



Natural Resource Management and Conflict Risk in Fragile States

Public Seminar

31 January 2013, Nairobi, Kenya



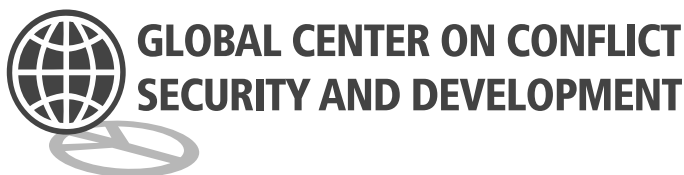
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Cover image: © Mazen SAGGAR – Man standing in oil-polluted water

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The World Bank and the United Nations Environment Programme (UNEP) address conflict risks and peacebuilding opportunities from natural resources in fragile states and help to build mechanisms for good natural resource governance. Given their common interests, the two organizations held a joint public seminar on 31 January 2013 at UNEP HQ to share lessons learned and present the latest knowledge and practice on conflict mitigation in fragile states. An audience of approximately 50 people representing Governments, NGOs, research institutes, and international organizations actively participated in the discussions.

The **World Bank Centre for Conflict, Security and Development (CCSD) (based in Nairobi)**, a relatively new entity, is currently building its capacity to fully service WB country teams operating in fragile countries. Its core mandate is to help those country teams implement the recommendations of the 2011 World Development Report by reducing fragility through investment in jobs, justice and security. Natural resources often cross-cut or underlie all three issues.

UNEP's Post-Conflict and Disaster Management Branch (PCDMB) (based in Geneva) has been operating since 1999 to assess and address how natural resources and the environment contribute to conflict, are impacted by conflict, and can be used to support peacebuilding. PCDMB conducts a combination of field work and global advocacy, policy development and training. UNEP aims to use environmental cooperation to transform the risks of conflict over resources into opportunities for stability and peace in war-torn or fragile societies. UNEP (through the **Environmental Cooperation for Peacebuilding programme**) has established partnerships with all the main peace and security actors of the United Nations (UN) system to jointly assess risks and opportunities from natural resources, and design operational responses. UNEP has also worked with a range of partners to collect over 150 case studies on natural resource management in post-conflict countries and fragile states as a basis of further evidence-based policy development.

I. Framing the Discussion by David Jensen (UNEP, Environmental Cooperation for Peacebuilding)

- Between 1998 and 2008 there was a **six fold increase** in the value of international trade in natural resources, rising from USD 613 billion (12 percent of world trade) to USD 3.7 trillion (24 percent of world trade). An intensified global resource scramble is underway to meet future demands. Countries and companies are intensifying exploration efforts and expanding their reach into three main areas: cold (e.g. the Arctic region), deep (e.g. several kilometers below the earth's surface), and fragile (e.g. Democratic Republic of Congo and Afghanistan).
- UNEP's recent study **"Greening the Blue Helmets: Environment, Natural Resources and Peacekeeping Operations"** found that at least 80% of the fragile states listed by the OECD contain high-value natural resources of strategic relevance to the global economy.
- This is a mixed blessing for fragile states and post-conflict countries. On the one hand, fragile states fundamentally depend on harnessing their resource wealth in order to stabilize and

develop. On the other hand, these countries also have the lowest capacity to capture the multiple benefits from natural resources without triggering new sources of conflict, causing major environmental degradation or unleashing the “resource curse.”

- As the global population continues to rise, and the global demand for resources continues to grow, land and high-value natural resources held in fragile states are becoming the next frontier for an intensified resource scramble. As countries and companies compete at an unprecedented pace to secure exploration licenses and concessions, fragile states are particularly vulnerable to poor contract terms, non-transparent decision making, corruption, and other negative impacts.
- Yet fragile states have only one chance to get the resource transformation processes right. Success potentially means stability, development, and reduced fragility. Failure potentially means conflict, fragility and aid dependency in perpetuity. Poor choices made early on get locked in and play out for decades. Early action to set the transformation processes on the right track is absolutely key.
- To prevent this natural wealth from being pillaged and plundered in the years ahead, many fragile states are seeking international assistance to adopt forward-looking and innovative policies and safeguards to protect and manage their resource endowments. This includes mechanisms to resolve conflicts, to promote transparency and accountability in revenue management, to involve the public in decision-making and to ensure the fair distribution of benefits: in short, capitalizing on the promise offered by natural resources while avoiding the peril. In this regard, many positive and negative lessons have been learned.
- More information on this topic can be found in the UNEP policy report **“From conflict to Peacebuilding: the role of natural resources and the environment”** as well as in the newly published book of case studies by David Jensen and Steve Loneragan **“Assessing and restoring natural resources in post-conflict peacebuilding”**.

