Conflict sensitivity

Conflict sensitivity requires development agencies, companies, and others to:

- Understand the context in which they operate, especially if it is marked by latent or open conflict.
- Understand the actual and potential relationships between the context and their actions.
- Act on their understanding to identify and avoid negative effects and maximize positive ones.

Conflict analysis is central to conflict-sensitive practices. It addresses the profile, causes, actors, and dynamics of a conflict; can be carried out at the local (around a project site), regional, and national levels; and seeks to link the levels. Many conflict-analysis tools now exist.

Particularly when it comes to economic recovery, the ability of a country's political economy to sustain conflict or support resilience and peace is key. Political-economy analysis is concerned with the interaction of politics and economics in a society: the distribution of power and wealth and the processes that create, sustain, and transform the distribution over time. When applied to situations of conflict and crisis, political-economy analysis seeks to understand the political and economic aspects of conflict and how they combine to affect patterns of power and vulnerability. A political-economy approach should incorporate wide historical and geographic perspectives and explain how the fortunes and activities of one group in a society affect those of another.

Source: Adapted from Alexander, Gündüz, and Subedi (2009).

The case of Uganda: Promises and pitfalls of private investment

In Uganda, the government sought to help the country reach its economic potential by increasing private-sector investments, even in the northern regions affected by the conflict with the Lord's Resistance Army (LRA).[11] Through capital generation, skills creation, and new infrastructure, the government expected private investments to contribute to recovery and peacebuilding in the economically deprived North.[12]

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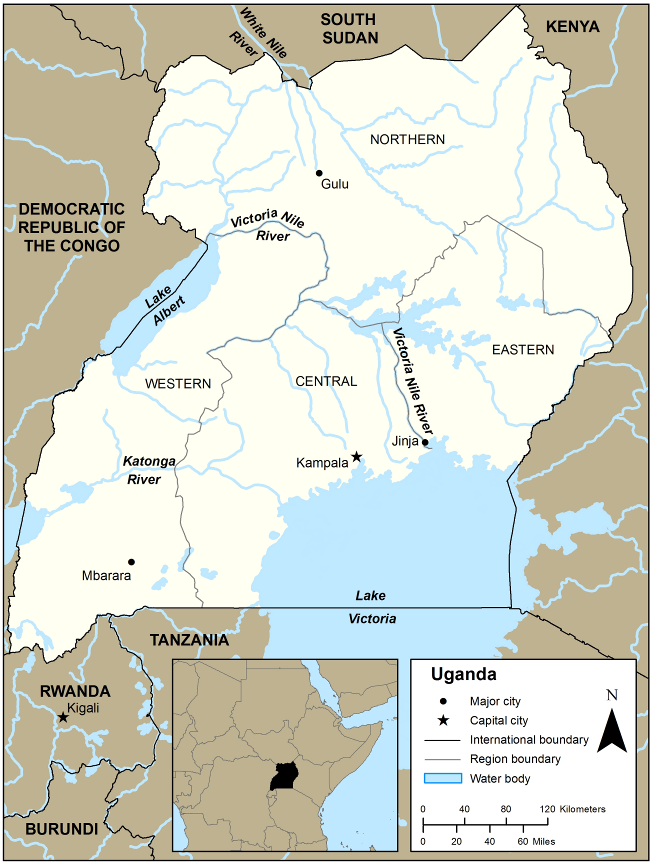
11 This analysis of private investment in Uganda draws on Banfield and Naujoks (2009).

12 Economic differences between northern and southern Uganda are pronounced. Although approximately one-third of the population in southern Uganda lives in poverty, approximately two-thirds of the population in northern Uganda do.



During the period of the Juba peace talks—the peace negotiations between the government of Uganda and the LRA, which took place between 2006 and 2008—private economic activities grew in northern Uganda. Supported by measures to facilitate foreign and domestic investments, such as conferences with diaspora associations and establishing offices to provide information to potential investors, new businesses opened in the region or showed heightened interest in investing, including a Danish meat-processing firm and a Kenyan maize producer. Although the peace talks between the LRA and the government faltered and political insecurity prevailed, businesses persisted.

