Natural Resources and Peacebuilding: The Role of the Private Sector

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Summary

Corporate participation in peacebuilding can be vital, but measures have to be taken to prevent companies from aggravating conflicts. This chapter illustrates how private investments can promote peacebuilding by contributing to economic development, dialogue, and reconciliation. It describes the challenges that exist in attracting and realizing investments and suggests ways in which private investments can be managed to be constructive, rather than destructive, to peace.

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

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

This chapter provides an overview of private-sector peacebuilding in the natural resource sector in conflict-affected countries. Corporate participation in peacebuilding can be vital, but measures have to be taken to prevent companies from aggravating conflicts. The chapter illustrates how private investments can promote peacebuilding by contributing to economic development, dialogue, and reconciliation. It describes the challenges that exist in attracting and realizing investments and suggests ways in which private investments can be managed, so they can be constructive, rather than destructive, to peace. The chapter analyzes domestic and international private-sector actors and provides examples of natural resource investments, particularly from the agricultural and mining sectors.[2]

I. Private-Sector Operations in Conflict and Peacebuilding

In recent years, two currents of thought on private-sector activity in conflict zones have substantially influenced policy and research in the development and peacebuilding communities. Skeptics emphasize the pitfalls of investing

1. See, for example, Wenger and Möckli (2003); Specker (2009); GTZ (2008).
2. The chapter draws primarily on Banfield, Gündüz, and Killick (2006).

in conflict-prone and conflict-affected countries, and optimists stress its benefits to peacebuilding.

The first school of thought focuses on the negative effects companies have on violent conflicts. Seen primarily through a war-economies lens, its adherents associate private-sector activities with sustaining, prolonging, and reigniting violence.[3] They credit the extractive sector—including timber, oil, mining, and gas—with the greatest negative impact because of its potential to finance violence, degrade the environment, violate human rights, exacerbate inequalities, and increase corruption. New investment risks rekindling violence and undermining reconstruction efforts. Injecting a new source of income into a postwar environment can lead to clashes between those who believe they have been economically disadvantaged by the new developments and those who have profited from them. Therefore, many policy initiatives—which were developed over the last two decades to improve business-sector conduct in areas of conflict—address the extractive industries. Efforts include the Extractive Industry Transparency Initiative, the Voluntary Principles on Security and Human Rights (VPs), and the Kimberley Process.[4]

The second line of thinking considers the private sector an important engine of growth and development: companies can reduce poverty, create employment, speed post-war reconstruction, and thereby contribute to peacebuilding. During the transition from war to peace, economic recovery—including the role of the private sector—has been increasingly prioritized, alongside more political and security-related objectives, such as elections, reconciliation, and security-sector reforms. Because many conflicts are driven, at least in part, by economic causes, economic development is assumed to be an important component in the transition from conflict to peace.[5] Private companies can provide crucial skills and capital, which are lacking in countries emerging from war. In addition, the mere fact that private businesses are investing in a war-torn country can boost national confidence, public trust, and social capital across conflict divides (Mills and Fan 2006; GTZ 2009). A lack of private-sector activities, on the other hand, leads to a smaller peace dividend, persistently high poverty levels, a frustrated population, and, hence, a higher risk of renewing violence.

Positive consequences of private-sector activities for peace result either from accidental side effects of companies' everyday business operations or from targeted business activities.[6] Simply by doing business, companies can reduce economic deprivation by, for example, providing jobs and creating income to poor households. Some entrepreneurs may also deliberately seek to reduce violence by engaging in mediation or by hiring excombatants who might otherwise be compelled to resume violence that could plunge a country into yet another war (Banfield, Gündüz, and Killick 2006).

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

A. *Attracting Private Investments to Post-Conflict Settings*

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

Regulatory and institutional reforms—preferably at a very early stage after a conflict has ceased—and enticements, such as tax incentives, can help to make foreign private investors more willing to enter post-conflict countries (Collier 2007). Also, the U.S. Multilateral Investment Guarantee Agency and other insurers, such as the United Kingdom's Export Credit Guarantee Department and the U.S. Overseas Private Investment Corporation, insure companies against political risks to encourage private investments in dangerous environments. But such inducements favorably influence investment decisions only when business opportunities exist and risks are limited (Bray 2004; Morisset 2003).

