The Role and Governance of Multinational Companies in Processes of Post-conflict Reconstruction

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Submitted for the degree of Doctor of Philosophy of the University of London
March, 2010
Abstract

In the past two decades, the international community has shown an increased proclivity to engage in programmes of post-conflict reconstruction in the aftermath of wars. During the same period, the perceived increase in the size and influence of multinational companies, as part of the process of so-called globalisation, have begun to challenge existing notions of governance at a global level.

Yet despite these developments, the role that multinational companies play in post-conflict environments is not well understood. Whilst there is an emergent literature which considers the role of the corporate sector in conflict zones in general, how multinational companies impact on post-conflict environments remains almost completely unexplored, and no attempt at all appears to have been made to understand the corporate impacts on specific reconstruction processes. This thesis seeks to address this gap.

Given that this thesis examines a hitherto unexplored topic, it is necessary that it be properly located within relevant existing scholarly knowledge. Through the examination of two relevant areas of international relations literature this thesis develops a framework with which to examine the role of companies in the post-conflict reconstruction processes of three case-study countries: Azerbaijan, Bosnia and Rwanda.

The case studies examine the reconstruction process in the three countries through the use of published literature and interviews with key figures from business government and civil society. Each study considers the role played by the corporate sector within the reconstruction programme, and the processes by which companies’ actions are (or more usually, are not) governed.

This thesis finds that multinational companies impact on all facets of the reconstruction effort in all three countries studied. Yet despite this, these impacts are not properly governed within these programmes. A number of future research avenues are proposed that may further advance our understanding in this area.
Declaration

I hereby declare that the work presented in this thesis is my own.

Peter Davis
11th March 2010
For Jayne and Oliver, and in memory of my father.
“Il est plus facile de faire la guerre que de faire la paix.”

Georges Clemenceau, 1918

One of the 11 mass graves at the Genocide Memorial, Kigali. Each contains the remains of more than 20,000 people.
Acknowledgements

This thesis would never have been written were it not for the considerable support I have received from a great many people. Most obviously, I am indebted to all those people who allowed me to interview them during my wanderings. All were very busy people, yet all were unfailingly courteous, helpful and extremely generous with their time.

I am also extremely grateful to my supervisors, Professor Steven Haines, now of the Geneva Centre for Security Policy and Dr Sue Konzelmann, of Birkbeck, University of London. Both kept me on the proverbial straight and narrow with a welcome mixture of firmness, knowledge and humour. A number of experts have provided insights that have enriched this thesis. My thanks in particular to Dr Chris Kinsey, Professor Theo Farrell, Dr Chris Rumsford, Toby Webb, Albena Melin and Caroline Rees. I would also like to thanks those whose questions, on the occasions when I have presented on my research, have prompted me to re-consider aspects of my work.

My friends and family kept me sane(ish) and in the real world. In particular, my thanks to my sister, Jenny and her family for being there, David for the skiing, Val for Majorca, Jonathan for the cricket, and my mother for never letting me forget who I am. I especially want to thank my brother, Andrew. He will always be the senior Dr Davis, and he needs to know how valuable his quiet support and insight have been over the years.

However, the most important thanks must go to my wonderful wife, Jayne. It is no exaggeration to say that this thesis would never have been written without her. She has put up with my absences in very odd parts of the world, spending money on field trips rather than earning it with a normal job. She has been unfailing in her support, and I am more grateful than I can express; not just for letting me finish this thesis, but understanding why I needed to do it. I adore you.

Finally, thanks to Oliver, my 3 year-old son, for making me realise every day what is really important in life.
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**List of Abbreviations**

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1: Introduction

Over the past two decades, the international community has shown an increasing willingness to become involved in post-conflict environments around the world in an attempt to create stable, durable states in the aftermath of war. As Roland Paris puts it in his 2004 book *At War’s End*, “post-conflict peace-building developed into something of a growth industry in the 1990s.”\(^1\) Between 1989 and 1999, the UN Security Council authorised 14 major peace-building efforts\(^2\), and as at February 2010 the UN Department for Peacekeeping Operations was managing 12 on-going operations\(^3\). These developments have given rise to significant scholarly and practitioner literature which seeks to understand what works in stabilising post-conflict environments, and how such interventions ought best to be governed and managed if they are to be effective. During the same period, there has also been an increased awareness that multinational corporations (MNCs) – private sector organisations with operations in several countries – are becoming much more influential, and are increasingly having societal and environmental, as well as economic impacts. As Josselin and Wallace argue: “any interpretation of international relations and global politics must now take the significance of non-state actors, operating trans-nationally, into account.”\(^4\)

Accordingly, a growing literature examines the impacts that companies have on politics and international relations, and how these might be governed within the prevailing paradigm of international relations (IR). As Claire Cutler makes clear, “there is a growing asymmetry between the theory and practice of international relations: the theory makes an impossibility of private authority and private international regimes, whilst the activities of non-state actors grow increasingly authoritative.”\(^5\)

Yet despite the high level of attention paid to understanding the dynamics of post-conflict reconstruction, and growing efforts to understand the developing role of the corporate sector, the impact of multinational companies in post-conflict countries is poorly understood. At a 2008 conference in London examining best practice in post-conflict reconstruction, a session looking at the role of the corporate sector was described as “ground-breaking”\(^6\). Not that this conference was badly informed: it is evident from the scholarly literature that no systematic

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2. Ibid, p5
6. Andy Bearpark introducing the Private Sector session at New Approaches to Stabilisation: Tackling Post-conflict reconstruction, organised by Post Conflict People. London 19\(^{th}\) November 2008
understanding exists of the impacts that companies have – be those positive or negative – on reconstruction efforts; and that little attention has been paid to working out how best to incorporate the private sector and its activities into the architecture of governance of post-conflict theatres. As this chapter will demonstrate, although there exists an emergent literature which examines the impacts of multinational companies in conflict-prone zones, it is very limited in scope and extent. The literature which seeks to understand the relationship between multinational companies and other actors in post-conflict reconstruction is virtually non-existent.

This thesis seeks to address this gap in our understanding by examining two central issues: firstly, the impacts that multinational companies have in post-conflict environments, and secondly, the processes used – by companies themselves and by states – to govern those impacts. This aim is achieved through the study of three specific post-conflict countries: Azerbaijan, Bosnia Herzegovina (BiH) and Rwanda. To reflect the need to develop a systematic understanding of the interaction of the international corporate sector with the wider processes of reconstruction, the analysis of these case studies is undertaken in the light of two areas of International Relations scholarship: 1) the literature focussing on what post-conflict reconstruction is, and what is it that the international community and host governments are seeking to achieve in such circumstances, and; 2) the literature concerned with processes of global governance, and in particular that which seeks to understand the growing impact of non-state actors on established notions of how international relations operate. This approach allows this study to draw conclusions about the impacts of the international business community on the reconstruction processes in the countries studied, and the processes by which these impacts are (or rather, for the most part, are not) governed as part of the overarching reconstruction effort. Although it is important to recognise the limitations in generalising from a small set of cases – as Robert Stake puts it, “the representative nature of a small sample is difficult to defend,”7 – at the very least, these conclusions provide a significant basis for a systematic examination of other post-conflict theatres.

**The role of the private sector in conflict-prone regions**

One type of corporate involvement in conflict has always been, and remains, highly controversial: those companies whose business is war. As Kinsey points out, although the use of so-called Private Military Companies (PMCs) has increased in recent decades, war fighting as a commercial activity is not new and can be traced back to at least the 11th Century.8 In O’Brien’s view the recent growth in the use of private companies results from a problem of “commitment versus capability” on the part of states. In his view, whilst supra-
national organisations like the UN “are willing to take a political stance against regional conflicts, very few of their members are willing and able to support such political reprimands with the military strength required to support the achievement of conflict resolutions and re-stabilisation.” Kinsey agrees, asserting that “PMCs have taken on a number of roles that the armies of the first world would have previously undertaken.” Kinsey also makes clear that to see such companies simply as mercenaries is unhelpful: his survey of the sector suggested that very few of these companies “projected lethal force in combat operations...[most] PMCs have tended to stay away from this area of operations.” Rather than ‘war fighting', PMCs provide a range of support functions to military operations including: provision of close protection; “training local militaries to undertake peacekeeping operations”; “creation, training and restructuring of civilian police forces” and providing security which, Kinsey asserts “is now an essential component for foreign companies and international organisations working in developing countries that have recently emerged from civil conflict”

But what of the rest of the corporate sector: those companies whose raison d’être is not related to the business of war? However, important though PMCs are, they are not the focus of this thesis. Nor indeed are indigenous businesses, notwithstanding work by International Alert which suggests that such organisations have significant impacts on conflict dynamics. Instead, this study will focus on multinational companies whose business is not directly related to war per se. As Muchlinski asserts, what he terms multinational enterprises “are perhaps the most talked about forms of business association in the contemporary ‘globalising' world and economy”. Yet as he also argues, exactly what is meant by the terms ‘multinational corporation’ or ‘multinational enterprise’ is not clear: “usage has not always been uniformly applied and some terminological confusion has resulted.” Indeed, arriving at a definition is “a task that may not be possible with any degree of accuracy.” Whilst recognising that there is a very real debate around the terminology, this thesis will make use of the widely-accepted definition proposed by Hood and Young, that a

10 Kinsey. C. ‘Regulation and Control of Private Military Companies’. In Contemporary Security Policy Vol 26 No 1 April 2005, p85
11 Kinsey, Corporate Soldier, p32
12 Ibid, p33
13 Kinsey, C. ‘Problematising the Role of Private Security Companies in Small Wars’. In Small Wars & Insurgencies. 18: 4, p596
14 Kinsey, Corporate Soldiers, p128
17 Ibid, p5
18 Ibid, p7
A multinational corporation or enterprise is “any corporation which owns (in whole or in part), controls and manages income generating assets in more than one country.”

Academic discussion of the role of such corporations in conflict zones has emerged in barely the past decade: as Timothy Fort observes, before 1999, “there was very little on what business can do to promote peace and security.” In Haufler’s view, the development of interest in this topic since then was sparked by the issue of so-called ‘blood diamonds’, the sale of which provided the revenues for the prosecution of the civil wars in Africa in the 1990s. She argues that this episode is a modern example of the corporate sector’s long-run negative impact on conflict zones, arguing that “foreign investors have been linked to the emergence or exacerbation of conflict around the world for centuries.” Despite this, she nonetheless acknowledges that there is insufficient evidence to allow a proper assessment of the corporate impact in conflict, stating that “there is little empirical evidence so far on which to base sound analysis of their [companies] potential role.” Unsurprisingly therefore, her observations on what a private sector role might be are speculative in nature, focussing on what companies could do, not what they do do. Whilst she admits that a company’s role will vary depending on the stage of development of a conflict, and on the industry they are in, she identifies five specific activities that the corporate sector might undertake: (1) “provide, collect or facilitate access to information and communication between disputants or to the wider public”; (2) “intervene diplomatically to bring the parties together, promote widespread dialogue and mediate between the different interests”; (3) use “positive inducements such as aid, economic development programmes, and support for institutional capacity-building”; (4) impose negative sanctions by withdrawing from activities known to be contributing to violence; and (5) contribute to “officially sanctioned intervention”, such as peace-keeping or humanitarian missions.

Like Haufler, Wenger and Moeckli assert that “corporations have long been accused of causing or exacerbating conflict through their business operations”. They also acknowledge that the research base is narrow. Nonetheless, they argue that there is a strong case for systematically incorporating the corporate sector into conflict prevention activities. Their case is threefold. Firstly, companies bring different skills and capacities to the table, which more traditional actors often do not possess. Secondly, it is in the business

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19 Hood, N & S Young. The Economics of the Multinational Enterprise. Longman, London. 1979 p3
22 Ibid
23 Ibid, p660
24 Ibid pp 665-667
sector’s own interests to contribute to peace, and therefore to economic stability and growth. Thirdly, corporate engagement in conflict management demonstrates their willingness to contribute to other global goods.\textsuperscript{26} However, these authors are wary of according the corporate sector too large a role; and see its involvement limited largely to the economic sphere. Essentially, they argue that companies should pursue their core business activities, such as trade and foreign direct investment, with a specific conflict prevention perspective. However, they do advocate that multinationals can “transfer know-how with regard to private sector development, especially to local communities.”\textsuperscript{27} The greatest weakness that Wenger and Moekli perceive for the corporate sector concerns its legitimacy to act: they argue that there is no international acceptance of companies playing a role in such matters. Other authors also reject any notion that pro-active, state-like proto-diplomacy as a legitimate activity for companies: as Josselin and Wallace say, there is an “ambivalence about transnational economic actors.”\textsuperscript{28} Part of this ambivalence stems from the belief that companies do not have the right skills – “commercial actors are generally ill-suited for such tasks…”\textsuperscript{29} This is compounded by the belief that companies respond primarily to short-term shareholder needs, rather than to longer-term broader considerations: according to Gerson and Colletta “in part the…reluctance to fully engage with the private sector is due to a lingering lack of confidence in the private sector’s willingness to sustain commitments in any one area…”\textsuperscript{30} Haufler expresses similar reservations specifically in relation to companies’ impacts in post-conflict settings, advising that “any plan for state-building needs to address the potentially negative impact of foreign investment, particularly in the resource sector.”\textsuperscript{31} So adverse can this impact be, she argues, that “some observers have argued that all major extractive industry development in fragile states, including those just emerging from war, run the risk of abetting corruption, conflict and criminality; they should not be undertaken at all.”\textsuperscript{32}

Over the past few years, various efforts have been made to address these perceived weaknesses on the part of the corporate sector. A number of organisations have developed guidance documents to help companies better manage their impacts in conflict-prone environments. In 2000, the Prince of Wales Business Leaders Forum; International Alert and the Council on Economic Priorities proposed a series of “5 principles of corporate engagement in conflict prevention and resolution,”\textsuperscript{33} aimed at corporate managers. These are: (1) strategic commitment from the CEO and Board on conflict issues; (2) assessment of

\textsuperscript{26} Ibid, pp99-128  
\textsuperscript{27} Ibid, p8  
\textsuperscript{28} Josselin. & Wallace. ‘Non-state actors in world politics’ p17  
\textsuperscript{29} Wenger and Moekli p37  
\textsuperscript{31} Haufler, V. ‘The Private Sector and Governance in Post-Conflict Societies’. In Brinkerhoff, D W. Governance in Post-Conflict Societies. Routledge, London. 2007, p156  
\textsuperscript{32} Ibid, p154  
conflict-related risks and impacts of the company’s operations to be conducted in a systematic fashion; (3) relevant stakeholders are to be identified and consulted with on a regular basis; (4) action should be undertaken collaboratively in partnerships between companies, civil society groups and government bodies; and (5) to evaluate success and demonstrate accountability, key performance indicators are to be developed to assess a company’s economic, social and environmental impacts. In 2002, the UN Global Compact published its *Business Guide for Conflict Impact Assessment and Risk Management*, to “aid companies in developing strategies that minimise the negative effects and maximise the positive effects of investing in areas of conflict or potential conflict.” At the same time, UNGC also published a set of case studies giving a number of examples of corporate involvement in peace-building. Conflict Sensitive Business Practice: Guidance for Extractive Industries was published by UK-based NGO, International Alert in March 2005 and built on the work of the UN Global Compact. Its stated intention was to provide “guidance on doing business in societies at risk for field managers…as well as headquarters staff.” The Corporate Engagement Programme of the US-based Collaborative for Development Action has conducted a series of field trips over the past 5 years, from which they have developed a series of “issue papers…that explore a set of issues that have emerged…They lay out corporate pitfalls, clarifying underlying assumptions…and identify options and alternatives available to corporate managers.” However, the impact of these guidance documents appears to be limited. Writing in 2007, Haufler concluded that “so far, conflict impact assessments and conflict-sensitive practices are not widely or systematically practiced, so it is difficult to evaluate their impact”

As well as broad guidance documents, the past decade has also seen the emergence of a number of partnerships between government institutions, the private sector and civil society. Although these are aimed at addressing aspects of corporate behaviour in general, some have particular relevance for corporate impacts on conflict-prone areas. The first of these initiatives, the Voluntary Principles on Security and Human Rights was launched in 2000 “to guide companies in maintaining the safety and security of their operations within an operating framework that ensures respect for human rights and fundamental freedoms.” This guidance falls into three categories, risk assessment, relations with public security, and

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relations with private security.\textsuperscript{40} The Principles were heavily criticised for a lack of sanction on poorly-performing companies: as US-based Business for Social Responsibility argued, “some companies may publicly support the Principles, but have no obligation to follow through on stated goals.”\textsuperscript{41} As a result of such comments, new participation criteria were agreed in May 2007. The Extractive Industries Transparency Initiative was established in 2002 to improve “governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas, and mining.”\textsuperscript{42} At the heart of the organisation is a set of principles centred on the “belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction”\textsuperscript{43}; and a set of six criteria designed to ensure “regular publication of all material oil, gas and mining payments by companies to governments.”\textsuperscript{44} Finally, The Kimberley Process “is a joint government, international diamond industry and civil society initiative to stem the flow of conflict diamonds - rough diamonds that are used by rebel movements to finance wars against legitimate governments.”\textsuperscript{45} After 2 years of negotiations involving the diamond industry and diamond-producing states, the Kimberley Process Certification Scheme (KPCS) was launched in November 2002. The KPCS imposes stringent requirements on all participants to guard against conflict diamonds entering the legitimate trade.

Berman looks at the topic from the perspective of how these issues are managed within corporations: as he observes, “policymakers and advocates generally understand little about the way corporate managers approach the issue of armed conflict in their operations.”\textsuperscript{46} Based on a survey conducted of 25 managers overseeing MNC operations in regions of armed conflict, Berman concludes that the corporate attitude to conflict is driven by five key factors. Firstly is the perceived geographic extent of a conflict: if it is geographically limited companies are likely to maintain their operations. Second is the severity of the conflict. Terrorism is widely tolerated, whereas very few MNCs are prepared to maintain operations in countries where opposition groups control large areas of land. The third factor is the attitude of the government: if it provides an otherwise-stable investment climate (for example, as was the case in Northern Ireland during its conflict) then investors “are prepared to look past the risks associated with the conflict.”\textsuperscript{47} The fourth factor is the sector in which a company operates. Those who feel themselves to be essential to the economy feel less risk from

\begin{thebibliography}{99}
\bibitem{40} Ibid
\bibitem{41} Business for Social Responsibility. \textit{Learning from the Voluntary Principles on Human Rights}. Write-up of BSR Annual Conference breakout group Nov 3, 2005
\bibitem{42} Extractive Industries Transparency Initiative. \textit{What is the EITI}. Retrieved 26\textsuperscript{th} July 2007
\bibitem{43} Extractive Industries Transparency Initiative. \textit{The EITI Principles and Criteria}. Retrieved 2\textsuperscript{nd} Oct 2009
\bibitem{44} Ibid
\bibitem{45} Kimberley Process. \textit{What is the Kimberley Process}. Retrieved 26\textsuperscript{th} July 2007
\bibitem{46} Berman, J. \textit{Boardrooms and bombs: Strategies of multinational corporations in conflict areas}. Harvard International Review. Sept 22\textsuperscript{nd} 2000
\bibitem{47} Ibid, p3
\end{thebibliography}
armed conflict. However, extractive companies are more likely to tolerate conflict risk simply because they want access to, for example, oil reserves. Finally, companies will alter the financial structures of their operations in order to protect themselves as far as possible from the risks of conflict.

As is evident from the discussion above, the academic literature does not yet provide a detailed and systematic analysis of the role that multinational corporations actually do play in conflict prone environments. As Virginia Haufler acknowledged in a 2005 article, the potential for corporations to act as instruments of conflict prevention remains “under-explored in the current literature.” She acknowledges that developments such as the Kimberley Process, EITI and the Voluntary Principles are succeeding in establishing new norms and expectations about corporate behaviour. However, these are still only weakly institutionalised. She refers to the UN and World Bank, and NGOs behind these initiatives as “norm entrepreneurs” who are seeking to raise the profile of the corporate conflict prevention and institutionalise anti-corruption and conflict prevention policies. However, she acknowledges that there is a paradox. On the one hand, “the debate over intervention [in conflict zones] does not admit any role for the private sector,” yet on the other hand, there are expressed expectations of companies in this regard, and examples of where companies are actually playing a role. Wenger and Moeckli, despite fundamentally questioning the corporate sector’s legitimacy to act in post conflict environments, also accept that companies do in fact have impacts in such circumstances. They cite the example of Tiny Rowland and Lonrho’s involvement in the Mozambique civil war in the 1980s. “Rowland…embarked on a shuttle diplomacy that…built up bonds of trust between the warring parties and the neighbouring governments and contributed to the peace negotiations…” Haufler nicely summarises the mismatch between IR theory and practical reality. “On the one hand, corporations cannot legitimately perform the functions of governments, and should not be asked to do so. But on the other hand, in dire situations, there might be no other actor able to intervene effectively.”

Framework for a systematic analysis

As is evident from the discussion above, there are a number of serious weaknesses in our current understanding of MNCs’ impacts on conflict. Firstly, the literature that exists is rather thin. Secondly, it focuses excessively on developing norms of behaviour for companies, perhaps too-strongly reflecting a concern over the “potentially negative impact of foreign

49 Ibid, p66
50 Ibid, p65
51 Wenger & Moeckli, p63
52 Haufler, Foreign Investors in Conflict Zones p74
Thirdly, there appears to be an almost complete absence of insight into the role that MNCs play in processes of post-conflict reconstruction, and the interaction between companies and other actors in the creation and implementation of such programmes. It is the third of these issues which this thesis seeks to address. In order for a systematic assessment of the role of multinational companies in post-conflict reconstruction to be undertaken, it is necessary to look at the topic through the lenses of existing scholarly literature, of which two aspects seem particularly pertinent. Firstly, one must understand precisely what post-conflict reconstruction looks like, and what it is that the development community and host governments are trying to achieve. Secondly, attention needs to be paid to changing analyses of the structures of global governance. The current literature relating to these two topics will be considered fully in the next chapter, however the central issues are as follows:

Reconstruction
Over the past 2 decades, the international community has shown an increased willingness to involve itself in the process of re-building post-conflict states. Although Iraq and Afghanistan have been the most high-profile examples, the international community has been involved in reconstruction operations in many other places, including East Timor, Angola and Kosovo. However, the international community has, to say the least, a patchy track-record in creating secure and stable societies and durable peace in post-war countries. Research commissioned by The World Bank found “that post-conflict countries face a 44% chance of reverting to conflict during the first five years following the onset of peace.”54 A considerable literature has therefore developed seeking both to analyse the successes and failures of previous interventions, as well as to define what it is that the international community should be seeking to achieve in post-conflict situations. For the purposes of this thesis, the ‘tasks’ of reconstruction, and the literature about them, can usefully be considered around four overlapping but roughly sequential clusters: 1) physical security, and the longer term processes of reconciliation between former adversaries, including through legal processes; 2) rebuilding of the country’s physical infrastructure; 3) governance, political transition, and the creation of sustainable self-government, and 4) economic development. It is this framework for understanding what reconstruction seeks to achieve that will be used to provide a systematic approach to analysing the country cases contained in this thesis.

Paradigms of global governance
International Relations theory appears to be struggling adequately to incorporate private sector businesses, not just into its understanding of post-conflict environments, but into any other aspect of how the world is perceived to operate. The prevailing paradigm of international affairs – Realism – continues to see the territorial state as the basic unit of the

53 Haufler, Private Sector and Governance, p154
international ‘states system’. As Gilpin puts it, “…world politics is characterised by the struggle of national entities for power, prestige and wealth.” In this paradigm, governance is a “top down affair, with state-dominated institutions a given,” However, this view is increasingly under pressure from the reality that non-state actors, including civil society organisations and the private sector, are increasingly impacting on ‘political’ issues. There is a growing recognition that “actors other than states express the public interest.” As yet, no definitive approach has been developed that effectively allows this circle to be squared, with the result that there exists what Claire Cutler calls a “growing asymmetry” between growing corporate influence, and the inability of processes of international governance to deal effectively with this. The following chapter reviews a number of approaches, both from the practitioner and the academic communities, which seek to find new processes and structures of governance that effectively incorporate the private sector. These new approaches are then used to provide a lens through which to evaluate the effectiveness – or otherwise – of the processes of governance used to integrate multinational companies into programmes of post-conflict reconstruction.

**Structure of this thesis**

This thesis aims at a systematic analysis of the role and governance of multinational companies in three country-specific reconstruction processes, with this introductory chapter providing an overview of the topic. The next chapter provides a detailed review of the existing scholarly literature outlined above and makes clear the gaps in knowledge that this thesis seeks to address. Chapter 3 is concerned with the methodological approach of this thesis. It defines two research questions derived from the literature review, and then describes the research design: the “systematic procedures” which give this study credibility as a piece of academic work. This chapter also explains the realities of applying the research design in each of the case study countries.

Since this thesis is based on a case study approach, chapters 4, 5 and 6 provide detailed descriptions of each of the three country cases; respectively Azerbaijan, Bosnia and Rwanda. Chapter 7 uses the insights of the three case studies to answer the fist research question, analysing the impacts that multinational companies have – positively and

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56 Ruggie, J G. ‘Territoriality and Beyond: Problematizing Modernity in International Relations’ *International Organization* 47: 1993, p150
59 Berg, B. *Qualitative research methods for the social sciences*. Pearson, London. 2009, p8
negatively – on the three reconstruction processes studied. Chapter 8 responds to the second research question and so assesses the lessons from the three case studies that can be drawn in relation to the processes used to govern corporate impacts on the rebuilding processes. Finally, chapter 9 draws conclusions from the research project as a whole, and makes various recommendations for future research that would build on these conclusions.

As has been demonstrated by this introduction, the academic community presently has only a very sketchy understanding of the impacts that multinational companies have on conflict, and barely any insight at all about how these actors impact on programmes of post-conflict reconstruction or of how those impacts are governed. This thesis begins to address this gap in our knowledge through the application of an academically-rigorous approach. It arrives at clear conclusions relating to the cases within this study, identifies the implications for policy that flow from the analysis and describes a framework for analysis that may be used to form the basis for further research, thereby deepening our understanding of this most important topic.
2: Literature Review

The previous chapter established that our current understanding of the impact of multinational companies on conflict dynamics is poor. Although a practitioner and scholarly literature is emerging, it is not yet well developed. As Virginia Haufler argued in 2005, the understanding of this topic remains “under-explored in the current literature.” Specifically, how multinational companies impact on post-conflict environments remains almost completely unexplored, and no attempt at all appears to have been made to understand the corporate impacts on specific reconstruction processes. As already observed, this seems a significant omission, especially in the light both of the increased focus in recent years on the presumed growing power of the corporate sector; and the increased propensity of the international community to involve itself in post-conflict reconstruction.

It is manifestly of great importance that any examination of the role of multinational companies in post-conflict environments be properly located within relevant existing scholarly knowledge: using what we do know to provide an informed framework with which to explore this new topic. Therefore, this present chapter critically examines two strands of international relations scholarship which are particularly pertinent in enabling us to understand and analyse the role and governance of multinationals in post-conflict environments. These are: 1) the literature focussing on what post-conflict reconstruction is, and what is it that the international community and host governments are seeking to achieve in such circumstances, and; 2) the literature concerned with processes of global governance, and in particular that which seeks to understand the growing impact of non-state actors on established notions of how international relations operate.

On what facets of post-conflict might corporations impact?

What exactly is post-conflict reconstruction all about, and what do host governments and the international community believe they are trying to achieve in such circumstances? The literature on this topic has grown dramatically over the past two decades, reflecting the escalation in intra-state, rather than inter-state conflicts. In the period 1995-97 for example, it was estimated that there were 48 conflicts underway around the world, of which none were between states. So marked has the shift towards intra-state conflict become, that some authors have declared the ‘old’ type of inter-state warfare to be obsolete. Michael Mandelbaum, for example, argues that “the rising costs of war, and the diminishing expectations of victory’s benefits, have transformed its status”. In his view even powerful

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60 Haufler, Foreign Investors in Conflict Zones p57
61 Ibid, pp25-27
states no longer regard war between themselves as a realistic policy option. Others counsel caution, and urge that the day of the inter-state war is not yet over. Lawrence Freedman, for instance, reminds us that while it is difficult to envisage major war in the short-term, the “big players have not ruled out fighting each other again”.63

One impact of the rise in intra-state wars is that the ‘collateral’ impacts of conflict have changed. Firstly, the line between combatants and non-combatants has all-but disappeared. According to UNICEF figures, 5% of casualties in the ‘Great War’ were civilians. However, “as the century ends, the civilian share is normally about 80%...”64 Moreover, conflicts have on-going impacts. Angola has lost an estimated 80% of its arable land to land-mines. Lebanon’s GDP in 1994 had still not recovered to the level it had been at in 1974 when war broke out.65 The shift on the impacts of war onto civilians and the wider society rather than on a military class alone has prompted a significant shift in the approach of the international community. In the 1970s and 1980s, the UN’s focus was very much on peacekeeping. These interventions were essentially military operations, interposing UN soldiers between two warring groups to monitor a cease-fire or implement a peace agreement. The UN Development Programme’s (UNDP) Nicosia Master Plan Project, to redevelop the Cypriot capital, represents an early example of a shift away from the (relatively) straight-forward process of keeping the peace, to the much more complex task of reconstruction. This project was initiated in 1979, and aimed at overcoming “immediate political difficulties through technical collaboration designed to find solutions to common socio-economic, physical and environmental problems affecting the city.”66 Other practitioners had also begun to focus on the importance of conflict resolution, including the Latin American Council for Peace Investigation, established in 1976; the Centre for the Study of Conflict at the University of Ulster (1979); and the Carter Center’s International Negotiation Network (1982).67 However, it was not until 1992, that the-then Secretary-General Boutros Boutros-Ghali’s An Agenda for Peace proactively advocated the importance within the UN’s mandate of peace-building, which he described as:

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\text{Action to identify and support structures which will tend to strengthen and solidify peace in order to avoid a relapse into conflict - rebuilding the institutions and infrastructures of nations torn by civil war and strife [and tackling the] deepest causes of conflict: economic despair, social injustice and political oppression.}^{68}
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66 Communiqué from meeting between representatives of the Greek Cypriot and Turkish Cypriot communities of Nicosia, 24th October 1979
67 Maill, Ramsbotham, & Woodhouse, T. Contemporary Conflict Resolution. pp 54-55
Boutros-Ghali’s successor, Kofi Annan went further still, stressing the importance of conflict prevention which he described as “one of the primary obligations of Member States set forth in the Charter of the United Nations.”\textsuperscript{69} Whilst recognising the primary role in this regard of national governments, Annan advocated the importance of the United Nations and the international community engaging in “preventive action...to address the deep-rooted socio-economic, cultural, environmental, institutional and other structural causes that often underlie the immediate political symptoms of conflicts.”\textsuperscript{70} Since then many developed country governments, as well as supra-national organisations such as the EU have declared their commitment to “further investment in conflict prevention capacity.”\textsuperscript{71} Annan himself returned to this theme in a report that has become known as \textit{In Larger Freedom} which stressed the urgent need to “build lasting peace in war-torn countries.”\textsuperscript{72} The result of this report was the establishment in October 2006 of the UN Peace-building Commission, the remit of which is to “marshal resources at the disposal of the international community to advise and propose integrated strategies for post-conflict recovery, focusing attention on reconstruction, institution-building and sustainable development, in countries emerging from conflict.”\textsuperscript{73}

\textbf{The Liberal Peace Thesis and its critics}

So, if the international community has increasingly inclined to intervene in post-conflict environments, what exactly is seen as being the aim of the process? Paris argues that despite the number and geographical diversity of the peace-building efforts undertaken by the UN and its members in the past 2 decades, all pursued the same general strategy for promoting stable and lasting peace:

\begin{quote}
The typical formula for peace-building included promoting civil and political rights, such as the right to free speech and a free press, as well as freedom of association and movement; preparing and administering democratic elections; drafting national constitutions that codified civil and political rights; training or retraining police and justice officials...; promoting the development of independent ‘civil society’ organisations, and the transformation of formerly warring groups into democratic political parties; encouraging the development
\end{quote}

\begin{itemize}
\item \textsuperscript{69} Annan, K. \textit{Prevention of armed conflict: Report of the Secretary-General.} United Nations, New York, 2001 p.vi
\item \textsuperscript{70} Ibid p.viii
\item \textsuperscript{71} European Union. \textit{EU Programme for the prevention of violent conflicts.} European Union, Brussels. 2001 p7
\item \textsuperscript{72} Annan, K. \textit{In Larger Freedom.} Statement by Secretary-General to the UNGA 21st Mar 2005 para 15
of free-market economies...; and stimulating the growth of private enterprise while reducing the state’s role in the economy.”

This so-called ‘Liberal Peace Thesis’, predicated on the notion that “countries that govern themselves in a truly democratic fashion do not go to war with one another,” was expounded most influentially by US President Woodrow Wilson. Speaking at the League of Nations at the Versailles Conference he argued that, “what we seek is the reign of law, based upon the consent of the governed and sustained by the organised opinion of mankind.” In the past two decades, the belief in liberal free-market democracy as the recipe for successful re-construction of states emerging from conflict has been explicitly stated as a key motivation by a number of key international policy-makers. In *Agenda for Peace*, Boutros-Ghali asserted that democracy “fosters the evolution of the social contract upon which lasting peace can be built...” In 2000, his successor, Kofi Annan argued that “good, democratic governance, and respect for human rights constitute key elements in [post-conflict reconstruction], because without them, there can be no lasting peace.” President George W Bush also viewed democracy is the bulwark against conflict, stating in his second inaugural address that, “it is the policy of the United States to seek and support the growth of democratic movements and institutions in every nation and culture, with the ultimate goal of ending tyranny in our world.” The notion of the liberal peace also appears to inform the international agencies which are key players in reconstruction processes around the world. The OECD’s Guidelines on Conflict, Peace and Development Co-operation stress the importance of creating an environment where “there are dynamic and representative social and political structures capable of managing change and resolving disputes without resort to violence.” Similarly, the World Bank’s main policy statement speaks of the importance of jump-starting the economy, re-establishing the frameworks of governance, promoting foreign investment and enabling the development of civil society as key elements in the reconstruction process.

However, although the Liberal Peace Thesis has, oratorically at least, provided the motivation for the past couple of decades’ peace-building efforts, and suggested a degree of altruism on the part of the international community, a number of authors question this motivation. They argue that Western leaders’ fine words cover rather more prosaic

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74 Paris. p19
77 Boutros-Ghali. *Agenda for Peace*. para 17
78 Annan, K (2001) *War is less likely between mature democracies* Speech to Oxford University Encaenia. June 19 UN document No SG/SM/7850
79 Bush, G. *Speech at inauguration as President*. January 20 2005
intentions: principally, that leading powers are using reconstruction processes as a form of neo-imperialism. Kimberley Zisk Marten makes a direct comparison between the colonial empires of the 19th and early 20th century, and the ambitions of the USA and its allies today. Both situations, she argues are “characterised by the desire of outsiders to control political events happening on the ground abroad.” 82 The difference though, is one of commitment. A century ago the British and others were prepared to invest the manpower and money to make empires work, but today there is a “lack of political will to follow through … with cohesive, well-designed operations.” 83 Michael Ignatieff goes back further to find a comparison for what he describes as an American quasi-Empire which, he contends “has no precedent since the age of the later Roman Emperors.” 84 This new empire is not built on a network of colonies, instead “it is an empire lite, hegemony without colonies...But that does not make it any less of an empire, that is, an attempt to permanently order the world of states and markets according to its national interests.” 85 His book surveys the reconstruction programmes in Kosovo, Afghanistan and Bosnia: countries he refers to as protectorates of the American empire. He is however, very scathing about the impact of that status on these countries: “all three are on life support, dependent for their survival on foreign troops, international aid and diplomatic protection from the great powers.” 86 The explanation for this, he argues is that the international community (and in particular, America) is more interested in creating “order in border zones essential to the security of the great powers.” 87 rather than in creating functioning democracies in these countries. Ignatieff is sceptical about world leaders’ arguments that protection of human rights and the promotion of democracy. Were these motivations genuine, he argues, then America and her allies would involve themselves in the affairs of a great many more countries. In fact, their real motivation is revealed by the fact that they “ration their service to moral principles to the few strategic zones where the defence of principle is simultaneously the defence of vital interest, and where risks do not outweigh the benefits.” 88 This cynicism is shared also by Ali Allawi, who argues that the reality of the American mission in Iraq has failed to live up to the rhetoric:

“The rhetoric of change and reform came easily for the spokesmen of the occupation and to those in official Washington, but it was equally quickly dropped when it clashed with whatever were the exigencies of the moment. No wonder that cynicism runs deep regarding America’s true motives. Seizure of the oil fields, building Iraq as a base to subvert Iran, removing Iraq as a

82 Zisk Marten, K. Enforcing the Peace: Learning from the Imperial Past. Colombia University Press, NYC. p146
83 Ibid p147
84 Ignatieff, M. Empire Lite: Nation-building in Bosnia, Kosovo and Afghanistan Vintage Books, London. 2003, p1
85 Ibid p1-2
86 Ibid p109
87 Ibid p109
88 Ibid p111
threat to Israel, these are all arguments held out as the ‘real’ motives behind America’s push into Iraq.\(^{89}\)

Whether or not the international community is motivated by the altruistic desire to create liberal democracies, or whether the stimulus is more prosaic and self-serving, the fact remains that the past 20 years has seen a dramatic increase in the number of reconstruction efforts in which the international community has become involved. As Roland Paris puts it “post-conflict peace-building developed into something of a growth industry in the 1990s.”\(^90\) He lists 14 “major, international” (which he defines as having at least 200 personnel involved, and the deployment being approved by the UNSC) peace-building operations between 1989 and 1999, deployed to countries emerging from civil wars.\(^91\) As at February 2010, the UN Department for Peace-keeping operations listed 12 on-going peace-building operations.\(^92\) However, the track record of the international community has been, to say the least, mixed. Research commissioned by The World Bank found “that post-conflict countries face a 44% chance of reverting to conflict during the first five years following the onset of peace.”\(^93\) A considerable literature has therefore developed seeking both to analyse the successes and failures of previous interventions, and to understand better what it is that the international community should be seeking to achieve in post-conflict reconstruction. What makes for secure and stable societies, and a durable peace?

Part of the reason reconstruction efforts are often problematic appears to be a lack of organisation and coordination between different actors engaged in reconstruction activities. The considerable introspection in the US following the invasions of Afghanistan and Iraq found that there was no doctrine to guide the President and his Cabinet in planning for and conducting military interventions and post-conflict operations,\(^94\) and recommended that the ad hoc system that existed needed to be replaced with a permanent mechanism for developing contingency plans and procedures.\(^95\) Bensahel also concludes that the US Government lacked “an effective mechanism for aggregating [its] expertise into an effective mechanism for reconstruction.”\(^96\) The result of these assessments was the establishment in 2004 of the office of the Coordinator for Reconstruction and Stabilization (CRS) within the Department of State. Interestingly, Bensahel’s analysis suggests that the establishment of this unit may not have solved the problem. She argues that the work of the CRS “has been

\(^{89}\) Allawi, A. *The Occupation of Iraq: Winning the War, Losing the Peace*. Yale University Press, London 2007 p459  
\(^{90}\) Paris p3  
\(^{91}\) Ibid pp60-61  
\(^{93}\) World Bank. *Post-conflict Reconstruction* p8  
\(^{94}\) Carafano, James J. *Post-Conflict Operations from Europe to Iraq*. Heritage Foundation, Washington, D.C. 2004 p1  
\(^{95}\) Serafino &. Weiss. *Peacekeeping and Post-Conflict Capabilities*.  
consistently underfunded, its work has remained limited, and it has had trouble getting consistent representation from other US agencies.” At a multilateral level too, there seems to be too little collaboration and coordination between the efforts of different agencies working in-theatre. In its final report in January 2003, the CSIS Commission on Post-Conflict Reconstruction concluded that “in many post-conflict environments, the chaos on the ground is paralleled only by the chaos of the international response.” This paper argues that, in each case, there needs to be a template to co-ordinate action by international actors, and to develop a coherent strategy between them.

The absence of agreed processes and structures to guide international actors is highlighted also by Professor Richard Caplan’s 2002 Adelphi Paper, A New Trusteeship? The International Administration of War-Torn Territories. He surveys the international reconstruction efforts in East Timor, Kosovo, Bosnia and Herzegovina and Eastern Slavonia, and identifies four central problems with the processes used. First of all, he cites a lack of strategic and contingency planning. Secondly, is a lack of local capacity-building, which impedes the need for division of authority between national and international officials and capacity-building as mutual learning. Thirdly, he criticises ‘government by decree’ as practiced by Lord Ashdown in Bosnia. Finally Caplan cites the lack of “willingness by headquarters to delegate authority to the field.” This he believes to be a mistake, stressing the need to avoid rigid templates for action. Instead, “planners will need to establish a distinct set of priorities that are based on an accurate reading of the situation in theatre.” Caplan’s conclusion provides a caution to the international community to remember that “ultimately there are limits to what outside parties can do to promote the values that underpin a democratic and tolerant society.”

Zisk Marten also advocates a more focussed approach on the part of the international community. In her view, the reluctance to commit significantly more men and resource is not about to change, and therefore the imperative is to maximise what might be achieved within this constraint. The international community needs to be more realistic in what it seeks to achieve. She advocates a policy of what she terms ‘Security Building’, which “is based on the fundamental belief that outsiders, no matter how well-intentioned, can credibly force that kind of change on others.” Under this model of intervention, the role of the international community would be limited solely to “one, and only one, overarching purpose: to provide

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97 Bensahel, p471
98 Centre for Strategic and International Studies. Play to Win. CSIS, Washington DC. 2003 p6
100 Ibid, p16
101 Ibid, p23
102 Ibid, p24
103 Zisk Marten p159
security.\(^{104}\) The purpose of the international community is to supply security until new regimes can do it for themselves, “not to engender lasting liberal-democratic political change.”\(^{105}\)

However, poor co-ordination amongst the various actors is not the only reason that the international community’s efforts in post-conflict reconstruction have met with such mixed success. Another central problem seems to be to define exactly what tasks need to be undertaken as part of a reconstruction process. The notion of the Liberal Peace Thesis gives, at a macro level at least, indications of the types of structures that need to be created – democratic systems and a free market. Some authors have sought to provide more detail. Cynthia Watson, for example, writes of the need for “self-sustained nation-building”, a process she describes as:

“ending military conflict and re-building economic and political infrastructures, along with basic services, to include the armed forces, police, government, banks, transportation networks, communications, health and medical care, schools and other basic infrastructure.”\(^{106}\)

The idea that successful post-conflict reconstruction must result in the development of a state that can exist in its own right is also reflected in Meierheinrich’s description of a “usable state”, which he describes as:

“Political units persisting in time and fixed in space, the development of permanent, impersonal institutions, agreement on the need for an authority which can give final judgements, and acceptance of the idea that this authority should receive the basic loyalty of its subjects”\(^{107}\)

Although these definitions are very broad, they make it clear that the aim of post-conflict reconstruction is to build a set of institutions which are able to command the loyalty of a population; provide a political and economic apparatus capable of providing good and durable governance; and provide infrastructure and economy that are able to guarantee a decent quality of life. The problem however lies in the transfer of these broad statements of objective to particular country situations. Although authors like Collier and Hoeffler have attempted to apply rational choice theory and statistical models to understanding conflict, Ballentine and Sherman remind us that the key factors in conflict are locally-specific.
“political, cultural and strategic factors...”108 In their view, "while statistical methods are a useful way of identifying key variables across a class of cases, at best they generate broad correlations that illuminate only part of the picture."109 Mats Berdal agrees, arguing that "quantitative analysis is of distinctly limited utility"110 Wars must be seen in their specific context to be understood – to simplify can be to misunderstand. For those seeking to develop and manage reconstruction processes this presents a fundamental challenge: how to deal with very different country-specific circumstances; yet at the same time create approaches that are replicable and manageable. Quite how this is to be achieved is a matter of considerable debate: Doyle and Sambanis are right to say that post-conflict reconstruction is "not a straightforward process."111 Effective reconstruction “entails a wide range of sequential activities, proceeding from cease-fire and refugee re-settlement to the establishment of a new government and economic reconstruction."112 Authors differ in how they define they categorise the different sets of activity that are necessary. Ho-Won Jeong for instance defines 4 categories: security and demilitarisation, political transition, development and reconciliation and social rehabilitation.113 The Coordinator for Reconstruction and Stabilization in the United States Department of State lists a similar set of 5 essential tasks: security; governance and participation; humanitarian assistance and social well-being; economic stabilization and infrastructure; and justice and reconciliation114. The sequencing of these interventions is also extremely important, as is the willingness of the international community to sustain its commitment to post-conflict countries. Echoing Zisk Martin and Ignatieff, the blunt assessment of Miall, Ramsbotham and Woodhouse is that "conflict parties are seen to have been frog-marched to elections and then abandoned."115 In their view, the time-frames within which international actors expect to get results in different phases of reconstruction are entirely unrealistic. They believe that up to 5 years are needed to achieve military and political stabilisation; up to 10 years to achieve infrastructural reconstruction; and a "generation or so needed to reconcile formerly warring parties and communities."116

Manifestly, any attempt to reduce the complexity of post-conflict reconstruction to a few headings necessitates a significant degree of simplification, and a degree of overlap is

109 Ibid p5
113 Ibid
115 Miall, Ramsbotham & Woodhouse, p199
116 Ibid
inevitable. However, for the purposes of this thesis the ‘tasks’ of reconstruction, and the literature about them, will be considered around four overlapping but roughly sequential clusters: 1) physical security, and the longer term processes of reconciliation between former adversaries, including through legal processes; 2) rebuilding of the country’s physical infrastructure; 3) governance, political transition, and the creation of sustainable self-government, and 4) economic development. This 4-part framework is intended to provide the basis for a systematic analysis of the role that multinational corporations play in post-conflict environments.

**Security, justice and stability**

As Marsden makes clear: “security is regarded by all as the absolute prerequisite for a successful reconstruction process.”\(^{117}\) It is evident from the scholarly literature that a key plank of successful reconstruction is to take a society from the insecurity of the immediate post-war period to a situation where sufficient stability exists for normal life to be resumed. This process is made up of a series of steps of which the first is to provide people with basic security. Dirk Salomons describes this as “freedom from violence and coercion”, which he sees as “the one absolute prerequisite to any effective recovery process after the intensity of armed conflict subsides.”\(^{118}\) Robert Orr also makes the point that security is a *sine qua non* in a post conflict environment.\(^{119}\) Individuals need to feel safe and able to move about without fear for their lives or well-being, and an orderly environment is required to foster a sense of normality in which ‘ordinary’ activities can be undertaken. People will not feel able to go out to meet their neighbours, or to attend work if they fear a real risk to their safety. As Herrero points out, there is little point in devoting time and effort to other facets of reconstruction if security has yet to be guaranteed: “efforts toward bureaucratic and administrative efficiency and effectiveness would be in vain if violent conflict re-emerges.”\(^{120}\)

Self-evidently, the most pressing security challenge in the immediate aftermath of conflict is the disarming of combatant groups: those who are part of a military or paramilitary organisation. Indeed, an integral part of most peace deals is the demobilisation of the major factions to the fighting. However, a number of authors observe that this process is often far from ideal. Ogbemudia makes the case that in a number of countries a poorly-considered and executed security-sector reform plan has actually contributed to on-going political


instability. Rocky Williams argues that an all-too-frequent cause of this is donor agencies maintaining that “a reduction in military expenditure is both a ‘good thing’ in itself and, once effected, releases valuable resources required for ongoing development of the country concerned.” The result Williams asserts is that security forces are reduced to a point where new governments are unable to maintain internal order, and therefore political stability. Schnabel and Ehrhart also argue the importance of “putting the security forces in the service of society’s safety.” In their view, the reason why this often does not happen is that security sector reform is seen as an activity on its own, to be dealt with by my military, rather than something development specialists need worry about. The answer to this, they contend, is that “security sector reform assistance should be integrated more effectively into wider post-conflict reconstruction strategies.” In their view, security sector reform is about more than just reducing the size of a country’s military, it is a multifaceted approach to building capacity and policies to meet the country’s post-conflict situation.

However, taking people’s weapons away and banning the various fighting groups is only the first part of the process of dealing with the problem of ex-combatants. A proper process of security reform also includes the reintegration of these people into mainstream society; re-skilling them to be able to manage in civilian life and creating opportunities to earn a living to reduce the likelihood of them taking up arms again. Colletta, Kostner and Wiederhofer suggest three elements of what they term Demobilisation and Reintegration Programmes (DRPs). The first is demobilisation, in which combatants are disarmed, and formally move from military to civilian status. They also advocate the importance of moving these people out of barrack accommodation and re-locating them to wherever they will live long-term. The second phase is reinsertion, marked by the provision of a transitional safety net of cash or in-kind payments calculated on a basket of basic food and needs for an average-size family in the community to which each combatant has returned. This provision should last for several months, and should be dependent on the development of the third phase, which is social and economic reintegration. The assistance provided includes skills training,
employment and access to assets, for example capital, to enable them to earn a living for themselves and so “attain the standard of living of the communities into which they are being reintegrated”\(^\text{127}\).

Ensuring on-going public order and ensuring that day-to-day life can be conducted safely is also seen as a priority, whether or not those who threaten security are ex-combatants. As former US Army chief of staff Eric Shinseki put it, it is necessary to create “a safe, secure environment within which you can begin to control and protect the population.”\(^\text{128}\) Ho-Won Jeong also makes the point that “the domestic security gap needs to be reduced through the restoration of law and order.”\(^\text{129}\) They and other authors make the point that although in the short–term military forces can be used to maintain order and security, in the long-run indigenous law-enforcement agencies and processes are needed. There is concern expressed at the potential deleterious effect of corporations on these dynamics, in particular at “the way in which major extractive industries hire security to protect their people and facilities...”\(^\text{130}\) Haufler points to the development of the Voluntary Principles on Human Rights and Security as a means to address these concerns, but also notes that NGOs question how effectively these Principles are used\(^\text{131}\).

Nevertheless, as Mark Plunkett argues, “true and enduring peace only occurs when there is a genuine return of the rule of law.”\(^\text{132}\) Indeed, for him, so important is the establishment of rule of law that it needs to come before the re-establishment or maintenance of the apparatus of the state. He argues that there are two phases to achieving this. The first is what he describes as the “enforcement model”. He envisages this very much as an externally-led process, that he describes as “legitimate, minimal, and lawfully-sanctioned coercion,”\(^\text{133}\) and which establishes sanctions for the punishment of wrong-doing. Such sanctions, and the coercion to make them work include arrest, detention, trial by war crimes tribunals, as well as training of local judges, lawyers and policemen. The second phase is the “negotiation model”, an altogether more complex, intensive and long-run process that aims to secure “voluntary compliance by negotiating with local people to bring about fundamental shifts”\(^\text{134}\) in the popular consciousness. As he points out, although this process is highly-involved, in the long run it provides a greater degree of security since local people feel ownership of the legal framework – it is not ‘done to’ them. Central to achieving this,

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\(^{127}\) Ibid p176
\(^{128}\) Shinseki, E. K. ‘The Security Challenges Facing Post-Conflict Democracies’. In Georgia Journal of International and Comparative Law 33 no1 Fall 2004 p143
\(^{129}\) Jeong, p58
\(^{130}\) Haufler, Foreign Investors in Conflict Zones p59
\(^{131}\) Ibid, p72
\(^{133}\) Ibid, p75
\(^{134}\) Ibid, p89
Plunkett believes, is the use of indigenous rather than Western-inspired frameworks and institutions. Informal processes that are familiar to local people may be extremely valuable in re-establishing a rule of law that is simultaneously effective and understood and valued by local people. Such traditions are, he argues all-too often overlooked by international agencies who “give ascendancy to often comparatively-recent, artificially-imposed colonial systems of European laws.”

Judy Barsalou also emphasises the importance of drawing on local traditions in designing rule of law frameworks: “when designing transitional justice mechanisms, it is essential to identify and draw upon local cultural traditions and strengths to the extent possible and to consult the population that the interventions are meant to help.” However, central to reconciliation, and hence the return of durable peace is the sense not just that justice has been done, but also that it has been seen to be done. As both Barsalou and Susan Rose-Ackerman make clear, in doing this there is a balance to be struck between processes of reconciliation that are retrospective – providing just remedy for previous ills – and putting in place a set of processes that look forward, and form the basis for future development. As Rose-Ackerman says “…a forward-looking programme…is a better use of scarce human and organisational resources than a massive effort at resurrecting past wrongs.” Nonetheless, these two scholars stress the importance of truth commissions, war crimes trials and memorials as ways of “revealing complex truths” and providing a framework for bringing justice both to individuals and groups.

However, the rule of law is not seen merely as the basis for looking at the wrongs stemming from the conflict, but as a functional basis for the future development of a thriving state. Key institutions include a police force, a trained, non-corrupt judiciary, custodial officials and prisons. However, it is not just what one might term the ‘moving parts’ of a justice system that are important: the principles which underlie these parts are vital. Plunkett argues that to move beyond what he calls “paper institutions,…deep reconciliation and personal redemption are essential.” Barsalou agrees that what is needed are “fundamental psychological adjustments in individual and group identity” Rule of law also needs to be universally-applicable: Rose-Ackerman, for example stresses the importance of legal sanction demonstrably applying to state officials, and of legal structures being able to crack-down on non-state use of force. There is general recognition that such a deep-seated shift takes both time and a range of interventions. In Widner’s view central to the challenge is the

135 Ibid, p78
138 Barsalou, p7
139 Plunkett, p89
140 Ibid, p4
141 Rose-Ackerman, p210
need to restore levels of trust in post-conflict environments. She argues that trust is, in effect, the lubricant of the social and economic machine: its presence aids stable development:

“Higher levels of generalised trust are important for co-operation and growth. Higher levels of trust help facilitate contracts, make people more likely to invest, and create a basis for compromises where one party won’t realise a benefit except with a delay.”

She argues that the development of trust over time should be an essential goal of the reconstruction process. She argues that there are 5 priorities for policy-makers:
1. attempting to get people to look forwards, not back, in order to generate optimism;
2. demonstrate that the rule of law exists;
3. ensuring that government is trusted and trustworthy – she advocates that “strong measures against corruption are probably in order”;
4. ensuring the improvement of government performance; that it does what it is meant to and
5. creating what she terms a “society of joiners”, where different people work together across old boundary lines to create social and economic goods.

**Governance**

The governance of a post-conflict environment, the creation of new governance institutions and how power is handed over to them are arguably the most controversial and fraught aspects of post-conflict reconstruction. As Roeder and Rothchild put it, “state leaders and diplomats must craft institutions that can both initiate the transition to peace and democracy in the short term, and facilitate the consolidation of these over the long run. The charge is critically important but awesome.”

Democratisation, and the holding of ‘free and fair elections’ as soon as possible after peace has been a central goal of reconstruction programmes. The literature raises a number of questions about the advisability and feasibility of this goal. Albert Somit and Steven Peterson for example question the very feasibility of democratisation in many post-conflict environments. They argue that “viable democracies require a conjunction of very special material and social enabling conditions.” Democracies are rare in history, and creating a democracy is “immeasurably more difficult than establishing other forms of government.”

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143 Ibid pp234-236
146 Ibid p6
The reason for this is that mankind has “an inherent proclivity for hierarchical social and political structures.” They define a checklist of circumstances which they perceive to be necessary for the emergence of a stable democracy. These include, _inter alia_: functional government institutions, internal peace, a pro-democratic elite, adequate levels of economic development and education and the absence of racial or religious conflict. They also define a checklist for successful democratic nation-building by the international community.

Amongst the nine conditions that they define are a willingness on the part of an outside power to invest the necessary human and economic resources in the target country; an appreciation of the culture of a target country; an avoidance of arrogance and denigration of local culture; the need to restore infrastructure and human capital; and a willingness to maintain a civil and military presence over time in order to secure order and enhance the chances of a smooth transition. As Somit and Peterson make clear, both of these checklists are extremely demanding: indeed they go as far as raising the question of whether nation-building by external powers is possible at all because of the “demanding variety of conditions that must be satisfied if the objective is to be achieved.” However, they argue while that the endeavour need sometimes be attempted, it should not lightly be countenanced. They recommend “that the US should think not merely twice but several times before trying to export democracy...: further, if we finally decide to make such an attempt, it should be with the full realisation that it will be a difficult, uphill struggle.”

Where Somit and Peterson question the feasibility of democratisation _per se_, Terence Lyons offers a critique of the impact of elections themselves on the post-conflict environment. His arguments draw on the plethora of post-conflict elections where “military stalemate compelled the warring factions to accept negotiated settlements that called for relatively brief transitional periods culminating in elections and the installation of a new government.” In his view, a rush to elections can actually institutionalise the divisions of the war and fail “to institutionalise consultation and joint decision-making.” In his view therefore, the central challenge in reconstructing failed states is “to develop mechanisms that will transform the institutions that developed in response to conflict into structures that can sustain peace.” Whether immediate elections are part of the solution, more important is the process he refers to as “demilitarisation”, which involves building norms and institutions that bridge from the structures of wartime to “structures based on security and trust.” The success of

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147 Ibid p3  
148 Ibid pp51-54  
149 Ibid pp39-40  
150 Ibid p87  
151 Ibid p112  
153 Ibid, p57  
155 Ibid, p271
elections he argues, will be dependent on the degree to which demilitarisation has taken place - "to the extent that politics is demilitarised during the transition period, the post-conflict elections are more likely to result in a new political order that can sustain peace and democracy"\(^{156}\). If elections take place too early, or where demilitarisation has been insufficiently successful, electors will tend either to vote for the most powerful faction or vote for a chauvinistic party that pledges to protect their community. For example, in Bosnia in 1996, he argues that, because the process of demilitarisation had not been completed, "nationalistic parties campaigned on the basis of chauvinistic pledges and threats"\(^{157}\). Further, as Lyons observes, "democracy is more than elections,"\(^{158}\) and he advocates strongly that the international community needs to focus more on the bigger picture of creating stability, and developing processes, norms and institutions that promote trust and collaborative working, rather than on the narrow goal of holding elections. The difficulty, he maintains, is a multiplicity of aims for these elections. They are simultaneously a symbol of "war termination"\(^{159}\), an excuse for the scaling-down of high-profile peace-keeping; a statement that democracy is important; and the cue for international institutions to begin work in the country. He recommends therefore that consultative, problem-solving approaches in the phase immediately after a peace deal can set the stage for longer-term stability – "interim regimes, based on broad consultation and joint decision-making...set the stage for long-term peace-building"\(^{160}\). The initial role of the international community therefore should be to ensure that the parties after a civil war are made "to interact with their rivals in interim administrative bodies."\(^{161}\) Instead of rushing into elections, external actors should seek to create interim election commissions to be seen, not just as a process of administration, but also as "potential models for new relationships and new forms of cooperation and peaceful competition."\(^{162}\)

Veteran of many elections, Thomas Carothers also stresses the irrelevance of elections alone as an indicator of an emerging democratic process. By focussing on election day itself international observers fail to see, and so fail to understand, the context in which that day exists. He argues that electoral fraud, ballot rigging and intimidation "occur during the run-up to election rather than on voting day itself...In such situations, reporting on the technical conditions of the elections without confronting their deeper political function tells a dangerously incomplete story and risks legitimating undemocratic political processes."\(^{163}\)

Carothers also urges caution on those seeking to promote democracy in all cases, arguing

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\(^{156}\) Ibid, p273  
\(^{157}\) Lyons, Post-Conflict Elections, p40  
\(^{158}\) Lyons, Transforming Institutions of War, p278  
\(^{159}\) Lyons, Post-Conflict Elections, p38  
\(^{160}\) Ibid, 47  
\(^{161}\) Ibid, 57  
\(^{162}\) Ibid, 58  
the need to be “relentlessly realistic about democracy’s difficulties in many countries.”164

Others also warn against the law of unintended consequences: that elections do not always return the result desired. Palestine, Iraq and Bosnia have all demonstrated that “democracy and elections can produce unexpected and unwelcome results.”165 Moreover, the holding of elections is by no means an indicator that a country is on a path to stability and peace: as Mark Plunkett points out, “officials of the UN and foreign offices of nations in the planning of past missions have falsely assumed that the rule of law automatically follows the conduct of a democratic election.”166

The ideal of power-sharing between former combatant groups has, like the propagation of an electoral process, been one of the core tools of the international community’s reconstruction process: what Philip Roeder & Donald Rothchild describe as “the international community’s preferred remedy for building peace and democracy after civil wars.”167 However, they argue that although “power-sharing may be necessary to initiate a transition to peace and democracy from civil war, it is at odds with the consolidation of peace and democracy over the longer term.”168 This, they argue, is because power-sharing tends to reinforce the position of ethnic leaders, and mitigate against the development of shared political institutions. In place of power-sharing, Roeder and Rothchild advocate what they term “nation stewardship”. Although they acknowledge that the particular tactics will depend on the country-specific circumstances, they nonetheless set out nine principles underlying their stewardship concept. A number of these offer a significant challenge to existing models of post-conflict reconstruction, perhaps the most significant of which is to question whether attempting to re-build the pre-war state should even be attempted. They cite the importance to long-term stability of “a common sense of nationhood”169 and therefore counsel that the “international community must determine before it intervenes whether a viable nation exists that can sustain a state”170, and be prepared to divide the pre-war state if necessary. In common with many other observers, Roeder and Rothchild also make clear that reconstruction is a prolonged process. Another of their principles of nation-stewardship cautions that “intervention should be avoided unless the external powers are willing to sustain a protectorate likely to last a decade or more.”171

The notion that the development of stable, durable institutions takes significant time and effort to develop is central to the analysis of Roland Paris. Although he agrees with the

165 Allawi, p458
166 Allawi, p458
167 Allawi, p458
168 Allawi, p458
169 Allawi, p458
170 Ibid, p337
171 Ibid, p337
172 Ibid, p340

37
desirability of creating liberal market democracies in post-war states, he questions the process by which this is brought about. In his view, “it is the process of liberalisation, rather than the end-point of market democracy that has generated the de-stabilising side-effects.”\(^{172}\) He sees a fundamental paradox in the logic of promoting democracy and capitalism as tools to re-build post-conflict states since both of these systems do not just encourage competition and conflict (albeit of a peaceful type), but actually require these things in order to function: “democratisation and marketisation foster societal competition”\(^{173}\). Whilst this does not pose a problem in a stable society it is highly destabilising in states emerging from conflict: in Paris’s view there are three reasons for this: (1) “Intense societal conflicts” are already in place, and so domestic peace is more fragile; (2) natural ‘conflict dampers’ are not in place that enable non-violent dispute resolution; and (3) there is a absence of governmental institutions that can contain problems of liberalisation. In addition to these intrinsic factors, Paris argues that a process of introducing the elements of a liberal peace is itself potentially traumatic. Although democracies tend to be more peaceful, “the actual process of transforming a country into a market democracy is tumultuous and conflictual, particularly in the fragile circumstances of war-shattered states that typically lack governmental institutions capable of managing the disruptive effects of liberalisation.”\(^{174}\) His solution is to establish what amounts to an international protectorate within which structure peace-builders should concentrate on constructing a framework of effective institutions prior to promoting political and economic competition. Elections should be delayed until the time is right; electoral systems need to be designed so as to reward moderation; a strong civil society needs to be promoted; ‘hate speech’ should be curtailed; and economic policies need to be adopted that reduce the potential for further conflict.\(^{175}\) Central to Paris’s argument is that the international community needs to take responsibility for a much longer period of time for good governance in post-conflict environments: that such structures need to be nurtured over time.

