How does the international trade in resources relate to conflict?

A high dependence on natural resources should not be understood as a driver of conflict in itself. When well-managed, natural resources can form the basis for solid economic growth and play an important role in development, peacebuilding and conflict prevention.[95] Equally, high dependence on natural resources does not necessarily imply conflict risk. The economies of Namibia, Australia and Norway for example have been driven by natural resources without major conflict.

However, where governance is weak, there is little disagreement that natural resource wealth can contribute towards increased conflict risk. According to the World Development Report 2011, "slow developing, low income countries, largely dependent on natural resources are 10 times more likely than others to experience civil war".[96] By far the largest demand for these natural resources comes from industrialised or rapidly emerging economies. For example, almost 40% of global timber consumption is concentrated in just 4 countries.[97] Such demand plays a significant role in creating the incentives that underpin conflict over resources.

Global Witness define conflict resources as being those "whose systematic exploitation and trade in a context of conflict contribute to, benefit from or result in the commission of serious violations of human rights, violations of international humanitarian law or violations amounting to crimes under international law".[98] The trade in these resources can impact on conflict in a number of ways:

- **Competition for control over resources:** The insatiable demand for natural resources makes them hugely valuable to whoever controls access to them. There are powerful incentives for actors to ensure that they are able to exercise this control, often through the use of force. Income from the exploitation of resources is often the single biggest source of foreign capital for governments, but can also be used to fund insurgent or rebel groups.[99] Most analysis indicates that control of resources is rarely the initial cause of conflict. However, the importance of controlling resources for sustaining armed groups means that, over time, this control can itself become an object of the conflict. So-called 'booty futures', whereby groups sell concession rights in anticipation of taking control of an area, are one mechanism that allows these groups to access the funds that they need in order to initiate or perpetuate an armed struggle.[100]

  The exploitation of natural resources can be a particularly attractive funding option for rebel movements since they are often located in rural areas (where their support base tends to be) and non-movable, meaning that control over territory guarantees control over resources (they cannot be relocated to government controlled areas in the same way manufacturing can).[101] Different types of resources have also been associated with different types of conflict. Resources that require significant capital investment to extract (such as oil) have been associated with large-scale conflicts between actor groups seeking control over the state or a part of the state (e.g. secessionist movements). When resources are more readily accessible without large-scale capital investment (i.e. easily 'lootable' resources such as alluvial diamonds), conflict is more likely to be characterised by fragmented, competing groups.[102] Location also seems to matter: for example, when resources are located close to international borders, conflict appears to be more likely.[103]

- **Encouragement of exploitative or conflict insensitive business practices:** The huge profits to be made coupled with weak or non-existent government oversight and regulation can encourage corrupt or irresponsible business practices.[104] International companies can provide legitimacy or funding to repressive regimes or violent rebel movements.[105] They may also be complicit in large-scale displacement of local populations or human rights violations, or inadvertently contribute to conflict in other ways, simply by being unaware of underlying conflict issues.

Case study: Yemen

After Yemen started to export oil, its foreign exchange reserves reached a volume almost large enough to cover a full year of imports. However, these positive developments were followed by a decline in the share of agriculture in GDP from 24% in 1990 to about 10% in 2005. Over the same period, the share of manufacturing fell from 19% to only about 7%. By 2006, oil accounted for 90% of export receipts. At the same time, the poverty headcount ratio increased from 35% to 54%, with the rate of unemployment reaching 16%. A country that had historically been self-sufficient in food production has become 85% dependent on imports. These changes fed into popular discontent that has fuelled much of the conflict since 2011.

Adapted from UNDP, 2011[106]

- **Erosion of good governance and statebuilding:** A number of studies have found generally lower levels of democracy and accountability in countries with a high dependence on natural resources, compared to countries that rely on other sources such as taxation.[107] Many observers have argued that when governments have an abundance of revenue derived from external sources, they tend to use this to quell dissent, both through the development of patronage networks and by building up internal security forces. Ultimately this can exacerbate feelings of marginalisation and fuel grievances that lead to conflict.

  A strong dependence on natural resource wealth may also have a negative impact on governance by allowing for high levels of corruption.[108] The volume and relative volatility of revenues generated by resource extraction may also impact on the capacity of states to develop effective institutions, for example by overwhelming their capacities to account for and manage revenues effectively.[109]

- **Disincentives to economic diversification**: In order to lessen the dependence of a country's economy on particular resources, and therefore the knock-on effects on governance and statebuilding, efforts to diversify the economies of resource dependent states (e.g. by promoting the processing of raw materials) have rarely succeeded. There are multiple and complex reasons for this. Economic diversification often requires a long-term, focused and well-resourced strategy on the part of the national government, something that weak state capacities, coupled with structural adjustment policies and free-market economics have generally discouraged. Furthermore, powerful political actors can be resistant to diversification, as it can undermine their own business and economic interests. In some cases, industrialised nations continue to place higher tariffs on processed goods than on raw materials, so as to protect their own manufacturing bases.[110] The volatility of international commodity prices can further contribute to conflict risks. Revenue shocks tend to promote corruption and further weaken state systems.[111] At the same time, mechanisms intended to guard against price volatility, such as stabilisation and saving funds have often been poorly managed, and largely ineffective.[112]

What policies or interventions aim to address international trade in conflict resources at the national and international levels?

