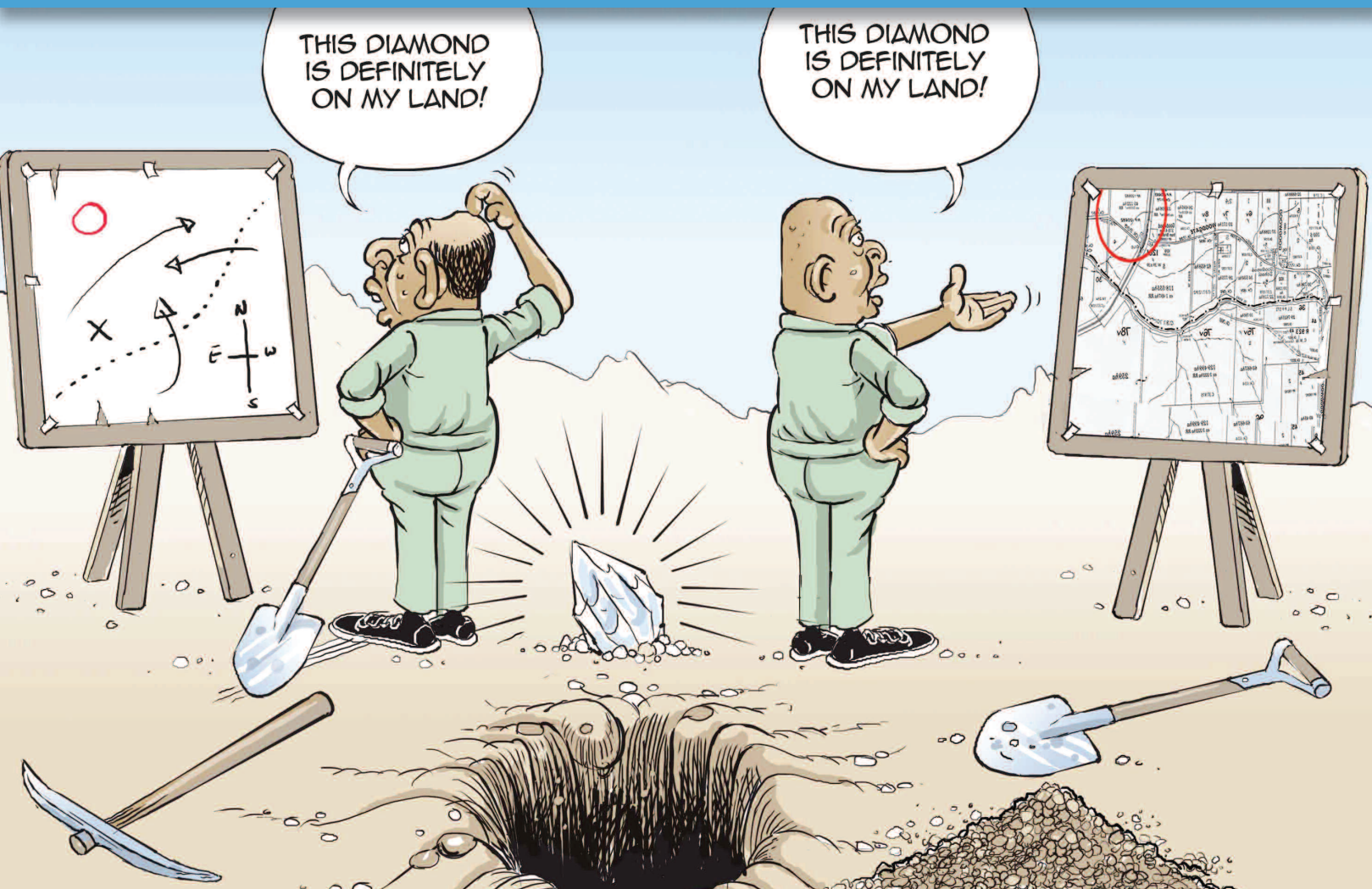


PREVENTING CONFLICT IN RESOURCE-RICH COUNTRIES

The extractive industries value chain as a framework for conflict prevention



A DISCUSSION PAPER

Mauricio O. Ríos, Florian Bruyas, & Jodi Liss

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This paper has been a collaborative effort between staff of the EU-UN Partnership on Land, Natural Resource and Conflict Prevention and the World Bank's Sustainable Energy, Oil, Gas and Mining unit (SEGOM). It has also included inputs from the World Bank's Operations Policy and Country Services for Fragile and Conflict-affected States (OPSFC) as well as contributions from a senior consultant, peer reviewers, and representatives of other relevant organizations.

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Executive Summary

Over the last two and a half decades, extractive resources — oil, gas, and mining— have played an important role in more than a dozen intra-state violent conflicts.

Conflicts linked to the extractive industries (EI) are both economic and political in nature. These EI conflicts may centre around control over a specific natural resource and the revenues it generates; or various social groups may use resource revenues as a source of funding for generating or promoting other types of conflicts (i.e. inter-state, intra-state, political, ethnic, religious, etc.). These conflicts may be a manifestation of a larger political struggle between various factions, including provincial and central government authorities. Such conflicts may also include issues or grievances around identity, religion, control of territory, economic asymmetries, and even a separatist agenda.

Considering the transformational potential of extractive industries projects, it is to be expected that almost any extractive project will generate some level of conflict. Conflict per se is not necessarily negative. Conflict, when managed properly, can incentivize a country's government (central or local), and companies and communities, to be more open and responsive to citizens' needs; demands for improved wealth sharing and social services; and better environmental safeguards.

The concern for this paper is when those conflicts escalate in a destructive and violent manner, with resulting loss in lives, potential economic growth, investments, and valuable infrastructure and services, jeopardizing poverty reduction and prosperity for all.

One way to gain greater understanding regarding these conflicts' underlying issues and dynamics, and to take practical preventive actions, is to “conflict-sensitize” the World Bank's Extractive Industries Value Chain adopted in 2009 (see Figure 1). This paper therefore examines the chain's potential usefulness as a framework for conflict prevention with a view towards developing a corresponding tool to help identify, preempt, and, if necessary, re-direct policy choices that tend to cause or exacerbate EI-related conflicts.

Through literature review, interviews and preliminary observations and analysis from four countries (Chile, Peru, Zambia and the Democratic Republic of Congo), the paper aims to illustrate the benefits and challenges of working along a conflict-sensitive value chain, examining whether this framework can help policy-makers and other stakeholders to identify potential conflict risks and mitigation activities along the five links of the World Bank's EI Value Chain. This paper also sheds light on the challenges and opportunities faced by various countries in implementing effectively a conflict-sensitive EI Value Chain, and how the policy choices made along the links of the chain might affect their capacity to prevent or mitigate violent conflict.

The results from these four countries, however, are preliminary and illustrative only of how a conflict-sensitive framework could work in various extractive industries contexts and countries with diverse state capacity and legitimacy (i.e. Chile and DRC). Deeper analysis and more evidence from each country are needed so as to draw more definitive results and to make more cogent recommendations.

Figure 1. Extractive Industries Value Chain



Source: Alba, Mayorga Eleodoro, 2009

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Although some links of the World Bank's value chain appear to be more relevant than others when addressing the issue of conflict prevention, every link of the value chain plays an important role, and presents both potential conflict risks and opportunities for mitigating these risks. Furthermore, another interesting finding is that the World Bank's value chain adopted for the study has some limitations. It falls short, for instance, in capturing what happens in a country before contracts are awarded, and what happens after EI projects stop generating revenue. Such findings signal that, in order to fully conflict sensitize the EI Value Chain, a comprehensive design of the value chain itself is critically important.

In general, however, any version of the EI Value Chain may actually exacerbate conflict if its implementation is not conflict-sensitive, or does not take into account the potential conflict risks and mitigation actions, along its continuum, or indeed if the value chain itself does not capture all the steps and links where conflict may arise. That is why it is of the essence to understand that a range of political choices, and not just those that are economic, weigh heavily on how extractive resources are managed and are perhaps the single most decisive factor in whether or not there will be extractive-related violent conflict. In situations where the government (and companies) are committed to avoiding EI conflict, a framework with a conflict-sensitized value chain may offer a clear road map for achieving such a goal.

Therefore, this study also shows that it is important to further develop a conflict sensitization approach for an expanded extractive industry value chain and to use this to establish frameworks for assessing conflict risks and mitigation strategies with regard to resource extraction.

While there are no universal solutions or silver bullets that can be applied in every country or specific situation, this report has identified a few emerging lessons from the four countries reviewed.

Four emerging lessons

Based on the four countries studied, there are four emerging lessons that deserve particular attention.

The first general lesson that can be drawn from the analysis is that of the links of the World Bank Value Chain, Link 1 (award of contracts and licenses) seems to be the one that most often determines the risk of conflict throughout the whole EI project. Much gets determined during a contract negotiation: revenue generation, project location and scale,

site-specific environmental regulations, potential benefits for communities such as development agreements, local content policies, etc.

A second important lesson to be drawn from the country reviews is that effective revenue management and allocation (Link 4) and the implementation of sustainable development policies and projects (Link 5) seem to be most instrumental in keeping and/or securing the peace dividend in the long term. Successful, visible and responsive benefit-sharing, as well as economic diversification policies, seem to help countries to create new employment opportunities and safety nets that help them weather volatile changes in the commodities market.

The third general lesson to be drawn is that the safeguards to prevent and mitigate conflict are often specific to the country (as well as to the project site) and reflect the political, cultural, and socio-economic history and reality of those particular environments and circumstances. Measures to prevent conflict in each link of the value chain must therefore be adapted to the country in question and project site context and prevailing political economy.

And the fourth general lesson for consideration is that, as a framework for assessing potential conflict risks and mitigation strategies with regard to resource extraction, the value chain of the extractive sector should consider important steps before the actual awards of contracts, such as the national strategic framework; the extractive sector policy, legislation and regulations; and how the sector is organized and institutionalized. The value chain also needs to be in a position to capture potential conflict risks concerning the process of regulating and executing exploration and discovery, the approval process for construction, the construction phase itself, and site closure.

Increasingly, new extractive resources are being discovered in countries with fragile systems of government and fractured social relationships. As governments seek to develop such resources, they need to be mindful of the heightened risk of violent conflict that these resources may generate, and of the opportunities to mitigate these risks.

It is to be hoped that this analysis will shed light on the benefits of using a "conflict-sensitive" EI Value Chain to offset, and proactively respond to those risks that can be foreseen and prevented. Only by effectively preventing violent conflict will resource-rich countries be able to truly harness the transformational potential of their natural resources for the benefit of all.

Introduction

Context and Background

For many developing countries, natural resource exports such as oil, diamonds and copper continue to be important drivers for economic growth and provide a unique opportunity for generating revenues for much-needed infrastructure and human development.

Dependence on extractive resources, however, may also increase the likelihood of underdevelopment, fragility and conflict. There is a shared recognition of the conflict risks associated with natural resource over-dependence and the so called “resource curse”, as well as of the transformational potential of oil, gas, and mineral revenues for reducing poverty, boosting prosperity, and supporting economic diversification.

The challenges for managing these resources efficiently are likely to expand, as a growing number of developing countries and fragile states emerge as oil and mineral producers. Many governments are now more astute when it comes to fiscal and revenue management issues: they have joined EITI for greater transparency in contract payments and have noticeably gained greater skills for contract negotiation. Such enhanced awareness is leading to much fairer and favourable deals for governments and countries in general. But beyond the financial framework, maintaining a legitimate social license to operate, while enforcing effective environmental and social safeguards, are also a fundamental part of the landscape of an EI project.¹

Thus, there is a need to gain a better understanding of the factors that may help prevent violent conflict in resource-rich countries. This paper, jointly prepared by the EU-UN's Partnership and the World Bank's Oil, Gas and Mining Unit, proposes that one way of gaining such understanding and insight is to “conflict-sensitize” the Extractive Industries Value Chain (EIVC), and use it as a framework for conflict prevention in resource-rich countries. The World Bank's EIVC, adopted in 2009, was used on an exploratory basis for the purpose of this exercise.

Rationale

One of the main focus areas of the *World Development Report 2011: Conflict, Security, and Development* is related

to preventing violence and building peaceful states that respond to the aspirations of their citizens. In the context of these concerted efforts, the World Bank has identified the need to strengthen partnerships concerning development, security and justice with international agencies that contribute complementary expertise regarding areas related to fragile and conflict-affected states (FCS).