II. Country-Specific Presentations and Lessons Learned

- **Taeis Nezam (World Bank CCSD, consultant)** built upon the opening presentation by noting that natural resources are never the only source of conflict. Other important correlates of conflict include: ethnic, religious or regional grievances; poverty/inequality; low economic growth; corruption (this undermines institutions and norms). At the same time, natural resources do not make war inevitable (e.g. Botswana). Natural resources are connected to conflict through four main linkages: social, economic, political and security. In an effort to understand the countries in Africa that have experienced resource-driven conflicts or are vulnerable to them, the CCSD undertook a mapping exercise to identify countries in Africa that are currently (or potentially) exhibiting various manifestations of social, economic and political conflicts associated with the mismanagement of natural resources. Four countries were identified where conflicts *have been linked* to natural resources (Angola, Sierra Leone, Liberia and Republic of Congo), five countries were identified where current conflicts *are linked* to natural resources (DRC, Central African Republic, Nigeria, Ivory Coast and Sudan) and six countries were identified where there *could be a link* between conflict and natural resources (Niger, South Africa, Zimbabwe, Chad, Equatorial Guinea, and Zambia). Four countries *at risk* of natural resource-related conflict were also identified (Kenya, Uganda, Tanzania and Mozambique).
- **Rachel Perks (World Bank, Sustainable Energy, Oil, Gas, and Mining unit-SEGOM)** spoke of the dilemmas facing the Artisanal and Small-scale Mining (ASM) sector and its potential for livelihood generation in fragile contexts. She focused on many of the lessons that have emerged from the **Communities and Small-scale Mining (CASM) Initiative** that ran from 2001 to 2012. She also noted that the World Bank is slowly reorienting its approach to ASM due to a number of local, national and global drivers. In particular, at the operational level, the World Bank will focus on the development of training programmes for new skills that facilitate the formalization of ASM

combined with the required policy frameworks. At the policy level, the World Bank will focus on an integrated approach towards rural, post-conflict recovery and a diversified portfolio of mineral development (from small to medium to large). The World Bank also supports analytical work to understand the positive contribution of ASM in stabilization, the role it plays during conflict, its role in generating livelihoods and how to better link ASM to markets.

- **Hassan Partow (UNEP, DRC Programme)** presented UNEP's environmental assessment in DRC and mapped the various types and levels of conflict risk associated with the mining sector in the country. He also presented a mining typology of the main actors in DRC to include multinational large-scale mining organizations, artisanal mining by civilians, trading houses, junior mining companies, state-owned enterprises and artisanal mining by armed groups. He identified the range of governance issues surrounding mining in DRC: contracts awarded outside of regular procedures; mining concessions that overlap with protected areas; division of roles and revenues between central and provincial authorities; wage arrears and environmental liabilities. In large-scale mining, conflict between companies and government continue over the awarding of contracts (the parties can be engaged in international arbitration) while poor working conditions with increasing conflict amongst workers characterize the artisanal mining sector. One of the key challenges continues to be mining by enclave whereby high technology investments are made without trying to maximize jobs or create economic linkages to the local economy (upstream, downstream and lateral). For example the Tenke Fungurume Mine is DRC's largest foreign investment (more than USD 2 billion). It uses cutting-edge technologies and international best practice (environmental and occupational) but only created 2,800 jobs. This kind of ratio will never be sufficient to help stabilize the region.
- **Patricia Vasquez (UNEP, consultant)** presented the case of oil and gas conflicts in Peru and highlighted the role of the Ombudsman's office in de-escalating community-level tensions and violence. This is occurring in a context of lengthy processes for approving development projects, poor local participatory mechanisms for identifying good development projects, abundance of laws, lack of enforcement, lack of territorial planning etc. Four key success factors were identified in the use of an Ombudsman's office for conflict mitigation: a) mandate is not to SOLVE conflicts but facilitate discussions between parties; b) the function has to be completely autonomous and impartial; c) the mechanisms must have legitimacy among population; d) the service must be agile and quick (offices in many locations and mobile desks). It can also help if the mechanism has real practical power, such as the ability to directly present cases to the Constitutional Court or to an Inter American Legal system. Her upcoming book "Oil Sparks in the Amazon: Local Conflicts, Indigenous Populations and Natural Resources" provides further details about this process.
- **Doug Porter (World Bank, consultant)** focused on Justice for the Poor (J4P) efforts in Timor Leste and Solomon Islands and the possibilities (and limitations) for improving the "equity angle" across specific parts of the natural resource value chain. He focused his remarks on three main lessons. First, the Extractive Industries Transparency Initiative Plus Plus (EITI++) natural resource value chain identifies five core functions, each of which is a site for social contests, and when these are perceived to be handled poorly (unfairly, ineffectively or illegitimately) violent conflict can arise. However, the notion that these stages in the value chain are separate is analytically convenient, but misleading. Conflicts arising at each stage often reflect the contestants' experiences or perceptions of what has happened previously, and likely to happen in the future. The fact that different international organizations each handle different parts of this chain does not make for coherent conflict prevention strategies. Second, if the focus is on the first step in the value chain – conflicts arise as resources are commodified/commercialized (the "deal") – there is a presumption that stakeholders are identifiable and separately constituted entities. However, this is mistaken as there is substantial overlap and multiple shared roles and responsibilities. The state, for instance, typically has de jure responsibilities of investment facilitator/equity holder, regulator, and representative/trustee of 'community interests', and de

