Citation for published version:
Maconachie, R 2016, 'The extractive industries, mineral sector reform and post-conflict reconstruction in developing countries', *Extractive Industries and Society*, vol. 3, no. 2, pp. 313-315. https://doi.org/10.1016/j.exis.2016.03.004

DOI:
10.1016/j.exis.2016.03.004

Publication date:
2016

Document Version
Peer reviewed version

Link to publication

The extractive industries, mineral sector reform and post-conflict reconstruction in developing countries

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Abstract

This paper introduces a Special Section on the extractive industries, mineral sector reform and post-conflict reconstruction in developing countries. The collection of papers presented reflects on a wide range of post-conflict natural resource management scenarios across a variety of geographical settings in sub-Saharan Africa, Latin America and Melanesia. The contributions suggest that although natural resource wealth provides the potential for post-conflict countries to stimulate reconstruction, generate employment and achieve unprecedented economic growth, it also has the ability to de-rail post-conflict peacebuilding and development. Strategies to harness the benefits of extractive industry investment for post-conflict societies will therefore not only require attention to 'better' resource management, but also a deeper understanding of local contextual political struggles and how they are embedded within broader causal factors.

Key words:

Extractive industries, natural resource management, mineral sector reform, post-conflict, development

Introduction

Since the 1990s, scholarship and policy have drawn considerable attention to the economic dimensions of contemporary armed conflicts. Recent interest in the 'resource curse' has spawned extensive debate among researchers and policymakers, particularly around how the 'materiality' of some natural resources tends to be more prone to fuelling conflict. Indeed, some evidence suggests that the developing world's 'lootable economies' – countries containing pockets of lucrative, easily-accessible mineral wealth, such as gemstones and diamonds – may be more susceptible to civil violence, a position which in recent years has gained increasing currency.

However, while the exploitation of high-value natural resources has frequently been cited as a key factor in triggering, escalating and/or prolonging conflicts in the developing world, comparatively little scholarly attention has been paid to the potential for natural resources to facilitate reconstruction and rehabilitation in countries decimated by civil violence. Indeed, the way that natural resources are managed and governed in post-conflict environments can either fundamentally support or undermine peace-building and reconstruction objectives. This paper grapples with this conundrum, and in doing so introduces a Special Section on the extractive industries, mineral sector reform and post-conflict reconstruction in developing countries. The collection of five papers presented in the section provides a range of perspectives on the complex linkages between high-value natural resources and post-conflict societies, and in doing so, critically reflects upon a range of key development issues surrounding the recent growth of the mining and oil and gas sectors. One of the key questions that is central to all of the contributions is, how best can natural resource considerations be integrated into reconstruction plans and peace-building strategies?

Blessing or curse for post-conflict countries? Where do the extractives fit in?

Proponents of extractive-led development trajectories often have high expectations for the opportunities that natural resource wealth may open up to post-conflict governments. If managed effectively, there is considerable scope for resource endowments to generate significant revenue flows, which could support post-conflict reconstruction, reduce aid dependency, and translate into improvements in the quality of life for vulnerable populations. More specifically, if used wisely, natural resource revenues can play an important role in supporting peacebuilding strategies, including macroeconomic recovery, livelihood upliftment, governance reform, and the rebuilding of security structures. Such an optimistic perspective maintains that in the immediate aftermath of conflict, a widow of opportunity can emerge for governments, donors and communities to rebuild society, enhance security and re-establish peace. These efforts may take place under conditions which would normally be much more politically constraining in other contexts. And notably, new possibilities for reforming the management of natural resources may be facilitated, ensuring that revenue and benefits are shared more equitably, and old cycles of mismanagement and elite capture are broken.

Some scholars (e.g. see Ross, 2003) have further argued that because of their low barriers to entry, lootable resources may be able to produce more widespread benefits for poor, local populations than non-lootable commodities. In post-conflict settings, where communities destroyed by conflict are in desperate need of financial capital to rebuilt livelihoods, this may have particular relevance. Whereas lootable resource extraction relies more heavily on the use of unskilled labour, the extraction of non-lootable resources requires a higher degree of skilled labour and capital. Non-lootable resources are therefore more likely to generate revenues for skilled labourers, for those who have access to the capital required for extraction, or for the government. In post-conflict societies, these criteria are more likely to come from outside the region of extraction, and possibly even from outside the country. The oil producing region of the Niger River Delta in southern Nigeria is a case in point, where foreign capital and labour dominate the oil extraction process, and local communities in the conflict-ridden Ogoni region, remain largely marginalized and poor (Watts, 2004).

