



SAFERWORLD
PREVENTING VIOLENT CONFLICT. BUILDING SAFER LIVES

Managing risk in unstable countries

**Promoting conflict-sensitive Chinese investment
in South Sudan**



January 2015

Saferworld is an independent international organisation working to prevent violent conflict and build safer lives. We work with local people affected by conflict to improve their safety and sense of security, and conduct wider research and analysis. We use this evidence and learning to improve local, national and international policies and practices that can help build lasting peace. Our priority is people – we believe that everyone should be able to lead peaceful, fulfilling lives, free from insecurity and violent conflict.

COVER PHOTO: The Unity Oil Fields near Panakuach close to the border between South Sudan and Sudan. Since independence in 2011, clashes have flared up between the two countries over the exact demarcation of the border. © SVEN TORFINN/PANOS



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Disclaimer

Although important common ground exists, there are different opinions and perspectives within China, African, and Western countries on the best ways of promoting conflict-sensitive investment in conflict-affected states. Saferworld has strived to gather and represent the views of a wide range of interlocutors in an accurate and balanced way.



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Background

SAFERWORLD HAS BEEN WORKING IN CHINA SINCE 2004. We work with Chinese policymakers, officials, think tanks, academics and commercial actors to understand and address the new challenges China faces in supporting stability overseas. We also work with officials and civil society in conflict-affected and fragile countries where China has come to play a major role. As Western policy makers adjust their strategies to the realities of a changing world order, Saferworld encourages cooperation with China on engagement in fragile states.

Over the past ten years through assessments, training, advocacy and advisory support, working with a range of governments, multilateral bodies, development/humanitarian agencies and local civil society groups, Saferworld has strengthened the capacity of a variety of stakeholders to work on conflict-sensitive approaches to support peace and development.

Building on its established programmes in China and South Sudan, since September 2012, Saferworld has been working on a project that encourages Chinese policymakers and commercial actors engaging in South Sudan to be more conflict sensitive and open to dialogue with other actors.

This report focuses on Chinese companies currently operating, or looking to invest, in South Sudan. It explores some of the key challenges faced by Chinese companies and offers suggestions on how companies can contribute to a more stable and prosperous future for the people of South Sudan.

The report builds on a series of workshops convened and research conducted by Saferworld in China and South Sudan during the course of 2014. For example, in March 2014 Saferworld and the China National Petroleum Corporation co-hosted a workshop on 'Managing risk in South Sudan: A conflict-sensitive approach for Chinese businesses'. Follow-up workshops were held in July and November 2014. In July 2013, Saferworld facilitated a field research trip to the oil field in South Sudan's Unity State resulting in the report, *Oil, security and community engagement: A collection of essays on China's growing role in South Sudan*. This collection of essays helped to create a better understanding of conflict issues and people-centred security in South Sudan among a wider set of Chinese actors, including those in the commercial sector. A follow-up field research trip was conducted in July 2014.

Understanding conflict sensitivity

Conflicts can revolve around competition for power and resources. By introducing new resources into this sort of environment, external aid and investment inevitably has an impact on the local political economy. This may challenge and change existing power relations, and affect dynamics of peace and conflict. Over the past ten years an increasing number of companies and international agencies have recognised this risk, and have tried to adopt a more 'conflict-sensitive' approach. This entails:

- understanding the context you operate in, especially the conflict dynamics
- understanding the nature of your engagement and how this affects the conflict context, and vice-versa
- acting on this understanding to avoid reinforcing conflict dynamics and to capitalise on opportunities to support peace.

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Introduction

CHINESE INVESTMENT IN 'EMERGING MARKETS' – developing countries where both returns and risks can be high – is rising fast. The investment is both demand and supply driven. China's economy needs energy and mineral resources to maintain its high growth rates, while entrepreneurial Chinese companies are increasingly seeking out opportunities across Africa, Asia, and Latin America.

For all parties, the potential benefits of this new economic partnership are substantial. Economic investment in South Sudan can lead, among other things, to more rapid economic growth and development in the country, as well as the creation of jobs and improved public services. The challenges are also significant. High returns often come with high risks and companies investing in states with poor or weak governance face multiple difficulties. Violence, political instability, social tension, poverty, and corruption create a challenging and complex environment for businesses.

