Country Indicators for Foreign Policy

Corporate Social Responsibility: The Business Case

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.

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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.

The business case for developing corporate social responsibility strategies that particularly address conflict impact and management is simple; maintaining business sustainability in difficult environments. It is difficult to quantify the value of engaging in conflict prevention as often the costs associated with such a decision are more readily apparent than the benefits. Perceptions of the costs associated in the private sector developing mandatory corporate social responsibility strategies include the loss of comparative advantage to competitors that choose not to engage in such strategies. This is otherwise known as the problem of defection. Another issue is privately bearing the costs of providing a public good such as conflict prevention which benefits everyone, including competitors hence creating a free-rider problem.

Increasing attention is being paid to international private sector actors and their activities in regions and countries experiencing violent conflict. During the 1990s there were several scandals involving major multinational corporations (MNCs) in conflict-prone countries highlighting some of the negative impacts of MNC investment on conflict. While many MNCs implement some form of non-commercial risk assessment strategy, it is evident that they are ill equipped to assess conflict risks and impacts effectively. Many business risk assessment tools analyse conflict as a potential security risk to MNC investment and daily operations but do not consider the reverse flow of risk: the risk of a company aggravating a conflict situation.[1]

As concern about how companies interact with their political and social environments abroad increases, so too, does the need for companies to develop comprehensive Corporate Social Responsibility (CSR) strategies. One goal of CSR strategies should be to minimize the negative effects of operating in conflict zones while maximizing positive contributions to these areas. The key is to develop strategies that can simultaneously address greater CSR and company goals of maximizing profits.

For MNCs to maintain sustainable profit-maximizing investments, it is necessary for them to consider how they can increase both transparency and accountability in their operations to avoid negative social, political and economic effects. Political developments often precede economic results, thus even in areas with great potential for business growth, mismanagement of conflict can lead to severe strains on operations, damage to corporate reputation, threaten its investment and put both personnel and facilities at risk.[2]

A new approach to risk analysis and impact assessment for MNC operations is needed. A first step would be to adapt available risk assessment methodologies and frameworks so that they better match private sector needs. Next, 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.

This paper is designed to examine the possible gaps between private sector needs and available tools for MNCs to undertake risk analysis and conflict impact assessment. It includes an investigation of the relationship between corporate activities and conflict; an assessment of how risk assessment can contribute to conflict prevention and a summary of available risk assessment tools available to the privates sector; and an analysis of the type of method and data-provision that would best suit the needs of the private sector.

Country Indicators for Foreign Policy (CIFP) has a risk assessment methodology that can uniquely serve the private sector by identifying risk factors that are relevant to the interests and activities of different types of MNC in a context-specific and reliable manner.

1. Tensions between MNCs and Nation-States

Before turning to the discussion on MNC investment in conflict-prone countries and regions it is useful to take some time to discuss the relationship between countries and MNC. Nation-states and multinational enterprises are two distinct regimes operating in one global economy. As such, their relationship is oft times acrimonious. The nation-state regime is built on the principle that people in a national jurisdiction try to maximize their well-being within that jurisdiction. Multinationals, on the other hand, maximize the well-being

[1] Ashley Campbell. 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.

[2] Errol Mendez & Randy Gossen (2002) “A Business Guide to Conflict Impact Assessment and Risk Assessment”

of its stakeholders without necessarily accepting any direct responsibility for the consequences of its actions in individual national jurisdictions.[3]

Multinational enterprises try to maximize their interests by investing abroad seeking access to natural resources, strategic assets, larger markets, or increased efficiency. The OLI paradigm of international production discusses three determinants of MNE activity – ownership specific advantages, location specific advantages and internalization advantages.[4]

Ownership specific advantages largely consist of the privileged possession of tangible and intangible assets that is in the firm's interest to exploit. This part of the paradigm discusses why firms have assets that they want to exploit but not why they want to do through investment. The discussion on location specific advantages seeks to answer this question. Natural and human resources are not evenly distributed throughout the world. Wage differentials, availability of skilled and unskilled labour, transportation costs, legal and administrative infrastructure may be specific to a certain location conferring an advantage on the countries possessing them over those who do not.

