



POLICY BRIEF

Extractive industries, political settlements and conflict
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What do resource-rich developing countries tell us about the politics of mining, oil and gas?

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Introduction

Prescriptive policies for good governance of extractive industries are unlikely to work if they are not tailored to the political context in which resources are located. The realisation that ‘politics matters’ to development may be applied to understand why some countries do well from their natural resources, while others do not. East Africa’s emerging extractive industries are being developed within fragile political and conflict dynamics. The experiences of resource-rich developing countries elsewhere in Africa, Latin America and South East Asia are instructive.

Approach

This policy brief is a summary of findings of a literature review paper on the prospects for harnessing extractive industries for more inclusive development and conflict transformation in East Africa. Evidence from 20 resource-rich developing countries was compared to understand the relationship between extractive industries, political settlements and conflict.

Resource governance

Understanding the underlying political and economic incentives that drive the extractive industries is needed for more effective policymaking. For example, lack of transparency around beneficial ownership in the extractive industries is a barrier to understanding the full picture of the business-politics nexus. The location and timing of extractive projects affects the power dynamics between actors at national and subnational levels.

In resource-rich developing countries:

1. The nature of an existing political settlement determines the way in which new oil or mining sectors are developed. The political settlement in turn is changed by the emergence of new elite actors and interests from the development of extractive industries. This is due to changing power dynamics between the ruling elite and new beneficiaries of extractives growth, or between those in control of the central government and subnational actors in the resource-rich region.
2. Conflict can be a pathway to a new political settlement if political mobilisation of new actors is accommodated. The more inclusive the political settlement and the weaker the actors excluded from the settlement (either horizontally at the elite level or vertically between elites and lower ranks), the more stable and enduring peace is likely. Conversely, the more exclusive the political settlement and the stronger the excluded actors, the more likely it is that conflict continues or reignites.
3. The development of new oil, gas or mining projects can cause conflict or provide incentives and opportunities to end conflict.

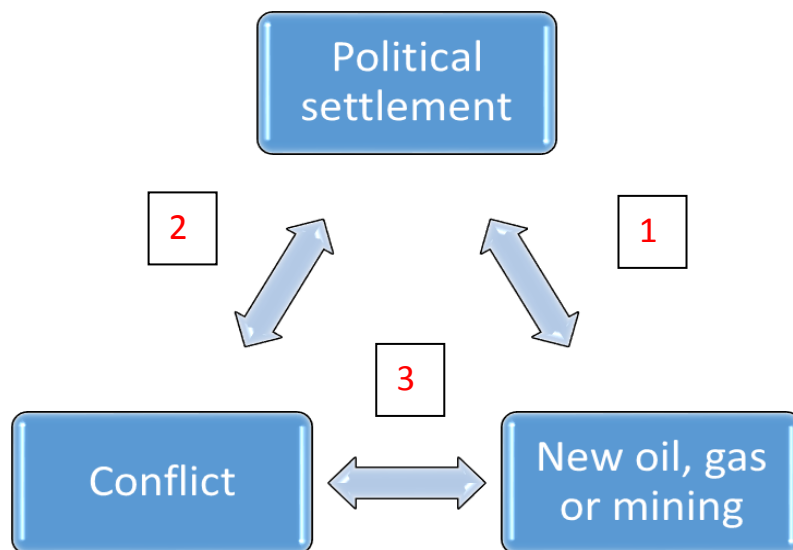


Diagram 1: Links between extractive industries, political settlement and conflict

Assumption that resource governance has to be politically inclusive to achieve economic development, is unmatched by evidence from a range of countries. The stability of the political settlement is a more salient factor for implementing long-term developmental policy. This applies to the extractive industries, in that secure political elites are less likely to use business opportunities and revenues from this sector for short-term ends to stay in office. Realistic, incremental efforts to achieve broad-based development from resource extraction are needed to balance inclusivity with stability.