The risks to companies operating under these conditions are:

- **Human** – kidnapping, killing, and injury; evacuation of staff; recruitment difficulties;
- **Financial** – higher insurance, security, and transportation costs; higher wages for staff to offset risks; increased cost of raising capital, threat of extortion;
- **Operational** – destruction of property or infrastructure, disruption and delays to the project;
- **Reputational** – local protests, negative publicity, international campaigns against the company.

Chinese exposure to these risks is multiplying as China's investment in conflict-affected states continues to grow. Nowhere has this been more evident than in South Sudan, the world's youngest country and amongst its poorest, most violent, and least developed. Since December 2013, South Sudan has been gripped by a destructive civil war killing thousands, displacing up to two million¹ and preventing the country from fulfilling its own vast potential.

The impact on Chinese investment has been severe. Even before the current outbreak of fighting, Chinese companies struggled in the midst of a fragile security environment characterised by ethnic tension, armed robberies, cattle-raiding, kidnappings, and weapons' proliferation. Since the end of 2013, the business climate has deteriorated further with new investments stalled and existing projects either suspended or operating well below capacity.

¹ *The Economist* (2013) The Christmas Fighting Season (29 November) www.economist.com/news/middle-east-and-africa/21635054-all-sides-are-preparing-again-long-civil-war-christmas-fighting-season

Armed violence presents the most immediate and most obvious challenge to Chinese companies but it is far from the only one. In some areas of South Sudan the state is literally or functionally absent; in others, it is perceived negatively. Public services are largely confined to the largest urban centres and are accessible to only a few. Employment opportunities are minimal, infrastructure limited or severely degraded, and the country's multiple ethnic divides threaten years of instability.

The challenges may be extreme but withdrawal is not the answer. South Sudan needs investment – from China as well as elsewhere. Through adopting conflict-sensitive policies and practices, Chinese companies have the potential to drive balanced economic growth in South Sudan, helping to deliver greater opportunity and development to the people whilst ensuring a proper return on investments.

This is increasingly well understood. China's 2006 Corporation Law² provides, for the first time, a legal foundation for corporate social responsibility (CSR) while, in 2008, the Chinese Academy of International Trade and Economic Co-operation (CAITEC) issued its 'Guidelines for corporate social responsibility compliance for foreign-invested enterprises'.³ More recently, the China Chamber of Commerce of Metals, Minerals and Chemicals Importers and Exporters issued its own 'Guidelines on social responsibility on outbound mining investments' with the express purpose of guiding Chinese companies in CSR and sustainability strategies.⁴

The priority is to convert this growing awareness of CSR at a policy level into more sustained practical action at an operational level. Companies need a social as well as a political license to operate. They need the support of host communities as well as the national government. Good relations locally are the surest form of risk management: saving money and increasing profits, avoiding delays and disruptions, contributing to development and growth, and enhancing companies' reputations nationally and internationally.

² www.china.org.cn/china/LegislationsForm2001-2010/2011-02/11/content_21898292.htm

³ https://files.dlapiper.com/files/upload/Corporate_Social_Responsibility_compliance_by_foreign_invested_cos%20in_PRC.pdf

⁴ www.globalwitness.org/sites/default/files/library/CCCMC%20Guidelines%20for%20Social%20Responsibility%20in%20Outbound%20Mining%20Investments%20Oct%202014%20CH-EN_1.pdf

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South Sudan: a challenging environment

THE PEOPLE OF SOUTH SUDAN ARE NO STRANGERS TO CONFLICT. Decades of fighting against the Government in Khartoum left the country devastated and the population exhausted. The Comprehensive Peace Agreement, which brought an end to the violence in 2005 and paved the way for South Sudan's independence in 2011, provided only temporary relief. Since December 2013, the country has been pitched into another destructive conflict.

The country's significant diversity – its patchwork of ethnic groups and multiple languages – presents potential governance difficulties, compounded by the legacy of the violent struggle for independence. While the war against the North brought a degree of unity, or at least common purpose, to the peoples of the South, it only partially and temporarily disguised the deep splits amongst the region's ethnic groups. With no shared enemy, the long-standing divisions within South Sudanese society have widened further, fuelled by ambition, competition, suspicion, and fear.

