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The Role of Economic Factors in Conflicts in Europe:

How can the Multilateral Security Bodies Addressing Economic Issues be more Effective in Conflict Prevention?
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1. Introduction

Never more than today has the security of the world appeared so vulnerable. The violence in the tragedy of September 11 has ushered in a new era of conflict and terrorist threat that is global in scope. This is not to forget that in the preceding decade, despite the end of the Cold War, conflict in the ECE region, contrary to all hopes and expectations, has increased rather than diminished.

In addition, in discussions on the causes of these conflicts, there is a growing consensus that the root causes tend to be economic in nature. Economic inequalities, conflict over access to employment, credit, land and natural resources, economic decline, institutional hiatus and state collapse, social marginalisation and exclusion have all fuelled conflicts in Europe during the 1990s. In addition, these fundamentally economic causes are recognised as also playing a part in the spread of international terrorism. Clearly, the economic dimension to conflict is important for developing effective conflict prevention actions.

However, multilateral security bodies addressing economic issues, such as the OSCE Economic Dimension, even though they have very clear conflict prevention mandates, do not, in fact, have activities, which strictly speaking, ‘prevent’ conflict. These bodies, for example, may raise awareness about the economic component to conflicts. They may also assist in boosting growth and development or encouraging economic cooperation, which indirectly can build peace. But they do not intervene in concrete situations ‘on the ground’, nor provide ‘early warning’, undertake rapid response or develop confidence building measures (CBMs) to stave-off conflict as the military, diplomatic and political bodies do.

However, this state of affairs is beginning to change. Recent events in the US are encouraging a new discussion on practical ways conflict prevention projects by bodies dealing with economic issues can be added to the various instruments mentioned above, which are undertaken by their military, political and diplomatic counterparts. This debate is also encouraging NGOs and the private sector to adopt important initiatives in the area of conflict prevention. The Brahimi report has called on the UN system to take new initiatives in peace building and make a practical effort to conflict prevention. UN recommendations also call for greater cooperation between the UN and regional bodies and also for closer links with the private sector to enhance their role in conflict prevention.

Nonetheless, while conflict prevention is now a legitimate objective of multilateral security bodies addressing economic issues, it is much more difficult in practice to develop effective conflict prevention actions. Indeed, some have argued that, however laudable the objectives of undertaking real conflict prevention work are, these bodies really cannot feasibly make a difference in preventing armed conflicts. Such an argument however needs to be challenged. A profoundly new world requires a profoundly new thinking and a series of practical and concrete approaches for enhancing the capacity to secure peace, which urgently need to be implemented, to prevent a repetition of September 11 and other violent acts.

This paper thus analyses:
i. Challenges and new threats to security in Europe
ii. What is required to address them
iii. The instruments that are currently used by international security bodies dealing with economic issues
iv. The way forward to ensure that conflict prevention is made more relevant to deal with the current challenges and new threats

To stimulate debate, section (v) raises some salient questions for further discussion.

2. Main Challenges and the New Threats to Security in Europe

The nature and types of conflicts, which the international economic community are faced with, has changed radically in the last decade since the end of the Cold war. Four types of conflict have been evident in Europe during this period up to the present day.\textsuperscript{1}

2.1. Towards a Typology of Conflict

i. Conventional warfare - wars of attrition

The conflict between Azerbaijan and Armenia was the only conventionally fought war in Europe during the last decade\textsuperscript{1}. It was fought with regular troops along a defined series of fronts. Targets and objectives were primarily military and strategic. The war made extensive use of technology such as heavy artillery and jet fighters. The increasing cost of such warfare has tended to make these conflicts self-limiting in the region.

ii. Factional warfare

Factional wars are fluid by nature. There is rarely a defined front line and fighting is frequently opportunistic rather than strategic. Warfare is low tech and small arms are the main weapons. Such wars are not costly and can easily be sustained without external support. Frequently, these conflicts move rapidly from the original cause to revolve around the exploitation of commercial, mineral and natural resources. Factions will seek to involve, exploit and control a significant proportion of the civilian population.

iii. Genocide and ethnic based conflict

The last decade has seen the re-emergence of genocide and ethnically based conflict. Centrally directed and involving the virulent use of propaganda, these conflicts spread like wildfire and leave a huge death toll, massive displacement, fear and confusion. Ethnic and genocide fighting tends to be low tech, often using small

\textsuperscript{1} Considering the conflict between Azerbaijan and Armenia there were elements of ethnic tension demonstrated in this conflict as well. Conflicts may, in fact, contain elements from one or other categories.
arms. A distinguishing characteristic is the speed with which genocide attacks take place and the high degree of central organisation and planning involved.

Sustaining peace after conflicts is not easy in ethnic-based clashes. Recent evidence shows that in post-conflict situations, large diasporas can substantially raise the risks of a renewal of conflict.

iv. Regional conflicts

The spread of regional conflicts has been another feature linked to the ethnic-based fighting. The spill over of tensions from one country into another adds to instability.

v. The "New Warfare" - Violence caused by international terrorism

All four elements of warfare have coalesced into what can be described as the world’s "new warfare" – war against terrorism. Terrorism is increasingly not sponsored by individual states. It is fluid, organised as a network and its spread is global. It finds recruits from all classes and all countries including amongst ethnic and marginalized groups in many affluent western cities. In this type of conflict, conventional state forces are frequently engaged in actions against states accused of harbouring terrorists. State forces are, and will become increasingly involved in the protection of key installations, infrastructures and borders, and may find themselves engaged in capital-intensive, attrition warfare with other states. Non-combatants and innocents are the victims of this war. Currently, this kind of war against terrorism - a new type with no beginning and no apparent end - continues.

Critical features of this type of terrorism are:

i. The financial basis of terrorism is critical for its success. Terrorism does not arise in a vacuum. It needs training bases, safe havens, soldiers, staff, weapons and these need money. The money has come from a combination of legal and illegal operations, drugs, extortion etc.

ii. Terrorism is closely tied to the growing problem of trafficking in drugs. Many of these terrorist and drug trafficking groups used the spread of religious extremism only as a means to create instability and thus to establish and secure their trafficking routes.

iii. Main threat from international terrorism is to large-scale installations, power plants, ports, bridges, drinking water, etc.

2.2. The New Global Economic Environment and Recent Changes in Europe

An effective response to these conflicts and threats requires agreement on, and understanding of, its causes. Past responses to conflict have often failed to understand the context within which conflict has operated or to address causes. First, it is necessary to understand the new global economic environment in which conflict is taking place and then to distinguish between the root causes of conflict, the
secondary causes that enable and sustain conflict and the tertiary causes or the drivers that hinder resolution.

The new global economic environment is one of rapid change as barriers to the movement of goods and capital fall, dramatic and continuous advances in technology open new markets and transform existing industries and as changes affect population structures as well.

Within this context the countries in Europe face threats and risks from an interplay of the following forces:

- Globalisation: which is generating benefits but also new challenges in the form of enhanced competition and the need to find a place in the new order and within new international structures and bodies;
- Transition: a long process of adjustment and development toward market economies for the countries of central and eastern European countries and the CIS;
- Collapse of former unitary states and a reorientation of infrastructures around the emerging new borders.