facto, is deeply penetrated by investor norms/interests. Similarly the notion of 'community' as container of homogeneous interest is problematic. Finally, regarding the fourth step of the value chain, conflicts can occur around the distribution of rents/proceeds of the deal. In a fragile state context, understanding the political economy is critical and the fact that resource rents are redistributed to key constituencies so as to 'win the peace' and make their personal/networked/party regimes durable. The choices that elites make to invest resources, trust, loyalties and obligations in one arrangement or another has a great bearing on the dispensation of justice, security and development. Where citizens believe these redistributive arrangements are illegitimate, unfair or ineffective, they can add further stresses and drive relapse into conflict. Therefore, it is not particularly helpful to view these contexts as bereft of capabilities. The vista of institutional 'deficits' and 'dysfunctions' commonly produced by 'governance / conflict assessments' occludes more than it reveals.

- **Oli Brown (UNEP, consultant)** compared the lessons learned on good resource governance efforts by UNEP in Sierra Leone and Afghanistan in the mining sectors of these two countries. He focused on the benefits and costs that must be considered in terms of mining in fragile states and noted the following key conditions that must be met: a) maximizing benefits (support for contract negotiations, budgetary management, provincial revenue distribution); b) securing livelihoods (appropriate local content provisions in contracts, support for training, generating spin-off economic benefits by providing goods and services to mining companies); and c) avoiding legacies in the form of social and environmental problems in mining areas. A second lesson focused on the idea that good natural resource management is a form of peacebuilding. In this regard, natural resources actually underpin many peacebuilding priorities ranging from peace and security, to basic services, to the restoration of governance functions, to inclusive political processes to economic revitalization, livelihoods and employment. The joint UNEP and European Union (EU) upcoming report on **"Natural Resource Management and Peacebuilding in Afghanistan"** provides more detail on many of the issues raised in the presentation.
- **Brendan Bromwich (UNEP, Sudan Country Programme):** UNEP's programme in Sudan and specifically in the Darfur region offers multiple lessons in terms of using natural resources to rebuild relationships between communities, between communities and their governing institutions, and between institutions themselves. The UNEP programme is working at the nexus of environmental governance, resource management, sustainable livelihoods and conflict prevention. Within this context it is critical to understand that livelihoods in fragile states are facing multiple processes of change and adaptation. Livelihoods adapt to multiple pressures (e.g. climate change, environmental degradation and economic opportunity) in an integrated way. It is imperative to find a way to ensure that good resource governance supports the livelihood adaptation process and resolves conflicts for competing resource use before these escalate. More information is available in two UNEP reports **"Environmental Governance in Sudan: An Expert Review"** and **"On the Hoof: Livestock Trade in Darfur"**.
- **Thierry Vircoulon (International Crisis Group, Central Africa Project Director)** spoke of the renewed oil interest in DRC. Potential oil reserves straddle the country's borders with Uganda and could rekindle old sensitivities given the lack of clearly defined borders. Exploration is taking place in disputed areas where ethnic groups are competing for territorial control and the army and militias have long been engaged in the illegal exploitation of natural resources. Confirmation of oil reserves (in the central and eastern areas of DRC) could feed secessionist tendencies in a context of failed decentralization. Oil sector reform is very slow and there are no clear procedures, no transparent legal framework and no robust institutions. Current initiatives to promote financial and contractual transparency are rendered meaningless/irrelevant by the lack of transparency in allocating concessions. ICG called for a management model for cross-border reserves, oil sector reform, a moratorium on exploration in insecure areas and the involvement of the provinces in decisions concerning this resource. More information can be found in the publication **"Black Gold in the Congo: Threat to Stability or Development Opportunity"**.