The degree to which firms organize to eliminate risks and reduce transactions costs is their internalization advantage. Major economies of scale in production may make it more efficient to service more than one market. When the costs of monitoring and negotiating arms length contracts both domestically and internationally are high, firms engage in vertical integration. Without the incentive to internalize the markets for tangible and intangible assets, without the presence of large economies of scale and scope that cross borders and without the incentive to lower transactions and increase efficiency, the benefits of operating in diverse environments are minute. The distinctiveness of the OLI paradigm is that attempts to answer all these questions.

Nation-states must accommodate a variety of interests within their borders. These include maximizing Gross National Product (GNP) and an entire range of social and strategic goals to do with environmental protection, income distribution, economic and political sovereignty, cultural identity and so on. The perceived value of outbound and inbound investment activity will differ depending on the particular mix of the objectives that governments seek to achieve.

Several governments have employed strategies aimed at enticing foreign-owned enterprises into their economies in order to facilitate this process of maximizing the interests of their citizenship. Incentives offered to MNEs include exemptions from tax and import duties. Countries are prepared to compete to attract foreign investment and this competition has reached the sub-national level. As multinationals search for the best alternatives in which to establish a subsidiary, they appear to be in an advantageous position. However, the dynamics of this relationship changes once the foreign investor commits to locating within a certain jurisdiction. Vernon describes the change in relationships between the host government and the multinational as the "obsolescing bargain."[5]

The "obsolescing bargain" dictates the shift in the ownership of power in the relationship between foreign investors and the host country. As nation states seek to maximize their interests, they anticipate the benefits of new jobs and new sources of revenue that foreign investment may bring. As discussed earlier, governments are often willing to offer incentives to facilitate this process. However, once the foreign investor has committed to investing within a local jurisdiction, the bargaining position of the parties has shifted. At this time, investors have sunk significant amounts of money and time into a project. In capital-intensive

[3] Raymond Vernon, (1999) In the Hurricane's Eye: The troubled prospects of multinational enterprises. Cambridge: Harvard University Press (1999), 28.
[4] John Dunning. (1993) Multinational Enterprises, The Global Economy. p. 79.
[5] Vernon, 65.

industries, such as oil or power plants, it is especially difficult to exit a market once operations have been set up. As such, the government is in a position to impose new demands and place pressure on foreign-owned plants.

Security concerns are also potential sources of contention between multinationals and nation-states. Extractive companies, such as those in the oil or minerals sector are especially vulnerable to security risks because of the capital intensive nature of their investments. Internal instability has made it necessary for extractive companies to use their own armed guards, or by enter arrangements with private security firms or with state security forces in order to protect their property. These arrangements have had interesting ramification in terms of contributing to human rights violations, exacerbating local conflict and thus have resulted in harming the reputation of several MNCs.

There are several examples of MNCs seeking military protection in conflict prone areas. Royal Dutch Shell in Nigeria and British Petroleum in Colombia both suffered reputational damage because of the alleged impact of their security arrangements on local communities. Exxon Mobil's relationship with the Indonesian army in Aceh has come under scrutiny from the human rights community and has led to litigation against the company in the US. Talisman Energy, a Canadian oil company with a 25% interest in a major oil development in Sudan, has attracted adverse publicity because of its security co-operation with the field's co-owner, the Sudanese government, which Amnesty International has accused of grave and systematic violations towards populations in the area. [6]

Jurisdictional conflicts have also created tensions between nation-states and MNEs. Such conflicts arise when the government of one country tries to exercise control over the subsidiary of one its multinational enterprises located in another country. Extraterritoriality raises concerns of the breach of national sovereignty and renders relations between home and host countries acrimonious.

There are several ways in which nation-states try to solve this jurisdictional problem. Many countries have laws, which afford foreign-owned companies national treatment. To reduce problems of jurisdictional overreach, countries have developed bilateral investment agreements that include dispute resolution mechanisms. However, "the problem of jurisdictional overreach will increase for all countries as their economies continue to grow more entangled."[7]

2. MNC Investment in Conflict Prone Areas

After a steady decade of growth, UNCTAD reported that global inward FDI fell by 51 percent to $735 billion, and outflows by 55 percent to $621 billion in 2001. It is estimated that global investment flows (both outflows and inflows) in 2002 fell by another 30 percent, and the FDI flow for 2003 is projected to remain at the same level. The decline in FDI has been concentrated in developed countries. The OECD reports that a total of $490 billion in investment flowed into OECD countries in 2002, down from $615 billion in 2001 and about one-third the level recorded in 2000. However, despite weakening demand for FDI in larger countries, the overall prospects for longer-term FDI remain promising. The economic slowdown has increased competition, highlighting the need for corporations to search for lower cost locations. As corporations seek to exploit low wage economies and take advantage of resources, the potential linkages between conflict and the private sector begin to appear.