Domestic and diaspora financiers often do not invest more frequently than foreign companies, despite beneficial factors, such as their local knowledge and networks that can assist in reconstruction and ease operations in volatile environments. Although they may have a lower threshold for realizing investments in the immediate post-conflict phase, like foreign investors, they only do business if the climate is favorable. Practical attempts to attract diaspora investors, such as in Afghanistan, have so far largely failed.[7]

A company that does invest in a challenging environment, particularly in the first years after the formal end of a conflict, typically invests either to secure a first-mover advantage or to exploit resources that are geographically bound. Investors in natural resource sectors have to go where the resources are. Therefore, they are more likely

3. See, for example, Global Witness (1999); ARD (2003).
4. A notable exception is the Colombia Guidelines initiative, which aims to reduce the negative impact on human rights and security of nonextractive companies operating in Colombia.
5. See, for example, Collier (2006).
6. For further discussion of the difference between accidental and deliberate corporate engagement in peacebuilding, see Feil, Fischer, Haidvog, and Zimmer (2008).
7. See, for example, World Bank (2005).

to enter fragile post-conflict countries. In fact, investors in natural resource sectors are typically among the first to enter countries coming out of war (Bray 2007). Oil companies tend to accept politically unstable environments because the most promising investment opportunities are located there.

B. *The Case of Nepal*

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

C. *Mitigating Negative Corporate Impacts Through Conflict-Sensitive Business Practices*

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

When an existing conflict or grievance is exacerbated and a security situation worsens, company costs increase, directly or indirectly. Trying to purchase land quickly from local authorities before internally displaced people return, for example, will most likely cause discord over land. Similarly, not awarding the local population a fair share of business proceeds will almost certainly cause not only domestic controversy but also international naming-and-shaming-campaigns, which damage a firm's reputation and increase costs.[8]

But private companies tend to overlook the link between their impact on a conflict and their own risks and costs. Although most are skilled in analyzing the risks that their operations face in a specific environment,[9] they rarely consider their influence on a conflict, perhaps because they fear liability and lawsuits.[10]

Policy tools, such as the diamond-focused Kimberly Process and the security-directed VPs, have been developed to address the conflict-aggravating impacts of some sectors.[11] In a similar vein, International Alert (2005) developed the Conflict-Sensitive Business Practice (CSBP), which helps the extractive industries better understand the contexts in which they operate, so they can take appropriate actions to reduce the risks and impacts of and on conflict (Box 1). The approach recognizes the two-way relationship between a project and its environment. It helps in analyzing the conflict at the national and local levels and provides guidance on issues such as corruption and lack of transparency, security arrangements, and compensation. CSBP has been adapted to natural resource sectors other than oil, mining, and gas, including forestry, but further refinement for other types of business remains (GTZ et al. 2006).

1. The Case of Uganda

In Uganda, increasing private-sector investments should help the country reach its economic potential, even in the regions affected by the conflict between the Ugandan government and the Lord's Resistance Army (LRA).[12] Through capital generation, skills creation, and new infrastructure, private investments are expected to contribute to recovery and peacebuilding in the economically deprived North.[13]

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

The government's efforts to promote economic growth in the conflict-affected regions and the interest shown by

8. Examples of conflicts over "fair shares" of revenues from natural resource extraction are plentiful. A Canadian oil firm operating in Gabon had to close down temporarily because of violent clashes with local communities who demanded a greater percentage of the oil profits (Global Policy Forum 2004).
9. Foreign companies investing in conflict-affected countries have access to a wide selection of risk-analysis tools and procedures. Analyses are often outsourced to consultancies.
10. The alien tort claims act and many other legal frameworks have been used against companies, and company lawyers are cautious about accepting any company responsibility for affecting an armed conflict. For further information, see, for example, International Alert and Fafo (2008).
11. The concept of conflict sensitivity slowly spreads throughout the policy and business community. See, for instance, UNSC (2008), ¶¶ 18 and 19.
12. Information was, for the most part, taken from Banfield and Naujoks (2009).
13. Economic differences between northern and southern Uganda are pronounced. Although approximately one-third of the population in the South lives in poverty, approximately two-thirds of the population in the North do.

