ENGINEERING PEACE:
Climate and Conflict Sensitive Business Practice in Fragile Contexts[1]

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EXECUTIVE SUMMARY

This article examines this relationship between business risks in fragile and conflict-affected contexts and the effects of business on local situations, with a focus on infrastructure projects. To discuss how business can drive development instead of conflict, we introduce the concept of conflict sensitivity and stresses why it must become part of business practice. By avoiding the costs associated with causing, triggering or accelerating conflict, a conflict-sensitive approach can be to the mutual benefit of both companies and communities. Benefits include better risk management, lower operational costs, reputation, and constructive stakeholder engagement. The key elements of a conflict-sensitive approach—Compliance, Do No Harm, and Peacebuilding—are reviewed.

TABLE OF CONTENTS

INTRODUCTION

Global climate change poses a significant risk to human security and wellbeing (IPCC, 2014). Floods, droughts and storms have the potential to cause harm directly to communities and to affect their livelihoods through loss of property, resources and

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income opportunities. The tropical cyclone Haiyan in the Philippines killed almost 8,000 people in September 2013. All natural disasters in 2013 combined caused a global damage of US$116 billion (CRED, 2014).

Having a roof or road to weather the impacts of storms and floods is an important element of human security. Hence, infrastructure projects have the potential to strengthen the resilience of local populations while decreasing their vulnerability to environmental risks. The need for improved infrastructure such as buildings and roads is particularly high in very poor countries or those that are affected by conflict or regarded as 'fragile'. Fragile states are commonly characterized by their inability or unwillingness to assure basic security, maintain rule of law and justice, or provide basic services and economic opportunities for their citizens. In addition, some fragile states face a double exposure to conflict and environmental risks (GSDRC, 2014; Vivekananda et al., 2014).

Nepal is one such case in point. A major effect of the decade-long conflict has been the destruction of property and infrastructure alongside the worsening of poverty, displacement of families, disruption or discontinuation of basic services, and depressing of economic activity and private investment (UNOHCHR, 2012*)*. Nepal has also been affected by natural disasters leading to additional losses of life and property. In the past decade alone, five major floods have affected more than 2 million people in Nepal (Schilling et al., 2013).

It is projected that by 2018 more than half of the world's poor will live in fragile states such as Nepal (OECD, 2014). In fragile countries, infrastructure development is an important element of the much needed reconstruction and disaster management effort. Infrastructure can help create economic opportunities, reduce the high costs of accessing markets, reconnect isolated communities, and facilitate the delivery of basic services. Transport, energy, telecommunications, health, water and sanitation infrastructure enable a state to grow its economy. Infrastructure is also a core component of climate change adaptation--for instance, through the construction of embankments and other such coastal and flood protection measures.

The World Bank (2014) recently estimated an infrastructure need of $2.5 trillion for South Asia alone. Africa needs yearly infrastructure investments of about $93 billion (Foster & Briceño-Garmendia, 2010). High population and urbanisation rates will continue to drive the demand for improved infrastructure (PRB, 2013). Meeting these financial and technical infrastructure demands is a challenge for governments, civil society, development and humanitarian organisations. Part of this financing and capacity gap can be met through private sector investments. Infrastructure financing provides a significant business opportunity for the private sector, especially in fragile and conflict-affected countries, where there is the most urgent need for infrastructure development. But operating in fragile environments is not without its challenges. Companies investing and operating in conflict-affected countries face a range of different security risks. Additional concerns include difficult and costly logistics, absence of effective legal frameworks and political

risks such as corruption. However, companies with an informed view to prevent, manage and overcome such risks can benefit from these business opportunities.

Moreover, while all infrastructure projects are affected by the local context, the projects themselves can alter the local situation. Infrastructure projects, including major roads, bridges, dams, and water and sanitation projects, may inadvertently cause conflict, through environmental effects, displacement, human rights considerations, or the way they distribute gains and losses in society. The may also exacerbate pre-existing conflicts and tensions in communities, for instance through unmet expectations.

