Country Indicators for Foreign Policy

THE PRIVATE SECTOR AND CONFLICT PREVENTION MAINSTREAMING

RISK ANALYSIS AND CONFLICT IMPACT ASSESSMENT TOOLS FOR MULTINATIONAL CORPORATIONS

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About this report

This is the first of several reports that identify a role for CIFP in providing a risk assessment service to the private sector. In discussing the role of the private sector in preventing violent conflict, this report focuses primarily on multinational corporations (MNCs). Issues related to the risks and responsibilities of MNCs in conflict-prone regions are distinct from those concerning other types of private sector actors. Large companies involved in foreign direct investment in the extractive, infrastructure and heavy industry sectors are of particular interest, due to the heightened potential for their activities to exacerbate conflict. In addition, MNCs are likely more able to implement conflict prevention mainstreaming strategies than smaller domestic enterprises for a variety of reasons. Therefore, the following analysis relates specifically to the risk assessment needs of MNCs. For a definition of important concepts and terms, please refer to the glossary.

About the author

Ashley Campbell is a candidate in the International Affairs program at the Norman Paterson School of International Affairs, Carleton University, Ottawa. Ashley is currently researching conflict and the private sector, examining the linkages between conflict and MNC activities, identifying the main criteria that affect corporate decision-making in conflict zones, and assessing strategies by which the private sector can monitor, evaluate and minimize conflict. Her research will assess BP Amoco's efforts to promote sustainable community development and conflict resolution in Casanare, Colombia. She has a background in Latin American studies and international development.

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 Ouellette, 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, militarization, 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 coordination 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.

Executive Summary

With MNCs investing in an ever-increasing number of countries around the world, there is growing concern about potential linkages between their corporate activities and outbreaks of violent conflict. Over the past decade, there have been several scandals involving major MNCs in conflict-prone countries, highlighting some of the negative impacts of MNC investment on conflict. In response, there has been a groundswell of interest in intersectoral initiatives to involve MNCs as partners in conflict prevention.

Thus far, much of the effort to involve the private sector in conflict prevention has come from research groups, NGOs and other organizations involved in early warning and risk analysis. Effective conflict prevention requires analytical efforts to assess conflict risk, as well as informed policy responses from a variety of actors to help minimize or mitigate these risks. While it is difficult to determine to what extent MNCs may be willing to implement risk management strategies, it is generally evident that MNCs are ill-equipped to assess conflict risks and impacts effectively.

The inadequacy of MNCs' risk analysis and impact assessment tools for conflict prevention purposes stems from the orientation of most risk analysis services utilized by the private sector. Over the last half-century, the private sector has become increasingly reliant on risk analysis to identify opportunities and risks in unfamiliar markets and to assess the overall investment climate of different countries and regions. Although there are numerous political risk consultants who analyse conflict as a potential security risk to MNCs' long-term investments and daily operations, most commercial risk assessment tools are not explicitly concerned with the reverse flow of risk: the risk of a company aggravating a conflict situation.

The diversity of MNCs and the complexity of conflict situations necessitate a new approach to risk analysis and impact assessment. The first step in ensuring that MNCs are capable of implementing conflict prevention strategies is to adapt available risk analysis methodologies and frameworks so that they better match private sector needs. At the same time, there must also be incentives for corporate decision-makers to become more actively involved in conflict prevention and risk management. In addition, governments, civil society groups, and trade/industry associations ought to cooperate to provide greater clarification of the expected role and perceived responsibilities of MNCs in different conflict situations. In the future, intersectoral initiatives that provide encouragement and support to companies implementing conflict prevention strategies will generate greater global interest in the business of peace.

I. INTRODUCTION

Many anti-globalization protesters fear that the production and distribution processes of MNCs will worsen international economic inequalities and engender a "race to the bottom" as governments hasten to liberalize and deregulate their economies. Yet, governments, NGOs, and multilateral organizations have increasingly come to view the private sector, and especially MNCs, as an important partner in the process of economic, social, and human development. In particular, the concept of corporate social responsibility has been instrumental in encouraging MNCs to develop better policies and practices related to human rights, labour standards, and environmental sustainability. For example, MNCs such as Shell, BP and Rio Tinto have responded to public criticism of their corporate behaviour in developing countries by introducing codes of conduct governing a variety of social and environmental issues. In addition, many MNCs have started to make better use of impact assessments to evaluate and mitigate any negative impacts linked to their operations.

Despite a growing emphasis on corporate accountability, there is much debate over the role and responsibilities of MNCs in conflict-prone areas. Over the last few decades, there has been widespread concern about the potential for economic, political, environmental, and social impacts of MNCs' activities to exacerbate violent conflict in risky states and regions. Foreign direct investment by MNCs, particularly in high impact sectors such as extractive industries and infrastructure, has been associated with worsening levels of violent conflict in such countries as Colombia, Sudan, Nigeria, Algeria and many others. While much research has been devoted to the analysis of economic factors that contribute to violence,[1] the linkages between MNC activities and conflict have not been thoroughly studied.

Recently, several intersectoral initiatives have focused on strategies to involve MNCs as partners in conflict prevention. Still, many questions remain about how the private sector can aid or hinder peacebuilding efforts. This is largely due to the fact that there are so many factors that affect the investment and operational decisions of private sector actors in conflict zones. It is problematic to assume that MNCs' interests are necessarily congruent with those of other actors seeking to prevent violence. As a further complication, each company operating in a conflict zone may face a distinct set of circumstances related to its internal structure and external environment

[1] Part of the rationale to include the private sector in conflict prevention strategies is related to research on the underlying causes of violent conflict. Conflict analysts, such as Paul Collier have determined that economic factors may play a more important role in conflict than previously thought. Collier (2001) reports that national income-levels, GDP growth rates, and the structure of the economy are strongly correlated to the risk of an outbreak of violent civil conflict occurring (p. 3). Collier concludes that economic growth and diversification in low-income countries that are highly dependent on primary commodity exports would help to prevent violent conflict (p. 4). This suggests that the private sector, especially MNCs who are capable of mobilizing vast resources and capital, can play a key role in the implementation of an economic development strategy to help prevent outbreaks of violence in conflict-prone states.

that affect its available options in a unique way. Due to the complexity of issues surrounding violent conflict, private sector actors may be unaware of how their actions can contribute to positive or negative impacts. This makes it extremely difficult to prescribe general recommendations on how corporations could and should behave when confronting violent conflict.

Because the diversity of MNCs and the complexity of conflict situations pose such a challenge to efforts to mainstream corporate conflict prevention, it is necessary to ensure that conflict impact assessment and risk analysis tools are well adapted to the needs of corporate decision-makers. There are already numerous political risk consultants who analyse conflict as a potential security risk to MNCs' long-term investments and daily operations. However, most corporate risk assessment tools are not explicitly concerned with the reverse flow of risk: the risk of a company aggravating a conflict situation. Although conflict risk assessment tools are an important component of early warning systems to prevent outbreaks of violence, very few companies seem to have adopted such a methodology to assess, monitor and mitigate any potential negative impacts of their activities. This is an issue that requires further attention if the corporate sector is to become an effective partner in conflict prevention in risky states and regions.

The purpose of this report is to examine possible gaps between private sector needs and available tools for MNCs to undertake risk analysis and conflict impact assessment. The eventual goal is to adapt CIFP's risk assessment methodology so that it can better serve the private sector by identifying risk factors that are relevant to the interests and activities of different types of MNCs. This report includes: an investigation of the relationship between corporate activities and conflict, specifically focusing on the potential for conflict prevention mainstreaming; a discussion of how risk assessment can contribute to conflict prevention and a summary of available risk assessment tools for the corporate sector; and an analysis of the type of information and method of data provision that would best suit the needs of the private sector. A follow-up investigation will focus on a new methodology for risk analysis designed for private sector needs, along with potential solutions and strategies for the private sector to assist in conflict prevention.