The establishment of the EU-UN Partnership on Land, Natural Resource and Conflict Prevention² in 2008 (referred to as the EU-UN Partnership) provides a second important rationale for this report. The aim of the partnership is to help build the capacity of national stakeholders, the UN system, and the EU, to prevent land and natural resources from contributing to violent conflict. In 2012, the Partnership issued a guidance note on conflict prevention in extractive industries. The note identifies a number of conflict risks along the EI Value Chain, such as, inter alia, poor engagement/consultation with communities, inadequate benefit sharing, and disruption to other economic sectors, as well as vis-a-vis social dynamics and the environment, mismanagement of funds, and financing of war; inadequate institutional and legal frameworks. The present paper builds on this work by attempting to conflict sensitize the World Bank's EIVC.

Main Objectives

In this context, the report's main objective is to examine the potential opportunities for conflict prevention (both post- and pre-conflict) along the extractive industries value chain. Such a body of knowledge can help the World Bank, the UN and EU, as well as client countries and other partners, in their planning and coordination of complementary activities when implementing their programmes and projects, particularly when working in the same resource-rich countries.

This paper aims to demonstrate the feasibility and challenges faced by adopting a conflict-sensitive approach within the World Bank's EI Value Chain. The approach was to assess each of the links (chevrons) of the value chain in order to identify the potential conflict risks, as well as the potential entry points for conflict prevention measures and policies that will help government, industry, and community, to avoid exacerbating violent conflict in a resource-rich country or project.

1 International Energy Agency; Golden Rules for a Golden Age of Gas: World Energy Outlook Special Report on Unconventional Gas; Paris, France: 2012; 13. Accessed March 17, 2014 at <http://www.worldenergyoutlook.org/goldenrules/#d.en.27023>

2 For more information see: <http://www.un.org/en/land-natural-resources-conflict/index.shtml>

Methodology and Limitations

The methodology used was a combined desk review and in-depth interviews with regional and country specialists, especially in governance/conflict prevention and extractive industries (Annex 1). The emphasis is on qualitative analysis.

The four countries that were desk reviewed for the project, including Chile, Peru, the Democratic Republic of Congo (DRC), and Zambia, are all copper producers (among other minerals) and were selected due to their heavy dependence on revenues from mining. These four countries differ in their level of development and economic diversification and in the contribution of the mining sector to overall GDP. These countries also have various institutional capacities and state legitimacy. Each country has adopted a different approach to developing and exploiting their mineral resources, and can boast varying levels of success in effectively implementing various links of the EI Value Chain. The level of EI-related conflict in each country, and the cause of the conflict, also varies significantly.

This report is not a mining sector analysis or a detailed economic or political assessment of any of the individual country case studies. The report does not focus on any particular EI-related conflict, and refers to some only to illustrate a point or to give an example. The report does not analyze specific post-conflict peace building or conflict resolution initiatives related to extractive industries projects. And it does not address conflicts related to labour issues (company vs. employees or unions). When referring to conflict, it normally means “violent social conflict” in its broader sense.

The graph below, though not exhaustive, aims to illustrate some general and potential conflict risks/triggers along the five links of the World Bank’s EI Value Chain, based on literature review and interviews with various stakeholders in the four countries assessed. The four country examples in this paper illustrate how those risks/opportunities may impact on the implementation of the various links of a conflict-sensitive EI Value Chain. (A country-specific table and graph, as well as a brief analysis and initial observations, are developed for each country example; see annexes for a section on each country)

Another important methodological limitation is that the World Bank EI Value Chain falls short of capturing what happens in a country before contracts are awarded and what happens after EI projects stop generating revenue. The World Bank EI Value Chain was chosen for the study since it is the current model used by the World Bank in its operational and advisory work in resource-rich countries, and the study can therefore provide substantive input with regard to the usefulness of this model as an analytical framework based on a conflict sensitized EI Value Chain.

Clearly, conflicts are also avoided or gestated before contracts are awarded, and there are many conflicts generated due to lack of decommissioning, clean-up, rehabilitation and transition initiatives for work forces and local societies. From a state building and political perspective, the national process of deciding to extract non-renewable resources, as well as setting up (or improving) the framework to do this, are critical phases on the path to reducing conflict while maximizing and sharing benefits. Due to the limitations of the value chain adopted, the analysis in this paper cannot fully capture all of these aspects.

Figure 2. Potential conflict triggers along the EI value chain



PART I.

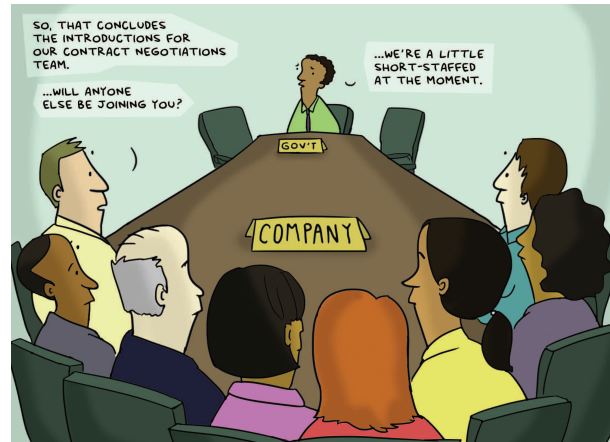
Extractives, Conflict Prevention and the Value Chain

Introduction

Over the past two and a half decades, extractive resources (oil, gas, and mining) have played a direct role in more than a dozen intra-state violent conflicts.³ These conflicts may centre around control over the natural resource and the revenues it generates; various social groups may use the resource as a source of funding for generating other types of conflicts (i.e. social, political, ethnic, etc.); or these conflicts may be a manifestation of a larger political struggle between provincial and central government authorities, and may include issues relating to identity, religion, race, control of territory, or even a separatist agenda.⁴

Considering the magnitude of some extractive industries projects and their potential life-changing impact, almost any extractive project can generate some level of social conflict taking the form of controversy, grievance, discontent or outright opposition to the project. But social conflict is not necessarily negative. Social conflict can incentivize a country's government, whether central or regional, to be more open and responsive to citizens' needs and demands for improved wealth-sharing and social services, environmental safeguards, as well as civil and human rights.⁵

The concern here is when those social conflicts escalate destructively and violently, with the resulting loss in human lives, and with an adverse impact on economic growth and valuable infrastructure and services.⁶ For these reasons,



various international organizations and other stakeholders, focus their efforts on resolving these conflicts, as well as on trying to prevent them. This paper focuses on the latter strategy: the importance of preventing conflicts in resource-rich countries. And one step in the right direction is to better understand the potential conflict risks and mitigation opportunities that are present along the extractive industries' value chain. Such an understanding is important as the consequences of violent conflict can be devastating.

Beyond the terrible costs of human life, and damage to critical infrastructure, conflicts linked to extractive industries projects are costly, and in a more literal sense, to both the

- 3 Including Nigeria, Sierra Leone, Burma/Myanmar, Peru, Indonesia/Aceh, Indonesia/Papua, Papua New Guinea, Angola, Angola/Cabinda, Congo Brazzaville, DRC, Niger, Pakistan/Baluchistan, Cambodia, Central African Republic, Zimbabwe, Sudan/South Sudan, and possibly others, depending on definition and perspective. See UNEP. 2009. From Conflict to Peacebuilding: The Role of Natural Resources and the Environment. UNEP: Geneva. http://postconflict.unep.ch/publications/pcdmb_policy_01.pdf
- 4 See also Boege, Volker and Daniel M. Franks; "Reopening and developing mines in post-conflict settings: The challenge of company-community relations"; High-Value Natural Resources and Post-conflict Peacebuilding; Lujala, Paivi and Siri Aas Rustad, eds; Earthscan; Abingdon:England: 2012; 94-95. Ross, Michael, Paivi Lujala and Siri Aas Rustad; "Horizontal inequality, decentralizing the distribution of natural resource, revenues, and peace"; High-Value Natural Resources and Post-conflict Peacebuilding; Lujala, Paivi and Siri Aas Rustad, eds; Earthscan; Abingdon:England: 2012, 256. This book is the first in a series of six edited volumes on natural resources and post-conflict peacebuilding produced by UNEP and ELI, and published by Earthscan. The chapter can be downloaded from <http://www.environmentalpeacebuilding.org/publications/books/high-value-natural-resources-and-post-conflict-peacebuilding>
- 5 EU-UN Partnership on Land and Natural Resource Conflict Prevention; *Extractive Industries and Conflict*; New York: 2010. http://www.un.org/en/events/environmentconflictday/pdf/GN_Extractive_Consultation.pdf ---; *Understanding Social Conflict in Latin America*; United Nations Development Programme; Bolivia, 2011.
- 6 EI conflicts do not necessarily share the same characteristics of other drivers of violent conflict, such as ethnic tensions, economic marginalization, social change, secular divisions, disputes over control of territory, political competition, or other historical grievances. But an extractive project on top of any of these other drivers can act as a catalyst, leading to violent conflict.
- 7 Davis, Rachel and Franks, Daniel M. (2011). The costs of conflict with local communities in the extractive industry. In: David Brereton, Dante Pesce and Ximena Abogabir, Proceedings of the First International Seminar on Social Responsibility in Mining. *First International Seminar on Social Responsibility in Mining*, Santiago, Chile, (1-13). 19 - 21 October 2011.
- 8 Telephone interview with Paulo de Sa, Manager SEGOM unit, World Bank,

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extractive company and the central government. “In terms of lost productivity, a world class mining project may lose \$20 million a week of delayed production in Net Present Value,” notes a recent report on the topic.⁷ According to World Bank estimates, a country may lose between 5 and 7 per cent of its total revenue from its resource production when facing violent conflict.⁸ Conflict prevention makes sense not only from a political perspective but also from a financial one.

Compared to post-conflict reconstruction and other peacebuilding efforts, conflict prevention can therefore be considered one of the most cost-effective ways to improve stability and foster sustainable development and, as such, it deserves greater attention.

The four countries

The four resource-rich countries reviewed in this paper are very different from each other, and it is precisely because of those differences that they were chosen for this analysis. They face diverse levels of socio-economic development, and confront different challenges in effectively implementing aspects of the EI Value Chain, making these cases particularly valuable for understanding the spectrum of challenges faced by countries with their own state capacities and legitimacy.

While Chile and Zambia have in general terms succeeded in avoiding violent conflict related to extractive industries (there have been sporadic but limited incidents), DRC and Peru have not achieved the same salutary results. The conflicts in DRC and Peru are also very different in nature and scope, however, as described in the country examples (See annexes). While extractive industries in Peru have caused violent social conflict, some of the conflicts in DRC are not only linked to extractives but are much more complex in their root causes and dynamics.

Some Considerations about EI Conflicts

Although high-intensity EI-funded conflicts, where the resource is central to the conflict, appears to be waning, the risk and frequency of *low-intensity* EI-related conflicts seems to be increasing in various parts of the world. There are several reasons for such a phenomenon, including:

- Extractive commodities are more valuable than they were ten years ago due in part to the increased appetite of emerging markets, and China in particular. For example, copper prices quadrupled in the past decade.⁹ Thus, there is a greater incentive for national governments (and companies) to develop these resources, regardless of national capacity or level of risk.¹⁰ [Commodity prices have since come down by almost 50 per cent since this paper was first drafted in 2013, which demonstrates the volatility of these markets, including boom and bust cycles]
- Resources are being developed in more isolated areas with little presence from the state vis-a-vis effective regulation, but also with increasing competition for water and energy from various regions and users. Conflicts tend to be generated at the local level over distribution of benefits (revenues, jobs, etc.) and burdens (environmental damage, economic migration, socio-economic changes) linked to the extractive industries. Communities may prefer to avoid large-scale mining projects if there are more familiar and less disruptive economic alternatives, such as agriculture.¹¹
- Increases in global access to information and awareness of human rights means that communities are more likely to express their disapproval of unpopular government policies and, in certain cases, revoke a company’s social license to operate. This is especially true in areas with historic tensions and lack of trust between government, marginalized local populations, and EI companies.¹² The International Labour Organization (ILO) Convention 169, for example, recognizes the right of indigenous populations to be consulted on procedures and investments that affect them directly. Free, prior, and informed consent (FPIC) can be understood as a continuous process of engagement and approval, involving ongoing participation of indigenous peoples at the various stages of the extractive industry value chain.
- Lack of transparency and access to concession information at all levels increases suspicion and mistrust, as well as miscommunication and misunderstandings which then tend to fuel tensions and even violent conflict.

9 ---; In Brief: The role of mining in national economies, International Council on Mining and Metals; London: 2012, 17.

