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Entrepreneurial activity and civil war in Colombia: Exploring the mutual determinants between armed conflict and the private sector

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Entrepreneurial Activity and Civil War in Colombia

Exploring the Mutual Determinants between
Armed Conflict and the Private Sector

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and Carlo Nasi*

February 2010

Abstract

As elsewhere, the Colombian private sector has been accused of promoting or profiting from violence in the country. However, the private sector's role in the armed conflict and the impact of conflict on entrepreneurial activity vary, as reflected by differences in political activism, in peacebuilding strategies and in costs endured according to company size, sector, and region of operations. At the same time, accounts of regional variation in conflict intensity suggest that an understanding of the Colombian confrontation requires a subnational approach. This paper explores whether and how differences in regional armed...../

Keywords: Colombia, armed conflict, entrepreneurship, private sector, natural resources, multinational companies

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conflict can be attributed to differences in entrepreneurial make-up and activity associated with five natural resources, produced in different regions (oil, coffee, bananas, emeralds, and flowers). This paper suggests that company-specific traits, institutions of production, and the nature of international markets have a significant impact on the link between entrepreneurial activity and armed conflict in Colombian regions.

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1 Introduction

Violent armed conflict in Colombia has lasted over four decades and has taken a severe human and material toll (see Bouvier 2009; Restrepo et al. 2004 for background information). As elsewhere, the private sector has been accused of promoting or, at the very least, profiting from violence. Structural arguments illustrate how the capitalist status quo is functional to the interests of the private sector (Revéiz 1997; Richani 2005). Armed Forces' interventions in local and regional communities have been shown to protect private sector interests (Silva Colmenares 1978; Cepeda and Rojas 2008). Recent assertions by demobilized combatants of paramilitary right-wing groups confirm long heard accusations regarding the active role of regional entrepreneurs in the financing of illegal armed groups and the promotion of forced displacement to free land for cultivating crops such as palms and bananas.¹

However, the private sector's role in the armed conflict and the impact of conflict on entrepreneurial activity appears to differ sharply, as reflected both by differences in political activism (Rettberg 2007), by differences in peacebuilding strategies at the local levels (Rettberg 2004), and by statistical data on the costs endured by private sector fractions distinguished by size of the company, sector of the economy, region of operations, and scope of activity (Rettberg 2008a).² Entrepreneurs have been affected in several ways by violent conflict, directly and indirectly. They have been kidnapped, extorted, and attacked. They have also faced high transaction costs and have lost merchandise due to destroyed transportation infrastructure, international partners due to an unfavorable business climate, and resources due to high investments in company security and insurance (Rettberg 2008a; Guáqueta 2006). At the same time, Colombian entrepreneurs have been linked to efforts targeted at overcoming conflict. They have invested in local development projects, hired demobilized combatants, and supported efforts to negotiate peace in Colombia (Rettberg 2006, 2007; Guáqueta 2006).

¹ The web portal *Verdad Abierta* has compiled a series of press articles about demobilized combatants' accusations against private companies: <http://www.verdadabierta.com/web3/paraeconomia>.

² In this survey on the impact of conflict on the Colombian private sector (find a summary in English at http://www.international-alert.org/pdf/Exploring_peace_dividend_Colombia.pdf), there is a significant difference in perceptions of conflict costs among different companies. This could be said to amount to a polarization between companies relatively protected from conflict impacts, such as Bogotá-based ones, and those more vulnerable. The survey illustrates where and for which type of company the costs of conflict are highest, and therefore which companies may be more readily mobilized for peacebuilding. The majority of businesses identified indirect costs, relating for instance to loss of business opportunities, rather than direct impacts on their operations. These indirect costs are difficult to quantify and attribute. Only 3.6 per cent reported direct attacks on their employees or company. Three-quarters of those interviewed stated that they would invest in expanding productive capacity, innovation, and generating employment if Colombia were at peace. Larger companies were more likely to report costs associated with armed conflict than were smaller ones, though they also reported higher growth. Smaller companies more frequently reported extortion payments, as well as suffering more frequently from business closure. Companies with nationwide operations were more likely to pay extortion to illegal armed groups and suffer from disruptions to national distribution and transport system than were companies with regional or local operations. Mining, gas, electricity, agriculture, and transportation companies most frequently reported the direct costs related to armed conflict, while financial services and investors reported the least. The highest direct costs to the private sector were reported in Pasto and Cali, cities in the country's conflict-affected South-West, while the capital Bogotá appears to be a relatively peaceful oasis for economic activity.

