

Corporate Strategies to Assist Post-Conflict Peacebuilding in Colombia

Colombia's transition to a post-conflict country has brought security gains and economic benefits to many parts of the country. However, this transition has come amidst political polarization, state weakness, and continuing illicit economies. In this brief, we discuss how the private sector has reacted to this changing political and economic environment. We present lessons learned from our research, confirming that the “logic of the firm” takes different shapes in transition from conflict to peace. We recommend that policies to promote business participation in post-conflict peacebuilding should include the identification of specific business opportunities and potential markets in the regions and economic sectors considered most promising.

Brief Points

- For most firms in Colombia, the formal end of the conflict with FARC in 2016 did not significantly change their political and economic outlook.
- However, the peace deal has led firms to explore new markets in heretofore off-limits territories or sectors, and to expand their social investment programs.
- CEOs tend to drive these actions, supported by state incentives including risk-sharing with national authorities and/or international cooperation agencies.
- The success of business strategies for peaceful growth are contingent on significant spatial and sectoral variations that usually – but do not always – overlap with crisis and conflict.

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Introduction

On November 24th, 2016, the Government of Colombia and the *Fuerzas Armadas Revolucionarias de Colombia – Ejército del Pueblo* (FARC – EP) signed a peace agreement, formally ending the longest armed conflict of the Western Hemisphere. Today, Colombia enjoys significant security gains and steady economic growth in many parts of the country. However, implementation of the agreement has been difficult amidst political polarization, state weakness, and continuing illicit economies.

In this brief, we discuss how the private sector has reacted to this changing political and economic environment. Our findings are based upon 53 interviews of business leaders between 2017 and 2018, supplemented by press articles, official documents and academic literature. Our assessment focused on three factors. First, we examined corporate strategies related to firm characteristics, including sector, size, and leadership. Second, we considered how operational realities of armed conflict and crime shaped the business environment, causing varying responses in post-accord Colombia. Finally, we considered political variables, namely the extent to which business is included in public policymaking, and the form this communication takes. This brief presents our lessons learned on these issues, confirming that the “logic of the firm” operates and takes different shapes in transition from conflict to peace.

We have several key findings. First, for many firms, the formal end of the conflict with FARC did not significantly change their political and economic conditions. They had either already benefited from the security gains since 2005, or their operations were in Colombia’s urban areas, where conflict was felt less. Second, in contrast with this “business as usual” approach, a growing minority of firms are beginning to grasp the opportunity of exploring new markets in heretofore off-limit territories or sectors, or expanding their social investment programs. Motivated CEOs, state incentives, and risk-sharing with national authorities or international cooperation agencies are crucial for the success of these corporate strategies. Third, many of these companies understand that these investments may take years to yield a profit. Just as crisis does not spell overall downturn but hits firms differently – serving

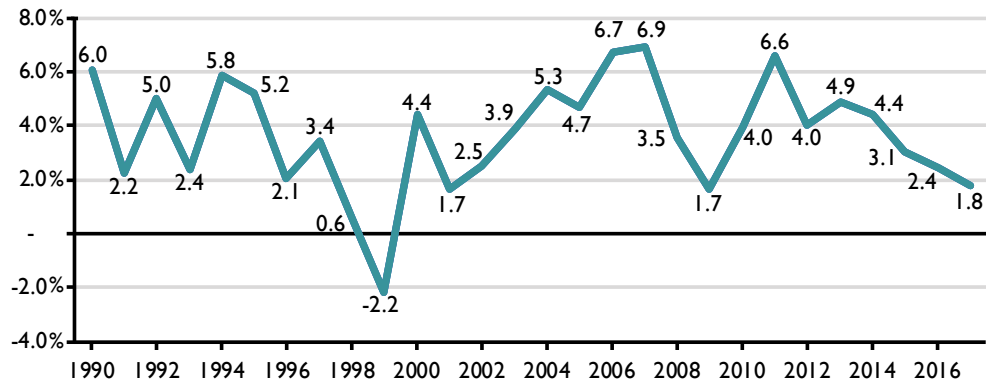


Figure 1: Annual GDP growth, Colombia, 1990–2017. Data source: World Bank, 2018¹

some with growth opportunities – business strategies for peace present similar variations.

We recommend that policies to promote business participation in post-conflict peacebuilding should include the identification of specific business opportunities and potential markets in the regions and economic sectors considered most promising. In addition, they should adopt available lessons about the possibilities and limitations of different public and private incentives. For domestic policymakers, the message is clear: companies need unambiguous signals and firm commitments from state authorities to prevent uncertainty and to continue exploring new opportunities. Moreover, the strength of these signals and commitments is proportional to the participation of local communities in their development. We also recommend that programs are fine-tuned by region or sector, as needs and expectations can differ significantly across these contexts.