10 Interview with Jose De Echave, Cooperacion, May 20, 2013.

11 Bebbington, Anthony; “Social conflict and emergent institutions: hypotheses from Piura, Peru”; Economic Development and Extractive Industry: Evidence from South America; Bebbington, Anthony (ed.); Social Conflict, Routledge; New York: 2012; 72. Arellano-Yanguas, Javier; “Aggravating the Resource Curse: Decentralisation, Mining and Conflict in Peru”; Journal of Development Studies; April 2011; Vol. 47. Issue 4; 630.

12 Parks, Thomas, Nat Colletta and Ben Oppenheim; The Contested Corners of Asia: Sub-national Conflict and International Development Assistance; The Asia Foundation; San Francisco, CA: 2013, 3.

- There are increasing, unrealistic expectations on the part of both governments and populations that extractive resources offer a pathway out of poverty, although many governments lack sufficient capacity or accountability to capture the full range of benefits while mitigating the downside risks (e.g. the resource curse).
- Corruption is a major impediment to economic development and an important reason of EI-related conflict, creating intense competition for control of the resource's revenues.
- In some situations, EI-related conflicts are only one component of a larger, long-standing armed conflict. The extractive industries represent a major source of revenue over which various stakeholders/political factions struggle to control. Such conflicts create a self-perpetuating system where continuing insecurity and stunted development are advantages for those profiteering from the extractive industries.

The Importance of Land

Understanding and addressing land grievances in extractives-related conflicts is also fundamental to creating a sustainable environment for extractive industries. While land is often perceived as only an economic asset by some, in many societies land and identity are inextricably linked. The history, culture and ancestry of communities are so often

inextricably linked with land. At the household level, access to land confirms membership in a community.¹³

But land tenure in the context of extractives continues to be ignored by developers, and is too often seen as a governmental responsibility. Land tenure systems determine who can use what resource of the land, for how long, and under what conditions. Recognizing land tenure as an institution provides critical insights into understanding the relationship between land, extractives and conflict. Land tenure varies from country to country, and even within countries. Where customary systems of land tenure are at odds with statutory regimes, the situation becomes even more complex and subject to conflict.¹⁴

An extractive industry project can also lead to a loss of ownership or use of agricultural land, which can have negative repercussions for women's income generation in contexts where women and female-headed households rely primarily on farming.¹⁵

All these issues and challenges, which are drawn from the four example countries used for this paper, make an even stronger case for the need to "conflict sensitize" the EI Value Chain, or to use it as a framework for conflict prevention in resource-rich countries.

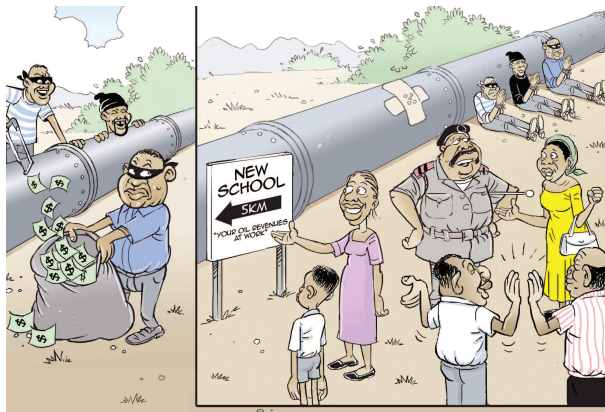
13 See EU-UN Guidance note on land and conflict, UN 2012; DPA and UNEP. 2015. Natural Resources and Conflict: A Guide for Mediation Practitioners. United Nations. New York.

14 EU-UN Guidance note on land and conflict, UN, 2012

15 EU-UN Guidance note on extractive and conflict, UN, 2012

PART II.

The EI Value Chain as Framework for Conflict Prevention



Although the World Bank's Extractive Industries Value Chain¹⁶ is used as the basic analytical framework for this paper, this chain can be expanded to be used as a comprehensive framework for conflict prevention. Broader value chains such as the one used in the World Bank-supported EI Sourcebook (www.eisourcebook.org) or the one proposed in the paper "Towards A Framework for Extractive Industries Governance Assessment (FEIGA)" (Kingsmill, Williams, 2013) have additional relevant links, either before the award of contracts and/or at the end of the project cycle, accounting for the period of decommissioning, clean-up, rehabilitation and transition initiatives for work forces and local communities.

However for the purpose of this exercise we have used the World Bank's EI value chain which charts the following five different links or stages of EI development (shown below).

It is important to note that this paper does not argue that using the value chain as a framework for conflict prevention will prevent or resolve all EI-related violent conflicts. A *nuanced approach to the Value Chain is essential: without it, conflict may even be exacerbated*. However, a conflict-sensitive value chain may help governments, the private sector, international organizations, and civil society, to be better equipped to prevent or mitigate many latent or escalating conflicts. The paper also argues that greater understanding of the conflict risks and potential conflict prevention measures along the various links of the value chain, coupled with the strengthening of the effective implementation of the sequential links, might constitute a first major step in terms of the prevention of violent conflict related to the extractives sector.

A clear advantage of using an EI Value Chain as a framework for conflict prevention is its well-defined and recognized sequence of links for public and private stakeholders alike. Such a factor is critical for understanding how one action/policy, or omission in one particular link, may affect other links, and create potential tensions and conflicts down the road. Extractive conflicts often include a series of conflict risks that may influence



- **Link 1: Award of Contracts and Licenses**
- **Link 2: Regulation and Monitoring of Operations**
- **Link 3: Collection of Taxes and Royalties**
- **Link 4: Revenue Distribution and Management**
- **Link 5: Implementation of Sustainable Development Policies and Projects**

¹⁶ Alba, Eleodoro Mayorga; Extractive Industries Value Chain; Extractive Industries for Development Series #3; Africa Region Working Paper Series #125; The World Bank: Washington D.C: March 2009.
http://siteresources.worldbank.org/INTOGMC/Resources/ei_for_development_3.pdf

Value Chain Unpacked (Based on Mayorga's and study's findings)

The five links of the Value Chain encompass much more than their titles, and most sub-topics listed below are relevant from a conflict prevention perspective. Below are examples per each link of potential conflict risks and measures/actions for mitigating or preventing conflict.

Link 1 Award of Contracts and Licences

- Security of titles, including land
- Local content policies
- Environmental impact assessment
- Competitive bidding and transparency of award

Link 2 Regulation and Monitoring of Operations

- A strong regulatory framework and corresponding capacity
- Regulations regarding exploration, exploitation, safety, health and environmental practices (including the capacity for regular compliance monitoring and enforcement)
- Updated geological information to reduce land-related conflicts
- Effective and genuine consultations (as early as possible in the process)
- Capacity building for regulatory agencies

Link 3 Collection of Taxes and Royalties

- EITI's payment transparency and promoting more informed dialogue
- Payments made solely to a treasury account at the central bank
- Transparency, audits, and public disclosure of relevant information

Link 4 Revenue Management and Allocation

- Poverty reduction strategy based on revenues from EI
- Revenue and benefit sharing with local governments
- Inclusive policies for revenue sharing

Link 5 Implementation of Sustainable Development Policies and Projects

- Poverty reduction strategy based on effective use of EI revenues
- Stability funds and saving funds for future generations
- Infrastructure and human development determined by political consensus
- Sustainable projects and capacity building, with special considerations for environmental and social impact
- Diversification of economy away from extractive industries

each other at one point or another. For example, lack of transparency during Link 1 (Contracts) on environmental protection may be followed by an environmental crisis in Link 2 (Operations) which may lead to heightened tension with the community, and so on.

Shifting Responsibilities and Necessary Responses by Government and Company

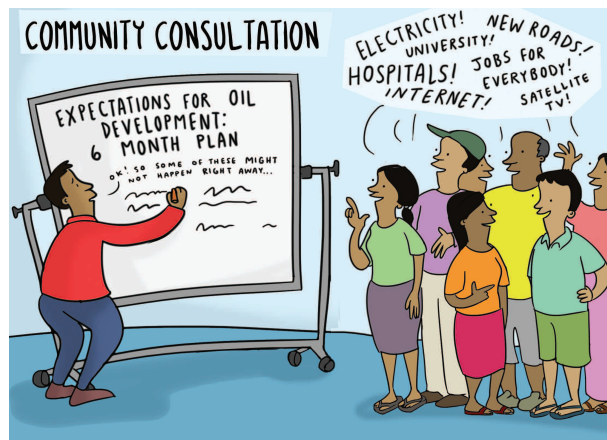
Historically, extractive companies have been considered responsible for many of the conditions that can lead to conflict: ignoring the needs of the community, environmental contamination and damage, forced displacements and appropriation of cultivated land, etc. One of the reasons for this imbalance of power has been a lack of governmental capacity to negotiate better contracts and to oversee operations. However, the past decade has witnessed a notable improvement in governmental negotiation skills and capacity for better financial management. At the same time, companies have become much more aware of their need for a social licence to operate within a country and community. Companies have come under increased pressure to adopt greater corporate social responsibility programmes and environmental safeguards while fostering better and more effective local engagement and community development.

The difficulty today is that, although much has improved at the macroeconomic level for countries pursuing EI-based development pathways, government policies have atrophied when it comes to sub-national revenue management and benefits sharing, effective community consultation and engagement, and in the administration of public policy and law at the community level. There is often the perception of absence or apathy when it comes to governmental representation in mining communities or remote productive regions, and little trust is invested in the government as a neutral upholder of the rule of law.

The four country examples reviewed in this paper help to illustrate some of the challenges and opportunities that various countries face in effectively implementing a number of steps in a conflict-sensitive EI Value Chain, and how the policy choices along the chain may affect their capacity to prevent or mitigate violent conflict. These country examples also illustrate the fact that state capacity and legitimacy, as well as historical grievances and other socio-economic dynamics, can all play an important role in determining whether a country is able to share the wealth generated by its mineral resources in a more inclusive way, and with tangible benefits for all.

PART III.

Emerging themes and recommendations



Based on the four country examples that were reviewed, and combined with the interviews conducted in the countries, five themes appear to stand out regarding the implementation of a conflict-sensitive value chain, and the challenges and opportunities faced by governments, industry and local communities in resource-rich countries, particularly in terms of conflict prevention.

First, lack of trust is a major roadblock.

Governments (and often companies) in resource-rich countries need to re-gain or re-build the trust of their constituencies through various confidence-building measures. For countries such as Peru and the DRC, for instance, loss of public trust is an underlying factor in many EI conflicts. When trust is lost, communities often revoke a company's social licence to operate, leaving millions in stranded investments. Regaining that trust will require developing a greater understanding and respect for people's basic needs and fears. The overriding need to build trust cannot be overstated. Innovative dialogue methodologies such as Appreciative Inquiry could work well in extractive industries projects, particularly because of AI's bottom-up approach and its higher degree of active participation and ownership. Establishing practices to obtain the free, prior, and informed consent of all impacted communities will

likely be an important foundation for building trust from the outset.

Second, there is a huge need for capacity, particularly at the sub-national level.

Many resource-rich countries lack governmental capacity for effective monitoring of EI projects, particularly at the sub-national levels, combined with low state presence when it comes to the provision of basic services in many rural areas with EI operations.¹⁷ This situation often hampers the delivery of community development projects that could be funded with EI revenues that in turn translate into more tangible benefits. Some ways to improve capacity include: twinning projects (with skilled counterparts from trusted and talented partners); engagement with the diaspora; better use of communications tools and media, especially where there is access to online trainings. Capacity building should also include available information services offered to the general public: citizens' training for monitoring of operations; innovative use of mobile technologies, etc.

Third, all parties should pursue earlier and more effective engagement with communities at the grassroots level.

Many EI conflicts start at a very local level at the grassroots because local populations feel overlooked, ignored or disrespected. Governments, together with the private sector, local leaders and civil society, should develop early warning systems for emerging grievances based on the EI value chain framework and on the concepts presented in this report.¹⁸ Although engagement with the grassroots may take more time and effort, and be more difficult and riskier, the value of embarking on such a task is fundamental in terms of gaining a real understanding of the needs and fears of communities.

And, as in all resource-rich countries, stakeholders must address the question of how various benefits streams linked to an EI development (both monetary and non-monetary) should be equitably distributed to avoid further conflict.

17 Maconachie, Roy; "The Diamond Area Community Development Fund: Micropolitics and community-led development in post-war Sierra Leone"; High-Value Natural Resources and Post-conflict Peacebuilding; Lujala, Paivi and Siri Aas Rustad, eds; Earthscan; Abingdon:England: 2012; 267.

18 Interview with Pablo de la Flor, May 13, 2013. ---; Responsible Mineral Development 2011: A Framework for Advancing Responsible Mineral Development; World Economic Forum in collaboration with The Boston Consulting Group; Geneva., Switzerland: 2011, 21-22. Rees, Carolyn, Deanna Kemp and Rachel Davis; *Conflict Management and Corporate Culture in the Extractive Industries: A Study in Peru*. Corporate Social Responsibility Initiative, Harvard University; Sept 2012; 19-20.