Just as entrepreneurs are differentially affected by armed conflict and have produced different responses to armed conflict, accounts of regional variation in conflict intensity, in armed actor strategy, and in forms and scope of victimization suggest that ‘armed conflict’ is too vague a term to grasp the complexities of the regional dynamics of the decade-long confrontation among illegal armed actors in Colombia (González et al. 2002; Vicepresidencia de la República 2007; Rettberg 2008b; Echandía 2004; Duncan 2006). Recent work by the Colombian Commission of Historical Memory,³ for example, has revealed the existence of different regional ‘orders’ (sets of enforceable social, economic, and political rules) combining legal and illegal institutions and actors (Comisión de Memoria Histórica 2008, 2009).

In what way can differences in entrepreneurial activity be linked to these differences in armed conflict dynamics? And, conversely, in what way can conflict dynamics be attributed to particularities of entrepreneurial activity? This paper argues that, in the same way that conflict has a differential impact on entrepreneurial activity, we need to fine-tune our understanding of the (perhaps unintended) effects of entrepreneurial activity on certain aspects of the armed conflict. This paper will thus explore the relationship between entrepreneurial activity and armed conflict from a differential perspective. It aims to link characteristics of the Colombian private sector (such as the source of capital—domestic or foreign—the degree to which entrepreneurial activity is labour-, land-, or capital- and technology-intensive; whether entrepreneurial activity is regulated by an institutional framework, the international price structure, qualifications and gender of the workforce and degrees of unionization, among others) to particular conflict dynamics (intensity as measured by conflict-related deaths but also by attacks on towns, and indications of competition over territory, incidence of different forms of victimization—forced displacement, kidnapping, attacks, extortion).

As opposed to voluntaristic accounts of the relationship between entrepreneurs and armed conflict (based, for example, on anti-communist attitudes among entrepreneurs), this paper seeks to advance our understanding of the structural and institutional mechanisms in which both entrepreneurs and armed actors are embedded, shaping their preferences and choice of strategies. Such an approach focuses both on the effects of internal organization and rules (of entrepreneurial activity and of the armed actors) and on the context in which they operate. We believe this is useful for illustrating the way in which both entrepreneurs and armed actors in specific regions of the country adapt and respond to similar institutional incentives and limitations. This, we argue, yields regionally specific configurations of the relationship between entrepreneurial activity and armed conflict in Colombia.

In contrast to descriptions of armed conflict as a consequence of the economy (in line with structural or Marxist interpretations) or as a cost to the economy (in line with liberal interpretations), we argue that the relationship between armed conflict dynamics and regional economies is two-sided, reflecting and, in turn, shaping each other.

This paper draws from a collective research project on the political economy of the Colombian armed conflict funded by the International Development Research Centre of Canada. In the context of the project, we have gathered qualitative and quantitative data about entrepreneurial activity in several Colombian regions which produce commodities

³ See also the Commission’s website at <http://memoriahistorica-cnrr.org.co>.

such as palm oil, oil, coffee, bananas, ferronickel, emeralds, and flowers (none are manufactured goods). Preliminary findings suggest that in some of these regions features of entrepreneurial activity such as those listed above at least partially explain both the intensity and the specific forms adopted by illegal armed actors' presence and strategies. Forced displacement of civil population, for example, appears to be a strategy of territorial expansion mostly where entrepreneurial activity requires large extensions of land, such as in the case of the banana and palm oil sectors (Goebertus 2008). In addition to a better understanding of how it is that entrepreneurial activity may be linked to conflict in intended and unintended ways, the paper seeks to contribute specific insights as to what kind of entrepreneurial activity is likely to sustain the armed conflict and in what ways. This endeavour stands in marked difference to other studies that are based on empirical data collected in quite diverse Colombian regions.

We will first provide some theoretical background for the questions examined here with a focus on several hypotheses regarding links between entrepreneurial activity and armed conflict in Colombia. The empirical evidence to test these hypotheses will be presented in the following section. A final section discusses and summarizes the findings.

2 Theoretical framework

2.1 The political economy of armed conflict

The literature on the political economy of armed conflict emerged in the aftermath of the Cold War. Then, the continuation and resilience of armed conflict—previously considered to be simple outgrowths of the confrontation among the two mega powers—questioned commonly held assumptions about the causes and facilitating conditions of ongoing civil wars. In brief, this literature found that rebellions, regardless of the justice of their political motive, are more likely to occur where there is some form of lootable wealth (Ross 2003). As a result, scholars, NGOs, and practitioners documented the recurrent coincidence, in different countries of the world, between armed conflict and lootable wealth (see for example, Bannon and Collier 2003; Berdal and Malone 2000; Collier 1999; Collier and Hoeffler 2003; Elbadawi and Sambanis 2002; Fearon 2005; Keen 1998). Klare (2001: 215) posits that in the contemporary geography of wars 'resource concentrations rather than political boundaries are the major defining features'.