The Colombian Context

Despite Colombia’s long conflict, many parts of the country do not appear war-torn. Homicides, displacements, and kidnappings have been declining steadily since 2002. In addition, Colombia has steadily improved in performance related to health and education coverage, and the territorial presence of the state has gradually increased. In 2018, the country joined the Organisation for Economic Co-operation and Development (OECD), an acknowledgement of its economic performance and potential among middle-income economies. In the Latin American context, Colombia is regarded as a strong economy, both from an institutional

and from a macroeconomic performance point of view. As shown in Figure 1, Colombia has undergone changing tides of growth and contraction, but has managed to achieve growth nearly every year since 1990. Foreign investment has flowed mainly to the oil and mining sector, which Colombia relies on for a high percentage of its national income. Colombia has also increased its attractiveness as an overall FDI destination, and World Bank estimates suggest a positive economic outlook for the Colombian economy in the years 2019 and 2020.

However, these statistics mask significant regional variation and inequality. For example, there are some very developed regions such as Cundinamarca, Valle, and Antioquia, but also highly underdeveloped ones, like Chocó. These variations have historically shaped quite different conditions for business and entrepreneurial activity. Overall, it is business in urban and industrialized areas that has more clearly contributed to wealth and job creation, innovation, and the internationalization of the Colombian economy.

Business in Transition

Corporate strategies in Colombia today reflect the changing circumstances related to Colombia’s armed conflict, as well as the interplay of conflict and other economic and political variables across time. Our interviewees stressed several common strategies, which are categorized under the following five themes:

1. Companies prepared to reap benefits of a peace dividend before conflict was over.

Long before the most recent peace agreement,

especially at the end of the 1990s, companies were pondering the negative effects of armed conflict on business operations. Capital flight was high and investments were down. In the face of conflict escalation, “business needs peace”² was a common expression within the business community and referred to the need to improve the investment climate and security conditions in order to fully develop productive potential. Similarly, “there can be no healthy company in an unhealthy society” was the fundamental premise for Carvajal Foundation, one of the most influential Valle del Cauca-based, business-linked organizations in the country. In line with both overall goals, Colombian companies of all sectors engaged in the development of labor, environmental and human rights standards and social investment in their stakeholder communities, while the Colombian state developed an ambitious security policy. The combined effect of these strategies was a significant conceptual transition, from survival and protection to innovation and expansion. This change took hold among many companies before the formal end of the Colombian armed conflict and constitutes one of the main assets in light of the numerous challenges associated with the ongoing transition.

2. Companies leveraged improved security in order to start or re-start operations, even if the cusp of peace was not seen as an immediate profit opportunity.

Interviewees frequently mentioned the word “opportunity” when asked about what was going to change after the agreement between the government and FARC and when referring to improved security. Some companies have started new operations or improved their existing services. Such is the case for the tourism industry: The number of foreign visitors has tripled since 2010, as has the number of service providers. Many tourists seek to explore the country’s biodiversity (bird watchers and adventure tourists), which was previously difficult due to conflict.

Other firms have responded to improved security by expanding existing operations. This is the case with public service providers (such as trash collectors), as well as large bus transport companies. Bus companies used to have to pay protection money to different illegal actors and were frequently prevented from entering certain

territories (and punished with the destruction of their buses if they did), but now they can open new routes and increase their fleet in order to move more passengers across the country. Microcredit organizations and mutual funds are also expanding into new and previously under-serviced regions.

Companies that source their inputs from previously guerrilla-controlled territories have also benefited. Examples include the paper and packaging industry, which relies heavily on tree pulp from forests, or cement and construction companies, which have opened new plants in areas previously under FARC presence. Some of these limited explorations into new territories have taken place in alliance with existing local organizations, such as peasant cooperatives, to get buy-in from local communities and to reduce risk. Others were founded long before the signing of the peace agreement, such as the Vocational Learning Service (SENA), which has developed expertise in technical capacity-building (for example, among adults with low rates of schooling) and is expanding its operations into new regions, and the *Agencia para la Reincorporación Nacional* (ARN), which has served as a facilitator between companies and demobilized fighters looking for formal jobs.

3. Companies de-risked by working in alliance with state authorities and international cooperation agencies, and in response to state incentives.

Companies are by their nature adept at recognizing risk, for example in threats posed by criminal groups and in the potential for re-escalating political violence. In addition, companies require proper public infrastructure that facilitates business operations, as well as qualified workforces and consumers, which are often absent in the regions where peace and development are expected to consolidate. As a result, most companies starting operations in new areas do so in response to state incentives and in alliance with international agencies and national and local state authorities in order to lower security and financial risks that may otherwise have constituted a barrier to entry.

Some of these incentives and organizations resulted from the 2016 peace agreement (such as the Agency for the Renovation of the Territory, which oversees the development

of local development plans, and the “Public Works for Taxes” (*Obras por impuestos*) scheme, whereby companies can pay up to 50% of their taxes by building public works, such as sewage and potable water, roads, public schools, electric power plants and health facilities in special conflict-torn municipalities). The presence of Police and Armed Forces and the support by international cooperation agencies is also highly valued by companies moving into uncharted territory. In the words of one interviewee of a business association, “it’s not only about money, it’s about who’s behind the operations” implying that investments alone – without legal, operational, and security guarantees, as well as shared risk with public authorities and international organizations – are unlikely to happen. Many companies have reacted positively to these incentives: Colombia’s main airline is exploring new routes, a large chemical company is building a school in the South of the country, oil and mining companies are building roads, and electric power companies are developing new projects.