Other authors, by contrast argue that it is the precisely the presence for too long of international actors which is the problem: power resides too much and for too long in the hands of international actors rather than local people. Whether or not the intention of the international community is to create modern-day empires, many authors argue that the attitudes of ‘the West’ to their partners in post-conflict states is antithetical to their chances of success. Central to this criticism is the notion that the international community tries to achieve too much in post-conflict reconstruction and disregards local sensitivities and opinions in favour of methodologies prepared by institutions such as the World Bank. David Chandler is particularly vociferous in criticising what he evidently regards as a high-handed and even arrogant attitude amongst international policy-makers. “For international

\(^{172}\) Paris, p185  
\(^{173}\) Ibid, 159  
\(^{174}\) Ibid, p152  
\(^{175}\) Ibid, pp 188-207
administrators and policy-makers, it is well-nigh inconceivable that local actors could be better placed to take their own societies forward than international ‘experts’."\textsuperscript{176} This attitude, he argues, tends towards a situation where international actors see themselves as a self-evident necessity to create and safeguard a just and lasting peace in post-conflict zones. Institutions like the World Bank see themselves as the guardians of the public interest in the face of “non-Western conflict...driven by atavistic desires of ethnic identity, economic crime and human rights abuse, rather than rational causes.”\textsuperscript{177}

Furthermore, Chandler argues, developments in International Relations theory and practice are tending to make this situation worse, precisely because they underplay the importance of the territorial state, especially vis-à-vis the international community. He cites for example Charles Tilly’s argument that states are “merely government-run protection-rackets”\textsuperscript{178}. He also refers to the work of Mary Kaldor and other ‘new war’ theorists who argue that it was the state-oriented perspective of the international community which encouraged many conflicts such as the Bosnian war. As a result of these factors Chandler concludes, “there is little doubt that international policy intervention in the 1980s and 1990s tended to bypass or reduce the non-western state’s administrative and institutional capacity.”\textsuperscript{179} It is Chandler’s view therefore that post-conflict reconstruction processes in the past decade and a half have failed because international efforts have failed to privilege domestic political structures. The result, in his view is the creation of “states that are not designed to be independent political subjects in anything but name [and are] a façade without content.”\textsuperscript{180} He cites Bosnia as a particular example of a territory that is, de facto, ruled from Brussels. His argument, although having implications for the wider debate about the nature of the post-Realist political state, is essentially a practical one. His concern is that the current accepted practice in post-conflict reconstruction fails largely because “power and accountability are increasingly separated.”\textsuperscript{181}

Chandler’s criticisms of the international community’s approach appear borne out by Marsden’s analysis of the reconstruction effort in Afghanistan. He argues that the Afghan government had been responding disproportionately to international rather than internal demands. “The government in Kabul has endeavoured to create a bureaucratic framework that accords with prevailing norms determined by the World Bank and others.”\textsuperscript{182}

\textsuperscript{177} Ibid, p4
\textsuperscript{179} Ibid, p6
\textsuperscript{180} Ibid, p21
\textsuperscript{181} Ibid, p25
\textsuperscript{182} Marsden, p94
In his view also, the Afghan government believes itself to be by-passed by the donor agencies, who disburse monies themselves rather than through host government agencies. The result is that the central government is perceived as weak and ineffective and so “local power-holders will continue to maintain their independence and seek local advantage by resorting to conflict.”\textsuperscript{183} A senior advisor to the Iraqi Prime Minister, Ali Allawi, intimates that a similar problem existed there as well, arguing that “the dependency [of the Iraqi political establishment] on a foreign power to tackle Iraq’s existential questions was embarrassingly evident”.\textsuperscript{184}

However, in addition to the construction of the architecture of state institutions, sustainable post-conflict reconstruction is also perceived to require the establishment of a functioning civil society. John Paul Lederach describes the building of a civil society as one of “the fundamental ingredients that make up the ecosystem in which peace must live.”\textsuperscript{185} Daniel Posner argues that civil society organisations support stable development in two ways.\textsuperscript{186} Firstly, societal organisations autonomous of government are able to hold decision-makers to account for their actions: what he terms a “watchdog” function. The second, “substitution” element contributes to social welfare by providing services and other public goods that government is unable to provide. The problem, as Posner points out, is that a thriving civil society is difficult to create even in the best of circumstances, and post-conflict environments are certainly far from being that. Although, as Goetze puts it, “the political conditions of state failure do not always hinder the emergence of civil society organisations,”\textsuperscript{187} those leading the re-construction process need to work hard to foster civil society. This can done either through direct funding to civil society organisations, or through the fostering of “an environment that facilitates the emergence of civil society groups on their own.”\textsuperscript{188} Posner does however urge caution, pointing out that not infrequently civil society groups are established specifically to “shake the donor tree”\textsuperscript{189}. Such groups should be avoided in favour of those which have genuine local roots, and which represent a genuine local need or interest.

The relationship between multinationals corporations and state governance is explored by Nathan Jensen, who acknowledges that “many scholars and pundits argue that

\begin{thebibliography}{99}
\bibitem{183} Ibid p104
\bibitem{184} Allawi, p453
\bibitem{187} Goetze, C. ‘Civil Society Organisations in Failing States: The Red Cross in Bosnia and Albania’. In \textit{International Peacekeeping}, Vol 11, No4, Winter 2004, p671
\bibitem{188} Ibid, p250
\bibitem{189} Ibid, p250
\end{thebibliography}
multinational do not have to negotiate with an electorate, so the argument goes, and therefore are more able to provide beneficial circumstances to foreign investors. Were this hypothesis to be true, then the international business sector could rightly be regarded as potentially injurious to the development of good governance in post-conflict countries where they invest. However, Jensen’s work finds this hypothesis to be untrue. He concludes that for “profit-maximising enterprises...[countries with] democratic institutions would be the preferred institutional structure for their investments.” He finds three reasons why this is the case: 1) in democracies there is better information available about government policy and political and economic conditions; 2) foreign investors actually have greater potential to influence policy through accepted institutional mechanisms such as lobbying than is the case in authoritarian regimes; and 3) democratic institutions give greater credibility to the economic policies of their governments given the varying levels of oversight that exist. For companies who may have highly-illiquid projects, for example oil and gas extraction, this increased credibility is very important. Jensen’s findings are borne out also by Youngs, who argues that companies are increasingly likely to profess concern for issues related to the quality of democratic processes in the countries where they operate. In his view companies’ concerns:

"relate to the prevalence of arbitrary decision-making; the lack of civil society engagement in reform processes; politically-derived reform ceilings; problems with politically selected joint venture partners; the nationalism stoked by autocrats and nationalists lacking domestic democratic legitimacy; and limits placed on the generation and dispersal of technical and administrative skills and capacity."
Infrastructure

Almost axiomatically one of the casualties of war is a country’s physical infrastructure, much of which is often destroyed in the fighting. As Nicole Ball points out, “one can scarcely talk about economic development unless a country has undergone a period of economic rehabilitation and reconstruction.”\(^\text{193}\) Richard Brown identifies a number of categories of facility which for “the essential backbone to recovery”:

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Table 2.1: Categories of infrastructure\(^\text{194}\)

Self-evidently, these facets of physical infrastructure are essential to the resumption of relatively normal life in a post-conflict environment and their existence facilitates, as Ball observes, economic activity and development. However, as she also makes clear, reconstruction also often includes elements of ‘construction’ since in many post-conflict territories the pre-war infrastructure was not directed at “sustainable poverty-reducing development.”\(^\text{195}\) Re-building infrastructure does not therefore, simply mean putting back what was in place before the war, but creating structures which are suitable for a sustainable, peaceful trajectory of development. Brown argues that the way in which the process of infrastructural redevelopment is undertaken can also have wider impacts on the potential for success of the overall post-conflict regeneration effort. In addition to its functional benefit, “infrastructure can reconnect divided communities and become the catalyst for gradual reconciliation (effectively a peace tool)”\(^\text{196}\) He cites a number of examples of how this has been achieved, for example in the case of the reconstruction of


\(^{195}\) Ball, p724

\(^{196}\) Brown, p112
public transport in Kosovo. To pre-empt the risk of ethnically-targeted attacks, a multi-ethnic transport system was developed with passenger trains that linked Serb, Roma and Albanian communities. In Brown’s view, “the railway system became the linchpin in the goal to establish and maintain freedom of movement for all”197. Interestingly, in the light of the criticisms discussed above of the international community’s attitude to local partners, Brown also argues that the success of infrastructure development lies significantly in the degree to which the process is owned by local people rather than external actors. There is a need to get to a point where local people do not feel that things are being done to them, but rather that they are participating in what is being done and feeling pride in it. As Brown concludes “without local people gaining the ability to manage, operate and maintain local infrastructure, new facilities will not be sustainable in the long-term.”198

**Economic regeneration**

Some authors argue that part of the reason why economic development is vital to successful, stable reconstruction is because it provides – like infrastructure – a ‘connector’ in post-conflict societies. Junne and Verkoren argue that “economic development gives different groups something to work on together. Orientation may change from looking at the past to focussing on the future.”199 However, central to the literature regarding the importance of economic development is the work of Paul Collier and Anke Hoeffler who argue that economic greed can be a powerful cause of conflict, and that therefore a functioning economy is vital to stable post-conflict environments. Rather than seeing conflict as irrational, derived from “essentially inexplicable primordial qualities.”200, Collier and Hoeffler chose to see war as a rational activity which “occurs if the incentive for rebellion is sufficiently large relative to the costs.”201 Using statistical techniques, Collier and Hoeffler analysed a data set of civil wars between 1816 and 1992. From this analysis, they derived four economic factors which they argued were statistically significant in the causation of civil conflict.202 This initial paper was developed further into what has become known as the Collier-Hoeffler model on civil war onset, an approach which assumes that armed conflict can be understood in terms of opportunities for profit which rebels will exploit. The main aspects of the Collier-Hoeffler model may be summarised overleaf (Table 2.2). The Collier-Hoeffler model demonstrates clearly the importance of economic growth to success in post-conflict theatres. However, as other authors make clear, it is not simply economic growth per se that is required. Economic growth needs to be broad-based, and provide benefits across

197 Ibid, p104  
198 Ibid, p112  
202 Ibid, pp568-572
society: “diversification of production and economic growth are the critical determinants of long-term war avoidance.”203 A World Bank study of wars in the Great Lakes region of Africa found that former soldiers who lacked either a farm or a job – that is those excluded from the benefits of economic development – were much more likely to commit violent crime.204 Unsurprisingly therefore, broad-based economic growth is central to the strategy of the World Bank, which emphasises how “the lethal cocktail of economic decline, dependency on primary commodities and low per capita income places countries at a high risk of civil war.”205

- Primary commodity exports substantially increase the risk of armed conflict because they provide opportunities for extortion, making rebellion feasible.
- Diasporas substantially increase the risk of conflict because they provide sources of financing.
- Low foregone earnings increase the risk of armed conflict because they reduce its cost.
- High male secondary enrolment, per capita income and GDP growth reduce the risk of conflict because they increase the foregone income and therefore the cost of conflict.
- Low population density increases the risk of conflict.
- Inequality, political rights, ethnic polarisation and religious factionalism were insignificant in predicting the on-set of armed conflict.
- Societies characterised by ethnic and religious diversity have a lower risk of armed conflict because it makes rebel cohesion more costly.
- Societies characterised by ethnic and religious diversity in which one group is dominant have a higher risk of armed conflict because it makes rebel cohesion less costly.
- The longer the period after a previous conflict, the lower the risk of conflict renewal because the value of rebellion-specific capital decrease, and hatred is gradually eroded.

Table 2.2: Summary of the findings of the Collier-Hoeffler model206

203 Doyle & Sambanis, pp340-341
The literature on rentier and warlord states expands on the dangers inherent in benefits of economic growth being experienced only by an elite few rather than the broad mass of society. Rentier state theory argues that states with considerable natural resource wealth appear to have very similar economic and political development trajectories – that is, they tend to be autocratic and prone to violence. The theory posits three reasons why this is the case: (1) rents mean that governments are “autonomous from their population because they do not have to tax their populations for income”, (2) because the government receives resource rents directly, it has discretion over how the monies are spent, and so “can subsequently afford to buy-off or repress political opposition”, and (3) political opposition is constrained because the state provides most of the country’s employment opportunities. Stevens explores in more detail why the co-called ‘resource-curse’ exists. In his view, a state’s reliance on natural resource revenues makes it prone to instability and violence for a number of reasons. Firstly, the fact that natural resources are easily tradable tends to lead to an appreciation in the state’s currency, with the result that its terms of trade worsen. Secondly, since revenues from natural resources are volatile, economic planning is difficult. Thirdly, the focus on the extractive sector tends to crowd out other industries, creating an unhealthy reliance on a single activity. Fourthly, rent-seeking encourages corruption. Finally, the inequitable distribution of wealth creates an elite which needs to keep the population at large in their place; by violence if necessary. Warlord states are a particular manifestation of rentier states in which an individual is able to “control an area by their capacity to wage war, and are able to organise a war economy, often including external economic activities, to sustain themselves, and keep weak central authorities at bay.” In such circumstances, policy outcomes are driven, not by a collaborative political process, but by the desires and aims of the warlord: the objectives of the state are consonant with the private interests of the ruler. Consequently, state infrastructures are allowed to wither, since they do nothing to maintain the ruler in power: indeed, to the extent that teachers, healthcare workers and others consume resources, they deny the ruler the wherewithal to fund his network of supporters. Thus a warlord and his associates come to resemble “a mafia rather than a government...This absence of collective, versus private, interest is a major feature of warlord politics.” It is interesting to note that the presumed umbilical link between economic and democratic development is brought into question by the research of de Mesquita and Downs. As they state, conventional wisdom holds that

207 Sandbakken, C. ‘The Limits to Democracy Posed by Oil Rentier States: The Cases of Algeria, Nigeria and Libya’. In Democratization Feb 2006 Vol 13, No 1, pp135-139
208 Ibid, 137
209 Ibid, 138
213 Ibid, p3
economic development, wherever it occurs, will inevitably and fairly quickly lead to democracy as the newly-created middle class demands some control over its future.\footnote{de Mesquita, B & G Downs. 'Development and Democracy'. In Foreign Affairs Sept/ Oct 2005 Vol 84, No 5 p77} However, through a study of public goods in 150 countries between 1970 and 1999, de Mesquita and Downs argue that autocrats are becoming more sophisticated. Particularly by suppression of ‘coordination goods’ such as freedom of the press, that would allow sharing of dissent and growth of opposition leaders, regimes such as those of Russia and China are able to ensure that there is a lag between economic growth and the emergence of liberal democracy. Since high levels of economic growth and suppression of coordination goods to coexist for a long while, “those interested in measuring democratic progress…should pay more attention to the availability of coordination goods…how tightly the media are controlled, for example, or how difficult it is safely hold an anti-government demonstration.”\footnote{Ibid, p86}

Central to the potential for wide-spread benefit of economic growth is education that will provide as many people as possible with the skills and attitudes to be able to participate in the new economic opportunities. The importance of DRPs was described above, and as Jeong makes clear, this can include civilian job training as an element of reintegrating these people into society.\footnote{Jeong, p144} Snodgrass advocates focussing on secondary education as a means to “improving the income-earning potential of the young people who extend their schooling.”\footnote{Snodgrass, D R. ‘Restoring Economic Functioning in Failed States’. In Rotberg, R. When States Fail: Causes and Consequences. Princeton University Press, Princeton 2004 p264} This focus is also recommended by Collier, who demonstrates that an increase in secondary education of young males in particular has a significant impact on the renewed risk of conflict.\footnote{Collier, P. 'Economic Causes of Civil War'. In Crocker, C A. Turbulent Peace: The Challenges of Managing International Conflict United States Institute of Peace Press, Washington DC. 2001. p149}

There is ambivalence about the role of MNCs in economic matters. On the one hand, as Haufler says “foreign investment in general is associated with employment, income and economic development…”\footnote{Haufler, Business in Conflict Management, p663} Conversely, others express concern over the role of MNCs which, according to Duffield, make it easier for rebels or warlords to commercialise the resources of conflict.\footnote{Duffield. M. Global Governance and the New Wars: The Merging of Development and Security. Zed Books, London. 2005, pp 62-65} Reno goes further and argues that international markets and companies allow warlords access to networks that can be used to preserve them in power.\footnote{Reno, pp116-123} Others argue that the presence of resource companies can create or exacerbate...
the conditions for conflict by fostering grievances within local population. Such grievances can stem from damage done to the environment; disruption caused to local norms or ways of life; or resentment stemming from unequal distribution of the benefits of extraction.

Although the Collier-Hoeffler model is both persuasive and influential, other authors caution that the economic dimension should not be over-emphasised: economics is one of a range of drivers that contribute to the cause and continuation of war. As Ballentine concludes, “...economic incentives and opportunities have not been the only or even the primary cause of these armed conflicts; rather, to varying degrees, they interacted with socio-economic and political grievances, interethnic disputes, and security dilemmas in triggering the outbreak of warfare.” Berdal too agrees that the economic causes of war have been too much focused on, but they cannot, in his opinion “easily be isolated from the other factors that drive men and women to violence, and the range of motivations involved (as well as their mutual interaction) needs to be studied.”

How might the role of corporations in conflict zones be governed?

Although many commentators hold that the corporate sector has become more important in global affairs, International Relations theory appears to be struggling adequately to incorporate private sector businesses not just into its understanding of post-conflict environments, but into any other aspect of how the world is perceived to operate. Indeed, many authors would argue that companies exist internationally only as agents of the states from which they emanate. According to Gilpin, “…world politics is still characterised by the struggle of national entities for power, prestige and wealth.” The norm remains the “rootedness of all capital in discrete national formations.” As such, a trans-national capitalism that transcends and subsumes national capitalisms cannot exist.

An exception to this absence in IR theory of the corporate sector is classic neo-Marxism. This analysis regards the increasing global spread of the corporate sector as part of the inevitable, malevolent expansion of the capitalist plot. “Orthodox Marxist analysis asserts that capitalism as a social order has a pathological expansionist logic, since to maintain profits capital constantly has to exploit new markets.” Dependency theory is the neo-
Marxist analysis of why it is that the developing world is under-developed. For dependency theorists these countries are not poor by accident; “they have been underdeveloped as an intentional by-product of the development of the West. It is a process by which capitalist forces expand to subdue and impoverish the Third World.” So grave do some authors perceive the capitalist threat to be that they advocate that Third World countries should cut themselves off from ties to the capitalist world. Their only hope is co-operation between themselves if they are to achieve real development.

Other schools of IR thought have, by contrast, been slow to provide a conceptual locus for the corporate sector. In 1975, John Ruggie introduced the notion of an ‘international regime’, which he defined as “a set of mutual expectations, rules and regulations, plans, organisational energies and financial commitments, which have been accepted by a group of states.” Krasner’s later definition of regimes appeared to allow that non-state actors could be part of a regime, which he defined as “sets of implicit or explicit principles, norms, rules and decision-making procedures around which actors’ expectations converge in a given area of international relations.” In his discussion of financial and oil regimes, Robert Keohane accepts the role within them of corporations. Cutler takes this logic one stage further and argues that international companies and business institutions are themselves regimes, since they are “institutions with explicit rules, agreed upon by governments, that pertain to particular sets of issues on international relations.” As well as multinational companies, Cutler cites cartels, business associations and established norms of business practices as examples of “regime-like” commercial networks. As a result, she argues, “firms are basically functioning like governments [and taking on] the mantle of authority as contraction of government authority and the expansion of private regulatory authority are generally accepted by societies.” By contrast, she argues, the discipline of International Relations, because of the prevailing Realist paradigm, does not recognise that it is possible for companies to play a role. In her view, “legal formalism identifies state/public authority as the only legitimate authority, rendering non-state/private authority a theoretical and empirical impossibility. As an ontological non sequitur, private authority is thus not part

231 Ruggie, J G. ‘International responses to Technology: Concepts and Trends’. In International Organization, vol 29, no 3 (Summer) 1975, p570
234 Cutler, p27
235 Cutler, p32
of the discourse of responsible and accountable governance." In her view therefore, there is a significant and potentially growing gap – what she terms a “growing asymmetry” – between the reality of growing corporate power and influence on the one hand; and the ability of international relations theory, and of international institutions to manage this reality on the other. As she rightly says, this situation poses significant problems for ensuring accountability for corporate actions since “corporate liability exists only as a derivative of state liability under the legal doctrine of state responsibilities.” Moreover, the rise of corporate power sits ill with notions of representative democracy, since “to impute political authority and accountability to corporate action would be to turn representative democracy on its head.” Although Cutler does not propose a solution to this paradox, she implies that companies’ legitimacy as political actors is improved where their actions have at least the tacit approval of governments. “The authority exercised by corporations and markets is easier to accept in cases in which one detects the devolution, delegation, or even silent permission of governmental authority.”

Doris Fuchs agrees that central to the problem of understanding the role of corporations in global politics is the fact that “mainstream IR theory is utterly deficient in assessing the political power of these actors.” In the absence of an established framework for understanding the role of corporations, she seeks to develop a power-based approach to assess the inter-relation of corporations and states. She assesses corporate power in 3 dimensions, which she acknowledges, derive from those proposed by Levy and Egan. The first of these is ‘instrumental power; defined as being those “concepts of power that emphasise A’s over B.” In corporate terms, this is reflected in lobbying of politicians and officials. Corporate power in this sense, she argues, is increasing as corporate lobbying becomes more sophisticated. Her second dimension is ‘structural power’ – “the additional manner in which business can influence politics”. Here again, she concludes that corporate power has increased since “the agenda setting-power of corporations has increased,” and companies are increasingly able to set their own rules through processes of self-regulation. Thirdly and finally is ‘discursive power’, the ability to shape norms and ideas. In this dimension too, she argues, companies are increasing their power as they spend “increasingly more time and resources on efforts to shape perceptions of problems and to

237 Ibid, p24
238 Ibid, p33
239 Ibid, p32
240 Ibid, p33
241 Ibid, p35
243 Ibid pp776-784
245 Fuchs, p774
246 Ibid, p775
define and re-define issues." However Fuch’s also argues that corporate power is fragile, concluding that “the political legitimacy of business is extremely precarious.” Corporate power, though formidable, risks being undermined in two ways. The first is the vulnerability to scandal. She cites the Enron debacle as an example of a “bad apple (which) prompted doubts about all corporate accounting.” Secondly, corporate power is vulnerable to what she terms “changes in dominant societal norms and ideas.” Because corporations possess power de facto rather than de jure that power is reliant on the continued support of non-business actors. The maintenance of corporate power is therefore dependent on two things. The first is the need for those businesses who are performing well to develop tools to bring the ‘bad apples’ to perform sufficiently well; and the second is through “co-operating with civil society in the development of codes of conduct and standards.”

Where Cutler and Fuchs contend that the understanding of the corporate role in international affairs is hampered by the absence of a theoretical locus for such organisations, Richard Youngs argues that the converse is also true: that historically, companies themselves have not believed themselves to have a legitimate role to play in global politics. His 2004 article *Democracy and the Multinationals* was the result of interviews with 40 multinational companies, from which he concluded that “MNCs acknowledge that they remain ambivalent about, and relatively detached from, government’s democracy promotion agenda.” Companies believe that issues like democratisation are “a ‘strategic’ matter for governmental rather than commercial interests.” His findings are borne out by the comments of Maria Livanos Cattaui, then Secretary-General of the International Chamber of Commerce who opined that “business cannot meet demands and expectations for which governments are primarily responsible…” However, like Cutler and Fuchs, Youngs is adamant that whatever might be the theoretical niceties, corporations do have a significant role. He argues that in order to maintain their own commercial interests, companies are taking an increasing interest in political issues in countries where they operate.

However, precisely the fact that companies’ interests are perceived to be commercial appears to generate a widespread scepticism about companies’ motivations: the profit imperative of the corporate sector is regarded as problematic. Even authors who are trying to propose a positive role for multinational corporations appear to start from the assumption that MNCs’ impacts are inherently likely to be deleterious. For example, in her essay *Is there a Role for Business in Conflict Management*, Virginia Haufler opens with the assertion that,

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247 Ibid, p789  
248 Ibid, p795  
249 Ibid, p796  
250 Ibid, p798  
251 Youngs, R. ‘Democracy and the Multinationals’. In *Democratization* Vol 11, No 1, Feb 04 pp127-147  
252 Ibid, p136  
“foreign investors have been linked to the emergence or exacerbation of conflict around the world for centuries.”\(^{254}\) Likewise, Andreas Wenger and Daniel Moeckli report that, “all too often, businesses in conflict-affected countries find themselves identified as part of the problem rather than potential agents of positive change, a perception that is mirrored in the growing critical literature on corporations and conflict.”\(^{255}\) Authors also question whether companies have the correct skills to engage in wider social and political affairs; asserting that “commercial actors are generally ill-suited for such tasks…”\(^{256}\) This is compounded by the belief that companies respond primarily to short-term shareholder needs, rather than to longer-term broader considerations – “in part the…reluctance to fully engage with the private sector is due to a lingering lack of confidence in the private sector’s willingness to sustain commitments in any one area…”\(^{257}\) However, despite these misgivings, it is suggested that there is a “general recognition that private capital, if properly channelled, is capable of enormous contributions to capacity-building and social reconstruction.”\(^{258}\) The attitude to the corporate sector as actors in international affairs can therefore be fairly described as ambivalent. On the one hand, as Fuchs attests, companies have significant power. They also – according to Youngs – appear to have a growing motivation for involving themselves in wider issues of global affairs. However, the very nature of that putative motivation – the potential commercial impact of conflict and other international developments – makes observers highly sceptical of the reliability of corporations as actors in international affairs. As an additional complication, the prevailing model of international relations does not allow for corporate involvement: as such, companies lack the legitimacy to act which the international system confers on states and supranational bodies such as the United Nations.

The nature of the ‘states system’

The absence of the corporate sector from discussions of international relations and of what one might term ‘political’ issues such as post-conflict reconstruction can be traced back to the fact that the basic architecture of international governance is based on the so-called ‘states system’ – the system of global governance which accords primacy and legitimacy to the territorial state. The membership, and indeed the very name, of the United Nations demonstrates that it is individual states which are seen as the basic building blocks of the international community. In this paradigm, governance is a “top down affair, with state-dominated institutions a given”\(^{259}\), and other institutions, be they non-governmental organisations, civil society groups or corporations have no formal role to play in global affairs, save as vehicles for the interests of the states from which they come. This structure of global governance is often referred to as the Westphalian system of states, in reference to

\(^{254}\) Haufler, Business in Conflict Management. p660
\(^{255}\) Wenger & Moeckli, p43
\(^{256}\) Josselin & Wallace, p12
\(^{257}\) Gerson, & Colletta, p25
\(^{258}\) Ibid, p26
\(^{259}\) Ruggie, J G. ‘Territoriality and Beyond: Problematizing Modernity in International Relations’ International Organization 47: 1993
the Peace of Westphalia signed in 1648, which brought to an end the 30 Years War. As Teschke makes clear, there is a broad consensus in the IR community that specifically modern principles or constitutive rules of international relations — state sovereignty, exclusive territoriality, legal equality, non-intervention, standing diplomacy, international law — were codified at the Westphalian Peace Congress.260 This paradigm is expressed by the Realist school of IR thought, which is itself derived from historical thinkers such as Thucydides, Machiavelli and Hobbes, the last of whom famously argued that the “state of nature” is one of a permanent state of war of every man against every man. “In such condition, there is no place for industry; …no arts; no letters; no society, and which is worst of all, continual fear, and danger of violent death; and the life of man, solitary, poor, nasty, brutish and short.”261 Thus the sovereign state becomes essential as an authority that has the power to protect individuals both from each other, and from outside (foreign) enemies and threats. In the modern era, arguably the most significant contribution to neorealist thinking came from Kenneth Waltz. For Waltz, states are the basic unit of international relations, and states are all alike in that they all perform the same basic functions — collection of taxes, provide educational facilities and so on. It is one of Waltz’s ‘ordering principles’ of the international system that, “formally, each [state] is the equal of all the others. None is entitled to command, none is required to obey.”262 However, although states are equal in formal and legal sense, they are profoundly unequal in their capacities — their “greater or less capabilities.” For Waltz, changes in international relations are the result of “changes in the distribution of capabilities”263 between different states.

However, much recent literature posits that the end of the Cold War and technological and other developments have so changed the structure of global political interaction that existing analyses such as Waltz’s are no longer relevant. ‘Globalisation’ has become one of the most widely-used expressions in the International Relations lexicon (and indeed, also in popular usage) yet is one whose definition, as Mats Berdal puts it, which “suffers from lack of precision.”264 In an attempt to provide some much-needed precision, Jan Aart Scholte, attempts a summary of the various “conceptions” that are frequently held to be contained within the term, ‘globalisation’.265 The first notion is ‘internationalisation’; that globalisation designates a growth of international exchange and interdependence. Martin Wolf describes globalisation as “the integration of economic activities, across borders, through markets.”266 but others speak of the increasing international movement of people, ideas and even disease. Scholte’s second usage of the term globalisation is ‘liberalisation’, meaning the

262 Waltz, K. Theory of International Politics Addison-Wesley, London. 1979, p88
263 Ibid, p162
264 Berdal, How ‘new’ are the ‘new wars’: p481
266 Wolf, M. Why Globalisation works: The case for the global market economy. Yale University Press. 2004
removal of state-imposed restrictions to create an open and borderless world. His third concept is ‘universalisation’ – the creation of what Reiser and Davies call “a planetary synthesis of cultures [in a] global humanism.” The fourth facet is that notion that globalisation reflects a process of westernisation – in particular, the spread of American values and brands to all parts of the world. Finally, ‘globalisation’ entails ‘re-spacialisation’, which Held and McGrew define as “a process (or set of processes) which embodies a transformation in the spatial organisation of social relations and transactions.” This notion relies particularly on the perceived impacts of technological developments, and the sense therefore that since an individual can be in immediate contact with others on the other side of the world, then geography, and hence territories matter less than in the past.

Many authors argue that the development of globalisation has fundamentally altered, indeed terminally undermined, the role of the territorial state in global governance. Wolfgang Reinecke, for example, argues that the concept of national sovereignty cannot be sustained when governments are increasingly constrained in formulating national public policy in a situation where territorial borders are rendered increasingly porous by globalisation. In his view, national governments have already lost their sovereignty, and instead “delegate tasks to other actors and institutions that are in a better position to implement global public policies – not only to public sector agencies like the World Bank and the IMF, but also business, labour and NGOs.” Chayes and Chayes go further and argue that there is a “new sovereignty”, which they define as a state’s capacity to participate in international institutions: a “connection to the rest of the world and the political ability to be an actor within it.” A belief that the sands of the global polity have fundamentally shifted has led to the proposition of new models for global governance. Anne-Marie Slaughter, for example, bases her proposed new world order on “disaggregated rather than unitary states [whose building blocks] would not be states, but parts of states.” In her view, a new structure and process of governance can be built on global networks that she argues are developing: horizontal government networks, links between counterpart national officials across borders; and vertical ones, those between national government officials and their supranational counterparts. Using these networks as the basis of global governance would enable the creation of “a world order without a world government”, and would “promote convergence of national law, regulations and institutions [and] strengthen compliance with international rules and norms.”

269 Reinecke, W. ‘Global Public Policy’. In Foreign Affairs 76. 1997
272 Ibid, p165
273 Ibid, p213
transforming the foundations of the world order, leading away from a world based exclusively on state politics to a new and more complex form of global politics and multi-layered governance.\textsuperscript{274} In his view neither neo-liberalism, nor the anti-globalisation campaigners have an adequate answer to this situation. The former, he argues perpetuates existing economic and political systems and offers no substantial policies to deal with the problems he perceives of market failure. The latter have a naïve, and in his view, unfounded faith in the potential for locally-based action to resolve, or engage with the governance agenda generated by the forces of globalisation. Instead, he argues for a “new internationalism”, based on eight “cosmopolitan principles”\textsuperscript{275}, including the notion that each human being is of equal worth and dignity and that decision-making should be taken through collective, democratic processes. Although like Slaughter, Held contends that “states matter”\textsuperscript{276}, his description of cosmopolitanism sees governance of global affairs shift fundamentally away from the state. There are two main reasons for this: firstly, the eight cosmopolitan values he cites are fundamental, and cannot be violated by any “global body, state or civil association.” Secondly, the processes of governance he advocates “go beyond the claims of nation-states and have far-reaching consequences, in principle, for the nature and form of political power.”\textsuperscript{277} Doucet goes further, and examines the modalities of establishing a global polity, arguing that since globalisation has undermined the relevance of national democracies there is a need to create for “some form of cosmopolitan democracy”\textsuperscript{278}. There is, he concedes, a fundamental paradox at the centre of this since “for people to found a political order guided by the principle of self-governance, they must already enjoy the condition these principles should provide”\textsuperscript{279} Nasstrom identifies the same problem: “that before we can decide on a cosmopolitan understanding of political community, we have to face the prior question of who should act as the relevant citizens to decide this question. Yet this decision – being necessarily prior to the former – cannot be resolved by the democratic process.”\textsuperscript{280} Nor is this impasse satisfactorily resolved: Doucet rather lamely concludes that “cosmopolitan actors” in the shape of anti-capitalist protestors could be the basis of the emergence of a cosmopolitan democracy.

For some writers, ‘global civil society’ is simultaneously nothing less than definitive proof of the decline of the territorial state, and the vehicle for global governance. Kaldor, for example, argues that although the notion of civil society emerged in the context of a state, its usage in the 1970s “broke that link with the state”\textsuperscript{281}, particularly since in places like Latin America

\begin{center}
\textsuperscript{275} Ibid pp164-165
\textsuperscript{276} Ibid, p6
\textsuperscript{277} Ibid, p170
\textsuperscript{278} Doucet, M. ‘The Democracy Paradox and Cosmopolitan Democracy’. In Millennium: Journal of International Studies, Vol 34, No 1, 2005, p138
\textsuperscript{279} Ibid, p139
\textsuperscript{280} Nasstrom, S. ‘What Globalisation Overshadows’. In Political Theory 31 No 6. 2003, p815
\textsuperscript{281} Kaldor, M. ‘The Idea of Global Civil Society’. In International Affairs 79/3 2003, p586
\end{center}
and eastern Europe civil society was defined precisely in opposition to state structures, and advocated global norms such as human rights. As a result, Kaldor argues, “the new understanding of civil society represented both a withdrawal from the state and a move towards global rules and institutions.”\textsuperscript{282} Etzioni also argues that civil society is “a counterweight to a potentially overpowering state.”\textsuperscript{283} In his view, elements of civil society have developed into what he terms “Transnational Communitarian Bodies”, which he defines as “groups that have a shared set of beliefs and bonds among their leaders and their staff as well as some of the members across national borders.”\textsuperscript{284} Such groups undertake a number of roles, including the setting of trans-national agenda, acting as public interest groups that lobby governments, and the development of trans-national values.\textsuperscript{285} Such organisations, and the global values they represent could, he advocates, be the basis of a global state based on the UN. However, such arguments appear over-optimistic in their estimation both of the cohesion of civil society, and of its ability to influence world events in any coherent and lasting way, much less to form the basis for a new global governance. Chandler calls global civil society a “fuzzy and contested” topic. He argues that far from being representatives of an emergent polity, much of civil society in fact consists of activists who are unable to get any traction in their own societies. They therefore claim to be part of a ‘global movement’ which allows them to claim a significance they do not really have. In his view therefore “the celebration of global civil society would appear to be based less on any emergence of new political forces at the global level than the desire of Western activists and commentators to justify their avoidance of accountability to any collective source of political community or elected authority.”\textsuperscript{287}

It is easy to get over-excited about the impacts of globalisation, and the degree to which it has really changed the world. In reality, how novel and how revolutionary is this phenomenon and its impacts? Some authors argue that despite claims to the contrary, the developments we have witnessed in the last decade and a half do not represent the revolution in global affairs which they are sometimes claimed to be. In the late-19\textsuperscript{th} and early-20\textsuperscript{th} century, global trade and migration was much more significant as a proportion of overall economic activity than it is today.\textsuperscript{288} Gilpin makes clear that “the extent and significance of economic globalisation has been greatly exaggerated and misunderstood.”\textsuperscript{289} According to Alonso, “the coefficient of business openness (exports and imports as a

\textsuperscript{282} Ibid, p588  
\textsuperscript{283} Etzioni, A. ‘Capabilities and Limits of Global Civil Society’. In Millennium, Journal of International Studies Vol 33 No 2 2004, p348  
\textsuperscript{284} Ibid, p343  
\textsuperscript{285} Ibid pp345-46  
\textsuperscript{286} Chandler, Building Civil Society, p313  
\textsuperscript{287} Ibid pp338-339  
\textsuperscript{288} Hirst, P. ‘The Global Economy: Myths and Realities’. In International Affairs 73(3) July 1997  
proportion of GDP) of rich European countries only returned to 1913 levels in the 1980s. Others make the point that the impact of the elements of change that are held to constitute globalisation is felt by a relatively small proportion of the world’s population. Hoogvelt argues that, when measured in terms of trade, investment and migratory flows, the core of the world economy is less integrated with the periphery than at any time since the industrial revolution. Osiander argues that not only is globalisation not so novel as is often claimed, but also that the Westphalian system was never so dominant. He argues that sovereignty as we currently understand it is a 19th Century invention – “a figment of the 19th Century imagination.” Therefore, to claim that a high level of trans-border linkage is entirely novel ignores historical realities such as the Holy Roman Empire and the Catholic Church. Seeing international relations as an interplay of states and international organisations is, he argues, a more helpful model to explain current trends in global affairs than the concept of the Westphalian state.

What we are witnessing today may be interpreted as such a set of interactions: an interplay between states, civil society groups, supra-national organisations, the private sector and other non-state actors. States remain the ‘core currency’ of international governance, but there is a recognition that “actors other than states express the public interest.” In their analysis, O’Brien et al trace the impact of some of these other actors, which they term, “global social movements” (GSMs) such as women’s groups, environmental and social campaigners), on multi-lateral economic institutions (MEIs) including the World Bank, the IMF and the WTO. This study, they argue, demonstrates in microcosm how global governance is evolving in response to new challenges and new actors. MEIs are “the creation of states and are responsible to states”, and therefore represent the Westphalian system. Yet at the same time, these institutions recognise that GSMs “have something the MEIs need”, thereby accepting that states and their agents no longer have exclusive rights as the legitimate voice of their people. They argue that what we are seeing is the development of what they term “complex multilateralism” which has the following features (1) different institutions have modified in different ways in response to civil society actors; (2) the main participants are divided by conflicting motivations and goals; (3) the clash between the institutions and the global social movements means that both sides achieve only limited success in reaching their goals; (4) there is a differential impact on states depending on a state’s pre-existing position in the international system. The process tends to strengthen

293 O’Brien, p3
294 Ibid p2
295 Ibid, 18
296 Ibid, p208
strong ones, and further weaken weak ones; and (5) the public policy agenda is broadened to include more social issues.\textsuperscript{297}

The need to listen to today’s social movements and other non-state actors means that the central architecture and institutions of global affairs are having to respond, for example to those who demonstrated at the G8 Summit at Gleneagles in 2005. Whether or not these social movements constitute an emergent global civil society as Kaldor and others argue, some of these groups are able to make their presence felt, and so have an impact both on the policies of national governments and on those of supra-national organisations. There is evidence that this change is beginning to become institutionalised. In his recommendations for reform of the UN, In Larger Freedom, Kofi Annan proposed that the Economic and Social Council “should serve as a high-level development cooperation forum”\textsuperscript{298} explicitly incorporating not just UN and state-based organisations but civil society and other actors too. His proposed Human Rights Council also envisioned the involvement of non-state actors.\textsuperscript{299} It is noteworthy that the concept of civil society is often theorised specifically to exclude market actors: Kaldor for example, defines civil society as “occupying the space outside the market, state and family…”\textsuperscript{300} The UN, by contrast appears to be seeking, however tentatively, to incorporate the corporate sector into its operations and thinking. In In Larger Freedom, Kofi Annan argued that, although “sovereign states are the basic and indispensable building blocks of the international system…(they) cannot do the job alone. We need an active civil society and a dynamic private sector. Both occupy an increasingly large and important share of the space formerly reserved for the state alone…”\textsuperscript{301} This statement reflected practical developments in train since 1999, when Annan established the UN Global Compact (UNGC) as an initiative to “bring companies together with UN agencies, labour and civil society to support universal environmental and social principles”.\textsuperscript{302} UNGC acts as a network which brings together UN agencies, including the High Commission for Human Rights, the International Labour Organisation and the UN Development Programme with companies, labour organisations, civil society, public sector groups and academics. The Compact exists to advance “ten universally accepted principles”\textsuperscript{303} in the areas of human rights, labour standards, the environment and anti-corruption. However, although an attempt to bind the activities of the corporate sector into the wider activities of the UN and its member states, critics of the Global Compact regard it as a retrograde step. Utting argues that the UNGC is actually inflaming tension between the UN and civil society.\textsuperscript{304} He argues

\begin{itemize}
\item \textsuperscript{297} Ibid, pp211-229
\item \textsuperscript{298} Annan, In larger freedom para 176
\item \textsuperscript{299} Ibid, paras 181-183
\item \textsuperscript{300} Kaldor, Global Civil Society, p584
\item \textsuperscript{301} Annan. In larger freedom. paras 19-20
\item \textsuperscript{302} UN Global Compact. Overview of the UN Global Compact. Retrieved 19\textsuperscript{th} July 2007. <www.unglobalcompact.org/AboutTheGC/index.html>
\item \textsuperscript{303} Ibid
\item \textsuperscript{304} Utting, P. ‘The Global Compact and Civil Society: Averting a Collision Course’. In Development in Practice Vol 12, Nos 5 Nov 2002 pp644-48
\end{itemize}
that there are too few systems in place to ensure corporate compliance with the principles, and therefore companies can pick and choose how they engage with them. He argues that the Compact is better for company image than it is for improving their social or environmental impacts and so UNGC has become merely ‘blue-washing’.

Nor is the UNGC the only attempt to seek to bind the actions of corporate actors with those of state-based agencies: to ‘square the circle’ of extending the current global governance architecture to entities that it was not designed to reach: what Muchlinski refers to as “a patchwork of voluntary non-governmental, and intergovernmental, codes and guidelines.”

A number of international organisations have promulgated sets of guidelines which seek to provide guidance to companies on various aspects of policy: The OECD Guidelines, for example, provide “voluntary principles and standards for responsible business conduct in a variety of areas including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation.” Similarly, the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy is the International Labour Organisation’s “key tool for promoting labour standards and principles in the corporate world.” In addition to these passive standards, as noted in chapter 1, the last decade has seen the emergence of a number of ‘multi-stakeholder partnerships’ designed more-proactively to address specific facets of corporate impact. The most significant of these are the Extractive Industries Transparency Initiative, which aims to address the issue of revenue payments in relation to primary resource extraction; the Voluntary Principles on Security and Human Rights (VPs), which provides guidance to companies in the use of security forces to protect their physical and human assets; and the Kimberley Process, designed to eliminate ‘blood diamonds’ from the global diamond trade. These initiatives are, to use a now-unfashionable term, ‘coalitions of the willing’ of business, government and civil society entities which agree to cooperate in order to address very specific issues. EITI’s stakeholders, for example, “share a belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth.” Likewise, the participants in the VPs recognise “the importance of the promotion and protection of human rights throughout the world and the constructive role business and civil society...can play in advancing these goals.”

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However, these initiatives have drawn much criticism precisely because they are voluntary. Peter Frankental, of Amnesty International observed of voluntary initiatives that, “some are inherently problematic, while others either lack the incentives to make them work, or are not properly governed. Companies are able to sign up knowing that their commitments won’t be monitored and that there is little prospect of sanctions for non-compliance.”

Many in the human rights and environmental campaign movements therefore argue that such voluntary initiatives are inherently flawed, and that more robust laws are required to regulate company actions in relation to such issues. In the UK, the Corporate Responsibility Coalition (CORE), which is made up of organisations including Amnesty International, Action Aid, Friends of the Earth, Traidcraft, War on Want and WWF (UK) was established to “make changes in UK company law to minimise companies negative impacts on people and the environment and to maximise companies contribution to sustainable societies.” The coalition was very active in lobbying in relation to the 2006 review of the UK Companies Act, arguing that “only legally binding codes and mechanisms can ensure that all companies act ethically whenever and wherever they operate. This means changing the way in which companies are governed in law.”

As Muchlinski points out, there is also pressure on international organisations such as the WTO to consider ‘ethical’ issues in relation to regulatory frameworks for international business and to “develop a global code of corporate social responsibility...” In his view however, this pressure is misplaced, and in fact any regulation in these areas ought to exist at a national, not supra-national level. “International codification must not be allowed to replace the continuing responsibility of states in these areas. It can only be of use where the state fails to develop, or apply, its own policy in accordance with international standards.”

Some scholars have gone further and argue that it is only by re-thinking the very notion of the limited liability company that corporations will properly be held to account for their actions on social and environmental topics. Plesch and Blankenburg for example, argue that “limited liability establishes a unique legal case for the separation of ownership rights from obligations.” This, they argue shields a company’s owners from the consequences of its actions, and so “promotes speculation and corruption,” rather than in decision-making that properly balances profitability with wider environmental and social impacts.

314 Muchlinski, P. ‘Human rights, social responsibility and the regulation of international business: The development of international standards by intergovernmental organisations.’ In Non-state Actors and International Law 3 2003 Kluwer Law international p151
316 Ibid, p19
However, arguably the most significant recent development which seeks to identify an adequate way by which the role of multinational companies can be bound into the wider activities of the states system is the work of Professor John Ruggie in his role as UN Secretary General’s Special Representative on business and human rights. His report Protect, Respect and Remedy: A Framework for Business and Human Rights, published in April 2008 concludes that “rapid market expansion has...created governance gaps in numerous policy domains: gaps between the scope of rights impacts of corporations. The economic activities and actors, and the capacity of political institutions to manage their adverse consequences.” His paper argues for a 3-part framework to govern the human rights impacts of companies. first element rests on the state’s duty to protect the human rights of its people. Whilst, as he observes, this duty is well understood and is enshrined in international law and custom, the problem however is “how states may fulfil this duty with respect to business activities.” He makes a number of recommendations as to how this might be achieved, for example through fostering corporate cultures to which respect for human rights is integral; and through modifying disclosure requirements. The second element is “the baseline responsibility of companies is to respect human rights.” Central to this is the need for companies to observe due diligence in understanding and managing the human rights impacts of their operations. As he argues, companies already have in place systems to assess and manage financial and legal risks – this approach should be extended also to cover human rights impacts. The third element of Ruggie’s framework is the need for access to remedies. As he points out, any system of human rights protection is useless unless there are effective mechanisms to investigate, punish and redress abuses. Whilst he acknowledges that a number of processes already exist, it is a “patchwork of mechanisms” that is flawed and is in serious need of improvement.

Whilst Ruggie has developed this framework specifically in relation to the business impacts on human rights, he appears to view his framework as applicable to business impacts in other policy domains. There are also a number of developments which build on Ruggie’s notion that there needs to be a more collaborative relationship between the state entities and the corporate sector. As part of its EU Presidency in 2009, the Government of Sweden hosted a conference in collaboration with the European Commission to consider “the Protect, Respect, Remedy framework and what the European Union could do to advance

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317 This report was intended as a final report after his 3-year mandate. However, that mandate was subsequently extended.
319 Ibid, pp6-14
320 Ibid, p9
321 Ibid, p16
322 Ibid, pp22-27
323 Ibid p22
324 Ibid p27
At the same time, a review by the Swedish International Development Agency (Sida) of its relationship with the corporate sector argued that the agency needed to “work collaboratively with companies on issues and in geographies of mutual interest, recognising the complementary but different skills and roles that [each side] can bring to addressing significant societal, ethical and environmental issues.” In the UK too, Ruggie’s more collaborative approach was reflected in the recommendations of a policy review conducted by the British Conservative Party. The Working Group on Responsible Business Practice advocated the creation of “responsibility deals [as] a mechanism to tackle overt and clear problems in British society in a collaborative way.” These structures would bring together government, business and civil society groups to collaborate in addressing key issues of political concern and define, “shared responsibility and agreed goals and targets” in addressing these.

Nonetheless, although such developments are noteworthy and Ruggie’s framework evidently regarded as a valuable contribution, the fact remains that there remain significant “governance gaps... between the scope and impact of economic forces and actors, and the capacity of societies to manage their...consequences.” The topic is evidently a fertile one for scholars from international relations and other disciplines. As yet however, as the foregoing discussion demonstrates, no definitive way of ‘squaring this circle’ has yet been devised. For the purposes of this present study, given this ambivalence and uncertainty about the role of the corporate sector in international relations per se, it is perhaps unsurprising that the inter-relationship between companies and conflict is so poorly understood. War and its aftermath are arguably activities which would be seen as firmly under the aegis of the state, and so therefore the role of the corporate sector is likely to be even more sensitive.

**Concluding remarks**

This chapter has examined the literature relating to post-conflict reconstruction, and has identified four sets of tasks which it encompasses. Further the foregoing discussion has

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328 Ibid
329 Ruggie, *Protect, Respect, Remedy*, p3
identified that, although the practical impacts of the corporate sector are being felt at a global level, there is as yet no definitive process for engaging companies in the business of international relations. The remainder of this thesis will examine how this understanding can help improve our understanding of the impact of multinational companies in specific post-conflict theatres.
3: Methodology

Whilst the impacts of multinational corporations in post-conflict environments may currently be largely terra incognita to the scholarly community, the previous chapter demonstrates that there are significant literatures capable of providing a framework with which to explore this new topic in a structured fashion. Firstly, from analysis of the post-conflict reconstruction processes undertaken by the international community over the past two decades, it has been possible to group the various tasks or reconstruction into four broad clusters of activity. The impact of the corporate sector in post-conflict theatres can be assessed in relation to each of these clusters. Likewise, reviewing existing literature relating to international governance demonstrates that whilst various approaches seek the ‘square the circle’, there is perceived to be an inconsistency between a growing capacity of the international commercial sector, and an inability of current processes of international affairs to manage this effectively. How might this be reflected or contradicted at a country-level?

This current chapter seeks to define how this understanding of the current literature can be systematically used to explore the role and governance of international companies on post-conflict reconstruction. As Marshall and Rossman state, it is “by linking the specific research questions to the larger theoretical constructs or to important policy questions [that] the writer shows that the particulars of a study serve to illuminate larger issues and therefore hold potential significance for that field.”330 This chapter will explore the methodological options available, and describe the approaches that seem most relevant to this project. Having described the research design, the chapter will then outline how this design worked in its application in the fieldwork undertaken for this project.

Defining the research questions

The review of current literature contained in the previous chapter permits us clearly to state two questions which this research project will seek to answer. The first relates to the specific impacts that international corporations have in post-conflict environments. We have hypothesised that the development in the size and scope of the international private sector in the past few decades makes it highly likely that companies do have significant impacts in post-conflict situations but that the exact scope and range of these impacts are poorly understood. Furthermore, we can hypothesise that these impacts may be both positive and negative. As Haufler argues, “foreign investors have been linked to the emergence or exacerbation of conflict around the world for centuries.”331 Yet the rise over the past decade and a half in notions of corporate social responsibility which seek “to align the corporation

331 Haufler, Business in Conflict Management, p659
behind broader social and environmental goals, or at least to make sure that actions by firms do not undermine them. Ruggie suggests that companies may now seek better to manage their impacts in post-conflict environments, and so have more positive impacts. By reviewing the literature on reconstruction processes undertaken by the international community it has been possible to group the various tasks or reconstruction into four broad clusters of activity: 1) physical security, and the longer term processes of reconciliation between former adversaries, including through legal processes; 2) rebuilding of the country’s physical infrastructure; 3) governance, political transition, and the creation of sustainable self-government, and 4) economic development. Thus the first question which this research project seeks to answer is what impacts do international corporations have, positively and negatively, on each of these four facets of reconstruction?

The second question relates to the governance of companies in post-conflict environments. As Claire Cutler argues, there is a “growing asymmetry” in all aspects of international relations between the growing impact of international companies and the inability of the current structures of international affairs to provide a locus for such impacts. Developments such as the UN Global Compact, and multi-stakeholder projects such as the Extractive Industries Transparency Initiative and the Voluntary Principles on Security and Human Rights present novel approaches to ‘square the circle’ of binding corporate activity into state-based structures, yet as demonstrated in the previous chapter these efforts are flawed and incomplete. Further, the on-going work of John Ruggie in his role as UN Secretary-General’s Special Representative on Business and Human Rights has proposed a more collaborative relationship between companies and state-based institutions. We can hypothesise therefore that we will see replicated in specific situations of post-conflict reconstruction the absence of a coherent governance structure to bind the activities of the corporate sector into the actions of state-based institutions which we see at a global level. However, we can further hypothesise that initiatives and efforts will be in place to attempt to manage specific issues or facets of the relationship between the international corporate sector and the in-country reconstruction programmes, reflecting efforts at a global level to address this mismatch. Therefore the second question to which this project seeks an answer is this: how are international corporations and their actions governed in post-conflict situations? There are two facets to this question: how do the main reconstruction agencies seek to integrate the corporate sector into their plans and operations; and what do international businesses do to ensure that their actions help rather than hinder the reconstruction efforts. Within these broader questions the country-specific impacts of global developments such as the Global Compact, the various multi-stakeholder processes and the Ruggie framework can also be examined.


Cutler, p33
Designing the research process

The design of the research process to answer these questions is obviously of central importance: consideration of these matters by this study is only possible if the data derives from a properly rigorous research process. Bruce Berg makes it clear that “the purpose of research is to discover answers to questions through the application of systematic procedures.” Similarly, Marshall and Rossman state that “the design is the result of a series of decisions based on knowledge gained from the methodological literature and previous work.” What criteria might one therefore seek to apply in deciding what research methods may be most relevant. Bulmer and Warwick present five criteria which will be used in assessing approaches for this study: 1) will the methods be used be appropriate to the research objectives, “will the method produce the kinds of data needed to answer the questions posed in the study?”; 2) are the methods reliable; “would that method, if repeated by a different person at the same time, or by a different person at a later point in time, yield the same results on a second occasion?”; 3) are the methods valid for what the researcher is seeking to find – “does the researcher obtain measurements of what he is really trying to measure?”; 4) do the methods selected provide data that might be capable of generalisation beyond the specifics of the study itself – “to what extent can one go beyond the data about the sample in case to a wider population?”; and, 5) how far do the methods have explanatory power to explain why something happened?

An obvious first point to consider is whether this study will seek to rely primarily on a quantitative or a qualitative approach. It is evident that in the debate around the causes of conflict there is a significant debate between proponents of these two approaches as to which is best able to understand and explain war. Paul Collier and his collaborator Anke Hoeffler have sought to understand conflict as a phenomenon that can be surveyed in a quantitative way and have applied these methods in their work. They have used a data-set of civil wars that took place between 1816 and 1992 and normalised this for four factors: 1) one of the primary actors in the conflict must be the government; 2) each side must have the opportunity to inflict death on each other; 3) a minimum 1,000 battle-related deaths must have occurred; and, 4) the conflict must be been internal. The data was then tested for four variables to assess the degree to which each was statistically significant in the on-set of war. The variables were: 1) per-capita income; 2) natural resource endowment; 3) size of population; and; 4) ethno-linguistic fractionalisation. The results of this analysis were considered in the previous chapter and need not be repeated here: the reason for reviewing

335 Marshall & Rossman, p13
336 Bulmer, M & Warwick, D P Social Research in Developing Countries UCL Press, London. 1993, pp10-11
337 Collier & Hoeffler, Economic Causes of Civil War. pp563-573
the Collier-Hoeffler approach at this point is to consider whether a quantitative approach might provide the basis for this current study. After all, as Mats Berdal points out, the Collier-Hoeffler approach has had, and continues to have a significant impact on policies of the UN and other agencies. Despite this, the statistical approach has been heavily criticised as a basis for understanding conflict: as Berdal himself argues, in analysing conflict "quantitative analysis is of distinctly limited utility." He cites, for example the Collier/ Hoeffler statistic that a country reaching the end of a civil war has a 44% chance of it re-starting within five years: what, Berdal asks, does this really tell us about the actual conflict dynamics? The Collier-Hoeffler approach, counsels Berdal, leads only to a “culturally-blind, a-historic and static picture of civil wars.” Likewise, Ballentine and Sherman argue the importance of seeing each conflict in the context of “the political, cultural and strategic factors…” relevant to it. In their view, there is a fundamental limitation to explanations of war which rely primarily statistical models, as they ignore the cultural and historical factors that make each war different. They argue that “while statistical methods are a useful way of identifying key variables across a class of cases, at best they generate broad correlations that illuminate only part of the picture.” Inherent also in the notion of International Social Conflict propounded by Miall, Ramsbotham and Woodhouse is the notion that conflict cannot readily or even meaningfully be understood through quantitative methods. In the view of these authors, conflict needs to be seen as caused by both international and domestic factors; what they refer to as “conflicts that are neither pure international (interstate) conflicts, nor pure social (domestic) conflicts, but sprawl somewhere between the two.” It therefore appears that a quantitative approach can provide only an incomplete understanding why war happens. By contrast, qualitative assessments of the circumstances under which specific conflicts emerged seem to be regarded as providing better insights. As is apparent from the previous chapter, the literature on post-conflict reconstruction is also primarily qualitative in nature, and stresses the need to understand and respond to the country-specific issues and challenges. As Ho-Won Jeong puts it, “the task of peace-builders in…post-civil war societies is to confront unique psychological and ethical situations arising from a conflict system.” Richard Brown makes a similar point in his discussion of post-conflict reconstruction and development of infrastructure, arguing that it is “a complex science requiring a deep understanding of socioeconomic and physical elements as they relate to the long-term needs of a country and its communities and their constituents.” Likewise, Herrero argues

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338 Berdal, Beyond Greed and Grievance pp 687-698
339 Ibid p690
340 Ibid p 697
342 Ibid, p5
343 Miall, Ramsbotham, & Woodhouse, p77-91
344 Jeong, p3
345 Brown, p99
that “despite common elements, post-conflict situations differ significantly from one another.”