Today few dispute the multicausal nature of war. Also, agreement has spread that armed conflicts are neither 'new' nor 'civil'. Looting as a mechanism of war has been documented at least since the Middle Ages and the levels of cruelty are not a trademark of our time (Berdal 2005). In addition, Kalyvas (2001) questions the distinction between 'new' and 'old' wars (Kaldor 1999) because this does not reflect the evidence on conflicts in three categories—motivation, popular support, and use of violence—and because all wars have elements of greed and of grievance (Berdal and Malone 2000).

As a result of this progress in the literature, the academic discussion tends to focus on which resources are linked to armed conflicts and how. Ross (2004: 35) suggests that 'oil, nonfuel minerals, and drugs are causally linked to conflict, but legal agricultural commodities are not' (Ross 2004). In addition, he introduces a crucial distinction among resources according to their *lootability*. Lootable resources are those that can be easily

transported and distributed, such as diamonds, which represent high value in small volume. Resources such as timber, coal or oil, in contrast, face high barriers to entry for looters because, to be lucrative, they require large quantities and, in the case of oil, significant investment in advanced technology.

Others have suggested that the difference among resources may lie in whether they are labour- or capital-intensive (Dube and Vargas 2006; DiJohn 2006). Le Billon (2001) has focused on geography as an explanatory factor and has proposed spatial reasons—proximity to urban centres or the capital (the closer the better protected a resource is from looting)—as well as factors associated with urban or rural, dispersed or concentrated production. DiJohn (2006) has proposed that high barriers to entry—and the degree to which production occurs in an enclave setting—may explain differences between resources' links to war.

The institutional context, too, has emerged as an explanatory factor. According to Snyder (2006), the relationship between lootable resource and political order does not necessarily lead to disorder, as the literature has suggested. On the contrary, certain institutions governing the extraction of resources that provide room for negotiation among involved actors and which are the result of state initiative can be conducive for providing political stability.⁴ This suggests variation in the political results for countries rich in lootable resources.

Humphreys (2005) concentrates on the causal mechanisms relating resources to war and suggests that countries dependent on agricultural goods (apart from their endowment in oil or diamonds), should be considered in greater risk of armed conflict and should therefore concentrate on strategies of economic diversification. On the other hand, he suggests that the impact of resources on conflict cannot be solely attributed to state weakness. In fact, according to Humphreys (2005), the impact of natural resources is independent of state strength.

In sum, the literature on the political economy of armed conflict has gone a long way in a considerably short time in exploring how armed conflicts can be linked to material conditions on the ground, including the availability of lootable resources. At the same time, the literature has made progress in fine-tuning the conditions under which specific resources will be more likely to be linked to armed conflict. However, several challenges remain. One refers to the make-up of the different types of private sector actors linked to the extraction of specific kinds of resources. While the organization of capital has been linked to several political outcomes—from development (Schneider 2009) to political stability (Maxfield 1990), the adoption of economic reform (Armijo and Faucher 2002), and democracy (Higley and Gunther 1992)—this factor has not been systematically considered in analyses of armed conflicts. To what extent may

⁴ According to Snyder (2006: 946–7), 'If rulers are able to forge institutions of extraction that give them control of revenue generated by lootable resources, these resources can actually contribute to the maintenance of order by providing the income with which to govern. In contrast, the breakdown or absence of such institutions can produce instability in two ways: first, by causing a fiscal crisis that renders the state vulnerable to collapse and second, by making it easier for rebels to organize'... He proposes 'a political economy framework that highlights how institutions of extraction determine who controls the loot—rulers or rebels—and, thus, affect the relationship between lootable resources and political order'.

differences in the dynamics of armed conflicts be linked not only to specific resources, but to the organization and composition of private sector actors engaged in their extraction and production? The next section provides some hints based on the literature on business as a political actor.

2.2 Business as a political actor

Scholarly work on the private sector has moved away from determinism featuring unity among capitalist interests to account for the private sector's internal differences in terms of preferences and political capacity. Distinctions have been developed along sectoral (Gourevitch 1986; Shafer 1997) and organizational lines (Rettberg 2003; Schneider 2002) as well as according to firm characteristics such as size (Maxfield and Schneider 1997), asset specificity (Frieden 1991), and factor mobility (Mahon 1996). According to the academic literature, large size, high mobility and asset-unspecificity are business characteristics that lend credibility to the possibility to exit and, thus, invest holders of large, mobile, and unspecific capital with significant power. Conversely, small capital, and owners of fixed and specific assets will face more limited choices. In addition, inasmuch as they are not backed by a credible threat to exit, they are less likely to be effective in gaining access to policy-making.