Although this conflict started as a political dispute, the fact that it was able to descend so rapidly into widespread ethnic/tribal conflict is indicative of a wide range of unresolved and long-running underlying tensions within the country. For example, there remain deep-seated perceptions of marginalisation amongst many groups across the country. Whilst Juba has seen rapid development and very significant investment since 2005, most of the rest of the country has seen little improvement in basic infrastructure such as roads and electricity, or markets. Political power has become highly centralised in the Sudan People's Liberation Movement (SPLM),⁵ and there is a widespread perception that political and economic opportunity is reliant on party affiliation.⁶

South Sudan has also seen the repeated manipulation of ethnic identities for political and military gain by a range of actors. Most people in South Sudan identify themselves with ethnic groups, many of which have been involved in historical conflicts. The manipulation of these identities has proven to be an effective means of mobilising support for political causes.⁷ Consequently, all of the key institutions of state [including the Sudan People's Liberation Army (SPLA) and the civil service] remain deeply divided along ethnic lines. This may help to explain the rapid disintegration of SPLA forces following the outbreak of fighting in December 2013.

⁵ Schomerus, M and Allen, T (2010) South Sudan at odds with itself: Dynamics of conflict and predicaments of peace. LSE, London.

⁶ Based on discussions with a range of civil society actors in Juba, 2012.

⁷ This can clearly be seen in the current conflict, in which ethnic identities (mainly Dinka and Nuer) have been used to mobilise support for competing political actors.

In part due to these issues, coupled with the destructive legacy of decades of civil war, which has hampered the development of effective and accountable government institutions, the country suffers from weak governance. Many government departments lack qualified staff or access to the resources necessary for them to fulfil their basic functions. The regulatory and legislative framework in many sectors remains largely underdeveloped. Perceptions of corruption, patronage politics, and political mismanagement are rife. The capacity of indigenous civil society to hold government to account meanwhile is very low.

Resource-rich but cash-poor, South Sudan's economy has not been able to compensate for the country's political deficiencies. In such an overwhelmingly rural society, heavily dependent on oil and lacking in basic infrastructure, employment is scarce, poverty widespread, and access to public services confined to a privileged minority. The current conflict is further diminishing an economic base already weakened by the 2012 oil shutdown.⁸ With development funding being channelled towards emergency assistance, government resources concentrated on the military, foreign investment stalled, and a humanitarian catastrophe looming, the people of South Sudan desperately need the conflict to end.

So does the Chinese business community. In the immediate aftermath of independence, Chinese businesses – large and small, private and state-owned – poured into the country. The needs, and therefore the opportunities, seemed endless. Riding on the back of existing commitments in the oil sector, the Chinese Government also encouraged other industry sectors to invest, most obviously those operating in infrastructure and telecommunications. Entrepreneurs and small businesses followed the big companies with Chinese-owned hotels, restaurants, and shops springing up in Juba to cater for the new arrivals.

All this is at risk from the conflict. The insecurity, the uncertainty, the falling revenue, and the rising military costs have severely damaged existing businesses and deterred new investment. Until recently, the door was wide open for businesses; now it is closing fast. The implications of decreasing Chinese investment for the population of South Sudan are potentially negative. As mentioned, economic investment in South Sudan can lead, among other things, to more rapid economic growth and development in the country, as well as the creation of jobs and improved public services.

Crisis management: the impact of the current conflict on Chinese oil companies

In 2014, Saferworld commissioned research investigating the impacts of the outbreak of conflict in December 2013 on the Chinese business sector – with specific focus on the oil sector – in South Sudan, and the implications for peace and conflict dynamics in the country. Dr Leben Moro, from the University of Juba, and Professor Qian Zhen, from the Party School of the Central Committee of the Communist Party of China, co-authored this research. The authors' findings, detailed below, do not necessarily represent the views of Saferworld.

The oil sector is the mainstay of the South Sudanese economy, accounting for some 80 per cent of the projected 2014/15 national budget.⁹ China is the dominant player with substantial investments, most notably through the China National Petroleum Corporation (CNPC). South Sudan's importance to China is also significant. At full capacity, in 2011, oil from South Sudan accounted for some 5 per cent of China's oil imports. In addition, the activities of other Chinese companies, in industries ranging from infrastructure to services, are highly dependent on continuing oil production.