Transnational actors including large multinational extractive enterprises, international organisations and overseas development agencies are not neutral outsiders to the political settlement. Domestic political elites may seek to align mining, oil and gas regulations with foreign rather than national interests. There is evidence of this in both authoritarian and democratic states. Local enterprises, civil society organisations and communities have to mobilise support from political elites for local content policies to be prioritised.

Resource-led economic growth

A stable political settlement is a basic condition for success of countries that have attained economic development from the mineral and energy resources. Developmental states may be able to achieve this level of stability without political inclusivity. However, political and economic marginalisation of actors living within resource-rich regions has been seen to fuel conflict in many countries.

The size and diversity of the economy is constitutive of the power dynamics that form and change the ruling coalition over time, for example, via the rise of new business elites or the emergence of a broad middle class as an economy diversifies. The degree of non-resource diversification of an economy is therefore an important factor in the extent to which new extractive industries impact upon the political settlement. A reduction of foreign aid dependence is seen to accompany resource-led economic growth in countries such as Angola and Uganda.

Conflict mitigation over the lifecycle of resource development

Social movements that arise at different stages of mining, oil or gas development can alter political settlements, depending on the timing of events. In the early feasibility stage, conflict can have a 'make or break' effect on whether a project goes ahead. Examples where mining has been stopped altogether by local objections include the Esquel project shelved in 2006 in Argentina; the Tambogrande project closed in 2003 in Peru; and the Conga project suspended in 2012 in Peru. Once the operations phase begins, conflict can result in costly halts in production, but is unlikely to derail the project altogether. Community or wider political activism at this stage can be constructive in shaping the way in which operations are conducted.

At a macro-level the production phase is when extractive industries may contribute most to political stability. Once revenues begin flowing, they may be used to stabilise neo-patrimonial political settlements. Interruption of formal and informal flows of rents has a destabilising effect. For example, when oil production in South Sudan was halted in

2012, the impact on the political settlement was immediate and catastrophic. The impact of individual project closures is not as significant as sector-wide production stoppages. For example, when commodity prices fall it affects the whole industry at once and may destabilise a resource-dependent political regimes such as Algeria or Angola. Conflict mitigation efforts need to be tailored to each phase of resource development.

Revenue-sharing and delivering benefits

Centralised control over revenues is an enabler of unified developmental states, such as Botswana. Equitable revenue-sharing arrangements are needed to accommodate subnational elites in divided societies, but risk sparking further conflict, for example, in Peru, Nigeria and Indonesia. The issue in most resource-rich developing countries is not *whether*, but *how* to devolve power and resources to subnational levels of government in a way that mitigates rather than fuels conflict.

There is a significant gap in the political settlements literature about the gender dimensions of inclusive development from extractive industries. The most relevant evidence is that decentralisation of power to subnational levels does not necessarily empower women, as is commonly put forward in policy aimed at inclusive development. Case studies of Sub-Saharan and South Asian countries find that patriarchal traditional authorities tend to be prioritised over women's interests at the local government level.

Sustainable livelihoods for small-scale miners

Informality of small-scale mining makes it prone to capture by armed groups and criminal networks, irrespective of the type of mineral extracted. Lack of secure tenure, absence of effective government regulation, and presence of middlemen and traders often excludes this sector from development and prolongs conflict. Formalisation of small-scale mining is an important step towards the political inclusion of this sector, but is not enough. The incentives to remain in the informal sector need to be realistically addressed. Organised representation and political mobilisation has brought small-scale miners into the political settlement in countries like Bolivia, Peru and Ghana.

Implications for East Africa

Resource governance:

- Each country has a unique mineral profile and specific political settlement arising from historical conflict dynamics
- What works for one country may not work for another, for example, devolution and revenue-sharing

Resource-led economic growth:

- Broadening distribution of the benefits of resource-led economic growth is key to reducing income inequality and enclaves of development around extractive industries
- Close links between business and politics are not necessarily a barrier to growth of the sector, but should be transparent and inclusive to achieve broad-based development

Conflict mitigation:

- The location and timing of extractive projects should be carefully considered in national and regional development planning
- More open and inclusive national dialogue is needed about how to harness extractive industries for development while preventing conflict.

This paper is the first 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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