The fact that so few resource-rich post-conflict states are able to achieve long-term stability raises important questions about how natural resources should be managed in post-conflict settings. As Lujala and Rustad (2012) suggest, resource wealth also has the remarkable potential to de-rail post-conflict peacebuilding. They note: "…the promise of a brighter and more peaceful future is often spoiled by deep-rooted corruption and patronage, which confer benefits on small groups rather than on the population as a whole, and by short-sighted management of the resources and revenues they generate" (2012: 3). As such, in recent years, a surge of extractive industry investment by international companies in fragile states has also been accompanied by an increase in social mobilization and conflict around the adverse effects of mining and hydrocarbon projects. It perhaps goes without saying that the detrimental impacts of recent extractive industry expansion have galvanized new interest in the 'resource curse' thesis for policy makers, international donors, and the media, as place-based struggles surrounding the unequal patterns of extractive-led development have been identified as a possible trigger for insecurity and conflict in fragile states.

Despite the significant potential of revenues from high-value natural resources to be harnessed for development, in many post-conflict countries, extractive industry investments have had very limited economic impacts, and there has been no ‘trickle down’ to local populations. Many recent mining and oil and gas investments have been characterized by the capture of resource rents at the national level, with little spill-over to local communities. Perhaps even more problematic, however, is the fact that investments in economies dependent on natural resources can lead to ‘enclave’ development with few backward and forward linkages, which fail to sustain the prosperity of a wider region. As Ferguson (2006) has warned, resource extraction that is concentrated in ‘exclusionary spatial enclaves’ tends to benefit elite groups, has little impact on wider society, and reproduces the inequalities that often trigger conflict.

In many post-conflict societies, revenues from high-value natural resources – including oil, gas, minerals, gemstones and timber – are the main source of finances for the state budget and the principle driver of the economy. For example, Nigeria, Chad, Iraq and Libya – all countries that have been plagued by conflict in recent years – are highly dependent on oil and gas revenues, which account for over 80 percent of government revenues in each case (Lujala and Rustad, 2012). In fact, estimates suggest that Nigeria receives 91 percent of its export revenues from the oil and gas sector (see Maconachie et. al. 2015). In the case of Sierra Leone, diamond resources have been central to the economy since the 1930s, and when the country’s decade-long civil war ended in 2002, IMF estimates suggested that their revenues accounted for as much as 96 percent of all exports (IMF, 2009). Meanwhile in Burma, between 2008-2009, gas exports reportedly made up one-quarter of all exports (Talbott et al., 2012).

In light of such dependencies, the task of achieving sustainable extractive-led development in post-conflict states remains an on-going challenge, as resource dependency exposes fragile economies to ‘boom-and-bust’ commodity cycles. Fluctuating global markets and a significant drop in commodity prices – as has occurred over the past three years – can place major strains on the public finances of resource dependent countries. This can further play a role in deepening and extending poverty, and potentially exacerbating horizontal divisions in populations (OECD, 2013).

In exploring the attendant challenges, obstacles, and constraints to the effective management of the natural resources sector in fragile states that are vulnerable to the re-emergence of conflict, this Special Section seeks to deepen understanding of how the extractive industries might better fit into post-conflict development trajectories. In doing so, it becomes clear that the conflict triggers associated with resource-related grievances are most often connected to, and reinforced by, deeper structural drivers of change. In this respect, operational interventions to mitigate conflict and yield more sustainable and equitable development outcomes must be informed by a richer and more textured understanding of complex country contexts. Indeed, it is not possible to engage with the broader issues of governance and development without a more nuanced understanding of the political economy of extraction (Barma et al., 2012), or an appreciation to how this is connected to wider patterns of accumulation and distribution.

The extractive industries and development: experiences from post-conflict countries

The first three papers in this Special Section draw upon experiences from sub-Saharan Africa, a continent that has been the site of an international 'scramble for resources' since the beginning of the millennium. At the same time, sub-Saharan Africa is, of course, no stranger to the resource curse, with numerous resource-rich states having strong links to instability and conflict. Driven by soaring commodity prices and heightened resource demands from the world's emerging economies, the globalization of the extractive industries has also led to dramatic technological, organizational, and regulatory changes across the African continent. Indeed, many governments in post-conflict states have adopted new mining codes, or revised existing ones, to stimulate a flood of foreign direct investment in mineral extraction (Otto et al., 2006; Bridge, 2004).

Focusing on the case of post-war Sierra Leone, the section begins with a 'Viewpoint' piece by Fenda Akiwumi and Arthur Hollist, which explores the country's nascent coltan (columbite-tantalite) sector. In the current APC government's bid to promote post-war national development through its *Agenda for Prosperity* (2013-2018) framework, mining sector revenue has taken pride of place in development importance. While coltan extraction – 'the new kid on the block' – has gained increasing significance, the authors expose a number of worrying developments that appear to be reproducing historic and traditional political and economic structures that have fomented conflict and underdevelopment in the past. They argue that in order to mitigate illegal mining and smuggling, corruption, and weak governance of the sector, pro-active steps are urgently needed to enforce targeted policy initiatives. More appropriate reforms are required if the coltan sector is to yield long-term, sustainable benefits for the government and local populations.