Impacts

The recent outbreak of violence has inevitably caused severe damage to the oil industry and the wider economy. Oil companies particularly faced significant losses as oil production has slumped while costs relating to staff, offices, maintenance of infrastructure, and heightened security continue to be incurred. Production in Unity State has effectively been suspended following attacks while capacity has been reduced in the oil fields of Upper Nile State from approximately 190,000 barrels a day following the 2012 shutdown to, as of July 2014, less than 165,000.¹⁰

The effect on other industries has also been substantial. In interviews, the vast majority of respondents reported the key losses to Chinese companies were economic, including decreased production, lost assets, expired foodstuffs, high logistical costs, increased tariffs and charges, and delayed project implementation.

The violence has had a particular impact on companies' ability to recruit and retain local staff. Many fled back to their villages or left the country altogether. The ethnic dimension to the conflict means that people belonging to the ethnic Dinka group are fearful of working in majority Nuer areas and vice-versa.

The long-term impacts are yet to be felt but getting production up and running to full capacity is likely to prove time-consuming and costly, even assuming a political settlement is reached in the relatively near future. Repairing confidence and attracting much needed new investment is likely to take longer still.

Responses

Self-support was the instinctive response by all companies, particularly Small and Medium Enterprises (SMEs). This included limiting the activities of employees and asking them to reduce travel, moving investments to other countries, reducing investment in fixed assets, ensuring smooth flows of information on security, and storing food as needed.

Some large companies were better equipped to deal with the crisis on their own as they had more advanced internal systems and resources. For example, PetroChina has a complete and systematic set of security plans. All employees undertake safety training before arriving in South Sudan. Moreover, they get timely access to information and various materials on the situation in South Sudan to synthesise and analyse so that they are fully prepared at times of crises.

Assistance provided by the Chinese Embassy to companies included supporting and protecting evacuations and regular security training for Chinese companies. The Embassy also organised a briefing for company representatives, informing them of the security situation, and providing emergency rescue arrangements.

Inevitably, the responses of the companies focused on providing immediate security, and did not consider longer term solutions. Once the violence does finally stop, this will be a priority.

⁹ Ministry of Finance and Economic Planning (2014) Budget 2014/2015, Juba, South Sudan www.grss-mof.org/wp

¹⁰ Interview with a senior official from the Ministry of Petroleum and Mining, July 2014.

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Operational risks

ENDING THE CONFLICT IS OF COURSE ESSENTIAL for South Sudan's economy to realise its full potential. But a peace agreement is only a necessary first step. Many of the underlying drivers of the violence will remain long after any deal is struck. Addressing these deeply rooted challenges is primarily the responsibility of the South Sudanese government and the wider society but external actors, such as foreign companies, particularly the biggest, do have an important role to play. They also have an incentive. Just as the costs of the current conflict, human and economic, have been enormous, the benefits of peace and stability could be enjoyed by all. South Sudan needs the support of all actors to break out of its cycle of violence.

Many of the risks that companies face clearly lie outside their control or beyond their ability to address. This highlights the importance of focusing intensively on what they can affect, especially their own impacts. Just as the political and social environment poses risks to companies, so companies themselves can pose risks to others, in particular the communities affected by their operations. A failure to understand, avoid, or mitigate harmful impacts increases the likelihood of tension with these local communities.

In South Sudan, some of the most pressing issues for companies include:

Expectations

Little is known, and less is understood, about the realities of Chinese investment in South Sudan amongst large sections of the population. This is particularly true of the oil industry.

This information vacuum is creating problems. While the population as a whole is impatient to see the revenues and the benefits flow, this is doubly true of the most affected communities, many of whom feel to have been marginalised. Inevitably, expectations run high. Foreign companies are seen as bringing jobs, public services and real prosperity. These are expectations which no company, even the largest oil company in full production, can altogether satisfy.

Frustrated expectations bring risks. Individuals and communities who feel neglected (whether fairly or not) will respond accordingly, creating a cycle of protest and opposition which is hard to break.

Managing expectations is therefore important. It is best achieved through awareness-raising, education, and consultation. Helping people to understand the basics of oil production, constructing a power plant, or installing telecommunications infrastructure can assist in avoiding misunderstandings. Likewise, clarifying companies' environmental, labour, and safety standards can help to avoid the spread of false

rumours. Perhaps most importantly, companies need to explain their limitations and work together to communicate better with both affected communities and the wider population.