The government's efforts to promote economic growth in the conflict-affected regions and the interest shown by large-scale investors in the agricultural sector generated some controversy among the local people. The conflict had left many people in northern Uganda suspicious of government attempts to advance economic recovery. They alleged that individuals who were well connected to the government had enriched themselves during the conflict by using the chaos of the war to buy large tracts of land. The local populations' deep-rooted mistrust of big investment projects, including the fear of losing access to land, may fuel tension in the volatile area.

The discord that developed around the Amuru Sugar Works is illustrative. A joint venture between the Madhvani Group and the government was planned for 40,000 hectares of land in Amuru District, in Northern Uganda. The investment, which was anticipated to provide jobs for approximately 7,000 people, included construction of a factory, a power plant, stores, roads, staff housing, and a hospital. Despite the expected economic benefits, there was resistance because of the size of the project and its potential to trigger land disputes given returning internally displaced persons and a growing population. Although the size of the project was subsequently reduced, it remains politicized.

The case of Colombia: Companies versus local people

Similar tensions emerged in Colombia over palm-oil plantations. Some hoped the government-supported expansion of the biofuels industry would assist in bringing peace to the conflict-torn country by creating employment opportunities and substituting palm-oil production for the cultivation of illegal drugs. But conflicts between palm-oil producers and local communities erupted when returning Afro-Colombian communities, who were displaced during the civil war, found their land rights threatened by palm-oil producers. Military and paramilitary groups reportedly inflicted violence on returning displaced persons and the local population; the violence included death threats, assassinations, torture, and burning of crops and houses. Returnees and local people allegedly lost their land through forceful seizures, and private palm-oil companies took advantage of violent displacements to extend their farms (Mingorance 2006; Roa Avendaño 2007). The Norwegian Refugee Council's International Displacement Monitoring Centre pointed out that "the reality facing the African palm plantations, and other companies operating in [northwestern Colombia], is not only that commerce in what is still effectively a conflict zone may require them to accept the protection of groups who may be listed abroad as terrorists, but that this practically unavoidable association will almost inevitably lead to complicity in human rights violations and contravention of national law" (IDMC 2007, 18).

* * *

In both Colombia and Uganda, resistance from local populations and potential human rights violations have tainted private-sector investments. The risks of aggravating conflict are particularly high in the early, post-conflict recovery phase when instability and distrust are greatest. Jessica Banfield and Jana Naujoks of International Alert summarized the case of Uganda: "[l]arge-scale processing of agricultural products like sugar requires big chunks of land. The potential for commercial agriculture to disenfranchise local people by preventing them from returning to their own lands, exacerbating the already complex and conflict-ridden

land tenure issues, is real and needs to be addressed in all agri-business promotion schemes" (Banfield and Naujoks 2009, 27).

CONFLICT-SENSITIVE BUSINESS PRACTICES AND COMPANY-COMMUNITY RELATIONS

Companies need to establish constructive relationships with local communities to alleviate tension, which can feed conflicts at the local and national levels if left unattended. Problems often arise between companies and local communities that have a strong sense of ownership of natural resources. Clashes between local populations and oil and mining companies (such as in Peru) are widely known and often reported.[13] But company-community relations in agribusiness are also increasingly scrutinized, as shown by the examples from Colombia and Uganda.

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[13] See, for example, Reuters (2009) and *Economist* (2007).

Relationships between companies and communities can be further complicated when companies undertake social investment projects ill-suited for local populations or when businesses use inadequately trained security personnel who commit human rights violations against local people.