2.3. Causes of Conflict – Primary Causes

With regards to the causes of conflict in this new economic environment, the root causes are threefold:

i. Economic decline and rising poverty

Contrary to expectations, the majority of countries of central and Eastern Europe transition brought economic decline. Initial shocks were predicted but not the long-term economic decline and the failure of the majority of states to reach their 1989 levels of GDP. In countries such as Georgia, the Republic of Moldova, Ukraine and Yugoslavia, GDP in 1999 was a mere one third of its pre-transition level. On the other hand there were some successes: Polish GDP was almost 22 percent higher than ten years earlier). But even this success does not hide the economic fragility of these economies. Indeed in only a few countries – no more than 6 or 8 – can it be said that the populations have felt tangible economic benefits from the transition. In the majority of transition economies the social situation has deteriorated (high unemployment, declining living standards, poorly targeted welfare programmes etc).

ii. Inequality

Greater inequalities in income have accompanied economic decline. Globalisation and the removal of barriers to trade and capital flows was, according to international trade theory, to lead to a process of convergence in income of the countries of central and eastern Europe with the west. However, no ‘catch up’ has taken place, except for a few countries from Central Europe. For the majority, the gaps have indeed grown bigger. Southeast Europe would have to increase its

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2 This theory has not been disproved as substantial barriers to trade and investment still remain. For example,
income by a considerable degree to catch up with central Europe and would have to increase by the same amount again, to be on similar levels with the advanced western economies.

The weak economic performance made the effects of increased inequality worse because the economies are unable to offer new incentives or hope to lower income groups that their situation will improve. Nor are economies generating incentives to promote new thinking and approaches amongst the population. Inequality between groups is probably the foremost cause of conflict in southeast Europe. It is inequality between groups - rather than individuals - that increases the prospects of violent conflict. It exists on three mutually reinforcing levels: economic, social and political. In such countries, political power and its benefits were monopolised by one group. Unequal access to power perpetuated a similar lack of access to resources and revenue. The treatment of ethnic groups and minorities, exclusion, discrimination and prevention of access to employment, land and credit were the first signs of impending conflict. Where group inequality occurs there is also differential access to education (as has notably been the case in Macedonia). These barriers to personal development play a key role in sustaining inequalities. Where a society is divided into two or three dominant groups, growing inequality between them often leads to conflict.

iii. State ‘erosion’ and ‘capture’

The third cause of conflict is weak institutions, which lead to state collapse. It was always assumed at the beginning of the transition process that institutions would arise almost automatically. What emerged instead in some countries was not new market based institutions, but rather a regress into old kinship patterns, ‘clans’, and old networks in which groups had survived in the past. Such a regress “disintegrates” society and constitutes a profound threat to security when coupled with the weak state of economies and the lack of incentives.

The weakening of state institutions is rarely sudden, but arises out of a long degenerative process that is characterised by predatory governments operating through coercion, corruption and personality politics to secure political power and control of resources. The state finds itself unable any longer to provide basic services or security to its people and loses its legitimacy. The collapse of infrastructure completes the break up of the state. The combination of breakdown of institutions and physical infrastructure coupled with the use of ethnic violence creates the conditions in which violence becomes self-sustaining and factional warfare develops. Institutional weakness also can lead to state ‘capture’ when vested interests, economic or factional and ethnic groups, take over the state and run it in their own interest.

Weak institutions are also caused by a lack of resources and this has caused a dramatic upsurge in crime. For example, the grave weakening of state power in the transition economies weakened the law enforcement and criminal justice systems. Porous frontiers and newly convertible currencies have increased the attractiveness to criminals of local markets for drugs. In the transition economies, as a result,
organized crime flourishes in various guises—drug trafficking, counterfeiting, stolen cars and art objects, commerce in illegal aliens, and arms smuggling. Police forces tend to be underpaid, under funded, and ill equipped. This situation encourages the offer and acceptance of bribes, as well as the use of violence by organized gangs against honest law enforcement officials. An atmosphere of inadequate rule of law has weakened support for democratisation and free markets, has discouraged investment and retarded economic growth.

2.4. Causes of Conflict - Secondary Causes

i. Unemployment, lack of education

Countries with high levels of unemployment among young men and where male educational levels are low, face a far higher risk of conflict. Throughout, factional conflict has drawn on a pool of marginalized or socially excluded young men. Increasing insecurity of land tenure in some southeast European countries and a high level of rural unemployment provided a ready group of participants in the genocide there. Socially marginalized young men fought in conflicts in many countries. The unemployment rate of the youth was virtually double the unemployment average in many countries. In post conflict societies increases in unemployment are a major risk to renewed conflict. In Yugoslavia the unemployment rate stands now more that 40 per cent. In the transition economies approximately 64 million young people are either not employed or not receiving formal education. This forms the social base of organised crime, and militant groups, including terrorism.

ii. The abuse of ethnicity

With the collapse of former unitary states, a power vacuum was left which typically was filled by the old political elites. They needed straightaway to define a new nationalist agenda in order to promote nation building. Nationalism has its good as well as its bad side. An ‘inclusive’ form of nationalism can benefit the process of creating communities and building new nations. But with economic pressures and the failure of elites to develop effective economic policies, there was a tendency for the elites to use ‘exclusive’ nationalist approaches emphasising ethnic hatred. Such abuse prolongs conflict, creates long-term divisions that reduce the effectiveness of peace building efforts. The countries of southeast Europe unfortunately provide ready examples of this ‘abuse’ of ethnicity. Elements of the government have openly provoked ethnic tensions in the former Yugoslavia with the intention of destabilising security and the integrity of countries. Equally, elements of the armed forces have exploited ethnic differences in order to benefit commercially from the resulting conflict. In both instances community divisions have been deepened and there have been a greater number of fatalities and injury than have been experienced in more conventional fighting.

The essential point is that when conflicts between minorities and ethnic groups are analysed, it is more often than not, fundamentally conflict over the distribution of, or access to, resources; not over being a member of an ethnic group per se. Elites, for their own purposes, tend to cover up these causes by portraying the issues as threats
to the survival of the group and with reference to historical events in which the groups were involved a long time in the past.

2.5. Causes of Conflict - Tertiary Causes

Hindering solutions to conflict are the following factors:

i. Removal of regulations on flows of goods and finance

Globalisation has led to the deregulation of financial activities, which makes the task of tracking-down and finding sources of terrorism more difficult. In addition, the use of new technologies makes terrorist operations cheaper and more dangerous.

ii. Inadequate and inappropriate mediation

External mediation is frequently offered in times of conflict, yet the past decade has seen few obvious successes. While the option for peaceful resolution of conflict must always be available, poor mediation processes can make the situation worse and prolong conflict by giving combatants time to rearm and reorganise as has happened in the conflicts in south east Europe. Greater emphasis on securing and maintaining a cessation of hostilities as the first priority is critical. Peace processes need to be able to draw on a wider spectrum of arrangements for transitional government to provide the conditions in which a stable peace, which addresses the fundamental causes of conflict, can be established.