Livelihoods, land, and environment

South Sudan remains a largely rural society. For many, livelihoods have barely changed for hundreds of years and are dependent upon land and water. Large-scale investment in oil or infrastructure can have a huge impact on this traditional way of life. Over the long term, the outcome of these investments may well prove positive: subsistence living may gradually be replaced, or supplemented, by higher income generating livelihoods; there may be easier access to better education and health services and greater provision of water and electricity.

But this will take time. Meanwhile the changes will be difficult for many. Companies need to respect and accommodate existing traditions while nurturing sustainable, long-term alternatives. Nevertheless, land is important in South Sudan. It is not so much a commodity to be traded as a memory of the past, survival in the present, and insurance for the future. If people are deprived of their land, or deprived of access to the land, then much more is lost than a physical space. Land also sustains cattle, and in South Sudan cattle represent more than a livelihood; it represents wealth, status, and standing in the community.

This explains also the concern around environmental degradation. Environmental legislation is scant in South Sudan, and what legislation there is tends to be poorly enforced. Since the vast majority of livelihoods are directly dependent on agriculture or pastoralism, local people are very conscious of environmental issues and these are frequently cited in complaints about the oil industry especially. Even though many companies adhere to international standards on waste, pollution, and air and water quality, this has not alleviated the concerns of local people regarding environmental degradation.

The underlying problem is that companies work on the basis of standards, people on the basis of impacts. A 10 per cent increase in air pollution may be acceptable under even the strictest environmental guidelines, but surrounding communities still feel the deterioration and react accordingly. This once again highlights the importance of communication. Communities need to understand the likely effects and they need to be involved in initiatives to minimise the impacts.

Employment

In countries of high unemployment, jobs and expansion of livelihood opportunities are what everyone wants. For local communities, employment can make all the difference in terms of their perceptions of a company.

Companies themselves need to understand the value of recruiting locally. It is often cheaper to do so, providing communities with a stake in the project, and in some cases, it may also be necessary under the terms of the contract with the government.

Companies face two complications, however: first, local people may not have the skills required; second, competition for employment can be fierce and can create conflict between communities. Supply can never match demand, even in the biggest projects. In South Sudan, it is easy to see how the combination of inequality, low skills, high unemployment and community and tribal divisions that contribute to inequities in the distribution of employment make this dilemma a very pressing one.

There are no easy solutions, but companies that demonstrate a real long-term commitment to developing the local economy are more likely to be successful than those that focus on short-term, media-friendly initiatives. Part of the answer lies in managing expectations, as discussed previously; part lies in framing a coherent and

long-term strategy to increase local employment; and part lies in reaching agreement with affected communities on the distribution of jobs. In practice, this means transparency from an early stage about how many jobs are likely to be available, at what stage in the project cycle, and what skills will be required. It also means identifying, communicating, and supporting business opportunities which are likely to result from the project as well as providing skills training to reduce, as far as possible, the number of 'outside' recruits. Finally, it means developing a proper understanding of community needs and dynamics in the project area in order to help navigate the delicate task of 'sharing out' available jobs in a way which does not lead to resentment and friction.

Partnership is crucial in this respect; primarily with national and local government but also with other companies and with local and international organisations. No company can deliver this alone and while many companies are often reluctant to interfere in what is rightfully the government's responsibility, there is an overriding rationale: the less a government does, the more a company will be expected to do. It is firmly in a company's interests to work closely with state institutions and civil society to deliver economic opportunities.

Security

South Sudan faces multiple and diverse security risks beyond the most immediate problem of the ongoing civil war, including: local political violence, tribal divisions, competition for resources, criminality, and easy availability of guns.

Companies are clearly limited in how much they can influence these risks. It is, therefore, all the more important that they do everything they can not to exacerbate these risks. To a great extent, this is about building strong relations with local communities but it is also about how companies choose to protect themselves. Abusive security forces (whether public or private) have proved to be a major problem for companies in many parts of the world, while too much of an emphasis on gates, guards, and cameras can alienate local people.

Companies ought to be able to manage their private security in ways which are effective but at the same time sensitive to the local context. This means developing a proper understanding of local dynamics, including tribal and community divisions. Private security can easily become a liability if guards are recruited without consideration of how they will be perceived by local populations. It is also a matter of proper training: in the way force is used, in international standards (e.g. the International Code of Conduct for Private Security Service Providers¹¹) but also in appropriate behaviour.

