

# Conflict-sensitive business practice for foreign direct investment in Ethiopia

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## What is conflict-sensitive business practice?

Conflict sensitivity is the requirement for any company or organisation working in a conflict-affected setting to understand the context they are working in and, based on this understanding, take steps to avoid doing any harm to those affected by their operations – either directly or indirectly. In addition, they should find ways to promote positive security and peace outcomes.

Conflict-affected settings can apply to a wide range of contexts, from ongoing warfare to situations of social unrest or instability. These situations are complex to understand, as they change and evolve rapidly and involve multiple interconnected individuals and groups with convoluted motivations. In many of these contexts, the absence of armed conflict is only the illusion of peace.

Under the surface, less visible social, political and economic tensions can result in social unrest or cycles of violence that can destabilise projects or bring them to a standstill.

Whenever a new company or economic resource enters a conflict-affected setting, such as a foreign investor buying land or setting up a factory, it will be affected by that context and the context itself will be changed due to its intervention. Conflict-sensitive business practice means that companies require their operations to be designed and delivered in such a way that they do not unintentionally fuel conflicts, but rather make a positive contribution to peace in their area of operation. Conflict-sensitive business practice can help companies avoid triggering or accelerating destructive conflict dynamics to the mutual benefit of themselves and communities.



## Why is it important in Ethiopia?

Ethiopia is a nation in transition, opening up politically and economically, with elections and major economic reforms in the offing. A key part of Ethiopia's development blueprint has been to encourage foreign direct investment (FDI), particularly in agribusiness and manufacturing, as well as the establishment of industrial parks. However, many parts of the country remain affected by high levels of inter-community violence and forced displacement, and companies operating in this context need to be aware of the risks and positive mitigations.

Key among these risks is the issue of land use and land acquisition for investment. This is often seen as an imposition at the local/regional level or has often ignored existing land use practices, such as mobile pastoralism. Land acquisition inevitably leads to

dispossession and displacement of inhabitants, particularly where there are existing farms. While there is provision for compensation to be paid to those displaced who are working the land, this is often disconnected from land values and can leave farmers compensated, but in a potentially worse position, which has fuelled grievance against investments.

Unmet expectations of economic benefits (e.g. around the economic dividends from jobs and business opportunities) can also lead to grievance and fuel conflict. Ethiopia advertises itself to investors based on the low wage costs they can provide based on the lack of a minimum wage in the private sector, another potential conflict factor that is easily politicised.

A lack of adequate consultation with communities is another source of grievance, which can exacerbate the issues raised above over land acquisition, hiring practices, etc. as well as broader environmental impacts, e.g. on soil resources that communities rely upon for livelihoods.

Investors often try to build relationships with communities through corporate social responsibility (CSR) initiatives, such as support to local schools and hospitals. While these can be important in building a sense of community ownership and mutual benefit around an investment, they can be a source

of conflict if they do not meet the needs of communities.

While all these issues are potential sources of grievance toward foreign investors, they are easily politicised, as foreign investments represent a considerable resource to the government and, therefore, they become targets for those seeking to leverage and highlight their political agenda.

Understanding these risks and working with others to find ways to address them proactively is key to more conflict-sensitive business practice.



## Four steps to more conflict-sensitive business practice

### 1 Understand the operating context

A deep and up-to-date understanding of the context in which you are working is imperative for a conflict-sensitive business approach. For example, an investor may see the past occupancy of the land they are allocated as being of limited importance, but legacy issues, such as past or customary ownership, can be critical in how a company is seen by local communities. Identifying these issues is a critical step to finding ways to address any latent grievances. Companies also need to understand the relationships in Ethiopia between the different levels of government, particularly at the very local level with the kebele leadership in their area of operation.

### 2 Community engagement and expectation management is critical

Investors need to consider their impact on local communities beyond their immediate workforce. Effective consultation and continuous community dialogue can help manage expectations and communicate the benefits of their operations. This will help the company obtain the social license to operate (i.e. the ongoing acceptance by communities). Companies need to provide a meaningful space for communities to raise concerns and grievances (e.g. about the environmental impact of an investment), as well as mechanisms for these to be addressed in a transparent and timely manner. Community development projects are seen as a means to obtain the social licence to operate, but it is important that these initiatives are not used to offset negative impacts on communities.

### 3 Ensure mechanisms for the management of grievances from employees

Issues like low wages are a reality in the Ethiopian FDI sector and can be a legitimate grievance. It is essential to have effective and meaningful structures for employees to raise their grievances, such as fostering workers' committees or workers' councils as a mechanism for employees to raise complaints.

### 4 Implement effective and meaningful community development

While CSR projects can help build legitimacy and good relations with local communities, if they are not done effectively, they can contribute to grievances over 'broken promises'. It is critical to engage communities at all stages of the planning of such initiatives to ensure the projects actually meet the communities' needs and requirements.