The implications of these theoretical insights for an understanding of the relationship between business and conflict are numerous and significant. First, conflict in many societies has historically revolved around the allocation of privileges accrued to members of the economic elites. In this sense, business as a defender of the status quo (the dominant mode of production) is a prime factor in explaining conflict as illustrated, for example, by studies of Latin American oligarchies, which made systematic use of coercion to repress popular protest and protect the status quo (Paige 1997), thereby contributing to the stifling of democratic openings as well as successive democratic breakdowns (Bartell and Payne 1995).

Second, business promotes conflict in still other ways: to the extent that societies depend on investment, governments recurrently engage in actions to protect private interests, both national and transnational, often with an obvious cost to their citizens. One particularly salient case refers to the execution, in 1995, of popular leaders by the Nigerian official forces to protect oil giant's Royal Dutch/Shell's operations in Nigeria. Other examples abound, as documented by a rich literature on the participation of companies in the trade of resources that have been linked to conflict, such as 'blood' diamonds, oil, drugs, timber, and coltan (De Soysa 2000; Ballentine 2003; Lujala et al. 2005). Other examples are not as violent, but also impose costs to host societies, such as corruption to gain lucrative contracts and money laundering, which deviate funds from developmental or peaceful purposes to goals that serve the continuation of conflict (Schwartz and Gibb 1999).

Third, inasmuch as it controls and generates capital, business is a key source of funds both for sustaining and promoting conflict, as shown above, but also a key partner in overcoming conflict. A rich literature on the scope and requirements of peacebuilding has addressed the need to promote micro level participation and attract key domestic stakeholders (Crocker et al. 2001). While there is still little agreement on the exact nature of peacebuilding—especially since 11 September 2001 painfully brought home the need to stress short term security gains over long term development goals (Tschirgi

2003)—one widely accepted requirement for stable peace is civil society and business involvement.

Several authors have specifically pointed to the private sector's public role in terms of international conflict prevention and resolution (Haufler 2001; Wenger and Möckli 2003). In the domestic realm, private sector support, both material and nominal, has been found to be crucial for the peacebuilding activities to prosper (Azam et al. 1994; Gerson 2001; Pearce 1999; Rettberg 2004, 2007). Business generates the needed resources to make policies viable and sustainable. Whether intended or not, business decisions—such as to invest, employ, and produce—exert considerable pressure on political and policy decisions and effectiveness. In brief, efforts to overcome conflict hinge on business' willingness to pay for many of the costs peacebuilding implies or at least refrain from hindering peace to advance. Costs include tangible expenses such as potentially higher taxes, but also opportunity costs and higher risks. In this sense, marketing peace to the private sector as a profitable undertaking becomes one of the crucial challenges facing policymakers seeking to build durable peace. Useful here are scholarly findings showing the cost of conflict to private sector activity, such as the destruction of infrastructure, and the interruption of trade flows (Andertin and Carter 2001; Rettberg 2008a).

Finally, internal differences among private sector components explain different preferences and capacities in those businesses faced with a context of conflict. For example, while most companies are context-dependent, not all are context-specific, in the sense that for their operations to be effective, they require the social, economic, legal, and political conditions only specific contexts can offer. As suggested by neo-institutionalists, preferences depend on size, sector, organizational features, orientation, relations with the state, and ability to exit. This suggests that companies facing conflict have diverse options, choose different strategies, and experience varying degrees of effectiveness. In other words, the private sector—and entrepreneurs in particular—is/are not a homogeneous category and require a differentiated approach.

While the political economy of armed conflict focuses on resources (their lootability, concentration/dispersion, and institutional context), the literature on the private sector and armed conflict focuses on sectors and actors, taking into account the organizational dimensions (factor mobility, asset specificity, organizational structure), the rules of exchange, interests, and motivations as conditions for the formation of political preferences and strategies. The previous paragraphs underscore a perhaps obvious but often underreported dimension of capital: its political nature. The private sector has political interests and acts upon them. At the same time, the literature on this topic has explored factors explaining differences within the private sector determining different interests, strategies, and capacity faced with similar contexts.

The following section will apply these insights to the cases of several Colombian regions in which entrepreneurial activity is marked by the extraction and production of five different resources: emeralds, oil, coffee, flowers, and bananas (see Map 1). All regions have been shaped by the presence of illegal armed actors, but they have varied in terms of armed conflict intensity and armed conflict dynamics. The cases are aimed to suggest that this variation can be partially attributed to differences in the entrepreneurial make-up, activity, and strategy prevalent in the relevant sectors.