This article examines this relationship between business risks in fragile and conflict-affected contexts and the effects of business on local situations, with a focus on infrastructure projects. To discuss how business can drive development instead of conflict, we introduce the concept of conflict sensitivity and stresses why it must become part of business practice.

BUSINESS RISKS IN FRAGILE AND CONFLICT-AFFECTED CONTEXTS

Existing conflicts may result in a substantial loss and price tag for companies. An example of how existing tensions and development deficits interfere with business can be found in Turkana County in northwest Kenya, where International Alert conducted research in 2013 and 2014. Turkana is the poorest county in Kenya, characterised by high levels of insecurity, a dry climate, and poor infrastructure for health, education, energy and transportation (Schilling et al., 2012). Recently, significant oil reserves have been discovered here. However, the exploration of the reserves has been disrupted, delayed and become more costly because of Turkana community members blocking access roads to exploration sites and even attacking and storming them (Nation, 2013; Ng'asike, 2013). The operating oil company had to evacuate the majority of its staff and stopped operations for several weeks "to prevent further escalation of the demonstrations" (Tullow Oil, 2013a). The tensions between the oil company and the communities are closely related to the effects of the oil exploration on the local context.

Some of the direct costs companies incur due to local tensions and violence include disruptions and delays to project implementation, increased security costs, and the need for increased risk-management provisions. Indirect costs are those of lost opportunities as a result of company-community conflict. Mishandled conflicts can force companies into higher expenditure on public relations and information dissemination, distract key staff and senior management from their core tasks, and cause reputational damage (see Table 1 for more detail).

Effects of Business on Fragile and Conflict-Affected Contexts

Business operations themselves can negatively affect fragile and conflict-affected contexts through (a) the creation of elevated expectations, (b) the creation of beneficiaries and non-beneficiaries and (c) the generation of unintended knock-on consequences. Independently or in

combination, these effects have the potential to further destabilize a fragile situation. The following section illustrates some of the possible mechanisms by which this may occur.

TABLE 1: Costs of conflict to projects

Security	Higher payments to state/private security firms; increased operational costs of security: fences, patrols, alarms/monitoring systems; staff time spent on security management.
Risk Management	Insurance: higher premiums and coverage; reduced mobility and higher transport costs.
Material damage	Damage or destruction to property and infrastructure.
Lost productivity	Operations discontinued; temporary shutdowns; disruption or delays to production, deliveries, supplies; lost opportunity for future expansion and/or new projects.
Capital	Increased cost of raising capital; debt default; loss of value of property or share price.
Personnel	Kidnapping, killing and injury; recruitment and retention challenges; higher wages to offset risk; staff time spent on risk and conflict management.
Reputation	Costs of public relations; competitive loss: impact on brand, investor confidence; share price.
Litigation	Law suits: costs of proceedings themselves, judgement/settlement costs; compensations; fines.

Source: Adapted from Crossin and Banfiel, 2006 and Davis and Franks 2011.

Expectations

Any business or infrastructure project brings with it resources and opportunities, be it in the form of roads, revenues or employment. These resources and opportunities create expectations among stakeholders, particularly among the local population and national leaders. Communities in Turkana, for example, witnessed the oil company's

ability to drill for water, build roads and accumulate security personnel. This led them to project their development needs, which the Kenyan government has failed to satisfy, onto the oil company. The company has built some school classrooms, put up water tanks for nearby communities, and employed around 800 local residents (Tullow Oil, 2013a; 2013b). However, interviews with community members indicate that despite these efforts, their expectations of the company have not been met. In a context of immense development deficits, there is a significant mismatch between the potential revenues for the oil company and their resourcing towards community development and employment initiatives. Distribution of revenues can often lead to tensions. In Kenya, the constitution specifies that the profits from oil are to be shared, with the national government receiving 70 percent, the county government receiving 20 percent, and 10 percent going directly to the local communities through the chiefs (Republic of Kenya, 2010). However, distribution of potential oil revenues has caused disagreement between the different levels of government before the actual exploitation has even started (Star, 2012).

