

## Helpdesk Research Report

# Stakeholder effectiveness in natural resource management

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### Question

*Identify literature on the effectiveness of stakeholders in managing natural resources so as to achieve development outcomes. Where possible, identify which stakeholders are most important, what their incentives are, what conditions enable their efforts, and the importance of capability, accountability and responsiveness.*

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## 1. Overview

Countries that are rich in natural resources, both renewable resources such as forests and fisheries, and non-renewable resources such as oil and minerals, have not produced more positive development outcomes than non-resource rich countries. To improve development outcomes and avert several types of harmful effects – often grouped together and termed the ‘resource curse’ – there have been a number of initiatives to improve resource governance. This report provides a brief overview of the available literature which examines and evaluates these governance initiatives, as well as the literature which explores stakeholders, their incentives and other enabling factors which can lead to the governance of natural resources for positive developmental outcomes.

### Effectiveness of natural resource management

The most notable governance initiative to address non-renewable natural resources has been the Extractive Industry Transparency Initiative (EITI), a type of transparency and accountability initiatives (TAIs). Studies on the effectiveness of EITI are mixed, showing in some cases improvements and in some cases deterioration in different governance scores during TAI implementation.

Communities have managed (mostly renewable) natural resources in community-based natural resource management (CBRNM). There are relatively few rigorous evaluations of CBRNM but a notable recent evaluation found that the intervention did not reduce poverty except in the case of a few households who are likely to have benefited from employment as a result of the intervention.

### Key stakeholders and incentives

There is no one set of stakeholders who are universally important. Stakeholder importance and their incentives depend on the country context and can change over time. Political economy analysis studies can identify drivers for policy and from this incentives can be identified. The following stakeholders and incentives were identified in the literature surveyed:

- **Politicians and political elites:** Potential benefits include monetary profit, support of vested interests, including regional networks and conglomerates, and to garner wider political support.
- **Local community:** The main incentives for the community are jobs and income.
- **Economic actors:** Businesses can desire to change perceptions (which may be a desire aligned with the public), and may be influenced by generous tax incentives. Natural resource sectors can dominate and undermine incentives to industrialise.
- **Shareholders:** As well as a desire from profit, shareholders benefit from good corporate governance which can reduce risk.
- **Wider public:** Citizens may have raised expectations from natural resource revenues.

### Enabling factors

A number of factors have been identified which, depending on the context and stakeholder incentives at the time, can lead to improved governance and wider development outcomes:

- **Competitive Party Politics:** The desire to win and maintain electoral support is perhaps strongest where there is considerable party-system competition.
- **Education and information:** In addition to providing information on natural resources, literacy and education are necessary for the public to analyse policy and influence natural resource management. Raising awareness in issues such as transparency can change attitudes towards management of natural resources.
- **Policy environment stability:** Strong institutions and rights can improve the stability of policy environments by allowing inter-temporal commitments.
- **Separation of powers:** A strong, separate parliament and judiciary can act as effective counterweights to the executive.
- **Voting system bias:** There can be biases in the electoral system resulting in overrepresentation of certain groups.
- **Media:** A high degree of media competition can ensure the good supply of information.

- **Wider resources and capacity:** Capacity, funding and technical ability of civil society groups can be a defining factor, especially in the crucial role of advocating and facilitating feedback from often marginalised groups.
- **Sanctions:** Domestic mechanisms, informal industry mechanisms, donor conditionality and investor choices can act as sanctioning mechanisms for poor governance.
- **Ownership of resources:** Rights over resources can provide incentives for better management of resources.
- **Other structural factors:** Geography, resource endowments, demographic dynamic and commodity prices can impact on incentives and ultimately governance.

## 2. Effectiveness of natural resource management initiatives

### Background and the ‘resource curse’

In general, resource rich countries have not produced more positive development outcomes than non-resource rich countries, suggesting that stakeholders have been ineffective in managing them to achieve these objectives. Taking growth as an example of a development outcome, economies with abundant natural resources have tended to grow less rapidly than natural-resource-scarce economies (e.g. Sachs & Warner, 1995). This trend has often been termed the ‘resource curse’. Though there is no specific definition of the resource curse, it has been used to associate a variety of harmful effects to the presence of natural resources including: causing and exacerbating conflict; producing a ‘rentier mentality’ where political elites become unresponsive to citizen demands, in part as they no longer depend on taxation; budget expenditure volatility in response to resource price volatility; corruption and undermining of the rule-of-law; and lack of economic and diversification (Rao, 2010). In response to this there have been a number of initiatives to improve the governance of natural resources and improve the management of stakeholders. Two notable types of initiatives are transparency and accountability initiatives, and community-based natural resource management systems.

