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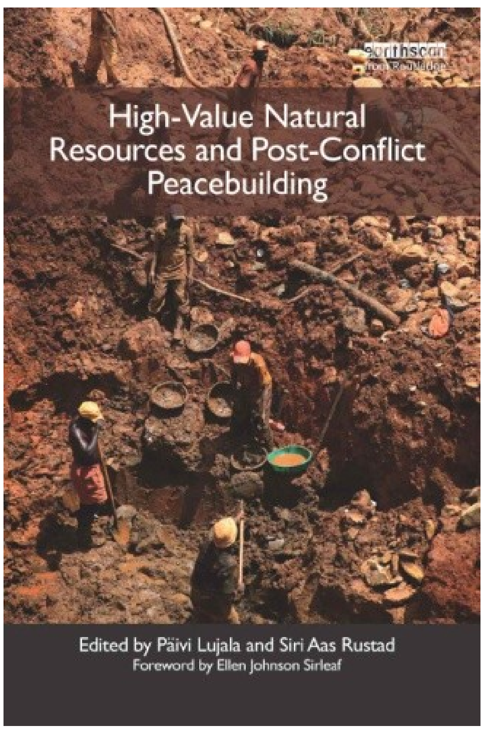

Part 4: Allocation and institution building: Introduction

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PART 4

Allocation and institution building

Introduction

Institutional quality and capacity largely determine how natural resources and the accompanying revenues are managed, and the long-term effects of resource extraction and revenue spending on development and peace. The challenge, in societies that have been traumatized by conflict, is to create structures that will help to ensure an immediate peace, while simultaneously supporting the creation or restoration of self-sustaining institutions for the long term.

In post-conflict countries blessed by high-value natural resources, revenue allocation may be the determining factor in the creation of a sustainable peace—or a spoiled future. But efficient and equitable allocation is difficult to achieve in post-conflict situations, where corruption is often prevalent and effective institutions are lacking. Several chapters in part 4 highlight the ways in which resources can be a curse, rather than a blessing, if resources and revenues are not managed properly and institutions function poorly.

In "High-Value Natural Resources, Development, and Conflict: Channels of Causation," Paul Collier and Anke Hoeffler identify six mechanisms by which natural resources can lead to conflict and describe remedies for addressing each mechanism. Arguing that no one policy option can work on its own, the authors focus on four related categories of intervention: revenue transparency, expenditure scrutiny, commodity tracking, and reduced exposure to price shocks. Collier and Hoeffler also observe that revenue expenditure is a neglected area, and that it is essential for the international community to pay more attention to the issue.

"Petroleum Blues: The Political Economy of Resources and Conflict in Chad," by John A. Gould and Matthew S. Winters, examines the management of Chad's oil revenues after the construction of the Chad-Cameroon pipeline. With the intent of making Chad a model for the equitable and efficient management of resource revenues—and the successful avoidance of the resource curse—the World Bank imposed a number of conditions on the loan for the pipeline, which were reflected in a petroleum revenue management law; the Bank also required Chad to establish a national oversight body to monitor the government's spending of oil revenues. The Bank's goal—to ensure that the allocation of oil revenues would promote equity, peace, and development—was laudable, but neither law nor institutional capacity was sufficient to rein in the power of established patronage systems or to compensate for lack of transparency and accountability. Gould and Winters argue that the Bank could have built more capacity before the oil revenues started pouring in, and should also have demanded more provisions to protect human rights and prevent conflict.

When it comes to post-conflict natural resource management, it is easy to find examples of failure; two chapters in part 4, however, focus on the Liberia Forest Initiative (LFI), which is widely considered a success story. In "Leveraging High-Value Natural Resources to Restore the Rule of Law: The Role of the

Liberia Forest Initiative in Liberia's Transition to Stability," Stephanie L. Altman, Sandra S. Nichols, and John T. Woods argue that the LFI has achieved four main goals: preventing forest revenues from becoming a source of conflict financing; ensuring sustainable forest management; restoring accountability and transparency to the forest industry; and including civil society in decision making. While implementation is far from complete, transformation has been significant. The LFI has also provided a model for other institutional reforms in Liberia. One of the main differences between Liberia's experience and that of other countries, such as Chad, Iraq, and Nigeria, is political will at the highest level: in Liberia, it was the leadership of President Ellen Johnson Sirleaf that drove the reforms.

In "Forest Resources and Peacebuilding: Preliminary Lessons from Liberia and Sierra Leone," Michael D. Beevers points out that despite the apparent success of the LFI, implementation has been slow and fraught with contention. Beevers also argues that the forest industry has not contributed as much to the economic recovery as was expected, and that the industry still harbors corruption and patronage. Nevertheless, Beevers believes that that the LFI played a valuable role in peacebuilding by making it possible for the state and civil society to engage in a dialogue about natural resource management—something that would not have been possible a few years earlier. Neighboring Sierra Leone, in contrast, may have missed a peacebuilding opportunity by failing to undertake post-conflict forest sector reform.

While Liberia stands out for its effort to build institutions to manage resources and the associated revenues, Nigeria's failed efforts to properly allocate revenues from the oil-rich Niger Delta have left the region in a state of poverty and unrest. In "An Inescapable Curse? Resource Management, Violent Conflict, and Peacebuilding in the Niger Delta," Annegret Mähler explores a number of failed initiatives to allocate resource revenues efficiently and equitably. Mähler attributes the failure to three principal sources: poor design (specifically, measures that fail to target the principal causes of conflict, and a lack of measures to ensure participation, monitoring, and evaluation); weak political institutions; and extensive corruption.

Sometimes, instead of being addressed in a peace agreement, or in the constitution or other laws adopted immediately after peace, the management of high-value natural resources is intentionally deferred until a later time. The absence of a clear legal framework, however, can lead to the emergence of grievances regarding resource extraction and revenue management. "The High Cost of Ambiguity: Conflict, Violence, and the Legal Framework for Managing Oil in Iraq," by Mishkat Al Moumin, highlights the tensions that resulted from vague language in Iraq's post-war constitution. The document's failure to specify, among other things, which entity has the authority to manage oil resources and their associated revenues has led to tensions both within the central government and between the national and subnational governments. As Al Moumin points out, the absence of a clear and effective legal framework is particularly dangerous in a country that is already traumatized by war, and where many have easy access to weapons.

When it comes to institution building, scholars and development agencies alike tend to place the greatest emphasis on political institutions. Economic institutions, however, should not be forgotten. In “The Capitalist Civil Peace: Some Theory and Empirical Evidence,” Indra de Soysa argues that economic reform is central to institution building and sustainable peace. Because free markets provide economic opportunities to many, instead of to a few, they reduce the need to resort to rent seeking and other unproductive economic activities. Using statistical analyses, de Soysa demonstrates that free markets have a dampening effect on both conflict onset and political repression.

Taken together, the chapters in part 4 highlight one of the principal lessons of this volume: accountability is the key to wise revenue spending. The chapters also emphasize the importance of reforming resource sectors and the institutions that manage them, establishing a clear and strong legal framework, and building healthy economic, as well as political, institutions.