Social investments, such as schools, hospitals, and roads, have the potential to improve living conditions in local communities and enhance a company's standing (Zandvliet 2005). Yet the mere intention to "do good" does not guarantee a beneficial outcome. Social investments may exacerbate tensions if, for example, one group benefits and another feels deprived. More importantly, corporate social responsibility (CSR) responses often do not answer community needs. Constructing a community hall, for instance, may not meet the immediate needs of unemployed, impoverished, and conflict-traumatized people. In addition, a company's social initiatives are valuable only if its core business does not simultaneously undermine its CSR efforts. Building schools, roads, and hospitals will not offset bad practices such as failing to hire local people, implementing flawed compensation policies, degrading the environment, or, even worse, violating human rights. A quick win achieved by social investment projects does not make up for grievances caused by core business activities and can lead to resentment that may create risks for the company.[14]

Community projects initiated by oil companies in Nigeria, for example, gained some notoriety for bad design and realization, which heightened community frustration. An unfinished fish-processing plant, an abandoned sand-fill project for water-logged areas, and initiatives that seemed more focused on improving public relations than on benefiting the population worsened an already-tense climate (Shah 2010; Frynas 2000; HRW 1999).

In remote areas affected by violent conflict and with little government presence, businesses often interact with communities through their security personnel, rather than community-relations officers. If, for instance, a company feels threatened by residents' demands to access certain areas or by roadblocks and demonstrations, it will frequently take further security measures, signaling to the community that the business is dealing with the community's demands and grievances by ignoring them and hiding behind barbed wire. However, a security response, without constructive dialogue, can intensify problems. The oil company Chevron was sued for abuses by Nigerian security forces that the company had engaged to protect their installations in the Niger Delta (International Alert and Fafo 2008). Among the allegations against Chevron were that two people who peacefully protested on an offshore oil platform were killed, two were wounded, and still others were detained and mistreated.

Despite the bad reputation—in many cases justified—of companies involved in extracting and processing natural resources, many businesses are getting

[14] For detailed information and guidance on company-community relations, see IPIECA (2008) and Zandvliet and Anderson (2009).

better at identifying the risks and effects of conflict and have improved their approach to community relations after a steep learning curve. They recognize that obtaining a social license to operate at the outset of a project is essential to success. Without a direct, continuous, respectful, and mutually beneficial relationship, communities often view companies as unwanted intruders in pursuit of their resources.

Ongoing engagement with communities can help prevent the pitfalls associated with mere security or ill-suited social investment responses, increase public legitimacy, and reduce obstruction and sabotage. Shell Philippines Exploration, a subsidiary of Royal Dutch Shell, realized a comprehensive, long-term process of community engagement in a gas extraction project that included building an undersea pipeline and a natural gas refinery (Sohn 2007). The company first contacted community stakeholders two years before construction began, implemented broad community outreach campaigns, and consistently responded to emerging problems. The costs for these measures reached US$6 million, approximately 0.13 percent of the overall project costs of US$4.5 billion. The company had originally anticipated that community opposition would delay the project by ten to fifteen days at an approximate cost of between US$4 million and US$6 million, but its operations were not stalled. By finishing early and avoiding losses potentially arising from delays in operation, Shell saved an estimated US$50 million to US$72 million, or approximately ten times as much as it originally invested in community engagement.

Positive examples of companies contributing to economic development on a community level are, nevertheless, rare and often seem limited to small and medium enterprises (SMEs) such as the Colombian Oro Verde (Green Gold) gold mine. The mine is located in western Colombia, in Chocó Department, one of Colombia's most impoverished regions. The area is also one of the regions most affected by the Colombian conflict and has the highest concentrations of marginalized Afro-Colombians and indigenous peoples. The mine is not an industrial gold mine but an alluvial, small-scale operation run by grassroots organizations that employ approximately 1,300 miners. According to the company's mission statement, it is a private company, although its structure resembles that of a cooperative. The company emphasizes its socially and environmentally responsible modes of producing gold and its strong, triple-bottom line of people, planet, and profit, which mandates an equitable distribution of profits to the communities who own the mine. Although similar companies have sprung up in Peru, Bolivia, and other parts of Latin America, the Oro Verde model will probably not replace industrial mining.[15] Accordingly, it is important to identify modalities for improving the operations of larger-scale companies and particularly the relationship between companies and communities.