For better or worse, this is a dialogue that must take place within each country and between the government and its constituencies, both in general, and within the productive areas, to fit the unique needs of that particular country.

Fourth, the importance of link 1 on award of contracts and licences.

While all the links in the World Bank's Value Chain are important in the EI cycle, Link 1 is perhaps the most important given its foundational role and influence over the rest of the links. There seems to be a direct connection between what happens in Link 1, how the other Links are successfully implemented, and how conflict can be prevented. Contract and licence transparency is core to Link 1, but other more general, non-financial contract issues are equally central in terms of conflict prevention, including:

- **A seat at the table.** Until recently, extractive companies were not expected to seek a social licence to operate. More recently, indigenous communities have sought Free, Prior, and Informed Consent before allowing EI contracts for their lands and resources. Without adequate prior consultations, a project faces a much greater risk of resistance on the part of the community. *It should be assumed that communities want a seat at the negotiating table to ensure that their rights and their decisions will be respected and that, if they agree to the EI project, they will receive maximum protection, compensation and benefits.*¹⁹
- **Expectations generated by the perceived connections between Links 1 and 4.** Communities, governments and companies all expect that Link 1 automatically equals the benefits expected under Link 4, leading to unrealistic expectations, particularly by the community. If these expectations are not met, the risk of potential conflict is raised.
- **Site-specific operations.** Extractive regulations are usually standardized by the government, but they can also be site-specific (especially on environmental issues) and included in the contract. The event of potential environmental damage or contamination during operations (Link 2) could be addressed in the contract to provide clarity and accountability, and ultimately to avoid conflicts related to environmental issues.
- **Address grievances throughout the project cycle.** Communities expect the relationship established during (and before) contract negotiations (Link 1) to continue

after the project begins, and that their grievances will be addressed with similar levels of engagement by both the company and government. This is often not the case.

Fifth, the impact of an absent government.

In the country examples that we used for this report, many conflicts stemmed from weaknesses on the government's part.²⁰ The central government itself can be caught in a conflict of interest: wanting to permit mining in order to raise revenues versus defending the rights of the communities/electorate and protecting them from questionable company behaviour, such as environmental damage. If a government chooses to develop the resource, despite the objection of the community, the likelihood of conflict escalation will increase.²¹

But also, in the countries affected by EI-related conflict, the government — at all levels — seems to lack a stable or sufficient presence in many rural resource-rich areas. This scenario includes a lack of management capacity and accountability as well as a lack of actual personnel. Some of these weaknesses around absence of government were due to inadequate pay for officials, in turn leading to a brain drain, apathy or lack of capacity, corruption and/or income supplementation. It is almost impossible for EI projects to succeed (or for the Value Chain to be implemented effectively) without adequate government engagement, including effective monitoring of operations and the enforcement of regulations. There is also the central question of political will to prevent conflict and violence.

Although most governments may feel compelled to pay at least lip service to the idea of effective revenue management or equitable benefit sharing, the reality does not always find real support from all sectors of the government or the business community. Sound revenue management is already per se a difficult and complex task for any government. And adequate benefit sharing adds another layer of complexities, particularly since it can also affect the balance of power within a country's socio-political dynamics. Therefore, it should not be expected that significant shifts in benefit sharing will occur without resistance from many quarters.

Based on initial observations from these four country examples, one conclusion is that conflict prevention is achievable in resource-rich developing countries if it is accorded the highest priority. This, of course, requires

19 Wennmann, 233. Ross, Michael, Paivi Lujala and Siri Aas Rustad; "Horizontal inequality, decentralizing the distribution of natural resource, revenues, and peace"; High-Value Natural Resources and Post-conflict Peacebuilding; Lujala, Paivi and Siri Aas Rustad, eds; Earthscan; Abingdon:England: 2012; 254-256. This book is the first in a series of six edited volumes on natural resources and post-conflict peacebuilding produced by UNEP and ELI, and published by Earthscan. The chapter can be downloaded from <http://www.environmentalpeacebuilding.org/publications/books/high-value-natural-resources-and-post-conflict-peacebuilding/>

20 Interview with Luc Zandvleit. April 5, 2013.

21 ---; Understanding Social Conflict in Latin America; United Nations Development Programme; Bolivia, 2011; 6.

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political will and leadership at various levels of central and local governments, including at the highest political level. In this context, a consistent, conflict-sensitive, and apolitical implementation of the EI Value Chain can be one of the major contributions towards conflict prevention and sustainable development in resource-rich countries.

World Bank and UN collaboration

Conflict prevention in resource-rich countries is an area that would greatly benefit from increased collaboration and coordination between the World Bank Group, the United Nations, the European Union, as well as with client countries and other partners.

The three multi-lateral organizations have an important mandate to work with countries on improving the governance of their natural resources, as well as promoting inclusive and sustainable growth. These organizations share compatible goals regarding natural resource management, and each has comparative advantages that, brought together, can be of great benefit to both governments and the private sector in client countries. Developing a conflict-sensitive EI value chain can provide a common framework that could facilitate a better joint understanding of the various challenges and opportunities along the links of the value chain.

Moving forward, this joint collaboration between the World Bank, the UN and the EU could take several forms, including:

- Joint conflict mapping, preferably before exploration and award of licences for specific projects
- Joint conflict-sensitive assessment of the EI Value Chain, particularly in resource-rich countries with a major risk of fragility/conflict
- Joint conflict prevention trainings, including multiple stakeholders (governments, ICMM, etc.)
- Joint or shared monitoring of EI operations in fragile or conflict-affected situations
- Mapping of concessions and monitoring of grievances and benefits sharing arrangements
- Better information sharing and capacity building in the field, for all relevant parties
- Joint planning with country ministries to increase coordination and maximum impact of potential interventions.
- Integration of conflict analysis, with a focus on prevention, in all EI-related projects as well as country assistance strategies for resource-rich countries.

Since EI-related conflicts are often a mix of social, political and economic considerations, this World Bank, UN and EU collaboration could bring together relevant synergies and specialist expertise so as to improve the capacity of resource-rich countries in conflict prevention. Together, these agencies could have far greater impact on preventing EI conflicts than by working alone.

The first step in this process would be to further develop a conflict-sensitized EI Value Chain and use this to establish frameworks for assessing conflict risks and mitigation strategies with regard to resource extraction.

Conclusion

It is our hope that this analysis has articulated the need to gain a better understanding of the factors that may exacerbate, or help to prevent, violent conflict in resource-rich countries. This paper proposes that one way to gain such an understanding, and take practical preventive actions, is to “conflict-sensitize” the Extractive Industries Value Chain, and use it as a framework for conflict prevention and early warning system, including specific preventive measures in fragile resource-rich countries.

This paper has also aimed to shed more light, through the four country examples, on how a conflict-sensitive implementation of the EI value chain may contribute to better identifying both potential conflict risks and prevention measures along the links of the value chain. Through the country examples, the paper has illustrated some of the challenges and opportunities faced by different countries on each link of the value chain, some of the shortcomings of the adopted EI value chain, and how the policy choices made along the chain may affect the capacity of these countries to prevent or mitigate violent conflict.

Another key advantage of using a conflict-sensitive EI value chain as a framework for conflict prevention is that it will help stakeholders to identify a wide variety of flashpoints within a clear and familiar framework, and take preemptive measures to mitigate those risks. This process can, in fact, act as an effective early warning system that can point to necessary corrective actions to avoid further and violent conflict down the road.

Equally important to note is that the EI Value Chain may actually exacerbate conflict if its implementation is not conflict-sensitive or does not take into account the potential conflict risks, and mitigation actions, along its links. *That is why it is crucial to understand that political choices, not just economic ones, weigh heavily on how extractive resources are managed, and are perhaps the single most decisive factor in whether or not there will be extractive-related violent conflict.*

It is our hope that a more conflict-sensitive EI value chain will help resource-rich countries to avoid violent conflict, and thereby enhance the economic possibilities of their natural resources, for the benefit of present and future generations.

PART IV.

The Four Country Examples: Emerging Lessons

Chile — The importance of tangible benefits

At a glance

Chile has a long tradition when it comes to extractive resources. During the 19th and early 20th century, the country's economic growth relied on the discovery of silver and then sodium nitrate (used for fertilizer), as well as copper that is today its primary extractive commodity. It is the world's largest producer,²² with 38 per cent of the world's copper reserves. Chile has experienced both extractive booms and busts, and learned important lessons that have helped to mitigate the impact of commodity price volatility.

Although the country is heavily dependent on mining, Chile has seen little violent conflict related to its extractive industries (El conflict). The absence of mining-related conflict is in part due to the resource's locations, mostly in the under-populated desert north.

When El conflicts in Chile do occur, they tend to erupt during a mining project's environmental impact assessment and approval process, mainly involving water usage, potential contamination and distribution. *The Observatorio de Conflictos Mineros de America Latina* (OCMAL) has listed 35 such social conflicts in Chile over the past two decades. But only two were violent.²³

As new mining encroaches on more communities, and public awareness about potential environmental threats increases, civil society organizations in Chile have called for increased transparency and improved environmental management, monitoring and compliance enforcement.²⁴ The government has developed new laws and policies, requiring all large

businesses to incorporate consultations and social licences to operate, and to include supporting environmental structures.²⁵

The collapse of the natural nitrate market in the early 20th century created a mining bust in Chile which still resonates today. The country has also developed policies to avoid overwhelming dependence on its copper sector, ensure long-term economic sustainability, and create stabilization funds to offset bust cycles. These national policies may prove to be important conflict prevention or mitigation measures.

The government has also used its mining revenues to tangibly improve the general standard of living in Chile through increased social services, infrastructure development, and poverty reduction policies, and has also invested heavily in upgrading its mining sector-related technology. Important efforts have also been made to ensure effective revenue management as well as economic diversification.

Economic and social indicators demonstrate that Chile's overall economic policies deliver visible benefits to a great majority of the country's population. Chile has become a high-income country with a per capita income of more than \$14,000 a year.²⁶ While the poverty rate stood at 38.7 per cent in 1990; it had declined to 14.4 per cent in 2011.²⁷ It ranks 40th on the United Nations Human Development Index.²⁸ Mining accounted for 6.7 per cent of the country's GDP in 2010 and (with some hydrocarbons) 69 per cent of its export income.²⁹ Transparency International ranks it

22 ---; Chile: The Challenge of Mineral Wealth: using resource endowments to foster sustainable development; UNCTAD/The World Bank, ICMM; March 2007; 88.

23 *Observatorio de Conflictos Mineros de America Latina* (OCMAL) <http://conflictosmineros.net/>, accessed June 20, 2014

24 Interviews with Pablo Valenzuela, executive director Fundacion Casa de la Paz, May 17, 2013; Juan Pablo Schaeffer, Vice-President Corporate Affairs and Sustainability CODELCO, May 17, 2013; Luc Zandvleit, Director Triple R Alliance, April 8, 2013.

25 Interview with Rodrigo Mujica Varas; Advisor, Ministry of Mines, Chile; May 17, 2013.

26 World Bank data accessed August 5, 2013 at <http://data.worldbank.org/country/chile>

27 ---; Chile: The Challenge of Mineral Wealth: using resource endowments to foster sustainable development; *ibid.* World Bank dataset, <http://data.worldbank.org/country/chile>. Accessed August 5 2013.

28 <http://hdrstats.undp.org/en/countries/profiles/CHL.html> Accessed October 1, 2013

29 Eurostat, European Commission; Chile-EU – statistical indicators and trade figures http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Chile-EU_-_statistical_indicators_and_trade_figures#Copper_mining accessed June 21, 2013 and Viale (unpaged)

20th on the Corruption Perceptions Index.³⁰ Mining is a strong and positive component within the economy, in large part, because the government, which owns the largest mining company in the country, CODELCO, is seen as an effective custodian.³¹ Some research suggests that people trust the management of the company,³² which tries to steer clear from politics. Chile today is considered Latin America's best-run mining economy.

Interestingly, Chile does not necessarily prioritize some practices in EI development, such as revenue maximization and strong civil society or community engagement. The country does not, for example, implement the Extractive Industries' Transparency Initiative (EITI). Its fiscal management is not decentralized and does not return revenues to productive areas. In this context, Chile's GINI coefficient stood at 52.1 in 2009, the second most unequal in Latin America.³³ And pronounced inequality is a potential conflict risk that affects not only Chile, but other resource-rich economies as well.