### Transparency and accountability initiatives (TAIs)

Transparency and accountability have emerged as key ways to address both developmental failures and democratic deficits, and with it there has been a growth of transparency and accountability initiatives (TAIs) involving multi-stakeholder and citizen-led approaches (McGee & Gaventa, 2010). In their review, Gaventa & McGee (2013) find that TAIs show some impacts in emerging democracies and fragile settings but little evidence of impact of TAIs in non-democratic settings.

In a critical review of the existing literature on TAIs, specifically in relation to the extractive industries sector, Mejía Acosta (2013) notes the lack of systematic attempts to identify the effectiveness of such processes. There is a notable lack of quantitative analysis, possibly due to the lack of clarity in determining what the impact variable is about (e.g. processes or outcomes), and because of the lack of systematic data to capture project interventions (e.g. number of beneficiaries, allocation of funds, etc.).

There are number of evaluations (e.g. Mainhardt-Gibbs, 2010; Rainbow Insight, 2009 – see below) which include impact assessments made through qualitative assessments, in particular expert interviews with key stakeholders (Mejía Acosta, 2013). Mejía Acosta (2013) argues that these impact studies may be subject to the judgement biases of the authors or the evaluating organisations that sponsor such studies.

The author further expresses some scepticism at the ‘unqualified optimism around the good nature of findings (2013: p. s98). This relates in particular to where donor agencies or governments themselves do not enable access to all of their project information and notes there are often examples where ‘negative’ or unexpected lessons do not get disseminated or properly discussed.

The Extractive Industry Transparency Initiative (EITI) is one of the most notable TAIs and was launched in 2002, aiming to strengthen governance by improving transparency and accountability in the extractives sector<sup>1</sup>. Evidence on the impact of EITI for improved development outcomes is mixed, with both positive and negative findings. Mainhardt-Gibbs (2010) found that in a civil society organisation (CSO) survey, the EITI process was felt to have resulted in enhanced CSO engagement in the extractives industries sector. This especially relates to increased availability of information and government recognition of civil society as part of the process. Rainbow Insight (2009) finds that the EITI is making a number of direct and indirect contributions to “good governance” with respect to natural resource revenues. This is through establishing an emerging standard for the reporting of natural resource revenues; by providing a model of multi-stakeholder dialogue on a critical issue of public policy; and forging an international network composed of civil servants, corporate executives, and representatives of global civil society who share a commitment to revenue transparency.

In a comparison of EITI candidate countries with non-EITI countries, Aaronson (2008) finds a positive association between EITI candidate countries with enhanced voice and accountability, and an improved business climate but a mixed, inconclusive association with corruption perceptions (Aaronson, 2008; Rao, 2010). On the other hand, Ölcer (2009) has found that countries that have signed up to the EITI have seen no visible effect so far in relation to perceptions of corruption. He finds that governments’ public endorsement of the EITI principles does not, on average, improve the corruption perception levels of the country; control of corruption in EITI countries is worse than in non-EITI resource-rich countries; and in both EITI and non-EITI countries World Bank Worldwide Governance Indicators scores have on average deteriorated between 2002 and 2007 (Ölcer, 2009; Rao, 2010).

In addition to multi-stakeholder initiatives, Mejía Acosta (2013) also suggests that private-sector initiatives may help inform the design of appropriate institutional and reputational sanctions against governments. He cites the example of the International Council on Mining and Metals (ICMM) whose members work to address development and environmental challenges through upholding transparency and accountability commitments. He notes that member compliance is ensured through a rigorous review process that takes into account business information and past compliance with established ICMM standards.

## **Community Based Natural Resource Management (CBNRM)**

Community-based natural resources management (CBNRM) is an approach under which communities become responsible for managing natural resources, mainly renewable resources such as forests, land, water, and biodiversity, within a designated area (World Bank, 2006). In this situation the community utilises and protects natural resources within a pre-agreed manner. It involves the active participation of the local community in natural resource decision-making and is considered to increase economic and environmental benefits.

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<sup>1</sup> For further information on the EITI see <http://eiti.org/eiti>

Though CBNRM has been recognised as an effective governance approach for sustainably managing commons or common-pool resources (Gruber, 2011), a recent evaluation of two CBNRM interventions over a long period, found **little or no impact** in terms of the development outcome of reducing poverty (Suich, 2013a). The evaluation measured the impacts at the household level using multidimensional poverty indices of the Tchuma Tchato Project in Mozambique, and the Kwandu Conservancy in Namibia. The analysis found no positive impacts from the Tchuma Tchato initiative in Mozambique, and in Kwandu Conservancy in Namibia, positive impacts were felt only in a few households which could be attributed to direct benefits, particularly from employment.