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15 See the web site of Alliance for Responsible Mining (www.communitymining.org) for other examples of responsible mining, all of which are small scale.

More positive relationships between companies and communities can be established if companies adhere to the following guidelines,[16] among others:

1. Community engagement should begin early, even before exploratory operations. The company will thereby acknowledge that its operations will affect the community and will show its willingness to consult the local population. Trust can be established before problems emerge, and a search for common solutions can be more fruitful.
2. Stakeholder engagement should be viewed as a process, not a step to tick off a list. Stakeholder processes do not end after a company first consults a community. They should continue throughout the life of an investment.
3. Stakeholder relations should be transparent and reliable. A company should share information with a community in an understandable way, such as with explanatory videos, and should keep its promises. A community should be able to air its grievances and fears easily and safely. Documenting steps, expectations, and events can help guarantee transparency.
4. Engagement should be inclusive to ensure wide acceptance. This can be particularly important in conflict-prone and conflict-affected countries, where an imprudent program could feed or reignite tensions and hurt the investment. Providing suggestion boxes and collaborating with nongovernmental organizations can facilitate integration of politically and socially sensitive groups.
5. Companies should seek to reward those communities and groups that act peacefully, rather than those that make their demands violently. This will help to prevent negative reinforcement and a cycle of escalating tensions in which the company can only respond with expensive security measures.

Although conflict-sensitive business practices, particularly at the community level, fall squarely under the immediate responsibility of companies, other dimensions, such as how governments use royalties earned from natural resource investments, are much more challenging to control. Drawing a line between areas of responsibility is difficult. The Special Representative of the UN Secretary-General for Business and Human Rights, John Ruggie, pointed out that "[w]hereas governments define the scope of legal compliance, the broader scope of the responsibility to respect is defined by social expectations—as part of what is sometimes called a company's social licence to operate" (Ruggie 2008, 16–17).

PRIVATE-SECTOR CONTRIBUTIONS TO DIALOGUE, CONFIDENCE BUILDING, AND RECONCILIATION

In conflicts, such as those between Israel and Palestine; between Israel and Jordan; and in Northern Ireland, Bosnia and Herzegovina, and Sri Lanka, businesspeople

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[16] These guidelines draw on Zandvliet (2005).

have been drawn into dialogue and reconciliation initiatives at local and national levels (Banfield, Gündüz, and Killick 2006). During public-policy dialogues and advocacy activities, business representatives typically lobby for peace or seek to bring conflicting groups together. By establishing or reestablishing trade and business, companies are in many cases ahead of civil society in reaching out to the "enemy." Dialogue and reconciliation initiatives allow companies to harness their networks and political influence.

Two business initiatives—one in the South Caucasus and one in Sri Lanka—were set up along these lines.

The case of the South Caucasus: Importance of regional networks

The Caucasus Business and Development Network (CBDN) was established in 2005 as a network of businesspeople and civil society actors in the South Caucasus, a region with long-standing ethnic and religious tensions and violent conflict.[17] Its purpose is to support peacebuilding through joint economic ventures that produce symmetric business relationships (in which partners are relatively

[17] Defining the South Caucasus as a country or region is itself a political statement. In the case of CBDN, the network brings together people from the countries of Georgia, Armenia, Azerbaijan, and Turkey, as well as Abkhazia, South Ossetia, and Nagorno-Karabakh.

equal), reduce stereotypes, and lay the groundwork for reconciliation between conflicting groups. The network promotes the South Caucasus as a single economic space, drawing on history and the economic advantages of regional cooperation, which include increasing leverage with the European Union, maintaining low transaction costs, and improving the attractiveness of the region to foreign investors. The CBDN has successfully sourced, produced, branded, and regionally marketed Caucasus cheese, Caucasus tea, and Caucasus wine.[18] The pan-Caucasian identity that connects the different actors helps when interacting with someone from the "other side" of the conflict.