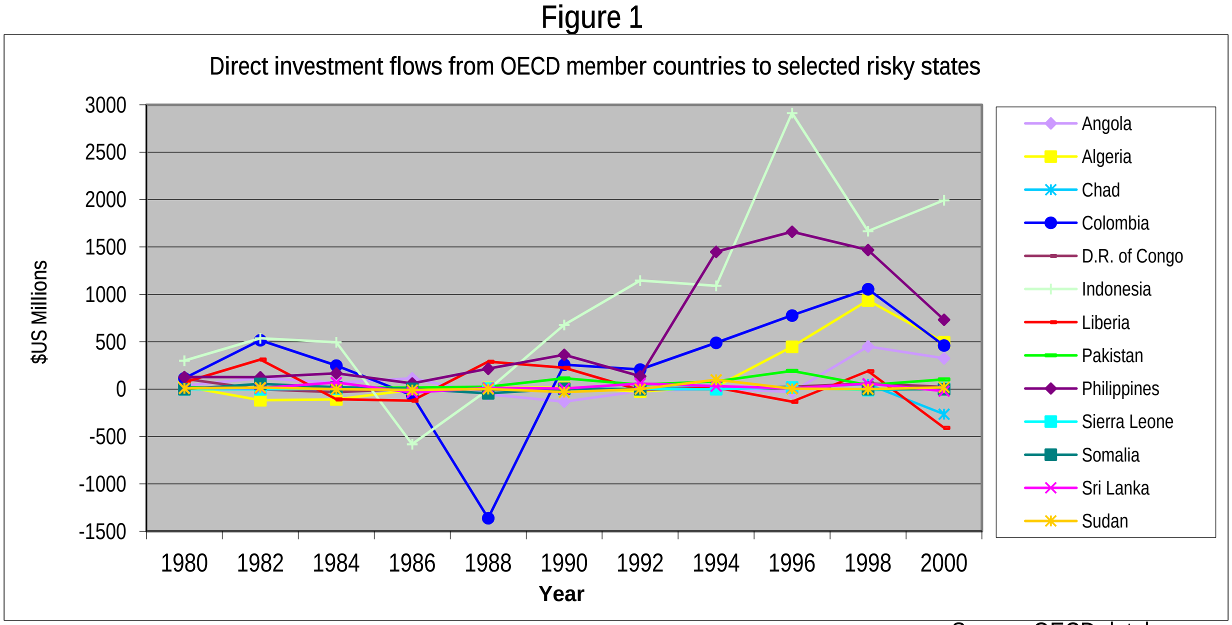
According to the main findings of this research, MNCs already employ numerous analysts to examine many different facets of risk. However, these analysts tend to focus more broadly on the overall investment climate of countries and regions rather than specific factors that contribute to conflict. There have been few efforts to adapt risk assessment tools to enable MNCs to become more involved in conflict prevention. As CIFP's database is designed to provide more in-depth information related to the structural causes, proximate causes, and triggers of conflict, it seems that it is likely to be a useful source of information for corporate decision-makers. In addition to the risk analysis services provided by the CIFP database, there is a need to design conflict impact assessment tools to measure risks related to specific MNC activities. This is essential if MNCs are to develop comprehensive strategies to monitor, evaluate and minimize any potential impacts that may worsen conflict. Further research should be devoted to this in the future. Finally, if the private sector is to become a partner in conflict prevention mainstreaming, there has to be an incentive for MNCs to participate. While advocates of corporate social responsibility argue that companies reap rewards for being good corporate citizens, more analysis of the costs and benefits of corporate conflict prevention strategies must be undertaken.

II. CONFLICT PREVENTION MAINSTREAMING AND THE PRIVATE SECTOR

i) MNC investment in conflict-prone countries and regions

Before analysing the role of risk assessment in corporate conflict prevention, it is important to understand the potential linkages between conflict and the private sector. Over the past several decades, foreign direct investment in emerging markets has increased enormously. Direct investors, including MNCs, have long been aware that many of these emerging markets are plagued with political, economic, environmental and social instability, contributing to latent or overt conflict.[2] While it would seem reasonable to assume that foreign direct investment in highly risky countries (including those that are experiencing violent conflict or are in a post-conflict situation) is fairly low, this is clearly not the case. In fact, several emerging economies, such as Colombia, Indonesia, Algeria, and the Philippines, have been able to attract high levels of direct investment despite the occurrence of violent conflicts. As Figure 1 demonstrates, there is a wide discrepancy in the ability of risky countries to attract foreign direct investment, which suggests that MNCs and other direct investors take into consideration a number of factors aside from conflict risk.

Figure 1



Source: OECD database

[2] In 2000, the U.S. government listed 74 countries where physical security was a problem, of which 34 confronted an actual civil war or rebel insurgency. Control Risks Group, a consulting firm on global security risks, currently classifies 60 countries as extreme to high risk (See Appendix 1).

In 1999, Political & Economic Link Consulting interviewed 25 managers overseeing MNC operations in regions of armed conflict as part of an analysis of how conflict affects the decision-making processes of MNCs. According to the results of these interviews, there are 5 main factors that affect the investment and operational decisions of MNCs in conflict-prone areas (See Table 1).

Table 1

Factors affecting MNC decision-making in conflict-prone countries

INFLUENTIAL FACTORS	HOW THESE FACTORS AFFECTS MNC INVESTMENT	POSSIBLE INDICATORS TO MEASURE THESE FACTORS
Geographic impact of conflict	- if the conflict is contained in specific area of country, companies are less concerned about the risks of investing, whereas uncontained violence poses a major hazard to MNC operations	- location of armed groups and conflict zones
Severity of conflict	-only MNCS with their own military capabilities will invest in country experiencing territorial conflict (opposition groups effectively control the country) - MNCs widely tolerate risks posed by incursional conflict (government in control but armed opposition engages in frequent attacks) and by terroristic conflict (government in control but opposition groups engage in isolated acts of violence)	- number of deaths due to violent conflict, indicators that measure the rule of law and legitimacy of government, government expenditures on military
Attitude and policies of the government and opposition	- MNCs are sensitive to governments and will invest if they have confidence in the business-friendly regulatory environment, receive close communication of policies, and are supported by government actions (including traditional economic incentives as well as military activities) - MNCs also pay attention to the ideology of opposition groups (some ideologies are more threatening to the private sector), and monitor opposition attacks on specific infrastructure (in particular, MNC operations will be significantly affected by attacks that disrupt travel, shipping, telecommunications, utilities, or the availability of essential inputs, such as labour)	- tariff structures, business regulations, labour laws, union activities, level of corruption - power outages, telecommunications disruptions, worker's strikes, ideological background of opposition groups
Sector of industry	- MNCs are less vulnerable to conflict if they produce essential products for the domestic economy - MNCs that rely on stable technology are more at risk if conflict should result in government/regime transfer than do companies that rely on technology that constantly evolves - MNCs may overlook conflict risk if the supply potential of inputs (especially natural resources) is especially significant or if the domestic market is critical to the MNCs' larger operations	- size of market, availability of natural resources, intellectual property rights
Investment structure	- if MNCs are able to structure their investments in a way that mitigates the risk of conflict losses, they may not be averse to investing in conflict-prone countries - a common strategy is "venture progression" whereby MNCs move from lower risk investments (such as license agreements, contract manufacturing) to higher risk investments (such as post-production assembly, joint ventures, small wholly-owned investments) - another risk mitigation tool is political risk insurance & additional security (export credit agencies can provide these services at a subsidized cost)	- willingness of political risk insurers to cover MNC insurance policies in the host country, flexibility of laws pertaining to foreign investment

Adapted from: (Berman, 2000)

While MNCs in sectors such as tourism, manufacturing and sourcing, and marketing and/or distribution of consumer goods seem to have a lower tolerance for conflict risk, many companies are not averse to the challenges of doing business in conflict-prone regions and countries. The primary incentive for an MNC to invest or remain invested in a conflict-prone state has traditionally been the existence of natural resource-based assets for extractive purposes (Economist, 2000, p. 85). This is precisely the same sector that Paul Collier (2001) identifies as a major risk indicator for civil conflicts in developing countries (p. 3). Corporations in conflict-prone states may also be motivated by the higher potential returns on investment that can be made in comparison to investments in more stable countries.[3] In addition, the privatization of state-owned infrastructure and corporations that has accompanied the recent wave of economic liberalization throughout the developing world, including risky states, has proven to be a big draw for foreign direct investors. Other types of MNCs that may be attracted to conflict-prone countries or regions include firms involved in the arms industry, financial services (especially flight to quality beneficiaries), private security, and expert consultants who specialize in goods and services directly related to conflict (Nelson, 2000, p. 58).