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[6] Corporate Social Responsibility Forum, "Extractive Industries: Relationships with Security Forces" retrieved from http://www.humanrightsrisk.com/csr/csrwebassist.nsf/550d4b46b29f68a6852568660081f938/80256adc002b820480256b570034d905/$FILE/Extractives.pdf August 9, 2003, 1.

[7] Vernon, 55.

Once a company decides to invest in a conflict prone area, the decision-making must include how their operations will affect and be affected by the associated political, social and economic instability. This decision is detailed by a MNCs resolution to work *in, on* or *around* a conflict zone.

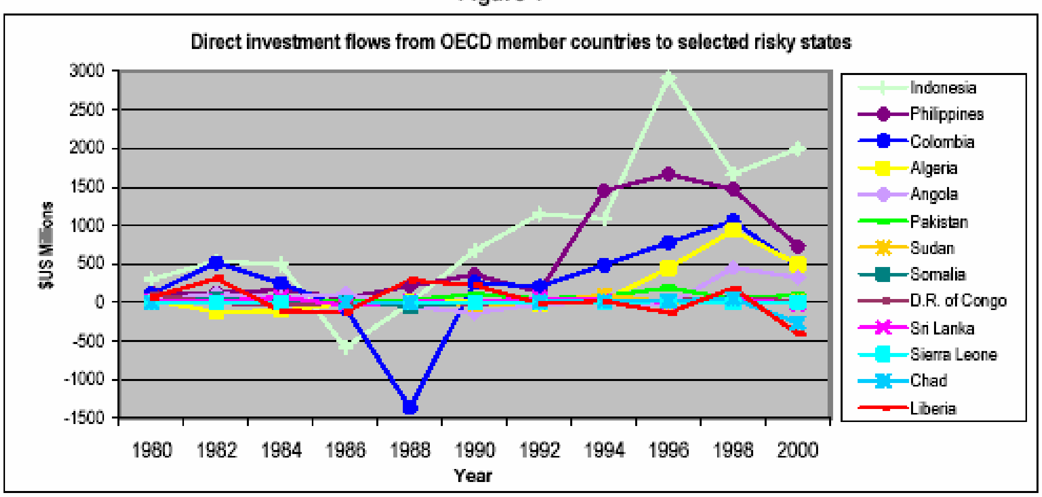
Working in conflict refers to developing a conflict sensitive approach to business operations. The primary focus is mitigating conflict risks so that MNC operations do not have an adverse effect, nor are adversely affected by the dynamics of violent conflict. Polices and procedures of this nature tend to be reactive rather than proactive.

Working on conflict involves specific attempts by corporations to conduct business with a primary focus on conflict prevention, management and resolution. This approach is based on the assumption that foreign investment has a positive impact on a region; aiding in economic development and growth while reducing the likelihood of violent conflict.

Working around conflict refers to actions that treat conflict as an impediment and a negative externality. Conflict prevention mainstreaming in this sense is limited to developing the necessary analysis and procedures to enable corporations to conflict-proof their operations.

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 corporations make their decisions based on a variety of issues.

Figure 1



Source: OECD database

Certain company characteristics make companies more risk-prone and subsequently more controversial than others. Greater vulnerability to conflict is often associated with the several characteristics. The type of industry sector can have an impact on conflict. In certain sectors, particularly in the natural resource extraction sector, long production cycles and the expected returns on investment outweigh the costs of operating in areas of conflict. Other sectors such as financial services are also attracted to conflict areas, where the returns on investment are higher and they can operate in greater obscurity.

Company size is indicative of the amount of resources a corporation maintains and it also measures potential influence. Thus large companies are at greater risk to be vulnerable to conflict. Corporations with a history of a strenuous relationship between company executives and political leaders and/or local people may serve to exacerbate conflict dynamics in a country. The ownership structure of a corporation impacts on the level of risk a company can tolerate, the degree to which it is responsible for corporate social activities and the level of attention it receives. Companies with a highly concentrated level of ownership or a high level of foreign ownership often express a greater vulnerability to conflict.

