
10. Business investment, humanitarian problems and conflict

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I. Introduction

With the end of the cold war, the trend towards globalization and the proliferation of information, the role of business in today's world has become the focus of considerable attention. Most business people are aware of this and are seeking to understand what is expected of them. The overall issue is the appropriate role for businesses at a time when there are new expectations, new critics and many new standards for business performance. This is what lies behind the worldwide movement towards greater corporate responsibility: that is, towards more positive participation by the private sector in the effort to find solutions to problems of general public concern.

As a part of this general trend, responsible people in businesses, governments, international organizations and non-governmental organizations (NGOs) have been rethinking the relationship of the private sector to the world's humanitarian problems. This is only natural and logical, since the humanitarian problems are growing even while the financial resources available to deal with them are dwindling—by up to 12 per cent per year in real terms. The problem of dealing with famine, lack of safe water, refugee flows, poverty, disease and other humanitarian problems is in large part financial: given sufficient resources, many of them could be resolved. However, public resources are limited because of taxpayers' reluctance to accept heavier tax burdens. So the root question is: where will the resources come from to respond to these vast challenges?

Meanwhile, the private sector remains by far the world's largest allocator of funds. It is the world's principal engine for economic development, the creation of wealth and jobs, the payment of taxes and the elimination of poverty. About \$1 trillion of new wealth is created each year by the private sector, and more than half of the world's 100 largest economies are companies.¹ If the world is to be able to meet its humanitarian needs, it must harness the resources, energy and creativity of the private sector. This does not mean more business philanthropy, as some business people fear. Rather, it must entail a creative alignment of business objectives with the public interest; a far greater effort to inform businesses about humanitarian needs; and new ways to engage

¹ See Wenger, A. and Möckli, D., *Business and Conflict: The Untapped Potential of the Business Sector* (Lynne Rienner: Boulder, Colo., 2003); and Maresca, J. J., 'The role of the private sector in post-conflict reconstruction', Presentation to the Business Humanitarian Forum, 28 Mar. 2003, URL <http://www.bhforum.org/en/documentation/speech_maresca_20030328_webster.cfm>.

them in investments which will meet their legitimate profit-making objectives while at the same time serving the public good.

II. Conflict as the multiplier of humanitarian problems

Conflict is the most dramatic multiplier of all humanitarian problems, whether disease, hunger, homelessness, displacement or lack of education. It is in relation to, and in the aftermath of, conflicts that all these problems grow and become more dramatic. If the world could master the process of conflict prevention and resolution, many humanitarian problems would fade away naturally or would never occur. The area where a more important and positive business role would have the greatest impact is therefore in relation to conflict prevention and transformation and in post-conflict reconstruction.

There is a tendency in some quarters to see business as a contributor to some specific world problems, especially through the negative effects of economic activity on the environment, through the undercutting of human rights, by adding to the potential for corruption and by stimulating the continuation of conflicts. This view sees business as a part of the problem, responsible in whole or in part for humanitarian problems and for the conflicts which multiply them.

The more positive way to view business is to ask how it can contribute to finding positive solutions to humanitarian problems—how market forces and the natural behaviour of business can be used and aligned with efforts to find solutions. This is the rationale which lies behind United Nations General Assembly Resolution 57/265, which mandated the Secretary-General and the Administrator of the United Nations Development Programme (UNDP) to conduct a study of how private resources could be deployed to better support development.² Indeed, the UN is now more interested than ever before in public-private cooperation to meet more effectively the goals of the international community. In analysing the link between business and conflict, this positive approach should also be the guideline for attracting the support of the private sector for international humanitarian goals.

III. Differentiating legitimate business from criminal activity

As in every walk of life, there are, of course, unscrupulous business people. However, the overwhelming majority of businesses try hard to respect the law and to adhere to their own codes of behaviour, which are often more stringent than required by law. It is important for the world to recognize this.