For those companies that choose to invest in conflict-prone countries, potential business opportunities accompany a number of moral and practical hazards. According to an article in the Economist (May 20, 2000) titled, *Risky returns: Business in difficult places*:

> For brave businessfolk, there are rich pickings in grim places. But there are also immense obstacles and risks. Pipelines can be blown up by terrorists. Contracts can be torn up by crooked partners. Fragile economies can collapse. And in recent years, firms doing business in countries with unpleasant governments have been pilloried by non-governmental organisations (NGOs), endangering that most priceless of assets, their good name. To succeed in difficult countries, firms must learn how to overcome these obstacles and minimise the risks. (p. 85)

As Juliette Bennett of the International Peace Forum stated at a UN Global Compact conference in 1999:

> One of the realities of doing business in the global marketplace is that managers in multinational corporations find themselves operating in areas of armed conflict, indigenous cultural disputes, epidemic disease and other kinds of social upheaval. As globalization of the world's economy continues, the international business community will increasingly find itself confronted with the challenge of promoting peacebuilding in its areas of operation, or being blamed for contributing to the conditions that lead to violent conflict. These challenges will increasingly require business professionals to apply conflict resolution and peacebuilding strategies in situations where promoting peace is an essential element of successful business operations. (p. 11)

In several different cases, the failure of corporate decision-makers to manage conflict risks and to adhere to best practice policies has resulted in worsening violence and negative publicity for the company involved.[4] Public outrage over specific allegations of corporate complicity with repressive governments, such as the Harker Report, which condemned Talisman for its oil operations in Sudan,[5] has led to increased pressure on MNCs to put in place concrete measures to ensure that their activities do not exacerbate conflict. Significant media attention has also been focused on the actions of other major MNCs in the oil and gas sector, including Shell in Nigeria, Unocal in Myanmar (Burma), and BP in Colombia.

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[3] While this is not always the case, the cost of goods and services in conflict zones may be comparatively cheap, capital assets may be undervalued due to the risks involved in operating in a conflict zone, and there may be less market competition since fewer companies will have an interest in investing (Economist, 2000, pp. 85-88).

[4] For example, a lawsuit filed against Coca-Cola's Colombian subsidiary in 2001 accuses the company of using paramilitary death squads to eliminate trade unionists, a practice which is not uncommon in Colombia.

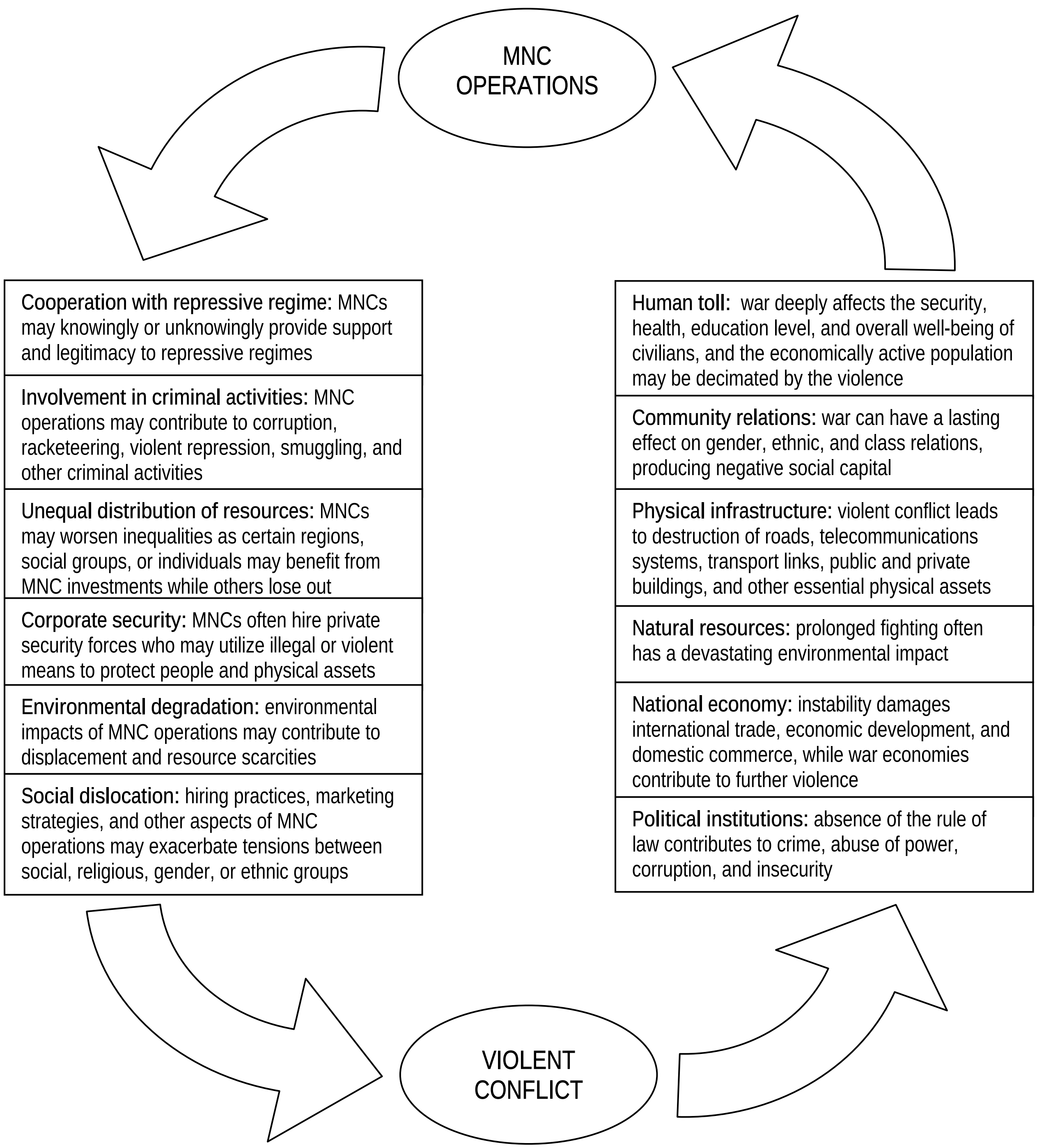
[5] Recent reports estimate that the activities of Talisman and its partners in Sudan provide the Sudanese government with approximately $US 1 million in royalties a day, money used to fund the government's war against the southern Sudanese people (Nguyen, 2002, p. B5).

International media coverage has generated broad public awareness of the possible linkages between MNCs' business operations and violent conflict. As Figure 2 illustrates, MNCs' activities both affect and are affected by violent conflict. Clearly, MNCs operating in risky countries have to confront a number of complex ethical issues and practical security concerns that stem from

Figure 2

Conflict causes and effects pertaining to MNCs

Potential impacts of MNC operations that could contribute to violent conflict and the effects of violent conflict that could be detrimental to MNC operations*



* Adapted from: (Russell, 2001; Nelson, 2000)

manifest or latent conflict. As a result, conflict risk analysis and conflict prevention are now becoming an integral component of international business, especially in those sectors which produce extensive social and environmental impacts. Due to the growing recognition of the linkages between MNCs and conflict, governments, NGOs and multilateral agencies have demonstrated a willingness to form partnerships with the private sector to improve the overall effectiveness of conflict prevention strategies. Yet there are few examples of such partnerships to date, and there is evidently a need for more analysis to clarify the role and responsibilities of the private sector in preventing deadly conflicts.

ii) Conflict prevention mainstreaming and MNCs: Why risk assessment?

Before discussing how the private sector can be more closely involved in deterring violent conflict, it is important first to examine the various components of conflict prevention mainstreaming. According to Michael Lund:

> [C]onflict prevention entails any structural or interactive means to keep intrastate and interstate tensions and disputes from escalation into significant violence and to strengthen the capabilities to resolve such disputes peacefully as well as alleviating the underlying problems that produce them, including forestalling the spread of hostilities into new places. It comes into play both in places where conflicts have not occurred recently and where recent largely terminated conflicts could recur. Depending on how they are applied, it can include the particular methods and means of any policy sector, whether labelled prevention or not (e.g. sanctions, conditional aid, mediation, structural adjustment, democratic institution building etc.), and they might be carried out by global, regional, national or local levels by any governmental or non-governmental actor. (cited in Carment & Schnabel, 2001, p. 3)

Conflict prevention mainstreaming involves analytical efforts to assess conflict risk, as well as informed policy responses from a variety of actors to help minimize or mitigate these risks. As stated in the introduction, this report focuses primarily on conflict risk assessment, while further reports will discuss corporate risk management strategies.

It has been noted that current corporate approaches to risk assessment are inadequate to enable MNCs to make informed decisions about their investments and operational strategies with a view to conflict prevention (Champaign, 2000). The underlying problem with the risk assessment approach employed by most MNCs is that they tend to focus mainly on risk factors that could have an impact on corporate activities, rather than the impact of corporate activities on risk factors. From the point of view of conflict prevention, this is entirely backwards. MNCs must begin to focus on the opposite flow of cause and effect by examining how their operations are likely to affect political, social, environmental, and economic factors that could either exacerbate or diminish the risk of violent conflict. However, Jonathan Berman of Political and Economic Link Consulting has cautioned that governments and NGOs must learn to understand how corporations perceive and assess conflict risk, if the private sector is to become an effective partner in conflict prevention (2000, p. 32).