Benefits

A failure to ensure local communities enjoy the full benefits of foreign investment is a common cause of resentment. This is particularly true in regions where there are oil, gas, or mining projects. Government mismanagement, corruption, or centralisation often means that revenues are wasted, diverted, or never distributed back to the producing region. Weak capacity within local government also obstructs much needed investment in infrastructure, jobs, and economic development.

Broadly speaking, a large investment project can potentially deliver three types of benefits:

- jobs and wider economic opportunities (as discussed above);
- improvements to infrastructure and public services as a result of increased revenues to government and more diversified development opportunities;
- company-funded CSR projects.

Of these three, the third is the easiest for a company and the most common, the first two the most difficult but also the most important in terms of long-term impact.

One of the difficulties for companies is that while they are not responsible for the government's failure to manage and distribute revenues fairly, they do often become the target of local discontent if only because companies are present whereas government is often not. Companies benefit from a pro-active government which establishes and enforces sound norms and regulations and which recognises its responsibilities and obligations. Partnership and cooperation with government, especially local government, is essential. This is not about interference or external pressure but about mutual support. Companies and local government working together can achieve much more to the benefit of all than each working alone.

It is also in a company's interests to target its CSR projects carefully. CSR is essentially a form of strategic philanthropy. Companies support projects that deliver benefits to the community or wider society. In turn, companies benefit from a more positive public image and the satisfaction of doing something good. But badly conceived CSR projects can be counter-productive. The developing world is littered with schools and clinics originally funded by companies but since abandoned because they proved unsustainable, inappropriately located, or a source of division amongst the intended beneficiaries. The best CSR projects are designed in close consultation with local communities and local government to address real needs and ensure sustainability.

Conflict analysis of a power project in Eastern Equatoria State

In 2014, Saferworld worked in partnership with a Chinese company to produce a conflict analysis, aimed at promoting conflict sensitivity within Chinese investments in South Sudan. The report identifies potential conflict risks that may impact on, or arise from, the construction of the said Chinese investment project in South Sudan, and outlines a series of recommendations for the company about how to manage or prevent these in a conflict sensitive manner.

Eastern Equatoria State sits in the south eastern corner of South Sudan. It shares international borders with Ethiopia, Kenya, and Uganda, and domestic borders with Jonglei State to the north and Central Equatoria State to the west. In 2012, the Government of South Sudan signed a contract with a Chinese company to build a hydro-electric power plant in the state. Beyond its core function of providing electricity to the area, the proposed power plant has the potential, if managed well, to deliver significant benefits to local communities.

Key risks

Although the recent conflict has badly affected many parts of South Sudan, Eastern Equatoria State has remained relatively stable during this period. However, many tensions persist in the region, and the potential for an upsurge in conflict remains acute. The main drivers of insecurity include: lack of access to justice and effective dispute resolution mechanisms; lack of access to basic services and infrastructure; social norms and patriarchal society; competition over land and other natural resources; and unemployment and minimal economic opportunities.

Improving the quality of local infrastructure could also have significant economic and social benefits. However, it can also expose nearby communities to greater exploitation of natural resources and in-migration from other areas, with potentially destabilising effects.

A failure to take these issues into account during the construction of the power plant could have serious implications for the potential for conflict in the area. For example, if all of the benefits associated with these economic opportunities are seen to be accumulated to only a small group of people, the power plant could become the target of grievances and protests.

A further challenge is if local people do not feel that they have been included in major decisions that impact on their livelihoods and way of life, then they may react negatively. This is likely to be particularly important if construction of the project results in the displacement of local people, or limits their access to certain key resources such as forests, water, or land.

Key recommendations

- Ensure communications with community are clear, sustained, broad-based and inclusive.
- Ensure that local people feel tangible benefits deriving from investment in their communities.
- Ensure local people are fully and genuinely consulted on any decisions that may impact on local resources or livelihood strategies.
- Establish and maintain regular contact with local government ministries, local politicians, local media, nongovernmental organisations (NGOs), the United Nations Mission in South Sudan (UNMISS), and other businesses operating in the area.

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Looking ahead

FOREIGN INVESTMENT OFFERS SOUTH SUDAN MANY OPPORTUNITIES: faster economic growth and development, job creation, better public services, and equally importantly, the potential to help heal the rifts in a society driven by inequality and a recent history of conflict and violence.

The Government of South Sudan has the primary responsibility for determining how successfully the country grasps the opportunities afforded by this investment, but companies also have an important role to play. General thinking around the nature and extent of this role has evolved considerably in the last decade, informed as much by companies themselves as by others.