Institutional quality has also aided Chile's success. The country has a good infrastructure, rule of law, a low rate of corruption, political stability, ease of doing business, and clear extractive regulations which do not deter investment. These qualities make Chile's mining sector attractive to foreign investment, and they would appear to reinforce public trust in the sector. Chile's strong judicial system and legalistic approach result in many mining-related disagreements or conflicts being resolved in court rather than on the streets.

On the other hand, environmental threats and debate over the allocation of mining revenues for rainy day funds or immediate social needs are some of the potential conflict risks in Chile.

For example, local communities around mines have requested that a share of the revenues be returned to the community closest to the mining project. Since 2011, Chile's students (and others) have held massive, and sometimes violent, protests against inequality, demanding, among other things, that the government allocate copper revenues to make the university system free of charge.³⁴

In this context, potential conflict risks in Chile related to extractive operations are concentrated in Links 2, 4 and 5 of the EI value chain.

Emerging lessons

Although the management of EI revenues has yielded benefits to the general population in terms of much needed infrastructure, health and education services, as well as important investments in other sectors of the economy, some conflict has begun to emerge on how the revenues might be better used or allocated, particularly so as to provide free public services such as education.

Although further research and more reliable evidence is needed in order to draw more conclusive observations, below are some emerging lessons from preliminary observations on Chile's engagement along the EI value chain:

Potential conflict risks along the EI Value Chain — Chile



30 ---. Transparency International Corruption Perceptions Index 2012; <http://www.transparency.org/cpi2012/results> accessed October 8, 2013

31 Interviews with Hernan Araneda, Fundacion, May 17, 2013.

32 Interview with Rodrigo Mujica Varas; Advisor, Ministry of Mines, Chile; May 17, 2013.

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- *Delivery of widespread and tangible social benefits with visible impact is crucial for building trust.* The example of Chile provides a strong case that the best way to gain public trust in, and support for, extractive industries, as well as to prevent violent conflict in EI settings, is through the competent and timely delivery of social services and infrastructure funded by EI revenues. Broad-based benefit sharing may be the most important link for supporting peaceful relationships and preventing violent conflict in the long term.
- *Chile's economic diversification agenda has yielded new and successful industries, such as salmon farming and wine production, to reduce dependency on extractive industries.* Such diversification of the economy helps insulate a country's EI-dependent economy from the boom-and-bust cycles of commodity markets, and can expand employment opportunities. But it requires long-term vision and commitment, governmental capacity, and coordination across various ministries (such as agriculture, energy, trade, etc.), as well as significant financial support. A certain degree of stability, respect for the rule of law and safeguards for investor protection are also key prerequisites.
- *In countries where governments deliver tangible benefits and effective revenue management, EI contract transparency may still be important, but less of a critical public focus, in holding the government to account, than in countries that do not see public benefits from their extractives and where corruption is rife.* In this sense, Chile's avoidance of the so-called resource curse seems to be more a result of effective management, and the sharing and investment of EI revenues, rather than due to a mere focus on EI contract disclosures or sector transparency per se.

CHILE: potential conflict risks and prevention opportunities

Extractive Industry Value Chain	Potential sources/triggers of conflict	Potential conflict prevention and de-escalation measures
Link 1: Contracts and Licences	Insufficient transparency in contract disclosures	Widely disseminated information on contracting data, criteria used, terms of the agreement
Link 2: Operations and Monitoring	Excessive water use and potential contamination by mining companies in water-scarce mining areas	Honest assessment of <i>all considerations</i> (environmental, social, etc.) when weighing if a particular site is a good fit for extractive operations Better assessment of environmental record of EI company prior to contract Alternatives to generate more water through desalination projects
Link 3: Taxes and Royalties	Lack of revenue transparency	Improved and transparent collection for boosting government credibility and perception of integrity Implementation of EITI process
Link 4: Revenue Management	Little revenue returned to producing community and district. Revenue management is centralized; some communities may feel left out	Visible and meaningful benefits from EI project returned to producing community and surrounding district/region Inclusive development of revenue use, especially in producing area
Link 5: Sustainable policies and programmes	Disagreement by social groups over government's priorities in terms of revenue sharing and use	Inclusive and responsive consultations concerning revenue use More broad-based flexible allocation of funds

Peru — Historic Marginalization and Lack of Trust

At a glance

Peru is the world's largest producer of silver. The country also has significant deposits of gold, copper, lead, zinc and other minerals.³⁵ The minerals are scattered throughout the country, often close to villages and towns so the intensity of extractive industries-related conflicts (El conflicts) in Peru varies, depending on the project site, region, history, participants and root causes.

A middle-income country, Peru is the eighth fastest growing economy in the world.³⁶ Its per capita GNI is \$5,880.³⁷ In 2011, mining exports represented 59 per cent of total exports and tax revenue from mining represented 40 per cent of total corporate income tax revenues. The poverty rate in Peru is dropping, including in many resource-rich regions. The national poverty rate in 2007 was 42.4 per cent; by 2011 it was 27.8 per cent.³⁸ Peru was the first Latin American country to become EITI compliant. Transparency International ranks Peru 83rd on the Corruption Perceptions Index³⁹. Its GINI coefficient in 2010 was 48.1.⁴⁰ Peru has also developed multiple mechanisms currently enshrined in its laws and Constitution in order to ensure more inclusiveness and better benefit sharing from its extractive investments.

Despite all these efforts, however, Peru still falls below the average for Latin America on the United Nations Human Development Index, ranking 77 compared to Chile's 40.⁴¹ The Peruvian government's *Defensoría del Pueblo* (the Office of the Ombudsman), which tracks social conflicts throughout Peru, listed 222 social conflicts in February 2013, of which more than half (127) were related to extractives.⁴² Such conflicts have resulted in 2,312 injuries and 195 deaths between 2006 and 2011.⁴³ Frequently, the stated reason for these conflicts is a community's anger against an extractive company over environmental concerns, but upon closer

examination they reveal other underlying cultural, social and political issues.

Peru's government and business community view mining as central to economic growth and development. Populations living near mines are often ambivalent, concerned as they are about environmental threats and major social change. Some of these fears and perceptions tend to frame and vitiate the relationship between a company and communities, feeding into potential misunderstandings, misperceptions, miscommunication and overall lack of trust.

Environmental contamination

The risk of environmental contamination is one of the primary complaints and causes of protests and violence. The government of Peru did not create a separate ministry to oversee the environment until 2008. Dwarfed in size by the Ministry of Energy and Mines, the Ministry of the Environment has been working to upgrade its monitoring capacity. A major challenge is that the State is not present in remote areas, or its representatives lack adequate resources or technical capacity to fully act in accordance with their regulatory and monitoring mandate. The environmental impact assessments would also benefit from including more detailed conflict-related assessments, protection of livelihoods or prevention of escalation of violent conflict before, during, and after the mining project is implemented, through the use of effective dialogue, grievance and compensation mechanisms.

Many of Peru's conflicts also stem from the rural communities' sense of historic marginalization and the belief that their rights and best interests are not respected by central government.

The role of an effective government is to act as a neutral and final authority, setting out clear and consistent regulations, policies, laws and standards to be met by

35 Ministry of Energy and Mines, Peru, website. Accessed June 30, 2013 <http://translate.google.com/translate?hl=en&sl=es&u=http://www.minem.gob.pe/&prev=/search%3Fq%3Dministry%2Bof%2Benergy%2B%2526%2Bmines%2Bperu%26biw%3D800%26bih%3D509>

36 ----; Peru: among top 10 emerging economies, strives to be second to none in sharing prosperity"; June 28, 2013; accessed June 29, 2013, <http://www.worldbank.org/en/news/feature/2013/06/27/peru-comprometido-con-reducir-pobreza>

37 World Bank data accessed August 5, 2012 at <http://data.worldbank.org/country/peru>

38 ----; The World Bank; Data, Poverty; <http://data.worldbank.org/country/peru> Accessed October 1, 2013.

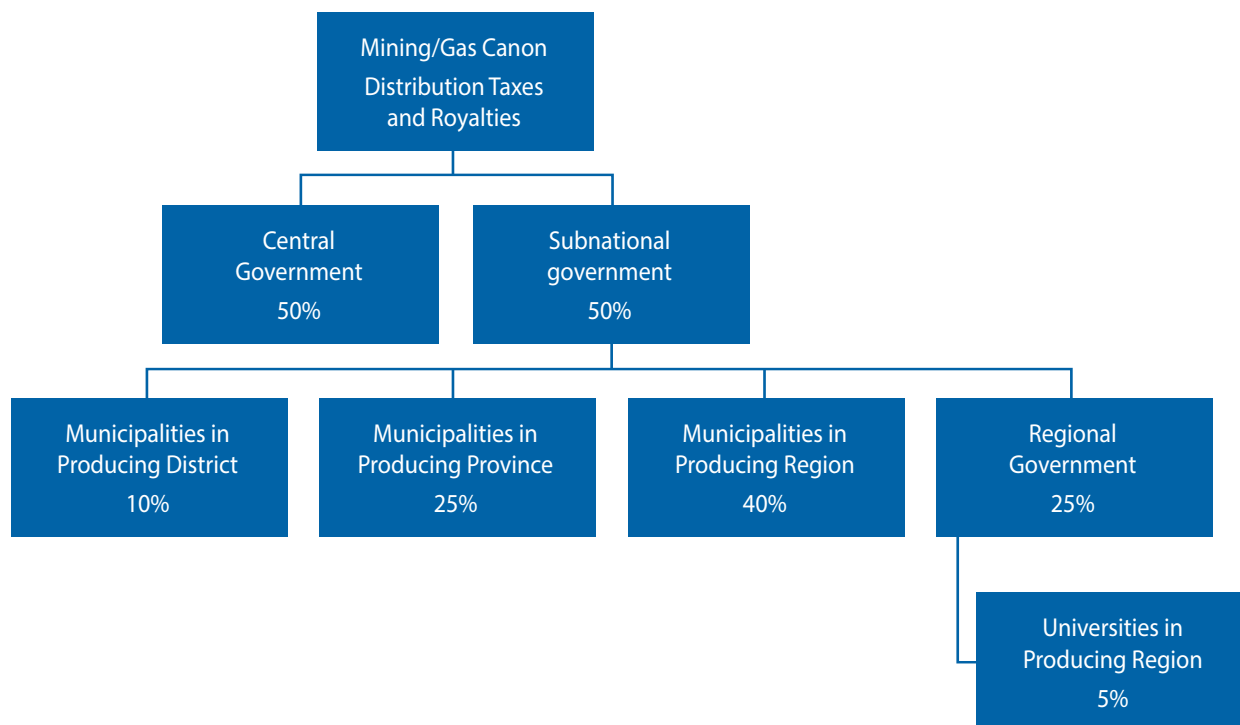
39 ----; Transparency International; Corruption Perceptions Index 2012; <http://www.transparency.org/cpi2012/results> accessed October 8, 2013.

40 ----; The World Bank; Data, GINI Index; <http://data.worldbank.org/indicator/SI.POV.GINI> Accessed October 1, 2013.

41 <http://hdrstats.undp.org/en/countries/profiles/PER.html> Accessed June 30, 2013

42 Estado de los conflictos sociales, Defensoría de Pueblo, February 2013. Accessed July 1, 2013 at <http://www.defensoria.gob.pe/modules/Downloads/documentos/infografia-conflictos-febrero-2013.pdf>

43 ----; Violencia en los conflictos sociales, Defensoría del Pueblo, Republica del Peru; Informe Defensorial No. 156; accessed online July 1, 2013. <http://www.defensoria.gob.pe/modules/Downloads/informes/defensoriales/informe-156.pdf>



national and international EI companies. In Peru, prior to signing concessions, governmental policies do not appear to fully consider the local impact a project may have on a given community.⁴⁴ The absence of central government monitoring also leaves a power vacuum that is often filled by sub-national government officials with little technical capacity and resources, and an uncharted grey area for companies and communities to clash over how the mine should operate and how the benefits should be shared.⁴⁵

Not all communities in Peru are against mining; the stance varies from community to community.⁴⁶ While some sources in the government and business community interviewed for this paper suggested that EI conflicts are primarily about money or revenue sharing, those from Peruvian civil society suggested that conflicts in EI are primarily about respect (or perceived lack of it), and

community control (or the loss of it) of surrounding land and the respective extractive resource or mineral, as well as the legacy of a long history of marginalization of indigenous peoples and *campesinos* from the decision-making process. In this context, EI companies that do not conduct effective and genuine consultations prior to EI development, or do not continuously engage with, or offer, tangible economic benefits to local people, and/or attempt to mine despite intense local objection, are considered disrespectful of the communities' values (culture), fears, interests and concerns. Furthermore, indigenous populations in Peru's EI regions tend to believe that in a dispute between them and an extractive company, the government will automatically side with the latter.⁴⁷ And they also believe the government is not pressing companies to ensure maximum benefits for their communities and the country as a whole.⁴⁸

44 Arellano-Yanguas (2011). Also, seventeen interviews were conducted in Peru in May 2013, with leaders of national NGOs, the Ministry of Energy and Mines, politicians, businesspeople, academics, and environmental engineers on how to prevent conflict; only one cited environmental concerns as primary.