Despite the growing emphasis on corporate accountability, especially related to social and environmental issues, to date very few MNCs employ conflict analysis tools, while there are no clear standards for evaluating, benchmarking and certifying corporate conflict prevention efforts

(Champaign, 2000). For MNCs to become more involved in conflict prevention, there must also be a greater emphasis on the development of risk management strategies that are compatible with long-term peacebuilding and conflict resolution efforts. This requires a framework to guide corporate decision-making, consisting of a statement of values supported by initiatives that demonstrate commitment, followed up with consistent monitoring and reporting mechanisms. Already, a number of such frameworks for the corporate sector have already been established to address issues that touch on human rights, labour standards and the environment (See Table 2).

Table 2

Comparison of corporate accountability frameworks

Selected Framework	Scope	Main focus	Objectives/Purpose
Global Reporting Initiative (UNEP)	- Social issues (including labour and human rights), environmental issues, and economic issues - Multi-stakeholder (open to any type of organization including the private sector)	- "Sustainability reporting" or the voluntary reporting of economic environmental and social performance using a standard set of guidelines and indicators	- Generate comparable, rigorous and verifiable information about performance and practices - Promote transparency and accountability
Global Compact (UN-led involving UNEP, UNDP, UNHCHR, and ILO)	- Compact covers 9 principles related to labour, human rights and the environment - Mainly focuses on MNCs	- Voluntary UN initiative: participating companies agree to promote the 9 principles, report on concrete steps taken to promote these principles, and publicly advocate the Global Compact	- Create a forum for learning and sharing corporate experiences in the promotion of the 9 principles
OECD Guidelines for Multinational Enterprises (OECD)	- Guidelines cover employment and industrial relations, human rights, environment, information disclosure, competition, taxation, and science and technology - Addressed by OECD member country governments to multinational enterprises operating in or from OECD countries	- Voluntary code of conduct that includes non-binding recommendations on practice and disclosure for multinational corporations	- Promote the positive contributions multinationals can make to economic, environmental and social progress - Foster better disclosure on the part of multinational corporations
Tripartite Declaration of Principles Concerning Multinationals and Social Policy (ILO)	- Principles relate to employment, training, labour conditions, and industrial relations - Principles are commended to multinational enterprises as well as to governments and employers' and workers' organizations of home and host countries	- Voluntary code of conduct that sets out commitments for governments, MNCs and employers' and workers' organizations	- Encourage multinational enterprises to contribute to global economic and social progress and to minimize and resolve any negative impacts to which their various operations may contribute
Global Sullivan Principles of Social Accountability (Global Sullivan Principles)	- Set of 8 principles linked to social issues, labour conditions, environmental sustainability, and human rights - Emphasis is on MNCs although smaller companies are welcome to join	- Voluntary code of conduct with simple reporting measures to assess companies' progress towards meeting the aspirations embodied in the 8 principles	- Encourage companies to support economic, social and political justice, promote human rights and equal opportunity, foster a culture of peace and tolerance, and improve the quality of life for employees and their communities
Social Accountability 8000 (Social Accountability International & the Council on Economic Priorities Accreditation Agency)	- Guidelines govern labour conditions, human rights and social accountability - Global program that targets companies of all sizes	- Voluntary code of conduct related to labour conditions, policies and practices - Certification program for companies to verify compliance with the standards using accredited auditors to monitor and assess performance	- Encourage key stakeholders to develop consensus-based voluntary standards - Promote implementation of SA 8000 standards worldwide
Human Rights Guidelines for Companies (Amnesty International)	- Guidelines relate to human rights, corporate security, community engagement, discrimination, forced labour, and health and safety - Global program that targets companies of all sizes	- Checklist of human rights guidelines for companies and recommendations related to frameworks for strategic planning & policy, security arrangements, personnel policies & practices, and monitoring and implementation of human rights practices	-Encourage companies to use their influence to mitigate the violation of human rights - Assist companies in confronting situations of human rights violations or the potential for such violations

GoodCompany Guidelines (Canadian Business for Social Responsibility)	- Guidelines cover social, environmental and financial performance - Directed mainly to Canadian companies	- Checklist for companies to identify performance gaps and pinpoint policies to address problems related to financial, environmental and social practices	- Enable companies to assess, improve and report on their social, environmental and financial performance
Ethical Trading Initiative (alliance of companies, NGOs, and trade unions)	- Guidelines pertain mainly to labour standards - UK-based organization that focuses mainly on UK companies	- Voluntary code of conduct that focuses on labour conditions as well as standards for ethical sourcing, including provisions for the monitoring and independent verification of the observance of ethics code provisions	- Identify and promote ethical trade and good practice in the implementation of labour standards

While these frameworks provide a basis for efforts to mainstream corporate conflict prevention, there are challenges in encouraging MNCs to adopt this type of approach. In particular, it remains to be seen whether voluntary initiatives with few compliance mechanisms are sufficient to change the way corporate decision-makers react to human rights, environmental, and labour issues. The same compliance concerns would apply to a conflict prevention framework that relied on a similar strategy. Although this is a topic that requires further attention, rather than focusing on the strengths and weaknesses of potential conflict management frameworks, the following section analyses risk assessment tools for the corporate sector with a view to improving the ability of MNCs to identify conflict risks and to measure the conflict impact of their activities.

iii) What types of risk assessment tools are available to the private sector and how do they measure conflict risk?

It appears that the focus of private sector risk analysis is not well suited to enable MNCs to identify and manage conflict risks, as corporate risk analysts generally assess the overall investment climate, rather than specific conflict indicators. Before analysing ways in which conflict risk assessment could be modified to suit the needs of the private sector, it is first necessary to evaluate risk from the private sector perspective. The main classifications of risk relevant to the private sector are outlined in Table 3.

Table 3

Type of Risk	Definition	How it is commonly measured	Possible linkages with CIFP's conflict risk indicators
Commercial risk	- risks that compromise the commercial viability of investment by interrupting revenue streams - level of risk is highly dependent on life-span of project and demand for service/good produced	- policy changes that affect market demand (including deregulation, physical barriers to market - i.e. insufficient infrastructure, market liberalization, or changes in import/export quotas, tariffs, users fees)	- trade openness
Economic risk	- risks related to the macroeconomic stability of the host country	- exchange rate devaluations, interest rate increases, inflation, foreign exchange shortages, restrictions on profit repatriation or currency convertibility	- GDP growth rate, inflation, official exchange rate, FDI inflows

Environmental risk	- technical risks related to the environment and natural resources - risks vary considerably depending on the nature and location of the investment activity	- indicators of environmental risk are highly context specific and cannot easily be generalized	- rate of deforestation, people per km^2 of arable land, freshwater resources
Force majeure risk	- unpredictable and exceptional events outside the control of main parties to an investment	- natural disasters, sabotage, epidemic, war, riots, or revolution (in contrast to political/social risks such events must be catastrophic, unpredicted, and unrelated to activities undertaken by the investor)	- see political and social risk indicators
Management risk	- risks stemming from poor project planning, development and management	- indicators of management risk are highly context specific and cannot easily be generalized	- n/a
Political risk	- government actions and/or inactions that impact private sector activities (including nationalization and expropriation)	- change in the government or regime, change in policies toward private sector and foreign investors, political instability and/or conflict	- regime durability, level of democracy, restrictions on civil/political rights, restrictions on press freedom, level of corruption, military expenditure, imports of major conventional weapons, total armed forces
Regulatory or legal risk	-risks related to specific laws, regulations, contracts and more broadly related to political and legal culture	- indicators related to the judicial system, dispute resolution mechanisms, regulatory environment, legislative framework, property rights	- level of corruption, level of democracy
Social risk	- risks that exist when there is a social unrest (often considered a sub-sector of political risk)	- indicators include strikes, riots, civil disobedience, religious turmoil, ethnic conflict, war, and terrorism	- armed conflicts, # of refugees produced, # of refugees hosted, IDPs, others of concern, ethnic diversity, religious diversity, risk of ethnic rebellion, population growth rate, population density, youth bulge, inequality score, access to improved water source, access to sanitation, life expectancy, infant mortality rate, child labour, school enrolment, HIV/AIDS rate, maternal mortality rate

Adapted from: (Sharman, 1997, pp. 46-64)

In the last half-century, MNCs have grown increasingly dependent on risk assessment as a means to analyse business opportunities in unfamiliar markets. This has been an inevitable consequence of the rapid global economic integration that has characterized the past several decades, resulting in “a mushrooming of political risk analysis services, ranging from independent consultants and experts, to consulting or advisory groups, and in-house specialists” (Sassi & Gill, 1983, p. 1). While investment risk assessment services are essential to MNC decision-makers, they appear insufficient to measure the specific impact-related risks that are relevant to conflict prevention efforts. As stated by Patrick Boyle, an employee of Export Development Canada, “the institutional or corporate role of the risk analyst is to identify in advance potential and existing risk situations, primarily political in nature or origin as they relate to a country’s creditworthiness and/or investment climate in order to minimize the risk of financial loss for his employer” (Boyle, 1983, p. 28). This orientation represents an evident limitation, as MNCs that wish to mainstream conflict prevention will have to develop a different approach that specifically focuses on conflict risk analysis and context-specific conflict impact assessments.