This thinking has led to the development of a plethora of guidance, including, but far from restricted to, the International Finance Corporation's Performance Standards,¹² the Guidelines for Multinational Enterprises produced by the Organisation for Economic Co-operation and Development,¹³ as well as good practice multi-stakeholder initiatives such as Global Compact,¹⁴ the Voluntary Principles on Security and Human Rights,¹⁵ and the Extractive Industries Transparency Initiative.¹⁶

These initiatives can all provide valuable guidance to companies. The challenges facing South Sudan are substantial but constructive company engagement across a range of issues is crucial to meeting them. This is already well understood by many of those currently operating in the country. The difficult position South Sudan finds itself in at present clearly limits the potential scope for company action. Nevertheless, companies should consider a number of immediate priorities to establish a platform for stronger community relations.

Recommendations I. Communication and information-sharing

Poor knowledge amongst the South Sudanese population as a whole is at once driving up expectations and encouraging suspicion of foreign companies' investments. Very low literacy (on average 30 per cent, and much lower among women), little access to the Internet and the media, and lack of a comprehensive radio network mean that most people in South Sudan get their information face-to-face, in a local language. This presents a challenge to companies working in South Sudan who wish to disseminate or collect information, but it is critical that companies do this in a clear and accurate manner.

¹² www.ifc.org

¹³ www.oecd.org/daf/inv/mne/oecdguidelinesformultinationalenterprises.htm

¹⁴ www.unglobalcompact.org

¹⁵ www.voluntaryprinciples.org

¹⁶ www.eiti.org

This is particularly so given the historical mistrust of China dating back to the war against the North. Many in South Sudan still perceive the Chinese as favouring the government in Khartoum. While this perception is changing, it is still important for Chinese companies to communicate better with the wider population regarding their investments, their contributions to the society, and their long-term commitment.

II. Community engagement

Sincere engagement with communities is one of the most valuable things a company can do. Engagement is frequently presented as simple consultation, but consultation is only one element. An understanding of local cultures and traditions is equally important. Engagement matters for several reasons:

- it is a sign of respect for the community;
- it allows information to be shared with the community;
- it ensures the community can voice concerns before grievances escalate;
- it provides a means for both sides to clarify needs and expectations.

Engagement unquestionably demands some time and resources. Staff are needed, and a proper consultation process can affect project timeframes. Even so, the cost of just a single day's disruption caused by protests and disruptions resulting from local grievances can easily exceed the extra expense. Second, companies have assumed that responsibility for the welfare of local communities properly lies with the government. Technically, this may be true but in many conflict-affected countries, it is irrelevant. If a government cannot or will not provide basic services, create employment opportunities, and ensure security, communities will expect the company to do so. Companies need to be able to discuss and agree with the community what they can do and need to be able to explain what they cannot do. This is only possible through regular and consistent engagement.

The focus of the consultation and wider engagement process should be on those impacted by the project. In terms of a company's social licence to operate, these are the key constituencies. Companies have long experience of nurturing business relationships (contractors, suppliers, clients, and customers) as well as the political relationships with government officials required to get a project started.

Less well developed is an understanding of the importance of social relationships, that is, with local communities. Companies tend to view relationships through the lens of mutual economic advantage. Often, this attitude is reflected in their dealings with communities. The project is good for the local economy and therefore good for the community as well. Local people should be grateful for the investment.

This approach makes two important assumptions: first, that local people do indeed benefit from the project and second, that those benefits outweigh the negative impacts. Both these assumptions often prove false. Especially in conflict-affected countries, projects rarely deliver as much as people want or expect and, in many cases, the project may actually make things worse, whether through environmental damage, forced changes to livelihoods, inequitable distribution of resources, resettlement, or increased presence of police or army.

The company/community relationship is far more complicated than a business relationship. Companies need to understand communities not as beneficiaries of the investment but rather as people who are being impacted by the project. The balance of those impacts may well prove positive in the long-term but those impacts also bring significant change: economically, socially, and culturally. People need to understand what those impacts are likely to be in order to prepare for them. This highlights the importance of an engagement process which is more than just about extracting information but about building trust and strong relationships.

Building relationships: key principles¹⁷

Recognise the social nature of the relationship with communities.