45 Anguelovski, 385; Arellano-Yanguas (2011), 621; Rees, Carolyn, Deanna Kemp and Rachel Davis; *Conflict Management and Corporate Culture in the Extractive Industries: A Study in Peru*. Corporate Social Responsibility Initiative, Harvard University; Sept 2012, 1-4.

46 Interviews with Jose Luis Lopez, CARE Peru, May 16, 2013; Paskal Vanderbussche, international conflict consultant, May 15, 2013; Jose de Echave, Director of Cooperacion, May 20, 2013; Gerardo Damonte, GRADE; May 20, 2013; Cesar Gamboa, DAR, May 20, 2013; Beatriz Merino, Peruvian Society of Hydrocarbons, May 13, 2013; Carlos Monge, Revenue Watch Peru, May 14, 2013.

47 Interview with Cesar Gamboa, DAR, May 20, 2013.

48 For example, during the recent commodities boom, the government had been expected to implement a windfall profits tax on extractives. Instead, it chose to allow the companies to create Programa Minero de Solidaridad con el Pueblo, a local development programme funded by voluntary contributions by the mining companies. Bebbington, Anthony; "Social conflict and emergent institutions: hypotheses from Piura, Peru"; *Social Conflict, Economic Development and Extractive Industry: Evidence from South America*; Bebbington, Anthony (ed.); Routledge; New York: 2012; 95.

In 2001, Peru created the *canon minero*, Law 28322, a distribution mechanism to return a percentage of the extractive industries tax and royalties to the sub-national governments. These revenues are earmarked by law to be used for infrastructure. In 2007, this amounted to 5.1 billion soles (\$1.6 billion USD).⁴⁹

But actual disbursement has been chaotic and often coloured by political motives⁵⁰. The situation is also generating conflict between the central government and various sub-national entities, particularly when the local authorities in those producing areas have their own political agendas distinct from the party in government. Despite the *canon minero*, only 1-2 per cent of the revenue returned to the sub-national governments actually reaches the producing communities.⁵¹ Communities in mining districts have not seen benefits comparable to what they believe they should be receiving. Such communities often feel that others are benefitting more than they are from the exploitation of their own resources. This feeling or perception often exacerbates tensions.

Furthermore, the lack of local capacity to design, implement and monitor many of the infrastructure projects is a major challenge in some districts and/or producing regions attempting to deliver tangible results. And it has increased local competition among politicians, who may choose to pursue their own interests and agendas, rather than ensuring communities benefit from improved development projects and basic services. These politicians often consider that the company will have to provide social services for the communities close to the mine anyway, and consequently they don't need to worry about that.⁵²

Finally, there is a bottleneck of disbursement by the Ministry of Finance, which must sign off on all sub-national

infrastructure projects. This does not occur on a reliable basis due to disagreements over project choices and scheduling limitations, as well as other political considerations or disagreements among the representatives of various political forces.

Violence to get attention

Several authors and interviewees consulted suggested that protests, even violent ones, were often considered the only way for a community or group to gain meaningful attention from companies and central government.⁵³

Furthermore, although EI companies are legally required to consult Peruvian communities before an extractive project begins, there is no substantive definition of what constitutes an acceptable and effective consultation.⁵⁴

Overall, there are various initiatives, led by international and Peruvian stakeholders, which focus on addressing EI-related conflicts. The most visible of these is the Peruvian *Defensoría del Pueblo* (Office of the Ombudsman). (See annex 2 for more initiatives on EI-related conflicts in Peru.) The Office of the Ombudsman is playing a critical role in overall conflict prevention efforts through its early warning system, and diligent work to foster greater understanding and dialogue among government, companies and communities. In Peru, the Office of the Ombudsman counts on a positive reputation and enjoys credibility as a neutral facilitator, and it could consequently play an even more fundamental role in order to de-escalate conflicts early on, if provided with greater resources.

In this context, in Peru the potential conflict risks along the EI value chain concentrate in Links 1, 2, and 4.

49 Loayza, Norman, Alfredo Mier y Teran and Jamele Rigolini; *Poverty, Inequality, and the Local Natural Resource Curse*; Policy Research Working Paper 6366; The World Bank; February 2013, 4, 9.

50 Siegle, 7-8; Wennmann, 243; Gould, John A. and Matthew S. Winters; "Petroleum blues: The political economy of resources and conflict in Chad"; *High-Value Natural Resources and Post-conflict Peacebuilding*; Lujala, Paivi and Siri Aas Rustad, eds; Earthscan; Abingdon: England: 2012, 316; interview with Manuel Bernales, Ministry of Energy and Mines, May 20, 2013; interview with Fernando Castillo, Ministry of Energy and Mines Peru, May 15, 2013; interview with Alejandro Diez Hurtado; professor of anthropology Catholic University of Peru, May 16, 2013; Arellano-Yanguas, Javier; "Aggravating the Resource Curse: Decentralisation, Mining and Conflict in Peru"; *Journal of Development Studies*; April 2011; Vol. 47. Issue 4; 617-638.

51 Interview with Fernando Castillo Torres, Director of Social Affairs, Ministry of Energy and Mines, Lima, Peru, May 15, 2013.

52 ** Loayza, Norman, Alfredo Mier y Teran and Jamele Rigolini; *Poverty, Inequality, and the Local Natural Resource Curse*; Policy Research Working Paper 6366; The World Bank; February 2013, 4, 9.

53 Interview with Beatriz Merino, May 13, 2013; interview with Jose De Echave, May 20, 2013. Bebbington, Anthony; "Social conflict and emergent institutions: hypotheses from Piura, Peru"; *Economic Development and Extractive Industry: Evidence from South America*; Bebbington, Anthony (ed.); Social Conflict, Routledge; New York: 2012.

54 It can vary from company to company and even within the company itself. There are several useful manuals available on consultations and community involvement by the International Council on Mining and Metals. <http://www.icmm.com/publications>

Potential conflict risks along the EI Value Chain — Peru



- Uneven/ineffective local consultation
- Uneven governmental presence/policies
- Lack of trust in government fairness in EI development

- Environmental threats
- Inadequate grievance mechanisms
- Insensitivity of companies towards communities' needs/culture

- Mismatch of taxation policies with local realities and capacities

- Uneven benefits from *canon minero*
- Unmet social services/needs
- Political use of funds at national and sub-national levels

- Potential damage to alternative economies such as agriculture; lack of diversification

Emerging lessons

Peru has a healthy and growing economy, substantial savings, a falling poverty rate, significant foreign investment — and conflict so prevalent as to threaten all of these achievements.

Below are some emerging lessons from preliminary observations on Peru:

- *Communities want a seat at the table during the contracting process and the right to Free, Prior and Informed Consent about EI projects.* Governments should accept that not every site is a suitable candidate for an EI project, despite geology. Without timely, adequate and genuine community consultation and inclusion, an EI project faces a much greater risk of local resistance and hostility. Communities also expect the company (and government) to continue to address their grievances throughout the project cycle and the entire value chain process.

- *Without adequate government engagement, or if the government lacks a neutral, stable or sufficient presence in remote and fragile areas, EI projects will face increased conflict risks.*
- *If a government is perceived as prioritizing economic growth, resource development, or a company's interests at the expense of a specific community or the popular will, the likelihood of conflict will increase.* It is essential that governments have the necessary capacity to act as a neutral and legitimate mediator or facilitator that will look after the interests of both communities and companies, or to delegate this function to an independent body in the event of a conflict of interest. Sometimes central government can be caught in a conflict of interest — encouraging mining investments in order to raise much-needed revenues versus defending the rights of the people. Striking the right balance between the two goals is essential in order to ensure the sustainability of EI projects and the prevention of violent conflict.

PERU: potential conflict risks and prevention opportunities

Extractive Industry Value Chain	Potential sources/triggers of conflict	Potential conflict prevention and de-escalation measures
Link 1: Contracts and Licences	<p>Lack of agreement regarding EI project by community</p> <p>Lack of adequate consultation before contract is awarded</p> <p>Insufficient local content policies.</p> <p>Access to, or control of, resources, land, including displacement of populations</p> <p>Lack of trust in governmental authority and motives</p>	<p>Social mapping prior to award of exploration licence/honest assessment of candidacies for EI projects</p> <p>Control over intensity/frequency of new EI projects, particularly in new locales</p> <p>Early, inclusive, standardized and genuine consultations with local communities with improved notification</p> <p>Local content opportunities within a public, fair, and accessible terms of reference</p>
Link 2: Operations and Monitoring	<p>Environmental risks/contamination, other damages to natural habitat</p> <p>Land use conflicts</p> <p>Lack of user-friendly grievance mechanisms, legal alternatives</p>	<p>Required environmental impact assessments with public access to results</p> <p>Early assessment of company environmental record with steeper liability clauses in contracts</p> <p>Standardized grievance mechanisms</p>
Link 3: Taxes and Royalties	<p>Mismatched taxation policy</p>	<p>Better coordination of revenues with realities on the ground</p>
Link 4: Revenue Management	<p>Little revenue specifically returned to producing community and district, with perceptions of unfairness</p>	<p>Visible, inclusive and meaningful benefits from project to producing community and surrounding area</p> <p>Clear and public explanation regarding geographical parameters for benefit allocation (revenue sharing)</p> <p>Capacity building regarding project design and implementation for officials at sub-national level</p>
Link 5: Sustainable policies and programmes	<p>Recognition that EI cannot be sole source of economic growth/not every community with minerals is a good candidate for exploration/production</p>	<p>Prevent EI projects from displacing/eliminating successful local industries and economies.</p> <p>Create opportunities for diversifying economy away from mining projects</p>

Zambia — Preference for Peace

Zambia possesses 6 per cent of the world’s copper reserves, the largest such reserves in Africa. As of independence in 1964, Zambia produced 12 per cent of the world’s copper. The ore is high quality, up to 4 per cent copper.⁵⁵ Due to the uncertainty of the global copper demand, Zambia’s copper output has fluctuated from about 700,000 tons per year in the 1970s to 225,000 in 1998 and to 800,000 tons by 2010.⁵⁶

The country ranks 88th in the world on Transparency International’s Corruption Perceptions Index.⁵⁷ Zambia is generally peaceful although its extractive industries history does not conform to most EI Value Chain good practices. Its most valuable EI contracts were negotiated under secret terms and many are not in the public domain. The environmental ministry lacks the capacity to oversee or regulate mining operations where there is serious environmental contamination. The tax revenue from some of the world’s best copper mines has been miniscule, and ensuring the government receives what it was due has been a challenge. New contracts are better negotiated with better terms and the country is making serious efforts to improve monitoring. Copper export earnings reached a record \$6.7 billion in 2011 (36 per cent of GDP) up from \$0.6 billion (14% of GDP) in 2003.⁵⁸

Implementation of the EITI has led to some additional transparency and accountability. But there is still significant

corruption that the public is very conscious of. Yet, in spite of these structural weaknesses, overall there is no violent conflict related to extractive industries, with the exception of occasional labour concerns.

This stability has been achieved through political leadership actively promoting the cause of national harmony through power-sharing in political, economic, and military offices in order to enhance unity. The inclusion of major ethnic groups in government has sent an important message of inclusiveness that seems to permeate Zambian society, and has helped the country to avoid the conflict witnessed in other resource-rich countries.

Although Zambia currently experiences little social conflict, its few visible benefits to the public, and stalled employment opportunities, suggest that the country’s greatest risk for conflict along the Value Chain is at Links 2, 4 and 5.

Some key emerging lessons from this case study on Zambia include:

- *Conflict prevention is a political decision that resource rich countries can choose to prioritize.* The case of Zambia demonstrates that economic policies are important but pale in comparison to the political choices made by the country’s leaders. Peace and inclusion in Zambia has been a political priority since independence that has helped in avoiding major violent conflict.

Potential conflict risks along the EI Value Chain — Zambia



• Non-transparent, unbalanced contracts

• Inability to change social-environmental terms of contract
• Environmental pollution
• Lack of community engagement/consultation

• Lack of governmental capacity to address taxation issues
• Fluctuating tax regime
• Extremely low tax revenues stunts government capacity

• Limited revenue returned to communities
• Lack of visible benefits
• Concerns about corruption

• Extremely limited formal employment opportunities
• Difficulties with diversification
• Lack of planning for economic sustainability

55 ---; What Would It Take for Zambia’s Copper Mining Industry to Achieve its Potential?; The World Bank: Finance and Private Sector Development Unit, Africa Region; Report No. 62378-ZM; June 2011; 35.

