



POLICY BRIEF

Extractive industries, political settlements and conflict

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Prospects for inclusive development from oil, gas and mining in Ethiopia

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Introduction

Ethiopia has been one of the five fastest growing economies in the world in the last decade, averaging over 10% per annum to 2013/14. The Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) has been able to maintain stability by coalition-building and pursuing a 'developmental state' model. Prospects for oil and gas discoveries, and plans for mining, are an opportunity to leverage further growth and inclusive development. However, the location of oil exploration in the Ogaden and Omo regions, and mining in the Afar and Oromia regions presents conflict risks for extractive projects. The decline in global commodity prices also reduces appetite for risk in foreign investors.

- Political stability is needed to implement the developmental vision for extractive industries
- Managing conflict risks in regions with mining, oil and gas potential is a priority
- Federal governance principles should be applied to consulting widely on mining, oil and gas policy

Approach

This policy brief summarises a paper on the prospects for harnessing extractive industries for more inclusive development and conflict transformation in Ethiopia. Comparative evidence from 20 resource-rich developing countries was reviewed to understand the relationship between extractive industries, political settlements and conflict. Implications for Ethiopia were considered drawing evidence from secondary sources on Ethiopian politics, economics, conflict dynamics and nascent extractive industries.

Maintaining the developmental vision

The developmental state model has remained the official policy of the Ethiopian Government since the death in office of Prime Minister Meles Zenawi in 2012. This has ensured continuity of vision for growth and development, including for the extractive industries. The challenge is for the ruling coalition to remain united behind a common development agenda, despite shifting power dynamics that are inevitable following leadership succession. The stability of the political settlement is a key factor in the consolidation of economic gains in Ethiopia.

The federal government regards development of extractive industries as one of its leading economic objectives, as a basis for industrialisation, diversification and poverty alleviation. Its long-term GTP sees the minerals sector contributing to 10% of GDP, \$100-500 million of tax revenue and \$1.5 billion in export earnings by 2024. Two reports launched by the Ministry of Mines in January and February 2016 outline the regulatory framework for developing the oil and gas sector and policy options for the mining sector. Proclamation N° 816/2013 further indicates the growing public interest and policy efforts to develop the sector (Government of Ethiopia, 2014). Private sector investment is encouraged, while there is also provision for joint venture participation by the public sector in every project.

While still in the top five U.K. and top ten U.S. foreign aid recipients in the world, the proportion of dependency on foreign finances is expected to decrease to 16% of the total \$11 billion budget for the 2015/16 fiscal year, thanks to a 20% increase in the national budget. Future resource revenues could further reduce aid dependence.

Prioritising ASM and women for inclusive development

Targets for inclusive development from the extractive industries are not limited to large-scale investments. Artisanal and small-scale mining (ASM) dominates the extractives sector in Ethiopia, involving an estimated 1 million people and supporting about 5 million people indirectly. In excess of 100,000 miners are organised in cooperatives, and more than 50,000 miners in micro and small scale enterprises. Achievements have been made recognising ASM in the mining law by incorporating it in the mineral policy and poverty reduction policy and making it part of the national development plan.

The empowerment of women in mining, particularly in the ASM sector, has been adopted as a priority for targeted mining development programmes. Formal political representation of women has increased to 38.8% of lower chamber (House of People's Representatives) and 32% of upper chamber (House of Federation) seats in the national parliament after the May 2015 elections. But the participation rate of Ethiopian women in the private sector is considered low in comparison to other African countries. Promoting women's participation in business opportunities along the extractives value chain is an important aspect of inclusive development of the sector.

Mitigating conflict in resource-rich regions

Land-related conflict has occurred between small-scale miners and federal government-run large-scale projects at Adola and Tulu Kapi, as well as involving farmers in exploration activities at Lega Dembi. Exploration activities are vulnerable to attacks from insurgents, as seen in the Ogaden region in 2007. There is well established evidence that subnational elites have used oil and mineral wealth to mobilise secessionist claims in other resource-rich developing countries. Tensions can arise long before production begins to generate revenues for development, and even before proven discoveries. Ogaden, Oromia, Afar and Omo regions are vulnerable to this effect, even if chances of secession are highly unlikely.

Ethiopia's domestic and regional security concerns are likely to continue to place demands on the budget for military expenditure, potentially diverting funds available for social spending. Clear policies are needed to deliver fiscal and non-fiscal benefits from extractive industries to subnational elites and local communities, in order to mitigate conflict.

Revenue-sharing and delivering benefits

Tight vertical control of government in practice counters the decentralised formal structure of federalism in Ethiopia. While strong centralised control over revenues is enabling of national development goals, revenue-sharing policies are important to signal inclusivity in the extractive industries for subnational levels of government and local communities. Significant revenue from mining and possible future oil and gas production is still years away from being realised. This provides an opportunity to conduct broad consultation and develop strong legislation around resource revenue-sharing.

Political and business elites cannot rely on the prospect of oil discovery or large new mining investments to drive development goals in the immediate future. The unpredictability of global commodity prices undermines the potential leverage of revenue-sharing and informal patrimonial ties to resource-rich regions. Lower oil and gas prices may take the heat out of confrontations over resources. But the hiatus may be short-lived. A long-term strategy is needed to prepare Ethiopia's divided society to gain from non-renewable resources when the price is right.

Policy recommendations based on this research

Stakeholders in Ethiopia's goals for development, political stability and peace include the government, private sector (foreign investors and local business associations), development partners, regional organisations and civil society organisations. These actors should:

Maintaining the developmental vision

- Convene a series of subnational and local community consultations on the policy options for the mining sector and to promote the regulatory frameworks for developing an oil and gas sector
- Mobilise a multi-partner funding initiative to establish more accurate and up-to-date geological data that is publicly available to boost domestic private sector investment in the extractive industries

Prioritising ASM and women for inclusive development

- Promote further domestic investment in partnership with foreign investors in order to address the financial and technical limitations to small-scale mining
- Provide incentives to encourage small-scale mining formalisation by easing regulatory constraints and the cost of compliance on cooperatives
- Ensure accountability and transparency in the governance of cooperatives while setting regulations that provide for equal opportunity
- Increase female student numbers in mining related courses at universities and training centres to address the gender gap in extractive industries
- Support entrepreneurial training for wider inclusion of women in local economic development in resource-rich regions

Mitigating conflict in resource-rich regions

- Facilitate community-level dialogue in the resource-rich regions about the extractive processes, risks and realistic opportunities for benefit-sharing
- Convene a multi-stakeholder national dialogue forum on the Voluntary Principles on Security and Human Rights, similar to the Nairobi Process on Human Rights and Business underway in Kenya

Revenue-sharing and delivering benefits

- Conduct policy reform and extensive consultation to ensure consensus is reached around the equitable and fair distribution of resource revenues and allocation of land and water ownership rights and licenses

This case study of Ethiopia is the fourth in a series of four papers contributing to a research project commissioned by the UK DFID East Africa Research Hub in 2015. Research collaboration is between The University of Queensland Centre for Social Responsibility in Mining (CSRSM), the Institute for Security Studies (ISS Africa) and the Kenya Institute for Public Policy and Research Analysis (KIPPRA). Refer to the full version of the paper for references and further analysis.



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