

**PRIVATE SECTOR RISK ANALYSIS
AND CONFLICT IMPACT ASSESSMENT:
MEASURING THE REVERSE FLOW OF RISK**

DECEMBER 2002

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**Research funded by a Petro-Canada Young
Innovator Award**



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About this report

This report is the follow-up submission to Ashley Campbell's paper entitled *The Private Sector and Conflict Prevention Mainstreaming: Risk Analysis and Conflict Impact Assessment Tools for Multinational Corporations*. Based on the established need to mainstream conflict prevention in the private sector, this report provides multinational companies with the means to evaluate the impact of their operations on a region and to modify their corporate strategies according to the company's intended effects. Using the existing Country Indicators for Foreign Policy (CIFP) framework, this report presents a unique approach to merging the principles of conflict prevention with the practice of corporate socially responsible behaviour.

About the author

Leah Berger is a graduate of the Norman Paterson School of International Affairs at Carleton University. Specialising in conflict analysis and conflict resolution, she has an expertise in conflict management and international mediation. Leah is a member of the CIFP team since February 2001. She is the author of *Conflict Prevention, Gender and Early Warning: A Work in Progress* (<http://www.carleton.ca/cifp/docs/genew2.pdf>) and *Canadian Drug Policy: Reducing Harm and Preserving Human Security?* (to be published in the next edition of the online journal *e-merge*). Leah holds a Bachelor of Arts degree in Sociology and a Bachelor of Social Work degree from McGill University. Her main interests include promoting the tenets of corporate social responsibility through risk analysis and impact assessment.

About CIFP

CIFP has its origins in a prototype geopolitical database developed by the Canadian Department of National Defence in 1991. The prototype project called GEOPOL covered a wide range of political, economic, social, military, and environmental indicators through the medium of a rating system. In 1997, under the guidance of Andre Ouellete, John Patterson, Tony Kellett and Paul Sutherland, the Canadian Department of Foreign Affairs and International Trade decided to adopt some elements of GEOPOL to meet the needs of policy makers, the academic community and the private sector. The CIFP project as it became known has since then operated under the guidance of principal investigator David Carment of Carleton University and has received funding from DFAIT, IDRC and CIDA. The project represents an on-going effort to identify and assemble statistical information conveying the key features of the political, economic, social and cultural environments of countries around the world.

The cross-national data generated through CIFP was intended to have a variety of applications in government departments, NGOs, and by users in the private sector. The data set provides at-a-glance global overviews, issue-based perspectives and country performance measures. Currently, the data set includes measures of domestic armed conflict, governance and political instability, militarisation, religious and ethnic diversity, demographic stress, economic performance, human development, environmental stress, and international linkages.

The CIFP database currently includes statistical data in the above issue areas, in the form of over one hundred performance indicators for 196 countries, spanning fifteen years (1985 to 2000) for most indicators. These indicators are drawn from a variety of open sources, including the World Bank, the United Nations Development Programme, the United Nations High Commissioner for Refugees, the Stockholm International Peace Research Institute, and the Minorities at Risk and POLITY IV data sets from the University of Maryland.

Currently, with the generous support of the Canadian International Development Agency (CIDA), CIFP has begun work on a pilot project in partnership with the Forum on Early Warning and Early Response (FEWER). The pilot project is intended to establish a framework for communications, information gathering and sharing, and operational co-ordination between CIFP, the FEWER Secretariat, and FEWER network members in the field, and to work towards a "good practice" conflict early warning system involving the various members of the FEWER network.

CIFP links with the private sector

Providing statistical data measures for over one hundred performance indicators drawn from a variety of open sources for 196 countries spanning fifteen years, CIFP is internationally known and recognised for its contributions to the early warning and conflict prevention knowledge base. In addition to its existing capacities, CIFP is also gaining notoriety in the international business community by providing business leaders with key political, economic, social and cultural information. Listed as one of the best business links on the Internet by Netscape's Business site (<http://www.business2.com/webguide/0,,104,00.html>), CIFP is expanding its application and utility from a largely academic and research based network to the private sector. Referenced by multiple business web guide sites, the CIFP database provides multinational companies with the requisite background information for their enterprises. CIFP's current mission is to expand its expertise and to provide MNCs with tailored information and company specific reports based on their industry sector and physical location(s).

EXECUTIVE SUMMARY

In order to transform the rhetoric surrounding the issue of corporate social responsibility into concrete and significant action, multinational companies in resource extractive industries must implement risk analysis procedures and conflict impact assessment mechanisms to evaluate their current practices and to guide their future decisions and actions. Mainstreaming conflict prevention into private sector operations involves recognising the potential impacts of MNCs and modifying corporate behaviour in order to reduce harmful effects and to achieve improved impacts on the host community's economic, environmental, security and political situation.

It is important to emphasise that while companies are not expected to resolve complex issues such as conflict, the perception of companies as indifferent to issues that have the potential to exacerbate conflict could be very damaging. In fact, the risk of negative corporate publicity not only provides the rationale for corporate awareness and interest in conflict-related issues in the companies' sphere of development but also endorses the idea that demonstrating an awareness and an interest in this area can lead to positive public relations for a company.