MNCs have a multitude of options when it comes to risk assessment services, although decision-makers may focus on different elements of risk analysis depending on the type of investment, stage of the project, and level of perceived risk. Private consultants are the dominant providers of risk assessment services for the corporate sector, but in recent decades many MNCs have started to develop internal capabilities for risk analysis (Nelson, 2000, p. 31). In addition to the massive number of risk consulting firms that cater to the private sector, banks, insurance companies and export credit agencies offer similar services. Risk assessments are generally tailored to the individual needs of clients and can vary considerably on the basis of different information needs within and between corporations, and across industry sectors. As there are so many available options with regard to corporate risk assessment tools and internal/external consulting services, it is extremely difficult to draw clear comparisons. This task is further hampered due to the fact that most risk assessment tools are proprietary. In light of these difficulties, Table 4 examines how consulting firms identify and assess conflict risk in an effort to summarize key areas of commonality and difference.

Table 4

Comparison of selected risk consultants that cater to the private sector[6]

CONSULTING FIRM	SCOPE	SERVICES OFFERED	HOW THEY IDENTIFY OR DEFINE RISK
Business Environment Risk Intelligence	global	- private source of analysis and forecasts pertaining to a country's business environment: offer a Business Risk Service (BRS) for companies based on information compiled and analysed by 2 panels of 105 experts from around the world	- BRS monitors 50 countries 3x per year, assessing 57 criteria divided into 3 indices: the Political Risk Index, the Operation Risk Index, and the R Factor – the government's willingness to allow foreign companies to convert/repatriate profits and to import/export components, equipment and raw materials
Control Risks Group	global	- political and security risk analysis, confidential investigations, security consultancy, crisis management and response - offer an on-line risk assessment service, the Country Risk Forecast, that measures the impact of political and security developments on businesses and business activities	- its Total Risks Assessment Methodology for customized consultancy services involves an impact-likelihood matrix to measure 8 different aspects of risk (including security, political stability, and the business and regulatory environment) - the Country Risk Forecast is a subscriber service that delivers standardized information for clients (updated regularly) with analysis of political, security and travel risks, ranking these as either extreme, high, medium, low or insignificant for 120 countries (for definitions of these rankings see Appendix 2)
DRI-WEFA/ Global Insight	global	- produce a quarterly Country Risk Review, providing ratings based on assessments reviewed by two different levels of committees that ensure consistent quality for cross-country data comparisons	- the Country Risk Reviews identifies "potential sources of risk," as well as "immediate risk events" and "secondary risk events" including a total of 51 indicators - use short-term (1-year forecasts) and long-term (5-year forecasts) risk ratings
Global Risk Assessments Inc.	global	- provide research, consulting, publishing, and training in international business environment assessment, political risk assessment and management, and investment and trade risk analysis	- offer a variety of risk assessment studies (drawing on qualitative and quantitative data gathered by a network of scholars, specialists, and practitioners) that are designed to investigate different aspects of risk depending on the needs of the client
International Legal & Political Risk Consultancy	global	- ethical, international, legal, and political risk audits & compliance assessments for foreign ventures - also offer ethical, international legal, and political risk analyses for import/export and joint ventures in high technology goods and services	- offer project-specific services as well as more generalized country reports and regional reports that assess different aspects of ethical, legal, and political risk

[6] For a listing of websites pertaining to risk analysis see Appendix 3.

Morris & Morris	Middle East and Islamic countries	- a political risk and crisis mitigation consulting business that offers short-term analysis of critical policy, political risk and crisis issues in the Islamic world	- provide need-specific risk reports for clients
Political & Economic Link Consulting	developing countries	- consulting service that offers solutions to governments and corporations confronting politically sensitive environments (including armed conflicts) - also provide demand-driven analyses and recommendations based on client needs	- are more focused on solutions to risky situations rather than analysis of risky situations (PELC does not provide standardized risk reports or assessments)
Political & Economic Risk Consultancy	East and Southeast Asia	- provide strategic business information and analysis, produce a range of reports, paying special attention to critical socio-political variables like corruption, intellectual property rights, labour quality, and other specific indicators of political and economic risk	- use surveys of expatriate business managers in 12 countries in Asia to gather information on a variety of indicators including: corruption, the legal system, reliability of police and judiciary, political stability, rule of law, regulatory quality and government effectiveness
Political Risk Services	global	- their International Country Risk Guide provides assessments of political, economic, and financial risk based on analysis of worldwide experts, subject to a peer review process	- assess 12 components of political risk (e.g. military in politics, democratic accountability, internal conflict, government stability, bureaucratic quality, investment profile, law and order, corruption etc.), 5 components of financial risk, and 6 components of economic risk
S. J. Rundt & Associates, Inc.	global	- consulting and publishing firm providing information to multinational companies, exporters, importers, banks and investors to assess risks and opportunities in their international strategies and transactions - offer forecasts on global developments in trade & finance, economic and political trends, and government regulations	- publish country risk reports summarizing risk indicators that reflect the internal financial situation, external financial situation, political stability, regulatory regime, credit performance, and trading terms - also produce weekly online business intelligence reports pertaining to changing political, economic, and financial conditions in countries around the world
Summit Analytical Associates	emerging markets (primarily focusing on Latin America)	- consulting firm that undertakes country-specific risk assessment, strategic analysis of sector/industry specific risk, and continuous monitoring of public policy and political developments	- produce Emerging Market Political Risk Reports, a series of risk analyses that measure indicators related to political background, economic profile, recent political developments, state-labour-management relations, electoral analysis, institutional relations, political actors, interest group activity, public policy developments, and potential sources of civic unrest and political violence

iv) Conflict risk assessment tools for early warning and conflict prevention: How could they be adapted for private sector use?

In contrast to MNCs, which generally assess conflict potential as a component of broader investment and security risks, several different multilateral organizations, governments, academic research institutes, and NGOs have developed risk assessment methodologies that rely on a variety of indicators specifically designed to analyse conflict risk. There is often disagreement about which indicators are most important to provide early warning about a potential outbreak of violent conflict, but conflict analysts basically focus on three main categories of indicators:

- *Structural Factors:* "background conditions that form the pre-conditions of crisis situations such as systematic political exclusion, inherent economic inequities, lack of adequate and responsive institutions, the presence of ethnic minorities, resource exhaustion, over-dependence on international trade" (Joseph, 2000, p. 7).
- *Accelerators:* "feedback events that rapidly increase the level of significance of the most volatile of the general conditions, but may also signify system breakdown or basic changes in political causality" (cited in Joseph, 2000, p. 7)
- *Triggers:* "sudden events that act as catalysts igniting a crisis or conflict (e.g. the assassination of a leader, election fraud, a political scandal)" (Joseph, 2000, p. 7).

Given the overwhelming amount of data that is considered relevant to conflict risk analysis, it is extremely challenging to simplify and condense the wide array of information that is necessary to evaluate conflict risk to make it accessible to decision-makers in the public and private sectors.

With this objective in mind, the CIFP database, a Canadian early warning tool, provides open source risk assessments with information on country-level risk indicators. Although CIFP's primary output is a global risk ranking, CIFP also produces regional reports with more qualitative information that is adaptable to a variety of needs and interests. CIFP bases its risk analysis on nine categories of conflict potential including: history of armed conflict, governance and political instability, militarization, population heterogeneity, demographic stress, economic performance, human development, environmental stress, and international linkages (Joseph 2000, p. 5). Within each of these categories, a variety of indicators are used to establish criteria for risk, drawing mainly on datasets from multilateral organizations (See Table 5).