Map 1: Resources in selected Colombian regions



Source: Instituto Geográfico Agustín Codazzi (2009) and own design.

3 Entrepreneurial activity and armed conflict in selected Colombian regions

The Colombian armed conflict is the oldest remaining conflict in the Western Hemisphere. Insurgent forces from the Left—the Fuerzas Armadas Revolucionarias de Colombia (FARC) and the Ejército de Liberación Nacional (ELN)—have fought against the government since 1964. Beginning in the 1980s, right-wing paramilitary groups joined the confrontation to fight back the guerrillas, often in collaboration with official state forces. Over 90,000 people have died in the context of armed conflict in Colombia, millions have been forcibly displaced, others have been kidnapped or disabled by landmines or bomb explosions (Ibáñez 2009; Observatorio del Programa Presidencial de Derechos Humanos y DIH 2009; Otero 2007). In addition, physical destruction has been significant.

While illegal actors follow a national strategy—their objective then and now is to take over the state by violent means—at the regional level the different fronts and subdivisions of the groups display different types of conflict behaviour as demonstrated by the frequency of attacks on state objects, productive infrastructure, and civilians. On the one hand, this may be a consequence of a national conflict strategy: regions may be situated on strategic corridors for the transportation of weapons, drugs, and food. In that case, violence in a specific region is a function of geo-strategic aspects. However, other regions have strategic value in and of themselves, because they provide shelter against state forces (for example border territories, mountain tops, the Amazon rainforest) or because they provide access to resources (legal and illegal, mainly coca crops) that can either be directly looted or whose producers can be extorted. The regions discussed below belong to the second category.

3.1 Emeralds

Colombia is the world's leading producer and exporter of emeralds—used mainly for jewellery—with a market share of about 60 per cent. The main extraction site is located a mere 100 km north of the capital Bogotá in the Western part of the Boyacá province. This relatively small area has long been considered a region *sui generis* where traditional forms of business activities and public-private relationships do not apply (Uribe 1992): mine owners do not follow established accounting procedures, most workers lack formal contracts and live in precarious circumstances hoping to become rich all of a sudden, extraction contracts and collaboration among business partners are sealed with a handshake requiring high levels of trust instead of recurring to formalized institutional arrangements, industry organizations operate like large families based on loyalty and respect for hierarchy, companies do not pay—or substantially underreport—tax obligations, and security is provided by private armed militias attached to the mine-owning families.

The emerald mines are in the hands of locally-based private companies that are composed of shareholders. Most of the shareholders are families from the Boyacá region. No foreign-based company is currently involved in the sector. There are only a few producing or active mines left at this point. There are no more than ten companies exploiting them. Industry workers can be divided into three main categories: formal, contract, and informal workers. The first category is composed of no more than 500 people officially employed and paid by the mining companies. The second category is composed of so-called 'associated workers' hired by contractors who have been given land to exploit by the mining companies in possession of the legal concession. By far

the largest group is composed of informal or freelance workers exploiting the residual material left over by the official production sites. Next in the productive chain are brokers or intermediaries who buy the gemstones at the production sites and then sell them on to the final actor in the chain: the exporters. Royalties are only charged at the end of the production chain: a mere 1.5 per cent over the declared value of exports.

The Colombian state has long turned a blind eye to what was going on in this part of the country—geographically so close to the centre, yet so far away in political, economic, social, and cultural terms. After their privatization in the late 1960s, the control over the emerald mines became a violently contested object between local family gangs turned mine owners. A total of three so-called ‘green wars’ were fought between them during the 1960s, 1970s, and 1980s (Téllez 1993). The last one, by far the bloodiest, ended in 1991 with a peace accord between the rival factions who agreed to share control over the mines among them. This agreement, brokered by state and church representatives, proved to be a sustainable base upon which to build fragile peace in the emerald region (Torres and Ordóñez 1995; Gutiérrez and Barón 2008). However, the state and ‘normal’ business actors continue to neglect the region. Almost twenty years of relative peace have not brought a major improvement for the socioeconomic situation of the local population.

While emerald production is not directly related to the presence of illegal armed actors active in other parts of the country (left wing guerilla and right wing paramilitary groups), the shadow of occasional violence is still hanging over the region, mostly as a result of conflicts between mine shareholders and the intrusion of the illegal drug trade in the emerald industry. Recent spates of violence, mostly assassinations of emerald entrepreneurs (*esmeralderos*), are clearly related to conflicts between different factions of mine owners and drug dealers, each assisted by its own paramilitary force. A sustainable peace in the emerald region requires not only a major improvement in the socioeconomic situation of the majority of the local population but also a cultural change embracing the characteristics of a modern capitalist society. This implies a real commitment of the local family clans towards a political, economic, and social modernization of the region.