Concern for conflict prevention encompasses a number of initiatives that companies now have to consider and are expected to demonstrate concern and responsibility for. Among these issues includes: corrupt practices, respect for human rights, violence and security, conflict prevention, access to resources and services, distribution of wealth and benefits, and environmental damage. Increased awareness and responsibility in these areas will automatically enhance corporate-community relations and reduce the possibility of conflict between competing groups. However, in order to develop an awareness of these delicate or potentially explosive issues, it is imperative for companies to invest in research and engage in corporate risk analysis. Investing in market research and conducting impact analyses are not only sensible activities but fiscally responsible as well.

Not investing in the conflict prevention would be like refusing to invest in the Internet ten years ago. When value seems intangible, it is often very difficult to justify expense to the company's shareholders. Fortunately, shareholder awareness is increasing and therefore soon, the principles of the shareholder, the goals of the company and the local issues in the area of development will be all framed by the same objectives: to improve the lives of the world impoverished, whilst making a better social, environmental and financial return on the investment.¹

¹ Russell, Helen. 2001. *An Analysis of Corporate Involvement in the Conflict Prevention Industry*. London: FEWER, p.15.

INTRODUCTION

The key aspect to implementing effective conflict prevention mainstreaming in the private sector is the development of operational and behavioural strategies for multinational companies (MNCs) that can simultaneously satisfy civil society's demand for greater corporate social responsibility, the government's needs and interests, and the companies chief objective of maximising shareholder value and generating profits.

Companies are motivated towards the practice of corporate socially responsible behaviour to the extent that public opinion, shareholder groups, and consumers demand it. Cognisant of the long-term commitments and costs associated with foreign investment, particularly in the extractive sector, MNCs are obliged to devote increased attention and effort to securing the acceptance of local communities and to fostering and maintaining a climate of political stability. They can no longer limit their risk assessments to analysing the impact of the socio-political-economic situation on their investment. Instead, MNCs must consider a wide spectrum of variables, including what Ashley Campbell refers to as 'the reverse flow of risk' in her report *The Private Sector and Conflict Prevention Mainstreaming*. According to Campbell, "it is critical that MNCs not only analyse conflict as a potential security risk to MNCs' long-term investment and daily operations, but adopt a risk assessment tool that evaluates the reverse flow of risk: the risk of a company aggravating a conflict situation".²

The relatively recent movement of the private sector towards a greater commitment to corporate socially responsible behaviour is indicative of the willingness among multinational companies to broaden their conceptions of 'stakeholders' from investors and consumers to include host communities, social and environmental activist groups, and present and future generations. It is also indicative of the greater acceptance among MNCs that the potential and reality of violent conflict has become an unavoidable business issue:

- There are 72 countries where the security risk for the majority of locations in which foreign business operates is rated medium, high or extreme for 2000.
- Multinational companies are investing more than US\$150 billion annually in nearly 50 countries which fall below the intermediate point in Transparency International's Corruption perception's Index- in other words in countries which may be confidently described as fairly to very corrupt.
- Today, only about 4% of the world's GNP is military related; 96% of the international business community provides civilian products and

² Campbell, Ashley. 2002. *The Private Sector and Conflict Prevention Mainstreaming: Risk Analysis and Conflict Impact Assessment Tools for Multinational Corporations*. Country Indicators for Foreign Policy (CIFP), p.4.

services. Most of these business sectors have a vested interest in stability and peace.³

Consequently, the traditional MNC focus on 'profit as its' real bottom line' is expanding and now includes the conception that it is in the company's best interest to "minimise their risk by understanding conflict and maximising their contribution to peace-building".⁴ As the idea of a single bottom line evolves into a 'triple bottom line' comprised of economic prosperity, social justice and environmental quality, MNCs are realising that compliance with corporate socially responsible principles will only reinforce their original and most important goal of generating profits and sustaining shareholder value. MNCs can safely pursue socially responsible endeavours because they are cost effective and an efficient way of preserving and promoting the MNCs reputation and achieving financial gains.

The following report is comprised of six sections:

- Section I outlines the purpose of this report and describes the key premises on which the risk assessment template and recommendations for corporate conduct are based.
- Section II presents a framework for MNC approaches to investment in conflict zones.
- Section III discusses the key issues influencing MNC decision making and behaviour in conflict zones and proposes strategies to mitigate the risks involved in investing in conflict zones.
- Section IV contains the risk assessment template.
- Section V provides a detailed explanation of the issue areas presented in the template, including a discussion of the rationale for their inclusion and definitions of the selected indicators used to measure the issue areas.
- Section VI proposes alternatives for mainstreaming conflict prevention into MNC approaches in conflict zones based on the framework selected by the company.

³ Nelson et. al. 2000. *The Business of Peace: The private sector as a partner in conflict prevention and resolution*. London: The Prince of Wales Business Leaders Forum, International Alert, Council on Economic Priorities, p.5

⁴ Rienstra, Dianna. 2001. *The approach of the corporate world: How conflict sensitive is the private sector?* Conference Report: Mainstreaming Conflict Prevention. The Hague, p.1.