In order to minimise the destabilising impacts of the trade in conflict resources, it is necessary to target all stages in the supply chain. Resources often move through multiple countries before reaching the consumer nation. Therefore corruption or weak legislation and enforcement in all locations along the way need to be addressed. Policies and interventions have been targeted at each of the key actor groups involved in this trade. These include:

Governments and civil society in resource rich countries: Improving natural resource governance has been a focus of development initiatives for a number of donors since the 1990s.[113] Donor initiatives have sought to improve natural resource management at the local, national and international levels. Increasing civil society oversight is a critical component of building accountability in these contexts. Political initiatives can be critical to ensure that civil society have access to information and sufficient space to provide effective oversight of government expenditure.

A number of international agreements, initiatives and standards have been developed with the aim of improving the transparency of natural resource financial flows, and accountability of government systems. The Extractive Industries Transparency Initiative (EITI) is a notable example.[114] Countries that have signed up to EITI commit to publish all oil, gas and mining revenues. So far 41 countries have signed up, including 21 with ongoing or recent violent conflicts. 25 countries have so far been validated as fully compliant, 12 of which are conflict-affected. According to a 2011 evaluation, EITI has helped to improve transparency of revenue flows and strengthened the voice and capacity of civil society in member countries. This evaluation goes on to argue that this has not (yet) translated into greater accountability, largely due to its limited scope.[115] The recent increase in the scope of EITI – to include state owned companies, sub-national level reporting and disaggregation of data – could prove important steps towards increasing its effectiveness.

A number of resource rich countries have successfully diversified their economies. For example, Indonesia reduced its share of public revenue coming from resource extraction from 49% in 1982 to 23% by 2005.[116] However, the effectiveness of these efforts has often been hindered by existing trade barriers, which make it difficult for countries to add value to raw materials before export.[117]

Extractive companies: A number of guidelines, principles and standards have been developed with the aim of encouraging conflict sensitive business practises. For example, the OECD has developed due diligence guidelines for supply chain management of minerals from conflict affected contexts.[118] The Voluntary Principles on Security and Human Rights, developed with support from the UK and the US, also lays out a framework for companies to ensure that human rights considerations are integrated into operations.[119] Increasingly extractive companies are signing on to international initiatives such as EITI. The degree to which these initiatives and guidance have resulted in more conflict sensitive business practices is difficult to assess. However, the increasing publicity around the negative impacts of exploitative business practices has raised awareness of conflict issues within the business community.[120] As a result, an increasing number of companies are now willing to sign on to these initiatives.

Consumers and International Civil Society: Public campaigns by advocacy organisations in developed nations have significantly increased public awareness of the negative impacts that natural resource extraction can have. The Kimberly Process for the certification of conflict diamonds was adopted (at least in significant part) as a result of a public campaign initiated by the NGO Global Witness,[121] whilst the Publish What You Pay campaign has contributed to the adoption of transparency laws in the US, Canada and the EU.[122] Certification schemes, such as the Kimberley Process and the Forest Law Enforcement Governance and Trade (FLEGT) initiative,[123] can be effective as a means of tackling the trade in some illicit resources. However, their effectiveness is largely determined by the traceability of the resource and the concentration of processing sites and markets.[124]

Governments in major consuming countries: Governments in a number of major consumers of conflict resources, including the US, the EU and Canada have recently passed legislation intended to increase transparency of natural resource revenue flows. The Dodds-Frank Act in the US compels companies to identify and report on the use of 'conflict minerals' from anywhere within their supply chain.[125] EU timber laws require importers to conduct due diligence on countries of origin, in order to prevent the import of illegally harvested timber. Some commentators have argued that such laws and norms are already having an impact on the trade in conflict goods, despite being only partially implemented in most cases.[126] Others have criticised these laws for driving legitimate investors away from difficult operating environments, whilst doing nothing to address the black market trade in resources.[127]

In addition to the policies and interventions highlighted here, a number of those highlighted in the issue brief on illicit financial flows are of relevance here, especially those that seek to limit or interdict the flow of proceeds from the trade in conflict resources. For example, the Financial Action Task Force is an important example of a global body that seeks to promote effective implementation of legal and regulatory measures than could help combat the laundering of money gained through the illicit sale of conflict resources.

What resources, indicators and data sources might help to measure progress on mitigating the impact of the illicit trade in conflict resources?