Business leaders expect that more people will realize the benefits of cooperation in a "shared Caucasus" and that more barriers will break down. In the past, the CBDN was able to promote cooperation by addressing common problems such as agricultural pest control. The stability of the CBDN was evident when it was the only regional network in the South Caucasus to survive the outbreak of violence in the summer of 2008.

The case of Sri Lanka: Engaging communities in peace, engaging businesses in reconciliation

In the conflict-ridden Eastern Province of Sri Lanka, the Chamber of Commerce and Industries of Trincomalee District supported the establishment of SiThaMu, a rice mill. In Sinhala, *sithamu* means "let's think." As the name of the company, "SiThaMu" also reflects the Si(nhalese), Tha(mil), and Mu(slim) identities of the main parties to the civil war and the owners of the company. SiThaMu hires mostly young people from the three communities and is revitalizing the rice industry after years of conflict. Through the project, farmers can reduce their transport costs and obtain better prices for their crops than they can by selling them to out-of-town buyers. The mill responds to needs and interests that exist on all sides of the conflict. Its tricommunity structure helps mitigate political and social risks and addresses ethnic and religious distrust and discord. Furthermore, the ownership structure secures the company from attacks by disaffected members of any of the groups (International Alert 2009).

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The different approaches toward working together, which were illustrated by the two preceding examples, are partly a result of the natures of the conflicts. CBDN can only label its products "Caucasian" because the conflict still prevents joint physical ventures. SiThaMu shares a company and workplace. The success of the initiatives in inspiring dialogue and reconciliation may be rooted in the products. Throughout the South Caucasus, wine and tea are associated with cultural pride, family values, and—in the case of tea—shared history, which is widely

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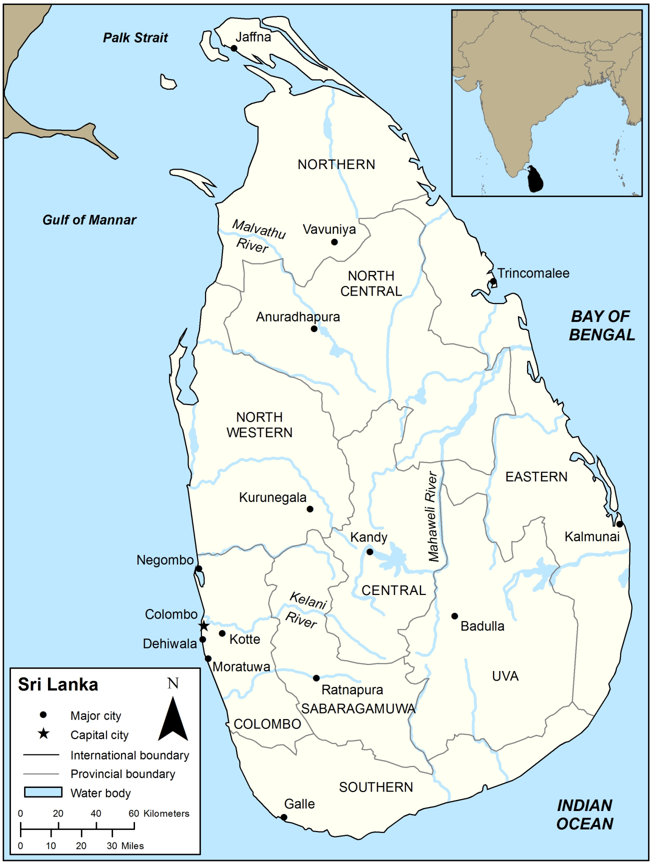
[18] For more information on these and other CBDN initiatives, see www.caucasusbusiness.net/content/our-work.



appreciated across the conflict divides. In Sri Lanka, rice and rice flour are staples. Increased production locally means more rice for remote, poor areas. In both cases, SMEs took the initiative to engage communities and promote cooperation. In contrast to larger firms, SMEs are usually less politicized, more embedded in their communities, and therefore better able to relate to the business environments.