This last comment also illuminates what seems to be the goal of the literature on reconstruction. On the one hand it seeks to explain individual examples of post-conflict reconstruction in their own terms and contexts. On the other, it seeks generalisations, overarching themes and commonalities that can illuminate a wider understanding of what constitutes good practice in post-conflict reconstruction and in so doing improve future practice. As Roeder and Rothchild say of their book Sustainable Peace, they seek to use its “rich chapters for insights that might help us devise more successful policies for transitions from intense conflicts in ethnically-divided societies.” Alger also argues that the aim of those working in this field is to identify the pieces of the puzzle that are essential to rebuild societies recovering from communal violence. In Jeong’s view, the challenge is “how to deepen knowledge about the potential contributions of each piece while attempting to discern how the different strategies fit together.” This balancing act between on the one hand trying to understand post-conflict theatres in such a way as to recognise their uniquenesses, yet at the same time trying to identify commonalities of what worked and what did not is reflected also in the post-conflict guidelines that have begun to emerge. The US Department of State’s Post-Conflict Reconstruction Essentials Tasks Matrix recognises that “countries emerge from conflict under differing and unique conditions. Therefore, the priority, precedence, timing, appropriateness, and execution of tasks will vary from case to case.” Nonetheless, the Matrix states its aim as being to “provide a menu of issues that should be considered when working in conflict-stricken countries. The task matrix is designed to be a tool for those involved in comprehensive planning…”

Like the wider literature on post-conflict reconstruction, it seems relevant that this study should seek both to understand the role and governance of the international corporate sector within country-specific circumstances, and to identify overarching themes and insights that may allow the corporate sector to play the most constructive role possible in such environments in future. This paper is in no way a policy document, however as Jeong makes clear, “the diverse aspects of peace-building have yet to be integrated in a manner that would help us assess whether and how each fits into an overall process.” Given the growing importance of the international corporate sector posited in the previous chapter, it seems important to ensure that the role of these business organisations be better

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346 Herrero, p43  
347 Rothchild, & Roeder, p25  
349 Jeong, p14  
350 U.S. Department of State. Essentials Tasks Matrix. piii  
351 Ibid, p.iii  
352 Jeong, p14
understood in order that they can be more constructively integrated into the overall processes of reconstruction in future.

Furthermore, the literature on research methodologies make clear that if the aim of a research project is to understand a phenomenon within a complex context, then a qualitative approach is likely to be most appropriate. According to Audet and d’Amboise, “qualitative research approaches have traditionally been favoured when the main research objective is to improve our understanding of a phenomenon, especially when this phenomenon is complex and deeply embedded in its context.”\(^{353}\) Rubin and Rubin also contend that “…many researchers have found that qualitative methods are what to use when studying a complex and nuanced world.”\(^{354}\) The reason for this is that quantitative approaches necessarily have to look for relationships between a relatively few variables – Collier and Hoeffler for example looked only at the conflict impact of four variables. Thus quantitative studies can never, no matter how well-constructed they are properly explain complex and multivariate contexts. This is in contrast to what Bruce Berg calls “…the fruitfulness and greater depth of understanding we can derive from qualitative procedures.”\(^{355}\) Moreover, quantitative studies are limited to looking only at the variables predicated at the outset of the study: as the previous chapter demonstrates, the role and governance of the corporate sector in post-conflict environments is not yet well understood. Once again a qualitative approach is advised by scholars: Marshall and Rossman for example argue that “qualitative approaches to inquiry are uniquely suited to uncovering the unexpected and exploring new avenues.”\(^{356}\)

**Case study approach**

It is evident therefore that a qualitative approach to this research project is likely to be more successful than a quantitative one in answering the research questions posed by this study. It also appears then that the use of a case-study based research process is likely to be the most constructive methodology to employ since scholars have long advocated the use of this method if the aim is to understand how different factors interact in a given system. For instance, in the view of Clifford Shaw, an early proponent of case study research, “the case...affords a complete and vivid picture of the interrelating factors constituting the situation...”\(^{357}\) Likewise, John Cresswell argues that this approach allows “the study of an issue explored through one or more cases within a bounded system.”\(^{358}\) Yin also contends that case study research is suited to situations where the researcher seeks “to cover...

\(^{353}\) Audet, José & Gerald d’Amboise *The Multi-Site Study: An Innovative Research Methodology* The Qualitative Report, Vol 6, No 2 June 2001, p1


\(^{355}\) Berg, p2

\(^{356}\) Marshall, & Rossman, p48

\(^{357}\) Shaw, C R. ‘Case study method’. In *Publications of the American Sociological Association* Vol 21 1926 pp149-157

\(^{358}\) Cresswell, J. *Qualitative Inquiry and Research Design* Sage, London. 2007, p73
contextual or complex multivariate conditions and not just isolated variables." Yin also argues, pertinent to the content of this current study, that "the case study is preferred in examining contemporary events, but when the relevant behaviours cannot be manipulated." Authors identify a number of different case study types, although quite how these are categorised differs between scholars. Cresswell, Stake and Berg all categorise case studies under three headings. The first is the intrinsic study, in which the specific aim of a study is to understand a case for its own sake - "we are interested in it, not because by studying it we learn about other cases or some general problem," as Stake puts it. By contrast, the second categorisation used by these scholars is the instrumental case study, where a case study is used to provide insights into an issue, or refine a theoretical explanation. The third category is defined as collective case studies - a set of instrumental cases designed "to allow better understanding, insight or perhaps improved ability to theorise about a broader context." In Yin's analysis, there are six types of case study which he presents as three approaches that can be undertaken either as single or multiple cases. In his typology the three different types of study are: 1) the explanatory case, designed to define the basis for a future study; 2) the descriptive case, (which appears to be broadly similar to the nature of the intrinsic study) to understand a specific phenomenon, and; 3) the explanatory case study, that focuses on "explaining how events happened".

It is Yin's view that "the evidence from multiple case studies is often considered more compelling, and the overall study is therefore regarded as being more robust." However, one has to be very clear about precisely what the data, even from a multiple case study project is telling us. Berg asserts that "when case studies are properly undertaken, they should not only fit the specific individual, group or event studied but also generally provide understanding about similar individuals groups or events." Cresswell also makes clear that the use of case studies requires the consideration of data in a way that both explains the inherent complexity of each individual case, but at the same time seeks to find commonalities between cases. By their very nature, case studies are situationally-specific, and this detail needs to be explained fully and properly. He argues that it is important that each case study should focus on the "key issues not for generalising beyond the case, but for understanding the complexity of the case." At the same time, collective studies also need to provide "thematic analysis across all cases, called the cross-case analysis, as well

359 Yin, R K. Applications of Case Study Research Sage, Thousand Oaks. 2003, p.xi
361 Cresswell, pp.68-75
363 Berg, pp324-326
364 Stake, p3
365 Ibid p326
366 Yin, Applications of Case Study Research p5
367 Yin, Design and Methods p53
368 Berg, p330
369 Cresswell, p75
as assertions or an interpretation of the meaning of the case."\textsuperscript{370} However other authors contend that case studies offer a poor basis for generalisation or representation of broader truths beyond the individual cases studied. As Stake puts it, “a collective case study may be designed with more concern for representation but…the representative nature of a small sample is difficult to defend.”\textsuperscript{371} A research project that draws on a small number of cases cannot properly be said to be studying a sample and therefore the goal of the collective case study method is to "expand and generalise theories, and not to enumerate frequencies."\textsuperscript{372}

What type of case study approach will best serve the purposes of this current study? Notwithstanding the cautions expressed above about the ability to generalise, even from a collective study, Yin’s argument is persuasive that a multiple case study approach is more robust, and thus it would seem appropriate for this study to adopt such an approach. However, in addition to adding credibility to this study, using multiple case studies seems likely to yield more complete exploration of the research questions which are the focus of this study. Given that the subject matter of this study is demonstrably underexplored in the academic literature, even a single case study approach describing the impacts that companies have had on specific post-conflict reconstruction programmes and how companies and their impacts are governed as part of these programmes would have academic value. However, by addressing say three different cases, and seeking commonalities between those cases, then it may be possible to elaborate some hypotheses about optimising the corporate role in these circumstances that either this author or other scholars may be able to test in further post-conflict environments, and so provide guidance that could be used by corporate and governmental actors in the development of future reconstruction processes.

As many authors make clear, the first challenge in case study research is “that the researcher must identify his or her case...which bounded system to study.”\textsuperscript{373} As Marshall and Rossman state “…choosing a site, setting, population or phenomenon of interest is fundamental to the design of the study and serves as a guide for the researcher. This early, significant decision shapes all subsequent ones and should be clearly described and justified.”\textsuperscript{374} How then ought cases to be selected? In Jocher’s view there are no set rules for defining the scope of a case study beyond what will be effective for the proper functioning of the research project: “whether the unit for the case study shall be a group or an individual...is determined by the interest of the specialist making the study as well as by the purpose of that particular piece of research.”\textsuperscript{375} There is something of a dichotomy of opinion amongst

\textsuperscript{370} Ibid, p77
\textsuperscript{371} Stake, p5
\textsuperscript{372} Yin, \textit{Design and Methods}, p15
\textsuperscript{373} Cresswell, p160
\textsuperscript{374} Marshall, & Rossman, p61
\textsuperscript{375} Jocher, K (2006) \textit{The Case Study Method in Social Research} In In David, Matthew (ed) \textit{Case Study Research}. Sage London 2006 p47
scholars about what criteria should govern the selection of case studies between those who offer broadly practical considerations as a basis for selection, and those who advocate a more analytical approach.

Stake, for example argues that the main criterion for selection should be “to maximise what we can learn”\(^{376}\). In his view, because a small number of case studies will never be representative, it makes sense to undertake case studies in those sites that are readily accessible and so enable the collection of the maximum amount of data. This ensures that the understanding of the individual case is as good as possible: “many of us case-workers feel that good instrumental case study does not depend on being able to defend the typicality of it.”\(^{377}\) Berg too offers some practical considerations to be considered in identifying a study site or setting\(^{378}\): 1) is entry and access possible; 2) are appropriate people are likely to be available; 3) will the researcher be able to gain access to relevant reports and other data; and, 4) can the individual doing the research be effective – he cites the example of not having a coloured researcher interviewing members of the Ku Klux Klan.

Yin, on the other hand, argues that the “selecting the case or cases to be studied is one of the most difficult steps in case study research” and advocates a three-stage process for case selection.\(^{379}\) Firstly, Yin makes clear the importance of what he terms the “unit of analysis”. In his book, *Applications of Case Study Research*, he uses eight case studies about organisations providing technical assistance to health agencies in eight US states. As he makes clear, the unit of analysis for these cases is “neither the organisations nor the agencies. Rather each case focuses on a specific technical assistance engagement...”\(^{380}\) Within this scope, he then states the importance of developing criteria for screening potential cases: “the selection process needs to incorporate the specific reasons why you need a particular group of cases.”\(^{381}\) The third and final step is the screening of “an array of candidate cases” against the defined criteria.

For the purposes of selecting case studies for this current study, it appears to be most relevant to apply a mixture of the approaches suggested by Stake and Berg on the one hand, and Yin on the other. As a first step, the latter’s insistence on the importance of defining the “unit of analysis” for a study is compelling since it places at least some boundaries around what could be a limitless process of data collection for each case study. To continue Yin’s logic, for the cases to form the basis for this study it is important to be clear that the unit of analysis is neither the reconstruction processes *per se* in the target countries, (although developing a clear understanding of this will be of central importance in assessing the corporate role within it), nor the companies, but rather the impacts that those companies have had on that reconstructive process, and how those impacts are governed.

\(^{376}\) Stake, p4
\(^{377}\) Ibid, p4
\(^{378}\) Berg, pp48-50
\(^{379}\) Yin, *Applications of Case Study Research*, pp9-14
\(^{380}\) Ibid, p114
\(^{381}\) Ibid, p10
Secondly, notwithstanding the reservations expressed by Stake and others about comparability between cases, if an aim of this study is not just to present specific cases of the corporate role in post-conflict reconstruction, but to seek also to identify generalisations that might enable that role to be better understood in a global sense, then it is important that the case studies selected should be broadly and obviously comparable to one another. However, it is apparent from the significant literatures on the causes of conflict and on reconstruction that the factors that give rise to war, and those which need to be taken into account in designing and implementing successful reconstruction programmes are many, varied and overlapping. Any attempt to seek to justify the selection of cases in a way which claims that the countries selected are absolutely comparable therefore seems to be futile. Nonetheless, it is important to seek even a small number of variables that will allow this study to select cases in such a way that the outcomes of a collective study will have credibility with other scholars. To do this requires reference to the unit of analysis, and to the contextual issues which are likely to be relevant.

Taking these things into account, there appear to be three factors that can be used to select case studies for this project. Firstly the length of time since the ‘hot’ conflict ceased would appear to be a material issue to consider. As Jeong says, effective reconstruction “entails a wide range of sequential activities, proceeding from cease-fire and refugee re-settlement to the establishment of a new government and economic reconstruction.” It is also apparent that these different stages are sometimes likely to involve different actors; in the immediate aftermath of conflict, for example, peacekeeping military forces will probably be a principal tool of the international community. In such circumstances, corporations may well not wish to be present. As Haufler observes, “violent conflict typically forces most companies to withdraw from a country if they have a choice of investment locations.” It therefore appears to be a relevant factor to select case study countries that are at a similar distance from the conflict itself and past the immediate reconstruction phase. This would imply that case studies should be of countries where the conflict ended at least 10 and not more than 20 years ago: for the sake of ease, we will consider those conflicts ending in the 1990s. Obviously if there has been a significant further resurgence of conflict since the end of the 1990s, then that country will be discounted – Liberia for instance, where a peace deal was reached in 1996, but where renewed fighting occurred between 2000 and 2003. Secondly, the physical and population size of a country would appear to be a pertinent factor to consider. It is widely acknowledged that the reconstruction process is an immensely complicated one, and it therefore would seem to be a logical corollary to conclude that the larger the country, be that in physical terms or in terms of population numbers, then that process will be still more complicated. It would seem relevant therefore to use size as a selection criteria for case study countries: those studied should be of broadly comparable

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382 Jeong, p1
383 Haufler, Foreign Investors in Conflict Zones, p56
size in terms of geographic extent and population. Ideally, the countries should be relatively small in order to reduce, at least to some extent, the complexity to be addressed. Again, although an arbitrary figure, we will consider those countries with a population of less than 10 million and a land mass of less than 100,000km². A third relevant factor for selection would be involvement from the international community in the reconstruction process since this would imply that at least broadly similar methodologies had been applied to all the cases. Having defined these three analytical criteria – a la Yin – it does however also seem relevant to consider the much more prosaic considerations suggested by Stake and Berg. Therefore in selecting cases for this study, practical issues such as ease of access, and whether relevant people will be accessible will also be considered. Given that one is also speaking of post-conflict situations, the physical security issues of operating in-country will also be a relevant consideration. Yin also argues that a researcher’s “prior expert knowledge” is important, arguing that “if you know your subject matter as a result of your own previous investigations, so much the better.”  

The *Encyclopaedia of Conflicts Since World War II* lists 184 conflicts globally since 1945. If one considers those conflicts that ended during the 1990s and without serious subsequent eruption of violence (the first criterion), this list reduces to 17 locations. If one then applies the second criterion, size of population and land mass, then this list reduces to 8. These are: 1) Eritrea’s war of succession from Ethiopia, which ended in 1993; 2) the Rwandan civil war 1991-94 and genocide of 1995; 3) the civil war in Sierra Leone, exacerbated by Liberian influence 1991-2000; 4) the invasion of Azerbaijan’s Nagorno-Karabakh region by Armenia 1991-95; 5) the 1992-96 civil war in Tajikistan; 6) the civil war in Bosnia Herzegovina 1991-95; 7) Croatia’s war of independence from Yugoslavia 1991-95; and, 8) Kosovo’s war of independence from Serbia-Montenegro in 1996-99. Since all of these conflicts involved significant international involvement in either the resolution of the conflict, and/or in the reconstruction process, the third criterion for selection is not helpful and we therefore turn to the more practical considerations for selection. From the remaining eight conflicts on this list, three are from the same immediate region (former Yugoslavia) so it would appear sensible to select only one of these since it could be plausibly argued that all three examples are aspects of the same case, all having resulted from the demise of federal Yugoslavia. Of the remainder, access to Sierra Leone remains difficult and unsafe. Moreover, to take up Yin’s argument, this author has prior experience working in the Balkans, Azerbaijan and Rwanda.

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384 Yin. *Design and Methods*, p161


Although this experience was gained undertaking commercial rather than academic work, it nonetheless provides at least an initial base of understanding on which this study can build. Therefore this study will focus on three cases: Rwanda, Azerbaijan and Bosnia Herzegovina.

**Data collection and analysis**

**Documentary analysis**

Having defined where this study will collect data, it is now important to assess how it will collect it. Perhaps the most obvious methodological approach to take in many cases is documentary research – searching and assessing relevant literatures in order to answer the research questions posed by the study. However in this instance, documentary analysis is likely to be relatively unhelpful as a primary tool. As demonstrated in the previous chapters, the literature considering the role and governance of multinational companies in post conflict environments is sparse. However, the fact that little literature is likely to be available that examines the specific ‘unit of analysis’ of this study does not mean to say that documentary analysis will be irrelevant. A key aim of this study is to examine corporate actions within the context of the overarching reconstruction programme. Therefore literature which describes or critiques the reconstruction process in each of the subject countries will be highly relevant. Further, it may be that in-country work and interviews (to be discussed below) may throw up issues or themes that can then be further explored through documentary study.

**In-depth interviewing**

On the face of it, it is a straightforward matter to define what an ‘interview’ is. Moser and Kalton describe an interview as “a conversation between interviewer and respondent with the purpose of eliciting certain information from the respondent”\(^{388}\). However, as many authors make clear, there are a great many ways of conducting interviews, and the approach selected is vital if the right information is to be obtained. Most scholarly analyses of interview methods cite three broad types: structured, semi-structured, and focussed approaches. The structured interview is associated with survey research, and often relies on a questionnaire as a data collection instrument. As May says, the “theory behind this method is that each person is asked the same question in the same way so that differences between answers are held to be real ones and not the result of the interview situation itself.”\(^{389}\) In conducting a structured interview, the questions and their wording are clearly defined in advance, and the interviewer is permitted very little leeway in how those questions are posed – “little or no variability should be apparent in order not to influence the answers.”\(^{390}\)

This approach is claimed to permit greater comparability between interviews because each

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\(^{390}\) Ibid, p122
has been conducted to precisely the same rubric. However, whether this is actually achievable has been questioned by some scholars. In his review of survey research Michael Ornstein argues that since different individuals accord different value and meaning to different words, even a questionnaire and structured interview “with the most carefully designed and tested questions is too imprecise to allow exactly uniform communication.”

Within the second form of interview structure – the semi-structured interview – the different ways in which respondents express themselves is positively embraced since it is perceived to allow more complete responses from interviewees. Fielding for example, reporting on his work with police officers, allowed respondents to use terms familiar to them and their environment thereby ensuring that the data provided insights into “the conventions and devices [respondents] use when asked to offer accounts of action and belief.” Fielding’s example reflects the fact that, in a semi-structured interview environment, respondents are encouraged to reply more in their own terms that those stipulated by the research designer. An interviewer is permitted to seek clarification and elaboration from interviewees on the questions asked, which “enables the interviewer to have more latitude to probe beyond the answers...in a way that would be perceived as prejudicial to the aims of standardisation and comparability in the context of a structured interview.

The third interview type is referred to variously as the ‘informal’, ‘un-standardised’, or ‘un-structured’ interview. However, the use of the title ‘focussed interview’ seems most appropriate since this approach is not a random conversation between interviewer and respondent, but rather seeks to explore key topics in a systematic and focussed way. May argues that this approach provides greater qualitative insight than the other two approaches. In a focussed interview, interviewees are able to talk about the subject at hand in their own terms thereby providing the researcher with a greater understanding of the subject’s point of view, and its genesis: not just what people think, but why. A research project using focussed interviews is therefore able, its proponents argue, to provide explanations for why those interviewed thought things occurred and reveal “the subjective basis for lasting change in the patterns of perception and behaviour of particular social groups.” Moreover, as May posits, the open-ended nature of focussed interviews means that they have the ability to “challenge the preconceptions of the researcher...” In the context of this current study, this is likely to be a very important factor. Raymond Lee argues that in-depth interviews are especially suited to complex and sensitive topics which he states “remain ill-

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391 Ornstein, M. ‘Survey Research’. In Current Sociology Vol 46 (4) 1998 p63
393 May, p123
394 Ibid, p124
396 May, p124
suited to study by means of survey."397 In his view, surveys are flawed in that they treat the individual as the basic unit of analysis, abstract from social positions and social relations. He argues that “it is clear that standardised interviewing allows experiences to be expressed only in narrow or truncated ways, and within a social context that some have found ethically dubious.”398 Rubin and Rubin also advocate the use of focussed interviews arguing, with Lee, that this approach provides access to a higher degree of nuance and subtlety than more formalised interview processes399. Furthermore they argue, if the research question necessitates layers of discovery in which initial questions are asked to discover alternatives that are then explored in turn, then once again focussed, in-depth interviews are held to be the most appropriate approach to use. As they conclude, this approach is best-suited to enquiries where an entirely novel view is required: “If existing literature does not explain your research problem or if the current approach is not working, you may need to look at your problem in a different way. Depth interviewing studies encourage considerable departures from current understanding.”400 In the view of Marshall and Rossman this approach “demands flexibility in the proposal so that data gathering can respond to increasingly refined research questions.”401 This last point also raises an important issue in relation to the design of this research project: that it will need to retain some flexibility in its design and implementation if the layers of insight are properly to be maximised. As Bell states, “some qualitative studies start without a hypothesis or objectives being specified. The investigators…do not devise detailed procedures before they begin. The study structures the research rather than the other way around.”402 This current study has postulated clear research questions, and defined discrete case studies; however the interview framework will need to be flexible enough to allow layers of understanding to be revealed as the research process progresses.

Issues of bias

John Shostack makes it clear that qualitative interviewing by definition requires acceptance of the subjective. In his analysis, it is to understand this subjectivity – what makes people act in certain ways – that gives this approach its value. He argues that the role of the interviewer is to ask his interviewees to, “give me a picture, explicitly or implicitly…of your world, what you do in it, who peoples it with you and the objects that comprise it. How do you value each of these and relate to one another? Tell me how to live in your world.”403 As a result, the aim of an interview-based research process is to develop “a narrative that seeks to represent the views of the individuals who are being researched drawing upon their own words, their

398 Ibid, p117
399 Rubin & Rubin, p48
400 Ibid, p48
401 Marshall & Rossman, p38
402 Bell, J. Doing Your Research Project Open University Press. 1987, p13
rationales, their values and judgements." Nonetheless, as many scholars make clear it is necessary both to ensure that the interview process is free as far as possible from bias introduced by the character and predilections of the interviewer; and that the responses gained from interviewees reflect their genuine opinion, rather than one that they have generated specifically for the purposes of responding in the context of the interview. It is necessary therefore to be aware of the impact on the data of the interviewer, and of the interviewee – what Borg calls “the response effect.” An interview is an interaction between two people and, as Martin Bulmer argues, “both interviewer and respondent may be influenced in various indirect ways by the background characteristics of the other.” The way people look and sound, the way they dress and express themselves all, he argues, have an impact on others and this is especially pertinent in an interview context. This is even more the case in an international context where interviewer and interviewee may come from a different cultural background: Bulmer warns of a number of factors that may compromise the quality of the data that emerges from the interview setting. A respondent may for example behave in a way that is “thought to be appropriate to the interview situation”. He also cautions against “ingratiation bias, where the respondent distorts the answers in a direction intended to win the approval of the interviewer.” Finally, looking at the issue of relative status of the interviewer and interviewee he questions whether egalitarian interview methods that have been created for use in developed countries are necessarily applicable in societies where strong social hierarchies remain. Lee also argues that the potential for bias in an interview setting emerges both from the respective characteristics of the interviewer and interviewee; and from way the encounter is managed. Lee identifies three effects: 1) the presentation of the topic to the interviewee – are questions framed, or information presented in such a way as to obtain responses that fit a particular desired outcome; 2) do the relative power and status of the participants have an effect on the results; and, 3) does the setting of the interview make it difficult for the interviewee to be frank in their responses? Kahn and Cannell also argue that the characteristics of both interviewer and interviewee may adversely affect the interview process. They define two primary sets of relevant characteristics (Table 3.1 overleaf)

In Bulmer’s view, there is no fail-safe process for addressing these risks. Instead, he argues that the best way of dealing with these factors and their potential impact on the quality of the data that emerges from the interview is awareness that this risk exists. In his words, “the most essential requirement for dealing with error and bias is self-conscious awareness that it

404 Ibid, p157
406 Bulmer, M. ‘Interviewing and Field Organisation’. In Bulmer, M & Warwick, D P Social Research in Developing Countries UCL Press. 1993, p206
407 Ibid p210
408 Ibid p211
409 Lee, pp113-14
exists and has to be countered...The quality of data collected in any survey depends in the last resort on the capabilities and skills of the interviewer."\(^{410}\) Gavron also argues that awareness of the risk of bias is the best tool to counter it. In her view, "it is difficult to see how this [bias] can be avoided completely, but awareness of the problem plus constant self-control can help."\(^{411}\) Marshall and Rossman go even further and argue that an interviewer needs to make a positive effort to be frank about who they are, "...rather than trying to be inauthentic by adopting a contrived role, qualitative researchers be themselves, true to their social identities and their interests in the...topic."\(^{412}\) They also argue that the interviewer needs to be able to build and maintain trust with interviewees in order to ensure that the data collected is as authentic as possible. Indeed, these scholars go as far as saying that "the success of qualitative studies depends primarily on the inter-personal skills of the researcher."\(^{413}\) In the case of this current study, this author brings experience over more than 18 years of conducting focussed interviews in developing countries. Although this experience has been gained largely in a professional rather than an academic capacity, the imperatives outlined above are the same in both cases. Self-awareness, and the ability to judge how the respondent is viewing the interviewer; approaches to ask the same question in different ways in order to draw the respondent out so as to be clear that what they are expressing is their genuine opinion are all skills this researcher has used in the past. Whilst this does not remove the potential for error, this study is being undertaken in the clear knowledge that such a risk exists and with techniques and experience to avoid the more obvious pitfalls identified in the methodological literature.

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Table 3.1: Factors affecting interviewer/ interviewee relationship\(^{414}\)

Structuring interviews

It is evident that the interview structure is of paramount importance. On the one hand, it needs to be sufficiently focussed to collect relevant data and not to become merely an unstructured conversation. At the same time, it needs to be able to permit the interviewees to pursue avenues which they perceive to be important which may or may not have occurred to the researcher previously. Thirdly, interviews need to be structured in such a way as to ensure both that the respondent is giving their authentic opinion or insight, and that the

\(^{410}\) Bulmer, p213
\(^{412}\) Marshall & Rossman p74
\(^{413}\) Ibid p75
interviewer is properly understanding the points that the respondent is seeking to make. As Marshall and Rossman make clear interview need to be structured so that “the participant’s perspective on the phenomenon of interest should unfold as the participant sees it (the emic perspective) not as the researcher views it (the etic perspective)”415

Rubin and Rubin argue that a key tool in achieving this is the question structure used by the interviewer. They divide the questions to be used into three types. Firstly, main questions are, in their view “the scaffolding of the interview, the skeleton of it”, and are designed to encourage the respondent to talk about the issues that are central to answering the research questions.”416 Secondly, follow up questions need to be used to explore the particular themes and concepts, and the ideas introduced by the respondent. As Rubin and Rubin make clear, such questions are interview-specific and derive from careful attention to the points an interviewee is making. In their view, “follow-up questions are crucial for obtaining depth and detail, and can help in obtaining more nuanced answers.”417 Finally, ‘probes’ are techniques which both seek clarification about points that have been made and at the same time keep a discussion going. Berg defines the same three types of questions418, but calling them respectively: 1) essential questions, focussing on the issues central to the research; 2) extra questions, again linked to the matters central to the research but asked in different ways in order to validate and clarify what has been said before; and 3) probes designed to elicit more detail.

Selection of those to be interviewed is rightly given considerable attention by many authors. As Berg counsels, it is important to “identify an appropriate population, not merely an easily accessible one.”419 He argues against the use of what he calls “convenience samples” since although particular individuals may be readily accessible, they are not in any way representative of any wider group. He advocates the use of what he terms ‘non-probability sampling, in which efforts are undertaken 1) to create a kind of quasi-random sample and 2) to have a clear idea about what larger group or groups the sample may reflect.”420 He recommends two strategies to achieve this: firstly the use of purposive samples in which “researchers use their special knowledge or expertise about some group to select subjects who represent this population”421. His second recommendation is for ‘snowball samples’ which he argues is “particularly popular among researchers interested in studying sensitive topics, or difficult to reach populations.”422 This approach relies on identifying a number of initial interviewees, and then asking them to recommend others. Rubin and Rubin suggest

415 Ibid, p104
416 Rubin & Rubin, p134
417 Ibid p136
418 Berg, pp120-125
419 Ibid, p49
420 Ibid, p50
421 Ibid, p51
422 Ibid, p52
two key criteria to be considered in the selection of interviewees. The first is that the interviewee cohort as a whole should represent a diversity of perspectives, not just those who come from one type or who represent the same point of view. As these authors argue, “the credibility of your findings is enhanced if you make sure you have interviewed individuals who reflect a variety of perspectives... you need to gather contradictory or overlapping perceptions and nuanced understandings that different individuals hold.”

It is therefore necessary to consider what populations will need to be interviewed for this current study in order that a proper variety of perspective is obtained. There would appear to be three main categories from which interviewees would might be drawn, each of which could then be further sub-divided into local and ‘foreign’. The first is the governmental sector, which would include both representatives of the host government, as well as those working for developed country aid agencies and diplomatic missions which are helping to structure and fund the reconstruction process. This category could also be held to include representatives of supra-national state-based institutions such as the World Bank and the various UN agencies. The second category consists of the business sector. Given that the focus of this study is the international business sector, then representatives of international companies operating in the case study countries will be the primary point of focus, including business groupings such as Amcham (the American Chamber of Commerce) and similar institutions. However, it may also be relevant to understand the structure and views of the domestic private sector. The final grouping is what one might term ‘civil society’, understood in its broadest interpretation. This category therefore would include NGOs, whether these are engaged in development projects, focussed on specific issues, or perhaps critiquing corporate actions in-country. However, this category would also include other commentators and observers such as journalists, think tanks and other similar groups and individuals.

However, to pick up on Rubin and Rubin’s second criterion, respondents also need to be experienced and knowledgeable, and have experienced first-hand the matters about which they are being asked – believability is increased “when it is clear that the interviewees have had direct access to the information requested.” This necessitates deciding who in target organisations should be interviewed, and therefore a discussion of what a number of authors refer to as ‘elite interviewing’. Kvale and Brinkmann describe elites as “persons who are leaders or experts...who are usually in powerful positions.” Marshall and Rossman argue that the reason for interviewing such people is that they “can provide an overall view of an organisation and its relationship to other organisations.” Elite interviewing therefore seems to be an essential tool for this research project, and therefore it will be necessary to target

423 Rubin & Rubin, p67
424 Ibid, p66
426 Marshall, & Rossman, p107
the most senior people available in each organisations, for example the country director of companies operating in the case-study countries, the Resident Co-ordinator for the UN country team or senior figures in inward investment agencies.

Finally, attention needs to be paid to the question of how many interviews would be considered adequate. Max Travers argues that the number of interviews to be undertaken needs to be a balance between depth and quantity. On the one hand, one needs to ensure that one has “enough data to explore and document a range of themes.” On the other hand, “it is usually only possible to conduct a small number of interviews if the objective is to analyse these in any detail.” He cites Weinberg’s assessment that, although 30 interviews would be too few for a large scale social survey “it is an average size for intensive, probing, in-depth studies, because of the great amount of material that must be analysed.” For this current study therefore, the target will be to conduct between 20 and 30 interviews for each case study.

Triangulating data
It is not anticipated that the documentary analysis and interview processes proceed in parallel: the intentions is that they are mutually reinforcing. Yin makes clear that documents can be used to seek corroboration of information that has come from other sources, or to make inferences from – “clues worthy of further investigation” – that can then be used to prompt more specific questioning of other sources. In the context of this study, both of these benefits can be achieved by using documentation and interviews iteratively. By starting with a thorough review of relevant practitioner and scholarly literature of each case study, it will be possible for this researcher to develop at least a working understanding of each country. This will provide information and insights that can inform the interview process as a whole or interviews with particular individuals or organisations. Following the interview process in each case study, it will then be desirable to return to the literature in order to corroborate the data outputs of the interview process. Where the literature appears to contradict the testament of interviewees, then it will be desirable to return to the interviewees to seek clarification or amendment of their comments.

Data analysis
As all authors make clear, data collection is not the completion of the process; that data needs to be analysed, systematised and drawn together into a narrative that properly reflects the data that has been collected. Interestingly, Berg observes that “despite the proliferation of qualitative methodology texts, the process of data analysis remains fairly

427 Travers, M. Qualitative Research through Case Studies. Sage, London. 2001, p38
428 Ibid, p37
430 Yin, Design and Methods, p103
poorly described.” As Rubin and Rubin put it, “analysis entails classifying, comparing, weighing and combining material from the interviews to extract the meaning and implications, to reveal patterns or to stitch together descriptions of events into a coherent narrative.” In a qualitative study the uncovering of layers of meaning requires analysis to be an on-going process even during data collection, and they define a number of stages in the analytical process. Other authors use slightly different terminology, yet for all, the aim of the analytical process is to move from raw unsorted data through a process of sorting, comparing and systematising, to a single narrative. To use Rubin and Rubin’s terminology, the first stage is a recognition of the data. In essence this means looking for commonalities and recurring similarities within the data which Rubin and Rubin classify into four types: 1) concepts, word or phrase that express something significant in the context of the subject at hand; 2) themes, summary statements of key strands in what is going on; 3) key events and occurrences; and, 4) what they term ‘topical markers’ – key dates, people, organisations etc. The second stage of the analysis process is then to draw together the instances of each concept, theme etc from all the interviews undertaken and code the interview data accordingly so that instances of the same issue can readily be identified no matter what document or interview it is from. As they make clear, the aim is to identify “patterns and connections” amongst the data. Cresswell refers to this process as “categorical aggregation” in which “the researcher seeks a collection of instances from the data, hoping that issue-relevant meanings will emerge.” The final stage is to draw all of these different issues into a compelling narrative. Different authors highlight a range of things that this process needs to achieve. Rubin and Rubin for example argue that different interviewees may describe the same event or phenomenon in different ways, and the analytical process at this stage needs to assess whether two or more separate descriptions may be referring to the same thing. In their words, the aim is “to synthesise different versions of the same event or separate explanations of the same concept or theme.” Marshall and Rossman argue that the aim is to seek interpretations of the data and the analyses that are emerging from it. However, they counsel the need always to look for “alternative understandings” and not always to be satisfied with the first interpretation that might occur. Yin also makes clear that high-quality analysis needs “to address...all major rival interpretations”, and make clear that the assessment being presented has taken account of

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431 Berg, p146
432 Ibid, p150
433 Rubin & Rubin, p201
434 Ibid, p207
435 Ibid, p226
436 Cresswell, p163
437 Rubin, & Rubin, p207
438 Marshall & Rossman, p109
439 Yin, Design and Methods, pp160-161
these. He also argues that the analysis takes account of “all the evidence” and does not ignore those elements of the data that may not fit a hypothesis.

Yin also reminds us that the process of data analysis needs to be directed to a clear goal; the facets of the analytical process described above need to be driven by a clear analytical strategy. In his view, the “most preferred strategy is to follow the theoretical propositions” which gave rise to the research in the first place. As he argues, the overarching research process is designed to seek answers to propositions derived for example from a literature study, and these would therefore have “shaped the data collection plan and therefore would have given priorities to the relevant analytic strategies.” In essence therefore, the analytical process needs to be focussed on answering the research questions posed at the beginning of the research programme. In the case of this current study therefore, the analytical process will be focussed on examining the two research questions posed at the beginning of this chapter.

It is important to note that although data analysis is treated here as a separate issue, it will in practice be integral, not subsequent to the process of data collection. As made clear above, the intention will be to use the two data sources (interviews and documentation) iteratively, using initial document review to provide the basis for the interview process, and then using further literature analysis and study to follow up, clarify and further explore the issues that have emerged from the interviews. Where possible and necessary, it will also be desirable to follow up with interviewees to seek further clarification or information. Thus the processes of analysing the data described above will have to be conducted as an integral part of the research process if that process is to remain properly focussed.

**Implementing the research process**

So far, this chapter has defined a research process for this current study based on an examination of different methodological options. This next section will briefly describe how well this research model worked in practice, discuss its application in each of the three country cases, and identify any relevant shortcomings.

Each country research process was begun with a survey of literature relating both to the reconstruction process itself, and the foreign investment situation. In all three cases, the host government has a reconstruction strategy – a medium term development strategy (MTDS) or poverty reduction strategy plan (PRSP) – which clearly identified the current strategy and priorities for the reconstruction process. Likewise the documents produced by the UN and its agencies were a valuable starting point, in particular the UN Development Assistance

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440 Ibid, p130
441 Ibid p130
Framework (UNDAF) documents for each country. The UNDAF process has been used by the UN for the past few years to attempt to create a common UN policy framework for the host country and define the role of each agency within that. These frameworks are intended to be, in effect, the international community’s response to the national government’s MTDS/PRSP – “the collective response of the UNCT [country team] to the priorities in the national development framework.”442 The strategy documents and action plans of other multilateral and bilateral agencies were also valuable sources of information, and in some cases identified nuances of the reconstruction process where a particular agency had a particular focus: for example the World Bank on issues of financial restructuring. Detailed information about foreign investors was harder to identify. With the exception of Azerbaijan where BP’s activities have been very high profile, and consequently for which there is a considerable literature, there was relatively little documentation about the corporate sector that was accessible prior to the field trips. However, inward-investment ministries like the Rwanda Development Board, and corporate groups like Amcham in Azerbaijan were useful in identifying who key investors were. A survey was also undertaken of scholarly literature on the reconstruction process in each country. Sometimes articles and other literature were referenced in the UN and other practitioner literature. However a search was also undertaken of relevant academic journals to find articles relating to the post-conflict situation in each of the target countries. These journals included International Organization, International Affairs, International Peacekeeping, International Political Science Review and International Politics. It is however noteworthy that, despite the importance of each of these conflicts at the time, the literature relating to the reconstruction process in each of the three countries is not as prolific as might have been expected. Nonetheless, this process of studying the background literature made it possible to sketch out a timeline for each country of the key events and developments, as well as to identify the key actors. The process also served to identify the main strands of opinion about the development and success of the reconstruction process.

A field trip was undertaken to each country, with these in-country interviews supplemented by others undertaken in London, or by telephone. For each country a list of potential interviewees was developed from those organisations and individuals whose names had emerged from the literature study combined with a general approach to the following categories of organisation:

- UN agencies present in the country
- The leading bi-lateral donor agencies
- The host government’s inward investment ministry or agency.
- Key investors

• Private sector representative organisations
• Leading local NGOs and local offices of large international NGOs

In identifying the right person within an organisation with whom to seek an interview, it was necessary to bear in mind Rubin and Rubin’s stricture that respondents need to be experienced and knowledgeable and have experienced first-hand the matters about which they are being asked – believability is increased “when it is clear that the interviewees have had direct access to the information requested.”

Where research had identified an apparently-relevant individual then this person was contacted. Otherwise the email was addressed to the most senior relevant person in the organisation. For each country a list of 60-70 organisations was generated, and then the targeted person contacted by email. These emails were then followed-up by phone calls. Obviously, it was not possible to meet all those who may have been valuable interviewees – some were not available during the field-trip and others did not want to talk. Nonetheless, Marshall and Rossman’s assertion that “the energy that comes from a high level of personal interest is infectious and quite useful for gaining access” proved correct! In a number of cases, the original target individual passed the interview request to a more appropriate colleague. In arranging interviews, and then during the interviews themselves, attention was paid to the notion of ‘snowball sampling’ – that is getting one interviewee to recommend others. This proved a valuable approach, not just in identifying individuals and organisations which had otherwise not emerged from other researches, but also in providing a personal introduction. As a result, a number of the interviews undertaken later in the field trips were the results of recommendations made by those respondents who had been met earlier in the process. Overall, those interviewed in each country were a reasonably diverse group, drawn from the business, governmental and civil society sectors. Where there are caveats to this generalisation, these are raised in the comments below on the research process in each location.

The decision to use a process of in-depth, focussed interviews proved well-founded. From the initial country literature review, it was possible to generate a broad hypothesis about the reconstruction process and the role of the corporate sector within that. This enabled initial interviews to be structured in a way as to allow detailed examination of those issues seen as of most importance by the respondents, but within a framework dictated by the wider scholarly and practitioner literature about the country. This approach also meant that it was possible, in later interviews, to explore raise issues that had emerged from earlier respondents. Obviously, there were occasions where issues which arose later in the interview process had to be picked up (usually by phone after the country trip) with previous interviewees. The strategy of ‘interview triangulation’ seemed to work well, both within and between interviews. It often proved necessary within an interview to ask the same question

443 Rubin & Rubin, p66
444 Marshall & Rossman, p74
in a number of different ways in order to be sure that the interviewee had both expressed precisely-enough what they actually meant, and that I had understood this properly. Similarly, exploring the same issue with very different respondents elicited a depth of views, nuances and differences of opinion about those issues. Given the sensitive nature of some of what was being discussed, it proved necessary to assure all respondents that the interview would be carried out under the Chatham House rule. Thus where the analysis is interview data is referred to in the subsequent chapters of this paper, the specific origin of quotations is normally not cited. However, this small drawback was more than worth accepting given the much greater degree of frankness which this assurance of anonymity permitted. In some instances, permission was sought from interviewees to use specific quotations.

Each country visit threw up a wealth of comment, opinion, and insight. In all cases, as well as a lot of noise, each trip served to identify a number of key themes in relation to the country, its reconstruction process and the role of the multinational corporate sector. It was possible then, after each trip to return to the literature – both that which had already been surveyed, and new sources that had been identified by the interview process – and examine in more detail the issues, themes and insights that had emerged from the interviews. The process of data analysis therefore, as had been suggested by the research design, became an iterative process with hypotheses and different ways of assessing each case study being developed and critiqued throughout the process.

**Azerbaijan**

It was apparent from the initial review of the literature relating to Azerbaijan both that the exploitation of the country’s hydrocarbon reserves has been a significant factor in the country’s development, and that that the oil and gas sector has become the dominant foreign investor in the country. As the EBRD makes clear, the Azeri economy is “more than ever focused on oil. Currently the oil sector accounts for about 54 per cent of GDP and three quarters of industry.”

Therefore, from the point of view of this study, understanding the impacts of the oil and gas sector on the reconstruction process appeared to be a priority. Likewise, it appeared important to seek insights into the development of the Extractive Industries Transparency Initiative and the development of the Baku-Tbliisi-Ceyhan pipeline since these seemed, from initial documentary analysis, to be significant corporate impacts on the reconstruction process. The field visit to Baku took place in February-March 2008, with a number of other interviews taking place in London both before and after this trip. The full list of interviewees is as follows:

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Governmental

- Sofka Brown, Head of Transcaucasia Desk, Foreign and Commonwealth Office, London
- Lala Huseynbeyova, Second Secretary (Economic), Embassy of Azerbaijan, London
- Jerzy Jedrzejczak, Country Director Azerbaijan, The World Bank
- Peter Keay, Personal Assistant to the Personal Representative of the Chairman in Office, OSCE
- Adil Mammadov, Head of EITI Secretariat, State Oil Fund of Azerbaijan
- Lynne Miller, Country Director, World Food Programme, Azerbaijan
- William Tall, Head of Delegation, United Nations High Commissioner for Refugees, Baku
- Colin Wells, Deputy Head of Mission, British Embassy, Baku

Corporate

- Claire Bebbington, External Affairs Advisor, Exploration and Production, BP London
- Oliver Broad, Regional Analyst – Central Asia, Group Security, BP London
- Seymour Khalilov, Vice-President, External Affairs, BP Baku
- Odd Erik Flaatin, Business Development Manager, StatoilHydro, Baku
- Aydin Gashimov, Social Performance and Public Reporting Manager, BP Baku
- Sheyda Mehdievna, CSR advisor, StatoilHydro, Baku
- Tatyana Mikayilova, Managing Director, Public Relations and Promotion Group, Baku
- Nargiz Nasrullaeva-Muduroglu, Executive Director, American Chamber of Commerce, Azerbaijan

Civil society

- Zahir Ahmadov, Campaign Officer, Oxfam Azerbaijan
- Martin Amacher, Head of Delegation, International Committee of the Red Cross, Azerbaijan
- Natalia Antelava, Central Asia Correspondent, BBC News
- Gubad Ibadoglu, Coalition Council Coordinator, EITI Azerbaijan NGO Coalition
- Fariz Ismailzade, Director, Advanced Foreign Service Programme, Azerbaijan
- Rena Safaryeva, Executive Director, Transparency International, Baku
- Jamal Shakverdiyev, Managing Director, Eurasia Foundation
It will be noted that the corporate respondents interviewed are drawn mostly from the oil and gas sector. This is not an undue focus on one sector, but reflects the fact that these companies form the vast majority of the international corporate sector in Azerbaijan: indeed BP leads the main extractive and pipeline consortia. It proved hard to get interviews with government officials, not least because of language problems. However, it was possible to interview the EITI representative at the State Oil Fund who was arguably the most relevant local functionary with whom to have spoken. As the earliest of the country visits for this study, it was necessary to ensure that the data gleaned from the interviews was kept up to date by on-going documentary research and, where necessary, getting further clarification or insight from interviewees.

*Bosnia Herzegovina*

Background reading and interviews undertaken before I visited Sarajevo strongly suggested that the reconstruction process in the country was highly problematic, and that the international corporate sector was relatively small and fragmented. The country visit took place in late June – early July 2008: again some interviews took place in London either side of this trip. The list of interviewees is as follows:

**Governmental**
- Alma Kadunic, Trade and Investment Officer, British Embassy Sarajevo
- Damir Hadzic, Governance Coordinator, Department for International Development, Bosnia Herzegovina
- Meliha Kozaric Fanning, Sustainable Business Programme, United Nations Development Programme, Sarajevo
- Amela Kreho, Head of Economic Transition Unit, Office of the High Representative
- Richard Jones, Head of Political, Press and Programmes, British Embassy, Sarajevo
- Gus Mackay, Head of Office, Department for International Development, Bosnia Herzegovina
- Giulio Moreno, Head of Office, European Bank for Reconstruction and Development
- Christine McNab, UN Resident Co-ordinator of Operational Activities and Development, United Nations
- Orhan Niksic, Senior Economist, The World Bank
- Daisy Organ, Head of West Balkans Desk, Foreign and Commonwealth Office, London

**Corporate**
- Ranko Atijas, General Manager, Siemens BiH
- Violeta Cibukcic, Executive Director, American Chamber of Commerce
- Alma Hadzizedic, Economist, Horizonte Venture Management, BiH
- Adi Hadzihalilovic, Sales and Marketing Manager OMV BiH
- Amela Kosovic, Senior Associate, KPMG
- Haris Pinjo, General Manager, Cisco Systems, BiH
- Ajla Mostarac, Executive Director, Foreign Investors Council
- Murari Mukherjee, General Manager, New Ljubija Mines
- Adnan Ramcic, Technology Solutions Group, Hewlett-Packard
- Tie Sonowsnki, Managing Director, Triland Investments
- Faruk Sahinagic, Executive Director, FedEx BiH
- Alexander Zsolnai, Chief Financial Officer, Raiffeisen Bank, Sarajevo

Civil Society
- Henry Fournier, Head of Delegation, International Committee of the Red Cross
- Dobrila Govedarica, Executive Director, Open Society Fund, BiH
- Allan Little, Special Correspondent, BBC News

Unlike Azerbaijan, Bosnia does not have a single large investor: the levels of FDI are much lower, and that investment has occurred in a range of sectors, albeit at a low level. The Foreign Investors Council proved very useful in providing access to a number of corporate interviewees. During the visit, it became apparent that the investment by foreign banks in the country was important but controversial, and it proved necessary to establish through documentary research whether some of the allegations made against them – very high loan interest rates, for example – were justified. It did not prove possible to meet with local officials either in the entity or cantonal governments. This was partly because of difficulties in identifying appropriate respondents, but also because of language problems. However, both the Office of the High Representative, and the head of the UN team in-country, the two organisations that are arguably the key decision-makers, were amongst the interviewees. It also proved difficult to secure interviews with civil society organisations: many of those contacted, either did not respond, or were not willing to be interviewed.

**Rwanda**

The initial literature study of Rwanda demonstrated that the country is something of an enigma: it has a strong government with a clear plan for development; yet the country is highly aid dependent, and the strength of the government raised questions of legitimacy and human rights. This initial study also identified that the international corporate sector is very small: indeed it is not impossible to argue that the most significant impact of international companies on the reconstruction process in Rwanda is their very absence. The field trip took place in March/ April 2009, and the interviewees were as follows:
Governmental

- Karl Backeus, Country Economist, Development Cooperation, Embassy of Sweden
- Jane Baxter, Deputy Head of Mission, British Embassy, Kigali
- Jan Bade, First Secretary, Economic Development, Embassy of the Kingdom of the Netherlands
- Emmanuel Bubingo, Investor Mobilisation Officer, Rwanda Development Board
- Annette Gakwerere, Investor Mobilisation Officer, Rwanda Development Board
- Dmitri Gershenson, Resident Representative, International Monetary Fund
- Sara Graslund, Rwanda Desk Officer, Swedish International Development Agency
- Dr Farid Hegazy, Senior Advisor, German Technical Cooperation
- Louise Medland, Expert in Water and Sanitation, Rwandan Ministry of Infrastructure
- Andre Nikwigize, Senior Economic Affairs Counsellor, United Nations Commission for Africa
- Tony Polatajko, Senior Private Sector Development Officer, Department for International Development, Kigali
- Chiara Selvetti, Economist, Department for International Development
- Alexander Sokoloff, Economic and Commercial Officer, US Embassy, Kigali
- Ryan Washburn, Supervisory Development Officer, United States Agency for International Development
- Ahmed Zakaria, Deputy Country Director, World Food Programme

Corporate

- Kenneth Agaba, Executive Director – Business Banking, Fina Bank
- Marilyn Agum, Regional Brand Manager, Africa Middle East, British American Tobacco
- Sigrid Bruch, Chief Executive, Simtel
- Katinka van Cranenburgh, International Programme Manager, Heineken International
- Nitin Dabholkar, Director General, Rwanda Industries
- Keith Gretton, Head of Corporate and Regulatory Affairs, Africa and Middle East, British American Tobacco
- Ben Kalkman, Chief Executive Officer, Banque Populaire du Rwanda
- Themba Khumalo, Managing Director, MTN Rwanda
- Sven Pederiet, General Manager, Bralirwa
- Ian Peterkin, Managing Director, Banque Commercial du Rwanda
- Vincent Safari, Rwanda Private Sector Federation
Civil Society

- Dr Danielle Beswick, Lecturer, International Development Department, University of Birmingham

Rwanda is heavily aid-dependent and therefore it was important to interview representatives of the development agencies which provide these revenues, especially since these agencies are also key actors in the reconstruction process. In arranging the country visit, the significance of the foreign banks to the reconstruction process became apparent, as did the extent of the impact of Bralirwa’s business in the country. As a result, interviews were set up with senior executives in Bralirwa and a number of the banks. In both cases, further documentary research after the field trip enabled these companies’ activities to be contextualised in the wider reconstruction effort. It did not prove possible to interview enough civil society representatives: it is to be hoped that the literature survey, which included reports by organisations such as Reporters Without Frontiers and the International Crisis Group makes good this deficit.

Thesis structure

The remainder of this thesis is therefore structured to reflect the outputs of the research process described in this chapter and attempts to answer the two research questions defined above. The next three chapters are the country case studies of Azerbaijan, Bosnia Herzegovina and Rwanda. Each chapter seeks to describe the case in the specific context of that country situation, and presenting the activities of the corporate sector within the framework of the particular reconstruction process. The subsequent two chapters (7 and 8) seek to answer respectively the first and second research questions by drawing together the outcomes of the three studies to identify what commonalities (and indeed differences) there are between the cases. The final, concluding chapter (9) assesses what questions arise from this study and what further work might be undertaken on this topic.
4: Azerbaijan

Introduction

The conflict in Nagorno-Karabakh (N-K), between Azerbaijan and Armenia led to more than 20,000 deaths, and left an estimated one million people homeless within Azerbaijan.\(^{446}\) displaced both from N-K itself and from the Azeri territory occupied by Armenian forces. Since the 1994 ceasefire, reconstruction efforts have focussed both on the recovery from war, and on re-shaping a formerly-Soviet political and economic base. Unlike most post-Communist states however, Azerbaijan has access to huge oil and gas reserves. Experts estimate that Azeri oil reserves are roughly equivalent to those that were in the North Sea; between 40 and 60 mill barrels, equivalent to 5% of world reserves.\(^{447}\) The international corporate sector, or more precisely a small group of multinational oil and gas companies led by BP are therefore central to the Azerbaijan’s development since they are developing the extraction and pipeline infrastructure that is enabling the country to exploit these immense oil and gas resources.

Yet despite this wealth, the situation in Azerbaijan remains highly problematic. Although the issue of those displaced by the N-K conflict has also now largely been resolved, much of the country beyond Baku remains chronically underdeveloped, with little in the way of opportunity for the 98% of the population not employed in the oil and gas sector. The education system is in a state of virtual collapse, and although some work has been done on the infrastructure, significant problems remain. Are the international corporations active in Azerbaijan responsible for creating this situation? Is this an example of Wenger and Moeckli’s assertion that, “corporations have long been accused of causing or exacerbating conflict through their business operations”.\(^{448}\) In the case of Azerbaijan it is hard to reach such a conclusion given the significant efforts which the main investor in the country, BP, appears to have put into managing all the potentially adverse impacts of its operations. Whilst the company’s actions are certainly not above criticism, this chapter will argue that this company (and by extension those other oil majors in the consortia of which BP is the operating partner) takes seriously the wider impacts in Azerbaijan of its activities and seeks proactively to manage these. Instead, it will be argued that the problems in Azerbaijan stem from the behaviours of the Aliev regime. Unlike neighbouring countries that have been obliged to reform their economic and social structures from scratch, Azerbaijan has had the wealth to be able to throw cash at problems in an *ad hoc* fashion, with the result that the


\(^{448}\) Wenger & Moeckli, p5
systematic reconstruction of much of the country’s systems and administrative structures has been neglected. However, there is another problem: corruption on a grand scale. The country is run by a small clique of ministers and their clans. This has a number of highly detrimental impacts. The first is that significant sums are stolen from state budgets to enrich these ministers. Secondly, it means that many of the functionaries in Government are there because of their loyalty, rather than for their competence. Thirdly, it means that the wider development of the private sector – essential if the country is to reduce its dependence on hydrocarbons – is inhibited because many sectors of the economy are run as fiefdoms by ministers who do not want foreign investors to break their monopolies, however beneficial that would be for wider society.

**The Nagorno-Karabakh war**

There are Armenian claims that the enclave of Nagorno-Karabakh (N-K) has been part of Armenia since the seventh century\(^449\), although in more recent history the Armenian settlement of the region can be traced to the late 1870s, following the Russo-Turkish war\(^450\). Despite its largely Armenian population, when the Bolsheviks came to power the decision was taken to allocate N-K to the Azerbaijan SSR, as the Nagorno-Karabakh Autonomous Oblast (NKAO). A number of episodes in the late 1980s served once more to raise tensions in the region. President Gorbachev’s (Armenian) economic advisor recommended that N-K should become part of Armenia and, following a series of strikes in February 1988, the regional Soviet of N-K appealed to the Supreme Soviet of the USSR to become part of Armenia\(^451\). The collapse of the Soviet Union left both a political vacuum, and significant amounts of weaponry. Both sides built armies that were roughly evenly matched in terms of man-power, but with Azerbaijan enjoying an advantage in terms of tanks and materiel. This advantage failed to help Azeri forces which, between 1992 and 1994 saw not just on N-K, but also the seven provinces between Armenia and the enclave fall to Armenian hands. By May 1994, both sides were reaching the point of exhaustion, and a cease-fire was signed in Moscow between Armenia, Azerbaijan and the leaders of N-K. This deal established a ‘Line of Contact’ between the two sides, and left in Armenian hands both the enclave of N-K itself, as well as the seven provinces of Azerbaijan in the south-west of the country – the so-called Lachin Corridor. This occupation displaced as many as a million people in Azerbaijan.\(^452\)

The N-K issue remains a frozen conflict and a final peace deal remains elusive. The line of contact, which is about 180km long, remains highly militarised with 20-30,000 troops on

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\(^{450}\) Ibid, p135

\(^{451}\) Ibid, p135

either side. Tensions remain high and the UK's Defence Academy estimated that there were 30 killed in skirmishes in 2007. In March 2008, following further breaches of the ceasefire, the head of the OSCE, Ilkka Kanerva urged both sides "to exercise maximum restraint, and observe the terms of the cease-fire...any action leading to a destabilisation of the Line of Contact can only have a negative impact on the overall situation". The OSCE oversees the cease-fire and, under the auspices of the so-called Minsk Group, continues to seek a final solution to the conflict. Principles for a peace deal were proposed at a series of meetings of the two sides' negotiating teams during 2004-05 – the so-called Prague Process. According to the OSCE announcement of July 2006, a peace deal was to be based "on the redeployment of Armenian troops from Azerbaijani territories around Nagorno-Karabakh, with special modalities for Keljabar and Lachin districts (including a corridor between Armenia and N-K), demilitarisation of those territories, and a referendum or a popular vote...to determine the final legal status of N-K". However, despite this apparent advance, a final agreement is yet to be signed. Nonetheless the plan still seems to have currency since donor agencies and key NGOs are undertaking scoping planning to re-build the provinces which would once again become administratively part of Azerbaijan.

