



# EXTRACTIVE INDUSTRIES AND CONFLICT

## Executive Summary

### Natural resources and conflict

Conflict arises when two or more groups believe their interests are incompatible. It is not in itself a negative phenomenon. Non-violent conflict can be an essential component of social change and development, and is a necessary component of human interaction. Non-violent resolution of conflict is possible when individuals and groups have trust in their governing structures, society and institutions to manage incompatible interests.

Conflict becomes problematic when societal mechanisms and institutions for managing and resolving conflict break down, giving way to violence. Societies with weak institutions, fragile political systems and divisive social relations can be drawn into cycles of conflict and violence. Preventing this negative spiral and ensuring the peaceful resolution of disputes is a core interest of the international community. The challenge for UN, EU and other international actors is to promote positive social transformation, while mitigating the risks and potential impacts of violent and damaging conflict.

Environmental factors are rarely, if ever, the sole cause of violent conflict. However, the exploitation of natural resources and related environmental stresses can be implicated in all phases of the conflict cycle, from contributing to the outbreak and perpetuation of violence to undermining prospects for peace. This Guidance Note accordingly focuses on the role of natural resources in triggering, escalating or sustaining violent conflict. Its aim is to provide practical guidance on the role that the UN and EU can play in early warning and assessment, structural conflict prevention (long-term measures) and direct conflict prevention (short-term measures). It is meant to provide a combination of strategic advice and operational guidance, as well as to unite existing tools and guidance under a single framework.

### Extractive Industries and conflict

The Extractive Industries present particular challenges for both fragile states and developing nations; the exploitation of non-renewable natural resources, including oil, gas, minerals and timber has often been cited as a key factor in triggering, escalating or sustaining violent conflicts around the globe. Violent conflict is most likely to occur where local communities have been systematically excluded from decision-making processes, when the economic benefits are concentrated in the hands of a few, when the burdens associated with Extractive Industries clash with local social, cultural, religious and environmental norms, or align with pre-existing tensions. The price paid by societies threatened by, undergoing or emerging from natural resource-related violence is evident in the lives lost or touched by conflict, and amplified by fractured relationships, weakened institutions and destroyed infrastructure.

Steps can be taken to: prevent such conflicts from occurring; mitigate their short and long-term effects when they do occur; and, harness the enormous potential of natural resources to rebuild societies in the aftermath of conflict. The effective management of a society's natural resources is therefore a priority for all those committed to the goal of conflict prevention and sustainable development. Consequently, it is important that immediate and longer term steps are taken by United Nations (UN) and European Union (EU) development practitioners to prevent the Extractive Industries from being a source of conflict, and to address conflict in this domain in an effective manner when it does arise. This Guidance Note aims to address this challenge.

### Extractive Industries

The Extractive Industry is a term that is often used to describe non-renewable resources, such as oil, gas and minerals. This Guidance Note begins by explaining the main reasons why the Extractive Industries can cause tensions at a local or national level, and how these tensions can lead to conflict. It then offers guidance on strategies for mitigating the impacts of conflicts associated with the Extractive Industry.

The following six principles are identified as the main drivers of Extractive Industry-related conflicts:

- **Poor engagement of communities and stakeholders:** Where communities and stakeholders are poorly engaged, marginalised or excluded from the dialogue in the Extractive Industry development process, they are almost certain to begin to oppose the development. As the conflict escalates, the use of strategies of violence as a coercive measure against the company, and a means for addressing old grievances and mounting opposition against the government, are likely.
- **Inadequate benefit-sharing:** If benefits are distributed in a manner that appears unfair as compared to the distribution of the costs, risks and responsibilities, then those who are disenfranchised or bearing risks and responsibilities without fair compensation are likely to oppose the development, and possibly rebel.
- **Excessive impact on the economy, society and the environment:** Notwithstanding the promise of prosperity often associated with Extractive Industry, the impacts on the local economy and the macroeconomic conditions of the nation as a whole can be quite negative; in circumstances where governing institutions are weak or underdeveloped, the consequences of the "resource curse" are often magnified. Furthermore, while social and environmental assessment and management procedures in the Extractive Industry sector are well developed, impacts on communities and the environment continue to be a powerful conflict driver.
- **Mismanagement of funds and financing war:** Corruption and diversion of funds to satisfy individual gains at the expense of national and community

interests can easily contribute to conflict. Too often the vast revenues from Extractive Industries have been diverted away from the public interest to satisfy personal gains and, in some cases, to finance armies and violent conflict.