Overall conclusions as to the main threats emerging are the following:

i. New threats to security are arising as a result of inequality against a background of economic decline and poor economic performance

ii. States’ capacity to deal with threats has been limited by this weak economic performance and institutional uncertainty

iii. Preventing conflict has to be multidimensional, addressing at the same time economic, social and institution building.

iv. Terrorism has grown strong by its links with business; attacking it, as a business, e.g. cutting its cash flow etc., is an important way of defeating it.

3. New Instruments Needed to Address these New Threats

To address these threats, a new agenda consisting of new instruments and approaches is required.

3.1. Resource Mobilisation and Poverty Alleviation

First and foremost, there needs to be resources mobilised to help weakened economies. Conflict cannot be dealt with effectively without an international commitment to resource mobilisation for pre- and post-conflict situations and the
delivery of resources to where they are needed. There is a need for more resources to be targeted at states, which are threatened with collapse. The Carnegie Commission on Preventing Deadly Conflicts recently declared that the cost to the international community of the seven major wars in the 1990s - not including Kosovo – was USD 200 bn – four times the development aid given in any single year. Conflict prevention, therefore, is not just the right thing to do; it also makes sound financial sense. This makes it especially short sighted that the volume of development aid – one of the key tools for conflict prevention – dropped significantly in the 1990s.

Clearly peacekeeping missions can play a part in monitoring and advising. But these alone cannot be sufficient. More resources should be invested in those areas which will achieve social and human development objectives. These should include improving access to basic health care and improving education, clean water, shelter and employment and much more. Conflict prevention thus needs to be coupled, not only with military responses, but also with economic and social actions.

The realities of each situation need to be understood. Not all poor countries are at war, but growing income inequality coupled with declining economic performance can together convince people that they do not have a ‘stake’ in peace. When this happens, the inadequate political and judicial systems are often unable to manage the social tensions that are created. Competition for land to live on, or to farm, jobs, access to water or minerals to export, is also at the root of many wars, particularly when the competition intensifies through external shocks or economic austerity programmes.

3.2. Role of Sub-Regional Framework

Regional threats and conflicts need to be responded to by regional programmes of cooperation. Such programmes should focus on economic cooperation through public-private partnerships and regional inter-governmental cooperation. Such regional instruments can foster a return to cooperation between states, which is the best way to defuse tensions.

Such a regional framework is most effective when it can provide some sort of guarantees to the private sector to mitigate the risk of doing business in the region. States alone, with their very high levels of debt cannot provide such guarantees.

3.3. Support from the private sector and NGOs

Reconstruction, development and poverty alleviation needs resources, which go beyond the resources available to states. The private sector should thus be closely involved with conflict prevention strategies (See Annex 3).

Conflict prevention needs to be successful at the, local level, and NGOs and other groups can play a major role. In this exercise, women groups have played a unique role, e.g. the women’s movement in the peace processes in Ireland and Yugoslavia.

3.4. Special Protection to Minorities and Ethnic Groups
The international community can also help by providing safeguards or constitutional guarantees to minority and ethnic groups that protect their rights to economic security.

3.5. The Financing by Diasporas of Terrorism

The negative role of diasporas in post-conflict situations has been pointed out in exacerbating tensions. The diasporas often harbour more grievances than ethnic groups in the countries. They are often wealthier than the groups in the home countries and they have the means to sustain conflict. Diasporas could create, of course, progress through investment in jobs and new industries; instead their finance tends to contribute to destruction and violence. The international community should reduce therefore their damage by co-option, persuasion and punishment. In some cases, their business activities finance terrorism and should therefore be shut down.

3.6. Democratic Principles and Institutions

None of these goals can be achieved without the accountability of leaders to the citizens. It is important that assistance is delivered to countries where there are good standards of governance. Corruption diverts assistance into wasteful activities. This leads to a dilemma for aid agencies and a classic ‘chicken and egg’ situation. Does the funding come before the countries have minimum governance levels or after? After, and it is too late; only before is there a real need? This is one reason why it is important that international assistance promotes democratic institutions. Democratic rule fosters the accountability of leaders to their citizens.

4. Instruments Used by Multilateral Security Bodies Dealing with Economic Issues

Following this description of the new approaches and new tools needed, how are the existing conflict preventions bodies meeting these new requirements for conflict prevention?

4.1. OSCE Economic Dimension

The main instruments of the OSCE economic dimension are:

- the office of the co-ordinator
- the economic forum
- the OSCE field missions

i. The OSCE Economic dimension does not undertake resource mobilisation for support of countries that are in breakdown situations, although it does provide a framework for discussion of regional cooperation and support.

ii. The Economic Forums raise awareness on the issues mentioned above. In 2001, the OSCE, in its annual forums and preparatory seminars, focused
discussions on the topic of good governance, its importance to security and the importance of institution building.

iii. It has stimulated important local actions through contact with the local offices of OSCE field missions in a select number of OSCE countries. These missions are active in institution and peace building and democratic reform.3

iv. OSCE European Business Congress (EBC) is part of a strategy to build partnership with the business community in the area of conflict prevention. In 1998 the EBC was formed to contribute to peace and security in the region. Its members are exclusively large enterprises from the European business community.

Notwithstanding its contribution, the OSCE economic dimension needs to respond as well to the changing nature of conflict by adopting new approaches.

- The activity of the OSCE economic dimension is not supported by adequate resources and cannot thus carry out follow-up. This weakness is reflected in the documentation, which by its nature is reflective rather than action-oriented.

- Its economic commitments are increasingly not relevant to the current threats. The last substantive set of principles contained in the document of the Conference – known as the Bonn Document (1990) - committed the OSCE states to support broadly speaking liberal markets, protection of private property rights and economic transformation. The Bonn document was important in uniting Europe around the principles of economic freedom and in removing the major barriers to economic integration in the region. It remains a valid framework for reform. It did not, however, mention the new globalisation framework or the threats which have emerged within this new framework such as rising poverty, economic division, crime, and corruption. Thus, the framework in which the commitments were presented needs to be updated. Threats are emerging no longer within a framework of closed markets and state owned enterprises, but a global environment where most formal barriers to investment and trade have been removed and capital flows freely across borders without restrictions. A new set of principles would restore credibility to the review process and enhance the relevance of the earlier set of commitments such as those contained in the Bonn document.

- There is also the wider question of whether, even if these principles and frameworks are updated, their presentation in a quasi-legal and constitutional language is the most appropriate format for them to be most ‘effective’ in conflict prevention. Would not the instruments used by the IMF for conditionality etc., be more effective given that the goals of the review of commitments in the OSCE economic dimension, are genuinely to encourage implementation?

3 The office of the OSCE economic dimension has been successfully raising about 500,000 EURO in voluntary contributions in the last six months for projects being carried out via its field officers
• The OSCE does not have a legal personality. It is a political organization, and functions on the basis of consensus on every issue. The mandate of the secretariat is to support the Chairmanship in Office. It does not have the possibility to take initiatives.

• The EBC involves the private sector but it works exclusively in the business area; it is not engaged in conflict prevention.