Table 5

CIFP's conflict risk indicators

History of armed conflicts	Governance and political instability	Militarization	Population heterogeneity	Demographic stress	Economic performance	Human development	Environmental stress	International linkages
- armed conflicts (# of) - # of refugees produced - # of refugees hosted, IDPS, Others of concern	- level of democracy - regime durability - restrictions on civil and political rights - restrictions on press freedom - level of corruption	- military expenditure (constant 1998 US$ millions) - total military expenditure (% of GDP, constant 1998) - imports of major conventional weapons - exports of major conventional weapons - total armed forces - total armed forces (per 10,000)	- ethnic diversity - religious diversity - risk of ethnic rebellion (single measure)	- total population - population growth rate (annual %) - population density (people per km^2) - urban population (% of total) - urban population growth rate (annual %) - youth bulge (population age 0-14 as a % of total)	- GDP growth rate (annual %) - GDP per capita (PPP, current international $) - inflation [consumer prices (annual %)] - official exchange rate (LCU/US$, period average) - FDI [net inflows (% of GDP)] - total debt service (% of GDP) - trade openness (trade as a % of GDP) - inequality score (GINI coefficient)	- access to improved water source (% of total population) - access to sanitation (% of total population) - life expectancy (years) - infant mortality rate (per 1000 live births) - maternal mortality rate (per 100,000 live births) - HIV/AIDS (% of adult population) - primary school enrolment (% relevant age group) - secondary school enrolment (% relevant age group) - child labour (% of children aged 10-14)	- rate of deforestation (%) - people per km^2 of arable land - freshwater resources (cubic metres per capita)	- economic organizations index - military/ security alliances index - UN organizations index - multipurpose and miscellaneous organizations index - international disputes (# of)

Once these indicators have been collected for each country, a risk indexing system is used to calculate a ranking of overall conflict risk. While CIFP's approach may provide suitable risk information for the private sector, there must be further efforts to determine whether the chosen indicators are relevant to corporate decision-making or whether a different selection of indicators would be more appropriate.

CIFP's risk assessment methodology is one of many that have been developed in recent years as a tool for early warning and conflict prevention. There is significant diversity in approaches to risk assessment, which may be helpful for those who seek to bridge the conceptual and practical gaps between the private sector and other interested actors involved in conflict prevention. In fact, there has been a groundswell of interest in supporting different corporate risk assessment and conflict prevention tools over the last few years. Table 6 summarizes some of the different initiatives that have taken shape:

Table 6

Tools to Promote Corporate Conflict Prevention	Purpose and objectives	Progress to date
Business and Peace Programme (Prince of Wales Business Forum & International Alert)	- to promote the role that business can play (individually or collectively) in contributing to long-term peace in conflict-prone areas, and to help companies develop and implement policies and practices to this end - main activities include: advocacy, research and analysis, and country-level initiatives to disseminate conflict-sensitive management policies among businesses in conflict zones and to promote better relations between business and government/civil society	- have published a comprehensive report, *The business of peace*, on ways the private sector can become a partner in conflict prevention - are developing case studies of companies contributing to peacebuilding around the world - are producing guidelines and manuals that set out basic criteria for use in practical situations - have developed an on-line Conflict and Security Resource Centre for companies and researchers
Business Humanitarian Forum (Business Humanitarian Forum)	- to promote dialogue between leaders of humanitarian organizations and businesses, to support exchange of information and experience between the business and humanitarian communities, to foster effective co-operation between the two communities, to provide information and to advise on relations between the business and humanitarian communities	- was founded in 1999 and has convened several meetings to improve communication between business and humanitarian agencies - has established a Geneva-based non-profit organization to move the BHF agenda forward
Conflict Prevention and Business Involvement (UK government: DfID and FCO)	- to raise awareness about the negative and positive influences that companies can have on conflict situations and to foster partnerships between NGOs, government and business in conflict zones	- organized an international conference in May 2000 to focus debate and raise awareness of the opportunities and dangers which businesses may encounter in conflict-prone regions - currently organizing in-country round tables
Corporate Engagement Project	- to provide managers with a better perspective on which aspects of their operational decisions	- with funding from the World Bank, the governments of Canada, Denmark, Germany, and the Netherlands, and

(Collaborative for Development Action Inc.)	have direct and indirect conflict impacts, to identify operational options that have positive impacts on relationships among groups and promote overall social and political stability, to design management tools that lower the costs of security, insurance, and reputational damage and that contribute to establishing a positive legacy for the company	from private contributors, CDA is undertaking consultations with 20 companies (representing a wide array of sectors and geographical locations) as part of their research into corporate experiences in conflict zones, to identify patterns and replicable management options - the final product will be a publication detailing lessons learned and practical tools developed, which will be made available to the wider international business community
Fund for Peace (Foreign Policy Roundtable)	- to create dialogue between corporate and human rights representatives on how to achieve common goals and interests - 2 major themes include promotion of the rule of law and support for open societies	- founded in 1998 in Washington, DC - undertake monthly meetings with representatives from 16 companies and 20 NGOs - working on a set of joint principles and a management tool on partnerships
Policy Dialogue on Business in Zones of Conflict (UN Global Compact)	- forum where representatives from companies, NGOs and trade unions identify key issues and concrete actions pertaining to the role of the private sector in conflict areas and explore ways and means by which business and other actors of society can contribute conflict prevention - main focus of research/analysis includes: 1) transparency; 2) multistakeholder initiatives in zones of conflict; 3) revenue sharing regimes; and 4) conflict impact assessment and management tool box	- over the last 2 years, participants have had 3 conferences and formed working groups to come up with frameworks and solutions pertaining to the 4 key issues - will soon be releasing a full report detailing their conflict impact assessment and management tool box, consisting of a conflict risk assessment tool focusing on the pre-investment and pre-operational phases of a project and a conflict impact risk management tool focusing on how to manage risks once corporate investment is operational - have established 8 pilot projects on the role of the private sector in conflict zones
World Diamond Council (World Federation of Diamond Bourses & the International Diamond Manufacturers Association)	- to develop, implement, and oversee a tracking system for the export and import of rough diamonds to prevent the exploitation of diamonds for illicit purposes such as war and inhumane acts - the Council includes representation from the diamond industry, from countries where diamonds play a major economic role, and from the international banking sector	- drafted a proposal for import/export regulations on rough diamonds - cooperating with UN, diamond industry, governments in countries that either import or export diamonds, and concerned civil society groups to push the Council's agenda forward

Although this is by no means a comprehensive list, these efforts indicate that it is possible for the private sector to assume a more effective and prominent role in conflict prevention, in partnership with other actors. Interest in the topic is growing and significant attempts are being made to adapt risk assessment tools for private sector use. While such tools may provide a useful framework for those involved in conflict prevention mainstreaming, the relevance of this approach for the corporate sector would seem to be highly dependent on the willingness of MNCs to adapt and use risk assessment for purposes far beyond feasibility and investment decisions. In particular, it has to be considered whether MNCs would be willing to adhere to conflict prevention recommendations at the expense of other corporate objectives.

v) The Peace and Conflict Impact Assessment (PCIA) framework: A model for MNCs?

While risk analysis is an important component of conflict prevention mainstreaming, MNCs must also develop means to assess and monitor more context-specific impacts that affect the overall political, social, cultural, environmental, and economic situation and could potentially exacerbate conflict. In this regard, companies should follow the lead that has been established by the development community. Due to the enormous challenges that development and aid workers have confronted in conflict zones, there has been much research devoted to formulating a framework for measuring and assessing positive and negative impacts of projects in conflict-prone regions (Bush, 1998, p. 1). According to Kenneth Bush (1998):

> Peace and Conflict Impact Assessment is a means of evaluating (*ex post facto*) and anticipating (*ex ante*, as far as possible) the impacts of proposed and completed development projects on: 1) those structure and processes which strengthen the prospects for peaceful coexistence and decrease the likelihood of the outbreak, reoccurrence, or continuation of violent conflict, and; 2) those structures and processes that increase the likelihood that conflict will be dealt with through violent means (p. 2).

The impetus to develop this framework stems from the assumption that "*any* development project set in a conflict-prone region will *inevitably* have an impact on the peace and conflict environment – positive or negative, direct or indirect, intentional or unintentional" (Bush, 1998, p. 3). Bush recommends that only development projects in an area deemed "at risk" ought to undergo PCIA, therefore this is a tool that complements (but does not replace) risk analysis methodologies.

There is much that the private sector in conflict-prone regions could incorporate from the PCIA framework, given the fact that investment by MNCs is certain to have an impact on the peace and conflict environment. For such a strategy to be successfully implemented, there must be a clear understanding of what impacts need to be assessed and what indicators are useful to measure these impacts. Table 7 examines some potential areas of impact that could be of relevance to the private sector.