The post-war reconstruction process

The development priorities of the international community are set out in the UN Development Assistance Framework (UNDAF), the current iteration of which was compiled in 2005. As it observes, although oil-related foreign investment has led to rapid economic growth, this is "not yet reflected in the lives of the people of Azerbaijan. About half the population lives in poverty". The document identifies two what it refers to as 'national priorities', under each of which there are 2 'UNDAF outcomes'. These are set out overleaf (Table 4.1):
### NATIONAL PRIORITY 1
The system of governance ensures an enabling environment for development, poverty reduction, and respect for rights and freedoms

### NATIONAL PRIORITY 2
Basic needs for health and education are met for all people

### UNDAF OUTCOME 1
The effective and transparent management of oil resources leads to increased decent employment in the non-oil sectors (black gold is converted into human gold)

### UNDAF OUTCOME 2
The state improves its delivery of services and its protection of rights—with the involvement of civil society and in compliance with its international commitments

### UNDAF OUTCOME 3
Health, food security and nutrition improve, particularly among women, children, and vulnerable groups

### UNDAF OUTCOME 4
The access and quality of education is improved

### CROSS-CUTTING OBJECTIVES
Gender equality and empowerment of women, civil society development, and respect for human rights

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**Table 4.1. National Priorities and UNDAF Outcomes**

These goals are reflected also in the Azeri Government’s *State Program on Poverty Reduction and Economic Development* (SPPRED). This document was first meant to cover the period 2006-2015, but was only promulgated by Presidential degree in 2008. It’s goals are as follows:

1. Ensuring economic growth and maintaining macro-economic stability as a prerequisite to underpinning sustainable and stable economic development;
2. Creating ‘enabling conditions’ to improve income-generation opportunities, especially in the non-oil sector and in the regions;
3. Improving the quality of and ensuring equal access to basic health and education services;
4. Improving public administration and good governance;
5. Improving public infrastructure, in particular by guaranteeing the whole population access to basic utilities such as water, gas, electricity and other essential services;
6. Reforming the social protection system to better protect vulnerable groups, especially children;
7. Improving the living conditions of IDPs;
8. Ensuring that the Government’s policy and programmes promote and protect gender equality, and;
9. Ensuring that all development policies and programmes respect the principles of environmental sustainability. For the purposes of this

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460 Ibid p4
chapter, the UNDAF priorities will be used to provide an analysis of the reconstruction programme to date.

National Priority 1: Governance

As the UN makes clear, addressing issues of governance is both important in its own right, but also vital in providing a system capable of ensuring that the country's oil wealth benefits the whole population. Unfortunately however, governance in Azerbaijan remain highly problematic. According to the World Bank, “international ratings on governance are still low, and the agenda will require some years of sustained effort.” The Azeri government is, as the International Crisis Group describes it, “a carefully designed autocratic system...with heavy reliance on family and clan members, oil revenues and patronage.” Sim agrees, arguing that, “the clans in Azerbaijan – for instance Aliyev's Nakhichevan clan, Elchibey's Ordubad sub-clan... – have always exerted great influence in Azeri political life...Aliyev has entrusted all important national and regional posts to his clansmen and family members.” The result is that much of the principal infrastructure and industry of the country is controlled by these people and their clans. An International Crisis Group (ICG) report of 2004 gave an example of this: Kiamleddin Geydarov, then-chairman of the state customs committee and friend of President Aliyev “owns trading companies in Moscow, a cotton cleaning factory in Uzbekistan, cotton interests in Azerbaijan and properties in Dubai, as well as Baku’s Silk road restaurant. There are suggestions that he owns a major share of the Caspian Fish Company and controls much of the caviar market.”

Nor does there seem to be any real counterweight to this oligarchy, either from the opposition – most of whom are thought to have been bought off by the government – or from media or civil society. Indeed, a number of interviewees questioned the very relevance of a western-style democracy in a country where clan loyalties are so strong, and the legislature is seen as little more than a rubber stamp for the Government. Whether or not a pluralistic democracy could ever be made to work there seems little doubt that current electoral practice is deeply flawed. Critiquing the 2003 Presidential election which brought Aliyev fils to power, International Crisis Group (ICG) argued that practice fell well below international standards: “there was no genuine campaign, opposition parties were harassed and intimidated, and the key opposition candidates were prevented from registering. The media was biased, and there was little opportunity for any party or group to express

467 Interviews, Baku Feb/ March 2008
468 Interviews, Baku Feb/ March 2008
dissent”\(^{469}\). Nor, in their view, did things improve for the 2005 Parliamentary elections, which ICG made clear “once again failed to meet international standards.”\(^{470}\) In its report on the 2008 Presidential election, the OSCE said that the poll was “characterized by a lack of robust competition, a lack of vibrant political discourse, and a restrictive media environment, and thus did not reflect some of the principles necessary for a meaningful and pluralistic democratic election”\(^{471}\). It is a matter of considerable concern that key embassies and foreign investors are sufficiently worried about the inherent instability of the situation in Azerbaijan that they have emergency contingency plans in place to leave the country at speed\(^{472}\).

A further result of the oligarchic nature of Azerbaijan’s government is large-scale corruption. Taken at face value, the Government’s official statements suggest that there is a significant awareness of the risks of corruption, and its negative impacts. In its self-assessment report for the OECD, the Azeri Government stated that it “is aware that corruption and structural weakness in the public administration system are detrimental to democratic institutions, that they have a negative impact on investment, socio-economic growth, as well as on the development of both a market-based economy and political institutions.”\(^{473}\) This report cites various pieces of legislation designed to tackle graft, including \textit{inter alia}: ‘On strengthening the fight against corruption in the Azerbaijan Republic’ (June 2000) and ‘On the Fight against Corruption’ (2004)\(^{474}\). The report also commits the country to accede to the UN Convention against Corruption\(^{475}\). The Government points to examples such as the trial in 2007 of former Health Minister, Ali Insanov, as a demonstration of its commitment to stamp down on corruption. Insanov was found guilty of embezzlement, sentenced to 11 years in jail, and had an estimated £17m of property assets confiscated by the state\(^{476}\).

However, contrary the Government’s claims, the reality is very different, and there is widespread concern at the extent and pervasiveness of corruption\(^{477}\). Aliiev father and son, and their inner circle are accused of looting millions of dollars from state funds. In the view of one western observer, corruption is “out of control. They [the government] have a talent to take: there is no mafia here because the government are the mafia”\(^{478}\). A survey undertaken by the anti-corruption campaign group \textit{Transparency International} (TI) found that “the first

\(^{469}\) International Crisis Group. \textit{Turning over a new leaf} p3
\(^{470}\) International Crisis Group. \textit{Azerbaijan’s 2005 elections: Lost opportunity}. ICG, Brussels. 2005, p1
\(^{471}\) OSCE Office for Democratic Institutions and Human Rights. \textit{OSCE/ODIHR Election Observation Final Report}. OSCE, Vienna. 2008, p1
\(^{472}\) Interview with development agency, Baku Feb/ March 2008
\(^{474}\) Ibid p29
\(^{475}\) Ibid p31
\(^{477}\) A virtually unanimous view expressed by all interviewees
\(^{478}\) Interview with representative of international organisation, Baku Feb/ March 2008
reason for corruption, according to the respondents, is corruption among the ruling elite. Interview respondents reported that the process of corruption is through the inflation of budget figures: costs for infrastructure projects and maintenance programmes are shown in state budgets at hugely inflated prices, enabling the relevant minister to divert the money into his own pocket. The fact that ministers are able to become so wealthy provides a useful way to ensure the loyalty of ministers to the President: there is a widespread belief that Insanov was made an example of because of alleged disloyalty to the President. Examples like this demonstrate to others what they stand to lose if they do not remain loyal to the regime. At the most senior level The Heydar Aliyev Foundation, which engages in various infrastructure projects in the name of the former president, is alleged to be the vehicle through which monies are siphoned off by the ruling family. Corruption exists too at the lower levels, although here it appears to be driven by economic necessity. TI’s survey found that “the second main cause of corruption the respondents referred to [were] low salaries in the public sector.” Reports suggest for example that teachers are so badly and irregularly paid that they resort to demanding bribes to enable their pupils to pass exams.

Within this context, the creation of the Azerbaijan State Oil Fund (SOFAZ) is seen as being a significant and beneficial development. Established in 1999, SOFAZ is an extra-budgetary fund to demonstrate the transparency of oil revenues and curtail use of those revenues for current expenditure. The income of the Fund derives from “the country’s sale of oil and gas, bonus payments and royalties, revenue generated from investment of the Fund’s assets and rental fees for the use of state property...” These monies are strictly ring-fenced and intended primarily for use by future generations. However, the Fund also invests in selected current “priority infrastructure and social projects.” Much of this current expenditure is devoted to infrastructural projects since these are seen as a way to kick-start the wider economy. The Fund also provides about 10% of the core state budget. However, the bulk of the Fund will be retained for use in the years after the oils revenues decline. SOFAZ reports quarterly on total inflows, expenditures and interest earned; and an annual audit is undertaken by an independent auditor, and this report is made public. According to the 2008 Annual Report, at the end of that year the fund had received US$
14.5bn in revenues, of which just under US$ 5.8bn had been spent. SOFAZ reports not into Parliament, but into the President's office: an issue that has caused concern, in particular "unease that the high degree of personal control wielded by the President could lead to abuses of power and misuse of funds." However, to date this concern has not been warranted and in the view of the IMF, "the creation of an oil fund in Azerbaijan has... contributed to better transparency and accountability of oil revenue management." Even the local chapter of Transparency International agree that the payment and accounting for revenues from the oil companies to the Fund are transparent.

However, although the UN sees the improvement of governance as key to Azerbaijan's stable development, the international community stands accused of being supine before the Aliyev government and of failing to ensure that the regime meets acceptable standards of governance. Karayianni for example criticises international actors for failing to promote "institutional renewal, openness and transparency and good governance as policy targets for the governing elites." Similarly, the ICG describes international criticism of the flawed 2003 elections as "decidedly muted." In the area of corruption too, international community is seen as taking an insufficiently robust line. Certainly, in 2002, the then US Ambassador criticised the Azeri government, observing that "corruption had become part of normal life in Azerbaijan," and the US and British governments were involved in the establishment of the EITI. However, there is considerable frustration, anger even, amongst many in the business and NGO community that foreign governments have not been prepared to bring the Aliyev regime to account for misuse of state budgets. As Shirin Akiner argues, it is unlikely that that much will change "unless the international donor community is prepared to take a firm and united stand on such issues." To date this has not happened.

The position of the international community can be explained in two ways. The first is strategic: Azerbaijan is both geo-politically important in the region, and its supplies of oil and gas offer stable and easily-accessible supplies to thirsty international markets. In the ICG's view, in explaining the international community's failure to criticise the conduct of the 2003 Presidential election, "it is difficult to escape the conclusion that this was largely due to

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489 Wakeman-Linn, p11
490 Interview with TI, Baku, February 2008
492 Karayianni, p153
494 International Crisis Group. Turning over a new leaf, p4
496 Interviews with business and NGO representatives, Baku, Feb/ March 2008
commercial energy interest and jockeying for strategic advantage in the region." Sim argues that in the 1990s, the US proactively pursued a 'Silk Road Policy' which included support for the Baku-Tbilisi-Ceyhan (BTC) pipeline, with the intention to create a "geo-political arc around Russia and present the post-Soviet states...with a good opportunity to co-operate in strengthening their independence with minimal Russian interference." Similarly, Nassibli points to the lifting, in the immediate aftermath of 9/11, of the US legislation (itself passed in response to the N-K conflict) which prohibited direct US humanitarian assistance to Azerbaijan. In his view, the immediate granting of US$ 54m to Azerbaijan was part of a process to curry favour with the Azeri authorities and so reduce reliance on Arabian oil. The second explanation is that the Aliyev Government would not listen to criticism even were the international community to be more forceful. A number of the development agencies interviewed for this study made it clear that as Azerbaijan’s oil wealth has increased, so the Government’s willingness to listen to advice has dwindled. Because of the country’s oil wealth Azerbaijan does not need aid monies and therefore the leverage that donor agencies would normally have is lacking: “advice is more effective when backed by money – people listen... [The Azeris] don’t need our money, so we have no leverage...” was the comment of one leading agency representative.

**National Priority 2: Meeting basic needs**

Some important steps have been taken in addressing the second UNDAF goal, to improve the provision of basic needs like health care and education. The most significant example is the progress that has been made in addressing the plight of those displaced by the N-K war. As noted earlier, an estimated 1 million people were displaced from N-K itself, and from the parts of south-west and west Azerbaijan occupied by the Armenians. These people are referred to, not as refugees, but as internally displaced people (IDPs), since the government considers that the use of the word refugee implies that they have moved from one country to another; thereby appearing to accept Armenia’s claims that N-K is not part of Azeri territory. For a long period of time, these IDPs were used as a political football by the government in an attempt to stimulate action by the international community. They were housed in tented encampments with no proper infrastructure or services, and survived on hand-outs from the government and international aid agencies. Allegedly, the Government’s intention in leaving them in such squalid conditions was to oblige the international community to put pressure on Armenia to allow the IDPs to return home. However, more recently, the government has realised that the continued plight of the IDPs was damaging its reputation and so they have used a proportion of its oil revenues to provide proper housing and basic

498 International Crisis Group, *Turning over a new leaf* p4
499 Sim, Li-Chen, p42
501 Interviews, Baku, Feb/ March 2008
502 Interview with development agency, Baku Feb/March 2008
503 Author’s personal observation in previous visit to Azerbaijan
services to all IDPs: the last tented camp closed in late 2007\textsuperscript{504}. In addition to accommodation, the Government is also providing IDPs with food, utilities and free university education. However, even though the physical infrastructure for the IDPs has improved, the government is not encouraging them to integrate with the communities where they find themselves. However, in the UN's assessment, “IDPs generally enjoy the same rights as other citizens.”\textsuperscript{505} Addressing the IDP issue seems also to have had a beneficial impact on the popular view of the Government: the efforts made to improve the lot of IDPs are strongly welcomed in the population as a whole.

However, the state of wider development in Azerbaijan is masked by the sheer size of the investments in the oil industry and allied sectors. Azerbaijan is experiencing significant GDP growth – UN figures state that the country enjoyed annual GDP growth of 21.1\% from 2003 to 2007\textsuperscript{506}. However, this headline figure is an illusion which masks that fact that although the oil sector is growing very quickly, the rest of the country is going backwards. As the Economist Intelligence Unit concludes, “rapid economic growth has been almost entirely attributable to the massive inflows of FDI to the oil sector.”\textsuperscript{507} In 2008, the oil sector contributed “around 95\% of Azerbaijan’s total export earnings (on a balance-of-payments basis), more than 50\% of GDP and around 60\% of budget revenue.”\textsuperscript{508} By contrast, “agriculture and services...are shrinking in importance,” and the industrial sector “is operating at a fraction of its former capacity. Manufacturing accounted for about 33\% of industrial production in 2002, down from 60\% in 1990.”\textsuperscript{509} Therefore Azerbaijan is effectively two separate countries, ‘greater Baku’, which benefits from the oil investments; and the rest of the country. As Karayianni argues, despite the size of the oil sector, “according to some estimates, almost half the households in Azerbaijan live below the poverty line.”\textsuperscript{510} Even the Government admits that rural areas remain very under-developed\textsuperscript{511}, and rely heavily on subsistence agriculture for its survival. The Government has used some of the oil and gas revenues to fund a public investment program, in order to strengthen its infrastructure and social services\textsuperscript{512}. These efforts have focussed on developing schools, housing, roads and the electricity network. However, it is evident that a great deal remains to be done. In the opinion of the World Bank, “significant investment in infrastructure and transit corridors; continued governance reforms, particularly in the utility sectors; and greater access to financial services”\textsuperscript{513} are necessary. As a result, the Bank has amongst its current priorities

\textsuperscript{504} UN Resident Co-ordinator in Azerbaijan. Annual Report 2008 p3
\textsuperscript{505} Ibid p3
\textsuperscript{506} Ibid p1
\textsuperscript{507} Economist Intelligence Unit, p26
\textsuperscript{508} UN Resident Co-ordinator in Azerbaijan. Annual Report 2008, p1
\textsuperscript{509} Economist Intelligence Unit, p30
\textsuperscript{510} Karayianni, p150
\textsuperscript{511} Interview with Lala Huseynbeyova, Azeri Embassy, London
\textsuperscript{512} World Bank. Azerbaijan Country Partnership Strategy Progress Report p3
the development of power generation and transmission facilities; the continued investment in road and rail transit corridors, and the improvement of water and sanitation provision outside Baku. Nonetheless, as the Bank itself acknowledges, “improvements in living standards have been most notable in the capital city of Baku, with rural areas and especially secondary cities trailing behind.” The education sector – the UNDAF’s fourth target outcome – also appears to remain problematic. Like all of the successor states to the USSR, Azerbaijan’s education system is still predicated on the need to provide people to work in Communist economic structures. Yet even since Soviet days there has been a “sharp deterioration... reflected in the country’s ... learning achievements.” Levels of investment in education remain very low, in 2001, public expenditure on education was only 3.5% of GDP. This lack of investment is having serious impacts: in the Soviet period, 90% of Azeris received the stipulated eight years of education; this had fallen to 60% by 2002. The proportion of graduates in the population fell by two-thirds between 1990 and 2000.

The reconstruction process therefore appears to be sporadic, and this reflects a widely-held view that the Azeri government has neither the capability nor the commitment to a process of coherent reform: ministers are not seen as being up to the complex task of reconstruction. One explanation given for this is that competence is not a qualification for office: loyalty to the President is. Some reforms have been introduced – merit-based hiring of judges, and upgraded salaries and performance standards at the National Bank of Azerbaijan, for example. However, the allegation made of the Government is that it responds to problems in a tactical, ad hoc way. These interview responses in Baku appear to be borne out by scholarly studies of the region. In his comparative study of countries in the Caspian region, Richard Auty states that “economic data for the first decade of independence suggest that the development trajectory of the energy-rich Caspian basin countries has indeed been less favourable than that of the resource-poor countries.” He argues that economic reform and restructuring of the economy has proceeded faster in the resource-poor countries, and that “movement towards an enabling government is most likely with low natural resource rent.” In Auty’s view governments who have little or no resource rent on which to rely have to reform and restructure their economies if they are to have any hope of staving off financial disaster. As a result, they are better structured for stable long-term economic and financial growth. By contrast, governments like that of Azerbaijan can

515 Ibid p3
517 Economist Intelligence Unit, p17
518 Ibid, p23
519 Interviews in Baku, Feb/ March 2008
521 Interviews in Baku, Feb/ March 2008
523 Ibid, p113
rely on resource revenues to paper over the cracks in the economy with the result that the underlying economic and structural problems are not resolved. Because the lack of economic reform means that the rest of the economy remains sclerotic, the government has to rely on what will increasingly become its only source of revenue – an “increasing dependence on a single commodity...”\(^{524}\) Moreover, in Auty’s view, resource wealth and the consequent absence of reform have wider political consequences: he argues that energy-rich countries in the region “are converging on a predatory autocratic model of political state.”\(^{525}\) Marika Karayianni makes a similar point, arguing that “the on-going problems of pollution, poverty, human rights and corruption clearly indicate the failure of regional governments to protect their citizens. The reluctance of these governments to recognise the social and institutional problems of oil development will only lead to a further impasse.”\(^{526}\)

A further matter of concern is Aliev’s increasingly bellicose rhetoric on N-K, Armenia’s occupation of which remains a highly sensitive issue. His increasingly bellicose rhetoric has suggested that Azerbaijan might try to re-take N-K by force. For example, in his speech at Azerbaijan’s National Day celebrations in 2007, Aliev said that “the enemy must know that we are capable of resolving the issue by military means at any time. Strengthening of the army, reinforcement of army discipline, upgrade [of] the army’s supply base, procurement of modern weapons – all of these are aimed at this purpose.”\(^{527}\) Whether or not Aliev is serious in his statements remains a matter of much debate.\(^{528}\) Whilst he would relish the domestic kudos from being the leader to recapture the enclave, being seen as the antagonist in renewed fighting would seriously damage Azerbaijan’s international standing and reputation. In addition, violence would put at risk the oil infrastructure from which the country derives its wealth. The problem for Aliev is that, by continuing to raise the temperature of the N-K issue, he risks generating a momentum for war which he is unable to control. This risk is heightened by the fact that oil wealth makes real the possibility that Azerbaijan could act on its President’s rhetoric. In 2008, military budget rose to $1.85bn (from US$ 135m in 2003)\(^{529}\), more than the entire state budget of Armenia. This money is being used to buy high-tech weaponry, “including 105 T-72 tanks, 6 Su-25 fighter-bombers, 14 Mig 29 fighters, 85 120mm PM-38 artillery systems”\(^{530}\). International observers are sceptical of Azerbaijan’s military capability, arguing that despite its new equipment, the Azeri army is still an inferior force to its Armenian.\(^{531}\) According to the ICG, “inefficient social protection, endemic

\(^{524}\) Ibid, p123  
\(^{525}\) Ibid, p124  
\(^{526}\) Karayianni, p153  
\(^{527}\) Aliev, I. *Speech to National Day celebrations, 28th* May 2007  
\(^{528}\) Interviews in Baku, Feb/ March 2008  
\(^{531}\) Interview, Baku, Feb/ March 2008
corruption, nepotism and hazing continue to undermine combat readiness.” Nevertheless, as one commentator observed “US$ 1.2bn buys you a lot of tanks.”

However, in addition to inflaming tensions over the N-K issue, it also appears that the Government’s actions are fuelling domestic tensions as well. Observers say that these arise from growing frustration that the country’s huge oil revenues are not feeding through into wide-spread development in the country, and resentment that a ruling clique governs to its own advantage, not to that of the population as a whole. The government’s response to this unrest is reported to be either to use oil monies to address problematic issues or, if unrest gets out of hand, to use the security forces as the Government did in response to demonstrations about the conduct of the 2005 Parliamentary elections. It is also reported that the disquiet at the country’s development is leading to a rise in the number of extremist mosques, whose preachers argue oil money and the oil companies are corrupting the country. It is estimated that there are now around 1,700 in the country now, up from a handful a few years ago.

**The role of the corporate sector in the reconstruction process**

As one interviewee put it, “the story of FDI in Azerbaijan is a case of oil, and the rest.” In 1994, a consortium of companies collectively known as the Azerbaijan International Operating Company (AIOC) signed what became known as ‘the deal of the century’ to develop and run the Azeri-Chirag-Gunashli oil field. It is estimated that Azerbaijan will earn as much as $200 billion from this oil field alone over the 30-year life of the project. The operating partner of this consortium is BP, and other partners include ExxonMobil and StatoilHydro. In 1996, BP signed a further agreement to explore and exploit the Shah Deniz gas field, which lies about 60km off Baku. The Shah Deniz field is operated by BP, and partners in the project include StatoilHydro, Total S.A, and LukAgip. There are also two main pipeline consortia, of which by far the most significant is the Baku-Tbilisi-Ceyhan which transports crude oil from offshore oil fields in the Caspian Sea to the Turkish coast of the Mediterranean from where the crude is further shipped via tankers to European markets.

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533 Interview, Baku, Feb/March 2008
534 Interviews, Baku, Feb/March 2008
536 Interviews, Baku Feb/March 2008
537 Interview, Baku Feb/March 2008
538 Sim, p24
delivered its first oil in 2006. The second is the South Caucasus Pipeline (SCP) which transports gas from Shah Deniz field in the Caspian Sea to Turkey. It follows the route of the Baku-Tbilisi-Ceyhan (BTC) through Azerbaijan and Georgia to Turkey, where it is linked to the Turkish gas distribution system. As operating partner of the two main oil and gas fields and of the two main export pipelines, BP is the dominant foreign business presence in Azerbaijan. Some of the partners in these projects maintain offices in Baku – StatoilHydro for example - but it is BP which has become virtually synonymous with the oil and gas sector in the country. However, it should be noted that, as the operator of these various consortia, BP is also acting on behalf of the other members of the consortia: it is normal practice for the operating company of a consortium to take a lead that its partners will follow.

The Azeri Government speaks of its desire to develop other segments of the economy. As is made clear in its SPPRED strategy, without the “development of other more labour-intensive sectors, there a risk that the benefits of the country's economic growth will not be shared by large sections of the population. The programme therefore sets a target of increasing by 2.2 times non-oil GDP by 2015. The international donor community also stresses the need to “support the Government in establishing a favourable environment for private investment in non-oil sectors.” The Azerbaijani Export & Investment Promotion Foundation, set up in 2003, lists financial services, tourism, agriculture, and construction as sectors seeking investment. The development of the ICT sector has also been announced as a “priority for development in the country.” However despite this, the oil sector remains dominant: as the EBRD makes clear, the Azeri economy is “more than ever focused on oil. Currently the oil sector accounts for about 54 per cent of GDP and three quarters of industry.” Where non-oil sectors are growing, this appears to reflect “spill-over effects from oil and gas, especially in the machinery, chemical industry, construction, and telecommunication sectors.” The Government argues that the lack of investment in other sectors reflects investor concern at regional instability – the fact that the N-K issue remains unresolved, and the on-going instability in Georgia and southern Russia – and the fact that Azerbaijan is a relatively small market. However, interview responses strongly suggested that FDI in sectors other than oil and gas is significantly held back by the fact that the

544 Ibid
549 Ibid
economy is carved up between different members of the ruling clique. These clans reportedly obstruct FDI because they believe that opening sectors up to foreign companies would result in their losing control. Azerbaijan's oligarchs would rather have control over an under-developed sector rather than see it develop but lose control. The UN observes that “structural reforms to promote a competitive non-oil sector remain slow.” The analysis of the US Department of State is more stark: “Government bureaucracy, weak legal institutions and predatory behavior by politically connected monopoly interests continue to hinder investment outside of the energy sector.”

National Priority 1: Governance

As noted earlier, a significant governance challenge for Azerbaijan is to address the problem of corruption. Transparency International’s 2008 Corruption Perceptions Index listed Azerbaijan 158= out of 180 countries surveyed, which puts the country alongside Congo and Angola. The international oil companies, and in particular BP, have been instrumental in establishing the Extractive Industries Transparency Initiative (EITI) in Azerbaijan. As noted in chapter 1, this initiative was established to improve “governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas, and mining.” The UK Department for International Development (DFID) spearheaded the initiative, which was formally launched by then Prime Minister, Tony Blair in September 2002. It is “a coalition of governments, companies, civil society groups, investors and international organizations” At the heart of the organisation are a set of 12 principles centred on the “belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction”; and a set of six criteria designed to ensure “regular publication of all material oil, gas and mining payments by companies to governments.” The organisation argues that it has developed “a robust yet flexible methodology that ensures a global standard is maintained throughout the different implementing countries.”

The Board – which draws its members from the different constituent groups – and Oslo-based Secretariat are the guardians of this methodology, but implementation is the

550 Interviews in Baku, Feb/ March 2008
552 US Department of State. 2009 Investment Climate Statement – Azerbaijan Department of State, Washington. February 2009
553 Transparency International is the world’s leading anti-corruption NGO. Its Corruption Perceptions Index ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. It is a composite index, a poll of polls, drawing on corruption-related data from expert and business surveys carried out by a variety of independent and reputable institutions.
554 Extractive Industries Transparency Initiative. What is the EITI. Retrieved 26th July 2007 <http://eitransparency.org/eiti>
555 Ibid
557 Ibid
558 Ibid
responsibility of individual member countries. Azerbaijan began the process of implementing the EITI standards with the signature in November 2004 of a Memorandum of Understanding between the Azeri Government, a coalition of NGOs and foreign and local extractive companies.\textsuperscript{559} Currently all 26 oil and gas companies operating in Azerbaijan participate in the EITI, and at the time of writing, the NGO coalition had more than 100 members\textsuperscript{560}. The local EITI secretariat, which is based in the offices of SOFAZ and has a seat on that organisation’s board, is responsible for producing semi-annual reports which detail the amounts of monies that the oil and gas companies have paid and cross-references this with the monies received by the Oil Fund. These reports are audited by an independent auditor which is appointed by a group containing two representatives each of the governmental, corporate and NGO EITI members. The 10\textsuperscript{th} semi-annual report was issued on 12\textsuperscript{th} June 2009, audited by accounting firm, Deloitte and Touche\textsuperscript{561}.

Early in 2009 the initiative in Azerbaijan became the first EITI chapter to undergo a formal validation process. Part of the EITI rules, the aim of the validation process is to evaluate over time whether the commitments made by participants to the MOU are being delivered. This process “evaluates EITI implementation in consultation with stakeholders, it verifies achievements with reference to the EITI global standard, and it identifies opportunities to strengthen the EITI process going forward.”\textsuperscript{562} The validation report on Azerbaijan was published in February 2009 and evaluated EITI implementation against 19 criteria. The validators, Coffey International concluded that:

\begin{quote}
The parties to the MOU in Azerbaijan have made impressive progress in advancing the EITI since Azerbaijan announced its intention to implement the initiative in 2003. The most notable, yet simple achievement of the initiative is that the public reporting of revenues from the oil and gas industry, which did not occur in Azerbaijan before the EITI, has now become routine.

As Validator of the EITI process in Azerbaijan, we confirm that Azerbaijan has complied with all the indicators contained in the Validation Guide and that additionally, the process is consistent with the EITI’s Principles and Criteria.\textsuperscript{563}
\end{quote}

However, it is clear from the comments of the NGO Coalition which is part of the EITI structure that the process is not perfect. Although the Coalition accepts that the process is

\textsuperscript{559} State Oil Fund of the Republic of Azerbaijan (2008) EITI Implementation in Azerbaijan p2
\textsuperscript{562} Extractive Industries Transparency Initiative. What is EITI Validation? Retrieved 26\textsuperscript{th} June 2009. <eltransparency.org/validation>
generally working well, it identifies a number of procedural issues that they argue require tightening up.\textsuperscript{564} These comments are borne out by the recommendations for improvement made by the validation process, in particular proposals that 1) companies should work together “to improve the accuracy of the EITI reports they submit” and 2) that the NGO coalition should have access to the reports before they are published.\textsuperscript{565} Nonetheless, in respect of corporate participation, the validation report found that, with three relatively minor exceptions, all 26 companies had met the five criteria required of them.\textsuperscript{566}

As noted earlier, despite the institution of SOFAZ and EITI, corruption in Azerbaijan remains a problem. However, companies make very clear that, whilst they can legitimately work with the Azeri Government in relation to EITI, they have no legitimacy to question how revenues are spent: the view is strongly expressed that it is for governments and their agencies to tackle this issue.\textsuperscript{567} Despite reservations that issues of country governance lie “on the other side of the fence\textsuperscript{568} from the territory where it is legitimate for companies to act, BP has undertaken activities that are designed to address wider governance concerns. BP has worked with SOFAZ to develop a “long-term macroeconomic model of the Azerbaijani economy.”\textsuperscript{569} Developed by Oxford Economics, an independent consultancy, the model was intended to give the Azeri authorities an awareness of the implications of different policy options and “to strengthen the government's economic forecasting capacity.”\textsuperscript{570} Based on historic data, it is intended as a forecasting tool that is capable of demonstrating different scenarios for the Azeri economy given different models of oil prices, government expenditures and other variables. The project also involved “training and capacity building\textsuperscript{571} of key SOFAZ staff. The company is now working with Ministry of Economic Development to help them build internal capacity to understand different policy options. In 2008 BP and its partners signed a memorandum of understanding with the Ministry of Economic Development (MoED) on implementation of an advisory programme on macro-economic management and institutional reforms. The Centre for Social and Economic Research, a Warsaw-based think tank, was selected by the BP group economics team to manage this two year project and provide guidance and policy advice to senior officials at the MoED.\textsuperscript{572}

\textsuperscript{565} Coffey International, p25
\textsuperscript{566} Ibid p23
\textsuperscript{567} Interviews with company representatives, Baku and London
\textsuperscript{568} Interview with business representative, Baku Feb/ March 2008
\textsuperscript{570} Ibid, p55
\textsuperscript{571} Ibid, p55
Companies evidently believe that their own actions and behaviours can have a didactic effect in demonstrating how and why good governance is valuable. Companies argue that the development of EITI, and in their wider business practices they are exposing key ministers and officials to international norms of good practice in the hope that some of this will, over time, change those people’s behaviour: “We give them exposure to the right ideas, and hope they take them on board, “573 as one businessman in Baku put it. Companies also believe that by operating their own businesses clearly by international standards they are increasing their attractiveness to local employees: in a country where poor governance is rife, “people like working for a company that has clear rules.”574 It is interesting to speculate on what might be the longer term impact of this in addressing governance challenges in Azerbaijan. In 2001 an EBRD survey of the Caucasus region concluded that “natural resource wealth tends to be associated with corruption, as productive entrepreneurship may offer fewer rewards that the pursuit of political influence.”575 BP’s local staff are subject to the company’s Code of Conduct which “prohibits illegal, corrupt or unethical practices and demands high standards of probity.”576 By providing opportunities to work in an environment that stresses the importance of ethical behaviour, is BP thereby providing an environment in which able young people find it more beneficial to be ‘productive entrepreneurs’ rather than see political influence as the only way to prosperity? If so, might this have a long-term beneficial impact on the issue of corruption and improve governance more widely?

The behaviours of western companies also appear to be changing attitudes to responsible business practice amongst domestic Azeri businesses. According to the Eurasia Foundation, Azeri firms currently have a very philanthropic approach to social engagement: buying food for orphanages for example577. The Foundation runs a programme which builds on the experience of companies like Boeing and Lucent Technologies, and encourages local firms to identify social activities that can also provide commercial benefit: skills training for example. As a result companies are apparently beginning to fill some of the gaps left by Government provision. Although this programme is mediated by an NGO, it nonetheless demonstrates another facet of experience and ‘know-how’ that international businesses are capable of transferring to developing markets such as Azerbaijan.

573 Interview with business representative, Baku, Feb/ March 2008
574 Interview with business representative, Baku, Feb/ March 2008
575 European Bank for Reconstruction and Development. Central Asia and the Caucasus
576 EBRD, London. 2001, p43
577 BP Sustainability Report 2008, p44
577 Interview with Eurasia Foundation, Baku
Managing impacts of the pipeline route

Azerbaijan’s oil is exported to west through the Baku-Tbils-Ceyhan pipeline (BTC) which was built at an estimated cost of $3.7bn, opened in May 2005, and pumped its first oil in 2006. The development of this project arguably support both National Priorities identified in the UNDAF. Firstly, the process by which it has been developed appears to provide a model of good governance. Secondly, its existence provides the export route for Azeri oil and therefore provides the wealth which, in principle anyway, allows for the wider development of the country. The route, running northwest from its terminal at Baku goes to the north of N-K, and so also avoids the Lachin corridor. From the Georgian capital, Tbilisi, the pipeline then runs south west through Turkey to reach the Mediterranean coast at Ceyhan.

Fig 4.1: BTC pipeline route

The route was selected as the least bad way of getting oil out of Azerbaijan. Before BTC’s construction, existing pipelines went either north into Russia, or south into Iran. Neither of these was deemed desirable either for political or practical reasons. This is not to say however, that the route of the BTC is without problems since it passes near both N-K, and then the disputed South Ossetia region of Georgia. During the conflict in Georgia in 2008, bombs dropped near the pipeline route. Apart from the larger political concerns impacting on the pipeline, there were also significant issues that BP and its partners were obliged to manage in the construction of the pipeline, and now continue to manage in its operation. From its inception, the BTC was highly controversial, not least because the Host Government Agreements (HGAs) between the consortium and the governments of Turkey, Georgia and Azerbaijan appeared to give the operators immunity from human rights abuses. A local campaign group The Baku-Ceyhan Campaign criticised these agreements, saying

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that they “largely exempted BP and its partners from any laws in the three countries – present or future – which conflict with the company’s project plans.”\textsuperscript{581} Commenting specifically on the HGA with Turkey, Amnesty International’s legal adviser, Sheldon Leader argued that it “blatantly disregards the European convention on human rights.”\textsuperscript{582} Other criticisms were that the line would damage the environment; that it would impact on the cultural heritage, and that it would compromise land rights. In an attempt both to answer these criticisms, BTC put in place what the IFC referred to as “a comprehensive public consultation and disclosure process to address interested and affected parties.”\textsuperscript{583} This process took place in all three countries through which the pipeline would transit and began in mid-2001. During 2002, meetings were held with national, provincial and local authorities, national and local NGOs, communities and interest groups along the entire 1,760 km pipeline route.\textsuperscript{584} The draft environmental and social impact assessment for the Azerbaijan section of the pipeline was released in May 2002, and its results presented to interested parties in a further consultation exercise. This consultation process was undertaken by community liaison teams in each country, who were assisted by national and international consultants. In November 2002, detailed discussions were begun with those households directly affected by the construction work concerning land acquisition and compensation: a process validated by representatives of the IFC. In the view of the IFC this process has “ensured that local communities have all had an opportunity to attend public meetings and voice their concerns.”\textsuperscript{585} Similarly, an independent review in 2006 of the human rights impacts of both the BTC and SCP pipelines concluded that the two projects are “in substantial compliance with [their] human rights commitment in Azerbaijan and, most importantly, that there were no high priority breaches or potential breaches of these commitments.”\textsuperscript{586}

\textit{National Priority 2: Meeting basic needs}

Undoubtedly, by developing Azerbaijan’s oil and gas infrastructure, BP and its partners are hugely important to the economic growth that Azerbaijan has seen in the past decade: oil and gas revenues account for around half of the country’s GDP. Indirectly therefore, these companies provide the resources which should allow the Government to meet the basic needs of its population. However, as has been argued above, the policies of the Aliyev regime are not succeeding in doing this properly. Despite this, it seems that the oil


\textsuperscript{582} Macalister, T. ‘Amnesty calls for action on Caspian’. In \textit{The Guardian}, London. 20\textsuperscript{th} May 2003. p17


\textsuperscript{584} Ibid

\textsuperscript{585} Ibid

companies are seeking to ensure that their own activities do have a beneficial effect, in a number of ways.

The UNDAF makes clear the importance to the country of improving “access and quality of education”\textsuperscript{587}. BP and its partners appear to be contributing to this goal through the education they provide to their workforce. According to BP’s figures, 72% of its 1,764 staff are Azeri nationals\textsuperscript{588}, and the company runs a recruitment programme in November every year. This draws on a summer internship programme, which in 2006 provided 25% of the company’s graduate recruits. BP also invests in staff training and development. To deliver technical training, the company has established the Caspian Technical Training Centre, from which 100 workers graduated in 2006\textsuperscript{589}. To develop Azeri professional staff, BP has established collaborations with a number of overseas institutions. These include a postgraduate diploma in human resource management based in Baku, run by Nottingham Trent University; an accounting qualification overseen by the Chartered Institute of Management Accountants; and engineering courses run with a number of UK engineering institutions including the Institute of Measurement and Control and the Institute of Mechanical Engineers\textsuperscript{590}. In terms of absolute numbers, these programmes are small in scale – as of 2006, 66 people were training on the CIMA programme, and 50 engineers were working towards their chartered engineer status. However, whilst these figures are small in the context of the country as a whole, they are significant in relation to BP’s total workforce of just under 1,800 people in Azerbaijan. This investment in local staff, rather than ex-pats is reflected in the fact that of 9,400 contract (i.e. non-permanent) staff that the ACG project employs, 80% are Azeri nationals\textsuperscript{591}. The wider business community too sees skills development as a key task. The American Chamber of Commerce (Amcham) sees skills training as a key element of its mission, and its Annual Report for 2006-7 reports training sessions for member companies’ employees covering topics such as HR, management, office health and safety and staff performance management\textsuperscript{592}. Amcham also organises a ‘Best Business Case’ competition, the aim of which is to improve Azeri students’ management, analysis and problem-solving skills\textsuperscript{593}. Through these actions, the business community is developing skills amongst local people, thereby reducing the dependency on imported labour, so increasing the wealth that is retained in Azerbaijan.

\textsuperscript{587} United Nations Country Team, Azerbaijan. \textit{UN Development Assistance Framework}, p4
\textsuperscript{588} BP \textit{Sustainability report} 2006, p39
\textsuperscript{589} Ibid, 40
\textsuperscript{590} Ibid pp42-43
\textsuperscript{591} Ibid, p51
\textsuperscript{592} Amcham. pp44-47
\textsuperscript{593} Ibid p58
As Olson argues, it is extremely important that the development of oil and gas reserves has a knock-on effect in terms of international companies using local suppliers and resources. In practical terms, the problem companies face in doing this in Azerbaijan is that the lack of investment since the Soviet period means that ‘Azerbaijan does not have an industry able to meet today’s requirements. The domestic service industry has not yet been converted to the international standards required by foreign oil companies.’ Nonetheless, BP stresses that a central plank of their policy is to increase the proportion of local content in their supply chain. According to BP’s figures in 2006, its in-country spend with local suppliers was US$ 1.48bn, by comparison with US$ 826m spent with foreign suppliers. Of the monies spent with local suppliers US$ 77m went to SME providers, some of which were providing advanced services including HSE training and maritime diving. According to BP, this use of local suppliers, as well as being good for the local economy, also helps their business since it reduces costs associated with importing goods and services into the country. However, at present there is a limit to what can be sourced locally given the low level of economic development and skills, and the requirement that local suppliers meet relevant labour, HSE, corruption or other standards: a further strand of BP’s work appears designed to address this challenge. Working with the Azeri Government and development agencies, the company launched established an Enterprise Centre in Baku in 2002 designed to help them, meet their target “to double the value of contracts placed with Azerbaijan-owned companies within five years”. The Centre provides skills training to enhance “the capacity of local SMEs to become competitive both in the local market and in the Caspian region”. Programmes include inductions on health and safety; training in use of the quality management standard ISO 14001, and courses in international technical standards. The courses are based on an enterprise development and training programme (EDTP) designed in 2006, in collaboration with BP’s business partners. A second plank of the Centre’s activity is to act as a hub to link local businesses to possible supply opportunities with the oil majors; ensuring that local companies are aware of the expectations they will need to meet; and acting as a forum for various NGOs, international financial institutions and development agencies that contribute to business development in Azerbaijan. A further project to enable SME expansion was launched in August 2008. The Business Enabling Environment Project is a joint project between BP, the Ministry of Economic Development, the IFC and the Swiss government. The aim is “to help the government streamline its efforts to enable rapid

595 Ibid p135-136
597 BP, Sustainability Report 2008, p34
598 Interviews with BP, London and Baku
600 BP (2007) Op cit p56
development of local enterprises...through empowering local businesses...to develop a strong and transparent private sector." The project will include a thorough review of the permits and licensing system, as well as monitoring SME perceptions of the business environment.

**On-going and wider impacts**

In Chapter 1, it was noted that amongst the criticisms made of international efforts at post-conflict reconstruction was what Zisk Martin refers to as a "lack of political will to follow through" on the commitments that are made. The evidence of the situation in Azerbaijan contradicts Gerson and Colletta's doubt about "the private sector's willingness to sustain commitments in any one area..." It is estimated that Azerbaijan's oil reserves will last, at current rates of extraction, until about 2025. Thereafter, the country is expected to earn transit revenues as oil and gas from the countries to the east of the Caspian is exported to the west across Azeri territory. In both phases, there is likely to be significant on-going involvement from the large oil companies. By contrast, it seems unlikely that the development community will continue such a large-scale involvement in Azerbaijan in nearly two decades' time.

The wider geo-political impacts of corporate activity in Azerbaijan need also to be commented upon. By developing Azerbaijan’s oil and gas reserves, and by constructing the pipelines to export these commodities, the oil and gas companies are having a significant impact on the geo-political situation in Transcaucasia and on the ability of the region to remain at peace. The wealth that Azerbaijan earns from oil and gas extraction fundamentally shifts the balance of power in the Caspian basin. Already, the Government’s sabre-rattling over N-K is made more ominous by the fact that it is spending so heavily on the military hardware. Although the expert consensus is that Aliev is unlikely to launch an attack, such action cannot be ruled out. Domestically too tensions are rising: the result of the Government’s failure to ensure that the oil boom is benefitting the population at large. In developing the BTC and SCP pipelines, although BP and its partners have sought to manage the local-level impacts, this development too has implications for wider region tensions and stability. The very fact of BTC’s construction is a political statement, since it allows oil exported from Azerbaijan to avoid the territory of both Russia and Iran. Given the sensitivities and instabilities of the region, the BTC is therefore a highly-political piece of infrastructure. More widely still, the BTC provides Europe and America with access to oil which is not dependent on the instabilities of the Middle East, or on the desire of Russia to use its own hydrocarbon exports as a vehicle for gaining political leverage. As such, the work of the oil companies in constructing and running the pipeline assumes global geo-

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603 Zisk Marten, p147
604 Gerson & Colletta, p25
political significance. In all these instances, corporate actions are having implications for issues that those companies have no ability to control.

**Corporate engagement with the reconstruction process**

The largely-successful operation of the EITI demonstrates a governance process that binds together corporate, governmental and civil society actors in addressing a key issue within the reconstruction process: the need for increased transparency of revenue payments. The recent validation process confirms that Azerbaijan has “fully implemented the EITI”. It is apparent from interviews with representatives of the different parties to the initiative that the relationship between the different actors has not always been an easy one. Nonetheless, the EITI structure and rules have provided a route-map and a process for actors with very different motivations for participation. For the NGO Coalition, the goal is to ensure that the country’s oil wealth benefits the many, not the few: the memorandum establishing the Coalition states its aim as being “to ensure public control over the revenues obtained through the exploitation of the country’s natural resources and their effective use.” For the international governments involved, the motivation is to bolster their own development efforts. As the British Department for International Development argues, “lack of accountability and transparency in these [oil and gas] revenues can exacerbate poor governance and lead to corruption, conflict and poverty.” By contrast, the motivations of the Azeri government are more difficult to assess. As demonstrated in this chapter, corruption remains a significant problem in the country, notwithstanding the Government’s claims to be tackling it. It is evident from interviews in Baku that there is a strong feeling amongst the business, NGO and foreign agency communities that the Aliiev regime has involved itself fully in the EITI in order to deflect international criticism about corruption, whilst leaving other avenues for embezzlement (through the state budget) open. Interviews with the corporate sector suggest that their engagement with EITI, and with wider issues of the reconstruction process is motivated by a number of factors. Firstly, there seems to be a recognition of the importance of diversifying the economy away from reliance on oil and gas, and that exploitation of these resources benefits local staff, contractors and suppliers. Secondly, companies fear being damned-by-association – if Azerbaijan continues to develop a reputation as a corrupt and poorly-managed country, then that will rub off on the companies’ reputations and so damage their ability to do business in other parts of the

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606 Interviews with EITI participant groups, Baku and London


609 Interviews in Baku Feb/ March 2009

610 Interviews with corporate representatives, Baku and London
world. Thirdly, in relation to BTC pipeline, there is a recognition that its presence could further to destabilise an already unstable region, and therefore there is a need to address the human rights issues associated with its management and operation.

This interview data in relation to the oil and gas sectors is borne out by the documentary evidence. BP appears to have been proactive in understanding and managing the impact of its operations, and by extension those of the oil and gas sector as a whole. The company has sought independent advice on managing the impacts of its operations in Azerbaijan and the wider region. In January 2003, BP established the Caspian Development Advisory Panel to provide “objective advice to the company on the economic, social and environmental impacts of the pipeline project in Azerbaijan, Georgia and Turkey, generally, and in areas closest to the 1,760-kilometer pipeline in particular.” Although the primary focus of the panel was intended to be the BTC pipeline, its remit also allowed a purview over BP’s other operations in Azerbaijan and the Caspian region, and its principal tasks were defined as including, but not being limited to the following:

- Assess BP’s plans to manage the environmental, social and economic impacts of the projects in Azerbaijan, Georgia and Turkey, both at the route level and, more generally, at the regional level. Make recommendations for improvement.
- Examine the application of BP’s policies regarding the projects and critically appraise the impact of the projects.
- Advise on the appropriate focus of social and community activities to enable BP and its partners to make a positive difference to the economies and societies of Azerbaijan, Georgia and Turkey.

Although the panel had no formal executive power over BP and its operations, its profile, membership, and the fact that it reported into then-CEO of BP, Lord Browne suggests that this panel was more than a piece of window-dressing. It consisted of four members: Jan Leschly, former CEO of SmithKline Beecham; Stuart Eizenstat, former US Ambassador to the EU; Jim MacNeill, former Secretary General of the World Commission on Environment and Development (the Brundtland Commission) and Mohamed Sahnoun, former Special Envoy of the Secretary General of the UN. The Panel travelled to the region at least once a year, and took evidence from a wide range of NGOs, government officials, other companies, media, and multilateral institutions. Reports were made annually, and were formally responded to by BP: both report and response being in the public domain.

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611 Interviews with business representatives, Baku and London
613 Ibid, p143
614 Ibid, pp145-147
Panel was dissolved at the end of 2006 as construction of the BTC pipeline came to an end. It was replaced with a new group, the Azerbaijan Social Review Commission which has a remit “to engage external views of [BP’s] impacts in Azerbaijan…and give practical recommendations.” Commissioners include the head of the Azerbaijan chapter of Transparency International, the Director of the Open Society Institute in Baku, and a senior associate of the University of Cambridge Program for Industry. Like its predecessor, the ASRC reports annually, and BP responds formally to the report.

In addition to these strategic bodies, BP has also sought specific technical input. During the construction phase of the BTC pipeline between 2004 and 2006 BP’s activities were monitored by groups of national NGOs under the aegis of the Open Society Institute. Under a Memorandum of Understanding signed in April 2004, it was agreed to “assess issues related to the projects including: social issues in communities near the project; land ownership issues; environmental protection; historical preservation; local business content and protection of the rights of the workers involved in the construction of the projects.” In each of the two years of operation, five working groups monitored different aspects of BP’s project operations. The precise remit of these groups differed slightly in the two years, but in 2005-06 the working groups covered cultural heritage, employment and infrastructure, ecology, human rights and social audit. The company also used the services of US human rights law firm Foley Hoag to “monitor the commitments by the BTC project and the …SCP to respect the fundamental human rights of their employees and members of local communities affected by the …pipeline projects.”

However, just as the foreign investors divide into ‘big oil’ and ‘the rest’, so too does the awareness of, and willingness to do something about, the wider issues facing the country. It seems accepted by the development community that BP in particular, and the other oil companies to varying degrees “are engaged on the strategic agenda.” It is clear that the oil majors have quite a sophisticated approach to their investment in Azerbaijan, and see the wider development and success of the country as being of considerable importance to their own commercial success, and the stability of their operations. However, although much smaller, it appears that other companies have been less assiduous even at understanding the impacts they may have on the country. As one interviewee was observed, most representatives of foreign firms “live in the cocoon of Baku” – it was even reported in one interview that some representatives of foreign firms are even unaware that a conflict had

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615 Azerbaijan Social Review Commission First Report, June 07 p4
618 Smith, Feldman & Monast, p1
619 Interviews with development agencies, Baku, Feb/ March 2008
620 Interview, Baku Feb/ March 2008
taken place in the country. Nonetheless, unfortunate though this lack of engagement its practical impact is minimal given the huge relative size of the oil sector. What is interesting is the apparent attitude of the governmental authorities. In the context of the EITI process there appears to be a good level of collaboration, but beyond this there appears to be a dislocation between what the companies are doing, and the wider reconstruction efforts. BP reports difficulty in engaging governmental agencies on issues relating to reconstruction and development: “they don’t seem to be able to understand why we would want to involve ourselves in these things.”

**Conclusions**

As the World Bank makes clear “the challenge facing the Azeri leadership and its international partners will...be to use the next 10-15 years very carefully to develop sound growth opportunities in the non-oil economy and achieve sustainable reductions in poverty for current and future generations.” However, the evidence of this study suggests that despite the country’s considerable and growing oil wealth, the situation in Azerbaijan remains highly problematic. Double digit rates of GDP growth mask the fact that the oil and gas sector is growing very rapidly, whilst the rest of the economy atrophies. Hydrocarbons represent around 50% of the country’s economy, yet employs only 2% of the population. The risk is that Azerbaijan develops the symptoms of ‘Dutch disease’. Also sometimes called the resource curse, this expression refers to the notion “that high but temporary oil revenues may be somewhat of a mixed blessing.”

Writing in 1984, van Wijnbergen described the impacts of this condition: “many third world oil producers are encountering serious problems in building up a diversified export base, while West European oil and gas producers...are suffering a decline in their traded goods (manufacturing) sector induced by real wage pressures.” Other authors have argued that the problem has political as well as economic consequences. Lam, for instance argues that “natural resource windfalls tend not only to lead to slower economic growth but to generate and reinforce authoritarian tendencies in Third World political regimes.” In his view, this happens because “resource windfalls enhance the elite’s distributive influence... [which] generates hegemonic political regimes and exacerbates the decline of the economy.”

The situation in Azerbaijan demonstrates many of the symptoms of this condition. It is evident that the oil and gas sector is crowding out the rest of the economy with the result that hydrocarbons form a large and growing proportion of the country’s exports. Although there has been some success in wider

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621 Interview, Baku Feb/ March 2008  
622 Interview with BP  
624 van Wijnbergen, S. “The Dutch Disease: A Disease after all?” *In The Economic Journal* 94, (March 1984) p 1  
625 Ibid, p46  
626 Lam, R. *Dictatorship as a Political Dutch Disease* Papers 795 Yale Economic Growth Center.1999, p1  
627 Ibid, p3
reconstruction – for example in the situation of the IDPs – it appears that the Azeri government is using its revenues to respond to issues that arise in an *ad hoc* way rather than addressing the reconstruction challenge in systematic fashion. As Auty argues, oil and gas revenues have enabled the Aliev government to avoid structural reform with the result that the underlying problems get worse. Moreover corruption is rife; ministerial preferment is on the basis of loyalty to the ruling elite rather than competence; and oil wealth is allowing the Government to disregard international advice and take increasingly aggressive position over N-K. The international community seems aware that Dutch disease is a significant risk for Azerbaijan, for example the World Bank strategy makes clear that the country needs to tackle issues which “include:

(i) macroeconomic adjustment problems stemming from large foreign exchange inflows; (ii) unbalanced growth, leading to crowding out of the non-petroleum traded goods sector; (iii) waste of petroleum wealth through unproductive public expenditures; and (iv) in some cases accumulation of external debt as the resource boom increases the capacity to borrow.”

The problem is that development actors seem to lack both the willingness and the ability to bring the Azeri government to task. There is an evident reluctance, for strategic reasons, to challenge the corrupt practices of Aliev’s government, and anyway the Government’s wealth makes it resistant to international advice.

Yet against this unpromising backdrop BP, as the operating partner for the largest oil and gas projects, has proactively identified and managed the impacts of its activities, taking clear account of the issues relevant in a post-conflict environment. The efforts made to hire and develop local staff; the desire to use local suppliers and provision of assistance to help local companies become effective suppliers; and taking advice and care in the development and management of the BTC all suggest a commitment to the stable reconstruction of Azerbaijan, or at least a recognition that the country’s stable development is in the companies’ commercial interest. It is however, the example of EITI which is arguably most noteworthy, since it demonstrates how the efforts of different societal actors can be cohered around a clear task in a strategic and joined-up way. As noted earlier, it has not ‘solved’ the issue of corruption, but that says more about the fluid nature of corruption than it does about the Initiative. EITI is designed to do one thing, to reduce corruption in revenue payments: in the case of Azerbaijan, it has succeeded in doing just that. EITI offers a methodology that blends the Realist facts of international governance with the reality in Azerbaijan that the behaviours of non-state actors are crucial to the solution of key issues in the process of post-conflict reconstruction. Rather than criticise the initiative for what it has not done, it

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628 Auty, pp109-125
appears more valid to study the approach in more detail and see whether a similar collaborative arrangement could sensibly be used to address other issues in Azerbaijan and elsewhere.

The fact that EITI has not solved the corruption issue does not understate its importance, however what it does do is point up a highly significant fact: that no-matter how engaged the international corporate sector may try to be in the reconstruction process, it is still in the hands of the international community – that is states – to make the weather in Azerbaijan’s reconstruction. This country’s on-going problems, both in improving governance, and in ensuring that the oil wealth benefits all Azeris, stem from governmental, not corporate failings. The Aliev regime has failed to put in place a coherent approach to development, and the international community have failed to bring sufficient pressure to bear to make this happen. Nonetheless, even though state agencies are in the driving seat, companies are demonstrably having significant impacts on key aspects of the reconstruction agenda. The Azeri government and its international partners need therefore to develop a more coherent relationship with the private sector, especially the oil majors whose operations are providing such wealth. This ought to be considered as a key plank in the task of achieving successful and durable reconstruction in Azerbaijan.
5: Bosnia

Introduction

The war in Bosnia between 1991 and 1995 was one of the series of conflicts that resulted from the demise of federal Yugoslavia. It resulted in around 250,000 deaths, and displaced as much as half of the country’s population. Although one of a number of vicious conflicts taking place at the time, atrocities such as the Srebrenica Massacre of 1995, and the devastation of Sarajevo – the host of the Winter Olympics just a decade before – made the Bosnian war one of the most notorious of recent decades. The record of the international community in the conflict was decidedly mixed. On the one hand, it was the failure of Dutch troops to defend one of the UN-designated ‘safe areas’ that allowed the Srebrenica massacre to happen. On the other, it was the NATO bombing campaign, triggered by a mortar attack by Bosnian Serb forces on the market place in Sarajevo, which arguably brought the Serbian protagonists to the negotiating table.\textsuperscript{630}

The General Framework Agreement for Peace in Bosnia and Herzegovina was formally signed in Paris in December 1995. The agreement is better known by the name which derives from where negotiations took place as the Dayton Accords. Whilst these accords undoubtedly brought a lasting peace – there has been no significant re-emergence of the conflict – the Dayton agreement has proved highly problematic as the basis for building a durable state. In effect what the agreement did was create a state with an internal divide where the front line of the war had been. The Dayton political structures positively encourage ethnic grandstanding by the country’s politicians, and the process often results in deadlock and stalemate. Moreover, the Dayton structures are incredibly complex. As well as the federal state, Bosnia Herzegovina, there are two so-called Entities, Republika Srbska, and the Bosniak-Croat Federation of Bosnia and Herzegovina. The latter is then broken down into 10 separate cantons. The result, as the International Crisis Group point out, is 181 ministers for 3.7 million people.\textsuperscript{631} The international community’s solution to this impasse has been to use the so-called Bonn powers to push decisions through. Whilst these powers have kept the reconstruction process moving, they have been strongly criticised – Chandler accuses the international community of “running the country with little purpose or legitimacy.”\textsuperscript{632} In his view, and that of other commentators, progress has been achieved only at the cost of developing robust local structures of governance. Although significant progress

\textsuperscript{630} NATO Operation Deliberate Force. 16\textsuperscript{th} Dec 2002. Retrieved 5\textsuperscript{th} Mar 2010. \texttt{<http://www.afsouth.nato.int/factsheets/DeliberateForceFactSheet.htm>}

\textsuperscript{631} International Crisis Group. Bosnia’s precarious economy: Still not open for business ICG, Brussels. 2001, p2

\textsuperscript{632} Chandler, D. Peace without politics?: ten years of international state-building in Bosnia. Routledge, London 2006, p34
has undoubtedly been made since 1995, there is a widespread recognition that the Dayton structures need to change significantly if Bosnia is to develop as a stable, durable state. Many of those interviewed for this study saw the Stabilisation and Association Agreement (SAA) signed with the EU in 2008 as a vehicle for this, although it is too early as yet to see if this hope is well-founded.

Within this context, the levels of FDI in Bosnia remain low, even by comparison with other countries in the immediate region. What Buiter describes as a “dreadful business and investment climate” together with the complexities resulting from the political structures seem to have deterred potential investors. However, a number of multinational companies do operate in BiH, including service companies like DHL and HP, banks, and some industrial firms such as ArcelorMittal. Although relatively small, the international private sector in Bosnia has had material effects on the reconstruction process, as this chapter will demonstrate. However, as will also be shown, there is virtually no ‘joined-up thinking’ which seeks to align the corporate impacts with those of the wider reconstruction process.

Yugoslavia: birth, life and death

The federal state of Yugoslavia emerged in 1918 from the aftermath of the First World War, and was first known as the Kingdom of the Serbs, Croats and Slovenes. This new state was created from the formerly independent states of Serbia and Montenegro, together with territories of the Ottoman and Austro-Hungarian empires, both of which had collapsed as a result of the Great War. The province of Vojvodina was added in 1920. It is difficult to know how fissiparous Yugoslavia was in the years after its creation: its eventual bloody demise in the 1990s makes it all to easy to conclude that the country’s break-up was always inevitable. However, it is apparent that strong central control was an important tool of government. In 1929 King Aleksandar, in response to tensions between Serb and Croat parties, suspended the constitution and seized absolute power. In the proclamation of his dictatorship, he stated that “blind political passions have started to abuse parliamentary democracy…to such a degree that it has obstructed all fruitful endeavour in this state.”