Box 1. Conflict Sensitivity
What Is Conflict Sensitivity?

Conflict sensitivity requires development agencies, companies, and others to do the following:

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

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

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

Source: adapted from Alexander, Gündüz, and Subedi 2009

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

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

2. The Case of Colombia

Similar tensions emerged in Colombia over the cultivation of palm oil. Although some hoped the government-supported expansion of the biofuels industry would assist in bringing peace to the conflict-torn country by creating employment opportunities and substituting palm-oil production for illegal drugs, conflicts between palm-oil producers and local communities erupted when returning Afro-Colombian communities, who were displaced during the civil war, found their land rights threatened by palm-oil producers. Returning IDPs and the local population reportedly suffered open military and paramilitary violence, including death threats, assassinations, torture, and burning of their crops and houses. There have been allegations of forceful land seizures and of private palm-oil companies taking advantage of violent displacements to extend their farms.[14] The Norwegian Refugee Council and International Displacement Monitoring System (2007) pointed out that

> the reality facing the African palm plantations, and other companies operating in the area, is not only that commerce in what is still effectively a conflict zone may require them to accept the protection of groups who may be listed abroad as terrorists, but that this practically unavoidable association will almost inevitably lead to complicity in human rights violations and contravention of national law (2007, 18).

In both countries, resistance from local populations and potential human rights violations have tainted private-sector investments. The risks of aggravating conflict are particularly high in the early, post-conflict recovery phase when instability and distrust are greatest. Jessica Banfield and Jana Naujoks of International Alert summarized the case of Uganda:

> large-scale processing of agricultural products like sugar requires big chunks of land. The potential for commercial agriculture to disenfranchise local people by preventing them from returning to their own lands, exacerbating the already complex and conflict-ridden land tenure issues, is real and needs to be addressed in all agri-business promotion schemes (2009, 27).

D. Conflict-Sensitive Business Practice and Company-Community Relations

Companies need to establish constructive relationships with local communities to alleviate tension, which can feed conflicts at the local and national levels if left unattended. Problems often arise between companies and local communities that have a strong sense of ownership of natural resources. Widely known and often reported are cases of clashes between local populations and oil and mining com-

14. See, for example, Mingorance (2006) and Roa Avendaño (2007).

panies (such as in Peru).[15] But company-community relations in agribusiness are increasingly scrutinized, as shown by the examples from Colombia and Uganda.

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

Social investments, such as schools, hospitals and roads, have the potential to improve living conditions in local communities and enhance a company's standing.[16] Yet, the mere intention to "do good" does not guarantee a beneficial outcome. Social investments may exacerbate tensions if, for example, one group benefits, and another feels deprived. More importantly, corporate social responsibility (CSR) responses often do not answer community needs. Constructing a community hall, for instance, may not meet the immediate needs of unemployed, impoverished, and war-traumatized people. In addition, a company's social initiatives are valuable only if its core business does not simultaneously undermine its CSR efforts. Building schools, roads, and hospitals will not offset bad practices, such as failing to hire local people, implementing flawed compensation policies, degrading the environment, or, even worse, violating human rights. A quick win achieved by social investment projects does not make up for grievances caused by core-business activities and can lead to resentment that may create risks for the company.[17]

Community projects initiated by oil companies in Nigeria, for example, gained some notoriety for bad design and realization, which heightened community frustration. An unfinished fish-processing plant, an abandoned sandfill project, and initiatives that seemed more focused on improving public relations than on benefiting the population worsened an already-tense climate.[18]

In remote areas affected by violent conflict and with little government presence, businesses often interact with communities through their security personnel, rather than community-relations officers. If, for instance, a company feels threatened by residents' demands to access certain areas or by roadblocks and demonstrations, it will frequently take further security measures, signaling to the community that its demands and grievances are best dealt with by ignoring them and hiding behind barbed wire. A mere security response, without constructive dialogue, can intensify problems. The oil company Chevron was sued by Nigerian security forces the company had engaged to protect their installations in the Niger Delta. Two people who peacefully protested an offshore oil platform were killed, two were wounded, and still others were detained and mistreated.[19]

Despite the—in most cases justified—bad reputation of companies involved in extracting and processing natural resources, many businesses are getting better at identifying the risks and effects of conflict and have improved their approach to community relations after a steep learning curve. They recognize that obtaining a "social license to operate" at the outset of a project is essential to success. Without a direct, continuous, respectful, and mutually beneficial relationship, communities often view companies as unwanted intruders after their resources.