4.2. Sub-regional Initiatives - South East Europe (SECI, Stability Pact, CEI etc), Central Asia, the Caucuses, etc.

Sub-regional frameworks are a good instrument to address the root causes of conflict, economic underdevelopment, institutional hiatus etc. Various initiatives have been established in Europe during the last decade.

The following have contributed to the success of the various initiatives:

• Sub-regional frameworks have proved an efficient vehicle for quickly and in a coordinated fashion, raising and delivering resources for development and conflict prevention. The best example, the Stability Pact of South east Europe, began with a donor’s conference. Shortly afterwards it instigated a number of targeted ‘quick start projects’. The Stability Pact demonstrated speed and commitment with the involvement directly of donor and beneficiary countries in the programme.

• The EU as the instigator of this activity played a major part in building political support. For example, its promise of eventual membership to the participants gave a tremendous incentive and a ‘road map’ for economic reform. It offered prospects of real integration to South East Europe with the rest of Europe: this offer also was the means for overturning the political hardliners and former war leaders by a new democratic leadership.

• The Stability Pact delivered programmes simultaneously in economic prosperity, security and democratic institution building, recognising the linkage between these three elements. Only if there is progress in all three sectors can a self-sustaining process of peace get underway.

• The Stability Pact recognises that the prospects for enhanced prosperity and security are ultimately in the hands of the member governments and that they must ‘own’ the process. SECI, similarly, encourages the states to take over the projects themselves. There is also a commitment to fostering regional cooperation in economic matters, with trade liberalisation and the removal of barriers at borders.

• The role of the private sector is underlined in every initiative, often through the creation of special business councils connected to the initiatives. In SECI, actual enterprises participate in order to ‘do business’. In the Stability Pact by contrast, its counterpart plays an advocacy role on behalf of business associations, on, for example, fighting corruption. Individual companies do not participate in the
Stability Pact business council. The CEI model is a more fluid and inclusive body, organising annual and very large economic summits.

Nevertheless, there are also a number of challenges to the successful implementation of these programmes:

i. **Real regional cooperation.** Deepening the process of regional cooperation is necessary to tackle the economic problems and the development challenge. This involves countries deciding on their nation’s policy priorities and then meeting within a regional framework to develop a coordinated regional programme. However, many of these initiatives take place at a lower level of cooperation between the participants. Typically, representatives from the Ministry of Foreign Affairs are nominated to represent their countries on these sub-regional projects while the sectoral ministries remain outside the process.

ii. **Encouraging all states to join sub-regional initiatives.** Some governments do not want to join and this can hold back regional cooperation as a whole. In Central Asia and the Caucasus for example, some states are reluctant to join regional cooperation initiatives. In the case of Yugoslavia, its eventual entry in the regional framework was a strong boost to the success of the initiative. These initiatives should therefore increase the incentives for states to join. Massive resources allocated to such cooperation by the donor community will raise the opportunity cost for governments who decide not to join.

iii. **The active engagement of the business sector** is necessary and this participation should also involve its direct role in the prevention of conflicts.

iv. **Preventing Conflict?** Since the establishment of initiatives, there has been an upsurge of conflict in Macedonia. How far do these initiatives have mechanisms for preventing conflict in the short term?

Regional cooperation initiatives for conflict prevention can thus be made better. However, this does not detract from the main conclusion, which is that the successful experience of sub-regional initiatives, such as the Stability Pact for South East Europe, should be transferred as quickly as possible to regions such as the Central Asian Republics and the Caucuses.

### 4.3. The Private Sector’s Role in Conflict Prevention

Overall, there is a great potential for corporate involvement in conflict-prone situations. The private sector can play a significant role by preventing violent conflict through its investments in impoverished regions, providing jobs and increasing living standards. These can stabilise the situation and can contribute to the development effort. Secondly, corporate business activities should be socially responsible, that is observing environmental/social standards and human right codes, contracting with local employees and suppliers, frequently monitoring the company’s regional impact on conflict causes and consulting with stakeholders on a permanent basis. These activities foster long-term peace. A policy of social
investment and supporting philanthropy initiatives, which help to develop a region, such as education, health, house building, food supply and enterprise development programmes, can contribute to conflict prevention. Lastly, businesses can also become engaged in policy dialogue with government institutions, NGOs and other stakeholders to address structural issues that defuse conflict. Apparently, with the framework of the UNDP development assistance and the World Bank Poverty Eradication Programme, such a dialogue involving all civil society representatives discussing poverty eradication strategies is being encouraged.

However much needs to be done to transform such potential into concrete actions:

- The contribution which business can make to some of the regions at risk in Europe, is not taking place because of their very low level of investment. There is a perception that these regions are too risky and there are many alternatives in more secure places for business to make their investments.

- Secondly, individual corporations are taking initiatives. Many international companies, e.g. BP Amoco, Shell, Ericsson, Coca Cola, J&J, Microsoft, have made explicit statements in their business objectives on their social responsibility and have taken already various successful actions in the transition economies (see annex 3 for various case studies). However, more should be done through collective action with business initiatives such as the Prince of Wales business leaders for development process, and within a framework that allows dialogue between the private sector and the international economic community.

The development of this role of fostering conflict prevention activities by the private sector, through partnerships between all-important parties (private sector, governmental and non-governmental organizations) etc, should therefore be encouraged further.

5. A New Approach for Conflict Prevention in Europe

This analysis has confirmed the enormous economic challenge that faces Europe and the critical role which economic divisions and the weakness of the state is playing in the rise of conflict in Europe. It has further identified a number of new and valuable approaches, which can prevent conflict and lower the risk of renewed conflict.

There is a need to:

i. Raise an awareness amongst policy makers of new threats and conflict prevention strategies and the tools to deliver results

ii. Enhance the capacity of states to implement conflict prevention strategies and

iii. Improve the quality of response to threats through enhanced safety standards.

Recommendations - Practical and Concrete Steps

The following projects have been selected to address the above-mentioned goals. They have also been chosen because they can be achieved quickly (they can be
implemented within already established bodies); are practical and concrete; represent new and imaginative approaches to new threats to security; and do not require a large allocation of resources. All 5 projects form part of an integrated response to the new challenges.

**Awareness and creation of the right frameworks for conflict prevention**

i. Renewal of the OSCE commitments under the economic dimension and its integration with an early warning mechanism  

ii. Creation of regional conflict prevention bodies for the Central Asian Republics and the Caucuses  

iii. Training Programs on Conflict Prevention for Government Officials using multi-dimensional peace building approaches

**Resource mobilisation**

iv. A public-private partnership programme to increase security against threats

**Enhancing safety standards to fight new threats to security**

v. Creation of an anti-terrorist corset to protect public and private utilities and essential services in energy and transport from attack

Awareness and creation of the right frameworks for conflict prevention

5.1. Renewal of the OSCE Commitments under the Economic Dimension and its Integration with an Early Warning Mechanism

A new set of commitments should be prepared to address the current threats to security. The principles need to tackle the threats from economic division, the discrimination and insecurity faced by minorities and ethnic groups and the role of regional cooperation in enhancing and defusing tensions. These “new commitments” should be an opportunity to provide an encouragement to enforce these commitments as well as to showcase success. Thus, it will be an incentive for governments to participate in the process. It should also be linked to early warning.