- **Inadequate institutional and legal framework:** The mismanagement of funds is symptomatic of the broader institutional and legal capacities to manage the development of Extractive Industry for the benefit of the country as a whole.
- **Unwillingness to address the natural resources question in peace agreements:** If unaddressed in a peace process, natural resources become a potential source of the conflict in the future. Issues of ownership, wealth-sharing and distribution are important and will have significant effects on the capacity to achieve post-conflict stability.

### Intervention framework

Before designing specific interventions, it is essential to construct an intervention framework that takes into account the following key issues: an assessment of conflict dynamics; the alignment of key actors for positive outcomes; and, the design of interventions that respond to the prevailing conflict causes, in a way that reflects the particular stage in the broader conflict cycle. The paper proposes a framework for designing intervention strategies; the framework consists of:

- Natural resource assessment considerations that can be integrated into assessments already underway, including Post Conflict Needs Assessments (PCNA); and, activities in support of Development Assistance Frameworks.
- Aligning and coordinating with other actors able to make a constructive contribution to conflict prevention and dispute resolution as they relate to natural resources. These include national and local governments, non-government organizations (local, national and international), and the private sector (both companies and associations).
- Designing an intervention strategy that is responsive to the specific circumstances and nuances of the conflict dynamics.

### Conflict prevention strategies

Experience shows that tackling these issues requires a concerted and multifaceted approach that encompasses governance, macro- and micro-economic stability, capacity enhancement, and creative approaches that increase opportunities for dialogue and contribute to the peaceful resolution of conflict. The paper identifies six key opportunities for preventing conflicts related to Extractive Industries, they are as follows:

- **Effective engagement of communities and stakeholders:** Conflict can be prevented by establishing channels of communication between stakeholders, and by ensuring all parties are provided

with enough information and training to be able to engage in the process of dialogue in a meaningful way.

- **Equitable benefit-sharing:** Under the right conditions, the Extractive Industries can provide significant benefits to communities and regions in the form of infrastructure, employment, contracting opportunities, and general economic development. If these benefits are consistent with community interests, and are perceived to be delivered fairly, they can help prevent conflict and compensate for the environmental and social impacts of the development.
- **Mitigating the negative economic, social, environmental and gender issues:** Economic, social and environmental impact assessments and management procedures have evolved substantially in recent years; there are now substantial international standards that provide direction in resolving these issues proactively. The rights of indigenous people and the gender implications of the Extractive Industry sector need close attention and recognition to mitigate any violent conflict. Part of the long-term strategy for conflict prevention in this sector is to ensure it becomes a foundation for employment generation and economic development for local people.
- **Transparent and effective management of revenues:** Extractive Industries normally lead to vast increases in government revenues and, if improperly managed, these increases can stimulate corruption and undermine stability. A culture of transparency needs to be encouraged and the Extractive Industries Transparency Initiative (EITI) provides the platform to institutionalize the effective management of revenues.
- **Strengthening the institutional and legal framework:** Establishing a robust institutional and legal framework that governs the development and management of the Extractive Industries is essential to ensure that there is a legal basis to administer the rights and demands of stakeholders.
- **Incorporating high-value natural resources into peace processes:** Addressing extractive resources in the context of a peace process is an essential part of the peace agreement, and essential for creating sustainable peace. The peace process often offers the opportunity to create a new constitutional arrangement that can address these structural issues in a way that may also help address the causes of the conflict.

### Additional Resources

The study of the Extractive Industry-conflict nexus and the design of possible intervention strategies to respond to it is gaining scholarly attention. There exist many organizations and initiatives which address these issues and a wide variety of resources available to practitioners. A list of these organizations and resources can be found in the Guidance Note.