In the second paper, by Michael Beevers, attention is shifted from Sierra Leone to neighbouring Liberia, a country that provides a lucid historical example of how smuggling and the illicit trade of 'lootable' resources can exacerbate regional conflicts. While the cross-border exchange of Sierra Leonean diamonds for Liberian weapons is well known, less exposure has been given to the 'lootability' of other resources, such as timber. While international peacebuilders have intervened in post-war Liberia to influence the direction of forest governance reforms, the paper reveals how these reforms have been contentious and have not progressed as expected. In doing so, the author explores how past arrangements that have fostered corruption and patronage are being recreated in the forestry sector. As Silberfein and Conteh (2006) note, corruption and illicit resource flows across borders are very difficult to regulate or contain, largely because natural resource sectors are often controlled by powerful private interests. In the case of Liberia, the author echoes this finding, suggesting that although transparency and accountability are important goals, forest governance reforms have allowed elites to maintain control of the sector. This has played a role in reviving historic tensions, a development which could potentially destabilize post-conflict peacebuilding efforts being instigated through natural resource governance reforms in Liberia.

The third paper in the section, by Rachel Perks, reflects upon the past 40 years of mineral reforms across sub-Saharan Africa, to examine those undertaken in a less discussed country: Rwanda. In tracing the evolution of this reform process in the mining sector, the author deepens understanding of the extent to which the country's reforms reflect a particular 'post-conflict' nature. In 1996, following the genocide, the Rwandan government privatized the minerals economy and opened the country's doors to foreign investment in the mining sector. However, the author argues that several key elements of the post-conflict reform agenda were already critical policy points being pursued in the mid to late 1980s, with support from key international finance institutions. Where Rwanda may, in fact, have innovated a meaningful approach towards post-conflict reconstruction, lies in its preservation of small-scale mining and the promotion of Rwandan participation in the sector. Economic growth and employment generation have been at the heart of the government's post-conflict recovery strategy, and both of these elements have also been central to minerals sector development for many years.

Shifting attention to the Latin American context, the fourth paper, by Brian Brazeal, focuses on the Colombian emerald trade. In exploring the impact of a peace agreement signed by the most prominent leaders of the country's emerald mining sector in 1991, the paper reveals how this shaped production and marketing, and brought a decades-long conflict to an end. However, at the same time that the agreement stabilized the sector and made emerald production more efficient, there were unanticipated consequences. As older social relations and networks became disrupted, the agreement consolidated business activities into fewer hands. This, in turn, squeezed out smaller producers, the livelihoods of thousands of miners and traders were jeopardized, and, consequently, present-day stability in the emerald sector is once again under threat.

The final paper in the Special Section, by Matthew Allen and Douglas Porter, critically reflects upon how distributional tensions over natural resources in the Solomon Islands have played an instrumental role in fuelling low-level civil war. Although the

Solomon Islands may be extreme in its ethnic, cultural and geographical diversity, the root causes of natural resource management conflict are familiar in other contexts. Key issues highlighted by the authors include: a lack of community trust, cohesion, and cooperation in dealing with foreign investments in natural resources; the marginalization of provincial governments; and a failure of regulatory agencies to enforce and discipline corporate activities. In analysing comparative literature on political settlements and the political economy of the extractive industries, the authors explore the question of how new institutional arrangements might address the social, political and economic contestations that are likely to accompany the government's plans for the expansion of the large-scale mining sector. An array of institutional reforms are reviewed, including those which support better land ownership identification, more equitable public revenue sharing, and enhanced national capacity building through external partnerships. However ultimately, the authors remain sceptical as to whether or not political elites will invest in these reforms. Consequently, they argue, a return to violence remains a distinct possibility.

In considering all five papers presented in the section, it is clear that post-conflict societies present complex environments for extractive industry development. Indeed, the manner in which natural resources are managed and governed in post-conflict situations can either support or undermine peace-building and reconstruction objectives. In light of the many concerns raised across the collection of papers, it will therefore remain an ongoing challenge for post-conflict governments to convert resource rents into sustainable development trajectories that can provide the 'space' for meaningful citizen engagement, and accommodate the needs of all segments of society.

In conclusion, while natural resource wealth provides the potential for post-conflict countries to stimulate reconstruction, generate employment and be propelled to positions of unprecedented economic growth, history has shown that if such resources are badly managed, mounting tension and a return to conflict are inevitable. It is also clear that the conflict triggers associated with resource-related grievances are most often connected to, and reinforced by, deeper structural drivers of change. Any attempt to reduce levels of conflict will therefore not only require attention to 'better' resource management, but also to local contextual political struggles and how they are embedded within broader causal factors.

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