² See UN General Assembly Resolution 57/265, 20 Dec. 2002, On the establishment of the World Solidarity Fund, URL <<http://www.solidarity-fund.org/eng/resolution.html>>; and UN General Assembly and UN Economic and Social Council, Annex, Progress report on the measures taken for the operationalization of the World Solidarity Fund, Report by the Administrator of the United Nations Development Programme, UN document A/58/72-E/2003/53, 11 Apr. 2003, URL <www.un.dk/doc/A.58.72.pdf>.

Legitimate business activity is sometimes casually lumped together with drug dealing, gun running and other unacceptable practices. For some people, all of this is 'business'. For legitimate business people, illegal activities such as drug dealing, prostitution, exploitation of children or the supply of weapons to warring factions are not business activities—they are criminal activities, and have no place in a discussion of the role of business. Wars are always surrounded by scoundrels, but legitimate business people condemn such criminal activities.

Generally speaking, and leaving aside such war profiteers, business stays away from regions of instability and conflict. The fact is that, when conflicts start, most businesses flee, with the clear exception of resource companies, which must remain where the resources are located. The problem is not keeping business away from war, but rather attracting business investment to areas where stability may be a problem, or bringing businesses back to an area where there has been a conflict so that normal economic life can resume.

IV. Why invest in conflict-torn areas?

A basic question for many people is 'Why do businesses invest in conflict-torn areas at all?' The answer is that all businesses, in all circumstances, ask themselves a relatively simple question: do the possible profits of a prospective investment outweigh the risks involved? Business is about taking risks for financial gain, including the risks of whether the product can be sold and whether the competition can be beaten. There are also political risks involved, such as whether operating in a country run by an unstable or unsavoury regime will undercut the ability to conduct work. Businesses are used to evaluating risks and weighing them against potential gains. They are also used to investing for gains which may only come years into the future. Political risks, including the risks of conflict, are just another form of the risks businesses face every day.

Businesses are not governments, nor are they international organizations or NGOs. Their functions are legitimate and worthy, but they are not the same as the functions of such bodies. It is simply wrong to expect businesses to take on the functions of, for example, governments, as is sometimes suggested. Nor does this somehow imply that business operates on a lesser moral level. Indeed, in some areas, such as modern personnel policies, businesses can give lessons to other sectors of society.

V. The business–humanitarian relationship

Businesses are already involved with humanitarian matters in a number of ways. Business philanthropy is a well established and honourable tradition. Businesses, and foundations established by successful business people, contribute substantial funding to humanitarian causes. Businesses pay taxes which

are used in part for humanitarian purposes, and they also sometimes take on contracts to carry out the work of humanitarian organizations. This is happening today in the war-damaged areas of Afghanistan, Iraq, parts of Africa and the former Yugoslavia.

By far the most important role of business in conflict-torn or developing regions is that of an investor. It is business investment that provides the jobs, the economic development and the hope which permits these societies to break out of the circle of poverty and despair. Without prosperity, or at least hope, people become desperate and are more easily led by political demagogues into wasteful and hopeless confrontations. Populations with some hope for a prosperous future are less likely to put their good fortune at risk by supporting conflicts. As President of the World Bank James Wolfensohn has pointed out, 'one of the principal causes of conflict is poverty and inequity'.³

A key role for business investment is clearly in post-conflict reconstruction. A post-conflict society may be dependent on emergency aid supplies for a long time but, as stability returns, business investment in the area can bring jobs, economic opportunities and some hope for the future. With the growth of business and economic activity the society can gradually sustain itself and humanitarian aid can be terminated.

One of the key roles of international organizations in the aftermath of conflict is to stabilize a society, and to recreate the framework conditions in which businesses can invest and carry out their normal operations. These organizations usually pay too little attention to the direct problem of attracting business investment, assuming that businesses will come into a post-conflict region when the framework conditions are favourable. However, much more is required to attract business investment, and this is the area where creativity is needed. Businesses focus on specific business opportunities, evaluate them and take their own decisions on investment. New approaches, such as those of the Business Humanitarian Forum (BHF), can promote this process.⁴

VI. The special role of resource companies

Resource development companies, such as oil and mining enterprises, are in an especially sensitive position in relation to unstable or conflict regions. Unlike the manufacturing or trading businesses, resource companies do not have the luxury of relocating when conflicts emerge. They are condemned to developing resources where they can find them or where their investments have already been made.