Ongoing engagement with communities can help prevent the pitfalls associated with mere security or social investment responses, increase public ownership, and reduce obstruction and sabotage. Shell Philippines Exploration, a subsidiary of Royal/Dutch Shell realized a comprehensive, long-term process of community engagement in a gas extraction project that included building an undersea pipeline and a natural gas refinery. The company first contacted community stakeholders two years before construction began, implemented wide community outreach campaigns, and consistently responded to emerging problems. The costs for these measures reached US$6 million, about 0.13% of the overall project costs of US$4.5 billion. The company had originally anticipated that community opposition would delay the project by about 10 to 15 days at an approximate cost of US$4-6 million, but its operations were not stalled. By avoiding fines and finishing early, Shell saved US$50-72 million, or about 10 times as much as it originally invested in community engagement.[20]

Positive examples of companies contributing to economic development on a community level are, nevertheless, rare and often seem limited to small and medium enterprises (SMEs), such as the Colombian Oro Verde (Green Gold) gold mine. The mine is located in the Choco, one of Colombia's most impoverished regions. The area is also one of the regions most affected by the Colombian conflict and has the highest concentrations of marginalized Afro-Colombians and indigenous peoples. The mine is not an industrial gold mine, but an alluvial, small-scale mining company run by grassroots organizations that employ approximately 1,300 miners. According to the mine's mission statement, it is a private company, although its structure resembles that of a cooperative. The company emphasizes its socially and environmentally responsible modes of producing gold and its strong, triple-bottom line of people, planet, and profit, which mandates an equitable distribution of profits to the communities who own the mine.[21] Similar companies have sprung up in Bolivia, Peru, and other parts of Latin America, but the Oro Verde model will probably not replace industrial mining.

More positive relationships between companies and communities can be established if companies adhere to the following guidelines, among others[22]:

15. See, for example, Reuters (2009) and *The Economist* (2007).
16. This section primarily draws on Zandvliet (2005).
17. For detailed information and guidance on company-community relations, see IPIECA (2008); Zandvliet and Anderson (2009).
18. See, for example, Shah (2010); Frynas (2000); Human Rights Watch (1999).
19. See International Alert and Fafo (2008).
20. *See* Sohn (2007, 19-26).
21. See the website of Alliance for Responsible Mining (2010), for other examples of responsible mining, all small-scale.
22. This section largely draws on Zandvliet (2005).

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

Although conflict-sensitive business practices, particularly at the community level, fall squarely under the immediate responsibility of companies, other dimensions, such as how governments use royalties earned from natural resource investments, are much more challenging to control. Drawing a line between areas of responsibility is difficult. The U.N. special representative of the Secretary-General on the issue of human rights and business, John Ruggie, pointed out that "whereas governments define the scope of legal compliance, the broader scope of the responsibility to respect is defined by social expectations—as part of what is sometimes called a company's social licence to operate" (2008, 16-17).

E. Private-Sector Contributions to Dialogue, Confidence Building, and Reconciliation

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

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

1. The Case of the South Caucasus

The Caucasus Business and Development Network (CBDN) was established in 2005 as a network of businesspeople and civil society actors in the South Caucasus.[23] Its purpose is to support peacebuilding through joint economic ventures that produce symmetric business relationships, reduce stereotypes, and lay the ground for reconciliation. The network promotes the Caucasus as a single economic space, drawing on history and the economic advantages of regional cooperation, which include increasing leverage with the European Union, maintaining low transaction costs, and improving the attractiveness of the region to foreign investors. The CBDN successfully sourced, produced, branded, and regionally marketed Caucasus Cheese, Caucasus Tea, and Caucasus Wine. The "pan-Caucasian" identity that connects the different actors helps when interacting with someone from the "other side" of the conflict.[24]