**Actions:** It is proposed that in the drawing-up of these commitments, the drafters should consult with governments and also experts from the NGOs and the private sector. UNECE could, if appropriate, be asked by the Chairman-In-Office of OSCE to prepare a draft of such a new document and to submit this draft for discussion at the next OSCE Economic Forum. This task would take the place on the agenda for the Forum of the review of the OSCE economic commitments.

- An early warning mechanism should focus on a) protection of minority and ethnic groups and their right to economic security b) a common strategic framework to deal with failing and fragile states, which would include a commitment to state building where necessary c) governments actions to mitigate terrorist threats to the economic infrastructure.
• Early warning should also present successes and be a means to encourage participating states and NGOs to demonstrate implementation of their commitments.

5.2 Sub-Regional Cooperation

First, the experience of sub-regional cooperation is positive as a conflict prevention instrument. The Stability Pact model offers a path for other regions where tensions exist such as Central Asia and the Caucasus. In both regions, the countries have proposed the establishment of a similar initiative. However, to date nothing concrete has happened. It is therefore proposed to establish two new sub-regional development/security bodies - CAPACT and COPACT - using the Stability Pact for South East Europe and SECI as the models.

Action: Under the auspices of the follow-up activity to the Villars Colloquium a task force will be established to prepare the way for the creation of two development/security sub-regional initiatives. The task force will set out a programme and a timetable for implementation.

Resource requirements: The initiative will need seed money from a donor to prepare this initiative and the task force will commit to launching a funding program to raise resources for these initiatives.

5.3. Conflict Prevention Training Seminars for Sub-Regional Programmes

Action: UN Staff Training College, Turin

Resource Mobilisation

5.4. Private Public Partnerships for Conflict Prevention

The private sector can improve the capacity of the state to enforce rules and regulations and make their countries more secure against crime and corruption. In addition, they can provide assistance and advice to governments on how to diversify their economic structures. (In the case of central Asia, diversification of its economy from its reliance on cotton production will improve the management of scarce water resources, itself a cause of tension in that region). Companies themselves can gain from this process and thus have an interest to make this initiative a success.

Action:

Companies should be approached to provide assistance in two areas: enhancing security, i.e. improving enforcement of laws, and safeguarding vulnerable sectors against terrorist attacks etc, and, second development, and diversifying economies. A company should be selected and twinned to a particular country and a plan of action developed. The company, it is assumed, will already have an interest to work in the country and have an insight into requirements. The outcome will be an analysis/action programme produced by the joint partnership between the private
companies and the governments on what needs to be done, how it can be done and what resources are required. The projects so defined by the company and the government will be presented for implementation under the auspices of the follow-up to the Villars Colloquium.

**Enhancing safety standards to fight new threats to security**

5.5. An Anti-Terror ‘Corset’

The vulnerability of key installation infrastructures to terror attacks is acute. There needs to be a review of existing procedures; how these procedures can be improved, how these can be financed and the legal implications. In some cases such as in trade facilitation the procedures exist nationally within the customs authorities but there is insufficient cooperation between governments on customs procedures, hence many procedures are not implemented. The bodies with the necessary expertise and an already established network of government experts will carry out this review. e.g. the UNECE Transport, Energy Committees, WP 5 etc

**Action:**

The tightening of the corset will reduce risk and the scope for actions that can have disastrous consequences. A plan of action is needed on how stage-by-stage the scope for attack in each of the critical sectors, energy, transport, customs etc., can be reduced. It should provide the basic indications on the future work to identify the most vulnerable energy and other areas with suggestions for provisional security measures.

**Experts to be invited from:**

- Major oil and gas companies;
- Oil/gas transportation companies;
- Electricity generators (power stations);
- Operators of gas storages, oil and LNG terminals;
- Transport specialists;
- Industrial safety experts;
- Logistics specialists;
- Security and risk analysis experts, and
- Insurance companies.

**Implementation of the Action Programme:**

To ensure that these five recommendations are implemented: it is suggested as a follow-up to the Villars meeting that:

i. A network of experts - to be called The Villars Group - will be established to encourage implementation and to foster multi-dimensional and cross-sectoral
approaches to conflict prevention. This network will interact and have members from the international bodies dealing with conflict prevention in the economic dimension and others. The work will look at the pan-European theatre with emphasis upon Southeast Europe, the Caucasus and Central Asia. It will act as an advocate for new conflict prevention approaches, as well as for the creation of effective sub-regional structures for conflict prevention. It will advocate, mobilize support, recruit and publicise the partnership programme on conflict prevention involving the private sector.

ii. Switzerland as a location for this initiative is appropriate because of its history, its economy, its democratic institutions and the relationship of its armed forces with civil society and the state.

The ‘Villars’ group will be built around two pillars:

i. An annual analysis of modern threats that provides both an intellectual framework and recommendations for the meetings of the UN and the OSCE governing bodies;

ii. Specialised projects to directly address economic-related threats to security.

**Action:** UNECE/OSCE will send letters to organisations and persons inviting ideas and concepts and the organisation/person to join. This initiative will create a cross-European network of new players, such as military experts, lawyers, businesses and representatives of international bodies and security groupings, such as NATO and the OSCE. This network will foster dialogue amongst bodies, public and private, national and international and from all countries, in an informal manner. 'The Villars Group' may become an annual meeting with the aspiration to fill a gap and to create a genuine meeting place for new concepts and for implementing practical steps in the economic dimension to conflict prevention, something which might be described as the 'Davos' of peace-building.

6. Some Questions for Further Discussion

6.1. Role of Sub-Regional Initiatives:

i. How effective have the sub-regional initiatives been in preventing conflict?

ii. With regard to the establishment of new Stability Pact style initiatives for other regions, such as the Caucasus or Central Asia, to what extent would they be welcomed?

iii. In Central Asia despite some border disputes and tensions, an international war appears to be very unlikely. Is a regional cooperation initiative thus needed?

iv. For the two proposed new sub-regional initiatives what other countries, if any, might be asked to join?

6.2. Role of Public-Private Partnerships

i. In the Caucasus are the private partnerships involving the oil companies necessarily stabilising ones?
6.3. Inequality and Conflicts

Some of the groups involved in the recent conflict in Southeast Europe were being financed by remittances from diasporas and also were very entrepreneurial. To what extent was rising inequality therefore a cause of conflict in these instances where the groups involved appear not to be poor?

6.4. Financing of Terror

According to reports (Washington Post Nov. 12, 2001, p A19) not much money was needed for the funding of September 11. Is such an assertion true and, if so, what implications does this have for monitoring the sources of funds used by terrorist?

7. Conclusions and Recommendations

The violence in the tragedy of the 11 September attacks in the United States has ushered-in a new era. This is now a time for renewal, for new thinking and for creating more efficient approaches to conflict prevention. The tragic experiences in the US, as well as in Europe over the past decade, both clearly demonstrate the need, when confronting rising tensions, to catch the problems as early as possible and before it is too late. To prevent conflict means addressing the root causes of conflict.