³ 'Defining new cooperation in the humanitarian agenda', Keynote presentation by James D. Wolfensohn, President, The World Bank, Conference on Defining New Cooperation in the Humanitarian Agenda, 1–2 Nov. 1999, available on the Internet site of the Business Humanitarian Forum at URL <http://www.bhforum.ch/en/partnership/wolfensohn_011199.cfm>.

⁴ The BHF was launched in Jan. 1999. Its mission is to build mutual support between humanitarian organizations and the business community through dialogue and projects. It has a formal partnership with the UNDP to enhance efforts to create sustainable economic development projects. The BHF is located in Geneva, Switzerland. See URL <<http://www.bhforum.org/>>.

This means that some resource companies maintain or even seek investment opportunities in war-torn areas if they appear to warrant the risks. In such cases, in order to move their projects ahead, companies must be prepared to deal as best they can with the local authorities they encounter.

Resource development projects can change the economic prospects of entire peoples from dismal to promising. They can provide jobs, real economic benefits and a variety of spin-offs which benefit broad segments of the population. If the resource is oil or natural gas, for instance, such projects can provide cheap energy for economic development. Moreover, resource projects take years to develop, so the benefits may actually be felt only after the conflict has ended or under a successor regime. In a subsequent post-conflict period, of course, such investment will be desperately needed.

Companies must be careful in dealing with the local authorities in place, so that they do not burn their bridges with other political factions that could accede to power at a later date. They also have no interest in being seen as oppressors themselves; on the contrary, one of the objectives of these businesses must be to win the respect and loyalty of the people. Multinational firms are sometimes sophisticated enough to manage these complex considerations, but not always.⁵

VII. Meeting security requirements

Companies operating in unstable areas need security for their installations and employees. Some companies have managed this requirement intelligently and discreetly, while others have been accused of brutality or of cooperating with unscrupulous local security forces. The objectives of companies are normally limited to protecting their employees and investments, but in conflict situations the implications can be much broader than intended.

Anyone who has been on the ground in a conflict area knows how complicated it can be to try to choose friends. The choices in such situations are usually all unattractive. The principal alternatives for company security are local security forces, which are sometimes corrupt, or private security companies, whose ranks may include former mercenary troops and other soldiers of fortune.⁶ Just as a lack of security is unacceptable, these choices can lead to new and equally undesirable problems, including becoming linked with human rights abuses.

VIII. Respect for human rights

In today's world, companies must be alert to, and steadfastly oppose, any infringement of human rights, not only by the company itself but also up and

⁵ For a detailed discussion of 2 corporations' experience of such challenges see chapters 11 and 12 in this volume.

⁶ On private security companies and mercenaries see also chapters 14 and 21 in this volume.

down its business chain. This means that if a company's upstream supplier or its downstream sales agent is responsible for human rights violations, the company must take whatever steps are necessary to oppose those violations. The choice of steps is fairly simple—either the supplier or sales agents stop the human rights abuses, or the company stops doing business with them.

The equation becomes more complicated if the human rights violations are being committed by a government, especially if the company is a resource company. First, as noted above, a resource company cannot simply move its operations elsewhere. Natural resources, whether they are oil or gas fields, or deposits of a valuable mineral, are where they are—their location has nothing to do with the type of government which controls the area.

In addition, when a resource company identifies a commercially interesting prospect, evaluates the technical, economic and political factors, and decides to invest, it must enter into negotiations with the government of the country. Because natural resources are virtually always considered to be a part of the patrimony of the country and thus within the domain of the state, it is the government which must authorize their exploitation.

From the very outset a resource company must deal with the country's government and most likely must enter into complex agreements with the government about access to land, transportation routes, taxes, division of potential profits or outright payments to the government. In this way the government becomes a partner and an integral part of the resource company's business chain.

If it is the government which is responsible for human rights abuses, the choice of how to deal with the situation is not as simple as it is when dealing with another type of business partner. It is not the stark choice described above, under which the partner company either corrects its behaviour or is dismissed.