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

2. The Case in Sri Lanka

In the conflict-ridden eastern district of Sri Lanka, the Trincomalee Chamber of Commerce supported the establishment of SiThaMu, a rice mill. "SiThaMu," which means "let's think" in Sinhala, comes from Si(nhalese), Tha(mil), and Mu(slim)—the main parties in the civil war and owners of the company. It hires mostly young people from the three communities and is revitalizing the rice industry after years of conflict. Through the project, farmers could reduce their transport costs and obtain better prices for their crops than they could have by selling them to out-of-town buyers. The mill responds to needs and interests that exist on all sides of the conflict. Its setup as a tricommunity firm helps mitigate political and social risks and addresses

23. Defining the South Caucasus, a country, or region is itself a political statement. In this case, the network brings together people from the countries of Armenia, Azerbaijan, Georgia, and Turkey, as well as Abkhazia, Nagorny Karabakh, and South Ossetia.
24. See the website of the Caucasus Business and Development Network (2010).

ethnic and religious distrust and discord. Furthermore, the ownership structure secures the company from attacks by disaffected members of any of the groups (International Alert 2009).

The different approaches toward working together, which were illustrated by the two preceding examples, are partly a result of the natures of the conflicts. SiThaMu shares a company and workplace; CBDN can only label its products "Caucasian" because the conflict still prevents joint physical ventures. The success of the initiatives in inspiring dialogue and reconciliation may be rooted in the products. Rice and rice flour are staples in Sri Lanka. Increased production locally means more rice for remote, poor areas. Throughout the South Caucasus, wine and tea are associated with cultural pride, family values, and—in the case of tea—shared history, which is widely appreciated across the conflict divides. In both cases, SMEs took the initiative. In contrast to larger firms, SMEs are usually less politicized, more embedded in their communities, and therefore better able to relate to the business environments.

Indeed, there seems to be a surprisingly large number of business initiatives that promote dialogue and reconciliation through small- and medium-scale producers of "low value" agricultural goods. Although large-scale companies may be able to harness their typically close relationships with government authorities and their significant national economic leverage in order to bring conflicting parties together, large-scale extractive industries can rarely do the same. The financial stakes may be too high, the size of the investments may make work below the radar of government officials difficult, and, in the case of foreign investors, interest in or ability to get actively involved in a domestic conflict may be limited. In addition, the reputation of extractive industries for fueling strife may precede them. When, in goodwill, a Georgian official offered his Abkhaz counterpart the opportunity to establish a joint Abkhaz-Georgian-Russian oil company, the Abkhaz responded on behalf of his government: "We have decided not to extract our oil until the conflict is resolved. We don't want to become the next Chechnya" (Conciliation Resources and International Alert 2005).[25]

II. Conclusion

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

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

But before conflict-sensitive business practices can be applied, conflict-ridden countries need to generate interest from investors. Although natural resource investments may come early after the formal end of a conflict, given the need of natural resource companies to go where the resource is, expectations for success should be realistic. Without basic security and market attractiveness, few investors will be willing to enter fragile countries. Additional and more-targeted incentives from international donors and national governments are needed to encourage investments. Investors should pay particular attention to encourage a conflict-sensitive approach to business. Without close cooperation among the private sector, policymakers, and international donors, investments will likely not contribute to peacebuilding.

Measures to promote conflict sensitivity need to consider the kind of natural resource—minerals or crops—and the form of the investment—national or domestic, large- or small-scale. But currently existing guidelines for conflict-sensitive business practices do not often make differentiations. Although there are many similarities between the conflict-inducing and peace-supporting potentials of different sectors and types of business, the differences are important to consider. Whereas tensions over land are particularly likely in the agricultural sector, there can be resentment over the often-small need for local staff in the mining industry. The peacebuilding potential seems particularly high in cases in which the links with and economic benefits for the local community are strong, such as in Oro Verde and the Sri Lankan rice mill. Large-scale foreign-owned investments seem to generate less immediate benefits for the local population because they tend to be less rooted in the local communities. But they may generate more economic benefits on the national level, with more detached or not at all apparent benefits on the local level if the redistribution of proceeds is poor and corruption is high. Corporate social investments in the form of sporadic philanthropic deeds do not sufficiently compensate for structural deficiencies. In every case, ensuring that local communities benefit from investments in natural resources is critical if the investments are to contribute to peacebuilding and recovery.

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