Indeed there seems to be a surprisingly large number of business initiatives that promote dialogue and reconciliation through small- and medium-scale producers of low-value agricultural goods. Although large-scale companies may be able to harness their typically close relationships with government authorities and their significant national economic leverage in order to bring conflicting parties together, large-scale extractive companies rarely seem to bring conflicting parties together. The financial stakes may be too high, and, in the case of foreign investors, interest in or ability to become actively involved in a domestic conflict may be limited. In addition, the reputation of extractive industries for fueling strife may precede them. When, in goodwill, a Georgian official offered his

Abkhaz counterpart the opportunity to establish a joint Abkhaz-Georgian-Russian oil company, the Abkhaz responded, "We have decided not to extract our oil until the conflict is resolved. We don't want to become the next Chechnya."[19]

CONCLUSION

Discussions of the role of natural resource companies in peacebuilding are often tainted by ideology. Those who list seemingly endless examples of imprudent corporate practices that exacerbate conflict confront those who consider the private sector a panacea that can bring stability to conflict-affected regions. The reality—as with so many things—lies somewhere in between.

Companies active in areas in transition from conflict to peace can contribute significantly to peacebuilding not only by generating wealth but also by contributing to reconciliation and confidence building. Extracting and processing natural resources, often a country's only economic asset, can help build peace. But a positive view of natural resource investments in peacebuilding should not ignore the sector's challenges in conducting business operations in a way that does not reinforce conflicts, such as through environmental degradation or imprudent hiring practices. Applying conflict-sensitive business practices is pivotal to mitigating negative impacts and, therefore, conflict.

But before conflict-sensitive business practices can be applied, conflict-ridden countries need to attract investors. Although natural resource investments may come early after the formal end of a conflict, given the need of natural resource companies to go where the resources are, investor and company expectations for success should be realistic. Without basic security, some political stability, and essential infrastructure, few investors will be willing to enter fragile countries coming out of conflict. Targeted incentives from international donors and national governments are needed to encourage investments. Investors should pay particular attention to adopt a conflict-sensitive approach to business. Without close cooperation among the private sector, policy makers, and international donors, investments will likely not contribute to peacebuilding.

Measures to promote conflict sensitivity need to consider the kind of natural resource (for example, minerals or crops) and the form of the investment (international or domestic, large- or small-scale). But existing guidelines for the CSBP approach do not often make such differentiations. Although there are many similarities between the conflict-inducing and peace-supporting potentials of different sectors and types of business, the differences are important to consider. Whereas tensions over land are particularly likely in the agricultural sector, there can be resentment over the limited amount of jobs often available to local staff in the mining industry. The peacebuilding potential seems particularly high in cases in which the links with and economic benefits for the local community are

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[19] The Abkhaz businessman noted this at a Georgian/Abkhaz business dialogue meeting hosted by Conciliation Resources and International Alert in 2005.

strong, such as with Colombia's Oro Verde gold mine and the Sri Lankan rice mill. Large-scale foreign-owned investments seem to generate less immediate benefits for the local population because they tend to be less rooted in the local communities. But they may generate more economic benefits on the national level, with more detached or indiscernible benefits on the local level if the redistribution of proceeds is poor and corruption is high. Corporate social investments in the form of sporadic philanthropic deeds do not sufficiently compensate for structural deficiencies. In every case, ensuring that local communities benefit from investments in natural resources is critical if the investments are to contribute to peacebuilding and recovery.

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