The country’s ruler for the whole of the post-war period until his death in 1980, Josef Tito is likewise credited with the use of “centralised bureaucracy and a high degree of ruthlessness.” It has been argued that the stability of the country was fatally weakened by the death of President Tito in 1980 – “Yugoslavs…[were] barely able to conceive how the country could govern itself without their stern grandfather at the helm.” However, the

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633 Buiter, W. Designing Effective Economic and Structural Reform Policies for Bosnia Herzegovina. Presentation to development community in Sarajevo, June 2007, p14
635 Reported in Glenny, p412
636 Duncan & Opatowski, p113
637 Glenny, p622
reality was that towards the end of Tito’s life, power had already become more decentralised. A new constitution introduced in 1974 had divided the country into six republics and 2 autonomous provinces (Vojvodina and Kosovo): with the Federal government left with responsibility for defence, foreign affairs and some economic matters. This constitution left unclear the precise detail of the division of power between the republics and the Federation. While Tito lived, this was not a problem. However, after his death a rotating leadership for the Federation was introduced; what Misha Glenny called a “system of political musical chairs”, with senior positions rotated between politicians from the different republics. This was an arrangement that led to “terrible confusion and corruption.” Noel Malcolm argues that this political loosening occurred at a time when the economic ramification of Tito’s reign were being felt. He argues that the “malaise which was afflicting...Yugoslavia” was precipitated by “a general breakdown of a ramshackle economic system.” He points out that inflation had reached 250% by 1988. Tito’s policy to create large industrial facilities had failed; creating costly white elephants. For example, the Zvornik alumina plant, at the time the largest of its kind in Europe employing 4,000 people, had to import bauxite because the local ore was not of good enough quality.

However, the immediate trigger of Yugoslavia’s demise can be traced to the events of the late 1980s. In 1989, following two years of simmering tensions the Serbian President, Slobodan Milosevic rescinded the political autonomy of the provinces of Vojvodina and Kosovo. For new war theorists the events in Yugoslavia are the epitome of the identity war – Mary Kaldor for instance argues that the crisis there “has to be traced to the rise of new nationalism.” Certainly, Milosevic’s overt use of Serb nationalist rhetoric would seem to support this analysis. Others are more cautious, and argue that Milosevic was simply using nationalist language for political ends. Malcolm argues that “what Milosevic had done was to hijack the genuine discontentment….and put it to his own uses”; Glenny believes that the Serb President’s actions were “cynical”. The effect of Milosevic’s actions, as Slovene President Milan Kucan put it, was that “Serbia would now control 3 out of 8 votes in the Federal Presidency – in comparison with the other republics that had one vote each. That meant turning Yugoslavia into Serbo-slavia.” This, combined with the fact that Milosevic’s spending in Serbia was undermining the economic reform programme of the Federal Presidency, led Slovenia to hold a referendum in December 1990 on independence from

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638 Ibid, pp 623-624  
639 Ibid, p623  
640 Ibid, p625  
644 Malcolm, p212  
645 Glenny, p627  
646 Silber, L & A Little. The Death of Yugoslavia, BBC books, London. 1995, p34
Yugoslavia: 89% voted in favour. Following Serbia’s refusal to accept a Croatian, Stjepan Mesic as the next holder of the automatically-rotating Federal Presidency in the following May, Croatia too held an independence referendum: 92% of people voted in favour. Both Slovenia and Croatia declared independence from Yugoslavia on 25th June 1991. The following day, the tanks of the Yugoslav National Army rolled into Slovenia – by crushing the smaller secessionist state Milosevic believed he could bring the others to heel. However, in what has become known as the ‘10 day war’, Slovenia’s organised and spirited defence gave Milosevic a bloody nose, and the federal forces were obliged to withdraw. Slovene independence was recognised by the EU in January 1992, and the country joined the UN in May that year.

The rest of the former Yugoslavia was not so lucky. In BiH, tension rose during the remainder of 1991, particularly in response to the request from ‘Serb Autonomous Regions’ declared by Bosnian Serb leader Radovan Karadzic for protection from the federal army. The war that ensued was one of the most vicious and genocidal of modern times and included abuses such as the Srebrenica massacre in 1995. Described by UN Human Rights Rapporteur, Tedeusz Mazowiecki as “a very serious violation of human rights on an enormous scale that can be described only as barbarous,” this episode saw an estimated 4,000 Bosniak men and boys murdered by units of the Army of Republika Srpska under the command of General Ratko Mladic. It is estimated that, by the end of the war 10% of the population were part of armed groups, and that as many as 250,000 people had been killed, 400,000 wounded, and 2 million were internally displaced or had fled overseas. Those displaced amounted to approximately half the population of the country.

**Post-war Bosnia**

The Dayton Accords, which brought the Bosnian war to an end were agreed at a conference held in Dayton, Ohio in November 1995: the agreement being formally signed in Paris on 11th December of that year. The agreement was, arguably, the only option that could have ended the conflict. However, it put in place an architecture of governance that has significantly hindered the country’s ability to develop in its aftermath. Some authors argue that the Accords set in aspic the divides created by the war since the entities’ boundaries were separated largely along the cease-fire lines of 1995. In the view of the International

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647 Malcolm, p223  
648 Ibid p225  
650 Malcolm, p264  
Crisis Group, Dayton “transferred ‘wartime achievements’ into democratic legitimacy.” Moreover, the structures brought into existence by the Accords were inordinately complex. The country consists of two ‘Entities’; the predominantly-Serb Republika Srpska (RS), which controls 49% of the territory of BiH; and the Federation Bosnia and Herzegovina (FBH), inhabited by Bosniaks and Croats. The latter is further broken down into 10 cantons which each have a separate premier and cabinet. At a federal level, institutions are also strictly divided along ethnic lines. The Parliamentary Assembly (Skupstina) consists of the national House of Representatives (Predstavnicki Dom), which has 42 seats; 28 allocated for FBH and 14 for the RS. The House of Peoples (Dom Naroda) has 15 seats; 5 Bosniak, 5 Croat, and 5 Serb. The country has a 3-person Presidency, one Bosniak, one Croat and one Serb, who rotate every 8 months.

The complex domestic arrangements which Dayton gave to Bosnia were accompanied by significant international oversight. The month after Dayton a conference was held to mobilise international support for the peace agreement which established a Peace Implementation Council (PIC), comprising the 55 countries and international organisations that participated in the Dayton process. To oversee the military aspects of the Dayton Accords, the NATO-led Implementation Force (IFOR) was set up consisting of 60,000 men. This had a one-year mandate to enforce the cease-fire. To oversee the civil aspects of Dayton, the PIC established the Office of the High Representative in January 1996, with the mandate “to facilitate the Parties’ own efforts and to mobilize and, as appropriate, coordinate the activities of the organizations and agencies involved in the civilian aspects of the peace settlement.” The following year, the OHR was granted significantly more influence by a meeting of the PIC in Germany. Under the so-called Bonn Powers, the High Representative was granted “authority in theatre regarding interpretation of the Agreement on the Civilian Implementation of the Peace Settlement in order to facilitate the resolution of difficulties by making binding decisions, as he judges necessary.” These powers include, inter alia, the authority to impose laws and regulations and dismiss or arrest public officials who have acted illegally or who have failed to carry out their duties. The mandate of the OHR was to have come to an end in mid-2008. However, the office has been retained, and since June 2007, the High Representative has also been the Special Representative of the EU. As an added complication, as well as recovering from a savage conflict Bosnia has also been

653 Malcolm, p268
655 Malcolm, p268
657 Peace Implementation Council, main meeting, section XI para 2. Bonn 10th December 1997
adjusting to the break-up of Yugoslavia, and the demise of communism. Buiter \(^{658}\) identifies three aspects of the post-communist challenge. The first is the transition from a planned to a market economy. The second is the move from Yugoslav communism to political pluralism and liberal democracy. The third is the change from being a constituent part of Yugoslavia, to being an independent state in its own right.

It is evident both from the interviews conducted for this study and from the wider literature that the process of reconstruction has seen a number of distinct phases. The first phase focussed on rebuilding the country’s physical infrastructure, which had been devastated by the war. More than 2,000 kilometres of roads, 70 bridges, all railway lines and many airports had been destroyed or were inoperable. \(^{659}\) It was also estimated that one third of housing stock was badly damaged, and a further 5-6% entirely destroyed. \(^{660}\) Following the signature of the Dayton Accords, a groups of leading donors, including EBRD, the World Bank, USAID and the European Union made commitments totalling US$ 5.1bn to a Priority Reconstruction Programme \(^{661}\), aimed squarely at the physical reconstruction of Bosnia. A joint report by the World Bank and the European Commission demonstrated that this programme met with considerable success \(^{662}\). The report found that, by the end of 1998, power generation had increased to about 78% of pre-war levels; 65% of damaged roads had been rebuilt, as had most bridges; and about 25% of the damaged housing stock had been rebuilt. However, this practical progress was achieved in spite of domestic political problems. According to a World Bank’s evaluation published in 2004, although transition to a market economy was endorsed by all political leaders, the reconstruction efforts faced “entrenched vested interests benefitting from the status quo.” \(^{663}\). Indeed, the Bank acknowledges that the Dayton structures made it almost impossible to get things done at all. As a result the Bank and other donors in ended up “dealing primarily with the Entity governments rather than the State.” \(^{664}\) For the Bank, efficiency was the priority, and a series of Project Management Units were set up “for every project to offset weaknesses in government structures and staffing.” \(^{665}\) Bildt argues that “in order to carry out urgent reconstruction in the post-conflict environment, the international agencies tended to bypass the new constitutional structures and deal directly

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\(^{658}\) Buiter, p 2


\(^{664}\) Ibid, p6

\(^{665}\) Ibid, p8
with whatever local authorities had direct control over the physical infrastructure.” 666 As he observes, whilst this provided BiH with a much-improved infrastructure, this happened at the cost of improving domestic governance: “international agencies focussed on physical reconstruction where results were achievable, at the expense of institution-building or other political objectives.” 667

The second phase of the process developed as the focus of the reconstruction effort shifted from primarily creating physical infrastructure to the wider agenda of economic reconstruction and development, and the need to create central institutions. It was frustration by the international community with domestic obstruction to this process that led to the adoption in 1997 of the Bonn Powers which provided significantly more authority to the OHR. In Cox’s view “some of the most important breakthroughs in the peace process can be attributed to the use of the High Representative’s powers.” 668 Examples include laws on media reform; breaking the links between political parties and public broadcasters; restructuring the media industry, and developing democratic media standards. In addition, from 1997 to 2001, the OHR dismissed 57 officials for failing in their duties. However, notwithstanding the practical benefits that use of the Bonn powers was able to bring about, there was a recognition that their use has resulted in a “substitution effect, whereby international power inhibits the development of constitutional organs by compensating for their weakness.” 669

The third phase of BiH’s reconstruction was initiated by what the EU refers to as “the seminal May 2000 ministerial level PIC” 670 which identified three objectives: 1) deepening economic reform and creating the conditions for self-sustaining market-driven economic growth; 2) accelerating the return of displaced persons and refugees with particular emphasis on enabling citizens to exercise their property rights: and 3) fostering functional and democratically accountable common institutions supported by an effective merit-based civil service and a sound financial basis based on the rule of law. 671 In identifying the need to promote economic growth, the PIC recognised BiH’s excessive dependence on international aid money. As the EU observed, “the inevitable decline in foreign assistance over the next years will have important implications for policy-makers in BiH.” 672 It was anticipated that the imperative for self-generating economic activity would drive political reforms, for example the need to trim, or even sharply cut state expenditures, and to develop better collaboration between the two entities in order to create a single economic space. These three priorities

666 Bildt, C. A Second Chance in the Balkans. Foreign Affairs Jan/Feb 2001, p149
667 Ibid, p150
668 Cox, p13
669 Ibid p14
671 Cox, pp15-16
672 European Commission. Bosnia and Herzegovina Country Strategy. p16
have been reflected in BiH’s own decision-making processes through the government’s medium-term development strategy (MTDS) issued in 2004. "The core of the MTDS is encouraging private sector development, focussing on three areas: promoting entrepreneurship and private sector development, making the privatisation process more efficient, and attracting more private foreign investment." In principle, the MTDS is intended as the core agenda for the development activities of all international agencies and the Bosnian authorities. However, several of those interviewed suggested that this was not always the case. A representative of one development agency commented that “There is no formal system of dialogue between the development agencies and the national government.” Another observed that the MTDS “does capture the priorities for the country, but a lot of people ignore it - personal and organisational agendas sometimes get in the way.”

**Political stalemate**

It cannot be doubted that international efforts and billions of dollars of funding have brought about changes for the better in Bosnia. Physical infrastructure destroyed during the war has been substantially re-built, and even more importantly fighting has not re-ignited and so further death and injury has been avoided. However, beyond these gains, it is far from clear that reconstruction efforts have succeeded. On both the political and economic fronts, Bosnia remains in a parlous situation. Political life remains log-jammed, and no real rapprochement has been achieved between the different ethnic factions. On the economic side, as OECD statistics demonstrate, even after a decade and a half of reconstruction effort, BiH has yet to regain its former wealth: by 2006, the country’s GDP was still less than 80% of its 1989 level. Of those interviewees who were Bosnian nationals, many expressed the sentiment that they felt left behind. As part of the then-Yugoslavia, Bosnians enjoyed a reasonable standard of living, and were able to travel widely without visa restrictions. Now they are in a situation where nationals of countries they used to look down on – Bulgaria and Romania were frequently cited as examples – have these freedoms and Bosnians do not. “We used to look down on Bulgarians and Romanians, now they are in Europe,” was a typical remark. There is considerable resentment, even anger at this reverse.

The central problem is that the Dayton structures do not encourage cross-ethnic collaboration. Therefore, as many argue, they have not ‘solved’ the conflict but instead have set it in aspic. Indeed, a senior development agency representative in Sarajevo argued

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674 Interview with development agency representative, Sarajevo, June/ July 2008
675 Interview with development agency representative, Sarajevo, June/ July 2008
676 Interviews, Sarajevo, June/ July 2008
677 Interview, Sarajevo, June/ July 2008
678 The almost universal opinion of those interviewed
that the Bosnian situation has, in effect, become a frozen conflict. Many of those interviewed made the case that the political structures have perpetuated rather than addressed the ethnic divisions that gave rise to the conflict. Another international agency respondent argued that even if the will were there for cross-ethnic co-operation the structures would not permit it – “the structures provide a disincentive to co-operate; there is no incentive to seek votes from other ethnic groups. Therefore elections are a thing of fear, not hope”. Many respondents argued that, at election time “the nationalist parties, especially the Serbs and Bosniaks, use rhetoric to create fear,” an analysis supported by the literature on elections in BiH. In their report on the November 2000 Federal parliamentary elections, the International Crisis Group identified a number of examples of ethnic rhetoric: for example Bosnian Serb candidates compared the situation of RS with that of Kosovo; and the Serbian Democratic Party (SDS) was openly supported by the Yugoslavian President. Nonetheless, those involved in creating the Dayton Agreements argue that the settlement was the only one possible. According to Carl Bildt, co-chairman of the Dayton conference, “the peace agreement balances the reality of division with structures of cooperation and integration, and is based on the hope that over time the imperative of integration in the country and the region will be the dominant factor.” Other observers agree that the structures proposed in the Dayton accords were the only ones that were capable of ending the war, even if they did nothing to facilitate the subsequent peace. Sumatra Bose argues that the establishment of such strongly ethnically-based elements in BiH was not the result of “some sort of identity fetishism”, but rather a response to a difficult reality. Even now, Bose argues, “a unitary state based on a common Bosnian national identity is simply unrealisable, at least for the present and foreseeable future.”

Aside from the question of whether or not the Dayton institutions promote and facilitate rapprochement between different ethnicities, it is apparent that the institutions cause real practical problems. The first is the sheer complexity of the system, which makes it very difficult to get things done. This is particularly the case in the Federation where the administrative process is complicated by cantonal and municipal administrations. One business interviewee stated that it requires 52 signatures to get construction authorisation in Sarajevo. Giulio Moreno, Sarajevo representative of the EBRD cited another example.

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679 Interview with international agency, Sarajevo, June/ July 2008  
680 Interview with international agency, Sarajevo, June/ July 2008  
681 Interview with international agency, Sarajevo, June/ July 2008, and representative of a majority of respondents  
685 Ibid, p326  
686 Interview with business representative, Sarajevo June/ July 2008  
687 Interview with Giulio Moreno, 2nd July 2008
As part of its focus on infrastructure development, his organisation wanted to improve basic facilities at the airports in Mostar, Banja Luka and Mostar. A financial deal was proposed to RS and FBH in September 2007: it was 3 months before the FBH responded. Because Tuzla airport was owned by a canton, and Mostar airport by its local municipality, “it took a year of effort and 20 meetings to cobble together a solution.” Secondly, the size of the administrative system makes it very expensive – an estimated 56% of GDP. Of this, the wage bill for functionaries represents close to 30% of total public spending and 16% of GDP: the averages for the region are 17% and 7% respectively. A third issue is the quality of the people working in the government structures. A representative of one international organisation in Bosnia observed that, “there is a cadre of civil servants who are unable to do their job properly, That’s because they are hired for their ethnicity not their competence.” Another interviewee, a Bosnian national working for an international organisation, commented that “the problem is that, according to Dayton, politicians are judged according to their nationality, not their skills. This makes it difficult to get the right people.” This person cited an instance of being required to write a speech for a minister, because neither he nor his office were competent to write it having been hired for their ethnicity, not suitability for the job. The sheer complexity of the system is described thus by the International Crisis Group:

“Governance is shared among 13 political units possessing constitutional and legislative authority: the state; the two Entities; and the 10 cantons into which the Federation is further divided. This means there are five levels of government – state, entity, canton, city and municipality. Each of the 13 political units has between six and eleven ministries, effectively amounting to at least 181 ministers for 3.7 million people.”

There is widespread agreement about the double-edged impact of the OHR. On the one hand, there is an acceptance that because the ethnic divisions between domestic political groups stymies development then an institution capable of forcing change is of significant value. An example widely referred to is that of the OHR forcing changes to vehicle licensing to avoid a vehicle being immediately recognisable as from a particular ethnic area. On the other hand, the fact that local politicians and officials know that they are not the decision-makers of last resort means that they can ‘play to the gallery’ – scoring ethnic points rather than taking decisions. One interviewee observed that politicians can hide behind the OHR: “they do not have to take difficult decisions because they know that, ultimately, someone

688 European Commission Bosnia and Herzegovina Country Strategy, p10
689 World Bank. Bosnia and Herzegovina: An OED Evaluation of World Bank Support, p15
690 Interview with international agency, Sarajevo, June/July 2008
691 Interview, Sarajevo, June/July 2008
693 Interviews, Sarajevo, June/July 2008
else will do it for them‖. As David Chandler argued, “politicians who have little representational legitimacy are unlikely to build bridges within society and lack the capacity to resolve conflicts.” Richard Caplan also argues that the propensity of the international community to step in if domestic politics stalls undermines the concept of democratic decision-making, and so “sends the wrong message to a people whose democracy is still in its infancy.” Bose, by contrast believes that what he terms the “vice-regal powers” of the High Representative, although “probably not consistent with the longer term aim of fostering genuine pluralism and rule of law in BiH”, have nevertheless “contributed to a slightly better present for its citizens and open up better prospects – however tenuous – for their future...” However, there is also a rather more practical concern about some of the international intervention in BiH. It appears that the plethora of international organisations – 31 of them according to the 2008 Diplomatic List – operating in BiH can sometimes get in each others’ way. It is clear from interviews with a number of these agencies that the co-ordination between them is limited. “The aid agencies tend to run amok”; “organisational and personal agendas sometimes get in the way of a joined-up approach” were typical of the comments made by development agencies in Sarajevo about the co-ordination of their efforts. These comments are backed up by the World Bank’s 2004 country evaluation of the reconstruction process to that point. In the Bank’s analysis, “there was sometimes communication but not genuine coordination – each donor preferring to proceed with its own projects despite what others were doing.”

Slow economic development

Despite all the development effort, Bosnia’s economy still remains smaller than its pre-war size, and BiH relies excessively on foreign aid, rather than indigenous economic activity for its growth in GDP. Writing in 2001, Cousens and Cater concluded that “although there has been economic growth in Bosnia, it has been driven almost entirely by donor reconstruction and development projects, not a large-scale resumption of privately-financed and self-sustaining economic activity.” However, even four years later, Solioz still concluded that “Bosnia is not only far from having a functional market economy: its economy still relies on foreign aid.” This reliance on foreign aid is borne out by GDP statistics. According to OECD DAC statistics, the slow-down in the GDP growth rate between 1999 and 2003 can be traced significantly to the decline in levels of official development aid, from

694 Chandler, D. ‘Bosnia’s new colonial governor: Paddy Ashdown is turning its elected leaders into his ciphers’. In The Guardian, London 9th July 2002.
695 Caplan, R. ‘International Authority and State-Building: The Case of Bosnia Herzegovina’. In Global Governance 10 2004, p61
696 Bose, The Bosnian State p331
697 Interviews with an international development agencies, July 2008
698 World Bank. Bosnia and Herzegovina: An OED Evaluation of World Bank Support, p17
701 Solioz, C. Turning points in post-war Bosnia. Nomos, Baden-Baden, 2005, p112
about 14% in 1998-99 of gross domestic income in 1998-99 to around 5.3% in 2002. By contrast, foreign direct investment (FDI) has been much more limited. In the early phases of the reconstruction process, FDI was almost non-existent. Between 1995 and 1998, the World Bank estimated that Bosnia received US$ 130m in foreign investment. This is dwarfed by the level of donor assistance during the same period of US$ 2.8bn. However, even since then FDI has remained low: the following chart demonstrates how poorly BiH fares within its region:

<table>
<thead>
<tr>
<th>Country</th>
<th>€ Per Capita</th>
<th>€ millions total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>1,128</td>
<td>5,300</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>896</td>
<td>7,347</td>
</tr>
<tr>
<td>Montenegro</td>
<td>761</td>
<td>533</td>
</tr>
<tr>
<td>Romania</td>
<td>604</td>
<td>13,538</td>
</tr>
<tr>
<td>BiH</td>
<td>397</td>
<td>1,349</td>
</tr>
<tr>
<td>Serbia</td>
<td>368</td>
<td>3,681</td>
</tr>
<tr>
<td>Albania</td>
<td>238</td>
<td>787</td>
</tr>
<tr>
<td>Macedonia</td>
<td>187</td>
<td>373</td>
</tr>
<tr>
<td>Moldova</td>
<td>114</td>
<td>514</td>
</tr>
</tbody>
</table>

Table 5.1: FDI 2002-2005 in the countries of the central and eastern Europe

Bosnia’s key problem is, as Buiter observed in a presentation in Sarajevo in 2008, that the country suffers from a “dreadful business and investment climate”. As early as 2001, the EU observed that “economic development will not proceed until foreign investors (both foreign and domestic) are operating on a level, transparent playing field.” Similarly, the World Bank observes that “the business environment...remains characterised by high barriers to entry and the proliferation of bureaucratic impediments.” Not much appears to have changed since then, and the country fares very poorly in international comparisons of competitiveness and attractiveness to investors. In 2009, the World Economic Forum Competitiveness Report places the country 109th out of 133 countries, and the World Bank’s “Doing Business” rankings put BiH 116th out of 183 countries surveyed. The World Bank report highlights two areas in particular that respondents to its survey picked out: the complexity of starting a business, and the problems with registering property. The Foreign Investment Promotion Agency states that the process of establishing a business should only

Buiter, p14
World Bank. Bosnia and Herzegovina: An OED Evaluation of World Bank Support, p7
take 15 days although it accepts that “due to technical difficulties…[i]t may take up to 30-45
days.” However, the experience of business-people is that even this timescale is not
realistic. The World Bank estimate that the process takes 120 days; The Foreign Investors
Council say it can take as long as 6-7 months.709

The need for constitutional reform and the role of Europe
It is evident that Bosnia has just entered or is about to enter another phase of development,
driven by a recognition that Bosnia needs significant constitutional reform. There is an
almost unanimous view within the international community, and amongst many Bosnians,
that the constitutional settlement established by Dayton urgently needs to change. As Solioz
argues, Dayton “provided the country with an extreme state structure – as complex as it is
dysfunctional…This has produced an oversized and mostly ineffective administration, as
well as an exceptionally unwieldy decision making process, resulting in urgent reforms being
put off.”710 Similarly, the EBRD in its strategy paper published in 2007, argued that “the
major challenge for the country in the near future will be constitutional reform, without which
further progress towards a more democratic and efficient state,…will be difficult to achieve.”
This view was borne out by the interviews conducted for this thesis: interviewees from all
sectors argued that the main impediment to thorough-going reform was the political
structures in place in the country. Nor are these calls for change new: writing in 2001, the
International Crisis Group argued the need for “a strong but fully-representative central
government, clearing away the counter-productive entity and cantonal structures, devolving
substantial powers to the municipalities and designing largely de-politicised structures for
regional administration,”711

In 2008, Bosnia signed a Stabilisation and Association Agreement (SAA) with the EU.
Bosnians see this as a precursor to eventual membership of the EU at some stage in the
future, although those in the international community see this as being long way off712.
However, the SAA was signed, despite EU concerns on a number of issues, precisely
because it is seen as providing a mechanism for beginning to tackle some of Bosnia’s
fundamental problems. The hope, expressed by the majority of those interviewed713, is two-
fold. Firstly, that the potential of stronger economic growth provides a medium-term
aspiration which will make the ethnic divides less relevant to people. Indeed, as early as
1998, Charles Boyd argued that “as economic opportunity invites interaction, these same

708 Foreign Investment Promotion Agency, Investment Opportunities in Bosnia and
Herzegovina. FIPA, Sarajevo. 2008, p33
709 Interview with FIC, 2nd July 2008
710 Solioz, p107
2001, p1
712 Interviews with international agencies, Sarajevo, June-July 2008
713 Interviews with international agencies and corporations, Sarajevo June-July 2008
people will gradually become confident that they can live again in a mixed society. Secondly, the SAA is seen as providing an agenda for action to tackle the problems of the Dayton structures. One example cited related to agriculture. BiH currently has 13 agriculture ministries – a federal one, one for each Entity, and one for each of FBH’s 10 cantons. The EU will wish to deal with a single, central ministry thereby forcing the issue of how to unify the existing institutions. One senior international governmental representative observed that the SAA “makes it clear to people what needs to be done, but also what the benefits will be if they succeed. There is now a contractual agreement about the way forward. It will therefore be possible to flush out those who are genuinely pro-reform from those who merely claim to be.”

Corporate engagement with the reconstruction process

Perhaps unsurprisingly, in the early stages of the reconstruction process, levels of foreign investment were very low. In the first place, the degree of devastation of the country’s infrastructure that had occurred during the war made doing anything extremely difficult. Secondly, as UNDP observed “BiH has no niche to attract FDI.” Unlike Azerbaijan, there is no overwhelming reason for investors to operate in BiH. Thirdly, as can be seen from the above discussion, the highly-complex nature of BiH’s structures and the sheer difficulty of doing business are a significant disincentive to potential investors. Although foreign investment has grown gradually in the past decade it is apparent that, as one corporate interviewee put it, “in general the business community is absolutely not engaged in the wider reconstruction process.” It is not that the business community is unaware of the background of conflict in Bosnia, or of the on-going challenges that the country faces in recovering from the war. Many of the corporate representatives interviewed for this study were BiH nationals, or hailed from the south-east European region. Nor do the business community and those in government and the development sector inhabit different worlds. At a reception held by the Foreign Investors Council in July 2008 which this author attended attendees included representatives of the business sector, of various embassies, the OHR and government agencies. Nevertheless, it is apparent that there has neither been a coherent process for the business sector to engage itself in the reconstruction process, nor one by which the development agencies involve foreign investors in their activities. As the representative of one international development agency put it, “the corporate sector is ignored by the development community, but at the same time companies do not show much sign of wanting to change things.” Asking interviewees about corporate engagement with the reconstruction process elicited an almost-universal response; a blank look. Most

714 Boyd, C G. ‘Making Bosnia Work’. In Foreign Affairs 77:1 (January/February 1998), p53
715 Interview with international agency, June/July 2008
716 Interview with development agency representative, Sarajevo, July 2008
717 Interview with business representative, Sarajevo, June/July 2008
718 Interview with development agency representative, Sarajevo, July 2008
corporate representatives did not see that the reconstruction process was their business, even though they acknowledged its importance. Representatives of political and developmental organisations simply failed to see corporations as an active partner in their activities, save by making charitable donations to worthy causes. However, despite this lack of coherent process, it is evident that the international business community has had significant - if periodic and episodic – impacts on key aspects of the reconstruction process. As the following examples will illustrate, the renewed focus of the reconstruction programme on market-based economic growth may well mean that, in future, the corporate sector plays a more central role.

The Foreign Investors Council
Bosnia’s Foreign Investor’s Council perhaps demonstrates that the apartheid between companies and the development sector may be changing. FIC was established in August 2006 with the goal to “promote pro-business initiatives and deliver practical support to all investors to improve the business environment in the country.” It is a membership organisation made up of leading foreign investors in Bosnia (22 as at August 2008), including ArcelorMittal, Heidelberg Cement and accountants PwC. According to its Executive Director, Ajla Mostarac, “FIC members have already invested more than $4bn in Bosnia.”

The organisation states its objectives as follows, to:

- **represent, express and advance the shared opinions of its members to promote a common interest and to stimulate foreign direct investment,**
- **promote communication and cooperation the FIC and the authorities in Bosnia and Herzegovina,**
- **cooperate with the authorities in Bosnia and Herzegovina, in overcoming difficulties and obstacles which may exist in relations with foreign investors and in economic relations with other countries,**
- **promote the interests of the international business community in Bosnia and Herzegovina,**
- **inform its members and other interested persons to the extent possible regarding the investment climate in general in Bosnia and Herzegovina,**
- **link with other foreign investor organizations across South Eastern Europe to (a) benefit from best practices sharing and to (b) study concrete means to facilitate regional operations.**

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720 Interview with Ajla Mostarac, 02/07/08
Under normal circumstances, a membership organisation like FIC would be regarded as no more than a lobbyist on behalf of its members. However, in the context of Bosnia, FIC has come to be seen by the development agencies as a key partner in promoting change and economic development in the country. Orhan Niksic, Senior Economist at the World Bank’s Sarajevo office commented that, “we see FIC as a partner in what we are trying to achieve.” Its advocacy activities are valuable “since the clamour for reform is weak.” When asked why its work was considered beneficial to the greater good, rather than just that of its members, Niksic contended that “It’s work will improve the situation for all companies, not just a few.” This point was made also by Dr Christine McNab, UN Resident Co-ordinator of Operational Activities and Development, and Resident Representative of UNDP. In her view, “companies face the same problems as ordinary people, so the representations they make are valuable.”

The fact that FIC has established platforms for dialogue with the BiH governments is also seen as important. FIC undertakes a number of activities in pursuit of its goal of improving the business and investment environment in Bosnia and Herzegovina. It has a series of 5 ‘Support Teams’ working on specific issues identified as problematic: business registration; construction permits; corporate tax; law and work permits. These teams are “aimed at assisting the government and other relevant agencies to deliver tangible improvements in the business environment of BiH.”

The organisation also holds regular meetings, apparently both on and off the record with key officials in the different BiH governments. FIC has also developed a ‘White Paper’ published in April 2007 “to provide BiH authorities with a prioritized agenda for reforms to address key obstacles to investment that can be accomplished over the coming twelve months.” Based on consultation with international businesses based in Bosnia, and supported by USAID, the White Paper identifies five key obstacles to foreign investment: 1) Overlapping, non-standardized policies and procedures for obtaining permissions required for doing business, stemming from the number of different jurisdictions in the country; 2) un-harmonised and excessive taxes as the result of the cost of the bureaucracy; 3) burdensome construction permissions and procedures, as a result again of the multitude of administrative areas; 4) limited access to business finance, and capital markets; and 5) the fact that the market is small and segmented. FIC’s value therefore, and its contribution to the reconstruction process therefore seems to stem from two factors. Firstly, the organisation is identifying the shortcomings in the investment climate at precisely the moment that economic growth has been identified by the development community as one of the key needs for BiH. Secondly, in proposing solutions to the economic problems, FIC is highlighting instances of the problems that exist more widely in the Dayton institutions.

722 Interview with Orhan Niksic, 02/07/08
723 Interview with Christine McNab, 05/07/08
725 Foreign Investors Council. White Paper p4
726 Foreign Investors Council. White Paper p6
Engagement with banking sector reform

Key elements of macro-economic reform had been put in place in the late 1990s, for example, the Central Bank of Bosnia and Herzegovina was established in 1997. A key task of this new bank was the management of the Currency Board arrangements for the new Bosnian currency, the Convertible Mark (KM). Initially, the KM was pegged to the Deutschemark, but at the introduction of the new European currency became pegged to the Euro at 2KM: 1 Euro. The need for a fundamental reform of the banking sector was recognised as part of the Peace Implementation Council’s meeting in Brussels in May 2000, since structurally the banks had not changed from their pre-war role as non-commercial adjuncts of the large state-owned enterprises. As the World Bank put it: “SOEs continued to own the largest banks...which lent largely to their parent companies, largely without regard to creditworthiness... existing standards did not conform to the needs of a market-based banking system.” Although a number of private banks had come into existence, these were seen as under-capitalised. Many of those interviewed stated that, at that time, the banking sector had a very poor public reputation as a result of a freezing of personal and commercial foreign currency deposits. This generated considerable mistrust and an unwillingness amongst many to entrust their savings to banks. As a result, fundamental reform of the sector, and the creation of a state-of-the-art banking sector was seen by the development community as a key tool in the development of the private sector. It appears that this the objective of stabilising the banking sector has broadly been achieved. In its review of interventions to 2004, the World Bank concluded that although the situation was still far from perfect, “new commercial banking laws were adopted in both Entities and independent banking supervision agencies were established. Minimum capital requirements have been raised substantially...”. These changes appear to have succeeded in rebuilding confidence and faith in the banking sector: bank deposits have risen from EUR 267 m in 2000 to EUR 2,543m in 2007. That this growth is significantly in advance of economic growth rates, suggesting that ordinary Bosnians have started to entrust their savings to banks once again.

This stabilisation of the financial sector was, in part at least, achieved because of the willingness of international banks to step in and invest in Bosnian banks. All but one of the country’s banks are now foreign-owned, and these international players have introduced modern technologies and operating practices. The willingness of foreign banks to work with the World Bank and others in reform of the sector was therefore a contributor to the new-

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730 Interviews in Sarajevo, June/ July 2008
731 Ibid, p13
732 Foreign Investment Promotion Agency, p10
found stability of this important sector. As Bosnian economist Zeljko Maric observed, “FDI entrance...has brought new capital, new technologies, enabled more effective and more profitability (sic) doing business, higher capital mobility, risk diversification etc.”\textsuperscript{733} Perhaps counter-intuitively, the reduced number of banks is also seen as positive to competition - “banking systems such as those of Croatia, Bosnia and Herzegovina and Bulgaria as of 2004, characterized by 5-10 fairly strong foreign-owned players, may well be more competitive than systems with large numbers of smaller banks seen in these countries 5-10 years before.”\textsuperscript{734} In the case of reform of the banking sector therefore, multi-national companies have been an important component in the post-conflict reconstruction process.

What is less clear is whether the reformed banking sector has achieved the goal of providing a basis for the development of a local private sector: many of those interviewed criticised Bosnia’s banks for not doing enough to support domestic economic growth. It was argued that there was insufficient lending to households and to small businesses, and when loans were made, a high level of collateral was required, and interest rates charged were unreasonably high. One interviewee accused the banks of making “excessive profits”, and claimed that the mortgage interest rate was the highest in Europe\textsuperscript{735}. It was also argued that the banks do not offer more than basic services, nor bring to bear specific expertise, for example in funding agricultural enterprises. Some respondents also accused the international banks of expatriating funds, rather than stimulating internal investment and growth in Bosnia. It is quite hard to establish the veracity or otherwise of many of these allegations. In some cases, the accusations may reflect legal constraints rather than operational decisions: for example, Bosnia’s banking laws stipulate stringent collateral requirements. However, the accusation that the banks charge higher interest rates in Bosnia does appear to have merit if one compares mortgage rates offered by the subsidiaries of one bank (Unicredit Group) in different countries of former Yugoslavia\textsuperscript{736}. The “standard housing loan rate” of Group’s Croatian subsidiary, Zagrebacka Bank is 7%\textsuperscript{737}. The Group’s operation in Serbia and Montenegro charges 1.7% above the EURIBOR 3 month rate, giving an effective interest rate of about 6.7%\textsuperscript{738}. The Bosnian operation, by contrast, charges and

\textsuperscript{734} Kraft, E. Banking Reform in Southeast Europe, Accomplishments and Challenges. Presentation to Oesterreichische Nationalbank Conference on European Economic Integration, Vienna Nov 29-30 2004, p10
\textsuperscript{735} Interview with development agency, Sarajevo, June/ July 2008
\textsuperscript{736} Comparison made in August 2008
\textsuperscript{738} Unicredit Bank, Serbia. Retail Clients. Retrieved 7\textsuperscript{th} Aug 2008. <www unicreditbank.co.yu/?jez=en&m=7953>
interest rate of 8.49%, a rate that appears to be available only to certain professionals. It also appears that there is merit in accusation that the banks’ activities are encouraging imports rather than the growth in local industry that would negate the need for imports. Zeljko Maric of the University of Mostar argues that a large proportion of loan finance that banks have provided has been used to buy import goods for re-sale. He says that “banking credits structure consists mainly of consumer credits, while investment credits are in fewer amounts… it is clear that most of banking credits serve for buying goods from import…It can be seen that the consumption goods have major proportion, while investment goods have less proportion.(sic)” This statement appears to be backed up by the data from the Central Bank. As can be seen from the following table, household deposits with banks have increased 10-fold in the past 7 years, but the trade balance has worsened significantly. Although one cannot impute a direct correlation between these two data-streams, it is highly suggestive that Bosnia’s bank lending has driven import activity, rather than domestic investment.

<table>
<thead>
<tr>
<th>Year</th>
<th>Bank deposits Euro m</th>
<th>Trade Balance Euro bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>267</td>
<td>-3.00</td>
</tr>
<tr>
<td>2001</td>
<td>740</td>
<td>-3.13</td>
</tr>
<tr>
<td>2002</td>
<td>829</td>
<td>-3.52</td>
</tr>
<tr>
<td>2003</td>
<td>985</td>
<td>-3.67</td>
</tr>
<tr>
<td>2004</td>
<td>1273</td>
<td>-3.68</td>
</tr>
<tr>
<td>2005</td>
<td>1629</td>
<td>-4.01</td>
</tr>
<tr>
<td>2006</td>
<td>2097</td>
<td>-3.41</td>
</tr>
<tr>
<td>2007</td>
<td>2543</td>
<td>-4.14</td>
</tr>
</tbody>
</table>

Table 5:2

The Bulldozer Initiative
The Bulldozer Initiative was established in November 2002 by the OHR, with the backing of the IMF, World Bank and the European Commission, and explicitly recognised that FDI was impeded by overly-complex bureaucracy. Its goal therefore was to harness the expertise of the business community “to bulldoze barriers by identifying concrete legislative changes and advocating for their adoption and implementation.” The first phase of the project was designed to achieve quick wins and aimed to identify and implement 50 reforms in 150 days.

740 Maric, p 66
741 Foreign Investment Promotion Agency, p10
742 Herzberg, B. Investment Climate Reform: Going the last mile. The Bulldozer Initiative in Bosnia and Herzegovina. World Bank Investment Climate Unit, Washington DC. 2004, p2
In the view of the World Bank’s project co-ordinator, it was essential that the impetus should come from “the internationals, because of the total distrust by the private sector of the government, and the manifest lack of interest by the government in listening to the private sector.”\textsuperscript{743} The Bulldozer project therefore provided “a sustainable process in which the private sector could engage in a strong dialogue with the government”.\textsuperscript{744}

The Initiative established a co-ordination unit which approached “hundreds of individuals and organisations” to encourage them to submit reform proposals. Presentations were made in public meetings in 8 different cities. These events were attended by more than 500 people and the process yielded around 250 submissions on a wide range of issues. Each of these was considered by the Bulldozer Committee, which consisted of lawyers and economists, which considered each of the proposals in the light of their consequences for economic development. This committee selected 50 proposals including: easing the BiH entry visa regime for foreign nationals; removing the need for registration of foreign representative offices in both Entities; and shortening procedures for increasing bank capital. These proposals were then presented to the Prime Ministers of BiH, RS and FBH. Thereafter the Bulldozer Committee appointed a coordinator to liaise with each of the administrative units. Although all of the 50 reforms were adopted by both the federal and the entity governments, the project report states that “no systematic data gathering campaign has been so far organized to measure the impact”\textsuperscript{745} of the reforms. Despite this lack of detailed assessment, there seems to be widespread agreement that the project was a success. The EBRD’s 2003 strategy paper said that the Bulldozer Initiative “represented significant progress” in the push for a single economic space in BiH.\textsuperscript{746} The OECD in its Enterprise Policy Performance Assessment of 2003 for Bosnia and Herzegovina described the initiative as a turning point for policy reform for the country.\textsuperscript{747} This positive view of the Bulldozer project was also borne out during interviews conducted in the preparation of this thesis. The representative of one international business interviewed commented that “it was generally a success”; another commented that “most of the changes it recommended have been acted upon.”\textsuperscript{748}

\textit{Impacts on the privatisation process}

Bosnia’s privatisation process reminds us that the country has been making a transition, not just from war to peace, but also from a Communist, command system to a free-market economy. As in much of the rest of the region, the privatisation process has proven to be...
highly controversial, and much criticised. Privatisation in BiH was based on a voucher process similar to that caused such problems in Russia in the 1990s. Each member of the population was allotted vouchers which technically enabled them to buy shares in industrial ventures or in social housing. It did not work well. “This voucher privatisation programme has had predictably poor results...The measures undertaken by government to overcome the deficiencies of mass privatisation were inadequate; corporate governance continues to be poor.”

The core problem was, according to Donais that it allowed those with power and influence to get hold of the assets by buying up ordinary people’s vouchers very cheaply and then securing control of the companies being privatised. He cites the example of the privatisation of the Holiday Inn in Sarajevo, in which “the tender offer of five million DM in cash was supplemented by an additional 10 million DM worth of vouchers collected for next to nothing from individual Bosnian citizens.”

Donais is critical of the international community, arguing that they failed to factor in the peculiarities of the situation in Bosnia in designing the privatisation process. In particular he criticises USAID, who led the privatisation process for “an overemphasis on the fact of privatization and an under-emphasis on outcomes.”

The most obvious problem resulting from the problems with the privatisation process was that significant new funding was not forthcoming. However, even more significantly, given the ethnic divides in the country was that the privatisation process tended to reinforce the divisions in society – “selling off public assets to private interests actually enhanced the position of the elites, many of whom were the private purchasers of formerly state-held assets.” Probably the most significant examples of the privatisation process reinforcing ethnic divides occurred in RS. In January 2007, Russia’s Zarubezneft announced that it would pay US$ 160m for 2 refineries, one in Bosanski Brod, the other in Modrica. According to reports at the time, the Russian company agreed to pay 18 months of unpaid salaries, and to invest a further US$ 650 in building new facilities. In the same year, the RS mobile telephone network, Telekom Srpske was sold to Serbia’s mobile operator Telekom Srbija for EUR 646m, nearly half as much again as a rival bid from Telekom Austrian. In both cases, the funds went to the government of RS, and in the case of the latter, the World Bank

751 Ibid, p10
752 Ibid, p13
753 Cousens & Cater, p97
concluded that the Serbs had paid a price significantly in excess of what the company was worth. One development agency interviewed described the deals as “in effect a subsidy to the Slavic part of BiH.”

However, whilst Telekom Srbija and Zarubseneft were arguably doing the political bidding of their governments, other companies have found themselves embroiled in privatisation and investment deals that have tended to undermine, rather than support the country’s unity. In 2006, APET (Austrian Power & Environment Technology GmbH) an Austrian company gained the right to build 4,000MwH of generating capacity in FBH. A number of interviewees claimed that this deal was done without a proper tender or any transparent procurement process, and represented collusion between the company and politicians in the Federation. Interestingly, this deal appears to be unwinding. In April 2008, Sarajevo cantonal prosecutors announced that 13 officials, including the Federation’s Prime Minister, Nedzad Brankovic, and energy minister, Vahid Heco are suspected of the “abuse of office in making decisions pertaining exclusively to the power sector.”

Reconstruction and developmental impacts of business models

Although the examples above demonstrate that some foreign investment has served to exacerbate the divisions within the country, there is also evidence that the influence of some companies has been positive in seeking to overcome historic divides in Bosnian society. In her work, Pickering observes that “workplaces...[are] better suited than neighbourhoods or voluntary organisations for building bridges in post-war Bosnia.” Her assertion that “workplaces generally create opportunities for repeated, horizontal interaction between employees,” appears to be borne out by evidence from interviews conducted for this study. A number of those companies interviewed said that they hired staff on the basis of ability, not ethnicity. Adnan Ramcic of HP for example said that in selecting their local service partners “who we hire has nothing to do with ethnicity – it’s about the skills and contacts that the company brings.” Similarly, Amela Kosovic, of the accounting firm KPMG said that, in opening a Banja Luka office, they had hired people with the right qualifications and local contacts. Whilst one must be cautious about such statements, these and other interviewees did seem to be genuine in their statements. Nor does hiring ‘the right person for the job’ give an intrinsic advantage to one ethnicity (as it would, for example in South Africa) since it appears that in Bosnia access to education has not been ethnically-biased, and therefore to hire on the basis of ability does provide equal access to members of all ethnic groups. Companies like HP and KPMG are therefore providing environments where people from different sides of the ethnic divide work side-by-side. In doing so, they are building

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757 Interview in Sarajevo, July 2008
758 Interviews, Sarajevo, June/July 2008
761 Ibid, p116
762 Interview with Adnan Ramcic, HP 3rd July 2008
bridges that will – if Pickering is correct – reduce the likelihood of renewed conflict in the future.

It is also evident that the business model of some of these companies have promoted economic development beyond the relatively small size of their investment in the country. HP for example only employs 8 people in the country\textsuperscript{763}, and imports its products, rather than producing them locally. However, the company operates in BiH through a network of 3 distributors and 23 local partner firms. It is these local companies, whose personnel are trained by HP, which provide installation and maintenance services to HP’s customers. As a result these local firms “grow with us”, and the impact of HP’s business in generating economic activity becomes significantly larger than might be expected from a relatively small main office. It is also apparent that venture capital has played an important role. Horizonte Venture Management is an Austrian-based firm established in 1995 which has operated in Bosnia for more than a decade. Horizonte’s approach has been to identify non-performing economic assets – often those formerly-owned by SOEs – and develop a small businesses which utilise those assets. As a VC, Horizonte does not manage its projects on a day-to-day basis, but seeks to identify local entrepreneurs. Alma Hadzidedic, one of the firm’s analysts observed that whilst technical skills are usually quite good, business skills are often lacking\textsuperscript{764}, the result of an education system still predicated on the needs of the pre-war Communist command economy. As a result, Horizonte is not just as the provider of funds, but also helps to write business plans and provides on-going management support. However, as an example on Horizonte’s website demonstrates, the impact is double-edged. In 2002 Horizonte invested in Fabrika Cementa Lukavac, one of two cement plants in Bosnia\textsuperscript{765}, selling its stake in 2005. During that period, the company’s revenues increased more than 35% from KM 19m to KM 26m. However, during the same period the number of employees fell from 450 to 360\textsuperscript{766}. These job losses almost certainly reflect the need to slim the plant from a Communist era entity to something able to compete in the free market. The success of this strategy is reflected in the fact that the plant is now “market leader in the region”\textsuperscript{767}, and has recently increased its capacity. Nonetheless, the short term impact was to create further unemployment.

\textit{Skills development}

There seems to be a degree of agreement that the indigenous education system in Bosnia is still essentially a communist structure. It is regarded as being able to provide people with good technical skills. Representatives of various technology companies interviewed for this thesis felt that the level of skills was good – a typical response being that “there are lots of

\textsuperscript{763} Ibid
\textsuperscript{764} Interview with Horizonte, July 2008
\textsuperscript{766} Ibid
\textsuperscript{767} Ibid
technically well-qualified people in the country”\textsuperscript{768}. The problem seems to be that the system is not good at producing good managers: training is still designed for running command-economy structures, not those suited for a free market. It is apparent that this skills gap causes significant problems. Horizonte reported that they have “to hunt for the right people here”\textsuperscript{769}, and the World Bank was obliged, in the 1990s, to establish Performance Management Units to “offset weaknesses in the government structures and staffing”\textsuperscript{770}. Developing a modern skills base is seen as being a key plank of the country’s development policy. Within this, there seems to be a small but positive impact brought about by the ‘business as usual’ processes used by investing companies. HP, for example, relies on local firms to deliver to its clients, and trains those companies’ staff to install their equipment. Even though training provided to these people is likely to be company-specific, there will nonetheless be a beneficial impact in developing the skills base of local people. There also seems to be an impact on the skills base of the country derived from the confidence generated by the presence of international organisations, including companies. A number of interviewees stated that there exists something of a ‘halo effect’ which encourages diaspora to return to, and stay in Bosnia\textsuperscript{771}. Some respondents were themselves examples of this phenomenon. For example, Ajla Mostarac, Executive Director of FIC is a Bosnian national who was educated abroad. For her, “If the international community were not here, I’d leave: they give confidence.”\textsuperscript{772} Similarly, Alma Hadzidedic of Horizonte is a Canadian national of Bosnian origin whose family left during the conflict. Quite how widespread is this phenomenon is impossible to say, and it is certainly likely to be limited to Sarajevo and other larger conurbations. Nonetheless, it can plausibly be argued that the presence of international companies provides a degree of reassurance that at the very least encourages skilled people who might otherwise leave the country to stay, and appears also encourage diaspora to return. This is not necessarily tied closely to the specific job-creation opportunities which the presence of international companies provides. It seems as much to be the result of a greater sense of normality conferred by the presence in the country of high-profile international brands like HP, Cisco and Coca-Cola: it makes Bosnia seem like part of the rest of the world, not a war-zone.

\textit{Corporate engagement with the reconstruction process}

Despite the fact that the international business community appears to have material impacts in BiH, it is apparent that no system exists to co-ordinate these impacts with the overall reconstruction effort. To some extent, this is unsurprising given the international community’s inability even to coordinate its own efforts effectively. In its 2004 review of BiH,

\textsuperscript{768} Interview with Haris Pinjo 2\textsuperscript{nd} July 2008
\textsuperscript{769} Interview with Alma Hadzidedic 3\textsuperscript{rd} July 2008
\textsuperscript{770} World Bank. \textit{Bosnia and Herzegovina: An OED Evaluation of World Bank Support}, p 8
\textsuperscript{771} Interviews, Sarajevo June/July 2008
\textsuperscript{772} Interview with Ajla Mostarac, July 2008
the World Bank concluded that despite international agencies’ efforts to work more closely, the situation remained confused:

> Despite these attempts at coordination on the ground, the results were probably not commensurate with the effort expended. First, there was sometimes communication but not genuine coordination—each donor preferring to proceed with its own projects despite what others were doing. Second, following the intensive reconstruction period most donors have begun to reduce the size and scope of their programs, which diminished the perceived need for, and interest in, coordination. Local aid coordination currently appears to operate on an ad hoc basis. Third, and most important, the governments of BiH, at whatever level, have not been actively involved in aid coordination.\(^{773}\)

Interviews suggest that the co-ordination situation has improved to some degree, but that the international response is still not as ‘joined-up’ as might be desirable. It was reported that there remain instances of agencies acting without proper co-ordination with their peers\(^{774}\). Given the inability of the international governmental agencies to collaborate properly even amongst themselves, it is perhaps not surprising that the foreign corporate sector has “absolutely not”\(^{775}\) been systematically engaged in the reconstruction of Bosnia. Therefore, the situation in post-conflict Bosnia reflects the global reality that the corporate sector has no legitimate ‘place at the table’. Chapters 1 and 2 of this study identified a number of initiatives at a global level that seek to resolve this: none of these seems to have made any inroads in Bosnia. During the interview process, none of these initiatives was referred to, with the exception of a single (and highly unfavourable) allusion to the UN Global Compact.

The separation appears to stem from a failure to realise that the actions of the international business community actually have an impact on key planks of the reconstruction process. Companies do not see their actions as ‘political’; and development agencies appear blind to the impacts that companies’ activities have on the issues central to their work. Oddly, in devising their philanthropic programmes, companies do demonstrate cognisance of the wider environment. A number of interviewees referred to the ‘Night of 1,000 Dinners’ which takes place annually in Sarajevo. Organised by the American Chamber of Commerce in cooperation with the Canadian and U.S. Embassies, this “gala dinner... is organised to raise funds to help the clearing of mine fields in Bosnia and Herzegovina in coordination with the National Committee for Clearing Mine Fields raises money for de-mining activities in the


\(^{774}\) Interviews with international agencies

\(^{775}\) Interview with business representative
country. Although entirely divorced from companies’ day-to-day activities this activity does provide valuable resources that contribute to enhancing security in Bosnia. Specific companies’ philanthropic programmes also demonstrate awareness of the reconstruction needs of the country. HP for example works with the University of Sarajevo on the company’s Grid Programme for Universities. This programme, undertaken in collaboration with UNESCO operates in various parts of Africa and south-east Europe and aims “to keep more professionals at home... while allowing them to reap some of the benefits of expatriate colleagues, such as access to the latest technology.” In Bosnia, the programme provides unemployment training and funding for Sarajevo University’s engineering faculty all contribute to development of a modern skills base in the country. Companies are therefore evidently not unaware of the frailty of the situation in Bosnia, and are able to design philanthropic interventions that respond positively to the post-conflict needs of the country.

However, when it comes to their day-to-day commercial and operational activities, companies appear to be much less aware of their impacts on the reconstruction process. This is despite the fact that, as this chapter has demonstrated, companies’ actions can have highly beneficial impacts on that process. However, these impacts are accidental rather than designed: HP is merely rolling out a model it uses globally that happens to have beneficial skills-development side effects that are valuable in the context of Bosnia. The problem is that these ‘collateral benefits’ might not be as significant as they could be were there more proactive thinking, planning and, crucially co-operation with the development community. As a hypothetical example, the benefits to BiH from the HP business model could be increased by allowing other non-company personnel to attend some courses. Benefits could potentially be expanded further by developing a joined up approach between the training that companies are undertaking for company-specific reasons with what development agencies and the government are undertaking from the ‘post-conflict reconstruction’ perspective. However, it is equally apparent that the ‘collateral’ impacts of companies applying their standard business practices can as easily be negative as positive. For the banking sector to apply their standard risk analysis to BiH makes sense from a commercial perspective. Yet the knock-on effect is to take money out of a country that badly needs investment, and to provide trade finance rather than investment that supports long-term economic development.

But the converse is also true: that the development community does not seem properly aware of the impacts that companies are having on the reconstruction process. During interviews for this study with development agencies the example of HP’s wider impact was

778 Interview with HP, Sarajevo, July 2008
raised: the agencies demonstrated no prior knowledge of this activity but acknowledged that it did impact on a key reconstruction priority.\textsuperscript{779} There is some evidence that the situation may be changing, at least to some degree. As noted earlier, the FIC White Paper has been welcomed by the development community as a valuable analysis. One respondent from the development sector also suggested that FIC’s value also lies in obliging the international business community to play a more active and positive role in the on-going reconstruction process\textsuperscript{780}. Yet these developments remain nascent and at present there remains a virtual absence of any systematic processes, either on the part of the international community or from the international business sector, to engage corporate activities with wider reconstruction efforts.

\textit{Conclusions}

Bosnia remains broken, and Bosnians themselves express a strong sense of having fallen behind their regional neighbours in the past 2 decades. Although undeniably steps forward have been made since 1995, these fail to reflect the degree of international attention and financing that the country has received. One must not underestimate how significant is the maintenance of peace in the past 14 years, and the reconstruction of the country’s physical infrastructure has been highly successful. Yet BiH’s GDP remains significantly below its pre-war level, and current rates of economic growth are sluggish given the scale of the economic re-development challenge. Even more importantly political life remains stalled, with no real rapprochement between the different ethnicities, and political structures that enable – indeed encourage – foot-dragging by the main parties. This failure is due in part to the intransigence of local political leaders and there are strong suggestions of collusion between politicians in order to be able to maintain themselves in power\textsuperscript{781}. However, the international community must also take its share of the blame, albeit that often its actions have been the result of the best of intentions. The use, indeed the very genesis of the Bonn Powers, is intended to overcome the log-jam in the domestic political institutions and their use has enabled many steps forward that would otherwise not have been made. However, the knowledge that the OHR will step in and in the final analysis take decisions allows local politicians a pretext for abdicating responsibility themselves. However, the international community is also guilty of some very real mistakes; the misconceived privatisation process probably being the most significant.

However, within this reconstruction process, it is evident that the international business community has played is small but significant role, but equally that their involvement has had negative as well as positive aspects. The best example of this is the development of the banking sector. On the one hand, the willingness of international banks to co-operate with

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{779} Interviews with development agencies
\item \textsuperscript{780} Interview with development agency representative, Sarajevo
\item \textsuperscript{781} Interviews, Sarajevo
\end{itemize}
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EBRD and others in the restructuring of Bosnia’s banking sector has enabled the creation of a robust set of institutions. On the other hand, the practices applied by those banks seem, in certain regards, inappropriate to a post-conflict environment. Yet despite their importance to key aspects of the reconstruction process, there is no structured process by which the business community is properly engaged by those responsible for that process. It appears that the FIC is beginning to provide a vehicle by which greater engagement may come about, but this is still rather an *ad hoc* structure for such an important issue.

Yet the very fact that the development community is now listening to FIC’s analysis of what needs to change if BiH is to develop properly brings us to the central paradox of the corporate involvement with the Bosnian reconstruction process. It is this: if the business sector’s analysis is valuable now, why was it not sought earlier? Indeed, why was the opinion of potential foreign investors not factored into the Dayton Accords? Had this been done, would Bosnia’s reconstruction trajectory have been very different, and the country’s future perhaps now more secure?
6: Rwanda

Introduction

The 1994 Genocide saw as many as a million people massacred in just 3 months and around a further 3 million people displaced, many becoming refugees in neighbouring countries. Despite significant foreign aid, the country remains very poor. According to the British Department for International Development, in 2006, 57% of the population still lived in poverty. The country’s economic base is fragile, and the country’s agricultural sector, on which a large proportion of the population still depend, “remains unproductive and largely on a subsistence level.” As a recent study of the country argued, “any solution to Rwanda’s structural problems of poverty and inequality would entail the creation of greater accessibility to formal or informal jobs outside the agricultural sector.” Yet the country’s ability to create and capitalise on new jobs is compromised by a lack of skills in the workforce; according to DFID nearly half of the population do not complete the full 6 years of primary education. The Government of ex-General, now President Kagame has ambitious plans for change. Its Vision 2020 strategy aims to raise the country to middle income status by 2020, requiring a 4-fold increase in per capita income from 2000 levels. The Government receives significant financial support from international donors. At present around 36% of Rwanda’s central government revenues are provided by direct and project-related grants from international donors, and the development community see its role as putting in place the key elements of a functional state and economy.