In addition, business actors derive confidence from access to public decision-making via formal consultations and participation in sectoral boards and special councils. During the recent peace negotiations, private sector actors were included in confidential negotiations and in off-the-record conversations to evaluate the Agreement’s contents and possible implications for the private sector. Informal networks, such as professional networks and policy discussions with business-affiliated think tanks such as Proantioquia (Medellín) and ANIF (Bogotá) also serve to bridge the public-private gap, providing state officials with a sounding board for their policy plans and companies with information and reassurance that their interests – such as subsidies, special credits, and stimuli for new investments – will be looked after.

However, for other companies, existing incentives are not yet enough to overcome security and infrastructure-related concerns. Several said they will remain in a stand-by mode while agreement implementation consolidates and the state delivers on promises such as infrastructure development. So far, larger companies, as well as companies with organizational experience in operating in unstable environments (such as the extractive sector, utilities companies and public works developers) are more inclined to respond to the

signals. This suggests that different incentives can be linked to different strategies and degrees of risk aversion, and that what works for some may not work for others.

4. Firm strategies contain significant regional and sectoral variation.

Over the course of Colombia's long and multiple conflicts, different regions and sectors of the economy were hit with varying degrees of conflict intensity at different moments. For example, as one member of the academic community told us: "Antioquia experienced conflict intensely. Both the AUC (paramilitaries) and the FARC were present. Now, owners of small and large companies are buying ranches where they were not able to go before. There are hoteliers, restaurants, and diverse services". One foundation leader claimed, "There are places in Cauca where we were not able to go before, but now we can". Regions South of the capital, such as Meta and Casanare, are also clearly feeling the respite. In contrast, much of the Pacific coast is still under the threat of drug-trade-related criminal organizations and low development.

On the other hand, sectors such as agricultural businesses, cattle ranchers, and transport companies were among the hardest hit in the 1990s and 2000s, and are now experiencing less pressure. In contrast, mining operations have become increasing targets of social protest and of criminal organizations, as illustrated by the recent killing of three geologists working for a Canadian mining company. Thus, operational actions that reflect the implementation of the strategies above can differ dramatically across sector and upon proximity to conflict actors. As a result, agriculture, rural infrastructure, and extractive companies are generally more attuned to the costs of conflict and the opportunities of peace than primarily urban firms. These differential experiences and stages of the private

sector–peacebuilding relationship may result in varying responses to the current situation.

5. CEOs and boards are crucial partners in developing peacebuilding-related strategies.

CEOs and executive boards play a critical role in defining and pursuing corporate strategies in the current transition. Interviewees were nearly unanimous that transition strategies adopted by companies were endorsed, promoted, and monitored from the highest level: that of the CEO and/or the Board. Further, firms with charismatic and motivated CEOs had spillover effects to similar companies in their sector or region. Examples of this demonstration effect are Carlos Enrique Cavelier, who leads a dairy company that is developing milk production in the Macarena region, previously a hot spot of FARC activity, and was often referred to as a point of reference among interviewees. Another example is *Proantioquia*, a Medellín-based business-funded think tank. *Proantioquia* brings together the most important CEOs of the department's largest companies, who regularly discuss the challenges faced by peace negotiations and implementation. Together, these CEOs have been instrumental in getting previously hesitant companies in the region to support a collective effort to promote peacebuilding strategies.

Conclusions

Peace consolidation critically depends on private sector support. These are fragile times for peace implementation in Colombia. Whether the private sector becomes the crucial partner that the state and regions expect it to be will depend on the provision of facilitating conditions for the private sector in the transition from conflict to peace.

In this brief we discussed the kind of strategies

adopted by companies in contexts of transition as well as the conditions that shape their choice. Although the focus of this brief is on Colombia, our findings are relevant beyond this context. They can help practitioners to define more effective ways to focus their efforts to go beyond a "business matters" perspective and fit policy responses to specific types of corporate structures and experiences. Some of the corporate strategies mentioned above have not reached the point of inertia and are contingent on clear signals from both national and international actors and institutions.

Our findings can also help civil society leaders to understand better what companies can do (and what they can't and shouldn't do) in transitional contexts from conflict to peace, and how firms can be attracted to address peacebuilding needs while civil society maintains its essential role in verifying the legitimacy of these actions upon local populations. Finally, our findings may help companies understand better the context in which they operate, the limitations and possibilities they face, and how other corporate actors are coping with similar obstacles. ■

Notes

1. Data source: World Bank, 2018. Available at: data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=CO

2. Interview with Sabas Pretelt de la Vega, president, Fenalco, 5 December 2002.

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THE PROJECT

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PRIO

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