Beneficiaries and Non-beneficiaries

When selecting beneficiaries of a project, non-beneficiaries are by definition selected as well. This is the case when a project is specifically designed to improve a certain area (for instance, through electricity provision), as well as when a project creates opportunities as a side product (for instance, employment opportunities in oil exploration).

In Nepal, for example, a multi-million dollar water and sanitation project aimed to improve water provision in 20 small towns. The initial project design for improved water and sanitation facilities in one of the towns mandated construction work at water sources in rural areas outside of the town--in effect, diverting water from the rural areas. An assessment by International Alert found that community consultations were undertaken with town-based beneficiaries but not with the rural communities. Communities in the rural areas became angry when, without their prior knowledge, work started to exploit a resource they felt they owned. Communities protested and caused operations to cease temporarily.

In the Turkana oil example, the resentment between non-beneficiaries and beneficiaries was particularly high around the issue of employment. Community members expressed the view that jobs with the oil company would mostly go to 'outsiders' instead of benefitting locals.

Unintended Knock-on Consequences

Projects can also have unintended knock-on consequences that may spur conflict, instability, and insecurity. In Turkana, for example, the oil company hired community security forces called KPR (Kenya Police Reserve) to secure the oil sites and transport routes. While this was meant to increase the security situation where oil exploitation is taking place, security along the border between the Turkana people and their enemies (the Pokot) is reported to have decreased because of a lack of KPRs.

In another project in Kibera, the largest informal settlement in Nairobi, Kenya, an urban planning company aimed to

turn environmentally degraded and unsafe parts of the settlement into "productive public spaces" (KDI, 2014). However, after the clean-up was completed and the flood protection installed, part of one project site had to be abandoned because it was captured by local strongmen who wanted to capitalise on the improved value of the land (International Alert, 2014).

In the case of Odisha, India, the unintended consequences of an engineering solution to protect a lake's resources negatively affected a community's livelihood. Some communities living around Chilika Lake, the largest brackish water lake in India, depend on the lake for their livelihoods. A community living on the stretch of lake shore closest to the sea mouth depend on the lake for fishing, whereas villagers living on the northern, inland lake shore carry out salt farming. In 2004, the Chilika Development Authority (CDA), the technical body responsible for the upkeep and maintenance of the lake, engineered a new opening and a new canal to counter salt water intrusion and increased siltation, which were observed to be affecting the lake's biodiversity. The new canal was deeper than the pre-existing Saheb canal, which allowed saline water from the Bay of Bengal. While the CDA deemed the intervention necessary for preserving the lake's biodiversity, it resulted in the unintended consequence of disrupting the livelihood of the salt farmers. By drastically reducing the flow of saline water feeding into the salt farms, the new canal affected the harvesting and sale of salt (Mitra, 2013).

Other unintended consequences may include the pollution of ground water, land and air (e.g., by oil operations), the destruction of or disrespect for cultural values (e.g., by building on, disturbing, or disrupting access to sacred grounds) or the blocking of transport routes (e.g., by the construction of buildings or fences).

Conflict and Development Implications

Unmet expectations, distributive effects and unintended knock-on consequences can trigger strong opposition to a project or generate resentments against the operating company. These negative impacts of business operations are particularly problematic in contexts that are sensitive to environmental risks and vulnerable to changes in their natural resource base. For example, interventions in conflict- and environmentally-affected regions such as Turkana have the potential to aggravate existing conflicts or create new tensions. Oil exploration that pollutes already scarce and drought-affected water and land resources will jeopardize the livelihoods of the Turkana pastoralists, leading to competition and conflict over the use and sharing of these natural resources. This is not to say that the oil company is powerless or incapable of avoiding or addressing these conflict drivers. By providing water at certain water points, the company is attempting to improve the reliability of water for pastoralists and their livestock.

An additional complication is that clear lines of accountability may be lacking. This is especially so in larger projects, since no single company is involved in the full life-cycle of the project, creating the potential for disputes and confusion over where responsibility lies when conflict arises from actions taken at earlier stages or at different

levels of authority (Davis & Franks, 2011). To avoid the aggravation or creation of conflict, a conflict-sensitive approach to business and infrastructure projects is needed.