Commit to an open-ended process.

Ensure the process is culturally appropriate.

Recruit appropriately qualified staff for community engagement with the right skills and ethnic, religious, linguistic, and gender balance.

Include all impacted groups.

Fairly identify and allocate benefits according to impacts.

Communicate regularly and transparently.

Focus on building trust.

III. Impact assessments

This highlights the importance of conducting proper impact assessments, particularly for newer projects during the development phase. Land and water is needed; camps may be constructed requiring both infrastructure and security; livelihoods may be disrupted, even if only temporarily. The less tangible impacts – expectations, impatience, worry, hope – will also increase.

While environmental impact assessments (EIAs) are often legally required, social impact assessments (SIAs) have also become more common in recent years. This is not the complicated addition it may appear. Essentially, EIAs consider impacts on place, SIAs explore impacts on people. How will the project change the condition of those living nearby? How can it be developed in ways which limit those changes? And how might it be planned in a way which both reassures and generates support? These are not ambitious demands, rather the most effective means to build community support with few resources.

Impact assessments: key principles¹⁸

Continuous – regularly updated throughout the lifetime of a project.

Comprehensive – covering all relevant issues.

Accessible – in terms of language and how people are consulted.

Two-way – an opportunity to share as well as discover information.

Process-orientated – used as a mechanism for engagement not simply information-gathering.

Inclusive – consult all relevant groups (including women and youth).

Impact focused – the limits of the assessments are defined by impacts not by geographical boundaries.

IV. Job creation

The importance of generating employment cannot be overstated. At the same time, of course, it is not easy, even impossible, to fully satisfy demand. The most successful companies from a social performance perspective develop a comprehensive strategy for promoting employment and simultaneously supporting wider economic growth. Such a strategy could include:

¹⁷ Institute for Human Rights and Business 2011: From Red to Green Flags; the corporate responsibility to respect human rights in high-risk countries, www.ihrb.org/publications/reports/from_red_to_green_flags.html

¹⁸ Institute for Human Rights and Business 2011: From Red to Green Flags; the corporate responsibility to respect human rights in high-risk countries, www.ihrb.org/publications/reports/from_red_to_green_flags.html

- targets for proportion of local hires;
- educational support (local schools, scholarships);
- long-term vocational training to raise skill levels, tied to internships linking to local jobs;
- maximising use of local suppliers, including capacity-building support for local businesses, and supporting the development and capacities of local business associations;
- cooperation with national and local governments to improve the business environment.

V. Collaboration

All those operating in South Sudan, be they businesses, civil society, development agencies or government institutions face many of the same challenges. Each actor offers something different and potentially complementary in terms of addressing the challenges. Greater cooperation is essential.

For companies, the value of this cooperation comes in four forms:

- **Support** – much of what companies are trying to do (community development, job creation, etc.) can be enhanced through partnerships with local government, civil society organisations and with international agencies.
- **Knowledge** – companies can never know everything. Even the most comprehensive due diligence will leave gaps. Companies can benefit from the experience of others to supplement their own analysis – whether it is on the security situation or on government policy reforms or on development initiatives in their local area.
- **Advice** – companies are economic actors but many of their impacts are social and cultural. Understanding of local communities can be enhanced by working with local and international NGOs.
- **Protection** – companies can be constrained in the issues they feel comfortable raising with government. These can often be handled more easily by their Embassy or through multi-lateral channels.

Conclusion

The challenges mentioned in this report are not unique to China. All international actors – including governments, multilateral organisations, companies, and civil society – are affected by conflict.

Within China, in addition to businesses and investors, conflict sensitivity may also be useful for various Chinese state agencies involved in overseas development assistance, including for example the Ministry of Commerce, China Export-Import Bank, China Development Bank, and the Ministry of Foreign Affairs. Through approaching unstable contexts using the model of conflict sensitivity, Chinese actors can ensure that potential risks are managed, that relations with host governments and local communities are positive, and that China's and Chinese companies' reputations are protected, and economic return on investment is improved and shared more equitably.

International actors cannot control the fate of South Sudan's stability. Responsibility for peace and security lies in the hands of South Sudan's government, community leaders and civil society. However, international actors can take actions and make decisions that support stability in the country. For both China and South Sudan, embedding conflict sensitivity into the core of their approaches will better ensure a sustainable and mutually beneficial partnership between the two countries and their populations.