Suich (2013a) notes that as the provision of incentives is generally considered key to encouraging and maintaining participation in CBNRM, the inability to deliver appropriate benefits that have a sufficient impact at the household level is of concern to policy makers and programme designers.

### 3. Key stakeholders and incentives

There can be a large number of stakeholders in any governance process that involves the management of natural resources, depending on the context. Some individuals can be seen as part of a community in terms of CBNRM and as part of the wider public, and so can fit in as two separate types of stakeholder.

Stakeholder incentives are based on the interaction of economics and politics, and relate to both fundamental (including historical) drivers but also day-to-day politics (Fritz & Levy, 2014). Natural resource booms frequently create new economic interests and power holders, and understanding ownership patterns in the economy can help identify key stakeholders and interest structures. These ownership patterns can fluctuate and at the same time shocks can rapidly change incentives. For example, spiralling costs of food or fuel subsidies can create strains on political elites and compel action. With that in mind it is likely that there is no common set of key stakeholders but rather in different contexts and at different times certain stakeholders may well have the right influence to tip the balance in a situation.

One of the most useful sources of information for these patterns of ownership and influence is political economy analysis (PEA) studies. These can help identify three sets of drivers for policy - structural drivers, institutions, and contingent choices made by stakeholders (e.g Fritz, 2014). These three sets of policy drivers can overlap and interact with each other. This report aims to tease out the most relevant incentives from these drivers.

#### Politicians and Political Elites

Natural resource extraction can yield 'super-normal' profits depending on the geographic conditions and the prevailing business climate, which can in turn generate incentives to avoid and discourage transparent oversight and investments in institutional capacity (Barma et al., 2012; Mcloughlin, 2013). The political elite is the direct recipient of resource revenue and faces the challenge of how to allocate this revenue between its own enrichment, activities that increase the elite's chances of retaining power, and investments that can increase the economy's capacity to produce non-resource income (Caselli & Cunningham, 2009). Politicians, or political elites can be incentivised by **monetary profit** and pursue their own enrichment but even where politicians look to achieve development objectives, they may struggle to pursue these goals because of the need to maintain the **support of vested interests** (Fritz & Levy, 2014). This can include patrimonial pressures (benefits for family members or close allies), managing coalition governments, or navigating fiscal problems and public discontent (ibid).

In a case study on Mongolia, Fritz (2014) notes that especially during the 2000s patronage links had been strong and embedded not only in political parties, but also in **regional networks and business conglomerates** which cut across party lines. Incumbent MPs sought to allocate more public investments to their constituencies with the selection of investments strongly influenced by electoral considerations.

In many countries there can be clientelist systems, involving the discretionary targeting of public resources and favour by influential political actors to specific constituencies in exchange for **political support** (Fritz & Levy, 2014). Discretionary control over public resources is used to promote politicians' chances of maintaining power or being re-elected, though how this plays out in practice varies from country to country. Regional or ethnic considerations can dominate, there can be personalised alliances, or there can be more general populist appeals (Ibid.).

## Local community

There is a significant amount of literature that looks at community based natural resource management (CBNRM) initiatives. In a study of CBNRM following the devolution of property rights over wildlife to communities in southern Africa, Suich (2013b) identifies a number of incentives but highlights the importance of them being widely known and sufficiently effective. The key incentives for the local community are the potential **jobs and income** from hunting and photographic tourism activities. In an assessment at two CBNRM sites, the Tchuma Tchato project in Mozambique and Kwandu Conservancy in Namibia, residents' knowledge and perceptions of these incentives were assessed. The assessment found that while different types of benefits were delivered at both sites, they were largely of low value and low in volume. Additionally, a relatively large proportion of households in both countries believed benefits to have been distributed inequitably and direct costs of living with wildlife to have been ineffectively addressed. The authors conclude that the incentives offered are appropriate, but insufficient as too few people benefit directly and the level of benefits is generally too small.

## Economic actors

With respect to why countries have adopted EITI, Aaronson (2008) posits they may be trying to signal to markets that they are determined to change, or they are "so messed up they need outside forces and the EITI feedback loop to force change" (2008, para. 11). The author argues that whatever the reason, policymakers and citizens want to **change perceptions** of their country and want to change aspects of their governance behaviour. She argues that it is rare when the business interest and the public interest are aligned, and the EITI presents both an opportunity and a process to allow these often adversarial interests to collaborate.