56 Ibid, 11-12.

57 Zambia; Transparency International; accessed July 16, 2013, at <http://www.transparency.org/cpi2012/results>

58 Simpasa, 11.

- *Zambia's early Development Agreements demonstrate what harm can be done to a country's long-term development by short-sighted and non-transparent but legal EI contracts.* These Agreements made during Zambia's privatization period have prevented the country from receiving important revenues for its non-renewable resources in favour of greater profits for some of the largest mining companies in the world.

ZAMBIA: potential conflict risks and prevention opportunities

Extractive Industry Value Chain	Potential sources/triggers of conflict	Potential conflict prevention and de-escalation measures
Link 1: Contracts and Licences	Concern and tensions about insufficient local content	Companies must avoid over-promising employment opportunities Companies and government develop local content trainings concurrently with mine development
Link 2: Operations and Monitoring	Severe pollution from some mining projects leading to social tensions	Legally required environmental impact assessments Capacity building for government agencies to meet international environmental standards Assessment of company's record in engaging with local communities prior to contract Tougher liability, remediation clauses in contracts
Link 3: Taxes and Royalties	Fluctuating tax regime Extremely low tax revenues stunts governmental capacity	Greater governmental capacity to oversee and audit revenues Consistent tax scheme to avoid appearance of confusion
Link 4: Revenue Management	Tensions sometimes bordering on violence over lack of visible benefits to surrounding communities Communities may be unaware of arrival of any revenues; lack of transparency at sub-national level leads to misunderstandings and lack of accountability	Visible inclusive and meaningful benefits returned to producing community and surrounding district/region Publicly available revenue information in local languages about revenue uses and rationales Capacity building for sub-national officials Public auditing information
Link 5: Sustainable policies and programmes	Extremely limited formal employment opportunities Difficulty with diversification Lack of planning for economic sustainability	Improvement of education systems for stronger labour pool Stronger national initiative regarding diversification, possibly South-South partnering with Chile

DRC — Layers of Conflict

Overview

Violent conflict creates new local economic drivers, and institutions and modes of social interaction often spring up and flourish during the conflict and survive after it.⁵⁹ This dynamic immeasurably complicates peacebuilding efforts as well as attempts to prevent conflict from re-igniting. These considerations are particularly relevant in analyzing the situation in the Democratic Republic of Congo (DRC).

DRC ranks 186 (last) on the 2012 United Nations Human Development Index. Of the population of more than 75 million, 71 per cent are below the poverty line and only approximately 300,000 people have jobs in formal small-to medium-size businesses in the private sector. DRC's candidacy for EITI was suspended in 2013. The World Bank does not have statistics for the DRC's GINI coefficient. It ranks 160th on Transparency International's Corruption Perceptions Index.⁶⁰

Extractives have played a pivotal role in supporting the many rapacious and sometimes self-financed fighters in the DRC.

Layers of conflict

The situation in the DRC is made more complex because there is not a single type of conflict, or one root cause, agenda or solution, even when it comes to EI. There are overlapping conflicts going on simultaneously. Although at present perhaps only 8 per cent of the conflicts in the DRC are related directly to mining,⁶¹ these conflicts have profound consequences for internal stability and also deprive the government of revenues to restore State authority, administrative capacity and public social services.

Areas with mineral assets linked to violent conflict are mainly in the east of the country, in North and South Kivu, Maniema, and Ituri (Orientale), and south in parts of Katanga.

The current conflicts in the Kivus are in part remnants of the genocide in neighbouring Rwanda and during the

two Congolese Wars of the 1990s. These wars were widely believed to be partly supported by agents from Rwanda and Uganda (and others) operating on behalf of their own political and economic interests, which includes possible continued exploitation of the Kivus' mineral wealth through illegal smuggling networks.

In the Kivus, mining concessions may be officially granted to mining operators, but many are physically controlled by militias or military forces.⁶² The minerals, taken from these (artisanal) mines, especially gold, are used both to fund armed groups and to enrich the military or militia leaders. This militarization of the mines is the central reason why the Kivus remain so deeply unstable.

Internal and local struggles also are very important components of a conflict system that allows various individuals to harness such struggles for their own advantage. Land tenure is a root cause. In the early 1990s, local elites began to tap ethnic loyalty and collective land rights to mobilize communities, transforming already violent disputes into more organized agendas.⁶³

The violence in Katanga is different from that of the Kivus. Katanga is the world's eighth largest producer of copper and produces half the world's cobalt.⁶⁴ It is much more productive, politically stable, and economically integrated into the Congolese economy. Although verifiable statistics are hard to find, in 2013, copper production should have reached 1 million tons, from 18,000 tons back in 2007.⁶⁵

The past two years have witnessed increased provincial violence: a combination of pure lawlessness, national political machinations, violence by displaced persons and decommissioned soldiers, local militias with or without an agenda to protect their communities, artisanal miners being pushed off or trying to get onto a mining site, plus those miners driven out of the Kivus by the government's mining ban in the Kivus from September 2009 to March 2010.⁶⁶

59 UNDP/BCPR, *Post-conflict Economic Recovery: Enabling Local Ingenuity*; United Nations Publications; New York: 2008; xxii.

60 <http://www.transparency.org/country#COD> Accessed October 1, 2013.

61 International Alert, 38.

62 Comment by Laure Gnassou online, December 18, 2013.

63 Vlassenroot, Koen and Chris Huggins; *Land, migration and conflict in eastern DRC*; From the Ground Up: Land Rights, Conflict and Peace in Sub-saharan Africa; 115-194; 2005 <http://www.issafira.org/uploads/4LAND.PDF>

64 Kavanaugh, Michael J.; "Congo Suspends Four Security Officials Over Katanga Violence"; Bloomberg; April 10, 2013. <http://www.bloomberg.com/news/2013-04-10/congo-suspends-four-security-officials-over-katanga-violence.html> Accessed October 9, 2013.

65 Versi, Anver; "The Moses of Katanga"; African Business; Issue 396, April 2013. Accessed online from the New York Public Library November 10, 2013.

66 Comment by Laure Gnassou email, December 18, 2013.

Potential conflict risks along the EI Value Chain — DRC



- Insecurity of land tenure prevents investment and development
- Excessive centralization, no local consultations
- No land policy/overlapping land claims/ corruption over claims
- Disharmonious legal frameworks
- Artisanal mining
- Militia control of mining sites
- No access to land
- Illegal taxation
- Corruption, skimming
- Lack of sufficient revenue collection for effective state functioning, including security
- Lack of wealth-sharing
- Lack of benefits leads to extra-legal income-seeking behaviours
- Lack of diverse employment opportunities
- Lack of economic sustainability

Potential points of conflict risk along the EI Value Chain — DRC

The DRC has many points of risk along the Value Chain. However, its greatest need is for stability that can come from a strong and stable investment climate to bring in revenue and generate formal sector jobs, as well as a redirection of the DRC's mineral wealth away from rent-seeking elites and militias and toward state, sub-national and local development. The greatest conflict risks for the DRC along the Value Chain are links 1, 2, and 4.

Some key emerging lessons from this case study on the DRC include:

- *Benefit sharing schemes fundamentally affect the balance of power within a country.* Changes in revenue allocation will not occur without resistance at many levels and by many individuals defending their personal interests, and planned changes must take such resistance into account when developed.
- *Endemic corruption is a major roadblock for making progress on various fronts linked to the EI value chain.* Some of those at the uppermost reaches of government in the DRC government appear to have insufficient political will or influence to address EI-based corruption, thus impeding both peacebuilding and development efforts. Such corruption also impacts on any possible improvement of governmental performance and accountability in effectively implementing the value chain.

DRC: potential conflict risks and prevention opportunities

Extractive Industry Value Chain	Potential sources/triggers of conflict	Potential conflict prevention and de-escalation measures
Link 1: Contracts and Licenses	<p>Insufficient contract transparency</p> <p>External agents or competition for access to resource</p> <p>Nationalization/transfer of title without legitimate foundation undermines FDI and stabilizing effect of bigger companies</p>	<p>Capacity building of civil security authorities to secure contested territory</p> <p>Trustworthy and stable EI regime to encourage larger international investors</p>
Link 2: Operations and Monitoring	<p>Land use conflicts/Complex land use issues lead to overlapping claims and violence</p> <p>Competition and increasing numbers of artisanal miners</p> <p>Competing militias control mines</p>	<p>Clarification of title or communal land rights, i.e. overlapping claims, concessions, land use rights prior to project</p> <p>Policies for inclusion of artisanal miners or economic alternatives</p> <p>Conflict mineral initiatives (long term)</p>
Link 3: Taxes and Royalties	<p>Illicit tax collection undermines FDI and supports self-interested agents</p> <p>Inadequate tax collection weakens governmental capacity to function or develop</p>	<p>Stronger governmental accountability mechanisms</p> <p>Improved, transparent collection for governmental credibility and perception of integrity</p> <p>Capacity building at central and sub-national level, for audits, monitoring, and compliance</p>
Link 4: Revenue Management	<p>Little revenue specifically returned to producing community and district.</p> <p>Lack of legitimate justice system can lead to impunity as individuals and groups seek out benefits or rent for themselves</p> <p>Visible wealth of the corrupt undermines the social contract, leading to a greater tendency to corruption and violence</p>	<p>Visible, meaningful, inclusive benefits to producing community and surrounding area</p> <p>Improved transparent distribution processes</p> <p>Legislation and enforcement against corruption</p>
Link 5: Sustainable policies and programmes	<p>Resource dependency leads to fighting/intense competition over limited opportunities/resources</p> <p>Lack of employment opportunities and few economic sectors de-stabilize the country.</p>	<p>Improved outreach for training, publicly posted opportunities</p> <p>Terms of reference and rationale for selection</p> <p>Diversification scheme at the same time as EI project with private sector support</p>

Mineral Certification Schemes to Prevent Conflict

A significant amount of the minerals mined in the East financially support violent agents who destabilize the region. In an effort to change the dynamics of the El conflict in the DRC, several western countries and international organizations have set up certification schemes to stem the flow of “conflict minerals”. The hope is that preventing the minerals reaching the market will cut off funding and lead to greater peace in the region.

These initiatives include the US Dodd-Frank section 1502 and the International Conference on the Great Lakes Region (ICGLR) Mineral Tracking and Certification Mechanism.⁶⁷ The European Union is also working on an initiative.

Another scheme by Germany, spearheaded by the Federal Institute for Geosciences and Natural Resources (BGR), offers advice and equipment as needed for certification, including mine visits to ensure the site in question is conflict-free and to provide certification for the custody of the minerals from the site and the supply chain. BGR has also developed a system of geological

fingerprinting for much of the eastern part of the DRC, through which they can differentiate certified and uncertified mines. The fingerprinting is extremely accurate, although costly.⁶⁸

The International Tin Research Institute, an industry organization, has developed the Conflict Free Tin Initiative, which uses an on-the-ground evaluation and audit. This consists of a plastic tag on a bag on mined ore carrying a barcode that corresponds to a certification document — a kind of passport for the minerals, so they can be legally exported. It is currently the only traceability programme operating in Rwanda, Katanga, and, recently, the Kivus.⁶⁹

Some companies are developing their own certifications schemes while other companies, which fear they may be inadvertently using conflict minerals, are looking for alternative sources.⁷⁰ It is also unclear to what degree the success of the certifications will improve the lives of the artisanal miners involved or generate income for the local communities.

67 <http://icglr.org/index.php/en/natural-resources>

68 Interview with Uwe Naher, Project Manager, Mineral Certification, BGR, September 24, 2013.

69 Hogg, Jonny; “‘Conflict-free’ tag helps revive Congo minerals trade; Reuters; November 8, 2012. Accessed July 3, 2014 at <http://uk.reuters.com/article/2012/11/08/uk-congo-democratic-mining-idUKBRE8A70P520121108>

70 ---; “Conflict mineral rules to pressure DRC miners”; Reuters/Mining Weekly; 1 April, 2011.

PART V.