Increasingly, as has been observed, these root causes tend to be economic in origin. This is why the United Nations Economic Commission for Europe (UNECE) is working closely with the Organisation for Security and Cooperation in Europe (OSCE) to give the Economic and Environmental Dimension of its work a more important and significant impact. Over the years, it has called, inter alia, for the renewing of the OSCE’s economic commitments, for new approaches to conflict prevention in the form of training for civil servants, for lending added emphasis to new environmental threats, for the involvement of the private sector and for consideration of more effective mechanisms for responding to early warning in the economic dimension.

In order to promote new thinking and reflection on the nature of security threats in the economic dimension and how to tackle these threats, the UNECE and the OSCE Economic and Environmental Dimension jointly organised an international colloquium on 'The Role of the Economic Dimension in Conflict Prevention in Europe', that was held on 19 – 20 November 2001 in Villars, Switzerland. More than 60 experts from the North Atlantic Treaty Organisation (NATO), the European Union (EU), the United Nations Department of Political Affairs (UNDPA), national governments, the private sector, non-governmental organisations (NGOs) and academic institutions together held a forthright discussion on key issues concerning the economic dimension of conflict prevention.4

4 All documentation from the Villars colloquium - which includes the UNECE’s Discussion Paper - can be found by visiting: www.unece.org/operact/wp5
Economic causes of conflict in the region

The participants identified the following root or primary causes of conflict in Europe: (i) economic decline and rising poverty, that is, the failure of all but a few states to neither enjoy and sustain a period of rapid economic growth, nor to deliver real benefits to their populations; (ii) growing inequality between and within states, leading to the disappointment felt by many states of not ‘catching-up’ with the West, as well as increasing gaps in income and the difficulty in generating any hope or incentive for the poorer sections of populations in the context of declining economic circumstances; (iii) weak and uncertain state institutions, eroding state power and breaking their compact with civil society, and which in some instances have helped lead to a regression back into older and more traditional social networks, such as those based on clan systems. This process is degenerative and creates the environment within which crime, corruption and terrorism have all emerged to exert undue power and influence.

Apart from these primary causes, participants identified a number of significant secondary causes that help sustain conflict. These include: (i) high unemployment, particularly amongst youth; and, (ii) abuse of ethnicity as a form of political strategy, which has often taken place within the power vacuum left by the collapse of former unitary states in an attempt by old political elites to preserve their rule.

With regard to the economics of terrorism, many participants agreed that the issue of financing was of paramount importance in sustaining militant group activities. It was acknowledged that the role of diasporas in funding such activities in their countries of origin had been underestimated, as was the role of financial linkages between terrorism and [often transnational] organised crime.

Overall, many States are facing severe threats arising from their difficulties in coming to terms with macro-economic and institutional challenges. Foremost among these challenges are: (i) the transition to market economies, which has been a source of profound distress for many; (ii) the effects of the collapse of former unitary states, which has meant that states are simultaneously having to nation-build at the same time as designing effective and sustainable economic policies; and, (iii) increasing globalisation, which has not led to an equal distribution of benefits, and which can leave many states marginalized and highly vulnerable.

Addressing new threats in the economic dimension

While such causes of conflict were identified, it was more difficult to formulate the precise remedies for addressing these successfully. Nevertheless, some key prescriptions emerged:

- First and foremost, UNECE - OSCE member States need to implement economic growth policies that will aid poverty-alleviation and halt social disintegration;
- Second, policies need to give more emphasis to building the frameworks for a *secure and regulated market economy*. There are no short cuts in this process and it will require more significant resources from bilateral and multilateral donors;

- Third, the *private sector*, it was argued, should play a greater role in assisting states to enhance security; not just to share the resource burden with the state to enforce laws, but also to undertake key investments that can help defuse tensions, for example, investments to alleviate youth unemployment and/or target vulnerable regions;

- Fourth, referring to government policy, participants recognised the need to give more *security to national minorities and ethnic groups* in the economic field and to provide, if necessary, constitutional guarantees to protect their economic rights. The international community, the OSCE and the Council of Europe have a major role in assisting this process;

- Fifth, participants argued that to address the threat of regional conflicts and to build security, it was important to promote *regional economic cooperation*. Newly-established regional or sub-regional bodies like the Stability Pact, SECI and the CEI are innovative mechanisms that give states incentives to cooperate. Indeed, it was argued that such regional cooperation bodies might be replicated successfully elsewhere, such as in Central Asia and the South Caucasus region; and

- Finally, the participants recognised the *central role that the EU plays in building peace and security*. Through its offer of closer economic integration to Southeast Europe, the EU has greatly assisted states in that region through the provision of a clear road map for reform and a strong bulwark for security.

**A process of renewal and new thinking in conflict prevention**

Participants at the Villars colloquium recognised that addressing the key *development challenges* - such as poor economic performance, increasing divisions and inequalities, rising poverty and weak institutions - lay at the heart of addressing conflict in the region. They urged the OSCE and the UNECE to forge more efficient mechanisms for conflict prevention. It was recognised that the OSCE has made advances in new thinking and creating novel approaches; for example through good communication with local field missions, through its links with NGOs and civil society and through its various environmental initiatives. However, participants pressed for less *ad hoc* action, and for more consistent and jointly-managed programmes, incorporating these new approaches, for results to be achieved. A process of renewal and new thinking in conflict prevention was defined, and is synthesised in the following pages.
**Raising awareness and new thinking**

With regards to raising awareness and new thinking, **economic development** should be the basis of a comprehensive security model for conflict prevention. There is a need to promote the cross-fertilisation of ideas between ministries from different sectors - such as economic development, foreign and political affairs, etc. - so that there is a better all-round appreciation of the economic instruments that can be used to prevent conflicts.

In order to raise better understanding within governmental, inter-governmental and non-governmental institutions on this new thinking, conflict prevention training can be used to great effect. **Training in early warning and preventive measures** – such as that provided immediately after the colloquium by the UN Staff College (UNSC) - could also be held in various sub-regions.

Within this framework for new thinking, it is now the time to seriously **review the commitments of the OSCE Member States in the economic dimension**, which are currently codified in the 1990 Bonn Document. A review would have to take into account new threats to security and new approaches to economic development.

In the **fight against terrorism**, there is also a need for new thinking and approaches; not necessarily to create something new but rather to build on what already exists. For example, it was proposed that the UNECE’s specialised expertise in transport and energy infrastructure, (through which it provides advice on issues such as the transport of dangerous goods), could be the framework for considering further necessary measures that would make vulnerable infrastructure sectors more secure against terrorist attack.

**Resource mobilisation**

It is not sufficient to merely promote new thinking and approaches; it is also necessary – mindful of the limited resources of states and international bodies - to mobilise practical support amongst new partners to help in implementing this agenda. These new partners include the private sector, civil society and new agencies which have become active in conflict prevention, such as UNDP and its programme on early-warning indicators for conflict in Southeast Europe.
The **private sector** is involved in many sub-regional activities as part of business councils, either through lobbying for improving the investment environment or for undertaking investment projects. Beyond this, there is a need to bring the private sector into concrete conflict prevention projects and to mobilise and inform them of this new framework, within which their investments can have such beneficial outcomes for themselves and the communities in which they operate. To mobilise private sector support and to create a framework that would allow the private sector to play a more important role in conflict prevention, it was proposed to establish a public-private partnership on conflict prevention under the auspices of the UNECE and OSCE, which would operate within the framework of the UNECE Public-Private Partnership Alliance of Working Party on International Legal and Commercial Practice (WP.5).