Barma et al. (2012) note that developing countries often use **generous tax incentives** to compensate investors for high levels of risk, and to attract financial resources to develop extractive industries. The authors also note that developing countries' inability to sustain such commitments over time deteriorates their credibility and discourages investment in the sector.

Kolstad & Wiig (2009) note that where the natural resource sector is dominant, there will be **little incentive to transition toward industrialisation** and the creation of a large skilled labour force. Instead, they argue, there will be a large unskilled workforce in primary production, and a smaller skilled and 'politically favoured labour aristocracy' in the resource sector, or in other protected sectors (Kolstad & Wiig, 2009, p. 204).

## Shareholders

Many mining companies are publicly listed – they are owned by shareholders and are publicly traded on international stock exchanges, whereas a small minority are privately held companies without publicly tradable shares (CommDev, 2012). State-ownership is also apparent in the global extractive industries, mostly due to growth of Chinese state-controlled mining in China and gradually also abroad (World Bank, 2011). However, the Chinese state's control over the mining companies is slowly declining with growing private interests and market influences (Ibid.).

Shareholder incentives can be best understood through corporate governance. This refers to the relationship among governing bodies (management, board, shareholders) and to values and behaviours necessary to build a sound company and can include issues of trust, balance of powers, control, responsible behaviour, and transparency (World Bank, 2008). Though shareholders may be interested ultimately in **profit** they are also interested in corporate governance. **Good corporate governance** leads to a reduction of risks and identifies and solves any possible conflict of interest among actors. Without good governance, foreign and national investors will be doubtful whether to invest in a company (World Bank, 2008).

## Wider public

In a case study of Mongolia, rapidly rising mineral revenues **raised the expectations of citizens** in terms of the economic benefits they would receive (Fritz, 2014). There was a period of increasing political competition and fragmentation, and with the expected growing of fiscal resources there were populist electoral campaigns that promised increased spending. However, the acceleration in spending also raised inflation, which hurt especially poorer groups. In terms of spending it is also notable that there is a tension between spending programmes which provide most social benefits (and potentially the most positive development outcomes) and spending which maximises electoral gains. Vote-seeking can effectively trump longer-term affordability and poverty-reduction concerns.

## 4. Enabling factors

This section identifies factors, which though effective only in the context of stakeholder incentives, can be understood as enabling factors. Often many of these factors are themselves the outcomes of current and former stakeholder incentives.

### Competitive party politics

In an evaluation of a Revenue Watch Institute pilot programme for parliamentary strengthening to improve extractive industries governance in Ghana and Tanzania, Mejía Acosta (2010) notes the contrast in terms of **party-system competition** between the two countries. The author argues that competitive party politics can act an enabling factor for stakeholder engagement. MPs acting in the more competitive (multi-) party system in Ghana have greater incentives to use their increased knowledge to advocate and hold governments to account because their own electoral prospects may benefit from delivering greater transparency outcomes to voters. On the other hand, in Tanzania where the ruling Chama Cha Mapinduzi (CCM) has dominated politics, MPs are less inclined to transform their knowledge into greater activism. Mejía Acosta (2010; 2013) argues they are less willing to challenge decisions of the governing party on issues of natural resource transparency, possibly as they perceive that greater activism may jeopardise their future political careers).

In Mongolia, politicians negotiated a better deal in terms of revenue for the country from foreign mining sector investors than many countries elsewhere, with Fritz and Levy (2014) concluding that this was motivated by **winning and maintaining electoral support**. They also note, however, that pursuit of electoral advantage has made it difficult for politicians to collectively commit to sustainable fiscal management and to move from a rapid succession of different cash hand-outs and social welfare payments to a more consistent approach.

## Education and information

Mejía Acosta (2013) argues that a theory of change of how TAIs lead to improved management of natural resources will be incomplete if it does not take account the positive intermediate effect that high **literacy levels** have on the ability of citizens to understand transparency indicators. Furthermore the introduction of TAIs such as EITIs, improved the public's **capacity to analyse fiscal policy** (Rainbow Insight, 2009).

Improving education of an electorate would have a positive impact on people's ability to process available information and to better influence the management of natural resources (Kolstad & Wiig, 2009). Education is a key precondition for processing information and the effect of transparency on corruption is conditional on education (ibid). At the same time, the authors note that resource-rich economies often engender economic structures that are not conducive to skill formation.

In Mongolia, there was public interest in knowing how government would obtain and manage resources from mining but the level of information available to citizens was limited (Fritz, 2014). Fritz (2014) comments that this lack of information was typical of a country that experiences a sudden growth in the mining sector. She notes that **limited public information and understanding** of mining-related policy issues also meant that citizens found it difficult to tell which political arguments to trust or how to hold politicians and public servants to account.