CONFLICT-SENSITIVE APPROACH

All companies undertake some form of political risk analysis and environmental and social impact assessments. In many countries, such measures may be adequate to identify problems and recommend solutions. In politically unstable and conflict-affected countries, however, these screens by themselves are generally not sufficient. This is because standard impact assessments fail to identify the many and complex ways in which a project can impact on the local context and vice versa. Conflict sensitivity means that a company understands the context in which it operates; understands the interaction between the business' intervention and the local context; and acts upon these understandings, in order to avoid negative impacts and maximise positive impacts.

A conflict-sensitive approach can help companies identify the full range of risks the context poses to the company and the impact of the company's projects on the context. By avoiding the costs associated with causing, triggering or accelerating conflict, a conflict-sensitive approach can be to the mutual benefit of both companies and communities. A conflict-sensitive approach is not designed as an additional process but rather an expansion of the company's existing risk analysis processes. For companies, a conflict-sensitive approach involves a range of multifaceted strategies for managing investment impacts and conflict risks. Figure 1 shows the key elements of a conflict-sensitive approach

FIGURE 1: Key elements of a conflict-sensitive approach

Source: International Alert and Engineers Against Poverty, 2006

The key elements can be summarized as follows:

- ***Compliance**:* Not complying with applicable laws and regulations can undermine stability in a country, and also lead to immediate legal risk for companies. Compliance programs, risk management and training of employees promotes proactive risk identification and can help reduce compliance violations and legal costs.

- ***Do No Harm**:* Even with 100 percent compliance, business practices can unintentionally do harm. Therefore, companies must make due diligence efforts to avoid fuelling conflict. Awareness and assessment of risks and impacts of business operations on local communities can help ensure that activities do not fuel tensions or violence, utilising improved conflict risk and impact assessment tools.

- ***Peacebuilding:*** Building on compliance and Do No Harm principles, companies can proactively contribute towards ensuring a more stable operating environment. A peacebuilding approach is guided by three key principles. First, open channels of *communication* make it easier to tackle contentious issues constructively. Second, *local relationships* give beneficiaries of infrastructure projects a legitimate interest in investments. Third, *cost and benefit sharing for sustainability* give both contractors and beneficiaries a stake in the process and outcome of the project.

Thus, for a conflict-sensitive approach, a business and infrastructure intervention can promote equity, community voice and participation in decisions which affect them and increase delivery or core services such as energy, transport or telecommunications. All are vital components of a peaceful and resilient community.

For the oil company operating in Turkana, conflict sensitivity would imply complying with laws in Kenya, such as the employment laws determining the percentage of locals to be employed by the company. Since oil is a new resource in Kenya, the law regulating environmental impacts was written before oil was discovered. Hence, while oil damages to the environment might not be unlawful, the Do No Harm element of conflict sensitivity would ensure that environmental damages are kept to a minimum and that if they occur, a comprehensive environmental-impact assessment would identify appropriate measures (e.g., safeguards or compensation).

To avoid any harm to the communities requires a good understanding of the communities, including their values, needs, fears and expectations. This can be achieved through close community-company communication. Regular meetings, community consultations and integration of the communities into the company's strategy at the earliest stage possible and throughout the project would ensure that the communities are included and have

ownership of a project. A central task of the community-company interaction would be to ensure appropriate levels of transparency and accountability, good management of expectations, clarity in communication, and honesty about the limits of their efforts. So-called community liaison officers (CLOs) which the oil company has hired in Turkana are an important link between the company and the communities.

Finally, a peacebuilding approach from the perspective of the oil company could mean collaborating with peacebuilding organisations and the government to mitigate the impacts of existing conflicts; employing people from the Turkana and Pokot groups and promoting cooperative engagement between the two groups is one such strategy of such an approach. However, given the complexity of the operating environment, it is acknowledged that such strategies are not straightforward but often very challenging. Some of these challenges are discussed in the next section. Ultimately, it is important for all companies to have a more comprehensive understanding of the complexities of their operating environment, the role they may play in exacerbating tensions in local communities, and also their ability to promote peace proactively.