Yet how far are these efforts and ambitions compromised by the nature of the Kagame regime, and limitations on how much can be achieved by development aid alone? The donor community evidently see Kagame as head of a highly focussed government has already succeeded in creating a reasonably well-functioning country from the nadir of genocide. Yet the Government lacks real democratic legitimacy, and has demonstrated authoritarian behaviours, with well-documented abuses of human rights and press freedoms. How far do these issues undermine efforts to create a stable, durable state? How far too, does reliance

782 Doyle & Sambanis, p285
783 Interviews with RBD, Kigali March/ April 2009
785 Government of Rwanda. Vision 2020, p6
787 DFID. UK Government’s Programme in Rwanda p4
790 Interviews with development agencies, Kigali, Mar/ April 2009
791 Interviews with donor agencies, Kigali, Mar/ April 2009
on development aid compromise this aim? A key development goal is the creation of a thriving private sector, yet at the moment the private sector is tiny – the Private Sector Federation estimate that there are only about 50 companies in the country employing more than 100 people. Foreign investment also remains limited, and number of foreign companies, including Total, Shell and Accor Hotels have actually terminated their investments in Rwanda. This chapter examines the reconstruction programme in Rwanda, and the impacts that the small number of foreign investors have had. It finds that these impacts are material and questions the degree to which Rwanda will ever be secure unless it is able to secure more foreign investment and develop a thriving private sector.

**Background to a genocide**

At the Berlin Conference of 1885, at which the European powers carved up Africa and its resources. Rwanda and Burundi, then under the name Ruanda-Urundi, were assigned as part of German East Africa. This was despite the fact that, at this stage, no European had actually set foot in the country. The Germans ruled their new colony using the existing tribal systems, until Belgium invaded in 1916. Belgian rule was confirmed in 1923 as a mandate of the League of Nations. Rwandan society was divided into three groups, the Tutsi, the Hutu and the Twa. Historically, these divisions were not ethnic, but represented a statement of a person’s wealth; a Tutsi was defined as someone owning 10 or more head of cattle. Thus, it was possible for an individual to move from Tutsi to Hutu status and back again, or indeed vice-versa, dependent on the number of cattle he owned. However, because Tutsis were wealthier, and therefore better fed, they tended to be taller than their Hutu compatriots. The Belgians however, used these characteristics to categorise the population of the country into what they termed ‘ethnies’, or ethnic groups. In 1935, following a census identity cards were introduced that were still in use at the time of the genocide. The Rwandan government today make it absolutely clear that they regard the ‘ethnic’ division of the country to have been an artificial import of the colonial powers, and that today all Rwandans, whether Tutsi, Hutu or Twa should be regarded as the same.

*The colonial power, based on an ideology of racial superiority and in collaboration with some religious organisations, exploited the subtle social differences and institutionalized discrimination. These actions distorted the harmonious social structure, creating a false ethnic division with disastrous consequences.*

Under the Germans, the Tutsis had enjoyed the dominant position and the best educational opportunities. For example, the school for the sons of chiefs in Nyanza had a minimum requirement of 10 heads of cattle.

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height requirement, which effectively reserved it for Tutsis. This dominance continued under the Belgians: a UN mission to Ruanda-Urundi in 1948 was critical of the inferior position of the Hutu and Twa populations of the country in relation to the Tutsis. However, by the 1950s the voice of the Hutus, who represented about 85% of the population, was getting stronger: in 1957 a Hutu Manifesto was drawn up which called for power to be placed in the hands of the Hutu majority. In 1962, the country gained independence, with the Hutu Grégoire Kayibanda as President; and the following year a full-scale civil war broke out between the Government and Tutsi exiles. In the war of 1963-64 nearly 3,000 people were killed in battle, and further 10,000 Tutsi civilians were massacred in retaliation by the Government.

Tension between Tutsi and Hutu continued to fester in the subsequent decades, especially in light of quotas introduced by the Kayibanda regime which limited Tutsis to 9% of school places; 9% of jobs and so on. These and other similar measures culminated in a purge of Tutsis from educational establishments in 1973. This event prompted the overthrow of the President by his Defence Minister, Juvenal Habyarimana. For a while the situation improved, but the new regime proved little better than its predecessor. In 1979 Rwandan Tutsis in exile in Uganda formed the organisation eventually called the Rwandan Patriotic Front (RPF) which acted as a focus for opposition to Habyarimana’s government. In the late ‘80s, a combination of a coup in Burundi, and a collapse in coffee prices led to severe economic problems. As a result, Habyarimana was obliged to agree to Western donors’ demands for multi-party elections, and his failure to deliver this led to an invasion of the north of the country by RPF forces. This led to severe reprisals against the Tutsi and southern Hutu populations. It also led to the Rwandan army training and arming the civilian militias known as the Interahamwe. It is estimated that around 2,000 Tutsi and anti-government Hutus were murdered by military or militia forces between 1990 and 1992.

Although it is the events of 1994 which have remained in the global consciousness, it must not be forgotten that the entire period from 1990 to 1993 was in effect one of civil war. During this period, the RPF, which is estimated to have doubled in size from 12,000 in 1992 to 25,000 in 1994, continued guerrilla raids on targets across Rwanda. In response the Rwandan National Army was supported by French troops and the resulting violence led to much-increased international pressure. The result was the 1993 Arusha Accords which Doyle and Sambanis describe as encompassing “a wide-ranging and impressive vision of a reformed Rwanda [which included]...a power-sharing agreement that included details on the

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795 Doyle & Sambanis, p285
797 Doyle & Sambanis, p 285
798 Prunier 1995 p117
799 Doyle & Sambanis, p286
composition of a Broad-Based Transitional Government...a protocol for the repatriation of refugees, and an armed forces integration agreement.\textsuperscript{800} A 70-member transnational assembly was established to oversee implementation of the Agreement over a projected 37-day period; a UN force was to oversee this. However the process stalled, amid significantly increased tensions. Then, on 6\textsuperscript{th} April 1994, amid political deadlock and renewed violence, the plane carrying President Habyarimana and Burundi’s new president, Cyprien Ntaryamira was shot down by rocket fire near Kigali airport: both men were killed.

This event unleashed the genocide: over the next 3 months somewhere between 800,000 and one million Rwandans – the exact figure is unknown – were slaughtered. As many as a further 3 million people were displaced, many becoming refugees in neighbouring countries.\textsuperscript{801} The process was conducted with great organisation and precision, making it clear that the massacre was being “mobilised by a secret political and military chain of command...”\textsuperscript{802} As early as 8\textsuperscript{th} April RPF forces attempted to stop the massacre, but the forces of the UN Assistance Mission for Rwanda (UNAMIR) proved impotent. At the international level, the UN prevaricated: in an 8-hour session at the Security Council, use of the word ‘genocide’ was avoided since to have used it would have legally required the UN to intervene to ‘prevent and punish’ the perpetrators\textsuperscript{803}. By July RPF forces had captured Kigali and a Government of National Unity was declared.

\textit{Immediate post-war period}

The poverty impact of the genocide was significant: in 1994, 78\% of the population lived below the poverty line (defined as being $1/ day). This represented a significant leap from the 1990 figure of 47.5\%. Although the rate of poverty trended down in the latter half of the 90s, 64\% of the population was still below the poverty line by 2000.\textsuperscript{804} The psychological impact of the war and subsequent genocide was also significant. In the immediate aftermath of the war, there were those who had survived physically, but at immense psychological damage - the so-called \textit{bapt\'uye buhagazi} - the walking dead. In the two years after the genocide, there were also problems associated with the reintegration of an estimated 750,000 Rwandans who had fled to neighbouring countries.\textsuperscript{805}

The post-genocide government, headed by moderate Hutu President Pasteur Bizimungu initiated a significant shift in the country’s economic trajectory. Pre-war governments had operated a centralised, socialist system. Bizimungu’s government, while initially forced to

\begin{thebibliography}{9}
\bibitem{800} Ibid, p288
\bibitem{801} Ibid, p285
\bibitem{802} Ibid, p293
\bibitem{803} Ibid, p300
\bibitem{804} Government of Rwanda. \textit{Rwanda Development Indicators}. Rwandan Ministry of Finance and Economic Planning, Kigali. 2001
\bibitem{805} Prunier, p364
\end{thebibliography}
focus on refugee resettlement and reconstruction, clearly stated its intentions and showed commitment to move to a market-led system. As the World Bank makes clear, in the immediate post-genocide period, the focus was on emergency aid: only later could the focus move to economic policy reform, with emphasis on poverty reduction, reconciliation, improvement of basic social services and institutions, and participatory development. Nonetheless, as Lopez and Wodon conclude, the economic impacts of the genocide were long-lived: their study of the Rwandan economy concluded that, "without the genocide of 1994, Rwanda's per capita GDP could have been between 20 and 30% higher in 2001." This period also saw the establishment of the National Reconciliation and Unity Commission, the National Human Rights Commission, and the so-called gacaca community justice process: all designed to heal rifts in society. At the international level, the International Criminal Tribunal for Rwanda was established by the UN in December 1994, with a mandate to prosecute "persons responsible for genocide and other serious violations of international humanitarian law committed in the territory of Rwanda [and so] contribute to the process of national reconciliation in Rwanda and to the maintenance of peace in the region."

**Vision 2020**

Central to development efforts in Rwanda is the Vision 2020 strategy that was published by the Government in July 2000, just 4 months after General Paul Kagame became President. In his Foreword, he describes this document as "a reflection of our aspiration and determination as Rwandans, to construct a united, democratic and inclusive Rwandan identity," Moreover, the development agencies interviewed made it clear that they all of their activities and programmes needed to visibly support and progress the strategy. The World Bank, for example, makes it clear that "our programs are firmly aligned with Vision 2020 implementation." Similarly, DFID’s 10-year commitment to budget and project support to Rwanda is predicated on the Government’s commitment “to achieving specific progress….consistent with its Vision 2020 National Development Plan.” Central to the Vision 2020 strategy is the intention to make Rwanda a middle income country by 2020, an intention that is to be achieved through focus on 6 “pillars.”

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810 Interviews, Development agencies, Kigali.
813 Government of Rwanda. *Vision 2020*, pp11-18
• Development of a capable state, underpinned by good governance processes
• Human resource development and the creation of a knowledge-based economy
• Creation of a comprehensive infrastructure, with particular focus on transport links, and provision of energy and water.
• Transforming the agricultural base from a largely subsistence-based sector to one that is market-oriented, and vertically-integrated
• Development of better regional links, economic integration and co-operation
• Development of a strong and efficient private sector

These goals are highly ambitious, and perhaps excessively so. As the document itself makes clear, to make Rwanda into a middle income country requires lifting per capita income from US$ 220 in 2000 to US$ 900 by 2020\textsuperscript{814}. As the Private Sector Federation observe, “Rwanda’s current economic growth trend is below the level required to reach its Vision 2020, with average GDP growth rates in excess of 8% per year now required to reach $900 per capita, given current levels of population growth.”\textsuperscript{815} This compares with an average growth rate of 4.8% per annum between 2003 and 2007, and a projected annual growth rate of 6% from 2009-2011\textsuperscript{816}. On the other hand there is a general recognition that for an African government to have such a clear strategy, and moreover a strategy that forms the basis for action, is highly unusual. The overwhelming opinion expressed by interview respondents for this study was that it is better to have a vision that is overambitious, rather than not to have one at all\textsuperscript{817}. Moreover, there appears to be considerable agreement that the strategy focuses on the key issues central to the country’s long-term development

\textit{Reconstruction tasks: Good governance and a capable state}

Kagame’s government set itself the task of being a capable state, “characterised by the rule of law that supports and protects all its citizens without discrimination.”\textsuperscript{818} Vision 2020 goes on to explain what this involves:

\begin{quote}
The State will ensure good governance, which can be understood as accountability, transparency and efficiency in deploying scarce resources. But it also means a State respectful of democratic structures and processes and committed to the rule of law and the protection human rights in particular.\textsuperscript{819}
\end{quote}

\textsuperscript{814} Ibid, p4
\textsuperscript{815} Rwanda Private Sector Federation. \textit{Business and Investment Climate Survey 2008}. RPSF, Kigali. 2008, p3
\textsuperscript{817} Interviews, Kigali, March/ April 2009
\textsuperscript{818} Government of Rwanda, \textit{Vision 2020}, p8
\textsuperscript{819} Ibid, p12
However, many scholars and observers of the situation in Rwanda, far from concluding that the Kagame Government is creating a state characterised by democracy and the rule of law, instead express considerable reservations about the governance situation in the country. In his analysis of the country, Filip Reyntjens observes that by mid-2000, “out of a total of 169 important office holders...119 were Tutsi. It is estimated that over 80% of mayors and university students are Tutsi.” This is in a country where 85% of the population is Hutu. He argues that the Kagame clique has created a new akazu (clique). However, this is not simply a benign example of cronyism but, in Reyntjens view represents a successful attempt by Kagame and his coterie to restore Tutsi dominance. He points to a number of factors. The first is the army’s repeated use of violence against elements of the population, estimating for example that the army killed nearly 10,000 people during the insurgency of 1997-98. He also cites the use of violence against political opponents and repression of a free press. In his view therefore Rwanda is in effect a dictatorship in which “a small inner circle of RPF leaders takes the important decisions...a clientilistic network referred to as the akazu accumulates wealth and privileges.” His view is that this state of affairs is highly dangerous as it contains within it “the seeds for a massive new violence.” This analysis is borne out by the experience of campaign group Reporters Without Frontiers which argues that “Rwanda’s independent press is forced to live under relentless harassment from the highest levels of the state.” They report a number of specific allegations of violence and harassment used against journalists who question or oppose government policy. “A previous, 2001 report demonstrates that this is not new: “Press freedom is not guaranteed in Rwanda. Journalists continue to suffer threats and pressures.” The country also lacks a robust civil society capable of holding the Government to account. According to the World Bank, although there are more than 37,000 civil society organisations registered in Rwanda, “these organizations largely confine themselves to philanthropic work and small income generating activities. Very few engage in any meaningful way in policy discourse or engage in political debate.”

Although violence is evidently a tool the government has used, the use of physical coercion does not, unlike other countries in Africa such as Zimbabwe, appear to be the principal means of control: the processes appear to be much more subtle than this. Many interviewees pointed to the ‘Umuganda’ programme as an example of these unseen and subtle methods of control in Rwanda which enable the Government to maintain its position

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821 Ibid, p27
822 Ibid, p29
826 World Bank. Country Strategy for Rwanda FY09-FY12, p12
with limited opposition, or need for violent processes of control. Umuganda is a programme run by the Ministry of Local Government under which, on the last Saturday of every month, all Rwandans undertake some form of community work such as cleaning the streets. The stated intention of this programme is that it “is meant to forge unity, reconciliation among Rwandans, and reduce government expenditure on public services.” Although self-evidently valuable in its immediate ends, significant number of interviewees argued that this programme demonstrated a herd mentality, and a willingness on the part of Rwandans to follow orders.

A further means of control seems to derive from the fact of the genocide which, its critics argue, the Government uses as a political tool. Reyntjens, for example argues that, “the 1994 genocide has become an ideological weapon allowing the RPF to acquire and maintain victim status and, as a perceived form of compensation, to enjoy complete immunity.” As a result, the Government has been able to pass into law legislation that makes it an imprisonable offence even to talk about the Genocide. One interviewee compared Rwanda to the former east Germany in that the government’s control over the country relied on the preparedness of citizens to spy on each other. Reyntjens argues that, “generalised arbitrary detentions are a powerful form of political and social control. Nobody in Rwanda is free from the arbitrariness of the abakada (the RPF network in the countryside). They are the ones who can get anybody arrested on suspicion of being a genocideur.” The Government’s insistence that Hutu and Tutsi no longer exist and people are ‘all Rwandan’ is seen by some as positively antithetical to the aim of creating cohesion in Rwandan society. Lijphart, for example argues that:

> Although the replacement of segmental loyalties by a common national allegiance appears to be a logical answer ...it is extremely dangerous to attempt it. Because of the tenacity of primordial loyalties, any effort to eradicate them not only is quite unlikely to succeed...but may stimulate segmental cohesion and inter-segmental violence rather than cohesion.

What the Rwandan Government would like to see as consensual democracy has been criticised by some observers as being the imposition of one party’s ideology. Both the 2001 district elections and the 2003 Parliamentary elections, which resulted in an overwhelming


829 Interviews, Kigali
830 Reyntjens, p32
831 Interview, Kigali March/ April 2009
832 Prunier, p366
victory for the RPF and President Kagame, have taken place in an overall context of repression of dissent.\textsuperscript{834} The International Crisis Group is blunt in its assessment of the regime in Kigali:

“\textit{The RPF wields almost exclusive military, political and economic control and tolerates no criticism or challenge to its authority. The opposition has been forced into exile, and anti-establishment speeches have been relegated to secrecy. In the name of unity and national reconciliation, the various segments of Rwandan society are subjected to a paternalistic and authoritarian doctrine and cannot express themselves freely.}”\textsuperscript{835}

So if Rwanda is not a properly democratic state, what of the Government’s claims to be establishing a capable state? It is clear from interviews conducted in Kigali that at the top levels of Government there is considerable determination to make things work, and the senior ministers in government are regarded as being highly capable individuals\textsuperscript{836}. Moreover, the Government is well-advised by its international supporters. The Development Partners Coordination Group (DPCG) is made up of Government of Rwanda representatives heads of bilateral and multilateral donor agencies, as well as representatives of civil society and the private sector. The group meets every two months, and exists to ensure “alignment and harmonisation of Development Partners’ programmes, projects, and budget support with the priorities of the Government of Rwanda.”\textsuperscript{837} On economic policy, the IMF provides oversight of macro-economic policy, and provides a ‘stamp of approval’ that aid money and projects are progressing well. Where required the Fund also provides expertise, technical support and advice on specific issues and topics.

There are however significant impediments to the Government’s ability to deliver on its commitments to transform the country. In the short-term, the decision in October 2008 “to switch the country’s entire education system from French to English”, and “increasingly forcing [French language] out of the workings of government,”\textsuperscript{838} is posing problems. Most older people were educated in French, and in many ministries officials speak little or no English. In the long run, the move towards creating an Anglophone nation will reap benefits in enabling for Rwanda to be seen as part of East Africa, not as part of central Africa. The use of English will also help Rwanda in its efforts in the East African Community (EAC),


\textsuperscript{835} International Crisis Group \textit{Rwanda at the end of the transition: a necessary political liberalisation} ICG, Nairobi & Brussels 13\textsuperscript{th} November 2002, p1

\textsuperscript{836} Interviews, Kigali March/ April 2009


\textsuperscript{838} McGreal. C. ‘Rwanda to switch from French to English in schools’ In \textit{The Guardian}, 14\textsuperscript{th} October 2008
whose members are predominantly Anglophone. English as a first non-African language is expected also to help to a degree in attracting investors. However, the issue of language pales before the most significant challenge the government faces in delivering on its promises; a lack of capability and capacity amongst civil servants and government officials: what one interviewee called “the missing middle”. We therefore turn our attention to the second goal of Vision 2020; the challenge of improving the country’s skills base.

Reconstruction tasks: Skills development and the creation of a knowledge economy

As the Government itself admits, “the severe shortage of professional personnel constitutes an obstacle to the development of all sectors”. Most of those interviewed reported very poor skills levels at all but the most senior levels of government, and the development of the private sector is hindered by a lack of competent staff. Speaking of the situation in Government, development agencies reported that the problem is with the middle cadre whose education was most disturbed by the genocide. The result is that, within the government there are simply not enough good people to get things done: “second rank bureaucrats aren’t any good”, was a typical remark. The situation is the same in the private sector. According to the Private Sector Federation, 40% of businesses report difficulties recruiting properly-trained staff. It is also evident that a lack of key skills is a very real inhibition to the smooth orderly running of businesses. The Private Sector Federation report the following case:

Two large paper manufacturing companies face a particular challenge in developing and employing an adequately skilled technician to manage the repair and upkeep of several of their key machines. Since their longstanding technician was imprisoned they have tried unsuccessfully to train young technical school leavers and to recruit a replacement. But none has been able to master the job and so both companies have resorted to paying for bail to get their old technician out of jail for a day to repair their machinery.

There does also appear to be a difference of opinion about the availability and relevance of the training available. 57% of PSF members report that a lack of “local availability of relevant training” is a “major problem” for their business. Although the Government has invested in skills training, this seems not to be addressing the problem effectively: Watkins and Verma concluded that, “although state-sponsored technical and vocational schools have been

839 Interview, development agency, March/ April 2009
840 Government of Rwanda, Vision 2020, p7
841 Interviews with development agencies, Kigali March/ April 2009
842 Interview, development agency, Kigali March/ April 2009
843 Rwanda Private Sector Federation, p39
844 Rwanda Private Sector Federation, p41
845 Ibid, p40
established...these institutions do not seem to be turning out graduates with the skills required by potential employers."\(^{846}\)

Making Rwanda the ICT hub of the region – “the Silicon Valley of East and Central Africa”\(^{847}\) – is a central goal of the government. As the World Bank acknowledges, this ambition comes from Kagame himself\(^{848}\). Yet this goal is also compromised by the lack of a pool of ICT talent on which to build. Rwanda is a beneficiary of the e-schools programme being run as part of the NEPAD e-Africa Commission. The Government has also committed US$ 1bn to the construction of a series of ‘Telecentres’ around the country with the aim of “bringing rural areas on-line and promoting broader-based use of technology for businesses.”\(^{849}\) At a tertiary level, in 1997 the Government established the Kigali Institute of Science and Technology “to address the skills gap in technology.”\(^{850}\) However, although the Institute trains many people, the quality of this education is open to serious question. The 200-odd food science and technology graduates of the Institute have “no meaningful practical experience, the subject being taught almost entirely in theory. They are thus of little use or interest to industry...”\(^{851}\)

**Reconstruction tasks: Transformation of the agricultural base**

Rwanda’s topography – not for nothing is it called the country of the 1,000 hills – means that the land available for agricultural use is relatively small, especially given the very high level of population density. As a result, by 2000 the distribution of arable land stood at one hectare for every 9 Rwandans\(^{852}\): the rise in the population since then will have further diminished this ratio. However, Vision 2020 argued that “the most important issue retarding Rwanda’s agricultural development is not land size, but low productivity associated with traditional peasant-based subsistence farming.”\(^{853}\) As a result, modern agricultural methods, greater intensification and use of high value cash crops are all needed to achieve the desired growth rate of 5% per annum in agricultural output. The agriculture sector is immensely important to the country, and in the period 2001-06 formed 36% of GDP\(^{854}\), and an even higher proportion of employment. In 2006 80% of Rwandans reported that their


\(^{850}\) Kimanuka, p90

\(^{851}\) Watkins & Verma, p28

\(^{852}\) Government of Rwanda. *Vision 2020*, p6

\(^{853}\) Ibid, p17

main occupation was in agriculture\textsuperscript{855}. The central problems in the agriculture sector are summarised in the Government’s EDPRS thus:

\begin{quote}
Land is scarce and the use of it is constrained by the absence of a well-defined land administration system and poor settlement patterns in rural areas. There is a need to contain the fragmentation and degradation of further arable land as a result of high pressure and soil erosion. The level of technology is low, infrastructure in rural areas is inadequate and human and physical capital is in short supply. As a result, agricultural productivity is low which generates poor returns on private investment\textsuperscript{856}.
\end{quote}

The vast majority of agricultural production takes place on tiny subsistence farms. Moreover, each of these farms may grow number of different crops with the result that plots for a single crop may be very tiny indeed. Moreover, any given crop may not be grown in a location best suited to it. Secondly, inputs such as seeds and fertilisers are very low in quality, which further reduces the yield. Thirdly, from the perspective of adding value in the agricultural sector, Rwanda suffers from an almost entire absence of a vertically-integrated food-processing industry. Therefore, those products which are exported – small quantities of coffee and tea – are shipped virtually in their raw state. The Government is striving to address the first two of these problems through what the government refers to as “agricultural intensification [which] will be promoted with regard to both crop and livestock production,”\textsuperscript{857} but which one observer called a “process of quasi-collectivisation”\textsuperscript{858}, which involves farmers being told which crops they will grow, and where, in an attempt to ensure that a single farm produces a decent amount of a smaller number of crops. Farmers are also being provided better fertilisers and seeds: the government’s target is that “application of inorganic mineral fertiliser will increase from 11\% to 40\%, and the use of improved seed will rise from 24\% to 37\%.”\textsuperscript{859} The third of these problems, the lack of integration in the sector and of ability to add value to raw products, is the target of two government programmes. The first focuses on building technical and organisational capacity of farmers through “the creation and strengthening of farmers’ cooperatives, so that they can plan and implement market-oriented production, processing and marketing of agricultural commodities.”\textsuperscript{860} The second seeks to develop a significant agricultural export business by promoting commodity chains and supporting the development of agribusiness. The Government “will assist the Private Sector by improving the investment climate, so that Rwandan exports are competitive in regional and world markets.”\textsuperscript{861}

\begin{itemize}
\item \textsuperscript{855} Ibid, p45
\item \textsuperscript{856} Ibid, pp7-8
\item \textsuperscript{857} Ibid, p36
\item \textsuperscript{858} Interview, development agency, March/ April 2009
\item \textsuperscript{859} Government of Rwanda, \textit{EDPRS}, p35
\item \textsuperscript{860} Ibid p66
\item \textsuperscript{861} Ibid p66
\end{itemize}
**Reconstruction tasks: Infrastructure**

Vision 2020 identifies 7 aspects of infrastructure needing urgent attention\(^{862}\): 1) improved management of land use; 2) urban development planning to cope with an expected tripling of the urban population between 2000 and 2020; 3) improved transport links, especially with the ports at Mombasa and Dar es Salaam; 4) development of a comprehensive communication and ICT infrastructure; 5) modern energy supply, in 2000 99% of the population relied on wood for energy, and 40% of the country’s foreign exchange was eaten up in the cost of importing road fuels; 6) increase in water supply from 52% of the population in 2000 to the whole population by 2020; and 7) better waste management, with particular attention to ensuring that new developments have adequate sewerage. However, despite these ambitions, key aspects of the country’s infrastructure remain highly problematic. If one uses the companies as a proxy for the wider population’s experience of the degree of success of infrastructure reconstruction, the picture is not encouraging. According to the Private Sector Federation’s Business and Investment Climate Survey, 56% of businesses report that access to water is a major constraint and, despite the government’s focus on ICT, the communications infrastructure still remains problematic, with 50% of businesses reporting access to communications a business constraint.\(^{863}\) Amongst the most serious problems is a shortage of energy. With no hydrocarbons of its own, Rwanda has to import all its oil and gas requirements. As a result power-cuts are frequent and the cost of energy and unreliability of supply are explicitly stated by companies as impediments to doing business; “in 2006, 37.2% of businesses cited electricity to be the main obstacle to firm growth and performance.”\(^{864}\)

**Reconstruction tasks: Developing regional links**

As the Government makes clear, “Rwanda considers regional economic integration as one of the crucial elements of achieving Vision 2020. To this end, it will be necessary to pursue an open, liberal trade regime, minimizing barriers to trade…”\(^{865}\) In many ways, this aim simply recognises the reality that Rwanda is a small, landlocked country with no easy short-cut to wealth, such as hydrocarbon or mineral resources. If Rwanda is unlikely ever to be a significant investment destination in its own right, then it needs to attract investors who see it as a stable hub from which to do business in the wider region. Kagame has been explicit in his ambition to develop Rwanda as a service hub for the region, seeing countries like Singapore and Switzerland as models: speaking in 2008, the President observed that “we look to countries like Singapore as inspirational development models.”\(^{866}\)

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\(^{862}\) Ibid, pp15-17  
\(^{863}\) Rwanda Private Sector Federation, p34  
\(^{864}\) Ibid p31  
\(^{865}\) Government of Rwanda. Vision 2020, p18  
\(^{866}\) Kagame, P. Africa and Rwanda – from Crisis to Development Speech to Lee Kuan Yew School of Public Policy, Singapore 22\(^{nd}\) May 2008
Central to the Rwandan Government’s plans is their membership of the East African Community (EAC). Established in 2000, the EAC is the regional intergovernmental organisation comprising Rwanda, Kenya, Uganda, Tanzania, and Burundi. The EAC aims at “widening and deepening co-operation among the Partner States in, among others, political, economic and social fields for their mutual benefit”867. A customs union was established in 2005 and the organisation is working towards the establishment of a Common Market by 2010, and a Monetary Union by 2012. Rwanda acceded to the organisation in June 2007 since when it has been taking a lead in pushing EAC forwards. However, EAC membership may be something of a double-edged sword. For example, a number of interviewees reported that the current lack of skilled local people means that nationals from other EAC countries get hired. Similarly, at least one company has closed its Rwandan office because the EAC makes a local presence un-necessary. British American Tobacco now run their East African operations from a regional headquarters in Nairobi, having shut down their Kigali office in 2008868. Whilst this example demonstrates the logic of Rwanda’s focus on the EAC – that companies base themselves in one country as a hub for the region – it suggests that Rwanda may as often be the loser from such a development as it will be the winner. Nevertheless, the development of the EAC does seem to be having a discernible impact. Bralirwa869 commented that the lowering of tariffs in the EAC region is having a positive impact, and allows them to buy a much higher proportion of their supplies from the East Africa region.

Reconstruction tasks: Development of the private sector

Vision 2020 made it clear that “for Rwanda’s development the emergence of a viable private sector that can take over as the principal growth engine of the economy, is absolutely key.”870 In terms of marketing itself to potential foreign investors, Rwanda seems to be highly efficient, and the investment drive is led by the President himself: one interviewee observed that “Kagame is the best marketer that the country has”871. However, the core focus for attracting investment is the Rwanda Development Board (RDB), created in April 2008 from 6 different, previously-separate agencies – a merger which the RDB claims was a response to companies wanting a more streamlined approach872. The RDB calls itself “the country’s flagship institution responsible for the promotion and facilitation of the private sector in the country...a One Stop Centre that offers the red carpet to its customers.”873 Its activities include the identification of potential investors; marketing to these companies; arranging fact-finding visits for them in-country; facilitating investment agreements; and then a process

868 Interview with BAT, London May 2009
869 Interview with Bralirwa, Kigali March 2009
870 Government of Rwanda, Vision 2020, p14
871 Interview, development agency, Kigali Mar/ April 2009
872 Interviews with RDB, Kigali Mar/ April 2009
of follow-up to ensure that the investor receives the support that they require when their investment has been made.

The front end of this process appears to be very efficiently undertaken. In interviews, RDB staff demonstrated a very clear understanding of the priorities in each of the target sectors, and what the opportunities might be for potential investors\(^{874}\). Rwanda is being very carefully focussed in the foreign investment that it seeks: “the investment opportunities...are not just a laundry list of potential areas to invest in Rwanda, but are carefully identified niches where Rwanda has the potential to become competitive.”\(^{875}\) RDB identifies 7 target sectors\(^{876}\).

**Mining** is seen as a priority sector that would “enable the government to diversify its export base”\(^{877}\). The country has deposits of tin, Wolfram, Tungsten and Coltan: work is currently underway to establish precisely what quantities. The growth in the construction sector has also increased demand for building materials. The importance of the **transport infrastructure** sector is self-evident given the need to improve the country’s communications. Projects which the government has identified include the extension to Kigali of the railway line from Isaka in Tanzania. This would give Rwanda much improved port access, to Dar es Salaam. The **ICT** sector perhaps represents Rwanda’s biggest ‘bet’ in terms of seeking foreign investment, given the government’s aim of “transforming Rwanda into an information and knowledge-based economy.”\(^{878}\) The importance of this sector is demonstrated by the introduction of the National Information and Communications Infrastructure plan in 2001. One project for which the government is seeking investors demonstrates their rationale for the economy as a whole: they are seeking to establish Rwanda as a centre for business process outsourcing. Such an approach would allow Rwanda potentially to capitalise on regional investors wishing to have a single hub for back-office functions. **General manufacturing** opportunities are focussed on heavily on import substitution. For example, the government is seeking to improve capacity in the paper and printing industry where currently 92% of goods are imported\(^{879}\). **Financial services** is the second of the government’s key foci. The government wishes further to develop the banking and insurance sectors, but then also to develop a capital market in Rwanda; at present, although a stock exchange exists, it does very little trade. **Tourism** is also seen as a high priority, building on the country’s world famous gorillas. Interestingly, in the context both of skills development and putting Rwanda at the centre of a regional hub, a central pillar of the Government’s plans is the development of a Tourism Institute to create local expertise in an industry “still largely serviced by foreign companies.”\(^{880}\) The final area of focus is on **real estate and construction** to improve the built environment and housing stock. Evidence

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\(^{874}\) Interviews with RDB, Kigali, March/ April 2009  
\(^{875}\) Rwanda Development Board, p11  
\(^{876}\) Ibid, pp11-34  
\(^{877}\) Ibid, p12  
\(^{878}\) Ibid, p17  
\(^{879}\) Ibid, p20  
\(^{880}\) Ibid, p27
from interviews with RDB suggest that the organisation is being intelligent in the way in which it seek investors: that the categories detailed above are not simply headlines: For example, it was reported that an investor is currently sought for the privatisation of a tea factory. RDB is expressing a preference\textsuperscript{881} for an investor which would be able to assist in the vertical integration of the tea sector rather than simply buy an asset.

\textbf{The international private sector and its impact on Rwanda's development}

However, despite the analysis, planning and effort of the RBD and others, levels of foreign investment in Rwanda remain very low. FDI in 2007 was US$ 67m, bringing the total estimated FDI stock to US$ 170m\textsuperscript{882}. The largest investments so far are those in the banking sector, and Heineken's investment in the brewing and soft drinks manufacturer, Bralirwa\textsuperscript{883}. The continued lack of commercial development in Rwanda is amply demonstrated by the results of the 2006 census in relation to the breakdown of private sector entities in Rwanda:

\begin{table}[h]
\centering
\begin{tabular}{|l|l|l|l|l|}
\hline
Family or mobile enterprises & Micro-enterprises & Small enterprises & Medium enterprises & Large enterprises \\
\hline
Informal & Informal/ formal – in transition to SMEs & Informal/ formal – in transition to SMEs & Formal, organised enterprises & Formal, organised enterprises \\
\hline
Family or sole trader & Less than 10 employees & 10-30 employees & 30-100 employees & 100+ employees \\
\hline
Artisans, home-based food, beers; weavers, hawkers & Organised artisans, formal and informal units; retail & Organised operations in a specific building or factory & Organised formal enterprises. Modern registered companies & Organised formal enterprises. Modern registered companies \\
\hline
40,000+ enterprises & 21,000 enterprises & 4,200 enterprises & 240 enterprises & 50 enterprises \\
\hline
\end{tabular}
\caption{Table 6: Breakdown of private sector entities in Rwanda\textsuperscript{884}}
\end{table}

The RDB make a plausible case to explain why the level of FDI remains so low, arguing that that a large part of its job lies in convincing potential investors that things have changed.

\textsuperscript{881} Interview with, RDB, Kigali, Mar/ April 2009
\textsuperscript{883} Rwanda Development Board, p20
\textsuperscript{884} Rwanda Private Sector Federation, p11
since the days of the genocide. RDB claims that its work to date has served to get Rwanda into the minds of potential investors and they expect that having done so, "things will be easier from now on." Whilst the negative genocide-associated images of Rwanda have undoubtedly hindered the process of attracting foreign investment, a more significant obstacle Rwanda has in attracting foreign investment is a lack of significant commercial opportunities: as one interviewee put it, "the problem for Rwanda is that the business climate is not just dictated by the government's actions, but also by what business opportunities there actually are." The country does not possess a significant mineral resource such as oil or diamonds, so foreign companies are not obliged by the accident of geology to invest there. Moreover, the continued poverty of much of the population means that Rwanda is not yet an attractive market for producers of consumer goods. In any case, even were levels of wealth to be higher, Rwanda is a small market that is unlikely in its own right to justify significant investment by foreign companies: it was suggested by a number of interviewees that part of the reason for companies like Shell and Accor divesting was because the market was not strategically important for them. Geography is also a serious impediment: Rwanda is landlocked and, although the main roads in-country are in reasonable condition, those leading from the main ports in Tanzania and Kenya are not. As a result, transport costs are extremely high. According to one interviewee, the overland freight cost from Mombasa to Kigali is four-times that of the sea freight cost from Europe to Mombasa. President Kagame himself has accepted that "a lorry of commercial goods travelling inland to coastal gateways can take anywhere from five days to two weeks depending on 'good luck.'" Moreover Rwanda lacks any real industrial base; as Vision 2020 puts it "efforts need to be made to expand the economic base." As a result any foreign investor has to start effectively from scratch – there is little or no existing industrial or other relevant infrastructure on which to build.

However, these practical considerations do not tell the whole story about the lack of foreign investment: there appear to be a number of other problems that reflect a fundamental mishandling of the relationship with the international corporate sector. Central to investor concern is the attitude and behaviour of government ministries, and in particular the Rwanda Revenue Authority, (RRA) whose intransigence was cited by all those companies interviewed, and reported by many others as being the most significant business problem in Rwanda. "We are being plucked bald" was the observation of one business

885 Interviews with RBD, Kigali March/ April 2009
886 Interviews, RBD, Kigali Mar/ April 2009
887 Interview with development agency, Kigali, Mar/ Apr 2009
888 Interviews, Kigali March / April 2009
889 Interview with business entity, Kigali March/ April 2009
891 Government of Rwanda. Vision 2020, p7
892 Interviews, Kigali, March/ April 2009
893 Interview with company representative Kigali Mar/ April 2009
representative. According to the Private Sector Federation, “businesses of all sizes and nearly all sectors and regions identified corporate tax rates as the number one fiscal constraint that needs to be addressed,”894 but also that “time spent dealing with taxes [is] a greater problem than tax rates”895, as a result of “poor, unfriendly services rendered by the Rwanda Revenue Authority.”896 The focus of the criticism is what is perceived to be the inflexibility of the RRA’s approach, and the fact that they are ‘judge and jury’ on all tax matters. It also appears that tax has to be paid even if the organisation paying it is disputing the assessment; if a dispute is upheld then the tax will be re-paid897. A significant number of those interviewed argued that central to the problems at the RRA is a lack of skilled staff898: rules are written as absolutes because the middle and junior staff of the agency are not capable enough to apply broadly-written rules to different sets of circumstances. Almost without exception, companies argued that the degree of flexibility and sensitivity to the realities of business that they would normally expect from domestic revenue authorities were entirely absent from their dealings with the RRA899. These comments by companies are borne out by the observations of development agencies to the effect that the Rwandan authorities have little understanding of how international business processes operate – companies are expected to operate under Rwandan norms even if these contradict usual international practice. One development agency900 said that that the Rwandans tried to insist that the Lake Kivu methane-extraction power project be governed under Rwandan law: usual practice in such investments is for the project to be governed under the laws of a third country. However, it is not simply a lack of capability: all the business organisations interviewed strongly criticised a lack of delivery on the promises made to get them to invest in the first place901. The reality seems to be that the RDB works as a vehicle to attract foreign investment, but its promises are not fulfilled by domestic ministries. One investor reported that their company had been promised tax breaks as part of their agreement to invest, but this promise was not delivered on902. Foreign investors also report not feeling welcomed when they are operating in the country903 – a sense that the should be grateful for being allowed to invest in the country, rather than the Rwandans being grateful to them for their investment. The sense of being “plucked clean” is reinforced by what are seen as very high local living costs.

Government interference in the business world is also strongly resented. This occurs largely through Tristar, an investment vehicle apparently owned beneficially by senior members of

894 Rwanda Private Sector Federation, p7
895 Ibid, p7
896 Ibid, p7
897 Interviews, Kigali, Mar/ April 2009
898 Interviews, Kigali, Mar/ April 2009
899 Interviews with business organisations, Kigali, Mar/ April 2009
900 Interview with development agency, Kigali, Mar/ April 2009
901 Interviews with business organisations, Kigali, Mar/ April 2009
902 Interview with company representative, Kigali, Mar/ April 2009
903 Interviews with business organisations, Kigali, Mar/ April 2009
the Government and the army\textsuperscript{904}, which holds stakes in many of the companies in the country. For example, it owns 65% of BPR; 30% of Bralirwa and 20% of BCR. There also appears to be a lack of transparency because Tristar publishes no information about what its intentions are. It seems that doing business requires contacts with the right people – “getting things done requires networking with the right people”\textsuperscript{905}. A number of developments appear to have occurred because of contacts between these ‘insiders’ rather than as a result of genuine economic need. For example, a private company was given the contract to produce food for Rwanda’s prisons, even although each prison had a kitchen that already produced sufficient and adequate food in-house. It appears that the contract was granted in order to provide benefit to a member of one of Rwanda’s ‘insiders’\textsuperscript{906}.

Government ministries and development agencies point to the gradual improvement in Rwanda’s position in the World Bank’s annual Doing Business rankings as a reason for hope that foreign investment might be expected to increase. This ranking process investigates “the regulations that enhance business activity and those that constrain it. [It] presents quantitative indicators on business regulations and the protection of property rights...”\textsuperscript{907} In the past year Rwanda has moved leapt from 139\textsuperscript{th} to 67\textsuperscript{th} (out of 183) in these rankings\textsuperscript{908}. Whilst this is obviously a noteworthy achievement, the contrast between the country’s satisfaction at having improved and the significant problems that investors evidently still experience demonstrates that simply looking at rankings like this alone is not helpful. Whilst the number of stages needed to register a business is a relevant factor, it does not tell the whole story. Investor perception of Rwanda is not good, and there is a significant list of foreign investors which have entered the country, only to leave again reasonably swiftly, including such names as Shell, Total and Accor Hotels. The factors covered by the Doing Business rankings are obviously a factor in companies’ investment decisions. Yet the reason companies leave, and why others have eschewed investing in Rwanda seems to have had more to do with issues such as the intransigence of the RRA; the lack of transparency prompted by the activities of Tristar; and the lack of follow-through on promises made by RDB make doing business very hard. The complexity, or number of steps needed to establish a business was not mentioned by a single interviewee as an inhibition to doing business in Rwanda\textsuperscript{909}. It seems evident therefore that the Government is failing adequately to engage the private sector.

\textsuperscript{904} Those interviewed claimed that the exact beneficial ownership of Tristar is not known

\textsuperscript{905} Comment by a business representative, but typical of all responses, Kigali Mar/ April 2009

\textsuperscript{906} Interviews, Kigali, Mar/ April 2009


\textsuperscript{909} Interviews with business representatives, Kigali, Mar/ April 2009
The significance of regional multinationals

Despite the low level of overall FDI inflows, it is interesting to note the significance in Rwanda of what one might term ‘regional multinationals’. Leading examples of such investments include the sale by French oil major Total of its assets to Kobil of Kenya; the sale in 2008 of Rwanda’s fourth largest bank Bancor to Access Bank of Nigeria; and the largest mobile telephone network in Rwanda is operated by a company owned by MTN of South Africa. For large, global companies, Rwanda will always be small – it was suggested by a number of interviewees that part of Shell’s reason for divesting was that Rwanda would never be strategically important. By contrast, for regionally-important companies like Kobil, Access and MTN, Rwanda is a more significant piece of the jigsaw. These companies seem to regard the political risks as less daunting. For big MNCs issues such as the ongoing instability in eastern DRC would be a reason to avoid Rwanda. Conversely, of the regional multinationals interviewed, some said that the reason for being in Rwanda was at least in part to be able to get access to eastern DRC. It is not possible to state categorically why these companies seem less risk-averse, however some interview data suggests that the reason was that regional companies have a better understanding of the dynamics in places like DRC, and better contact networks on the ground, as a result of which the risk is both perceived as less significant and as more manageable.

Elements of infrastructure

As noted above, the development community see their role as being to help put in place the institutional and physical infrastructure that will provide Rwanda with the wherewithal for stable growth in the future. However, it would also be true to argue that the private sector too is providing Rwanda with key elements of infrastructure. The most obvious example of physical infrastructure is the recently-signed deal to generate power by extracting methane from Lake Kivu. Energy is a significant challenge, and in April 2009, a $325m deal was signed with an American company called Contour Global “to develop an integrated gas extraction and electricity generation facility which will provide 100 MW of natural gas fired electricity to Rwanda and the East African Region.” Phase 1 of the project is expected to produce approximately 25 MW of electricity for the local grid. Phase 2, which will produce an extra 75 MW is also expected “to provide electricity export potential to neighbouring countries, most attractive of which will be Uganda.” Thus a foreign investor is able not just to develop the Rwandan economy, but also to create a new source of export income.

910 Interviews, Kigali, Mar/ April 2009
911 Interviews with businesses, Kigali, Mar/ April 2009
912 Interviews with businesses, Kigali, Mar/ April 2009
However, the banking sector demonstrates an example of the private sector providing what one might term ‘soft infrastructure’: in this case a modern, efficient banking system. Vision 2020 makes it clear that “the development of the financial sector will be crucial”\textsuperscript{915} to the country’s success. Institutional reform of the Rwanda’s financial sector was undertaken by the Government in collaboration with the international community. As the World Bank makes clear, it has been responsible for: i) strengthening of banking sector regulation; ii) creation of a regulatory framework for microfinance; and iii) establishing a new independent regulator for the insurance industry.\textsuperscript{916} However, since 2004 most of the banks have become managed and part-owned by foreign banking groups. Banque Commerciale du Rwanda (BCR) was bought by investment company, Actis; Banque Populaire de Rwanda (BPR) is managed, and 35% owned by Rabobank of the Netherlands and Fina Bank, is a subsidiary of the Ugandan banking group. In the words of one of an international banker, the Rwandan banking sector was “on its knees”\textsuperscript{917} in the early 2000s, and the privatisation process has served to re-invigorate the banking sector, to re-finance it, and to introduce modern banking services. For example, the relationship with Rabobank means that BPR now offers a wider range of services including electronic banking\textsuperscript{918}. There also appears to be healthy competition between the banks in innovating around new services. One bank interviewee observed that, as one of the early investors in Rwanda’s banks, his organisation enjoyed and advantage since they were providing modern banking services and their competitors were not. Now, with 8 banks having foreign owners, “we’ve not lost that early advantage.”\textsuperscript{919}

If one allows that ‘infrastructure’ means more than simply hard, physical infrastructure, but also should be interpreted to include the soft structures and frameworks that allows a country to run on a day-to-day basis, then the work of the Rwandan Private Sector Federation (RPSF) in analysing the investment climate is also significant. As noted above, Rwanda urgently needs to attract foreign investment if it is to reduce its dependency on foreign aid. Yet it is evident that the Government is not pursuing an approach which is succeeding in attracting FDI; its focus on improving the country’s standing in the World Bank’s ‘doing business indicators’ is evidently missing the point in terms of what potential investors look for. The RPSF, which represents both local SMEs as well as foreign investors has provided an analysis of the business climate which identifies clearly the real barriers to foreign investors and to the development of indigenous businesses. The Business and Investment Climate Survey is designed to be “a robust and detailed evidence base on the current areas where action is needed to improve the business environment”\textsuperscript{920}, and is based on a survey of the organisation’s members. The main issues identified were as follows\textsuperscript{921}: 1)
access to market; 2) the high cost of doing business, in terms of input costs and taxation; 3) cost and unreliability of power supply; 4) the absence of a service ethic that makes customer care difficult; 5) a lack of market knowledge; 6) a shortage of financing as a result of bank liquidity and high loan rates; 7) low domestic purchasing power given the shortage of indigenous consumers; 8) a weak infrastructure that makes it difficult to get goods around the country; 9) considerable red tape and bureaucracy that makes doing business very difficult; 10) a limited skills base, especially of technical and business skills; 11) the cost of land, which has escalated 10-fold in 6 years. The issues identified in the RPSF survey map very closely to the difficulties in doing business mentioned by those business people interviewed for this study. It is curious therefore that this analysis does not yet seem to be informing the government's actions, or those of the development agencies supporting it. Were the RPSF recommendations to be taken seriously, it might have a very positive impact on the level of foreign investment in Rwanda.

A number of those interviewed suggested that a significant contribution by foreign investors was to make Rwanda feel more part of a wider international community with well-established ‘rules of the road’. The Private Sector Federation argues for the importance of ensuring “that businesses adopt good international accounting, auditing and business planning practices; such that access to finance is not constrained by having poorly managed accounts or the lack of a business plan.” International investors are in a powerful position to help drive this process, and to bring what one interviewee described as “a certain professionalism” which could make investors’ practice and example ‘transformational’ in Rwanda. Heineken, for example reports that their sites are audited to the international environmental and management standards of the ISO (International Standards Organisation), thereby providing examples of the standards which other Rwandan companies would need to attain to compete effectively at an international level. In this context, it is interesting to speculate on the impact that brands may have on creating stability in a post-conflict environment, albeit in a very small way. Bralirwa now sells 4 different beer brands in Rwanda, all of which are aimed at different market segments: Mutzig for example is being branded as “The taste of success.” Do brands make ordinary Rwandans feel more a part of a wider international community, where norms of behaviour include a non-violent approach to resolving conflict? If the Collier-Hoeffler model is correct in asserting that higher per capita income mitigates against renewed conflict, does fact that at least some people have the money to afford to buy branded beers may make renewed conflict at least marginally less likely?

922 Interviews with business representatives, Kigali, Mar-April 2009  
923 Rwanda Private Sector Federation, p5  
924 Interview, development agency, Kigali, Mar/ April 2009  
925 Interview, Bralirwa, Kigali, 2nd April 2009  
926 This was an advertising campaign on bill-boards throughout Kigali during the research trip in Mar/ April 2009  
927 Collier & Hoeffler. Greed and Grievance in Civil War.
The importance of value chains

Even the largest companies do not exist in a vacuum, but sit within a value-chain through which their business operates: the backward linkages to suppliers, and the forward linkages to distributors, retailers, logistics companies and other providers. A small but growing literature examines the link of such value chains in development as a whole. For example, Kapstein’s 2008 study of Unilever’s business in South Africa found that this company provides 0.9% of South Africa’s total tax revenues; and that for every job within the company, a further 22 were created in the value-chain, representing 0.8% of the country’s total employment. Similarly, a 2008 report by Dutch NGO, The Centre for Research on Multinational Corporations (SOMO) states that the value chains of international investors “may positively contribute to development in a number of ways…including economic (economic growth and productivity), social (poverty reduction, employment creation and human rights) and environmental (pollution and environmental destruction) components.”

The activities of a number of companies in Rwanda suggest that such value-chains can be extremely valuable in impacting on many of the developmental challenges faced by a post-conflict country. Bralirwa, 70% owned by Dutch brewery giant Heineken since 1971 is a case in point. The company operate two manufacturing sites, the main brewery is in Gisenyi, and a smaller facility in Kigali produces soft drinks such as Coca-Cola (for which Bralirwa is the Rwandan bottler). The company employs 1,000 staff directly, however the company estimates that, taking into account the agricultural, distribution and retail chain of their business, they provide employment for as many as 35,000 people in Rwanda. The company also estimates that it contributes 11% of the country’s tax revenues: highly significant in a country still so aid-dependent. However, Bralirwa’s impacts extend beyond the purely financial into many other areas that are important for Rwanda’s development. Vision 2020 makes clear the importance of “comprehensive human resources development”: Bralirwa provides training and skills-development for the companies in their value-chain. For example, the small traders through whom Bralirwa sell their product are provided with advice and training on matters such as accounting, commercial management and marketing. Training has also been given in the use of computers as a business tool which, Bralirwa claim, has been instrumental in making these businesses more efficient and profitable. In addition, they have provided these companies with fridges, and with advice on how best to...

931 Bralirwa SA: Bralirwa: 50 Years Young. Bralirwa, Kigali. 2009
933 Interview with Bralirwa 2nd April 2009
934 Government of Rwanda. Vision 2020, p4
935 Following information from interview with Bralirwa, Kigali 2nd April 2009, and follow up emails.
display products to attract custom. The company has also recently provided support to their
distribution companies by negotiating a deal with a truck manufacturer and a bank to allow
their distributors to finance new vehicles at a much more favourable rate than an individual
company would be able to do. Bralirwa also uses local service companies, rather than
import expertise from outside the country – for example using local designers and printers to
produce printed documents. Interestingly, this practice is in contrast to some of the
development agencies: DFID’s country plan document\textsuperscript{936} was designed and printed in the
UK, and the report financed by the German development agency GTZ \textit{Cutting the Cost of
Red Tape}\textsuperscript{937} was designed and printed in South Africa.

Bralirwa is also increasing its local impact by procuring increasing amounts of goods and
services locally rather than importing them from Europe. For example, the company is
experimenting with use of locally-sourced products as an alternative to malt, a product that
has to be imported. Currently they are using Sorghum in some beer brands, which the
company estimate is providing work for around 3,000 farmers\textsuperscript{938}. They are studying the
possibility also of using maize, in collaboration with a local mill, Minimex, and the Dutch
development agency\textsuperscript{939}. The mill has been granted 600 hectares in the Bugesera district by
the Rwandan government, designated for agricultural development. 140 hectares of this land
will be cultivated for professionally mechanised and irrigated production of maize, using high
yielding maize varieties, for use in the mill, and to be supplied to Bralirwa for use in brewing.
According to the Dutch development agency, within 2 years the project will employ (directly
and indirectly) 250 people, and “all employees will be trained in land preparation and
production. ...Outgrowers [farming in the neighbouring area] will be trained in production and
harvesting as well.”\textsuperscript{940} During a recent visit to Rwanda, the CEO of Heineken, Bralirwa’s
parent company stated that the company would seek to increase the proportion of locally-
sourced ingredients from 20% to 40% in the coming years, “especially maize and
sorghum”\textsuperscript{941}, although a time-frame was not stipulated. As observed earlier, energy
shortages are a major impediment to doing business. Bralirwa is investing in a bio-mass
generator which will use waste products from the brewing process\textsuperscript{942}. It is expected that this
facility will produce energy surplus to Bralirwa’s needs which can then be provided to local

\textsuperscript{936} Department for International Development (2008) \textit{The UK Government’s Programme of
Work to Fight Poverty in Rwanda}
\textsuperscript{937} SPB (2008) \textit{Cutting the cost of red tape for business growth in Rwanda}. Acumen,
Johannesburg
\textsuperscript{938} Interview with Bralirwa, 2\textsuperscript{nd} April 2009
\textsuperscript{939} Ministerie van Economische Zaken (Netherlands). \textit{Rwanda: The introduction of
\texttt{<www.evd.nl/zoeken/showbouwsteen.asp?bstnum=235818&location>}
\textsuperscript{940} Ibid
\textsuperscript{941} Kagire, E. ‘Rwanda: Bralirwa to Expand’. In \textit{The New Times}. 21\textsuperscript{st} August 2009. Retrieved
\textsuperscript{942} Bralirwa SA. \textit{Signature of a pilot purchase agreement between Breer, Biomass Project
Company and Bralirwa SA}. 3\textsuperscript{rd} Oct 2007. Retrieved 1\textsuperscript{st} Nov 2009.
\texttt{<http://www.bralirwa.com/031007_pilot_purchase.aspx>}

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people. The company has also built a waste-water treatment plant to ensure that their brewery does not contaminate local water courses. This facility, opened in May 2009, was built at a cost of Euro 1.2m\(^{943}\) and will produce 210m\(^3\) of freshwater every day, and the resulting sludge will be converted into fertiliser\(^{944}\) and made available to local farmers.

The coffee sector demonstrates another example of collaboration between the development community and private companies, this time to create a “fully monetized, commercial agricultural sector by 2020.”\(^{945}\) The US Agency for International Development (USAID) funds the SPREAD (Sustaining Partnerships to Enhance Rural Enterprise and Agribusiness Development) project which aims to develop “high value commodity chains and provides [growers] with appropriate technical assistance and access to health related services and information that will result in increased and sustained incomes and improved livelihoods.”\(^{946}\)

In 2007, as part of this project, coffee retailer Starbucks announced that it was going to establish a Farmer Support Centre in Rwanda, which was welcomed by President Kagame as providing “many new opportunities to enhance our methods”\(^{947}\) of coffee production. The company claim that similar centres in Latin America have helped farmers increase productivity by 20%\(^{948}\). In 2009, Peet’s Coffee and Tea announced a similar programme working with an NGO called Technoserve that aims “to re-position Rwanda as a leading producer of specialty coffee by helping turn coffee cooperatives (representing 12,000 farmers) into professionally-run businesses to source speciality coffee from Rwanda\(^{949}\). Peet provides “technical and business expertise to help small-scale farmers produce high-quality coffee and secure price premiums in the marketplace. Areas of training include quality coffee production and processing, business management, and quality coffee assessment.”\(^{950}\) This collaborative approach is also being applied to the growing, production and exporting of pyrethrum for which household products giant, SC Johnson has announced a programme in collaboration with USAID in June 2009\(^{951}\). Pyrethrum is a natural insecticide extracted from the dried flower heads of chrysanthemums; experts estimate that world


\(^{944}\) Ibid

\(^{945}\) Government of Rwanda. *Vision 2020*, p17


demand significantly exceeds supply. As with the coffee projects, the intention of this initiative is to improve the entire production chain of the product. The project, which will last for 28 months aims “to increase production from the 400 tons of dried flowers produced in 2008 to 1200 tons in 2010 while also increasing their pyrethrum content. This will lead to significantly increased returns for the farmers.”

According to USAID, 4,000 farmers will be able to increase their incomes as a result of the project. Although the immediate impact of these projects will be small, their significance lies in demonstrating a collaborative approach that harnesses the commercial expertise of the corporate sector for ends beneficial to the reconstruction effort in Rwanda.

**Corporate engagement with the reconstruction process**

In terms of engaging the corporate sector with the reconstruction process, Rwanda arguably falls at the first hurdle: its failure to attract many foreign investors at all. The government and members of the development community all acknowledge the importance of the private sector and foreign investment to Rwanda’s development. Yet despite this, as UNCTAD makes clear “foreign investment flows have been negligible since independence.” But for those companies which do invest, what are the processes which engage them in the reconstruction process? Rwanda’s Development Partners Coordination Group (DPCG) is the highest level coordination structure in the country composed of heads of Government ministries and heads of bilateral and multilateral donor agencies. It claims to involve “representatives of ... the private sector” in its deliberations. However, none of the interviews conducted gave any indication that the private sector was in any meaningful way involved. Indeed one aid agency representative, whilst admitting the importance of the private sector, even observed that “we don’t really deal with international companies here.”

Yet it is apparent from the data presented in this chapter that foreign companies are having significant impacts on many of those issues central to the Vision 2020 strategy, both through the monetary investment that they bring, and the other activities that they undertake such as skills training and technology transfer. There is no evidence that these impacts are considered by the development community as a contribution to the wider reconstruction effort, or that any systematic process exists to look for symbioses between, for example the skills development work that Bralirwa is undertaking with its retailers and distributors and the skills-raising programmes in which development actors are involved.

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953 Ibid


956 Interviews, Kigali, Mar/ April 2009

957 Interview with development agency, Kigali, Mar/ April 2009
However, even though companies do not appear to be engaged at a strategic level, there is some evidence that they are involved at a project and implementation level in the wider reconstruction effort. The USAID projects in the coffee sector involving Starbucks and Peets, and the pyrethrum project involving SC Johnson are all examples of specific private sector expertises being leveraged to further development objectives, and in so doing creating processes that stand a chance of being sustainable because they link Rwandan producers with real value chains. Similarly, the Minimex project is based on Bralirwa’s commercial need to develop a reliable source of maize in the country but using this as a basis for a project that has additional developmental benefits in terms of skills creation and other benefits. It is also appears that Bralirwa has an good understanding of the development situation in Rwanda and of the impacts that its activities have on the wider reconstruction process. The company’s Managing–Director, Sven Perderiet when interviewed for this study demonstrated a very strong understanding of, and empathy with the Government’s aims and it is easy to believe his assurances that the wider reconstruction agenda forms part of the company’s decision-making processes. This personal observation is borne out by evidence that Bralirwa’s parent company, Heineken is being increasingly proactive in managing its wider societal impacts. The company has stated its belief that “economic development and poverty reduction are not only important from a humanitarian perspective – in many emerging markets lack of economic prosperity is also one of the most important obstacles to further growth of our business.” In the past four years Heineken has been developing a process to assess its social, environmental and economic impact in developing countries. This has been developed with a Dutch government agency, National Committee for International Cooperation and Sustainable Development (NCDO). The assessment process was piloted in Sierra Leone in 2006, and in 2007 further pilots were undertaken in Greece and Burundi. Four further assessments were planned for 2009, though no information is currently available on these.