Table 7

CONFLICT IMPACTS		EXAMPLES	RELEVANT CIFP INDICATORS
P O S I T I V	Institutional capacity to manage/resolve violent conflict & to promote tolerance and build peace	- impact on capacity to identify and respond to peace and conflict challenges and opportunities; organizational responsiveness; bureaucratic flexibility; efficiency and effectiveness; ability to modify institutional roles and expectations to suit changing environment and needs; financial management	- restrictions on civil/political rights, restrictions on press freedom, level of corruption
	Political structures and processes	- impact on policy content and efficacy; transparency; accountability; democratic culture; dialogue; conflict mediation and reconciliation; strengthening civil society actors; political mobilization; rule of law; independence of legal system; human rights conditions; labour standards	- regime durability, level of democracy, level of corruption

E IMPACTS	Economic structures and processes	- impact on strengthening equitable socio-economic structures/processes; conversion of war economies; impact on economic infrastructure; supply of basic goods; availability of investment capital; banking system; employment impact; productivity; training; income generation; production of commercial product or service; food security	- GDP growth rate, inflation, official exchange rate, FDI inflows, trade openness
	Social reconstruction and empowerment	- impact on quality of life; constructive social communication (promoting tolerance, inclusiveness and participatory principles); adequacy of health care and social services; compatibility of interests; trust & inter-group dialogue; communications & transport; resettlement; housing; employment; education; nurturing a culture of peace	- inequality score, access to improved water source, access to sanitation, life expectancy, infant mortality rate, child labour, school enrolment, HIV/AIDS rate, maternal mortality rate
NEGATIVE IMPACTS	Access to individual or collective resources	- direct and indirect impact on economic resources (especially non-renewable resources), the natural environment, access to basic human needs (water, land, food), as well non-material goods (such as social status, access to information, legitimacy, authority, and use of force)	- rate of deforestation, people per km^2 of arable land, freshwater resources, population growth rate, population density, youth bulge
	Creation or exacerbation of socio-economic tensions	- impact of foreign investment creates winners and losers (some groups/individuals will profit whereas others will be negatively affected), thus there may be worsening economic inequalities that disrupt the status quo and contribute to violent conflict	- inequality score, access to improved water source, access to sanitation, life expectancy, infant mortality rate, school enrolment, HIV/AIDS rate, maternal mortality rate
	Change in the material basis of food security or economic stability	- MNCs involved in certain sectors (especially extractive industries, forestry & agriculture) may introduce new technologies that disrupt the traditional economy and contribute to worsening food security	- GDP growth rate, nutrition & health indicators, infant mortality rate
	Challenging control over the existing political, economic, or social systems	- economic development and foreign investment may give rise to new structures/practices of political, economic, and social control that could exacerbate the risk of conflict, especially if a certain ethnic group, social class, or region benefits/suffers disproportionately than others	- inequality score, ethnic diversity, religious diversity, risk of ethnic rebellion, level of corruption
	Military and human security	- direct and indirect impact on: the level, intensity, dynamics of violence; violent behaviour and crime; human security (broadly defined); defence/security policy	- military expenditure, imports of major conventional weapons, total armed forces, murder rate, armed conflicts, # of refugees produced, # of refugees, IDPs etc. hosted

Adapted from: (Bush, 1998, pp. 14-16)

Although it must be recognized that MNCs would likely only be willing to utilize the PCIA framework if they perceive that the benefits outweigh the costs, it is quite encouraging that in the last decade, many MNCs have come to recognize the need to undertake rigorous environmental and social impact assessments, even in developing countries where laws and regulations governing human rights, labour conditions, and environmental issues tend to be either ineffective or non-existent. Given the media coverage, NGO campaigns, consumer group boycotts, lawsuits, and other strategies that have been employed to protest MNC activities in conflict-prone countries, such as Nigeria, Sudan, Myanmar, and countless others, it seems reasonable to assume that companies might be willing to avoid such reputational damage by implementing responsible policies to assess the peace and conflict impact of their activities. In addition, clearer standards defining the expected attitude and behaviour of companies in conflict zones would help to encourage companies to apply best practice policies regarding this type of impact assessment.

IV. CONCLUSION AND RECOMMENDATIONS

To conclude, MNCs already employ numerous analysts to examine different facets of risk. However, there have been few efforts to adapt risk assessment tools to enable MNCs to become more involved in conflict prevention. In particular, there is a need to mainstream the use of peace and conflict impact assessment tools to measure risks related to specific MNC activities. This is essential if MNCs are to develop comprehensive strategies to monitor, evaluate and minimize any potential impacts that may worsen conflict and to promote practices that help to prevent conflict. Although MNCs are more and more often adhering to CSR practices in developing countries, there is no guarantee that sustainable development initiatives alone will be sufficient to ensure that companies contribute to conflict prevention. Rather, efforts must be made to encourage MNCs to participate in conflict prevention as an explicit objective, related to but distinct from labour, human rights, and environmental issues.

Although conflict risk and impact assessment tools will enable MNCs to make informed choices about their business operations, there must also be incentives for corporate decision-makers to become more actively involved in conflict prevention. Currently it seems that the private sector is somewhat reluctant to take responsibility for conflict prevention, especially since large MNCs are already vulnerable to criticisms about their inordinate power and influence. In fact, some economists take issue with the concept of CSR, arguing that the main role of business is to make profits.[7] Yet there are many cases where MNCs are badly affected by their own irresponsible behaviour in conflict zones, as a result of consumer boycotts, decreased share value, and higher operating costs.[8] If there is pressure on MNCs to behave in a socially responsible manner and clear benefits for doing so, there is likely to be growing support among MNC decision-makers for more concrete guidelines, policies, and regulations regarding the role and responsibility of the private sector in conflict-prone countries.

While the eventual objective is for companies of all sizes to adopt socially responsible practices by fostering a climate of peace in conflict-prone societies, by helping to prevent and mitigate crisis situations, and by contributing to reconstruction and reconciliation, there is much work that needs to be done to achieve these goals. The first step in ensuring that MNCs are able to mainstream conflict prevention strategies is the introduction and adaptation of risk analysis and conflict impact assessment tools to serve the needs and interests of the private sector. There are several different areas of action that could be pursued to promote the development and use of such tools, which can be roughly divided between government, civil society, and the private sector.

First, governments and government agencies should take a lead in developing standards and guidelines for investment in conflict-prone regions. Within Canada, trade promotion and export financing agencies, such as Export Development Canada, CIDA-INC, Team Canada Inc., International Trade Centres, the Trade Commissioner Service, the Business Development Bank of Canada, the Canadian Commercial Corporation, as well as Regional Trade Networks, should all have coherent policies when it comes to providing advice and services to Canadian companies investing in conflict-prone countries. In particular, as Canadian companies tend to invest in high-impact sectors, such as mining, oil & gas, telecommunications, hydro-electrical engineering, and forestry, it is essential that government agencies emphasize the importance of undertaking conflict impact analysis and risk assessment. This task would be especially well-suited to CIDA-INC, whose mandate is to support development-oriented aspects of Canadian commercial investment in

[7] For example, David Henderson recently published a book titled, *Misguided virtue: False notions of corporate social responsibility,* that discredits the logic behind efforts to promote CSR.
[8] For example, analysts estimate that Talisman's share price would jump immediately by $4-8 dollars if it exited Sudan (Nguyen, 2002, p. B4).

developing countries. In addition, publicly-sponsored export and trade financing programs, such as EDC, ought to examine their risk criteria to ensure that they are aligned with conflict prevention objectives. Furthermore, governments should foster dialogue with Canadian companies to determine their needs and concerns related to investment in conflict-prone countries.

Second, NGOs must also play an active role in promoting corporate conflict prevention. Many different NGOs have already become involved in developing tools for conflict impact and risk assessment, especially those interested in human rights, environmental sustainability, and corporate social responsibility. By generating critical research on corporate activities in conflict zones and by investigating corporate efforts to prevent conflict, NGOs can help to establish criteria for corporate engagement and assist in the benchmarking of uniform standards that could apply to sector-specific companies. NGOs would be well positioned to play a role monitoring and assessing the success of corporate conflict prevention efforts. NGOs can also act as a bridge between the government and the private sector, to ensure that both are upholding their public responsibilities relating to conflict prevention.

Finally, the private sector and investment groups have the most at stake when it comes to corporate conflict prevention. Ultimately, the success of corporate conflict prevention strategies will depend on the extent to which companies are willing to introduce risk assessment and risk management strategies to ensure that their activities do not exacerbate conflict. Industry associations and export/trade organizations should be at the forefront of efforts to develop conflict prevention tools for the private sector. It is clearly in the interests of companies to establish clear guidelines governing investment and operational decisions in conflict-prone countries by engaging in dialogue and by partnering with civil society groups, multilateral organizations, and governments. Therefore, the private sector must continue to support efforts to develop suitable conflict prevention policies and practices, recognizing the interrelationships between conflict and social, political, environmental, cultural, and economic factors. Only by learning to manage the conflict-related risks and impacts linked to their operations will companies will be able to invest successfully in the business of peace.