CHALLENGES AND OBSTACLES TO A CONFLICT-SENSITIVE APPROACH

Common challenges and obstacles to implementing a conflict-sensitive approach are diverse. They may range from the complexity of actors and their different interests and capabilities, to unclear or ineffective governance structures, to short-term cost increases imposed by taking conflict-sensitive measures. Using the example of oil in Kenya, the central government appears to be interested primarily in the oil revenues; the local communities want a share of those revenues to be allocated directly to address their development deficits and to avoid or mitigate the negative environmental, social, and economic externalities of oil exploration. The oil company must negotiate license agreements to explore oil reserves with the central government, while, in practical terms, working with the local communities to address contentious issues. The challenge of reconciling these multi-level negotiations is further complicated when the governance structure within a country is unclear or ineffective. For example, an oil company may receive permission from the central government to explore oil reserves. But if the central government does not consult or even inform the county or local government, these authorities (and hence the local population) may oppose the oil exploration.

A third obstacle to conflict sensitivity may be found within companies themselves. Understanding the context and the communities in which a company operates typically imposes additional costs. More importantly, it requires buy-in and commitment from senior leadership. Community Liaison officers must be hired and their ability to visit communities regularly must be ensured. In regions with poor road infrastructure and insecurity, these requirements will impose additional costs. Other efforts to improve company-community relations, such as building of

class rooms or provision of water services, will also increase costs.

BENEFITS OF A CONFLICT-SENSITIVE APPROACH

Short-term planning may lead companies to seek to avoid these additional costs. However, in the mid- to long-run, there are clear benefits to companies from applying a conflict-sensitive approach, including better risk management, lower operational costs, gains in the form of reputation and good will, and advantages from positive stakeholder engagement:

- ***Better risk management.*** Conflict sensitivity enables companies to anticipate threats and identify strategies for avoiding or addressing them. A conflict-sensitive approach gives companies better understanding of the operating environment, helps develop good relations and communication with local communities, and ensures better management of local expectations. By understanding the full range of project risks and impacts, companies are better equipped to mitigate risks arising from local grievances.

- ***Lower operational costs.*** Companies can avoid additional operational costs arising from delays and disruptions spurred by protests. Staff time required to address local conflicts can be minimized by using proven techniques and tools of conflict risk assessment, stakeholder engagement and relationship building, and by developing mitigating strategies to alleviate contentious issues in partnership with other stakeholders.

- ***Reputation, credibility and social good will.*** A conflict-sensitive approach enhances company reputation and prevents or minimizes episodes of poor public relations. There is increasing pressure for companies to demonstrate that their investments can bring positive social and environmental value, in addition to economic benefits. Conflict sensitivity helps companies ensure that longer-term benefits accrue in the communities in which they are operating and improve their social performance.

- ***Positive stakeholder engagement***. Engineering contractors and infrastructure companies are responsible for a significant amount of a project's "on the ground" interactions with local communities. Conflict sensitivity can help manage these local relations. Through consistent, meaningful stakeholder engagement, real and perceived community concerns can be alleviated, and disputes may be resolved before they escalate. Conflict sensitivity can shape a company's actions to be more socially and culturally responsive to the communities they impact.

CONCLUSION

Fragile countries, especially those facing the double exposure of conflict and environmental risks, have a significant infrastructure and development need. To address this need is challenging for all stakeholders involved--but particularly so for companies as implementers of projects. Any project will be affected by the local context within which it operates and vice versa. To ensure that business in general and infrastructure projects in particular will drive development instead of conflict, a conflict-sensitive approach is needed. Such an approach is based on principles of compliance, avoiding harm, and peacebuilding. This is not an easy task, given the complexity of actors, the common weaknesses in governance structures, and the limited planning horizons of companies. However, the cases of Nepal and Kenya presented in this report suggest three critical lessons for companies operating in environmentally sensitive and conflict-prone areas. First, the absence of conflict-sensitive business practices is likely to aggravate existing conflicts and/or create new tensions and local resentments. Second, good company-community relations, including the management of community expectations, are critical in achieving conflict sensitivity. Third, conflict sensitivity pays off, not only for communities but also for companies

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