**Conclusions**

In evaluating the situation in Rwanda, it is hard to overlook the serious problems inherent in the Kagame regime itself. The president himself is a former guerrilla commander, and as
recently as 2008 he has sanctioned military interference in a neighbouring country. Moreover, the government lacks real democratic legitimacy, and has been implicated in serious human rights abuses. At best, the government must be regarded as autocratic: at worst it could be seen as a dictatorship, the actions of which are creating the preconditions for renewed violence in the future. Nonetheless, the international community is taking the view that the ability to get things done is more important in Rwanda than a government that has greater democratic legitimacy. Certainly Rwanda’s government is a rarity in Africa: it has a clear plan for the country’s development and appears committed, at least in its upper echelons, to making that plan work. However, even the development actors admit that “this is a relatively autocratic government” and at the very least the nature of the Kagame Government must be seen as a significant risk to the long-term success of reconstruction in Rwanda.

However, even if one takes to one side the problems of governance, Rwanda’s development trajectory still looks precarious. Most importantly this is because of the significant reliance on foreign aid, and the continued inability to attract the private sector involvement that would enable that reliance on aid to be reduced. Not only is the development of a strong private sector a development aim in itself, but also companies could play a significant role in addressing the other development challenges that the country seeks to resolve. As this chapter has demonstrated, though they are few in number, the international investors in Rwanda have contributed to many of the facets of the reconstruction process. The private banks have provided a modern banking infrastructure that builds on the efforts of the international aid actors to reform the central institutions of the financial system. Contour Global’s investment in the Lake Kivu methane project not only addresses the severe energy shortage the country faces, but also offers the opportunity to export energy to neighbouring countries. Bralirwa, in addition to providing as many as 35,000 people with a livelihood, is providing training and infrastructural investment that has impacts on the wider situation in Rwanda as well as on their own business. Starbucks, Peet and SC Johnson are providing the sort of expertise that Rwanda desperately needs if it is to have any chance of developing a commercial agriculture sector. Moreover, although the corporate sector seems to be excluded from the strategic decision making processes for the process of reconstruction, a number of the examples above have been achieved through a usefully-symbiotic relationship with the development community. The examples in the coffee and pyrethrum sectors, and the Minimex project all demonstrate development agencies willing to leverage the core business interests of companies in to achieve developmentally-useful aims, and companies recognising that the wider development agenda is relevant to the success of their businesses. Although by no means as high profile as EITI in Azerbaijan, these projects

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964 See, for example, International Crisis Group Rwanda at the end of the transition: a necessary political liberalisation ICG, Nairobi & Brussels 13th November 2002
965 This quote from one development agency representative is typical of comments made by all those interviewed.
demonstrate a potentially very valuable approach to engaging the international private sector in the reconstruction agenda.

Although all of these examples are small by comparison with the overall challenge that Rwanda faces they demonstrates what might be possible were more foreign investors persuaded to enter the Rwandan market. At the moment, the most significant impact that the international private sector has on the reconstruction process in Rwanda is its reluctance to invest. Although this can be ascribed in part to problems such as “economic structure, the low level of development of human capital, its landlocked position and its small size,” a significant cause of low levels of FDI is the attitude of domestic government ministries, and in particular the RRA to foreign companies once they have invested in the country. Once again therefore, one is forced to conclude that it is in the hands of the governmental actors – the Kagame government and the international development sector – to create the conditions that will enable the reconstruction process to succeed. As this chapter has demonstrated, even those few international companies active in Rwanda have had impacts that have been valuable for the wider reconstruction process, and it is reasonable to assume that more positive impacts could be had were more companies to invest. Yet the corporate sector does not and cannot drive the process: that ability lies in the hands of the government and the international agencies.

7: The impacts of the international corporate sector in post-conflict reconstruction

This study aims at the exploration of two research questions. This chapter seeks to answer the first of these: that is the degree to which the international corporate sector impacts, positively and negatively, on processes of post-conflict reconstruction. Chapter 2, in reviewing the current literature on this topic presented a four-part analysis of the key ‘tasks’ of reconstruction which represent overlapping but roughly sequential clusters: 1) physical security, and the longer term processes of reconciliation between former adversaries, including through legal processes; 2) rebuilding of the country’s physical infrastructure; 3) governance, political transition, and the creation of sustainable self-government, and 4) economic development. The previous chapters have presented the activities of the international corporate sector within each country context. The following analysis brings these three cases together to study what themes emerge about the impacts that corporations have, positively and negatively on the key tasks of reconstruction: what Cresswell refers to as “thematic analysis across all cases, called cross-case analysis.”\(^{967}\) It is however important to be sanguine about what this analysis provides; as Robert Stake warns, “a collective case study may be designed with more concern for representation but...the representative nature of a small sample is difficult to defend.”\(^{968}\) The analysis in this chapter therefore presents a thematic assessment of the three country cases in this study – Azerbaijan, Bosnia and Rwanda – and is representative only of these cases, rather than of the impacts of corporations in post-conflict situations per se. Nonetheless, because strong themes do emerge from this present study, these might perhaps form the basis for further study by this or other authors. Various potential areas of further study are discussed in more detail in Chapter 9.

**Security, justice and stability**

The first broad aim of reconstruction is the restoration of security, justice and stability. As argued in chapter 2, from the declaration of a cease-fire, this process is achieved through a series of stages which takes a society from the divides and fragmentation of war to a position where there are connectors within society which allow it to function more-or-less normally. This process moves from the cessation of fighting; to demobilisation and reintegration programmes; to security reform; to the re-establishment of the rule of law; to the development of more generalised trust within society.

\(^{967}\) Cresswell, p75
\(^{968}\) Stake, p5
Virginia Haufler argues that “violent conflict typically forces most companies to withdraw from a country if they have a choice of investment locations.”969 The evidence of this study suggests that the reality is rather more nuanced. Some of the evidence from the countries studied suggests that the ‘post-conflict’ tag does indeed, as Haufler suggests, make many companies seek other countries in which to invest. RDB in Rwanda argues that the single biggest hurdle they face is the legacy of the genocide on Rwanda’s image970, and the FDI figures for both Rwanda and Bosnia demonstrate sluggish investment in the early post-conflict years. On the other hand, some companies are apparently prepared to accept the risk of maintaining or undertaking investments earlier in a reconstruction process. In Azerbaijan, the first major oil deal, the ‘deal of the century’ between a BP-led consortium of companies and the Azeri Government to develop the Azeri-Chirag-Gunashli (ACG) area of the Caspian, was signed in September 1994971 only 4 months after the brokering of the N-K ceasefire. In Rwanda, Heineken was actually present in the country during the civil war and genocide, only stopping production for a fortnight during the height of the 1994 killings.972 However, even these more resilient companies do not appear, on the evidence of this study, to have played any significant role in the early phases of re-establishing security, justice and stability. Indeed, in the early post-war phases, it is hard to imagine what a corporate actor might have been able to achieve. Demobilisation and demilitarisation processes are usually military exercises conducted under the auspices of the international community. In Rwanda, the process was overseen by UNAMIR, and in Bosnia by IFOR, then SFOR. The situation in Azerbaijan was somewhat different. Although the cease-fire was negotiated under the auspices of the OSCE, and the Budapest Summit which provided the mandate for the Minsk Group expressed the “political will to deploy multinational peacekeeping forces as an essential part of the overall settlement of the conflict”973, no international force was ever deployed. Nonetheless, the corporate sector did not, and probably would have been able to participate in these primarily-military processes. Nonetheless, it is interesting to speculate about the degree to which corporate activity might facilitate the process of reinserting former combatants into normal life. Bralirwa employs both Hutu and Tutsi, and claims not to discriminate against employees on an ethnic basis – the company’s Code of Conduct states that “staff recruitment shall be solely based on objective requirements, and the candidate’s merits and skills”974. Former combatants, demobilised through the formal processes were returning to work at Bralirwa and therefore working alongside individuals who had been on the other side during the genocide. Given the absence of any significant reports of violence it may be that the working environment at Bralirwa was able to accelerate the reinsertion

969 Haufler, Foreign Investors in Conflict Zones, p 56
970 Interviews in Kigali, Mar/ April 2009
972 Interviews in Kigali Mar/ April 2009
973 http://www.osce.org/item/21979.html (accessed 07/09/09)
process and permit at least some people to get past the divisions of the genocide. Given the importance accorded to enabling ex-combatants to earn money to allow them a decent standard of living, the fact that some individuals at least were able to return to gainful employment swiftly after the cease-fire must be seen as a positive factor. The logical corollary of this is that international companies should be encouraged to re-enter post-conflict countries as soon as possible since the economic opportunities they could provide to ex-combatants would be very valuable in DRPs.

Whether such a role is feasible in the immediate aftermath of conflict, the role that corporations play in the longer process of re-building stability and security seems highly significant, since they act as microcosms of wider society and demonstrate that collaboration between former foes is possible. Like Bralirwa in Rwanda, the evidence from companies in BiH suggests that they too hire from the different ethnic groups. Such environments therefore can provide exemplars of how different ethnic groups can collaborate and learn again to live side-by-side. Widner argues that “policies which generate a denser associational life are helpful. People take cues from trends in their communities. When others seem to be joining together to do things, individuals become more willing to help solve community problems.” As a facet of wider processes of trust-building in society, working environments and corporate hiring policies are therefore significant: as Pickering observes of the situation in Bosnia, “workplaces generally create opportunities for repeated, horizontal interaction between employees,”. Processes like Bosnia’s Bulldozer Initiative could be argued to be significant in a similar way. Bulldozer was a process which was participated in by a wide cross-section of commercial and other entities in BiH, according to the World Bank’s report into the initiative, “several hundreds of individuals and organizations” took part in the initiative. Quite apart from the de-regulation impact of the Initiative – and it claims “50 reforms in 150 days” - such processes also, it is argued, act as ‘connectors’, providing issues for debate that do not a priori divide along ethnic lines, and therefore provide scope for collaboration across the divides that led to war. Such a claim seems not unreasonable for the Bulldozer Initiative, since it included participants from both of the country’s entities, and used “an innovative grassroots and public awareness methodology,” and held “eight public meetings, which gathered more than 500 businesspeople in eight different cities.” Rwanda provides an even broader example of where international commercial involvement impacts on building social connectors in wider society. The development of the country’s agriculture is obviously of great economic

975 Interviews with companies in Sarajevo, June/ July 2008
976 Widner, p236
977 Pickering, p116
978 Herzberg, p8
979 Ibid, p2
980 Ibid, p8
981 Ibid, p2
982 Ibid p10
importance in its own right. However, it can also be argued that greater vertical integration within the sector will also serve to create more social linkages and so aid the progress of salving the divisions caused by the genocide. Richard Brown speaks about the importance of “establishing connecting networks...can contribute very positively to long-term political/ethnic harmony”\(^{983}\). It can be argued that, although only on a relatively small scale at this stage, the activities of Peet, Starbucks, and SC Johnson, do precisely this. If there is a role that international companies can play in the creation of social connectors as a corollary of creating greater vertical integration in agricultural markets, this logic could easily be applied to other sectors as well.

The cases of both Bosnia and Rwanda suggest that the presence of international businesses is viewed an important factor in ‘normalising’ a country in a post-conflict situation: a process which can be regarded as analogous to the task which the development agencies see themselves as undertaking. Multi-lateral and bi-lateral donors see their role as being to create a functioning state, physical infrastructure and governance frameworks, and in doing so reintegrating the subject state into international norms of practice. For example, in Bosnia the UN argues that through the international community’s efforts, “the country has taken strides towards establishing a functioning market economy and making progress towards EU integration”\(^{984}\). Similarly, a respondent from a bilateral development agency in Kigali argued that their role was “to get the fundamentals in place.”\(^{985}\) In a similar way, the actions of some companies appear to put in place other facets of these fundamentals: companies are seen to bring “a certain professionalism”\(^{986}\), as one respondent put it. This impact seems to have two components. The first is practical: the presence of international companies brings with it international norms of corporate behaviour, for example international accounting standards and standards of health and safety. Bralirwa, for example audits its Rwandan sites to the same International Standards Organisation (ISO) standards as facilities in other countries\(^{987}\). The result is that the facilities in Rwanda compare favourably with those elsewhere in the world: Bralirwa won international internal awards from Heineken in 2000, and from Coca-Cola (Bralirwa is the Coke bottler in Rwanda) in 2000 and 2006\(^{988}\). The second aspect is more subtle: the presence of international companies seems to have the psychological effect of making a post-conflict country feel more like a part of a global community where conflict is not a usual way of solving disputes. The importance of ‘brands’ can be overplayed, but the presence in Kigali of advertisements for different sorts of beer makes it feel more like a part of ‘the rest of the world’ rather than a country only 16

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\(^{983}\) Brown, p103


\(^{985}\) Interview with representative of bilateral development agency, Kigali Mar 2009

\(^{986}\) Interview with development agency representative, Kigali Mar 2009

\(^{987}\) Interview with Bralirwa, June 2009

\(^{988}\) Rwanda Development Board, p38
years post-genocide. Moreover the fact that Rwandans might see themselves in terms of the beer they drink, (Mutzig, for example is ‘the taste of success’) rather than their Hutu/Tutsi identity must be seen as a small but significant element in the development of post-conflict stability. In Bosnia too, the presence of international companies is most certainly seen as an important factor in confidence building. A significant number of those interviewed said that either they, or friends had been given the confidence to return home in part because of the presence of international businesses. Obviously, the return of members of a Diaspora has a direct impact on the prevalence of international norms of practice since most, if not all of those returning will have been educated and will have worked in western countries, and therefore their default behaviours will be guided more by their international experience than by old ways of doing things that have, in the past, led down the road to conflict. Widner makes clear that in post-conflict societies “it is vital to restore the trust” which makes a society function. In all three countries studied, the international corporate sector undertakes quite extensive training of its own workforces: it seems likely that this process will have a positive impact on the development of trust. Obviously the primary reason why corporations provide training is commercial – the need to have staff in different functions and at different levels who are up to international standards of competence. However, it seems likely that staff so trained are going to feel trusted by their employer. Also given that such training is provided irrespective of ethnicity, this process once again provides models whereby members of previously opposing communities can collaborate on matters of common ambition. Given that training was also extended to ancillary companies – to Bralirwa’s distributors and retailers in Rwanda; to support service providers to BP in Azerbaijan; and to local installers used by HP and Cisco in Bosnia – the impact that these companies are able to have on wider society is also likely to be material.

Almost by definition, stability implies consideration of the longer-term, and a number of authors have criticised the international community for being unprepared to devote sufficient time to reconstruction efforts to make them succeed. Miall, Ramsbotham and Woodhouse for example argue that “a generation or so [is] needed to reconcile formerly warring parties and communities.” Despite Gerson and Colletta’s assertion that the private sector lacks “the willingness to sustain commitments in one area…” the evidence from this study suggests that international companies are sometimes able to provide long-term commitment thus contributing to the host country’s stability. In the case of Azerbaijan, BP and the other oil majors are committed to a presence in the country until at least the mid-2020s. Even thereafter, the expectation that that BTC will be used for the export of crude from other parts of the Caspian basin region means that, in all probability, their commitment is likely to be

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989 A ubiquitous advertising hoarding in Kigali during the author’s research trip
990 Interviews in Sarajevo, June/ July 2009
991 Widner, p222
992 Miall, Ramsbotham & Woodhouse, p199
993 Gerson & Colletta, p25
significantly longer than that. Therefore in terms of providing stability to the country, these companies operate to a time-frame much longer than development agencies and other aid organisations. In the case of Rwanda too, Heineken’s investment in Bralirwa dates back to 1971, and given the investments that are being made in the local value chain, there seems every likelihood that they will remain in the country for the foreseeable future. The prevalence in Rwanda of ‘regional multinationals’ might also mitigate in favour of longer-term commitment and concomitant stability. Investments by companies such as MTN (South Africa), Access Bank (Nigeria) and Fina Bank (Uganda) give substance to the desires of organisations such as EAC to create a more stable and prosperous region in east Africa, and their activities do appear to mitigate in terms of longer-term stability for Rwanda. Also, for these companies the east African region is ‘home’, and they are arguably more likely to remain active in Rwanda over the long term, thus providing the stability that comes from longevity of investment. Conversely a number of companies, for example Accor, Total and Shell have entered the Rwandan market and then left fairly rapidly. However, it appears that had less to do with these companies being unwilling to “sustain commitments”, as Gerson and Colletta might put it, than with the failure by the Rwandan authorities to deliver on the commitments that they made to these companies.

However, Bosnia offers an example of how foreign investment can actively de-stabilise a post-conflict state if the companies involved fail to take account of, and proactively manage the relevant issues; or worse, use these divisions to their own commercial benefit. As is manifest, the Dayton structures are a major cause of the on-going instability in BiH: as UNDP argue in one of their strategy documents, “fragmented structures, limited resources, lack of experience and ad hoc approaches to supporting national capacities undermine the ability of Government in formulating and implementing policy."994 Yet in 2007 the Bosanski Brod and Modrica oil refineries were sold to Russia’s Zarubezneft, and Telecom Sprska to the Serbian Telekom Srbija. Because these deals were done by the predominantly-Serb Republika Srpska, and the proceeds from the sales went to their coffers not that of federal BiH, the impact was to further entrench the gulf between the two entities, so further undermining the long-term stability of the country as a whole. However, it is possible to argue that, in these cases the companies involved were acting as political tentacles of their home states, doing the political bidding of their home governments. The case of Austrian APET’s deal to build 4,000MwH of generating capacity in FBH is therefore of greater concern since this seems to be a case of a private sector company colluding with politicians in the Federation to do a deal that compromised the unity of BiH995. Whether APET was entirely aware of the implications of its deal is unclear, however the case illustrates clearly the need for international companies operating in post-conflict countries to be properly aware of the impact that their activities might have, and to manage these impacts

995 Interviews in Sarajevo, June/July 2008
responsibly. Paradoxically, the example of Azerbaijan suggests that even where companies have attempted to understand and manage their impacts in post-conflict environments, their very presence can still be divisive and serve to create not reduce divisions in the host society. Notwithstanding the arguments set out above that the activities of BP, through its hiring and training policies, may well have served to provide what Widner terms “associational” benefits within their operational context the fact remains that, at a macro-level, the company’s presence – indeed the presence of all foreign investors – is serving to create tensions in Azeri society. Many respondents in Baku made clear that the fact that the country’s oil wealth accrued to so few is causing divisions in society – some reported that some Azeris feel that the country’s oil is being stolen.996 This example demonstrates the complex interplay between roles of corporations and role of states – both host and donor – in making reconstruction processes work. In this instance, international businesses are the scapegoat for a problem of which they are not the cause. The fact that oil revenues are not benefitting the whole Azeri population is a failure on the part of the Aliev Government to implement a proper development programme, and on the part of the international community for its failure to bring pressure to bear on the Azeri authorities to spend its oil wealth better. In a situation where Government or governments are failing to promote stability and security, then actions by companies so to do are likely to be ineffective. Azerbaijan’s increased military capacity and sabre-rattling over N-K is another example of this interplay of roles. By making Azerbaijan into an oil power, BP has been the instrument of changing the regional power balance. In the context of the N-K conflict, Azerbaijan’s new wealth has allowed it to amass a military capability that would allow a re-opening of the conflict. In the wider region, its wealth has allowed Azerbaijan even to tweak the tail of its huge neighbour, Russia. None of these developments are in any way the ‘fault’ of BP nor, were conflict to re-emerge, would it be fair to blame the company for this. Nonetheless, the international corporate sector has given the Aliev regime the ability to re-ignite war, or at least cause significant instability in the region.

Therefore, notwithstanding that the international corporate sector has important impacts on processes of social re-integration and trust-building, it must be remembered that these processes are owned by the state actors in each case – the host government and its international development agency partners – and it is the role these entities to build the overarching framework into which the corporate contribution might then fit. Unfortunately, in each of these country cases, the processes of generating greater social stability and cohesion and trust-building are being undermined by the state actors themselves. In the case of Azerbaijan, the Aliev regime is sabre-rattling over the N-K issue, whilst the country’s oil wealth is providing the kind of military strength that would enable this rhetoric to be followed up by military action. Whether this is the intention, or just an unfortunate side-effect of the government’s need to curry domestic favour, the fact remains that the Azeri

996 Interviews in Baku, Feb/ Mar 2008
government is destabilising the situation with regard to N-K. Furthermore, the failure properly to develop the economy, and to ensure that oil wealth is improving the lives of all Azeris is causing the creation of new tensions in society. The behaviours of international community in not taking the government to task on these matters has the result of allowing the situation to get worse. In Bosnia, the political structures of Dayton have actively perpetuated the ethnic divides which gave rise to the conflict, and political parties actually have an incentive to continue to use inflammatory rhetoric to appeal to the base instincts of their core electorate. Moreover, these dividing lines continue beyond the political classes into the structures and institutions of the two, effectively-separate entities. Although there is a widespread recognition that the Dayton structures need to be changed, it is undoubtedly the case that since 1995 the fault-lines of the conflict have been set in aspic, with relatively little done to create a single Bosnian state from the two entities. The situation in Rwanda is harder to read given the subtle processes of control that seem to exist. On the one hand, the gacaca courts appear to have had local level impacts in rebuilding trust. However, at the very least the anti-genocide laws appear to be used rather to prevent debate about the events of 1994 than genuinely seeking to resolve the issues that gave rise to them. It is evident therefore that the core processes for generating stability, trust and security in post-conflict countries remain in the hands of state-based institutions. Whilst the corporate sector can and does impact on these processes, it cannot make good the deficiencies in processes of reconciliation that are caused by the state actors involved.

**Governance**

The immense scale of activity that comes under the heading of ‘governance’ in relation to a post-conflict state is perhaps best summed up by Roeder and Rothchild’s statement that the aim is the creation of “institutions that can both initiate the transition to peace and democracy in the short term, and facilitate the consolidation of these over the long run.” It incorporates the need to foster good democratic practice, and hold elections that are free and fair; create stable institutions that are able to provide goods for the population as a whole; and the development of a civil society able to act as a critic of and counter-balance to the government. Given the intrinsically state-centric nature of these activities, it is unsurprising that, in the countries considered in this study, the development of institutions and processes of governance sits firmly within the ambit of the host state and the development agencies. For example, in Bosnia EBRD’s work includes “policy dialogue with BiH authorities at all levels...and assist with key structural and institutional reforms,” and to support the Bosnian authorities in progress towards EU accession through “institutional development and strengthening of state institutions.” Similarly, in Azerbaijan, the preamble to the UNDAF makes clear that a key role of the UN agencies is to work with the

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997 Roeder & Roeder, p5
national Government in “establishing a system of governance that ensures an enabling environment for development, poverty reduction, and the respect for rights and freedoms...”

This is not to say however, that the corporate sector is absent from this facet of reconstruction. The most obvious example of their involvement is collaboration with the international community, the Azeri Government and NGOs on the development and management of the EITI in Azerbaijan. Using a process developed at a global level EITI has provided a framework for the host government, civil society, international governments and the corporate sector to work together to address the issue of revenue transparency. The process has also underpinned the creation of SOFAZ as a vehicle for the longer-term development of the country. As discussed in Chapter 4, BP has also worked with SOFAZ to develop a macro-economic model to allow the Government to understand the trade-off between different policy options, and is now working with the Ministry of Economic Development to build internal capacity. However, as BP itself recognises, this latter activity does lie at the very extreme of its legitimacy to act, and the model’s creation emerged from a perceived need to provide a didactic to the government to help tackle the corruption issue. BP do not appear to have acted as a quasi-state, and have gone to great lengths to present what they are doing as providing assistance and support to their host government. Nonetheless, this activity can be seen firmly as part of a wider process of improving governance in Azerbaijan. In Bosnia, and to a lesser extent in Rwanda, the international business community’s engagement has been less direct, and can perhaps be best described as an analytical role in the development of good governance. In Bosnia, the Foreign Investors Council’s White Paper provides what is regarded as being a comprehensive analysis of the impediments to foreign investment to the country. However, it is evident that since the problems for foreign investors are a microcosm of the wider challenges in the country, the FIC paper is seen as a blue-print for what governance changes are needed in BiH: as one development agency representative said, “what FIC advocate will benefit the country as a whole, not just its members”\(^{1000}\). In Rwanda, although the Business and Investment Climate Survey points predominantly at practical impediments to greater FDI, it does identify some issues of governance that need to be changed; for example, the “poor, unfriendly services offered by the Rwanda Revenue Authority”\(^{1001}\).

The previous section noted that the presence of the international corporations was one factor that was inclining members of Bosnia’s Diaspora to return to the country. Similarly, in Azerbaijan the fact that companies like BP are providing employment and training opportunities is likely to be a factor in convincing well-qualified Azeris to stay in, or return to the country. The question however, from a governance perspective, is whether the existence

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999 United Nations Country Team, Azerbaijan. UN Development Assistance Framework, p2

1000 Interview with development agency representative in Sarajevo, June/ July 2008.

1001 Rwanda Private Sector Federation, p7
of well-paid jobs with foreign multinationals means that people stay in their home country, but do not work for the national government. In all three countries surveyed, government capabilities were seen as a development challenge: it is a point raised, but not answered sufficiently by this research that foreign investors may make this situation worse simply by offering opportunities to well-educated nationals or diaspora members which are seen as more attractive than government employment.

A significant strand of the literature looking at the international community's approach to post-conflict reconstruction is the criticism that international actions have tended to bypass local power structures, and in doing so undermine them. In David Chandler’s view, “for international administrators and policy-makers, it is well-nigh inconceivable that local actors could be better placed to take their own societies forward than international ‘experts’.”\footnote{Chandler, The State-building Dilemma. p3} In the case of Afghanistan, Peter Marsden concludes that “the government in Kabul has endeavoured to create a bureaucratic framework that accords with prevailing norms determined by the World Bank and others.”\footnote{Marsden, pp 91-105} The prevailing view of the corporate sector might lead one to believe that the presence of companies would make this problem worse – as Wenger and Moeckli assert that “corporations have long been accused of causing or exacerbating conflict through their business operations.”\footnote{Wenger & Moeckli, p5} By contrast, Nathan Jensen argues that for “profit-maximising enterprises…[countries with] democratic institutions would be the preferred institutional structure for their investments.”\footnote{Ibid, p148} This suggests that companies will tend to work with, rather than undermine local governance structures since it is in their best interests to do so. The overwhelming evidence from this study demonstrates that this latter view is correct: that companies in post-conflict environments tend to work with and so support local governance structures rather than seek to undermine them. Indeed, the evidence from Azerbaijan suggests that rather than undermining governance, the corporate sector has actually sought to help strengthen governance in key areas. Whilst criticisms continue to be levelled at the detail of the EITI, the overwhelming view is that in its core mission of removing corruption from the payment of oil revenues the process has been successful. BP has even gone further, through the development of a macro-economic planning model for the government, to seek to strengthen governance in the country in relation to the key issue of use of the new-found oil wealth. Furthermore, in both Bosnia and Rwanda, the examples respectively of the FIC White Paper, and the PSF’s Business and Investment Climate Survey demonstrate that, rather than trying to find ways around problems in governance and bureaucracy that would have the result of undermining these systems, the private sector has instead produced clear and detailed analyses of what governance changes need to occur. A further corollary of Jensen’s analysis is that FDI will be hindered by poor in-country governance structures, and this conclusion is borne out by
this study. In both Rwanda and Bosnia, the development of international private sector is held back significantly because of problems of governance. In Rwanda a principal problem is that what is promised to investors before they arrive is not delivered upon when they have actually invested. And in Bosnia, the fact that the sheer complexity of the Dayton institutions impedes their ability to work efficiently is part of what has made foreign investors reluctant to commit. However, although the evidence of this study is highly suggestive that companies generally seek to strengthen rather than weaken local governance structures, the Bosnian case study throws up examples to the contrary. The sale by RS of the two refineries to a Russian company, and of Telecom Sprska to the Serbia’s Telekom Srbija; and in FBH, the APET deal can all be seen as examples of foreign investors undermining good governance, and indeed using the weakness of, and fissures in the governance structures to their own commercial advantage at the expense of the development of strong in-country systems and processes.

It is interesting in this context, to juxtapose corporate actions which appear, notwithstanding the Bosnia examples above, largely to support and buttress good governance, with the actions of the international community. In Azerbaijan, the international community appears to have abdicated responsibility for bringing pressure on the Aliev regime to create a proper system of governance, in particular by failing to raise the issue of corruption. Chandler is highly critical of the situation in Bosnia\(^\text{1006}\), and there seems little doubt that his central criticism is correct: that the actions of the international community, through the office of the OHR and the use of the Bonn powers, have undermined local decision-making frameworks. Those interviewed for this study were strongly of the opinion that the fact that the OHR would impose decisions in key areas removed any need for local politicians to work together to a common end. However, what one might question about Chandler’s analysis is whether this approach represented deliberate policy on the part of the international community, as he suggests, rather than being borne simply out of necessity. There is little dissent from the opinion that the Dayton institutions are fundamentally unworkable, and therefore the international community had little choice but to act in a quasi-imperialist manner simply to keep humanitarian, infrastructural and other developments moving forwards. The situation in Rwanda is also nuanced. At least at senior levels, the Kagame government seems to be highly organised and efficient and can get things done. However, this is at the expense of wider checks and balances, and of a questionable record on human rights. The attitude of the international development community is evidently that a ‘can-do’ regime is more desirable than one that might exist within a more propitious wider governance framework.

These issues cast a light on what governance actually means in practice. In Rwanda, the government and its international development partners have focussed great attention on improving the country’s standing in the World Bank’s annual ‘Doing Business’ rankings.

\(^{1006}\) Chandler, D (2000) *Bosnia: Faking Democracy After Dayton*
However as the evidence in the Rwanda case demonstrates, the improvements in the country’s rank in this benchmark seems to bear little relationship to the country’s attractiveness to foreign investors. Interviews in Kigali suggest strongly that the reason why companies like Shell and Accor have entered the Rwandan market and left again relatively swiftly has nothing to do with the what is covered in the ‘Doing Business’ rankings, and everything to do with wider problems of governance. Potential investors are lauded and given the red-carpet treatment, whereas those companies which have already committed are all but ignored. This example demonstrates that governance is about more than institutions, it is about the spirit in which these institutions are operated on a day-to-day basis. In structural terms, Rwanda probably has a government infrastructure better than many of its peers; the trouble is that the Government itself is seen as being autocratic and arrogant. Once again therefore, as was the case with issues of security, stability and trust, it is evident that the actions of the corporate sector, whilst material, are subsidiary to those of the state agencies engaged in the reconstruction process. Indeed, given the inherently ‘Westphalian’ nature of developing governance processes and institutions the impacts of the corporate sector are all the more tangential. All three countries in this study face significant governance challenges if they are successfully to achieve a stable development trajectory. As has been argued, the international corporate sector can help address these challenges to some degree, but it is with state organisations that the real responsibility lies.

**Infrastructure**

Richard Brown describes reconstruction of infrastructure as “the essential backbone to recovery; key to the resumption of relatively normal life in a post-conflict environment, and the basis for renewed economic activity”\(^\text{1007}\). In all three countries reviewed in this study, a key facet of the reconstruction process in the aftermath of the conflict was the rebuilding of key infrastructure, although this has been conducted with various degrees of success. In each case however, the processes of rebuilding have been initiated fairly early in the reconstruction process when FDI is at low levels and this, combined with the fact that the physical re-building of an entire country is a significant undertaking ($5.1bn was allocated just to the task of priority reconstruction in Bosnia\(^\text{1008}\)) means that the international business sector is not significantly involved in this aspect of post-conflict reconstruction as a primary actor. Companies play a role as contractors, although interestingly the nature of their contracts with the development agencies does appear sometimes to preclude their work playing a wider reconstructive role. For example, the Spanish company currently re-building the Sarajevo ring road is apparently prevented contractually from using local subcontractors thereby denying the possibility of a wider economic impact from the project\(^\text{1009}\). It was also

\(^{1007}\) Brown, pp99-100  
\(^{1008}\) Department for International Development. *Country Development Strategy, Bosnia and Herzegovina* p9  
\(^{1009}\) Interviews in Sarajevo, June/July 2008,
reported by a number of interviewees that the terms of reference for many infrastructural projects were couched in such terms as would exclude local contractors.

Self-evidently, the most significant departure from the generalisation that companies are not engaged in the re-construction of infrastructure is the development by BP and its partners of the BTC pipeline from Baku to the Mediterranean. Obviously this structure represents what Nicole Ball would refer to as ‘construction’ rather than ‘reconstruction’\textsuperscript{1010} in that the pipeline was not there before the conflict, but its construction is obviously vital to Azerbaijan’s ability to create wealth that can enable stable, broader development. The pipeline can also be seen as significant in light of Richard Brown’s argument that in addition to its basic function, “infrastructure can reconnect divided communities and become the catalyst for gradual reconciliation (effectively a peace tool)”\textsuperscript{1011}. It is evident that, as a result of BP’s efforts at a local level the construction and operation of the pipeline have not significantly exacerbated the tensions along its route. However BTC’s wider impacts are more sensitive given the resource it provides to the Azeri government, at least some of which is being used to increase military spending, and hence increase the tensions over the N-K issue. In Rwanda, ContourGlobal’s ‘Kivuwatt’ project to generate power from Lake Kivu in Rwanda is, whilst much smaller than the BTC, nonetheless highly significant in the Rwandan context. At 325m\textsuperscript{1012} it is a significant financial investment, and the project will address a key issue outstanding in the reconstruction of Rwanda’s infrastructure, namely the shortage of energy.

As is evident from Brown’s work\textsuperscript{1013}, from The Office of the Coordinator for Reconstruction and Stabilisation at the United States Department of State\textsuperscript{1014} and others, ‘infrastructure’ is usually held to mean the hard, physical ‘stuff’ – roads, railways, housing, etc. However, it seems evident that to view infrastructure in this relatively narrow definition is to miss a key facet of what is required if a state is to operate properly and sustainably. A stable, modern state has need of other facets of infrastructure than simply large-scale civil engineering and it is evident from this study that some of these are best provided by the private, not the public sector. The most obvious example to emerge from this study is that of the banking sector. In both Bosnia and Rwanda the banking sector was, in the late 1990s, a virtual basket-case and almost bankrupt. In both cases, international banks stepped in and provided investment that is obviously important in its own right. However, by providing state-of-the-art banking expertise these international banks have built functioning modern banks with services such as ATMs and electronic banking. In the Bosnian case for instance, notwithstanding some criticisms of the banks, the situation in that sector is a considerable improvement from 7-8 years ago. As the bank deposit numbers testify, at the very least

\textsuperscript{1010} Ball, p724
\textsuperscript{1011} Brown, p12
\textsuperscript{1012} ContourGlobal. ContourGlobal signs agreement with Republic of Rwanda to develop Lake Kivu gas project. Press release, New York 2\textsuperscript{nd} March 2009
\textsuperscript{1013} Brown, pp99-100
\textsuperscript{1014} U.S. Department of State. Essentials Tasks Matrix. pp44-45
ordinary Bosnians once again have faith in their banking sector. Development agencies made the case in each country studied that their goal was to put in place the key elements of infrastructure to enable stable, long-term development. In the modern age, this must surely include things such as a modern banking infrastructure which the private sector is best-placed to provide. It is interesting to speculate how far one can interpret the term ‘infrastructure’ if one first admits that it ought, in the context of developing a modern society, to be understood more broadly than simply physical things. In Bosnia for example, much of the physical infrastructure was rebuilt well before the end of the 1990s, yet the country remained, and still remains problematic. Bosnia’s problem now is not primarily one of physical infrastructure, but rather one of human systems. The ‘hardware’ has largely been put back in place; the problem remains with the ‘software’: it can be argued that companies’ activities can help address this deficit. In all three countries surveyed, interviewees commented on the degree to which the international corporate presence brought to the countries international ‘rules of the road’, such as international accounting standards. The work of the FIC in BiH and of the Private Sector Federation in Rwanda too can be seen as a contribution to developing some of the constitutional and legal infrastructure that these countries urgently needs to get right if their development is to move forwards. One might also argue that international companies are able to introduce the types of commercial infrastructures which are central to modern economies. Through its work in developing a local supplier base in Azerbaijan, BP has begun (albeit in a very narrow sphere in the context of the overall Azeri economy) to create a commercial structure which is valuable both because it creates an element of infrastructure which Azerbaijan needs if it is to be a ‘normal’ modern state, and sustainable because it links local companies to an on-going commercially-viable venture. Bralirwa has done a similar thing in Rwanda in relation both to its local suppliers and to its value chain of distributors and retailers. Also in Rwanda though as yet in a small way, companies like Starbucks and Peet’s Tea and Coffee have begun to develop a modern commercial supplier infrastructure. If the ambition of a reconstruction process is to create what Meierheinrich calls the “usable state”, defined as “political units persisting in time and fixed in space…”, then it is surely important to consider as elements of infrastructure all those things that are necessary to a modern state. If one accepts this logic, then modern banking systems and international accounting standards are as significant to long-term success of reconstruction processes as roads and power stations. In this context it is interesting to consider the physical results of the investment and privatisation deals that have been criticised for their ethnically-divisive nature. Take the APET deal for example. Notwithstanding the effects of how monies were paid, the deal was designed to provide much-needed extra power-generation capacity. As a representative of one development agency observed, many Bosnians would probably prefer to have investment that has dubious provenance, than not to have investment at all.

1015 Meierheinrich, p155
The overwhelming evidence of this study therefore is that the international corporate sector does have significant impacts on infrastructural aspects of the reconstruction process. Yet what companies do, and what state institutions do are very different. Indeed, there appear to be very clear, yet complementary roles which each actor plays in creating the infrastructure necessary for a modern state. With the notable exception of the extractive infrastructure and pipelines in Azerbaijan, companies do not significantly engage with the heavy-duty process of rebuilding physical infrastructure. Certainly, international companies are often the contractors on such projects, but the responsibility for deciding what gets built, and where lies firmly with the host government and its partners in the international community. Likewise, the processes of rebuilding an institutional infrastructure also sit with state-based institutions. For example the World Bank and the EBRD take responsibility for working with domestic ministries to create sound financial infrastructures. However, when it comes to creating the infrastructure of a modern banking sector, commercial banks have taken the lead. In other areas too, it is companies like Bralirwa and BP that have created commercial infrastructures that are central to the normal and sustainable functioning of a modern state. The roles appropriate to these different actors are therefore very distinct, and mutually-dependent. In the financial sphere for example, creating a robust fiscal infrastructure is of little use unless it provides the basis for commercial activity. Yet the creation of a modern banking system by the commercial banking sector would be impossible without the prior work by state-based actors.

**Economic development**

The Collier-Hoeffler model is stark in its assessment of the link between low rates of economic growth and levels of wealth and a propensity for renewed violence: “The higher is per-capita income on an internationally-comparable measure, the lower is the risk of civil war.” As such, economic regeneration must be seen as central to successful post-conflict reconstruction. However, as other authors make clear, it is not simply economic growth per se that is required. Economic growth needs to be broad-based, and provide benefits across society: “diversification of production and economic growth are the critical determinants of long-term war avoidance.” All three countries studied have rates of economic growth that, on first sight, seem impressive. Rwanda averaged 4.8% per annum between 2003 and 2007; Bosnia’s GDP has grown at around 5-6% for the past few years; and Azerbaijan has averaged 13% over the past 3 years. In Azerbaijan the phenomenal economic growth rate is the direct result of the activities of foreign investors, since the investment and expertise of BP and its partners has enabled the country to gain access to its hydrocarbon resources in a way not previously possible. The growth in the hydrocarbons sector has also spurred

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1016 Collier & Hoeffler. *Economic Causes of Civil War*, p564
1017 Doyle & Sambanis, pp340-341
development in allied sectors such as construction. Neither of the other countries in this study has received such a ‘transformational’ piece of foreign investment. However, the ContourGlobal investment in methane extraction in Lake Kivu does provide the basis for more rapid economic development by alleviating Rwanda’s energy shortage. In Bosnia although economic growth rates look respectable, the economy was still, as at 2006, less than 80% of the size it had been in 1989\textsuperscript{1019}. As Buiter puts it, “growth rates are disappointing.”\textsuperscript{1020}

The evidence from all three case studies suggests strongly that companies have been proactive in ensuring that their activities have as wide an economic impact as possible. In Azerbaijan, the efforts of BP and its partners to create a local supplier base, to use local firms wherever feasible, and in supporting the Business and Enterprise Centre appear to represent a genuine attempt to ensure that the benefits of the oil and gas development are spread as widely as possible. Moreover, through the development of the EITI and SOFAZ and by providing the Azeri Government with a macro-economic model to help understand the implications of their decisions BP and its partners appear to have and in other ways the international corporate sector in Azerbaijan has sought to enable an infrastructure capable of ensuring that oil wealth benefits the many, not the few. Although the international corporate sector in Rwanda and Bosnia is much smaller than in Azerbaijan, international companies have been able to have an economic impact well beyond the confines of their own business. As demonstrated in Chapter 6, Bralirwa has invested considerable resources into its value chain, with suppliers, distributors and retailers. The company estimates that, taking into account the agricultural, distribution and retail chain of their business, they provide employment for as many as 35,000 families in Rwanda. Similarly in Bosnia, the fact that Cisco and HP use local firms to install and service the equipment they sell to clients provides a significant knock-on effect in the wider economy. HP, for example, only employs 8 people in its BiH office, but works through a network of 23 local partner firms.

However, once again we see the limitation to what the corporate sector is able to achieve in post-conflict environments. In Azerbaijan, despite the efforts by the corporate sector referred to above, the huge increase in wealth is not translating into wider economic development within the country and Azerbaijan is beginning to display many of the hallmarks of Dutch Disease. The group of those benefiting from the new wealth remains very narrow, with only an estimated 2% of the country’s population is employed in the oil and gas sector, and much of the country beyond Baku has seen virtually no regeneration even since the demise of the USSR. Other sectors of the economy remain atrophied, and the inflation rate is reported to be significantly higher than that officially reported by the Government\textsuperscript{1021}. It would be easy to lay the blame for Azerbaijan’s woes at the foot of the corporate sector – an example of

\textsuperscript{1019} Buiter, p9
\textsuperscript{1020} Ibid, p12
\textsuperscript{1021} Interviews in Baku, Feb/ Mar 2008
companies “exacerbating conflict through their business operations”\textsuperscript{1022}. Yet Azerbaijan’s problems seem to occur despite, not because of the behaviour of the international corporate sector. Rather, the fault for Azerbaijan’s track towards the resource curse lies with the Government and the international community. The Aliiev regime has failed to reform state structures, or to plan properly for wider development of the country, and has instead relied on using its wealth to throw cash at problems as they arise. Wider development of the economic base is prevented, not just because of the crowding-out effects of the oil sector, but also because key insiders to the government prefer to maintain their control over their fiefdoms at the expense of their development. The impotence of the international community, or rather its unwillingness to tackle the Azeri Government’s behaviour means that these actions continue. Dutch disease is becoming entrenched in Azerbaijan, not because of venality on the part of the business community, but because of the failings of governments.

Two of the cases in this study identify the significance of a feature of economic growth not covered by the current literature. This is what one might term the quality of economic growth rather than simply its quantity. In the cases of both Bosnia and Rwanda, the ‘headline’ GDP growth rates are misleading because this growth has resulted to a very unhealthy degree from enormous development aid. In Rwanda roughly 36\% of the Government’s core budget is provided by development funding, with the monies for many other projects also being provided by foreign governments. Bosnia too is heavily aid dependent, as Solioz argued in 2005, “Bosnia is not only far from having a functional market economy: its economy still relies on foreign aid.”\textsuperscript{1023} The situation appears not to have improved significantly since then; and the development community in Sarajevo expresses considerable concern that their efforts have not created an economic base that is independent of its presence\textsuperscript{1024}. And this is the issue of concern: that excessive donor involvement in post-conflict countries creates entities that are not sustainable. Chandler, Marsden and others criticise the international community for creating governance structures that are not sustainable; it appears from the evidence of this study that international involvement can also create an analogous problem in the economic sphere. Therefore it seems apparent from this study that economic growth as well as being broad-based must, if it is to be sustainable, stem from the market, not development spending. Obviously there will be issues of timing – as is evident from all three case studies, in the immediate aftermath of conflict in the early days of peace implementation donor funding will predominate. However in the longer term, a \textit{sine qua non} of sustainable post-conflict reconstruction is the presence of a thriving private sector, of which foreign investors will be a significant component. Such a conclusion is self-evidently in direct opposition to a neo-Marxist analysis, which advocates that emerging economies

\textsuperscript{1022} Wenger & Moeckli, p5
\textsuperscript{1023} Solioz, p112
\textsuperscript{1024} Interviews with development agencies, Sarajevo, June/ July 2008
should cut themselves off from the international system if they are to develop properly.\textsuperscript{1025} However, it also challenges the prevailing attitude of “ambivalence about transnational economic actors.”\textsuperscript{1026} Even Virginia Haufler, who seeks to admit a role for corporations argues that “foreign investors have been linked to the emergence or exacerbation of conflict around the world for centuries.”\textsuperscript{1027} Nonetheless, the evidence of this study suggests strongly that economic development, one of the central planks for sustainable reconstruction, is impeded by a lack of foreign investment.

The evidence of this study has highlighted a number of ways in which the international private sector contributes to economic growth in ways beyond the immediate fact of their investment. Firstly, as has been evidenced by this study, international businesses are able to provide access to skills training such as HP and Cisco have in Bosnia, Bralirwa has in Rwanda and BP in Azerbaijan. Secondly, the ‘global rules of the road’, for example introducing international accounting standards, are also viewed as important in creating a viable local private sector. Thirdly, by providing proper commercial structures, international businesses are able to provide their indigenous counterparts with a sustainable framework in which to operate. Even though development agencies’ private sector development (PSD) activities do their best to ensure that SMEs are part of wider frameworks, international businesses are able to do this much more plausibly. The most obvious example of this to emerge from this study is the Rwandan agriculture sector, for which vertical integration is essential if it is ever to be more than a subsistence activity. Although the WFP’s \textit{Purchase for Progress} programme is valuable, it is surely more viable and sustainable in the long-term to link Rwandan growers of coffee and pyrethrum into the supply chains of companies like Starbucks and SC Johnson where the demand for Rwanda’s products is likely to be sustained over time. Fourthly, as Junne and Verkoren argue, because “economic development gives different groups something to work on together,”\textsuperscript{1028} its achievement can be a ‘connector’ in society. Thus, economic growth can provide greater benefits in the context of a post-conflict environment than simply the obvious material gains. All three countries of this study provided examples of how international corporate involvement provides precisely this type of connective action: for example, in Rwanda, Bralirwa’s work with its suppliers, distributors, retailers and other business partners provides a common endeavour for both Hutus and Tutsis employed by these companies.

Thus it is apparent that the international private sector has significant impacts on economic development in all three of the post-conflict situations surveyed. These impacts are both direct, in terms of the financial investment in the host country, and indirect in terms of the wider attributes international companies bring to the endeavour of fostering economic development.

\textsuperscript{1025} Amin, p17
\textsuperscript{1026} Josselin & Wallace, p17
\textsuperscript{1027} Haufler, \textit{Business in Conflict Management}, p660
\textsuperscript{1028} Junne & Verkoren, p1
growth. In the case of Bosnia and Rwanda however, arguably the most significant impact of
the multinational sector stems from the reluctance of international companies to invest in
these countries. Once again, one observes the same phenomenon in relation to the
economic development facet of reconstruction that has been observed with the other three
above. The corporate sector has a valuable role to play, but they cannot play that role unless
the host state and its backers in the international community have first created an
investment climate that makes international companies wish to invest. At the moment, the
evidence of the FIC White Paper; of the on-going lack of investment in Rwanda, and the
evidently-wrong-headed focus there on the World Bank ‘Doing Business’ indicators suggest
strongly that the states sector do not understand what it takes to create a welcoming
investment climate.
Conclusions

This study demonstrates clearly that the international corporate sector impacts significantly on all aspects of the process of post-conflict reconstruction. The issues of economic development may be an obvious area where these organisations have an effect but, as this chapter shows the presence, and indeed in some cases the absence, of international companies is highly material across the rebuilding process. For the most part, the impacts of those companies operating in the case study countries were positive, and supported aspects of the wider development effort. However, as the cases of the privatisation process and bank lending in Bosnia demonstrate, MNCs impacts can as easily be negative if the companies involved are either unaware of the wider development agenda, or seek to use the local tensions to their own advantage.

Defining these impacts is one thing, what is also of significance is the materiality of them within the context of the overarching reconstruction programme. Most of the impacts described in the previous chapters are important and material, but are of relatively small-scale when viewed against the official reconstruction programmes that are in place in these countries. Even the activities of Bralirwa in Rwanda, described in Chapter 6, which the company claim reach 35,000 families are relatively small beer by comparison with the work of the international donor agencies which provide upwards of a third of the Rwandan state budget. Of all the impacts documented in this study, only one is truly ‘transformational’ in terms of its impact on the host country: that is the huge investment in oil and gas extraction and export in Azerbaijan. This corporate activity has transformed Azerbaijan’s financial situation, and in doing so has also transformed its geo-political status. The country’s wealth means that Aliev’s Government can sabre-rattle over N-K, can resist calls for fundamental structural reform in the country, and is immune to the international community’s blandishments on corruption and good governance. Ironically, for both Rwanda and Bosnia it is precisely the absence of large-scale private sector investment which remains a significant development hurdle. In both countries, the development of the private sector is a priority for the national governments and donor agencies, and in both the stability and durability of the reconstruction process remains in doubt in part because of the lack of foreign investment.

What is also interesting to observe is how, in many instances, there is a natural complementarity between the activities of the corporate sector, and those of state-based institutions. In many areas, what the host government and its international donor partners are best placed to do, and what companies do can easily be seen as aspects of a common endeavour. The case of the financial and banking system was rehearsed above, wherein international financial institutions like the World Bank are the most appropriate entities to assist in macro-economic reform, yet it is private-sector banks that are best able to build on this institutional base through the development of a modern retail and merchant banking sector. In the areas of infrastructural development too, a complementary relationship seems
apparent. As has been seen, in the immediate post-war phase re-building of the ‘hard’ infrastructure is seen as a priority activity. Yet, as this study has demonstrated, if the aim of the reconstruction process is the creation of a stable modern state, then there are aspects of infrastructure which the private sector is best able to create. The sort of business value-chains that HP and Cisco use in Bosnia; the greater vertical-integration of the agriculture sector in Rwanda which the pilot projects of SC Johnson, Peet and Starbucks seek to bring about; and the creation of a domestic supplier base being developed by BP in Azerbaijan are all examples of this. It can also be argued that the impact that corporate hiring and training processes potentially have in providing ‘associational’ and trust-building goods could be seen as a valuable adjunct to the wider processes of reconciliation in post-conflict societies.

However, although the roles of the state-based and corporate actors may on many occasions be complementary in the achievement of durable and stable reconstruction, it is also evident where the balance of power and influence lies. Important and significant though the corporate impacts are, it is the state actors which ‘make the weather’ in post-conflict processes. Even in Azerbaijan, the direction and content of the reconstruction process is dictated by the Government and the international agencies, not by BP and its partners. Whilst it is argued here the corporate sector is able to impact on reconstruction in ways that, if absent, risk compromising the success of the whole process, the reins of that process lie in the hands of host governments and international and bilateral development agencies. Whilst it is lamentable therefore that some corporate impacts have been detrimental to the reconstruction processes in the countries studied, the problems with those processes are not fundamentally caused by the international corporate sector. In each case, the fault lies with state-based institutions: in Azerbaijan, a kleptocratic regime that the international community is unwilling or unable to challenge; in Bosnia, a set of institutions arguably unworkable from the outset, with the result that only by use of external powers has anything been achieved; and in Rwanda, an autocratic Government which has persuaded its international backers to look at its ability to deliver rather than its democratic legitimacy.
This chapter seeks to answer the second of the research questions posed by this study: how are international corporations and their actions governed in post-conflict situations? Chapter 2 of this study demonstrated that there is, to use Claire Cutler’s phrase, a “growing asymmetry”\(^{1029}\) in international affairs between the significant and growing impacts that the international corporate sector has on an increasing number of issues that would historically have been regarded as ‘political’; and the inability of still predominantly state-based structures of international governance to manage these impacts. This study sought to explore how far this global picture would be reflected in the governance of international companies operating in specific post-conflict environments, and the degree to which initiatives like the Voluntary Principles on Business and Human Rights, the UN Global Compact, and the work of Professor John Ruggie are having an impact.

**Typology of engagement**

The previous chapter demonstrates clearly that international companies do have significant impacts on all aspects of reconstruction in the three country cases studied. Yet despite this, it is equally evident from this study that corporations are not well integrated into the reconstruction processes: indeed in some cases they are entirely divorced from it. Many in the development community appear to fail to understand the impacts that corporations will have in the countries where they operate, or grasp the need therefore to engage more proactively with those companies. Equally, there remain many in the corporate sector who do not engage with the wider agenda in countries where they operate, or even accept its relevance for their activities. Nevertheless, the data from the country cases in this study demonstrate that the situation is nuanced, and a number of different categories of engagement can be discerned. One also needs to look at ‘governance’ from two perspectives: firstly how do host states and their international governmental supporters seek to integrate corporate activity within their programmes and activities; and secondly what processes and procedures do companies use to ensure that, at the very least, they do no harm in post-conflict situations and, where possible their activities mesh with and support the activities of governmental bodies. Given these factors it is possible, from the data gathered from this study, to identify four categories of engagement: these may be presented diagrammatically as follows:

\(^{1029}\) Cutler, p33
Governance and engagement processes used by state-based institutions | Governance and engagement processes used by international companies
---|---
**Strategic decision-making** | **Reconstruction strategy**
Engagement of the corporate sector in processes to define priorities and strategy for the reconstruction process | **Pro-active awareness**
Companies operate in a way that takes account of the wider development perspective

**Tactical/ operational activity** | **Project/ issue partners**
Development agencies work with corporations to deliver aspects of the reconstruction programme | **Collateral impacts**
Companies undertake ‘business as usual’, with little or no strategic awareness.

Table 8.1: Typology of processes of engagement of international corporations in post-conflict environments

**Reconstruction strategy**
The processes of policy development for the reconstruction process, and for collaboration between the host government and its international aid donors are similar in all three countries studied. In each case, the host government has a core document at the heart of the reconstruction process: Vision 2020 in Rwanda; the Medium-Term Development Strategy in Bosnia and the State Programme for Poverty Reduction and Economic Development in Azerbaijan. The international donor agencies have their own policy statements, of which the UN Development Assistance Framework documents might be considered the most significant. Bilateral agencies also have their own statements of policy, but these are, in presentation terms at least, designed to support the overarching host state and UNDAF aims. The Swedish International Development Agency in Sarajevo for instance, states that “the goal of Swedish development assistance is to support BiH’s development plan, the MTDS.”

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From the perspective of this study, what is most noteworthy about these strategic programmes is that there is no evidence that the corporate sector is in any meaningful way involved in their development. Although Rwanda Development Partners – “the highest-level coordination structure in Rwanda...”\textsuperscript{1031} – claims to involve the private sector in their deliberations\textsuperscript{1032}, there was no evidence emerging from the interview data that this is reflected in a meaningful dialogue at strategic level with companies. Likewise in both Bosnia and Azerbaijan, no evidence emerged from interviews or documentation that companies are engaged at all in decisions about the strategic direction and content of reconstruction programmes. The reality of the three case studies therefore demonstrates the same situation that one sees at an international level: policy-making, and the development of strategies for post-conflict reconstruction are viewed and undertaken as strictly the business of states and their agencies. Companies are not seen as relevant participants in this process. Viewed from one perspective, this fact is neither surprising nor remarkable. As was made clear in Chapter 2, notwithstanding the significant hype in recent years about globalisation, the prevailing paradigm of international governance remains, as Ruggie puts it, a “top down affair, with state-dominated institutions a given.”\textsuperscript{1033} Thus, in exactly the same way that there is a shortage of institutions and frameworks at an international level capable of integrating the corporate sector into ‘political’ issues, so there is a country-policy level. Yet when viewed from a more pragmatic perspective, the lack of engagement of the international corporate sector in the three reconstruction processes surveyed is bizarre. Arguably, this is a failure that fundamentally undermines the chances of success in all three cases. Even if one looks simply at the economic development role that companies demonstrably play in post-conflict environments, it seems nonsensical that a key actor is being ignored. In both Bosnia and Rwanda, a significant – possibly the most significant – challenge facing the reconstruction process is the lack of economic development. As is made clear in Vision 2020, “for Rwanda’s development the emergence of a viable private sector that can take over as the principal growth engine of the economy, is absolutely key.”\textsuperscript{1034} Bosnia also remains largely aid-dependent and the international community accept that a decade and a half of investment has failed to create a sustainable state\textsuperscript{1035}. Yet in neither country is there any meaningful on-going dialogue with the private sector to explore strategies that might address the issue that must be seen as most fundamental to the long-term success of the reconstruction process. The impact of the FIC White Paper in Bosnia may herald some change in this regard, yet one still has to ask why it is that it has taken nearly a decade and a half for the state-based agencies to listen to the corporate sector. Even in Azerbaijan, where the most significant development since the end of the N-K conflict is the massive

\textsuperscript{1031} Development Partners Rwanda. \textit{Rwanda’s Evolving Aid Co-ordination Architecture}. Retrieved 1\textsuperscript{st} Sept 2009. 
\textless www.devpartners.gov.rw/index.php?option=com_frontpage&Itemid=1 \textgreater
\textsuperscript{1032} Ibid
\textsuperscript{1033} Ruggie, \textit{Territoriality and Beyond}
\textsuperscript{1034} Government of Rwanda. \textit{Vision 2020}, p14
\textsuperscript{1035} Interviews with development agencies, Sarajevo
escalation in hydrocarbon revenues, the companies who are responsible for this wealth appear to be regarded only as tangential to the reconstruction efforts of the national government and the international community. This new-found wealth is simultaneously Azerbaijan’s potential saviour, and its potential ruin: the oil and gas companies are therefore strategically highly-significant, yet they are disregarded as relevant partners by the development community. When one considers the wider impacts (positive and negative) which this study demonstrates that companies have, then the neglect of the corporate sector as a strategic partner in reconstruction processes seems almost like wilful neglect on the part of the development community. Moreover, the disregard that governments and their agencies demonstrate towards multinational corporations at a strategic level evidently causes significant frustration, even anger, amongst those companies which do take strategic account of the context in which they operate (discussed in ‘pro-active awareness’ below). It is evident from a number of business respondents in Azerbaijan\textsuperscript{1036} that the failure on the part of international governments, in particular those of the UK and the USA, properly to take the Aliev regime to task on the corruption issue causes considerable annoyance, even anger.