3.2 Flowers and bananas

The banana and flower industries offer a sharp contrast. Even though both products became key exports—after coffee these are the two main sources of revenue in the agricultural sector—the banana industry ended up deeply engulfed in the armed confrontation, while the flower industry remained insulated from the war.

In the banana region, factors such as low levels of state presence, a militaristic approach to pressing social problems, the violation of labour standards and also the prohibition of the functioning of independent labour unions led to the radicalization of banana workers to the point that they ended up supporting the guerrilla organizations (Uribe 2001; García 1996). Plantation owners ended up extorted by the rebel groups FARC and EPL. In order to protect their business, banana entrepreneurs—domestic and international—eventually supported right-wing paramilitary groups that entered the region in the mid-1980s seeking to expel the guerrillas and their alleged supporters. Competition among armed illegal groups—the left-wing guerrillas and the right-wing paramilitaries—over banana territory and spoils has historically marked this convoluted region of the

country, in which the forced displacement of the population was a standard procedure in order to gain access to valuable land.

In contrast, the flower industry is located near Colombia's most important cities where a variety of state institutions effectively regulate (and tame) social interaction, supervise the implementation of labour standards, and provide essential services, such as health, education, and infrastructure but, most importantly, security. This diminishes the influence of the illegal armed groups.

In both cases, access to foreign markets, which absorb the majority of the Colombian flower and banana production, has begun to impose significant constraints on companies in terms of conditioning access to Northern consumers to the fulfilment of a series of labour, environmental, and human rights conditions. As a result, entrepreneurial activity in both regions has gradually adapted to external incentives with an important effect on domestic conditions of production, generally and links to armed actors, specifically.

3.3 Coffee

For long coffee dominated Colombian exports and marked the country's image abroad (Juan Valdez, the friendly coffee grower stands among the most recognized publicity icons). In its production process—centred on small, family-owned coffee plots—it developed a sophisticated network of social, economic, and political institutions that exceeded the needs of producers and became the platform of regional development. The Colombian state not only played a key role in the development of this institutional platform—providing coffee producers access to central decision-making processes—but also coffee interests dominated Colombian macroeconomic policy (Thorp and Durand 1997).

The breakdown of the International Coffee Agreement—an international quota system developed to protect producers from price shocks and avoid overproduction—in 1989 brought profound change to these conditions, forcing coffee institutions to restructure (Rettberg 2010). There was a rise in homicides and kidnappings, while unemployment and economic recession affect the population at large. Some coffee landowners have sold their lands, while others have converted them to different uses, for example the cultivation of coca leaves and poppies (Cadena 2006; Merchán 2002; Vargas 2005; Pérez 2006). The social and economic void provided opportunity for illegal actors and drug traffickers to penetrate Colombian coffee lands, both to loot coffee producers and to secure control over the strategic corridor to the North.

However, institutional resilience proved strong enough to avoid further deterioration as homicides and other conflict indicators have levelled in the region. The National Coffee Federation, a key player in the management of internal prices and external coffee marketing was able to reinvent itself and regain market position. Although many services were cut, coffee remains a lucrative undertaking for most producers, especially those who migrated into the gourmet and organic business.

Conditions in the coffee region suggest that both international and domestic factors are related to these transformations' current crisis. On the one hand, international governance structures and price variation play a key role in determining domestic political conditions: the change in market and political rules provided fertile ground for

many of the changes that ensued (in fact, international prices correlated negatively with violence). On the other hand, factors related to the domestic process of resource extraction—such as land distribution (the prevalence of small to medium sized landholdings), coffee’s joint crop techniques, the periodic employment of a temporary workforce, and other aspects of labour organization, as well as the kind and intensity of institutional (or state) regulation—shaped the links from coffee to conflict.

3.4 Oil

Colombia is not a significant player on the international oil scene. For Colombia, however, oil is the dominant export product (mainly to the US), contributing a fifth of total exports—followed by coal (11.5 per cent), petroleum products (7.1 per cent), coffee (7 per cent) and flowers (4.3 per cent). The main corporate players in this capital- and technology-intensive industry with high barriers to entry are multinational companies, which explore under concessions granted by the Colombian state. Similar to coffee, oil ranks high in its institutional framework, regulating everything from exploration to the taxation of oil-related income. Because of its strategic value, the oil infrastructure is well protected by the Colombian Armed Forces and by public-private security agreements (*convenios*) between the industry and the state, often marked by subcontracting to private companies linked to foreign governments, mainly the US. As elsewhere in the world, some of these private security companies have been accused of funding illegal paramilitary groups. The workforce in the oil industry is highly unionized, needs to be highly qualified, and enjoys significant privileges (better salaries, job security, and additional benefits) in contrast to the average Colombian worker.