It is extremely difficult to calculate the true value and scope of the global trade in conflict resources. Much of this trade takes place in the grey or black economies, making access to accurate information difficult. For example, more than 100 million people are estimated to be reliant on artisanal small-scale mining,[128] However, a very large proportion (if not the majority) of international trade in conflict resources is controlled by a relatively small number of large corporate actors, often based in western countries. Traditionally these companies, as well as many host governments, have been reluctant to publish data such as revenue flows. However, there are signs that this is slowly changing. Initiatives such as EITI and the Kimberley Process have received significant support from developed and developing country governments and major commercial actors. Furthermore, a relatively strong body of research has contributed to the development of several useful data sets, such as the Resource Governance Index. These are significant steps forward in promoting transparency and improved measurability in this area.

The table below identifies a range of key resources and data sets, outlines how they could be used to inform in-country programming, including examples of potential indicators that could be generated from the resource.

Resource Governance Index (RGI) **Link:** revenuewatch.org/rgi	The RGI scores and ranks countries based on a detailed questionnaire completed by researchers with expertise in the extractive industries. The Index assesses the quality of four key governance components: Institutional and Legal Setting; Reporting Practices; Safeguards and Quality Controls; and Enabling Environment. It also includes information on three special mechanisms used commonly to govern oil, gas and minerals—state-owned companies, natural resource funds and subnational revenue transfers.
	Example indicator: Score on RGI.
Resource Conflict Monitor **Link:** bicc.de/rcm/index.php Data Sources: bicc.de/rcm/sources.html#res_gov	The Resource Conflict Monitor (RCM) monitors how resource-rich countries manage, administer and govern their natural resources and illustrates the impact of the quality of resource governance on the onset, intensity and duration of violent conflict. It compares secondary data, on 90 resource-rich countries on three key variables: resource governance, conflict, and natural resources. Data is only available from 1996-2006. However the approach and data sources used form a solid methodology for on-going monitoring.
	Example indicator: Quality of natural resource governance.
EITI Secretariat **Link:** eiti.org/countries	The Extractive Industries Transparency Initiative (EITI) encourages resource rich countries and large extractive companies to promote transparency of revenue flows. It rates countries as candidate, compliant or suspended, according to adherence to transparency benchmarks and indicators.
	Example indicator: Has (country) produced EITI report, detailing revenue received from extractive industries?
World Bank World Development Indicators and Worldwide Governance Indicators **Link:** data.worldbank.org/data-catalog/world-development-indicators info.worldbank.org/governance/wgi/index.aspx#doc	The WDI is the primary World Bank collection of development indicators, compiled from officially-recognized international sources. It includes a wide range of relevant composite indicators relating to energy and mining, environment, labour and social protection, economy and growth and private sector development. The Worldwide Governance Indicators (which provide aggregate and individual governance indicators for 215 economies over the period 1996–2012, for six dimensions of governance) include further scores on 'regulatory quality' and 'control of corruption'.
	Example indicator: • Total natural resource rents as a % of GDP (WDI) • Country score for control of corruption (WGI).
Publish What You Pay, Revenue Watch Institute and Global Witness **Links:** publishwhatyoupay.org/ globalwitness.org/ revenuewatch.org/	All three organisations gather and publicise information about degree of revenue transparency in different resource rich countries as well as major consuming countries. They can also be useful resources for identifying the capacities of local civil society to monitor natural resource governance at the local and national levels.
	Example indicator: Existence and impact of legislation on promoting transparency in natural resource revenue flows.
USAID Minerals & Conflict Toolkit for Intervention Survey Instrument **Link:** usip.org/sites/default/files/resources/CMM_Minerals_and_Conflict_2004.pdf	This resource includes a survey tool that can be used to develop indicators that can help to evaluate the risk of conflict linked to valuable minerals. These questions should help development agencies effectively integrate valuable minerals management and conflict prevention/mitigation into their programs and projects. These questions can be particularly useful for developing perception based indicators.
	Example indicator: Do you feel that natural resources are being used to finance violence or oppression in your community/ country?
Global Natural Resources Indices	Indices charting international market prices for key natural resources can provide valuable information relating to fluctuations in demand for key resources and price volatility. S&P include indices for timber and forestry, oil and agribusiness. Other indices are available for other resources.

Link: us.spindices.com/indices/equity/sp-global-natural-resources-index	**Example indicator:** Volatility of international market price of for particular countries major commodities relevant to conflict dynamics.
Voluntary Principles on Security and Human Rights **Link:** voluntaryprinciples.org/	Lays out guidance and principles for companies and governments about responsible natural resource extraction practices. Information is provided on companies and governments that have signed up to the principles, although information on compliance is not readily available.
	Example indicators: Percentage of major extractive companies operating in (country) that have signed on to the Voluntary Principles.
Uppsala Conflict Data Programme (UCDP) **Link:** pcr.uu.se/research/ucdp/	UCDP provides detailed data on a range of conflict issues. Conflicts are not categorised by the degree to which they are driven by natural resources. However, it would be possible to draw upon UCDP data sets, complemented with an assessment of role of natural resources as a driver of conflict to develop global or national level indicators.
	Example indicator: Deaths in conflicts fuelled by natural resource revenues.