\textit{Project/ issue partners}

However, whilst it appears to be the case that strategic decision making in post-conflict countries excludes the private sector, it is evident that from time-to-time development agencies seek to work with corporations to deliver specific aspects of their reconstruction programme. In such situations, corporations are therefore not part of the decisions about what needs to happen, but are regarded as useful tools in how to make those things happen. Of the cases included in this study, by far the most significant example of this is the development of the EITI in Azerbaijan. As described in Chapter 4, the EITI chapter in Azerbaijan was established in 2004, as a collaboration between (now) all of the oil and gas companies, the Azeri government and a coalition of NGOs, its aim being to address Azerbaijan’s lamentable reputation for corruption. As noted in Chapter 4, the broad consensus is that the EITI process has been a success. The semi-annual reports demonstrate that the revenue transparency has largely been achieved, and the February 2009 Validation Report concluded that “the process is consistent with the EITI’s Principles and Criteria.”\textsuperscript{1037} Yet it is the very success of the EITI that demonstrates its limitations. The initiative’s success has not succeeded in making Azerbaijan a less corrupt country, as is reflected by the fact that the country still languishes at 158= in the Transparency International Corruption Perceptions Index 2008.\textsuperscript{1038} Arguably, all that EITI has achieved is to shift corruption, not to solve it. This gives rise to a number of issues. First of all, it

\textsuperscript{1036} Interviews with representatives of international businesses, and business organisations, Baku Feb/ March 2008
\textsuperscript{1037} Coffey International, p42
demonstrates clearly, as was concluded in the previous chapter, that it is the state-based institutions that have the greatest impact on the success or failure of reconstruction processes. In the case of Azerbaijan, corruption remains a problem, with all the concomitant adverse impacts on the country’s development, because the Aliev regime refuses to address the issue, and because the international community does not want to confront the government on the topic. Secondly, it demonstrates that whilst initiatives such as EITI do work to harness the corporate sector’s capacities in pursuit of an important goal, they operate on such a narrow front that their impact is seriously limited. This limitation is recognised. In 2008, the World Bank President, Robert Zoellick launched a new initiative called ‘EITI++’, the aim of which, he said was to “help client countries to build capacities to draw sustainable benefits from their natural resources.”\textsuperscript{1039} The details of exactly what this initiative is, and how it will operate are still unclear, and as one former senior BP executive, now director of the PWBLF observed, “we should remember that it has taken nearly ten years to get even one country to fully Compliant status under the existing limits of the initiative.”\textsuperscript{1040}

Nonetheless, beyond high-profile initiatives like EITI, it is apparent that the development community is prepared to cooperate with international businesses on specific facets of reconstruction where corporate expertise is seen as being useful. The most obvious examples of this are the banking reform processes in Bosnia and Rwanda where “we needed foreign banking expertise to clear up a banking sector that was on its knees.”\textsuperscript{1041} Similarly in Bosnia, where banking sector reform was led by the World Bank and EBRD, Maric concludes that “FDI entrance in the form of take-over investments” were critical to the success of the process because it “brought new capital, new technologies, enabled more effective and more profitably (sic) doing business, higher capital mobility, risk diversification, etc.”\textsuperscript{1042} A smaller example, but nonetheless one that demonstrates an understanding of what specific and relevant expertise international companies can bring is the USAID Sustaining Partnerships to Enhance Rural Enterprise and Agribusiness Development (SPREAD) Project in Rwanda. This is a five-year project that started in 2006 and that is dedicated to improving practices and generating greater vertical integration in Rwanda’s agriculture sector\textsuperscript{1043}. One area of focus has been on the coffee sector where the initiative worked with US-based coffee roaster, Green Mountain Coffee, and the retail coffee chain


\textsuperscript{1040} Baxter, Graham \textit{The EITI Story so far: a personal reflection} 11\textsuperscript{th} February 2009. Retrieved 10\textsuperscript{th} Oct 09 <http://www.eitransparency.org/node/692>.

\textsuperscript{1041} Interview with development agency representative, Kigali Mar/ April 2009

\textsuperscript{1042} Maric, Z, p64

Starbucks. It is thus apparent that the development community is able to understand that in certain specific instances, the expertise and abilities of the multinational private is useful in pursuing specific facets of the reconstruction agenda. Whilst this is manifestly valuable, the relationship seems to be ‘transactional’, not strategic. The state-based organisations have already taken the decisions about what needs to happen, business partners are simply brought in as a way of enacting some of those decisions. This raises an obvious concern: whether or not companies are being used in the most efficient way. Were companies engaged at a more strategic level, might there be more that they could do to shape the reconstruction agenda more effectively? The example of the FIC White Paper suggests that this could be the case. As Chapter 5 demonstrates, this paper has been seen by the development community as a very valuable analysis of what changes need to occur if more FDI is to be obtained. If such an analysis is valuable now, why was it not sought a decade or more ago?

Pro-active awareness

It is apparent from the very existence of structures such as the EITI that some companies do understand that their activities have a significant impact on wider issues of development in their host country. Notwithstanding the involvement of donor governments and the Azeri Government in the creation of the EITI in Azerbaijan, it is evident that the oil and gas companies were active rather than passive participants. As a number of respondents from the business sector in Baku made clear, for these companies there was a recognition that they needed to be firm on the corruption issue for fear of having their international reputation damaged. Moreover, it is apparent from this study that a number of the companies operating in the countries surveyed recognise that their own commercial or operational success depends on a significant degree on the wider development process. These companies therefore appear proactively to take account of the country-specific sensitivities in their decision-making processes. For example, BP’s definition of ‘sustainability’ in its BP in Azerbaijan report makes clear the connection the company perceives between commercial success and wider development and environmental agendas:

“By ‘sustainability’ we mean the capacity to endure as a commercial organisation by renewing assets; creating and delivering better products and services that meet the evolving needs of society; delivering returns to our shareholders; attracting successive generations of employees; contributing to a sustainable environment; and retaining the trust and support of our customers and the communities in which we operate.”


Interviews with representatives of international companies, Baku Feb/ March 2008


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It certainly seems to be the case that this understanding of ‘sustainability’ has informed BP’s business practices in Azerbaijan. The significant efforts, in building and managing the BTC pipeline seems to show that the company was very aware of the potentially-adverse impacts of such an undertaking, and sought pro-actively to manage them. As the Caspian Development Advisory Panel observed, during the construction of the BTC and SCP pipelines, “successful completion of the...pipelines in accordance with the European and other standards to which the projects are committed...will send a powerful message that major extractive industry investments can improve the lives of ordinary people in the countries where they are implemented.”

Bralirwa in Rwanda also appears to realise the importance to its success of wider development issues and take these into account in strategic decision-making and operational management. The company makes the point that their business provides a livelihood for as many as 35,000 families. The company appears to recognise that the way they do business impacts not only on their profitability, but also on the wider development trajectory of the country. As discussed in chapter 6, Bralirwa invests heavily in its ‘value-chain’ in Rwanda, for example by providing computer training to its retailers and by negotiating a finance deal to allow distributor firms to finance new vehicles at advantageous rates. The company is also exploring the possibility for using sorghum and other locally-produced goods as an alternative to malt, which has to be imported from Europe. Although all of these decisions have a sound commercial rationale, the company nevertheless appears to be aware that their decisions have wider impacts, and that these need to be considered in the decision-making process. The wider context of the country as a whole is an important element of what makes for commercial success. Bosnia’s Foreign Investors Council is also evidently aware that there is a symbiotic relationship between the commercial success of its members and the wider success of the reconstruction process. Its 2007 White Paper is clearly a statement of the change that member companies want to see for their own commercial benefit yet, as the paper makes clear “given the strong correlation between investment and the growth of jobs and incomes, BiH policymakers should be doing all they can to make the country an attractive place to do business.”

The FIC website states that the organisation wishes to improve “communication and cooperation between the FIC and the authorities in Bosnia and Herzegovina”. It is further evident from interviews with FIC members that it wished to interpose itself as the corporate voice in strategic decision making in relation to development in BiH. It is however important to note that companies that take account of the wider reconstruction agenda in their decision-making are very clear that there is a definite limit to their legitimacy to act: such companies emphatically do not see themselves as quasi-states. In Azerbaijan company personnel interviewed expressed the view that whilst it was entirely legitimate for their companies to engage with

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1047 Caspian Development Advisory Panel letter to Lord Browne of Madingley, BP CEO December 30th 2004
1048 Foreign Investors Council White Paper, p1
the Azeri government on issues of revenue payments, it would be completely illegitimate for them to seek to address the matter of budgetary corruption. Indeed the anger on the part of many companies stems from frustration that state actors, in particular the governments of Britain and the USA are not properly undertaking their role in bringing the Azeri Government to account for its corrupt practices.\textsuperscript{1050}

However, the case of Bosnia also raises the possibility that some companies are prepared to use their awareness of the larger strategic development situation to their own advantage and to the detriment of that wider agenda. The cases described in Chapter 5, of the sales of the Bosanski Brod and Modrica refinery sales in RS, and the APET power generation deal in FBH, all show companies which were evidently aware of the governmental complexities of the country. However, in each case, by making their deal with the Entity authorities rather than the federal government, they strengthened the Entities at the expense of wider state stability. Given the ethnic nature of the Entities, the actions of these companies can be seen also to perpetuate the divisions which gave rise to the conflict in the 1990s.

\textit{Collateral impacts}

However, it is also apparent from this study that many companies operating in the countries studied have impacts on the wider reconstruction process, but these impacts are accidental, be they positive or negative. In such cases, the companies concerned are simply going about ‘business as usual’, apparently unaware that the decisions they make, and the actions they are undertaking are impinging on factors central to the success of the reconstruction programmes in their host country. In Azerbaijan, one development agency respondent stated that “most companies simply hide behind BP and ‘big oil.’ They stay comfortably in the Baku bunker and never think to ask what is going on in the country at-large.”\textsuperscript{1051} Another reported having spoken to a the newly-arrived country director of an American firm who was unaware even that Azerbaijan had been at war in the recent past.\textsuperscript{1052} It is certainly the case that, in many interviews with representatives of foreign corporations working in the case study countries, the question “how do your activities impact on the wider reconstruction process”, was met either with a bemused look or with a recounting of that company’s philanthropic programme.

Examples from Bosnia offer the best illustrations of the impacts of these ‘collateral impacts’. As described in Chapter 5, both HP and Cisco operate a business model which, rather than requiring a large in-market presence of ex-pat staff, works through local firms and trains their employees: HP for instance uses 23 local partner companies.\textsuperscript{1053} Given the importance accorded by the development community to the “adaptation of education system to labour

\textsuperscript{1050} Interviews with company representatives, Baku Feb/March 2008  
\textsuperscript{1051} Interview in Baku with development agency representative, February 2008  
\textsuperscript{1052} Ibid  
\textsuperscript{1053} Interview with HP, Sarajevo Jun/July 2008
market demands". These companies’ activities are evidently significant, yet come about as a welcome but apparently largely-unintended corollary of ‘business as usual’. However, the example of the behaviour of the banking sector in BiH demonstrates that the converse can also be true: that, by the application of a ‘normal’ business approach, companies can have negative impacts on the reconstruction process. As was demonstrated in Chapter 5, notwithstanding their positive role in stabilising the banking sector, the policies of the international banks in BiH have resulted in relatively-high interest rates, and a predominance of lending to the import trade, so undermining efforts to create a local industrial base. It is also possible to argue that the very absence of greater levels of foreign investment in either Bosnia or Rwanda are, at least in part, a ‘collateral impact’ of international companies applying their normal risk assessment frameworks and finding countries in the process of post-conflict too risky or uncertain to be seen as a possible site for investment. Such an analysis would be supported by the evidence from the RDB in Rwanda that continued perception of the country as the site of a genocide is the single most significant problem that they have to tackle in attracting foreign investors.1055

The importance of attitudes, not just structures

Given the ‘Realist’ nature of structures of international governance it is perhaps not surprising that the case studies in this thesis show an absence of developed systems and processes to bind international business actors into the architecture of reconstruction. What is perhaps more surprising are the attitudes of many in both on the business and development communities to one another. On the part of the development agencies, there appears to be a complete absence of any recognition that the business community have impacts on precisely the issues in which those agencies are engaged. The presence of the international business community is recognised as a matter of fact, but there seems to be little or no understanding that its presence – or as is the case in Bosnia and Rwanda, its predominant absence – has significant impacts on the reconstruction process that cannot be disregarded. Yet disregarded they appear largely to be. Take, for example, the UNDAF for Azerbaijan, which states that inter alia that “the UN agencies in Azerbaijan will support the Government’s efforts to turn oil revenues into a vehicle for employment and investment in a diversified economy.”1056 Rightly, the document states that “only if used wisely will the oil resources stimulate expansion of employment and productivity in the non-oil sectors.”1057 Yet whilst the UNDAF considers how Azerbaijan’s oil wealth ought most beneficially to be spent, it gives no consideration to how it is earned, or what the impacts are of the significant development impacts within the country’s oil sector. It cannot be denied that the investment in oil and gas transit has had a huge impact on Azerbaijan, yet the development community

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1054 UN Country Team, Sarajevo. UN Development Assistance Framework, p17
1055 Interviews with RDB, Kigali Mar/ April 2009
1056 Ibid, p1
1057 Ibid, p5
appear not to consider the consequences of this at all. This blind-spot to the international corporate sector is widespread. A not-untypical example of the development community’s regard for corporations came from a senior donor agency representative in Rwanda. Whilst acknowledging both that private sector development is critical to the long-term success of the reconstruction process, and that this task was central their own organisation’s strategy nonetheless this individual commented, when asked what relationships they had with the private sector replied that, “we don’t deal with companies here.”

Indeed, it might be argued that certain issues identified by this study demonstrate that governments and donors fail to understand the business community and its motivations. As noted in Chapter 6, the Rwandan government and development agencies in Kigali place great store by the country’s significant improvement in the World Bank’s Doing Business indicators. In early September 2009, it was announced that Rwanda had moved from 143rd to 67th place in the rankings compiled for the year to June. As the Economist observed, Rwanda was “the world’s champion reformer—the first time a sub-Saharan country has claimed the prize.” Yet despite this continued improvement, Rwanda is still not attracting significant foreign investment, and the data for this study demonstrates clearly that the focus of the Rwandan Government and the donor community on the Doing Business indicators is entirely missing the point. As argued in Chapter 6, companies appear to be dissuaded from investing – or indeed divesting after a relatively short time – for many reasons. These include the country’s small size; the perception that Government interference in the commercial sector is too great; the Government’s failure to deliver on the promises made; and the absence of many significant commercial opportunities. The focus on the Doing Business rankings would therefore seem to demonstrate a complete lack of understanding on the part of Rwandan government and its backers of what international companies need to see if they are to invest. A similar lack of understanding appears also to have been the case in Bosnia, although arguably this may now be changing. The FIC White Paper has been greeted by the development community, not just as an analysis of what needs to change if BiH is to attract more FDI, but also of what change is needed if BiH is to become a sustainable state. Unfortunately, the corollary of this is that the development agencies have not to date been pursuing an agenda that was most likely to promote FDI, and moreover had not thought to ask the business community their views.

However, the development community’s attitude sometimes appears to be rather less helpful even than simple disregard for their colleagues in the private sector. There seems to be an attitude amongst some in the aid community that the corporate sector is to be mistrusted, and will be inclined to act in a fashion detrimental to good development if left to its own devices. One sees something of this attitude in the literature surveyed in Chapters 1 and 2.

1058 Interview in Kigali with development agency representative, March 2009
Virginia Haufler for example asserts, without any evidential basis, that “foreign investors have been linked to the emergence or exacerbation of conflict around the world for centuries.”\textsuperscript{1060} Likewise, Wenger and Moeckli assert that “corporations have long been accused of causing or exacerbating conflict through their business operations”.\textsuperscript{1061} However, Nathan Jensen’s work appears to demonstrate that the corporate sector’s poor reputation is underserved since “for profit-maximising enterprises…[countries with] democratic institutions would be the preferred institutional structure for their investments.”\textsuperscript{1062} Jensen would no doubt argue that whilst there are undoubtedly bad companies, and good companies which sometimes do bad things, this is not the same thing as saying that all companies are inherently to be mistrusted. Yet that appears to be a prevailing attitude amongst many of the representatives of development agencies interviewed for this study. It is pertinent at this point to refer also to a further piece of research which this current author undertook in his professional capacity, some of the outputs of which illuminate the issues under discussion here. In early 2009, this author was asked to develop a strategy for the Swedish International Development Agency (Sida) for engagement with the private sector. This work involved a significant process of interviewing a range of individuals and organisations involved with Sida’s work, and making recommendations to the organisation on how best to engage with the corporate sector in its work.\textsuperscript{1063} A number of those people interviewed spoke of what they perceived to be an antipathy on the part of some Sida staffers to the corporate sector. Although there was a general belief that this suspicion is less marked than in the past, there was considerable agreement that many in Sida regard corporations as “slightly dirty”, as one business interviewee put it.\textsuperscript{1064} A senior representative of a Swedish NGO termed such people ‘sandalistas’.\textsuperscript{1065}

What then of the obverse: the attitudes of the corporate sector? In his 2008 paper on business and human rights, John Ruggie argues that “responsibility to respect is the baseline expectation for all companies in all situations” However, his concluding question is whether companies “have systems in place enabling them to support the claim with any degree of confidence? Most do not.”\textsuperscript{1066} Certainly, many of the companies interviewed for this study, although aware that they were operating in a post-conflict environment did not see their activities as having relevance to the development agency-led reconstruction processes. As one international company in Bosnia put it, the facets of the reconstruction

\textsuperscript{1060} Haufler, Business in Conflict Management, p659
\textsuperscript{1061} Wenger & Moeckli, D, p5
\textsuperscript{1062} Ibid, p148
\textsuperscript{1063} The study was undertaken in February 2009 and interviewees included representatives from within Sida and other agencies of the Swedish Government, business, NGOs, and project partners of Sida. A report submitted to Sida in early March. At the time of writing, the recommendations are under discussion within Sida.
\textsuperscript{1064} Interview with business representative in relation to Sida business strategy, February 2009
\textsuperscript{1065} Interview with NGO representative in relation to Sida business strategy, February 2009
\textsuperscript{1066} Ruggie, Protect, Respect and Remedy, p9
process “are political issues and therefore nothing to do with us”\textsuperscript{1067}. This is not to say that these companies did not have positive ‘collateral impacts’ on the reconstruction processes, but these impacts are accidental rather than deliberate. However, this study has also demonstrated that some companies, small in number but significant in scope, do appear to take great pains to ensure that their operations positively impact on the reconstruction processes in their host countries. In Azerbaijan the oil companies under BP’s leadership have gone to great lengths to understand the wider framework in which they operate and have invested considerable time and resource to manage the impacts of their presence and operations as far as is possible. Similarly in Rwanda, Bralirwa seem to operate with a presumption that the wider development perspective has significant relevance for their corporate success.

Notwithstanding some small effects made on aspects of reconstruction by companies’ philanthropy programmes – the Night of 1000 Dinners event in BiH for example – the overwhelming weight of corporate impacts in post conflict theatres comes from their core business activity: be that at a strategic or an operational level. Bralirwa, for example, relies for its commercial success on its chain of partner companies; providing these firms with financial support and business expertise is therefore a necessary business activity. The company also appears to be aware of the political benefit to be gained from being able to portray its activities as having a wider developmental impact. Similarly, the actions of Cisco HP in Bosnia have benefitted many local firms. Once again, this is not a philanthropic undertaking, but the logical impact of a business model that seeks to keep the companies’ in-country teams small but maximise their ability to meet clients needs. In both Rwanda and Bosnia, the influx of international banks has served both to create a financially-secure banking sector where previously local banks were virtually bust, and introduce expertise and investment able to create a modern banking infrastructure. Here again the banks’ actions appear to have been prompted by rational commercial calculation, not by any altruistic aim. However, the example of the Bosnian banking sector does demonstrate that applying ‘normal’ commercial considerations to operations in post-conflict environments can also be problematic. In this example, applying ‘normal’ risk management processes appears to have lead the sector both to charge relatively high rates of interest, and disproportionately to be funding import activities, rather than providing loan investment to develop local business and hence promote import substitution. It can also be argued that it is precisely the application of ‘business as usual’ analytical frameworks which is hindering greater investment in both Rwanda and Bosnia. The Rwanda Development Board observed that one of its biggest tasks is overcoming the perception amongst potential investors that Rwanda is highly risky. Whilst Bosnia appears not to conjure up such negative images, it still has to compete with other countries, many of which will not be recovering from conflict, as a site for foreign investment. Given these problems, the approach proposed by Ruggie would appear to be

\textsuperscript{1067} Interview with business representative, Sarajevo, June/ July 2008
relevant. He recommends, in relation to human rights, that companies should undertake due diligence to ensure that the issues arising are integrated into their behaviours; and monitor their performance over time.\textsuperscript{1068} These recommendations appear to make good sense also in post-conflict environments. Had Bosnia’s banks, for example, had in place processes that better understood the impact on the wider development agenda of their commercial lending decisions, then the approach they adopted may have had a less damaging effect.

\textbf{The impact of global developments}

To what extent therefore do the developments identified in Chapter 2 address the structural and attitudinal challenges to better integration of corporations into processes of post-conflict reconstruction? In the cases contained in this study, by far the most significant reflection of these global developments is the EITI implementation in Azerbaijan: indeed Azerbaijan is the only country in the world to be fully compliant with EITI. It appears also that BP’s activities in relation to the BTC pipeline have been guided to a degree by the Voluntary Principles on Security and Human Rights\textsuperscript{1069}. Beyond these two examples however, the ‘multi-stakeholder partnerships’ much-vaunted at global level, have not impacted greatly on the country cases in this study. Moreover, the undoubtedly positive effect that EITI has had on revenue transparency has been significantly undermined by the lack of budget transparency on the part of the Azeri Government, and by the failure of the international community to bring the Aliev regime to book for corruption. This study also suggests that the UN Global Compact, seen as a significant development at a global level, fails to have any real impact on the ground. Whilst it is not specifically focussed on post-conflict states, its 10 principles ought to have at least some resonance in these countries. Yet only in one interview conducting for this study was the Global Compact even mentioned, and then in a derogatory fashion.\textsuperscript{1070} The ‘real world’ impact of the UNGC therefore appears, from the evidence of this study at least, to be minimal.

So what of the notion that that companies impacts on issues such as post-conflict should be a matter for legislation? The UK Core Coalition for example, advocates the need to “make changes in UK company law to minimise companies negative impacts on people and the environment and to maximise companies contribution to sustainable societies.”\textsuperscript{1071} Such an argument is persuasive both because it is evidently a desirable goal that companies have as positive an impact as possible in post-conflict environments, and because regulation seems to be a relatively straight-forward way to achieve this. However, this study suggests that legislation to govern corporate behaviour in such environments as post conflict would be

\textsuperscript{1068} Ruggie, \textit{Protect, Respect and Remedy}, pp17-19
\textsuperscript{1069} Interviews with BP, Baku and London
\textsuperscript{1070} Interview with a development agency, Sarajevo June/ July 2008
unlikely – on its own at least – achieve the aim that Core and others intend. In the first place, as is apparent from this study, post-conflict environments are highly complex places: how might legislation be drafted given the huge range of circumstances for which it would have to be applicable? Secondly, how might companies learn enough about the post-conflict environments in order to enable them to comply with the legislation? The evidence of this study demonstrates that the links between governmental agencies and the business sector are not good. Thus companies seeking to comply with legislation would have no ready source of guidance as to what ‘doing no harm’ in a country actually meant. The combination of these factors would make it hard for companies to comply with the legislation, and so might decide not to invest in ‘difficult’ countries. As has been seen in the cases of Rwanda and Bosnia, a lack of FDI can be seen as a major reason why the reconstruction processes in these countries are in difficulty. A legislative approach on its own may have the paradoxical effect therefore of worsening, not improving the impact of multinational companies on post-conflict countries.

A focus on legislation also risks missing the central problem: that what is required is more joined-up collaboration between state institutions and the private sector. Certainly, the inability or unwillingness of companies properly to understand the dynamics of a post-conflict environment is a significant challenge. Yet so is the need for the development community to accept the importance of multinational companies in the reconstruction process and to work with them effectively. In this regard, the work of Professor John Ruggie would appear to have considerable relevance since his ‘Protect, Respect, Remedy’ framework “rests on differentiated but complementary responsibilities”1072. As the previous chapter identified, in a number of aspects of the reconstruction process – the establishment of a sound financial system for example - there appears to be a symbiotic relationship between what state institutions are best placed to do and what private sector companies can achieve. Therefore the notion that states and companies have different but complementary roles to play in addressing human rights issues appears also to be the case also in relation to post-conflict environments. Ruggie further argues that states fail “to provide adequate guidance for, or regulation of, the human rights impact of corporate activities.”1073 The evidence of this study demonstrates that the same problem is true in relation to the post-conflict impacts of the corporate sector. Similarly, from the corporate perspective, “‘doing no harm’ is not merely a passive responsibility for firms but may entail positive steps ... To discharge the responsibility to respect requires due diligence”. As Bones observes, for modern companies, “interactions with stakeholders such as consumers, suppliers, customers and communities are significant drivers of performance...ensuring strategic alignment and a clear

1072 Ruggie, Protect, Respect and Remedy, p4
1073 Ibid, p8
understanding of the rules of doing business are major challenges. As this study has shown, some companies, for example BP and Bralirwa, appear to have be responding to these challenges, with the result that their activities are proactively managed with the wider developmental perspective in mind. Obviously the question must be how such an attitude and behaviours might be encouraged more generally amongst companies working in post-conflict environments.

Conclusions

It is evident from this study that there exist no established structures that properly engage the international corporate sector in processes of reconstruction. At a strategic level, the development and management of reconstruction programmes remains a strictly state-based process, so reflecting the on-going durability of the Realist structure of international relations. At a tactical level however, one can see more fruitful engagement by the corporate sector in different aspects of reconstruction processes, and the recognition – if only in places – by organisations like the UN and other development agencies that international companies can be useful in taking forward specific aspects of reconstruction programmes. Yet an absence of structures is not the only impediment: arguably more serious is the attitudinal problem. Few in the development sector appear to regard corporations as a relevant partner in the work of post-conflict reconstruction. Likewise, many in the corporate world see reconstruction as a political activity divorced from their commercial activities. The examples of BP in Azerbaijan, of Bralirwa in Rwanda, and the collaboration that has led to the success of EITI in Azerbaijan demonstrate that a different approach is possible; but these are exceptions that highlight the need for a more constructive relationship between the development and governmental actors on the one side, and companies on the other.

Of the various global initiatives that seek to ‘square the governance circle’, the example of EITI in Azerbaijan is the most significant to have emerged from this study. There appears to be a general consensus that the process has been effective in addressing the issue of revenue transparency in the country. Yet, the initiative’s very success has served also to demonstrate its limitations. Firstly, EITI’s existence has not ‘solved’ the problem of corruption in Azerbaijan, it has merely served to move it elsewhere. Secondly, the initiative addresses only one small (albeit highly important) aspect of the corporate impact in the country. These limitations must cast doubt on the practicability of these initiatives as a way forward in governing the impact of corporations in situations such as post-conflict. EITI has been running for 10 years: how practical is it to expect that a similar amount of time might be dedicated to initiatives designed to cover all other corporate impacts? That said, despite the limitations of EITI, at least it is having a practical impact at country level. It is highly

noteworthy that most of the other initiatives, much vaunted at a global level, appear to have little traction at a local level. One can only speculate about why this is, however it may be that whilst initiatives like the Global Compact propose structures for state/corporate collaboration, they do not address the underlying attitudinal problem as to why these structures are needed at all. If companies on the one hand, and state organisations on the other fail to see the need to collaborate in post-conflict situations, then processes proposed to help them work together will be ignored.
9: Conclusions

This thesis set out to examine the role played by multinational companies in post-conflict environments, and the way in which that role is governed, both by the companies themselves, and by the governmental and inter-governmental structures which oversee the reconstruction process. In drawing conclusions from this study, it is important to remember the counsel of Stake, Yin and others about precisely what a collective case study can achieve. As Stake puts it, “a collective case study may be designed with more concern for representation but...the representative nature of a small sample is difficult to defend.”\textsuperscript{1075} A research project that draws on a small number of cases cannot properly be said to be studying a sample and therefore the goal of the collective case study method is to “expand and generalise theories, and not to enumerate frequencies.”\textsuperscript{1076} This chapter cannot therefore be said to provide conclusions about the role and governance of multinationals in post-conflict, \textit{per se}, but as the conclusions from this study of Azerbaijan, Bosnia and Rwanda. However, these conclusions may very well have applicability for other post-conflict theatres, and indeed for examining the role of the corporate sector in other development contexts. A number of other areas of possible further research are set out later in this chapter.

\textit{The impacts multinational companies have in post-conflict environments}

What this study has demonstrated very clearly is that multinational companies impact on all aspects of the reconstruction process. Perhaps unsurprisingly, the impact of companies on the economic dimension of conflict and post-conflict has received much attention. Wenger and Moeckli for example focus heavily on companies' activities in the economic sphere, advocating that the corporate sector can “transfer know-how with regard to private sector development, especially to local communities.”\textsuperscript{1077} Duffield sees the role of corporations as potentially damaging since, in his view, they make it easier for rebels or warlords to commercialise the resources of conflict.\textsuperscript{1078} Yet in the cases of Azerbaijan, Bosnia and Rwanda the impact of the international corporate sector is more pervasive, and is felt across all four of the categories of activity in post-conflict which were identified. In the area of \textit{security, justice and stability}, the evidence of this study demonstrates that companies can have a beneficial, stabilising effects. Widner speaks of the importance “denser associational life.”\textsuperscript{1079} as a key facet of building stability: companies' activities appear to act as a conduit for this. The fact that Bralirwa in Rwanda, and several of those foreign investors in BiH hire

\begin{footnotes}
\item[1075] Stake, p5
\item[1076] Yin, \textit{Design and Methods}, p15
\item[1077] Ibid, p8
\item[1078] Duffield, pp 62-65
\item[1079] Widner, p236
\end{footnotes}
from across the ethnic divides arguably provides a vehicle by which former combatant communities can learn to work together again. Pickering argues, in the case of Bosnia that, “workplaces generally create opportunities for repeated, horizontal interaction between employees,” and there seems no reason to believe that this might not be the case in other countries too. Further, the presence of foreign investors appears to have the effect of developing confidence in on-going stability. In Bosnia for example, a number of interviewees stated that they had been persuaded to return to the country in part because of the presence of foreign companies. It also appears to be the case that corporate activity can build connectors in wider society too. The Bulldozer Initiative in Bosnia; BP’s work on its supply chain in Azerbaijan; and the activities of companies like SC Johnson and Starbucks in the agricultural sector in Rwanda all demonstrate this potential to develop linkages in society which cut across the dividing lines which gave rise to conflict. Interestingly, given scepticism amongst some scholars as to “the private sector’s willingness to sustain commitments in any one area...” it seems from this study that corporations can also offer the potential for longer-term stability too. BP is committed to Azerbaijan for at least the next two decades, and the prevalence of African multinationals in Rwanda suggests that they too are likely to sustain their commitment in that country. By contrast, the development community is unlikely to sustain current levels of commitment over that length of time. However, it is equally apparent from this study that the international corporate sector can have a de-stabilising effect on post-conflict dynamics, as is demonstrated by the actions of Zarubzeneft, Telekom Srbija and APET in Bosnia. In these cases, investments had the effect of privileging one of BiH’s Entities, so weakening the federal state. Interestingly, the very absence of the corporate sector can in itself be de-stabilising. In the cases of both Bosnia and Rwanda, the lack of a thriving private sector is a major issue of concern with regard to those countries’ long-term stability.

In the sphere of governance, by far the most significant example of corporate impact to emerge from this study is of the EITI in Azerbaijan. The issue of revenue transparency may be only one small facet of the governance challenges facing that country, but the participation of all 26 of the oil companies operating there has helped ensure that EITI has been and remains a success. The example of Bosnia demonstrates that the diagnostic capabilities of the corporate sector can also be important in improving governance. The FIC White Paper, although ostensibly focussed on identifying what hinders foreign investment has in fact become seen as an analysis of BiH’s wider governance challenges. The work of the Rwandan Private Sector Federation in producing its Business and Investment Climate Survey serves a similar purpose. This study has also identified the limits of legitimacy for companies to become engaged in governance issues: the macro-economic planning model which BP has developed for the Azeri government has significant potential positive effects.

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1080 Pickering, p116
1081 Interviews, Sarajevo Jun/ July 2008
1082 Gerson & Colletta, p25
on governance, yet the company acknowledge the sensitivity of their involvement in it. Once again however, the example of questionable investments in Bosnia (by Zarubzeneft, Telekom Srbija and APET) demonstrate that international companies can have a detrimental impact on good governance. Indeed, in these examples, it can be argued that the investors used the governance problems of BiH to their own advantage.

The third key facet of reconstruction is the rebuilding of infrastructure, and here again it is Azerbaijan that provides the most significant example of corporate involvement: the oil extraction facilities in the Caspian and BTC and SCP pipelines. Important though this example undoubtedly is, all three case studies made clear the contribution that multinational companies can make to what one might term the ‘soft’ infrastructure in post-conflict theatres. Such elements of infrastructure seem critical to the creation of what Meierheinrich calls the “usable state”\(^{1083}\). In Rwanda and Bosnia, international banking groups have been responsible both for stabilising previously-unstable local banks, and for creating a modern banking system. In Azerbaijan BP has created, through its work to develop a local supplier base, the sort of commercial network vital for a modern economy, as has Bralirwa in Rwanda in its work across its value-chain. Though as yet only in a small way, companies like Starbucks and Peet’s Tea and Coffee have begun to develop structures that may enable small Rwandan producers to become part of durable international supply chains: again valuable ‘soft’ infrastructure in the creation of a modern state.

When it comes to the topic of economic development, the example of Azerbaijan demonstrates how significant an impact the corporate sector can be: the foreign oil companies have been the basis for Azerbaijan’s huge economic growth over the past few years. Yet both Rwanda and Bosnia demonstrate the corollary: that the absence of significant foreign investment severely constrains a country’s potential for economic growth. However, economic growth *per se* is not the only consideration: scholars have demonstrated that an equitable distribution of wealth is important for stable post-conflict development. All three countries in this study have manifested examples of what companies have done to achieve this. Both Bralirwa in Rwanda and BP in Azerbaijan have taken great efforts to develop local supply chains. In Bosnia, although apparently unaware of the wider developmental impact, the business models used by HP and Cisco both mean that these companies’ success has knock-on benefits for local firms and their employees.

However, what this study has also made clear is that, material and significant though the impacts of the corporate sector are, it is not companies’ actions which dictate the fundamental success or failure or the reconstruction process. All three country cases seem clearly to demonstrate that the ‘rainmakers’ in post-conflict situations remain states and their institutions: both the host governments, and the various elements of the international

\(^{1083}\) Meierhenrich, p155
community who support them. It is these actors which take the strategic decisions about what needs to happen, and their behaviours and actions define the success or otherwise of the reconstruction process. In Azerbaijan, the Government’s unwillingness properly to reform state structures and high levels of corruption mean that the huge oil wealth the country enjoys fails to benefit the vast majority of the population. The international community might have improved the situation had it stood up to the Aliev regime. Yet other interests – the Russia challenge and the need for accessible oil for example – mean that this has not happened. In Bosnia, the entire reconstruction process has been hobbled by the Dayton structures which, it can be argued, made successful reconstruction impossible from the very start. Domestic political structures remain aligned largely along immediate post-war lines, and the international community has had to act in a quasi-imperial fashion to be able to achieve anything at all. Although renewed conflict has been avoided (an achievement not to be under-estimated), Bosnia remains far from being a durable, stable state. In Rwanda, the aid community has taken a choice to support to an administration which, although most certainly more focussed and effective than almost any other in Africa, lacks democratic checks and balances and demonstrates a strong tendency to autocratic action. Manifestly, the geographic challenges Rwanda faces are significant. However, despite its rhetoric, the Rwandan government has yet to secure its country’s future. It is states’ actions therefore which are the foundation for the success or failure of reconstruction programmes. Corporate impacts are highly material, yet they are contingent upon how good are the foundations built by state institutions. Nevertheless, even though state agencies are ‘in the driving seat’, it is evident that the choices and actions of the corporate sector can have huge impacts on reconstruction processes. How are those impacts governed, and how are the effects that companies manifestly have optimised and bound into wider re-building efforts?

How companies are governed within reconstruction processes

This then leads us on to the second aspect of this study – the way in which companies are governed in relation to reconstruction processes. What is apparent from the cases studied is that there is no systematic process used by the international community or host states which proactively engages the corporate sector. Similarly, there are not well-established processes operated by companies that seek to understand the dynamics of post-conflict environments and manage operational activity in a way that takes account of these. Despite efforts by UN agencies and campaigners to develop guidance for companies (see Chapter 1), the evidence is that “so far, conflict impact assessments and conflict-sensitive practices are not widely or systematically practiced”1084 There are however, some highly notable exceptions to this generalisation. The EITI process in Azerbaijan is a valuable and successful collaborative effort between companies, government agencies and civil society groups. The attitude of the development community in Sarajevo to the FIC White Paper suggests that the opinions of

1084 Haufler. The Private Sector and Governance, p155
the business community in Bosnia may be taken more account of in the future, although this remains to be seen. It is also noteworthy that a small number of companies (although their impact is large by virtue of their size) appear proactively to assess and manage their impact on the developmental agenda in the countries where they operate. Companies such as BP and Bralirwa appear to have processes in place which ensure that commercial and operational decisions are made in light of these wider considerations. BP’s use of advisory panels suggests a desire to formalise this governance approach. Yet these are exceptions. Perhaps even more importantly, these examples demonstrate that the international corporate sector is not part of the strategic decision-making about reconstruction programmes in post-conflict theatres. Insofar as companies are seen as having an impact, it is in a tactical not strategic way: as the method of delivery for facets of the reconstruction effort, not in the development of what that reconstruction effort should look like. Companies are not engaged in the strategic decisions, but can build the road, deliver the programme or build the industrial plant which that strategic decision-making process has decreed.

The present reality therefore is that a significant actor in post-conflict environments remains largely ungoverned. This must regarded as curious: reconstruction is difficult enough without making it even harder by failing to understand and harness the corporate sector. At the very least, it means that positive impacts that companies have are not taken into account. For example, in Rwanda there is no evidence that demonstrates that Bralirwa’s work with its value-chain is taken account of as part of the overall reconstruction architecture. But at worst, it means that the potentially negative effects that companies can have are not properly understood and guarded against. Could properly co-ordinated action by the Bosnian and Austrian authorities prevented the APET deal, or persuaded the company to do business with the federal government rather than with FBH? It also seems that some aspects of the rebuilding strategy may be misconceived because of the absence of input from the international private sector. In BiH, the development community now recognise the importance of developing a thriving corporate sector, and welcome the FIC White Paper as a blueprint for this. If the private sector’s input is important now, then why was it not sought in 1995 when the strategy for BiH was being developed?

**Defining the central challenge**

As was discussed in chapter 2, there are a number of initiatives at a global level to try to address the asymmetry of the growing impact of the corporate sector on the one hand, and the absence of formal structures to achieve this on the other. The evidence of this study is that these development are having some impact. EITI in Azerbaijan has already been commented upon, but it also appears that BP’s actions in relation to the BTC pipeline has been informed by the Voluntary Principles on Security and Human Rights. The problem is that these initiatives, although evidently effective, influence only a very small facet of the
total impact that companies have in these places. As was observed in Chapter 8, EITI's success has not solved the corruption problem in Azerbaijan, just caused it to move elsewhere. Moreover, the issue of revenue transparency is only one of a spectrum of ways in which the corporate sector impacts on the reconstruction process in Azerbaijan. Given the effort that has had to be invested in making these initiatives work, how realistic is it that the multi-stakeholder model can readily be applied to other issues?

However, the real problem with these global initiatives is that they seem to be focusing on the wrong issues. As was demonstrated in Chapter 4, the EITI process focuses on system and process; indeed, the initiative describes itself as “a robust yet flexible methodology”\textsuperscript{1085}. But is the issue in improving the governance of international companies in post-conflict theatres primarily one of creating governance structures and processes? It is not actually difficult to define what structures would be able to do to bind the corporate sector into the overall reconstruction effort. Processes that were to achieve this would see international companies as a strategic partner in the reconstruction process, not simply a tool to deliver aspects of this down the line. They would take account of corporate views alongside those of development agencies and host governments in developing the reconstruction strategy and programme itself. Companies, agencies and government ministries would seek collaborative ways of working, where the different skills and capabilities of each party was optimised. The cases of Bosnia and Rwanda seem to offer, in the example of banking reform, an illustration of how such collaboration might operate. In both of these cases, there appears to have been a symbiotic relationship between the efforts of the World Bank and others in creating a stable institutional financial base, and international banks who have built a modern banking infrastructure on those institutional foundations. The latter could not have existed without the former, and the former would have been futile without the latter. The activities of Starbucks, SC Johnson and others in the agriculture sector seem to demonstrate a similar arrangement: programmes which use the best of what the development agencies and the private sector had to offer. But do completely new structures need to be created – it is possible to point to existing processes that might readily be adapted to this purpose. In all three countries surveyed, forums already exist to define and guide the reconstruction process. In Rwanda for example the Rwanda Development Partners Group brings together the key ministries and donor agencies: why should this process not simply be opened up to include key corporate representatives in its deliberations?

From the corporate side too, it is also not difficult to define what structures and processes would enable companies better to engage themselves in reconstruction: indeed, this study has identified examples of emergent good practice. Companies need to understand the country they are operating in, and seek good advice in doing so: the advisory panels that BP

\textsuperscript{1085} Extractive Industries Transparency Initiative. \textit{What is the EITI}. Retrieved 26\textsuperscript{th} July 2007 <http://eitransparency.org/eiti>
used in relation to the BTC pipeline appear to be a good example of that. In planning new projects, the wider societal impact needs to be a factor in the decision-making process, as has been the case for Heineken in Rwanda in relation to its development work with its value chain. In his work on business and human rights, Ruggie has stressed the importance of companies conducting due diligence, not just on legal and accounting aspects of their business, but the human rights facets too. It would seem logical that the same approach should be used by companies in relation to their activities in post-conflict environments. The example of the banking sector in Bosnia would seem to be an example of investor companies applying 'western' risk assessments and lending policies to a very different set of circumstances. Had those banks used a due diligence process sensitised to the possible impacts of their approach in a post-conflict setting, then they may have taken different decisions. The risk of course, is that ‘informed’ due diligence processes may serve merely to persuade companies that they would rather not invest at all in post-conflict environments. Arguably, the lack of foreign investors in Rwanda is the result of companies being all-too aware of the risks the country poses. Nonetheless, whatever the potential obstacles, it would seem desirable that companies use due diligence and other similar approaches and systems to better evaluate their likely impact in post-conflict theatres.

It seems apparent therefore that the central problem to be addressed is not one of structures. As has been demonstrated above, existing structures and processes are in place that could probably be modified to bring the international corporate sector into the strategic decision-making processes which decide what happens in post-conflict environments. The problem is not structural, it is attitudinal. On the one hand, state institutions do not see the corporate sector as relevant partner in the reconstruction process. Companies are certainly seen as tools – agents for the delivery of various facets of the process – but not as a strategic partner in the definition of what that process should be. For their part, and with some notable exceptions, the corporate sector seem not to regard what they do as part of a wider political process. Companies fail to "understand the wider context" and so do not perceive the impacts that their activities inevitably have, at all levels, on the various facets of reconstruction. Changing this attitude is vital, because as long as the two sides see themselves as different and separate, then any amount of effort made to find structures that will bring together state and private sector actors are doomed to failure. A more collaborative approach is obviously possible. It seems from this study that both Bralirwa and BP operate their businesses in a way that seeks to align their activities with the wider reconstruction efforts. Likewise, there are obviously at least some on the side of the development agencies who see the need to work more effectively with private companies, as is demonstrated by the creation of the EITI, the Voluntary Principles and other initiatives. But these seem to be the exceptions: better governance of corporations in post-conflict environments is severely

compromised by the inability of each side to see the other as a valuable partner. Companies (predominantly) see reconstruction as a political issue, and therefore nothing to do with their commercial ends. For their part, development specialists see reconstruction as being about human rights, political development and poverty reduction: issues they see as being ‘theirs’ and having nothing to do with the corporate sector, unless as a focus for a company’s charitable giving. The fact that these two streams of activity are inextricably interwoven seems not to occur.

Inevitably, part of the genesis of this situation must stem from the perceived lack of legitimacy of companies to engage themselves in political activities – the result of the continuing centrality of states to the business of international affairs. As Josselin and Wallace say, there is an “ambivalence about transnational economic actors.” Fuchs likewise argues that “the political legitimacy of business is extremely precarious.” Yet is this argument not actually something of an irrelevance? Little to emerge from this study suggests that it would be relevant to expect companies to act in the place of states: and therefore the legitimacy question does not even seem to be relevant. Companies are not proto-states, but what they do impacts significantly on what state agencies are trying to achieve. What is needed is a collaborative approach which sees state agencies and companies undertake the activities most appropriate to each, in a joined-up way. State agencies and corporations are different, and do different things. The example of financial sector and banking reform has been cited above, and this seems to define the sort of arrangement that ought to be aimed at. Arguably, the current failure of state agencies to undertake the tasks for which they best suited obliges companies to fill the gap. Were the international community to have taken the Aliev regime to account for corruption, then there would arguably have been no reason for BP to push the limits of its legitimacy in developing a macro-economic model that sought to demonstrate the long-term harm caused by corruption.

Perhaps deriving from the question of legitimacy, it is also apparent that there is a mistrust of the corporate sector in relation to its role in conflict, and a presumption that the business community is likely to have a deleterious impact on post-conflict environments. Wenger and Moeckli state that, “all too often, businesses in conflict-affected countries find themselves identified as part of the problem rather than potential agents of positive change, a perception that is mirrored in the growing critical literature on corporations and conflict.” Similarly, writing specifically about post-conflict environments, Haufler urges that “any plan for state-building needs to address the potentially negative impact of foreign investment...” Yet, from the evidence of this study, such negativity seems significantly overstated. Certainly

1087 Josselin. & Wallace. *Non-state actors in world politics*, p17
1088 Fuchs, p795
1089 Wenger & Moeckli, D. p43
1090 Haufler, *Private Sector and Governance*, p156
international companies have had negative impacts on reconstruction in Azerbaijan, Bosnia and Rwanda, yet they have also had significant positive impacts as well. At best therefore, the presumption that companies will be a problem in post-conflict environments seems misguided; at worst it results in the sidelining of an extremely important actor in the process of reconstruction.

Yet whatever its causation, there is an evident need to develop a constructive working relationship between state agencies on the one hand, and international companies on the other. This imperative is borne out by Bones’ analysis of the wider challenges to delivery of social welfare in the modern world. In his view, what is needed is “a collaborative sharing of ideas and experiences across a range of organisations from different sectors...”1091. If, as this author suggests, the problem in achieving this is not one of structures but attitudes, then initiatives such as the Voluntary Principles and the EITI need to re-evaluate what they seek to do. If there is a willingness for both sides to collaborate, and to see the other as a partner, then appropriate structures will be relatively straight-forward to arrive at and can be amended to take account of local circumstances. What is infinitely harder to achieve is the trust and mutual respect between different parties that will make these structures work effectively. As was demonstrated in chapter 4, the EITI has developed a complex set of disclosure and reporting criteria. Whilst the value of these structures should in no way be underestimated, this author strongly suggests that the real importance of EITI and other similar initiatives lies in that which cannot be so easily measured: the development of trust, and the quality of the relationships between representatives from business, governmental agencies and civil society groups. It is rather ironic that one of the tasks seen as central to post-conflict reconstruction itself is the development of trust. As Jennifer Widner argues, trust is, in effect, the lubricant of the social and economic machine: “higher levels of generalised trust are important for co-operation and growth.”1092 Lyons similarly observes that processes such as elections will only work properly if they are based on “security and trust.”1093 It is curious therefore that policy-makers and scholars recognise that structures and processes are worthless without the trust to make them work, yet the same logic is not applied to the relationship between companies and state agencies operating in post-conflict environments. If companies and the impacts they have are properly to be integrated into the wider processes of governance in post-conflict environments, then this process of trust-building will be vital.

Issues for further research

Whilst this study has been successful in providing insights into the two research questions which it posed, it has also served to raise a number of other issues which may be worthy of

1091 Bones, Foreword, p.xii
1092 Widner, p225
1093 Lyons, Transforming Institutions of War, p271
further research, either by this author or others. As is apparent from the previous section, by far the most important topic requiring further research is how to develop a collaborative approach between the state agencies responsible for post-conflict reconstruction on the one hand, and multinational companies on the other. There are a number of issues here which require further investigation. Firstly, why is it that state agencies fail to understand the importance of the international private sector to the success or failure of reconstruction efforts? Is it cultural: an example of the view that foreign investment is inherently detrimental to the processes of reconstruction – the “negative impact of foreign investment”\(^{1094}\)? Or is it simply a question of novelty: that “companies have not until now been viewed as genuine peace-building actors”?\(^{1095}\) Conversely, why is it that many companies still fail to understand the political impacts of what they do, and do not apparently seek to understand where and how their activities impact on processes of reconstruction? In this regard it would be most valuable to explore in more detail why it is that companies like Heineken and BP do appear understand this connection. Thirdly, what steps might be taken to build the trust and cooperation between these two types of actor. As chapter 2 demonstrated, a great deal of scholarly and practitioner effort has gone into understanding how to bridge the gap between former parties to conflict: a similar effort needs also to be applied to developing linkages between state and corporate entities in post-conflict theatres. Finally, what may be successful collaborations which play to the strengths of both types of actor? This study has identified the reconstruction of the financial and banking system in both Bosnia and Rwanda as an example of such a collaboration which uses the best of each party. What other examples like this are there, and what other areas of mutual collaboration may there be? It may also be that more work is required to understand the different capacities of different actors in post-conflict settings. Fuchs sought to compare different actors by looking at their different powers – instrumental, structural and discursive. Whilst this approach is helpful, it is perhaps limited in only looking at powers rather than motivations and capabilities of different actors. Arguably, this approach also tacitly presumes the private sector will be undertaking roles currently done by state agencies. Yet, as has been argued, it is not necessary that companies act as proto-states, simply that the activities that they are best placed to undertake are properly valued, and properly cohered with what other actors do. A better and more systematic understanding of why different actors engage in post-conflict environments, and of the skills and capacities they bring may provide a fruitful basis for identifying where and how collaborative, symbiotic partnerships between companies and state agencies might be valuable in post-conflict environments.

However, aside from this central issue, there are a number of other outputs from this study that ought to be investigated further. The first would be to examine the extent to which the conclusions drawn in relation to the three cases in this study would be reflected in other

\(^{1094}\) Haufler, Private Sector and Governance, p154

\(^{1095}\) Ibid, p156
post-conflict countries. As Yin makes clear in his work, even collective case study projects such as this current one cannot provide generalisations. However, were one to regard the conclusions of this current study as a series of hypotheses as to the impact and governance of the international corporate sector in post-conflict reconstruction, then those conclusions would provide a useful basis for further analysis in other post-conflict countries. It may, for example, be interesting to apply these hypotheses to larger countries. One of the selection criteria for the cases used in this study was that they be relatively small countries: would the hypotheses derived from this current study of three small countries fit also with larger places such as Angola or Mozambique? Similarly, to alter the other variable which led to the selection of the cases in this study, it would be valuable to explore whether these hypotheses might provide insights into more recent post-conflict situations. Given the ongoing problems in Afghanistan, might the insights derived from this study provide any lessons for current decision-making there? Other scholars may also find the conclusions of this study as a basis for a more quantitative study. This present study used a qualitative approach to data collection, one reason for which was the absence of clear parameters that might have been tested by a quantitative study. The conclusions from this study may serve to provide parameters that a quantitative approach would be able to examine in more detail.

Given that this study has demonstrated considerable corporate impacts on reconstruction activities, it would be valuable to look at the impact of the private corporate sector in other types of development context. Although post-conflict environments are especially complex and exhibit, as this study has demonstrated, some very particular traits, they are nonetheless merely a very specific form of developing country. Since development policy is both important and politically sensitive, it would be most interesting to a similar approach to that used in this study to examine the inter-actions of corporations in other types of development scenario.

This study has also identified the problem of attracting foreign investors to post-conflict countries. In the case of Azerbaijan, BP and the other oil and gas companies went in because there was an overwhelming commercial reason for doing so: Azerbaijan possesses what are thought to be the world’s fifth largest reserves of oil and gas. Neither Rwanda or Bosnia offer such compelling reasons for foreign companies to invest: other countries apparently offer much more attractive sites for investment. As is evident from the case of Rwanda, a focus on the World Bank ‘Doing Business’ indicators is not relevant as a way of attracting investors. It seems likely that companies are put off either at a previous stage of their investment analysis process, the RDB observed that Rwanda’s international image remains a problem; or are deterred by other factors, in particular a lack of delivery by Governmental agencies. This is a specific example, but it appears indicative of an issue that needs to be better understood: what process do companies use in selecting countries in which to invest, and what factors do they take into account within this process. Jensen’s
study demonstrates that companies prefer stable democracies as investment sites: how might this analysis be taken further in order better to understand how companies might be encouraged to invest in post-conflict countries, and to do so at an earlier stage?

**Closing observations**

This study does not conclude that in a post-conflict environment companies are either a good thing or a bad thing, simply that they are a necessary thing. As the cases in this study show, the international private sector has highly significant impacts on all aspects of a reconstruction process. Whether are for good or for ill, these impacts are material but at present largely ungoverned in relation to their effect on the overall success of the reconstruction effort. Creating structures, and more importantly attitudes and levels of trust which enable a collaborative partnership between companies and state would enable reconstruction programmes to be more efficiently, and hopefully more successfully run. Finally, if the end goal of post-conflict reconstruction is to create a normalised, stable, durable state, then a thriving private sector needs be a fundamental part of that fabric. International companies need to be both part of the destination and of the journey.
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**Interviews**

All titles are as at the date when the individuals were interviewed:

**Azerbaijan (field trip Feb/ Mar 2008)**

**Governmental**
- Sofka Brown, Head of Transcaucasia Desk, Foreign and Commonwealth Office, London
- Lala Huseynbeyova, Second Secretary (Economic), Embassy of Azerbaijan, London
- Jerzy Jedrzejczak, Country Director Azerbaijan, The World Bank
- Peter Keay, Personal Assistant to the Personal Representative of the Chairman in Office, OSCE
- Adil Mammadov, Head of EITI Secretariat, State Oil Fund of Azerbaijan
- Lynne Miller, Country Director, World Food Programme, Azerbaijan
- William Tall, Head of Delegation, United Nations High Commissioner for Refugees, Baku
- Colin Wells, Deputy Head of Mission, British Embassy, Baku

**Corporate**
- Claire Bebbington, External Affairs Advisor, Exploration and Production, BP London
- Oliver Broad, Regional Analyst – Central Asia, Group Security, BP London
- Seymour Khalilov, Vice-President, External Affairs, BP Baku
- Odd Erik Flaatin, Business Development Manager, StatoilHydro, Baku
- Aydin Gashimov, Social Performance and Public Reporting Manager, BP Baku
- Sheyda Mehdiyeva, CSR advisor, StatoilHydro, Baku
- Tatyana Mikayilova, Managing Director, Public Relations and Promotion Group, Baku
- Nargiz Nasrullahaya-Muduroglu, Executive Director, American Chamber of Commerce, Azerbaijan

**Civil society**
- Zahir Ahmadov, Campaign Officer, Oxfam Azerbaijan
- Martin Amacher, Head of Delegation, International Committee of the Red Cross, Azerbaijan
- Natalia Antelava, Central Asia Correspondent, BBC News
- Gubad Ibadoglu, Coalition Council Coordinator, EITI Azerbaijan NGO Coalition
- Fariz Ismailzade, Director, Advanced Foreign Service Programme, Azerbaijan
- Diplomatic Academy
- Rena Safaryeva, Executive Director, Transparency International, Baku
- Jamal Shakverdiyev, Managing Director, Eurasia Foundation
**Bosnia (Field trip, June/July 2008)**

**Governmental**
- Alma Kadunic, Trade and Investment Officer, British Embassy Sarajevo
- Damir Hadzic, Governance Coordinator, Department for International Development, Bosnia Herzegovina
- Meliha Kozaric Fanning, Sustainable Business Programme, United Nations Development Programme, Sarajevo
- Amela Kreho, Head of Economic Transition Unit, Office of the High Representative
- Richard Jones, Head of Political, Press and Programmes, British Embassy, Sarajevo
- Gus Mackay, Head of Office, Department for International Development, Bosnia Herzegovina
- Giulio Moreno, Head of Office, European Bank for Reconstruction and Development
- Christine McNab, UN Resident Co-ordinator of Operational Activities and Development, United Nations
- Orhan Niksic, Senior Economist, The World Bank
- Daisy Organ, Head of West Balkans Desk, Foreign and Commonwealth Office, London

**Corporate**
- Ranko Atijas, General Manager, Siemens BiH
- Violeta Cibukcic, Executive Director, American Chamber of Commerce
- Alma Hadzidedic, Economist, Horizonte Venture Management, BiH
- Adi Hadzhialilovic, Sales and Marketing Manager OMV BiH
- Amelia Kosovic, Senior Associate, KPMG
- Haris Pinjo, General Manager, Cisco Systems, BiH
- Ajla Mostarac, Executive Director, Foreign Investors Council
- Murari Mukherjee, General Manager, New Ljubija Mines
- Adnan Ramcic, Technology Solutions Group, Hewlett-Packard
- Tie Sonowski, Managing Director, Triland Investments
- Faruk Sahinagic, Executive Director, FedEx BiH
- Alexander Zsolnai, Chief Financial Officer, Raiffeisen Bank, Sarajevo

**Civil Society**
- Henry Fournier, Head of Delegation, International Committee of the Red Cross
- Dobrila Govedarica, Executive Director, Open Society Fund, BiH
- Allan Little, Special Correspondent, BBC News

**Rwanda (Field trip Mar/April 2009)**

**Governmental**
- Karl Backeus, Country Economist, Development Cooperation, Embassy of Sweden
- Jane Baxter, Deputy Head of Mission, British Embassy, Kigali
- Jan Bade, First Secretary, Economic Development, Embassy of the Kingdom of the Netherlands
- Emmanuel Bubingo, Investor Mobilisation Officer, Rwanda Development Board
- Annette Gakwere, Investor Mobilisation Officer, Rwanda Development Board
- Dmitri Gershenson, Resident Representative, International Monetary Fund
- Sara Graslund, Rwanda Desk Officer, Swedish International Development Agency
- Dr Farid Hegazy, Senior Advisor, German Technical Cooperation
- Louise Medland, Expert in Water and Sanitation, Rwandan Ministry of Infrastructure
- Andre Nikwigize, Senior Economic Affairs Counsellor, United Nations Commission for Africa
- Tony Polatajko, Senior Private Sector Development Officer, Department for International Development, Kigali

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• Chiara Selvetti, Economist, Department for International Development
• Alexander Sokoloff, Economic and Commercial Officer, US Embassy, Kigali
• Ryan Washburn, Supervisory Development Officer, United States Agency for International Development
• Ahmed Zakaria, Deputy Country Director, World Food Programme

Corporate
• Kenneth Agaba, Executive Director – Business Banking, Fina Bank
• Marilyn Agum, Regional Brand Manager, Africa Middle East, British American Tobacco
• Sigrid Bruch, Chief Executive, Simtel
• Katinka van Cranenburgh, International Programme Manager, Heineken International
• Nitin Dabholkar, Director General, Rwanda Industries
• Keith Gretton, Head of Corporate and Regulatory Affairs, Africa and Middle East, British American Tobacco
• Ben Kalkman, Chief Executive Officer, Banque Populaire du Rwanda
• Themba Khumalo, Managing Director, MTN Rwanda
• Sven Pederiet, General Manager, Bralirwa
• Ian Peterkin, Managing Director, Banque Commercial du Rwanda
• Vincent Safari, Rwanda Private Sector Federation

Civil Society
• Dr Danielle Beswick, Lecturer, International Development Department, University of Birmingham
• Tobias Epprecht, Head of Delegation, International Committee of the Red Cross, Kigali
• Alexander Stroh, Research Fellow, German Institute of Global and Area Studies

General
• Anderson, Richard; Director, Corporate Risk Group. May 2005
• Aram, Robin; Vice-President, International Affairs, Shell International
• Banfield, Jessica; International Alert. May 2005
• Berman, Jonathan, Director, Development Alternatives, Washington DC. January 2006
• Betzel, Clemens; President, European Operations, United Technologies. September 2005
• Buxton, Inger; Adviser on Conflict Management, Sida. March 2005
• Brooks, Jermy; Board Member, Transparency International. November 2005
• Crawshaw, Steve; London Director, Human Rights Watch. November 2005
• Dahlin, HE Elisabeth; Ambassador for Corporate Responsibility, Government of Sweden. May 2006
• Davidson-Abdelli, Margareta; Senior Adviser, Private Sector Development Division, Sida. March 2005
• Frankental, Peter; Director, Amnesty International Business Group. October 2005
• Friedman, J; Director, UK, World Monitors Inc. March 2005
• Freeman, Bennett; former Deputy Assistant Secretary of State for Human Rights, US Department of State. March 2006
• Jones, Richard; Director of External Affairs, Premier Oil. May 2006
• Lewis, Stuart; Director of Research, MORI. Sept 2005
• Litvin, Daniel; Partner, McKinsey and Company. March 2006
• Melin, Albena; Corporate Responsibility Officer, INEC-Market, Swedish International Development Agency, February 2005
• O’Reilly, John; former country manager for Indonesia, British Petroleum. March 2006
• Price, M; Manager, Country Analysis and Social Responsibility, Statoil. November 2005
• Webb, Toby; Editor, Ethical Corporation. March 2006
• Wyatt, HE David; former Director-General, British Red Cross