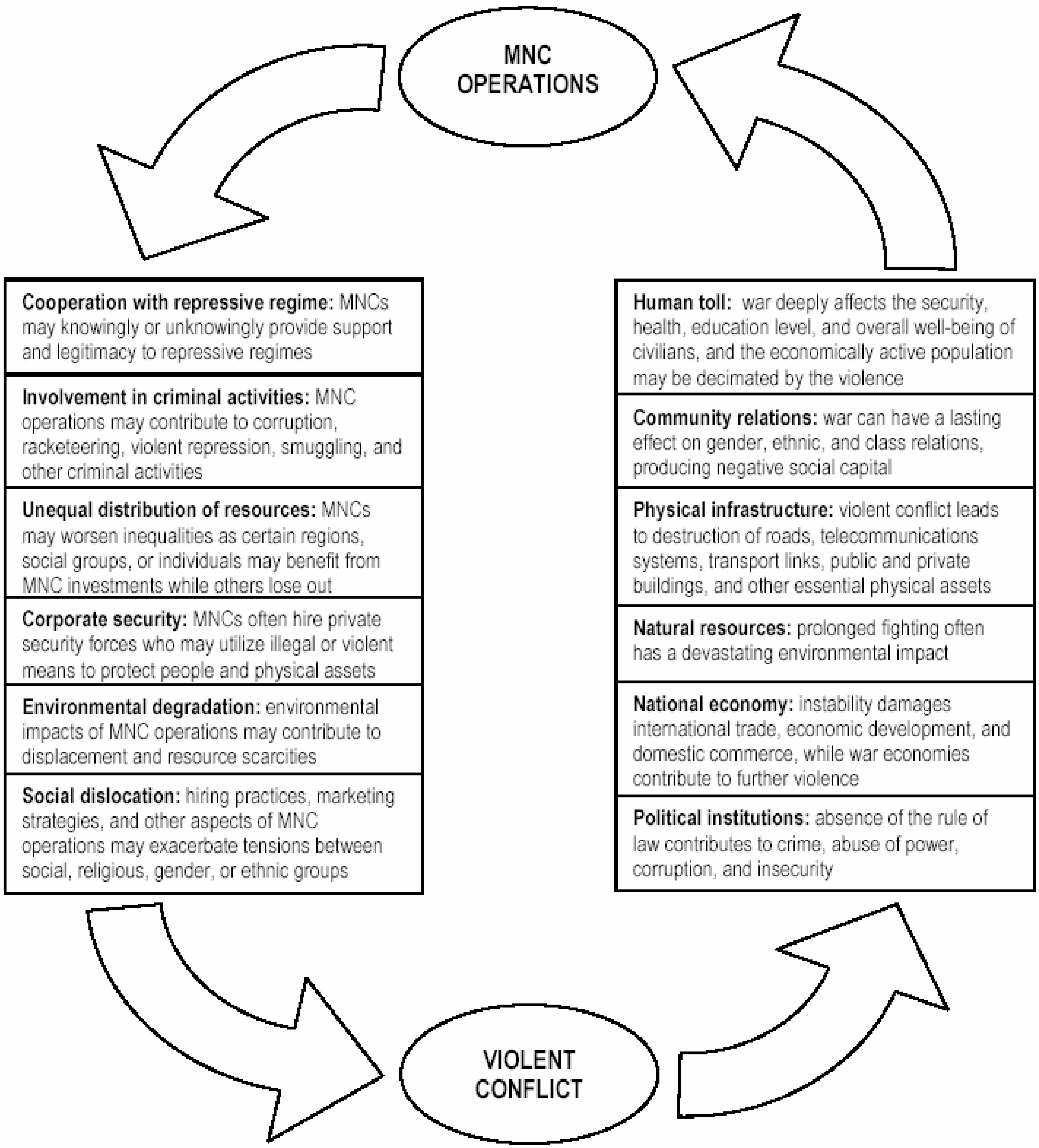
The closer conflict is to the MNCs sphere of influence and activity, the greater the corporate responsibility of taking action and the greater the costs associated with not taking action. The ability of corporations to mitigate conflict depends on its success in a variety of endeavours including: engaging in venture progression, purchasing adequate political risk insurance, ensuring government distribution of shares to the public, and encouraging the participation of multilateral development agencies. Such involvement in this integrated approach aids in improving the investment climate and strengthening the mutual confidence between MNCs and the societies in which they operate.