Other Annexes and Bibliography

ANNEX 2

The Chart of Potential Conflict Risks and Prevention Opportunities along the Value Chain based on the study's findings

LINK 1 — Award of Contracts and Licenses	
Potential conflict risks/triggers	Potential prevention opportunities
Lack of agreement to EI project by community	<ul style="list-style-type: none"> • Social mapping prior to award of exploration licence. Honest assessment of candidacies for EI projects • Control over intensity of EI project development, particularly in new locales • Inclusion of traditionally marginalized social groups (such as women) • Increased and improved notification
Lack of adequate consultation before contract is awarded	<ul style="list-style-type: none"> • Early, genuine consultations • Standardization, by government with public input, for consultation processes
Local content policies	<ul style="list-style-type: none"> • Transparency and integrity regarding potential and real local content opportunities • Local content opportunities in a public, fair, and accessible terms of reference • Local content trainings <i>concurrently</i> with mine development
Access to, or control of, resources, land, including displacement of populations	<ul style="list-style-type: none"> • Clarification of land rights • Policies for inclusion of or economic alternatives for artisanal miners • Capacity building of security forces • Conflict mineral initiatives (long-term) • Long-term arrangements and compensation for displacement
Perception of or real corruption in awards process	<ul style="list-style-type: none"> • Improved public capacity and information for public monitoring
Lack of trust/government authority	<ul style="list-style-type: none"> • Greater grassroots outreach/engagement • Improved social services • Increased government presence/capacity • Greater information for stakeholders
Environmental protections	<ul style="list-style-type: none"> • Required environmental impact assessments with public access to results • Governmental capacity building to meet international standards • Review of company's environmental record • Steeper liability clauses in contracts
LINK 2 — Regulation and Monitoring of Operations	
Potential conflict risks/triggers	Potential prevention opportunities
Environmental contamination, other damages to natural habitat	<ul style="list-style-type: none"> • Improved environmental regulations and policies to meet international standards. Capacity building for government agencies • Meaningful accountability and reclamation

Land use conflicts	<ul style="list-style-type: none"> • Reconciliation of land claims prior to project • Reconciliation of cadastre and surface claims • Improved mechanisms for dispute settlement
Lack of user-friendly grievance mechanisms, legal alternatives	<ul style="list-style-type: none"> • Standardized grievance mechanisms • Capacity building in conflict resolution methodologies for company and government
Lack of access to EI developer/conflict or violence as tactic	<ul style="list-style-type: none"> • Greater inclusion at the community level as well as civil society, in the consultation and engagement process at all levels

LINK 3 — Collection of Taxes and Royalties

Potential conflict risks/triggers	Potential prevention opportunities
Illicit tax collection	<ul style="list-style-type: none"> • Stronger governmental presence/ monitoring
Lack of transparency	<ul style="list-style-type: none"> • Implementation of EITI

LINK 4 — Revenue Management and Allocation

Potential conflict risks/triggers	Potential prevention opportunities
Perceived lack of benefits	<ul style="list-style-type: none"> • Visible, meaningful benefits to productive community and surrounding area • Clear, public understanding (with rationale) on geographical parameters for benefit allocation • Inclusive development of revenue use • Public revenue information in local language • Explanation regarding revenue use and rationale • Capacity building for project design
Perception of unfairness of revenue sharing, or of corruption	<ul style="list-style-type: none"> • High standard, regular auditing by independent external experts with public results • Transparent distribution processes/mechanisms
Unrealistic expectations	<ul style="list-style-type: none"> • Realistic assessments of potential benefits
Lack of government transparency	<ul style="list-style-type: none"> • Improved top-to-bottom transparency of entire EI process and financial management • Implementation of the EITI
Lack of clear, adequate information	<ul style="list-style-type: none"> • Improved information for all stakeholders. Use of more effective communication channels, i.e. public records online, radio, innovative outreach programmes, mobile technology

LINK 5 — Implementation of Sustainable Development Policies and Projects

Potential conflict risks/triggers	Potential prevention opportunities
Resource dependency leads to fighting/intense competition over limited opportunities/resources	<ul style="list-style-type: none"> • Well-financed, well-thought-out, long-term economic diversification • Preventing displacement of successful local industries
Boom and bust cycles/unmet expectations	<ul style="list-style-type: none"> • Stabilization funds/rainy day funds

ANNEX 3

Project Framework and Research Methods

A conceptual framework for the interviews was developed in order to ensure some consistency regarding the questions for various public and private sector stakeholders. Likewise, part of the research focused on gathering objective data/information for each link of the value chain and for each country under study.

The team conducted more than 100 interviews with specialists from government, civil society, the extractives industry, environmental NGOs, United Nations and World Bank staff, as well as from other bilateral development agencies and academia. The consultant and TTLs also visited the four countries to gather first-hand perspectives from various stakeholders on the ground.

Below is a sample of some of the questions used in many of these interviews and conversations.

- 1) Tell us what is happening regarding mining in this country.
- 2) Why do you think this is happening?
- 3) Can you give us a good example of what you are talking about?
- 4) What doesn't the other side (or each side) understand about the other?
- 5) Why do some conflicts become violent and some do not?
- 6) What is the problem with consultations/involvement with the community?
- 7) What would be beneficial in preventing EI conflict?
- 8) How does the past influence current events?
- 9) What is the role of politics in this scenario?
- 10) Is mining the best way to develop the economy? What could be the alternative?
- 11) How can the benefits be maximized for everyone?

Annex 4: Some Initiatives on EI-Related Conflicts in Peru

The table below shows some conflict prevention initiatives in Peru::

Institution	Initiative(s)	National application?	Activities related to Conflict prevention
UNDP	Project — Prevención de conflictos en el uso de los recursos naturales, with support from the Canadian government	No, selected regions	<ul style="list-style-type: none"> • Comprehensive database of stakeholders • Participation in local mediation • Capacity building programme on conflict management skills • Improved conflict prevention coordination between central and regional government offices • Improved dialogue between state agencies, civil society
World Bank	Project — Social Inclusion, Local Governance and Sustainable Mining in Peru	No, only Apurimac	<ul style="list-style-type: none"> • Information services based on World Bank and IFC prior experience in Peru • Sub-national capacity building • Development of policy alternatives
Government of Peru	<ul style="list-style-type: none"> • <i>Consulta previa</i> • <i>Canon minero</i> • <i>Defensoría del Pueblo</i> • EITI 	<ul style="list-style-type: none"> Yes Yes Yes Yes 	<ul style="list-style-type: none"> • Free Prior and Informed Consent • Benefit/revenue sharing • Monitoring of grievances, advocacy, local engagement by official agency • Increased transparency
EI Companies	<ul style="list-style-type: none"> • Social mapping • Consultations • Grievance mechanism 	No, individual situations	<ul style="list-style-type: none"> • Sub-national government and civil society engagement after engagement with central government
International and Peruvian civil society NGOs	• Numerous	Varies	<ul style="list-style-type: none"> • Advocacy for rights of local communities, indigenous peoples • Education for communities • Social mapping • Transparency/ monitoring of revenues and contracts
Bilateral	<ul style="list-style-type: none"> • Canadian government • German government 	Yes	<ul style="list-style-type: none"> • Collaboration with UNDP on 5-year conflict prevention effort • Technical and organizational capacity building for the <i>Defensoría del Pueblo</i> • Capacity building for the Ministry of Environment

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The Collaboration: World Bank and the EU-UN Partnership on Land and Natural Resource Conflict Prevention

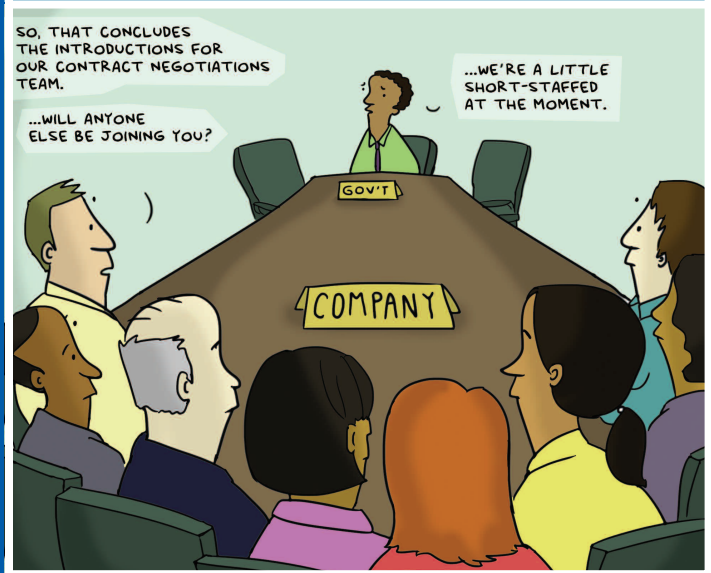
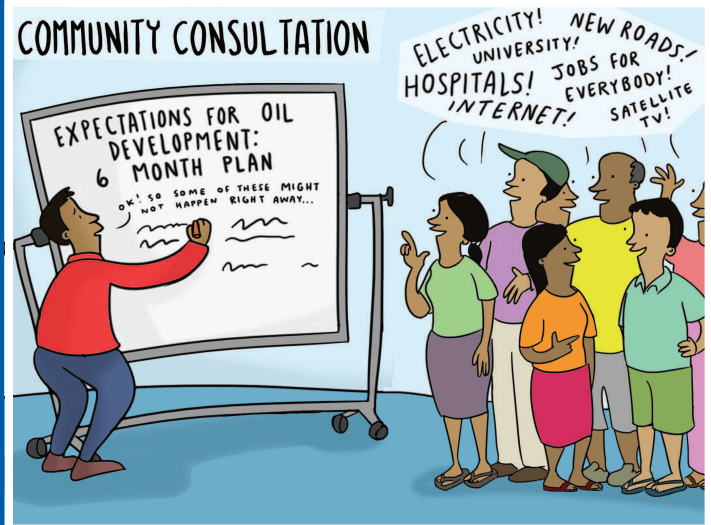
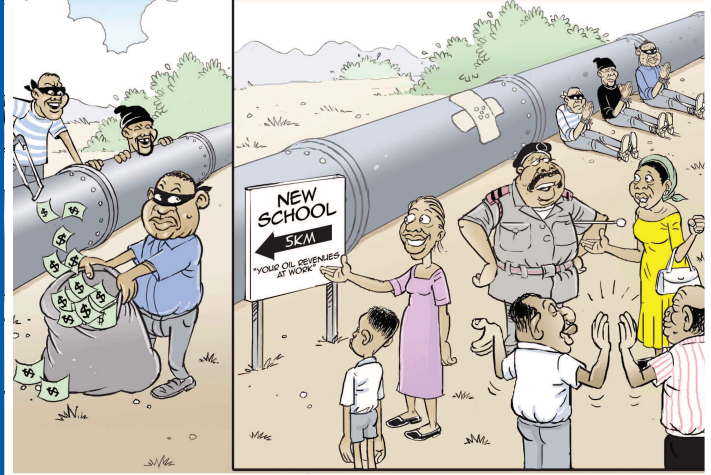
Both EU-UN Partnership and the World Bank Group are undertaking work with countries to help these countries better manage their extractive resources in order to achieve more inclusive and sustainable growth.

The Sustainable Energy's Oil, Gas and Mining Unit (SEGOM) oversees the World Bank's policy work on EI, and provides technical assistance to countries throughout the world. SEGOM's objective is to support the transparent and sustainable management of oil, gas, and mineral resources so as to maximize development gains and poverty reduction. The division offers technical and policy advice to governments, and assists them with a view to ensuring that extractive industry operations are developed in an environmentally and socially sustainable manner. The key lending and advisory services of the Bank are structured around the extractive industries' 'value chain'.

The EU-UN Partnership on Land and Natural Resource Conflict Prevention was established in 2008. The aim of the partnership is to help build the capacity of national stakeholders, the UN system and the EU to prevent land and natural resources from contributing

to violent conflict. In 2012, the Partnership issued a series of guidance notes on conflict prevention, including a dedicated note on the extractive industries. The note cites important causes for EI-related conflicts, some similar to the challenges identified along the EI Value Chain, such as poor engagement/consultation with communities and other stakeholders, inadequate benefit sharing schemes, excessive impact of the resource on the overall economy, and disruption to other economic sectors, as well as on social dynamics and the environment; mismanagement of funds and financing of war; inadequate institutional and legal frameworks; etc.

This paper proposes to adopt the Extractive Industries Value Chain as a framework for conflict prevention that can guide and prioritize the most relevant reforms and actions that can be supported by the World Bank, UN and EU. More combined and coordinated work and further development is needed to increase the real impact of the value chain for preventing and mitigating resource-related conflicts.



The EU-UN Partnership on Land,
Natural Resources and Conflict Prevention

Website:

<http://www.un.org/en/land-natural-resources-conflict/>

The World Bank's Oil, Gas and Mining unit,
Energy and Extractives global practice

Website:

www.worldbank.org/extractives