Abbreviations and Acronyms

BP	British Petroleum
CIDA	Canadian International Development Agency
CIDA-INC	CIDA's Industrial Cooperation Program
CIFP	Country Indicators for Foreign Policy
CSR	corporate social responsibility
DfID	Department for International Development (UK)
EDC	Export Development Canada
FCO	Foreign and Commonwealth Office (UK)
FDI	foreign direct investment
FEWER	Forum on Early Warning and Early Response
MNC	multinational corporation
NGO	non-governmental organization
PCIA	Peace and Conflict Impact Assessment

Glossary[9]

- **Conflict:** Conflict is present when two or more parties perceive that their interests are incompatible, express hostile attitudes, or... pursue their interests through actions that damage the other parties. These parties may be individuals, small or large groups, and countries. Interests can differ over: i) access to and distribution of *resources* (e.g. territory, money, energy sources, food); ii) control of *power* and participation in political decision-making; iii) *identity*, (cultural, social and political communities); iv) *status*, particularly those embodied in systems of government, religion, or ideology.

- **Conflict prevention:** Actions, policies, procedures or institutions undertaken in particularly vulnerable places and times in order to avoid the threat or use of armed force and related forms of coercion by states or groups, as the way to settle the political disputes that can arise from the destabilizing effects of economic, social, political and international change. Conflict prevention can also include action taken after a violent conflict to avoid its recurrence.

- **Corporate social responsibility:** A concept that implies that a company's task is to seek an optimum balance in responding to the diverse needs of the various interest groups and constituencies (or stakeholders) affected by its decisions. It generally refers to ways of managing business processes in order to produce an overall positive impact on society.

- **Early warning:** The systematic collection and analysis of information coming from areas of crises for the purpose of: a) anticipating the escalation of violent conflict; b) the development of strategic responses to these crises; and c) the presentation of options to critical actors for the purposes of decision-making.

- **Peace and conflict impact assessment:** A means of evaluating (*ex post facto*) and anticipating (*ex ante*, as far as possible) the impacts of proposed and completed development projects on: 1) those structure and processes which strengthen the prospects for peaceful coexistence and

[9] Most definitions are directly cited from Alex Schmid's (1998) *Thesaurus and glossary of early warning and conflict prevention terms.*

decrease the likelihood of the outbreak, reoccurrence, or continuation of violent conflict, and; 2) those structures and processes that increase the likelihood that conflict will be dealt with through violent means.

- Risk: Degree of danger associated with a given operation, course of action, or failure to act in crisis situation. For conflict forecasting, it makes sense to distinguish between levels of risks, e.g.: i) high risk; ii) high moderate risk; iii) moderate risk; iv) low moderate risk; v) low risk.

- Risk analysis: Calculation and/or simulation of degree of danger attached to a course of action for the purpose of uncertainty reduction. Risk assessment and early warning are distinct but complementary activities. Risk assessments are based on the systematic analysis of remote and intermediate conditions. Early warning requires near real-time assessment of events that, in a high risk environment, are likely to accelerate or trigger the rapid escalation of conflict.

Appendix 1

Control Risks Group's country risk analysis for 2002

REGION	EXTREME RISK[10]	HIGH RISK[11]
AFRICA	Burundi*, Central African Republic, Chad, Liberia, Somalia, Sudan	Algeria*, Angola, Cameroon, Congo (Brazzaville), Congo (DRC), Ethiopia, Guinea (Conakry), Kenya, Niger, Nigeria, Rwanda, Sierra Leone*, South Africa, Tanzania, Uganda, Zambia
AMERICAS		Colombia*, Ecuador, Guatemala, Haiti*, Jamaica, Mexico, Panama, Peru, Venezuela
ASIA	Pakistan, Sri Lanka	India, Indonesia, Nepal, Philippines
EUROPE/ FORMER USSR	Afghanistan*, Russia, Tajikistan	Albania, Azerbaijan, Georgia*, Kyrgyzstan, Macedonia*, Moldova, Turkmenistan*, Uzbekistan, Yugoslavia
MIDDLE EAST		Iran, Iraq, Israel and Gaza/West Bank, Kuwait, Yemen (and for U.S. & allies' interests: Bahrain, Oman, Qatar, Saudi Arabia, United Arab Emirates)

* Indicates entire country included in ranking

[10] According to CRG: Extreme risk indicates that the severity of security risks to assets or personnel is likely to make business operations untenable. There is no law and order; conditions may verge on war or civil war. Companies must strongly consider withdrawal.

[11] According to CRG: High risk indicates that there is a probability that foreign companies will face security problems; special measures are required. Assets and personnel are at constant risk from violence or theft by state or non-state actors OR there is a high risk of collateral damage from terrorism or other violence. State protection is very limited.

Appendix 2

Control Risks Group's risk classification

Level of Risk	Political Risk	Security Risk	Travel Risk

INSIGNIFICANT	The government is stable and there is a high degree of political continuity. There are no significant extra-constitutional threats to the authority of the government AND there is no arbitrary treatment of business by government or in the courts.	Virtually no politically-motivated violence, and a low level of violent crime. However, extremely isolated attacks by foreign terrorists may occur.	The crime risk is very low. No terrorist groups are active and, although isolated incidents are possible, the security threat to travellers is minimal.
LOW	Political and commercial institutions are strong. Any changes of government are likely to take place through constitutional process. Political and economic stability is secure enough to withstand occasional internal disputes or outbreaks of unrest AND courts and other government authorities respect business rights.	Occasional violence perpetrated by terrorists or criminals. This affects companies or individual members of their staff only infrequently.	There are occasional demonstrations or terrorist incidents, but these provide no more than incidental threats to business travellers. There is a limited amount of criminal activity but this provides little risk to travellers provided they exercise commonsense discretion.
MEDIUM	Political and economic stability is secure in the short term but cannot be guaranteed in the longer-term because political and state institutions lack authority or are evolving OR the economy is weak. Legal guarantees are weak. In some Medium risk countries there is a latent threat of military or other illegal intervention.	Internal unrest or violence frequently perpetrated by terrorists or criminals, though there are no areas completely outside the state's control. Violence occasionally affects companies or individual members of their staff, but there is no sustained threat directed specifically against foreign companies.	There is a high crime rate in certain areas or significant political unrest which could disrupt business travel at short notice. Terrorist attacks occasionally disrupt travel.
HIGH	Political, economic and legal institutions are highly vulnerable or have ceased to function effectively. The government could be ousted by non-constitutional means OR the government is only maintained in office by the presence of international peacekeeping force.	There is a sustained campaign of terrorist or criminal violence specifically directed against companies' personnel and property OR there is a high risk of collateral damage from attacks on nearby targets. There is a probability - not a possibility - of encountering security problems.	A terrorist campaign or high levels of violent crime directly affect business travellers. Business travel is possible, but only after careful planning.
EXTREME	Law and order has broken down and government has ceased to function outside very narrow circles: the economy is in ruins. There are no protections for foreign business except possible political patronage.	The government is unable to maintain law and order. In extreme cases conditions verge on war or civil war. Business operations become untenable or are set to become so. Foreign companies must strongly consider withdrawal.	Conditions of war or civil war exist or are about to: law and order are in imminent danger of breaking down. It is strongly advisable that travel should be avoided.

Source: Control Risks Group website

<u>Appendix 3</u>

List of selected risk analysis websites

RISK ASSESSMENT SERVICE	WEBSITE
Control Risks Group	http://www.crg.com
Country Indicators for Foreign Policy	http://www.carleton.ca/cifp/
Global Risk Assessments Inc.	http://www.grai.com
International Legal & Political Risk Consultancy	http://www.ilprc.com
Kreller Business Information Group	http://www.kreller.com
Morris & Morris	http://www.morrisx2.com
Political & Economic Risk Consultancy	http://www.asiarisk.com
Political & Economic Link Consulting	http://www.pelc.net
S. J. Rundt & Associates, Inc.	http://www.rundtsintelligence.com
Summit Analytical Associates	http://www.s2a.com
DRI-WEFA/ Global Insight	http://www.dri-wefa.com/main.cfm
Business Environment Risk Intelligence	http://www.beri.com
European Bank for Reconstruction and Development	http://www.ebrd.org
The Economist Intelligence Unit	http://www.eiu.com
World Economic Forum	http://www.weforum.org
Political Risk Services	http://www.prsgroup.com
World Business Environment Survey	http://www1.worldbank.org/beext/part_ii_csai/csai_maina_wbes.htm
Institute for Management Development	http://www.imd.ch
STRATFOR	http://www.stratfor.com/

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