On the other hand, Shaxson (2007) argues that in relation to Nigeria's EITI, it is not certain that more capacity-building and work will overcome the fundamental problems faced by civil society. He argues that Nigeria's dependence on mineral revenues enables rulers to ignore their citizens to a large degree and, consequently, that the inability of civil society to hold rulers to account will not be overcome simply with more effort in support of civil society initiatives.

In an evaluation of EITI's impact, Rainbow Insight (2009) argue that the EITI has been effective **in raising awareness of the importance of transparency** and its links to sustained development. It has changed the management of natural resources to something that is discussed openly where in many cases it had been classified as 'state secrets' and placed off-budget.

## Policy environment stability

One of the conditions when natural resource rents are most likely to be transformed into positive development outcomes are when governments can make credible, commitments over time – **inter-temporal commitments** (Barma et al., 2012). For this there must be a degree of stability in the policy environment, making it easier for bargains to be enforced between extractive companies, governments and citizens, and for deviations from those agreements to be sanctioned. Other factors that can make inter-temporal commitments more credible are strengthening institutionalisation and the enforcement of property rights as these will tend to improve a country's performance in terms of rent generation by enabling governments to strike better deals, at a lower risk premium, with developers (ibid).



Where governments are not able to make inter-temporal commitments but are determined to secure investment, the result can be counter to development outcomes. Fraser & Lungu (2007) argue that foreign companies took advantage of the fact that the Zambian state was desperate to secure new investment to negotiate their purchase of assets from the state-owned Zambia Consolidated Copper Mines (ZCCM), under agreements that exempt them from covering pensions for their employees, from paying most taxes, and from many national laws, for example on environmental pollution.

## Separation of powers

In a series of case studies focused on natural resource funds, Tsalik (2003) emphasises the importance of a separation of powers for better management. She concludes from the case studies that it is important to enhance the strength of parliament and the judiciary to **act as counterweights** to the executive, along with civil society. Without such counterweights there would be few checks on the ability of powerful interest groups to effectively 'capture the state', resulting in natural resource management biased towards their interests.

## Voting system bias

In a case study of Mongolia, Fritz (2014) notes MP investment bias towards their own constituencies but also that the electoral system is biased in terms of representation. In effect, incumbent MPs prioritise investments towards their constituencies and as rural districts are **overrepresented in the electoral system**, there is a bias towards rural investment.

## Media competition

Kolstad & Wiig (2009) argue that a high degree of **media competition** can ensure good quality of available information. They suggest that the existence of effective channels of information such as a free and active media can lower the costs of complaint for private agents about issues of corruption.

## Wider resources and capacity

In relation to the Liberian EITI (LEITI), validators found that the ability of civil society to engage in the initiative depends on the **capacity, funding and technical ability** of civil society groups (OPM, 2009). In particular, the LEITI validators argue that the ability of civil society to influence the LEITI process is contingent on an **ability to advocate or facilitate feedback** on behalf of those rural communities most highly impacted by extractive industry operations, but for whom sufficient channels of communication or wider influence are often deficient or absent.

## Sanctions

Mejía Acosta (2013) notes that initiatives such as Publish What You Pay establish several layers of sanctioning mechanisms such as **domestic sanctions** imposed by citizens, **informal industry sanctions** such as peer mechanisms, **donor conditionality** and the **challenge of individual investors** and fund managers who demand greater transparency in order to invest.

## Ownership of resources

Ownership of resources can provide incentives for better management of natural resources, in particular in relation to conservation and management of renewables. In Tanzania, central authorities have extended control over revenues generated by tourism ventures on community lands, thereby potentially reducing the revenues communities are able to capture from these enterprises and reducing local incentives for conservation (Roe et al., 2009). Conversely, in southern Africa in the 1960s and 1970s, CBRNM approaches were built on institutional reforms whereby private landowners were **given rights** over wildlife on their land. This created economic incentives for landholder investments in wildlife as a form of land use, which combined ecological recovery with economic productivity (Roe et al., 2009).

## Other structural factors

Structural factors such as a country's **geography, resource endowments, or demographic dynamics** can influence stakeholder incentives (Fritz & Levy, 2014). These factors may also include elements that may be subject to change but that are outside the control of stakeholders, such as shifts and swings in **commodity prices** that can have significant effects on stakeholder incentives and opportunities, for example, by increasing rents or, conversely, by contributing to growing fiscal pressures.

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