

Australia's New Aid Paradigm and the Natural Resource Curse



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On 18 June 2014, the Australian Government announced its [new approach to overseas development](#) with an emphasis on sustainable economic growth and poverty reduction across the Indo-Pacific region. A key focus of 'the new aid paradigm' is the promotion of private sector-led growth. As part of this, in 2014–15 Australia's aid program will be investing \$41.5 million on [extractive sector development assistance](#) (up from \$22.6 million in 2013–14). The extractives industry continues to represent a vital component of the private sector across the region, with numerous large-scale extractive projects currently in operation, or under negotiation. Significant examples include the reopening (and subsequent closure) of the Gold Ridge Mine in Solomon Islands, ExxonMobil's PNG LNG project (liquefied natural gas), mining and gas exploitation in the Papuan provinces of Indonesia, as well as debates on the potential resumption of large-scale mining on Bougainville. A striking feature of these cases is that they comprise new or reopened extractive projects in areas where natural resources have been directly related to prior conflict, such as the [struggle over land and resources in Papua](#). This *In Brief* highlights recommendations in the academic and policy literature on how the 'natural resource curse' might be transformed into a 'resource blessing' and how this might be of relevance to the Australian aid program.

Natural Resources, Conflict and Peace-Building

Interest in exploring the links between natural resource wealth and conflict has led to the emergence of a vast academic and policy literature on the 'natural resource curse' or the 'paradox of plenty'. This scholarship exposes the paradox that instead of prosperity and peace, natural resource wealth can also result in poverty and conflict. Key themes identified in the literature are that resource-abundant developing states tend to be associated with poor economic growth, poverty, corruption, state weakness, authoritarianism and repression, all of which increase the likelihood of armed conflict.

Conversely, conflict in the wider community can have seriously disruptive impacts on extractive sites and, by extension, profitability.

Despite the identified links between resource wealth and heightened risks of armed conflict, academics and policy-makers also recognise the potential for natural resources to ease poverty and contribute positively to economic and social development. This has led to the search for new frameworks on how to maximise the positive potential, while mitigating the risks. Examples include the [Extractive Industries Transparency Initiative](#) and the [Voluntary Principles on Security and Human Rights](#), which target the elimination of corruption and human rights violations. More recent frameworks are wider reaching, aiming to capture 'the ingredients successful countries have used' (NRGI 2014) to translate resource wealth into development. Much of the analysis to date has been targeted at resource-abundant governments. As a result, existing recommendations largely focus on strategies that might redress or avoid the governance failures associated with resource wealth, such as economic over reliance on natural resources and revenue-sharing regimes. One limitation of this focus is that less attention has been paid to leveraging the knowledge and experience of extractive companies in their own attempts to mitigate the risks of conflict in their areas of operation, and as potential innovators in this field.

One recent example of an 'integrated' framework designed to translate natural resource wealth into peace and prosperity has been published by the World Economic Forum (Smith 2013, 6–8). The model juxtaposes a 'do no harm' code with a code of 'positive steps', such as avoid raising expectations of social and economic benefits (do no harm) and make the benefits of resource extraction visible (positive step).

This model highlights some crucial approaches that extractive companies could adopt as part of a commitment towards conflict prevention and peace-building. These recommendations, however, are quite generic. One way this model could be made

more relevant to the region is through a greater focus on recommendations for extractive companies entering and returning to areas that have previously experienced conflict.

An additional framework for the peaceful management of natural resources is the Natural Resource Charter (NRC). The NRC is a global initiative drafted by prominent economists including Michael Spence and Paul Collier. The NRC offers guidelines or 'precepts' on 'how to best harness the opportunities created by extractive resources for development' (NRGI 2014). Ten of the 12 precepts outlined in the NRC are directed at the governments of resource-producing states, while the remaining two target the home governments of extractive companies and extractive companies themselves. There is just one 'precept' for extractive companies, which is quite broad and lacks practical detail. It simply asks companies to 'commit to the highest environmental, social and human rights standards and contribute to sustainable development' (NRGI 2014).

While these new frameworks of responsible resource extraction are useful, there is potential for them to go further. In particular, they can be elaborated through greater consideration of the roles and responsibilities of extractive companies in preventing and resolving resource conflicts, drawing from the extensive experience of company–community conflict (and conflict mitigation and resolution) across the region. This could result in the expansion of the 'positive steps' to include key areas in which extractive companies have been implicated in the dynamics of a particular conflict. Opportunities include, for example, leveraging negotiations on the resumption of mining to give recognition to historical injustice through local reconciliation processes. Companies can also consider new forms of security in areas where there has been a history of human rights violations surrounding major resource projects, such as BP's [Integrated Community Based Security Strategy](#) in West Papua and Barrick Gold's [Restoring Justice Initiative](#) at

the Porgera Gold Mine in Papua New Guinea.

Given the increased emphasis on private sector engagement in the Australian aid program, one possibility the Australian Government might consider is to use its convening capacity to facilitate corporate–corporate learning on resource conflict and its possible transformation across the Indo-Pacific region. This could form part of Australia's existing engagement in extractives sector activities, but include a more targeted focus on private sector innovation and problem solving. Research conducted by the author on the [BP](#) and [Porgera](#) projects for example, indicates considerable improvements are being led by extractive companies in areas such as security and alternative dispute mechanisms. In contrast to more familiar narratives, which link business to conflict, extractive companies are responsible for a number of innovations in this field. Corporate–corporate learning through a regional forum on these kinds of initiatives, as well as their strengths and weaknesses, may open opportunities for replication across the region at other resource sites and encourage corporate engagement with ideas beyond their current strengths. The advantage of an Australian Government–led dialogue (as opposed to an extractives sector-driven initiative) is that it may stimulate new ideas for public–private partnerships across a diverse range of areas and align the discussion with the Government's broader objective of 'promoting prosperity, reducing poverty and enhancing stability' (DFAT 2014) across the region.

Author Notes

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References

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