The Colombian armed conflict did not originate in the debate over oil management and ownership nor is it circumscribed to oil-producing areas. However, oil stands out in the context of the Colombian armed conflict because it has been systematically looted, not only by corrupt state officials (as in other oil countries, see Ross 2001; Karl 1997; Shankelman 2007), but by several illegal armed actors. This looting has occurred via the extortion of companies and of royalties in oil-producing municipalities and provinces. In addition, local state offices have been submitted to cooptation and pressure in order to direct oil revenues to projects considered akin to the guerrillas’ social support base.

As a result, international price hikes have been associated with increases in homicides which can be attributed to increased competition among legal and illegal groups for the widening pool of oil-related royalties. Because it depends on large and long term investments, the oil industry is highly resistant to local instability. Notably, as in the rest of the extractive sector world wide, oil companies have responded to pressure from stake- and shareholders in the North by implementing corporate social responsibility practices.

4 Exploring the differences in the relationship between entrepreneurial activity and armed conflict in Colombia

The five regions and resources described above share a common national background of armed conflict in Colombia. As a result, in all regions there is evidence of constant pressure on entrepreneurs in the form of extortion and kidnappings as a strategy to raise revenues by armed actors (Rettberg 2008a). This is a result of a generalized context of state weakness and ongoing armed conflict in most parts of the national territory.

However, as should have become clear even from these brief descriptions, regions vary in terms of conflict in large part due to the kind of resource extracted and, more specifically, the organizational aspects of entrepreneurial activity. In this section, we will discuss specific aspects of the entrepreneurial background of regional armed conflict in Colombia.

4.1 Company-specific traits: what kind of company, what kind of conflict?

As expected, company-specific traits suggest differences in how entrepreneurial activity is linked to armed conflict in Colombia. In this way, large companies are more prone to becoming victims of extortion, as demonstrated by the story of oil multinational companies (MNCs) and large banana plantation owners. In contrast, small producing endeavours in the coffee region were undeserving of attention by illegal actors until the breakdown of the institutional backbone of the coffee sector. This is not to say that small size functions as a buffer of extortion, but that large size may be more cost-effective for illegal actors to pursue.

In addition, the formality of the corporate structure, often related to its legality, may provide hints regarding companies' links to armed conflict. As demonstrated in the case of emeralds, informality at different levels—from international markets to domestic conditions of production to the company-worker relationship—breeds disorder and the potential for petty violence. Formality alone does not prevent violence and links to the armed conflict, as suggested by the oil and the banana industries, but directs violence in a different direction (instead of among producers over market share it becomes violence among or even within different groups—including producers, workers, and illegal armed groups—competing over the spoils of the regional economy).

Whether the capital is of domestic or foreign origin has implications for how easy it is to extort (domestic capital being easier to submit to this kind of pressure). The nationality of capital also appears to have implications for the likelihood of companies to engage in processes of self-regulation and submission to international certification schemes.

The structure of ownership emerges as an additional factor linking entrepreneurial activity to armed conflict. In the case of bananas, the prevalence of plantations requiring large extensions of land under centralized management (because of higher cost-effectiveness of large plots) appears to be linked to social tension in the banana regions, both because the type of production has been linked to incidents of forced displacement and because centralized management structures directed from owners living in faraway cities are less prone to negotiate conditions of production. In contrast, the prevalence of small plots in the Colombian coffee economy has been linked to citizen empowerment and institutional legitimacy.

Labour-intensive entrepreneurial activity, such as in the case of bananas and flowers, is more prone to contested unionization, and to being permeated by guerrilla groups who find natural breeding grounds in unions.

4.1 International markets as stimulants of vice and virtue

One important aspect refers to the links of resources, generally, and companies, specifically, to international markets. As could be seen in the cases of flowers, bananas,

coffee, and oil, international markets play a key role both in promoting and hindering local and regional conflict via entrepreneurial activity. In the case of coffee, the breakdown of international rules and the subsequent restructuring of international markets contributed to creating the void that was filled by illegal actors seeking the opportunity to penetrate the coffee lands for the purpose of looting the coffee infrastructure in order to make room for growing illicit crops. At the same time, opportunities offered by the emergence of an international market for organic and gourmet agricultural products provided the platform for a renewed Colombian coffee sector, able to respond to and halt the continuous influence of illegal armed actors.