**Building partnerships for implementation of projects**

The concept of **public-private partnerships** would be based on a constant dialogue between the public and private sectors in order to identify long-term conflict prevention strategies, as well as individual operational activities to enhance regional political, social and economic development with a conflict prevention basis. On the implementation of projects, participants identified several PPP projects for conflict prevention where effective partnerships could take place:

- **Capacity-building.** Soliciting the assistance and advice of the private sector in order to: (i) help governments enforce rules and regulations to make their countries more secure against crime and corruption; and (ii) identify and solve shortcomings regarding the macroeconomic environment to make the countries of a region more attractive to investors;

- **Improving military bodies.** Making military bodies more accountable, transparent and democratic; Using the private sector’s expertise to bring transparency into military expenditure and accounting;

- **Crime prevention.** There is a direct link between illicit trafficking and conflict, as well as between trafficking and reduced profits for businesses. Therefore, it is in the interests of both governments as well as the business community to reduce or eliminate trafficking. The private sector could make a significant contribution in training, support and resource supply;

- **Protection of infrastructure.** The private sector can help to quantify what is necessary to make the most vulnerable infrastructure sectors more secure against possible terrorist attacks;

- **Investment promotion.** Through its active investments, the private sector can play a significant role in building-up the economies of impoverished regions within Europe; providing jobs, eliminating poverty and increasing living standards. Therefore, an initiative for investment promotion in conflict-prone regions within Europe - such as Central Asia and the Caucasus - should be established;
• **Employment for the young.** A ‘Jobs for the Young’ programme (providing special employment opportunities and job training) needs to be encouraged, and could be founded by the private sector. This is especially important since statistics indicate that the young unemployed male population is the primary recruiting ground for organised crime and terrorism;

• **Supporting small- and medium-sized enterprises (SMEs).** To strengthen economic and social development and to ensure long-term economic and political stability within a region, the promotion of small enterprise development is a vital measure. The private sector can play the role of a ‘venture catalyst’ for a wide diversity of entrepreneurs, transferring their entrepreneurial knowledge to local businesses and helping to fund those businesses through the establishment of micro-credit schemes.

A **feasibility study** should be undertaken to identify both the most promising projects and also which projects funding is most likely to be attracted to. An **international symposium** should be held to explain PPP approaches in conflict prevention to the business community. The UNECE could act as a neutral ‘broker’, bringing together international organisations, governments, the business community and civil society.

Besides cross-sectoral partnerships, participants of the colloquium also stressed the importance of **cross-national partnerships**, creating new regional models of economic cooperation. In some cases, political barriers are holding-back the process, and it was therefore suggested that the UN and the OSCE could play a role in mediating such a process in order for such cooperative models to be realised as soon as possible. It was recognised that much has already been done in Southeast Europe, but that there were great needs in other regions as well, such as in the South Caucasus and Central Asia, where greater regional economic cooperation could be fostered. This is not a zero-sum game: each country in each region stands to benefit from greater cooperation amongst its neighbours.

**An appropriate framework: ‘The Villars Group’**

This process needs **a vehicle for implementation, for monitoring progress and for achieving results.** The UNECE is ready, if support is available, to provide the framework for the so-called Villars Group, as such a vehicle for the implementation of these new approaches. The Villars Group would be a pan-European, cross-sectoral network of experts, involving military experts, lawyers, NGOs, businesses and representatives of international bodies such as the UNECE, the OSCE, the EU and NATO. It was suggested to regularly convene joint UNECE - OSCE informal meetings. This group would not need to a specific place; it could convene in Vienna or elsewhere, depending on interest and support from national governments.

The main **objectives** of the group would be to act as: (i) an advocate of new multi-dimensional and cross-sectoral conflict prevention thinking and relevant conflict prevention strategies; (ii) the basis for a cross-fertilisation of ideas and a better exchange between the UNECE and the OSCE in economic matters, utilising synergies and avoiding duplication; (iii) a genuine meeting-place for designing,
implementing and monitoring practical initiatives in the economic dimension of conflict prevention in Europe.

**Plan of action: time-frame for implementation**

With regards to the time-frame for implementation, it is useful to divide the objectives into: (i) those to be achieved in the short- to medium-term; and, (ii) those to be achieved over the longer-term.

In the short- to medium-term, the Group would:

*Publish the results of the Villars colloquium* in order to highlight these new approaches to conflict prevention in the economic dimension;

- *Mobilise interested governments to host meetings and provide backing.* The UNECE will send out a letter to Member States with this proposal, inviting them to join the process so that they might actively participate in formulating strategies and putting the projects into practice;

- *Establish The Villars Group* under the UNECE Coordinating Unit for Operational Activities (CUOA);

- *Establish the concept of Public-Private Partnerships in Conflict Prevention* and mobilise governments and the business community to join and contribute to this initiative;

- *Prepare a draft of new commitments in the economic dimension* - in consultation with members of The Villars Group - for deliberation by governments at the next OSCE Economic Forum in Prague.

In the longer-term, the purpose of the Group would be to target more comprehensive strategic development assistance for those conflict-prone regions with the most acute needs.

The UNECE has for some time now been promoting both a new approach to conflict prevention, as well as the development of closer cooperation with the OSCE Economic and Environmental Dimension. The Villars Meeting has brought this cooperation between the UNECE and the OSCE to a new level. The process that this has created could become a vital vehicle for change.
Annex 1

Causes of Recent Conflicts in Europe

Southeast Europe

Interethnic conflict was fuelled by a combination of economic and institutional weaknesses and the failure of state to undertake necessary economic reform. SEE was one of the weakest of all regions, in terms of investment, trade and growth. It suffered from corrupt leaderships while the institutional basis of the state continued to atrophy and the creation of an institutional hiatus. The institutions established to promote the market economy were either weak or non-existent. When ethnic tensions emerged the setae institutions collapsed.

The Caucasuses

Poor economic management weakened highly centralised states. The inability to provide basic levels of policing and social services helped to lead to the weakening of state authority. Internal conflict increased dramatically throughout the 1990s. In extreme cases, fragmentation encouraged the formation and proliferation of splinter groups, which in turn divided into warring factions. The very nature of conflict changed. The civilian population increasingly became the target of conflict in factional wars and subjected to particularly high levels of violence and abuse. This resulted in massive displacement as well as social and economic distress.