Potential risks that face corporations operating in conflict zones include threats to their investment, property, resources and personnel. Such threats ultimately affect the firm's ability to maximize profits. However, the 'reverse flow of risk', that is, the ability of a corporation to exacerbate or worsen violence in a country has received an increased amount of attention in recent years. Figure 2 illustrates MNC activities that both affect and are affected by violent conflict. A number of complex security concerns stem for

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)

MNC's stem from violent conflict in a region. As such, conflict risk assessment and prevention strategies are becoming an integral part in international business operations.

3. Corporate Social Responsibility: The Motivation for Companies

Some multinationals have taken steps to address the concerns of the potential social and environmental consequences of their activities abroad. For example, Shell, an oil company based in London, has come under intense scrutiny from certain groups over the social and environmental implications of their drilling operations in Nigeria. In reaction to this, Shell has begun to pursue programs of corporate social responsibility. They state, "[t]oday our community development programme in the Niger Delta region is based on the principles of sustainable development and best global practice. In 2001 we invested over $50 million in health, education, agriculture, job creation, women's programmes, youth training and sponsorship" (Shell, 2002). In pursuing programs of corporate social responsibility, firms hope that such conciliatory measures may be reciprocated by policymakers and NGOs in the future.

Although, corporations may have a vested interest in minimizing, preventing and managing conflict, the International Peace Academy argues that not all corporations share the same level of interest in promoting ethical practices or participating in conflict impact assessment. Corporations may engage in "quiet diplomacy" or "closed door meetings' to ensure the security of their assets and personnel. Such actions, while on one hand providing the corporation with privileges of access, leverage and information which all can contribute to a conflict management strategy, can on the other hand raise concerns about the potential for MNCS and government officials to engage in self-interested, collusive activities.

Any attempts to engage corporations in other, more transparent means of responsible corporate behaviour in conflict zones will need to resonate with the private sector goal of maximizing profits. The business case for developing corporate social responsibility strategies that particularly address conflict impact and management is simple; maintaining business sustainability in difficult environments. It is difficult to quantify the value of engaging in conflict prevention as often the costs associated with such a decision are more readily apparent than the benefits. Perceptions of the costs associated in the private sector developing mandatory corporate social responsibility strategies include the loss of comparative advantage to competitors that choose not to engage in such strategies. This is otherwise known as the problem of defection. Another issue is privately bearing the costs of providing a public good such as conflict prevention which benefits everyone, including competitors hence creating a free-rider problem.

The International Peace Academy argues that the behaviour of the private sector in conflict zones can only be modified if these barriers to collective action are reduced, the playing field levelled and opportunity costs reduced.[8] The costs of CSR may be made more attractive to the private sector by appealing to protection of the company's reputation. The association of negative practices to the behaviour and activities of MNCs has the severe potential to alienate consumers and thus be detrimental to producers. Thus, the development of CSR strategies can be part of a "change management strategy" developed to distinguish oneself from its competitors in the marketplace. Companies may also wish to include the communities and civil society to make CSR strategies as part of an overall approach to sustainable development.

The strategy of many MNCs in response to concern about the negative impact of their activities in conflict regions or the possibility of human rights abuses has been to adopt voluntary and self-regulating standards of corporate social conduct. Although some progress has been made in the promotion of corporate social

[8] International Peace Academy, *Private Sector Actors in Zones of Conflict: Research Challenges and Policy Responses* (International Peace Academy: New York), p. 8

responsibility the proliferation of competing codes and the absence of a broadly accepted standard has complicated the issue. Voluntary codes of conduct have been criticized for lacking effective monitoring processes, and a legally binding mechanism. Critics argue that if a widely accepted uniform standard of corporate regulation existed, it would help to overcome the defection and free-riding problems discussed above. Nonetheless, voluntary codes and norm building as part of an international regulatory framework provides flexibility that can increase adherence to CSR standards.

4. International Agreement On Investment and Mandatory Corporate Social Responsibility Frameworks: Is This The Answer?

The commercial and non-commercial risks of investing abroad contribute to strained relations between MNCs. Some attempts have been made to alleviate conflict through the development of bilateral treaties and multilateral agreements.[9] However, the existence of a comprehensive international agreement governing multinational enterprises and FDI is remarkably lacking.