- **Dr. Arthur Bainomugisha (Makerere University, Uganda, Director of Research & Manager Peace and Democracy Program)** laid out the role of citizens in preventing the “oil curse” in Uganda. He reviewed the existing legal, policy and institutional framework for the oil sector and described the militarization of oil exploration, the non-transparency of the production-sharing agreements, and the altered role of the government from one of trustee to owner of the minerals and petroleum and the impact of all of the above on environmental governance. He drew attention to the need for a joint government-civil organisation and parliamentary petroleum oversight committee to control and monitor oil revenues among other measures for ensuring governance in the sector.
- **Ozong Agborsangaya-Fiteu (World Bank Institute)** spoke about efforts to improve transparency in the extractives sector in G7+ countries through south-south knowledge exchange initiatives such as structured dialogues via video-conference, country-level multi-stakeholder dialogues, study tours, twinning arrangements, technical assistance, and provision of knowledge platforms: **HIVE, GOXI (Sharing in Governance of Extractive Industries), EI-Sourcebook**.
- **David Jensen (UNEP, Environmental Cooperation for Peacebuilding)** outlined the various policy reports, guidance notes, toolkits and case studies that have been developed by UNEP and partners on the topic of natural resources, conflict and peacebuilding. He highlighted the fact that the UN recently adopted a **system-wide guidance** on natural resource management in post-conflict transitional settings. Furthermore, UNEP has been working with a number of partners including the Environmental Law Institute over the past four years to **collect 150 case studies** on post-conflict natural resources management. These are being published in a series of **six books**, together with a seventh synthesis book. Finally, the **EU-UN partnership on land, natural resources and conflict** was highlighted as a new inter-agency initiative to help member states and the UN system prevent and manage conflicts linked to land and natural resources.

III. Discussion and Conclusions

- The Chatham House report **“Resource Futures”** concludes that high resource prices and volatility are here to stay. In addition, there is increasing global competition to secure critical natural resource supplies, meaning less trust and cooperation between all nations. Against this background, there is therefore an immediate need for the international community to seriously consider how best natural resources can be used for stability and peacebuilding in fragile states as well as how best to prevent their pillage and plunder.
- The pace of exploration for high value resources, especially in Africa, is unprecedented. It is beyond the capacity of governments, civil society and the UN to manage. National level institutions, laws and policies in fragile states cannot keep pace with neither the complexity nor the rate of change.
- As a result there is a toxic cocktail of weak governance, easy access to arms, criminal networks, and global trade opportunities brewing in fragile states. The international community lacks a strategic approach to addressing these multiple risk factors. Furthermore, there is no global harmonization in natural resource laws and trade practices. There are no international mechanisms to prevent member states with “contested legitimacy” from issuing resource concessions or to protect fragile states from predatory practices.
- Significant discoveries of oil and gas are being made across the African continent: Ivory Coast, Kenya, Uganda, DRC. None of these countries has the capacity to manage the multiple risks associated with oil and gas extraction: “resource curse”, conflict, and environmental degradation.