Governments, even unscrupulous ones, are sovereign. The choice for the company thus becomes one of either seeking positive change in the government's behaviour, or pulling out of the investment and leaving the country. Sometimes both of these options are so bad that the company simply cannot take them without severe business losses. A company caught in such a situation may try to create an 'island of integrity' for its project within the country.

It is easy to criticize such hesitation from the outside, but it is sometimes extremely difficult for even the most conscientious executives, on the inside, to take the necessary decisions. The issue in its most extreme terms can be put this way: should a company put itself out of business over the behaviour of an unscrupulous government? Or can a company somehow separate itself from the governing context in which it works? There are no easy solutions in such situations.

The special position of resource companies, and their exposure to situations in which they can be accused of human rights violations or complicity in such violations, lay behind the joint initiative of the British and US governments, with the participation of private companies, to develop a set of Voluntary

Principles on Security and Human Rights. This initiative was announced on 20 December 2000, and supported by companies such as Chevron, Texaco, Freeport McMoran, Conoco, Shell, British Petroleum and Rio Tinto, as well as by a range of business organizations and NGOs.⁷

The Voluntary Principles initiative is a special undertaking by resource companies in relation to respect for human rights as they seek security for installations in the countries where they work. It reflects the special circumstances in which these companies often find themselves. Certainly, the existence of this set of principles will not make the debate on the role of resource companies go away. The companies themselves are aware that they often find themselves in no-win situations, when they have existing investments in countries where there are human rights violations. They usually do not want to take on responsibilities which are properly those of governments, such as encouraging or pressuring a country to change its policies; companies are organized to make profits, not to influence governments. Most people would agree that businesses should not take on the role of governments, but in the new world of expectations about corporate behaviour this is exactly what many activists expect them to do.

These are good examples of the many situations in which dialogue between companies and humanitarian organizations working in the same country would be mutually beneficial. Companies which maintain such dialogue can often obtain useful insights and advice from their interlocutors, as well as a better understanding of their predicament and possible solutions.

IX. The role of sanctions

Business people generally believe that engagement is a better way to influence unsavoury local regimes than isolation. There is a strong belief among business people that exposure to the standards of international business, coupled with jobs, economic benefits and the simple presence of foreigners, will have a positive moderating influence on undesirable regimes.

Sanctions place complex restrictions on businesses, with a generally negative effect on the companies concerned. As a result, some companies have pulled out of investments in unstable areas, even when these investments may be the only possible source of economic development for the countries concerned, and thus desperately needed. This compounds the problems faced by the peoples of these countries, while at the same time discouraging companies from investing in conflict regions at all. It has not been proven that sanctions can dislodge an undesirable government, but it is clear that they curtail investment and economic development, to the detriment of the populations.

⁷ For the Voluntary Principles see URL <<http://www.state.gov/g/drl/rls/2931.htm>>. See also chapters 12 and 13 in this volume.

X. The need for business–humanitarian dialogue and cooperation

Despite an obvious need, businesses, humanitarian organizations and academics do not routinely work together, and in many cases do not even have contact with each other. The reason is that there are deep mutual suspicions on both sides. Humanitarians, international civil servants and many academics tend to view businesses as totally concentrated on making money, cynical and prepared to do anything to benefit their companies. Business people tend to see humanitarian workers, international civil servants and academics as idealistic and self-righteous, and they do not accept that international organizations and NGOs have any mandate to sit in judgement of their behaviour. On the contrary, business people believe that they form a respectable and law-abiding component of society and that they are fully capable of taking responsibility for their own actions. This chasm of misunderstanding must be bridged if the positive potential of the business world is to be harnessed effectively in conflict areas and other regions that need investment and economic development.

Business takes pride in its achievements, even while recognizing that mistakes have been made in the past. For every negative example of business behaviour there are thousands of examples of businesses which have provided worthwhile jobs, stability and hope for the communities in which they work. Business can be an important element in conflict avoidance or post-conflict reconstruction. The sooner this is generally recognized, the sooner there can be creative efforts to engage businesses positively in order to stabilize and bring prosperity to these areas.