There has been much debate in recent years over the desirability of an international agreement governing FDI and MNCs. While some argue that such an agreement is unnecessary because the market will discipline errant states and firms, others contend that an overarching agreement on investment would reduce the conflicts between states and multinationals. One of the most important initiatives to create an international investment regime has been the Multilateral Agreement on Investment (MAI), proposed in 1995. The MAI was intended to provide a multilateral framework for international investment with high standards for the liberalization of domestic investment regimes, the protection of investment and effective dispute settlement mechanisms.[10] The MAI encountered powerful oppositions as many argued that the OECD was the wrong venue for negotiations because it did not include developing countries in the discussions. Furthermore, labour and environmentalist groups contended that the MAI would allow MNEs to disregard workers' rights and pollute the environment. In the face of all this opposition, the MAI reached an impasse and failed to with no hopes of being renegotiated.

An international investment regime would have not only have to address issues of corporate social responsibility but also to address sensitive concerns such as the taxation of foreign investment, problems of security, jurisdictional conflicts, and dispute settlement mechanisms. While such a system would serve to simplify the interplay between multinationals and nation-states, the failure of the MAI suggests that governments are not yet ready to deal with this on a global basis.

The legalization of Corporate Social Responsibility strategies have also been met with similar problems. The different regulations, jurisdictions, and actors in the international community can make efforts at establishing common legal norms difficult. Regulation may possibly even have the effect of increasing incentives for evasion thus developing new forms of complicit activities. Finally, getting countries and private sector actors to agree to the obligations that would be included in such a framework is not only extremely difficult, but also has the potential to create issues with sovereignty.

To the extent in which FDI impact directly on national economies, countries are reluctant to surrender jurisdiction in these matters to an international body. Furthermore, it is fair to say that many of the conflicts arising from the interaction of multinationals and nation-states have been mitigated through the existing bilateral treaties and multinational agreements, self-regulation and voluntary codes of conduct. The gradual proliferation of many regional and bilateral agreements as well as the adoption of self-regulation structures

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[9] For example, the World Trade Organization has a TRIM (Trade Related Investment Measures) Agreement that governs some aspects of international investment.
[10] World Investment Report, 1998, 65.

may eventually make it possible to transform these voluntary obligations into a universal legal obligation. Until such a time, the impact of MNCs on conflict prone countries must still be addressed. The next section of this paper addresses this issue at length.

5. Conflict Prevention Mainstreaming: Impact and Risk Assessment

Conflict prevention mainstreaming involves efforts to assess conflict risk, as well as informed policy responses from a variety of actors to help minimize or mitigate these risks. Current corporate approaches to risk assessment are inadequate to enable MNCs to make informed decisions about their operational strategies with a view to conflict prevention. The risk assessment approach employed by most MNCs tends to focus mainly on risk factors that could have an impact on corporate activities, rather than the impact of corporate activities on risk factors. MNCs have become increasingly dependent on risk assessment as a way of analyzing the availability of business opportunities abroad. Table 1 outlines the main classifications of risk that are relevant to the private sector.

For effective conflict prevention, MNCs must begin to focus on the opposite flow of risk, that is, how their operations are likely to affect political, social, environmental and economic factors that could either exacerbate or diminish the risk of conflict. It appears that the current focus of private sector risk analysis is not well suited to enable corporations to identify and deal with conflict risks. Investment risk assessment services , while providing a general overview of conflict as part of an overall analysis of security and investment risks, it is clear that this approach is perhaps too macro in approach to deal with the context-specific terms of violent conflict in a particular region.

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)

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

A variety of multilateral organizations, governments, academic research institutes and NGOS have developed risk assessment methodologies that rely multiple indicators designed to analyze conflict risk. Given the vast amount of data that is considered relevant to conflict risk analysis, it is extremely challenging to simply and condense this information 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 14 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 www.carleton.ca/cifp).

7. Conclusion

A reliable, context specific analysis of the potential for conflict in a given area is needed for the private sector to aid in conflict prevention strategies. CIFP goes beyond the traditional risk assessment tools used by the private sector to provide this service. CIFP also differs from the risk assessment methodologies used by other academic institutions and NGOS by incorporating private-sector friendly techniques in its methodology. As the international security environment continues to evolve and change, the private sector can no longer afford to simply analyze commercial risks or political risks in a macro sense.

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