- The importance of re-establishing security and a basic sense of justice as the underlying prerequisites for any governance reform and development activities was emphasized. In this regard, any approach to addressing natural resources should first consider how they concretely contribute to these immediate aims.
- The issues surrounding conflict risks and peacebuilding opportunities from natural resources in fragile states are immensely complex. It is imperative to have an understanding of the complexity of formal and informal governance systems in fragile state economies; of hybrid political orders and multi-layered governance in the delivery of services; of linkages between resources and transnational organized crime as well as between illicit and licit networks and rebel groups; of the various points of conflict along the value chain and of the increasing complexity of global supply chains, especially in the minerals sector. Not all private sector actors operate under the same incentive structure. The type of actor (multinational vs national, major versus junior, commercial versus state-backed, etc) fundamentally influences its approach in fragile states and the potential for conflict.
- The linkages between multiple conflicts and different inter-connected levels must also be understood. In many cases, the focus is on the higher-level political conflicts, but under the surface, many local level conflicts over natural resources are also brewing. These also represent a significant conflict risk if left unaddressed as they undermine the legitimacy of the government.
- Livelihoods in fragile states are facing multiple processes of change and adaptation. Livelihoods adapt to multiple pressures in an integrated way. It is important to find a way to ensure that good resource governance supports the livelihood adaptation process and resolves conflicts for competing resource use before these escalate.
- There is an emerging recognition of the need to balance the private sector growth-led development agenda (foreign direct investment and privatization) with job creation, livelihoods and social service provision in fragile contexts. In the natural resource sectors, this may mean a diversified portfolio of natural resource investments, ranging from commercial, to SME to artisanal (e.g. in the mining sector, this was called a diversified mineral landscape).
- The Bank's preferred approach for improving governance in high-value extractive sectors is based on using the EITI++ value chain framework. The World Bank's recent work on the value chain can be founded in the EI source book. While comprehensive work has been completed using this framework, UNEP also emphasized that conducting narrow sectoral assessments of the value chain without understanding how they fit into the broader environmental and livelihood context would be a mistaken approach, especially in situations of fragility. One of the key lessons learned from past operations is the need to understand the linkages between natural resource sectors and the livelihoods they support, together with conflict and cooperation dynamics. Impacting one sector often creates unintended consequences in another which need to be managed to prevent conflicts from arising. In particular, the importance of understanding how the extractive industries impact land, agriculture, water quality/consumption and local resource-dependent livelihoods was repeatedly recognized in the discussions.
- Any assessment should at the minimum consider: a) key resources that support economic growth and revenues; b) key resources that support livelihoods; c) key transboundary resources that require co-management and cooperation. However, it is important that the assessment also look at the ability of existing natural resource management mechanisms to respond to the risk (e.g. there may be a natural resource hazard for peacebuilding but it becomes a risk in the context of weak mechanisms to address it, resolve disputes etc).
- The dialogue must shift from only focusing on risks and negative examples, to one of opportunities and positive examples. Efforts should be made to collect the positive lessons, and good practices. In applying these lessons in fragile states, good fit rather than best practice should be the aim.

- The issue of stakeholder consultations during assessments is difficult in fragile states. There is certainly tremendous value in consultation with stakeholders, but the questions become: which stakeholders are invited? How representative are they? How much consultation is sufficient? The level of consultation fundamentally depends on the political context and the purpose of the assessment itself (purely technical vs mixed technical and political).
- A key problem is investor speculation around resource concessions. Many interested parties hold exploration licenses or concessions with no intention to develop them. As a result, they have no incentive in running proper consultation processes during the exploration or award phase.
- The complexity of addressing natural resource, conflict and peacebuilding risks and opportunities means that the challenges cannot be addressed by one institution acting alone. The comparative advantage and expertise of multiple international actors is needed together with a common strategy for each country, state ownership and the involvement of civil society.
- The seminar represented an important opportunity to reflect and influence how the World Bank and UN address the aforementioned challenges in fragile states. A strategic approach towards addressing benefits, livelihoods and legacies will be essential.
- While the challenges are considerable, both the UN and World Bank have taken steps to begin addressing them. The fact that the UN has adopted system-wide guidelines on natural resource management in transition settings is a positive step forward. Likewise, the EU-UN Partnership on Land, Natural Resources and Conflict could be a key mechanism for bringing a strategic, coherent and coordinated approach towards addressing risks and opportunities in fragile states. The 150 case studies collected by UNEP and the Environmental Law Institute (US) also represent an invaluable foundation for evidence-based policy making and training. The key challenge that lies ahead relates to implementing these guidelines, tools and good practices at field level and establishing functional partnerships between key international actors and national stakeholders.
- **A global high-level expert panel would be a useful platform to drive the investigation of solutions and generate further political interest in natural resource management in fragile states.**

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