Central Asia

Militant Islam fuelled tensions in the region. The core cause were thus economic but the form tended to be interethnical religion- The political exploitation of ethnic discrimination in Europe has its roots in communism, when the ethnic issues were subsumed, the collapse of communism led to the resurgence. In general, ethnicity is used as a means to sustain conflict and is rarely a primary cause. Yet, the increasing marginalisation of the poor has provided fertile ground for those promoting ethnic conflict as a means of sustaining their own control over power. Ethnic violence is in danger of becoming part of the culture of conflict in Europe.
Annex 2

Examples of threats from international terrorism to Europe’s Infrastructure: Case of the Energy Sector

As an example of the threats posed by international terrorism to infrastructure and the vulnerability to attack on the energy sector it is worth looking in detail at this sector in the ECE region. The energy infrastructure is a highly complex network of often-interdependent crude oil, natural gas, electricity and coal facilities and plants. It is composed of numerous primary energy producing units which are connected to the final energy market either thorough a vast pipeline infrastructure or other transport routes, sea routes included. At the same time, the final energy producers such as power stations are linked to end-users by an expensive and elaborate high to low voltage transmission system. The complexity of the energy sector operations and its vast and very expensive infrastructure makes it a relatively easy target for various kinds of sabotage operations. The damage potential of only one such major operation might be tremendous and difficult to prevent.

The energy sector has been keen to provide an appropriate security all along the energy chain and in particular to its end-users. With this goal in mind, the sector achieved considerable supply diversification wherever it was possible including the supply network optimization such as in the case of natural gas in continental Europe. However, the practiced security has little to do with potential terrorist threat and cannot be considered as an adequate response to such threats.

The vulnerability of the energy sector can be best described by the following elements:

i. Absence of spare capacity in pipelines and electricity networks in the region
ii. Inability to have appropriate network interconnections such in the electricity markets in Europe and USA which are currently represented by a numerous regional and in some cases small markets
iii. High vulnerability of both USA and Europe to the energy supply shocks and in particular crude oil and natural gas
iv. Increasing imports dependence with no other solution currently in sight
v. Investment uncertainty due to inappropriate regulatory climate which blocks much needed investments in the region
vi. High volatility of the commodity and financial markets that further complicate the energy security picture.

Although the consequences of potential attack on the energy facilities in the USA are far from not being significant, Europe’s vulnerability seems to be much more pronounced. Thus, it can be stated that today it might be rather easy for would-be
terrorists to attack the energy infrastructure, inflict big damage on it and threaten in that way the whole economic and social structure of modern society.
Annex 3  

Public Private Partnerships and Conflict Prevention

In recent years, the perception that conflict prevention is the sole responsibility of governments, intergovernmental and NGOs organisations has changed. Increasingly, as a result of the new framework mentioned above, globalisation, technological changes, increased social expectations are changing the roles of companies to perform both economically and socially and to do more for the good of a wider group of interested parties, the ‘stakeholders’. Even though the *raison d'etre* of businesses is to develop business strategies with their primary responsibility to increase shareholder value, there is an increasing direct link between the financial strength of a company and its wider social role, including its role in conflict prevention. Many companies have altered their former position on involvement of politics – twenty years ago they were told to ‘stay out of politics’ – and the assumption that conflict prevention, is separate from, and even in conflict with, business objectives. Businesses need a stable political and economic environment to operate. Conflict can have tremendous effects on a company’s operations and investments both in terms of risks, and of direct and opportunity costs. Second, companies need markets for their products. The European transition economies have the potential for market growth, but this depends if their economies will grow and if their peoples will be able to participate. Development is therefore of interest for businesses and violent conflicts are a major barrier to development. Thirdly, the threat from terrorism affects business acutely, the public and private utilities, the security industry, the financial services and tourism.

The private sector can thus lay the basis for peace and security through:

(i) investments which are critically important for reviving confidence in the economy

(ii) conflict mediation and capacity building . the private sector where states have not had capacity to deal with security challenges should shoulder the burdens of better enforcement and security. Enhancing of the security of infrastructure and industries against threats.

**Examples of Corporate Engagement in Conflict Prevention**

**Oil companies - Caspian Sea**

Past experience in other countries, notably Nigeria and Colombia, has shown that oil is as likely to be a factor in creating and exacerbating violent conflict as a guarantor of stability and prosperity. Therefore in co-operation with the Citizen's Democracy Corps (CDC), and IBLF an on-going dialogue with foreign oil companies investing in the Caspian Sea, national government, inter-governmental agencies and civil society organisations was facilitated. The group meets regularly to explore the role that the oil companies can play in contributing to equitable social
and economic development, in particular focussing on the following themes: economic diversification, refugee protection, democratic development

**BP Amoco - Azerbaijan**

On a global basis BP has revised its business principles to include explicit statements on human rights and an annually report on social performance has been established. BP supports a range of community, educational, scientific and cultural initiatives with local partner organisations in Azerbaijan. These include educational support in terms of helping local schools with refurbishment, educational materials and equipment, support for victims of and refugees from the war with Armenia, road safety, and assisting Azeri scientists to develop closer links with their counterparts worldwide. BP has also supported the production of a series of reports on subjects such as nation building, human rights, corruption and the clan system.

**Chevron - Kazakhstan**

From a supermarket to a bowling alley, the company has been a "venture catalyst" for a wide diversity of entrepreneurs in Kazakhstan. Through partnerships, Chevron Texaco helps transfer western entrepreneurial knowledge to hundreds of local businesses. Joining with the United Nations, the European Bank for Reconstruction and Development and the U.S. Government, the company created the Small and Medium Business Enterprise (SME) program, which has counselled hundreds of local firms, aided in preparation of business plans and helped funding. In addition to the SME program, Chevron Texaco partners with numerous social, educational, health’s and cultural programs aimed at enhancing people's quality of life.

**British American Tobacco - Russia**

British American Tobacco works with governments and Non-Governmental Organisations (NGOs), which take an objective approach to deal with business and development, in ways that can benefit both parties. One of these, for example is the Foreign Investment Advisory Council supervised by the RF Prime Minister of which British American Tobacco is a member. Company representatives take an active part in the work of this influential forum to come out with proposals on improving the investment climate in Russia to attract more foreign investments.

**Commerzbank AG - Kosovo**

In Kosovo, Commerzbank AG has become a joint shareholder with a group of inter-governmental institutions of the Micro Enterprise Bank (MEB). The first bank to be licensed since the recent conflict, MEB will provide account management, money transfers and loans to small and micro-enterprises.

**Microsoft - Croatia**

Microsoft Croatia is teaming up with the United Nations Commission for Refugees and other partners to launch an IT skills training program for refugees and people displaced by the recent conflicts in the region. The program’s aim is to provide participants with the basic IT skills that will help them find a job in the new economy.

**Microsoft - Russia**

Microsoft will make a grant of $200,000 and software to the New Perspectives to establish five multimedia PC learning centres. These centres will be established in
underserved communities in rural areas in Russia. The New Perspectives Foundation is a non-profit organization established in 1995 dedicated to empowering young people to build democracy around themselves and their communities, regions and country through its network of 50 partners and affiliates nationally.

**Johnson & Johnson - Russia**

Through its partnership with the International Federation of Russian Red Cross/Red Crescent, Johnson & Johnson contributed $1 million in soap, shampoo, baby products, adhesive bandages, and hygiene products. The products were distributed to more than 90,000 flood-affected families, single parents, multi-child families, and other socially vulnerable people in areas that are crippled by malnutrition, poverty and disease.