In the case of oil, the presence of vulnerable MNCs provided an incentive for illegal actors to migrate to oil regions. The reaction of MNCs—often in the form of protection by private security companies which have been accused of human rights violations—caused the international community, especially human rights NGOs, to protest and call for codes of conduct to govern company behaviour in politically and economically fragile countries. This pressure caused the oil industry to pioneer voluntary codes of behaviour and disclosure of information as well as to develop corporate social responsibility practices and risk assessments for companies in host countries. As a result, foreign direct investment and, specifically, MNCs—which have tended to be associated with causing political instability and human rights violations—appear as possible partners in delinking resources and entrepreneurial activity from armed conflict and potentially promoting local peace. In the cases of flowers and bananas, both tied to international markets (US for flowers and Europe for bananas), certification processes designed by importing countries to avoid illegitimate products to reach their domestic markets (because of violation of environmental or labour standards or because of human rights violations) have been instrumental in inducing change in local corporate communities. In the case of bananas, this has been particularly significant due to historic links between plantation owners and illegal armed actors responsible for grave human rights violations in producing regions.

In the case of emeralds, the absence, so far, of large scale international corporate players in the industry further illustrates this point: the lack of formal international markets for this gemstone—or, perhaps, their creation via integration of foreign capital in the emerald industry, as is being planned—might be an important vehicle for change in this violence-ridden region.

The discussion of international markets for resources and the actions of domestic entrepreneurial activity in a context of armed conflict point to a common paradox of globalization that we wish to emphasize: while integration into global markets may be linked to local conflict, emergence from conflict may hinge on the increased participation of local industries in the global economy.

4.2 Institutions as effective but contingent buffers against violence

As suggested by the by now vast neo-institutionalist literature, the role of institutions—those of the state but also those linked to processes of extraction—emerges as an additional factor deserving attention. In the case of oil and coffee, for example, increased state presence via a sophisticated regulatory framework, linking domestic production to the international market and regulating and protecting domestic production has yielded quite different results: in the oil regions it is linked to high conflict as a result of competition over royalties and as a result of attempts to extort

producers. In the coffee region, institutions are responsible for low conflict due to a virtuous model whereby coffee producers directed income towards the strengthening of regional institutions to promote regional growth, infrastructure development, and social peace (until the model came under fire after the breakdown of the International Coffee Agreement).

The cases suggest that institutions come in different forms and have different effects on the links between entrepreneurial activity and armed conflict. The case of coffee illustrates how institutions of extraction may serve as buffers for violence and can have a positive spillover effect into the adjacent regional economy and society. The absence or weakness of formal state institutions in the case of emeralds and bananas brings home the need for an arbiter of the relationship between producers in order to suppress or mitigate violent conflicts, for example by integrating the regional economies into formalized markets. The case of oil suggests that institutions of extraction may give rise to the pitfalls of enclave economies: social cleavages among those integrated into the lucrative regional economic structure and those left out provide entry points for illegal actors, mainly guerrillas, seeking support among disgruntled sectors of the local population. Also, when not linked to local processes of improving the governance, transparency, and accountability of resource extraction, institutions governing regional entrepreneurial activity may prove insufficient for curtailing the activities of illegal armed actors.

In some business sectors large companies or groups of companies are the main regional institutions (such as in the case of coffee, ferronickel, and gold). These cases may be seen as a response to the weakness of the national state, unable or unwilling to provide basic services. In the case of coffee, this ‘para-state’ has served to effectively hinder the advance of illegal armed actors and to promote local development. In other cases, the effect has been less virtuous and raises the risk of unaccountable and perhaps illegitimate corporate actions.

5 Conclusions

This paper arose from the desire to analyse in what way the subnational variation of the Colombian armed conflict can be attributed to variation in resource extraction and production processes and associated entrepreneurial activity. The paper’s main findings relate to the importance of linking aspects and differences in entrepreneurial activity to regional differences of the armed conflict. We have found that the production and extraction of five specific natural resources in Colombia occur in quite distinct entrepreneurial settings. Differences range from the formality/informality of the extraction process to the nationality of the main producing companies, to the structure of ownership, and to the intensity in terms of land, capital, and labour. We have found that company-specific traits, the institutional context and, specifically, the nature of international markets for specific resources have a significant impact on the link between entrepreneurial activity and armed conflict. At the same time, it is important to avoid resource determinism: not necessarily must resources be connected to violent conflict. The national level logics of armed actors—politics of expansion and territorial control as well as the control of strategic geographical points or sectors—may, in some cases, be the main cause of regional violence.

Our findings are also an invitation to pursue further research on these topics. The intricacies of armed conflict and their impact on entrepreneurial activity and vice versa are yet to be understood in full detail, e.g. more within- or cross-country studies in resource-rich countries need to be done.

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