

**12th IACC**  
**REPORT OF WORKSHOP 3.2**

**“Anti-Corruption Practices in Non-Renewable Natural Resources for Sustainable Human Development”**

16<sup>th</sup> of November, 11.30 – 14.00

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- Panellists:**
- Aminata Kelly-Lamin, Regional Director, Network Movement for Justice and Development, Sierra Leone.
  - André Standing, Research Associate, Institute for Security Studies, Cape Town.
  - Ben Mellor, Head of International Extractive Industries Transparency Initiative (EITI) Secretariat; Team Leader Business Alliances Team, DFID.
  - Luigi Tessiore, Regional Policy Advisor, UNDP, Sub-Regional Resources Facility Dakar (Senegal).

**I. Main issues covered**

The **main objective** of the workshop on “Anti-Corruption Practices in Non-Renewable Natural Resources for Sustainable Human Development” was to explain the negative impact of corruption in the area of Non-Renewable Natural Resources (NRNR) exploitation on human development, and to further develop strategies and approaches to fight corruption in this area based on an analysis of its challenges and impediments.

***1.1 Impact of corruption in the exploitation of non-renewable natural resources (NRNR) on human development***

One of the important linkages between corruption in the area of NRNR exploitation and human development in developing countries is related to the phenomenon of “elite capture”. This term describes the fact that large parts of revenues of NRNR in developing countries are captured by a small fraction of the population and not invested in economic activities that would contribute to human development. As a consequence, the development of other important parts of the economy is neglected, a phenomenon often described as “psychological Dutch disease”.

In this situation, so-called “predatory elites” seek to maintain their relationship with a small number of international companies, further fuelling the risk of civil war in unstable politico-social environments. The main governance objective of these elites is to stay in power at all costs and to maximize personal incomes.

At the same time, due to corruption the exploitation taxes paid by companies and the prices paid for mining concessions are significantly below world market value, and developing countries are therefore losing tremendous amounts of potential public revenues that could have been invested in development activities. In addition, when NRNR revenues are used for public investments, their development effectiveness is reduced through corrupt practices in public procurement processes.

Another aspect that has been identified as having a negative impact on Human Development is the frequent human rights abuses accompanying corrupt exploitation practices. Examples are labour practices that violate the most fundamental human rights standards and involuntary relocation of entire communities. Local communities are rarely involved in decision making processes related to the exploitation of NRNR in their territories. Consequently, local communities often do not benefit from these resources, and they are not able to build sustainable and autonomous livelihoods.

*"It is surprising that communities living in places where international companies generate revenues of millions and billions of dollars often have no electricity, no health care and no drinkable water."*

This latter fact also contributes to neglecting the significant environmental damage produced by NRNR exploitation, notably through uncontrolled dumping of toxic waste, water pollution etc. Corruption also undermines the effectiveness of environmental impact evaluations that are in some cases precondition of exploitation rights.

*"We need to include the environmental impact of natural resources exploitation into the development equation. Unfortunately, however, Environmental Impact Assessments are often also subject to corrupt practices."*

Workshop participants agreed that natural resources do certainly represent a potential resource of economic growth. However, in debates on the issue, the question of how these revenues should be spent to maximise the development impact is rarely addressed.

### ***1.2 Main challenges in and impediments to fighting corruption in the area of NRNR exploitation***

The exploitation of Non-Renewable Natural Resources, a globalised business, leads to major incomes for international companies and the major source of both revenues and power for national elites. Therefore, the interest of both parties involved in maintaining their undivided access to resources is significant. As stated during the workshop this is a first impediment to curbing corruption and increasing transparency. Activities that endanger these interests would be confronted with major obstacles and people advocating for greater transparency would often risk their lives.

Available research shows that common exploitation practices are mostly based on personal relationships between government officials and international companies that by-pass national institutional bodies and render any efficient control from parliaments, civil society and other societal watch-dogs extremely difficult. In fact, most investment and exploitation decisions are taken by non-representative and non-institutionalised national and international bodies.

Access to information is one of the most difficult issues to be tackled in this context. First of all, the likelihood of people that have been corrupted to provide information is very low. In addition, available information is highly technical and any analysis of data and their correctness requires high-level expertise.

Furthermore, the absence of effective deterrence mechanisms for and consequent prosecution of corruption in the NRNR exploitation sector in most developing countries does not encourage any

transparent practice. In comparison, the instruments provided by national criminal law systems of developing countries to pursue for example drug trafficking are much more developed and sophisticated.

Therefore, conflicts of interest between local communities and national and international shareholders are rarely brought into the national political and legal system. In case such disputes are addressed by the legal system, however, local communities cannot compete with the expertise of international lawyers recruited by international exploitation cartels.

Finally, it is a challenge to clearly establish the distribution of responsibilities between host and home countries of international NRNR exploitation companies in terms of ensuring human rights standards and legal exploitation practices as well as the management and development-efficient use of NRNR revenues. In the past, both involved groups of countries have proven to mutually finger-point each other. In order to find solutions for this dilemma, however, an open dialogue between involved countries and stakeholders is indispensable.

Participants agreed that the primary responsibility for both the definition of a set of common standards for companies operating on a country's territory as well as for delivering development is with the government of the host country. Home countries, however, have the responsibility to monitor and control the activities of their companies operating in developing countries and to actively promote the respect of human rights standards and transparency initiatives.

### ***1.3 Strategies and approaches to curb corruption in the NRNR sector for the benefit of Human Development***

Highlighting recent encouraging developments, workshop participants pointed to the changing tendency in business models of NRNR exploitation. According to some participants, international companies are increasingly recognizing their interest in enhanced transparency and legal forms of exploitation, which potentially can decrease physical threats of investments in unstable environments and improve their reputation among international civil society and at home. This is particularly relevant in the NRNR sector given that mining and similar NRNR activities are very capital-intensive and necessitate important initial investments, while their amortization stretches over several decades.

It was further argued that exploitation practices that are transparent and sensitive to local needs contribute to securing initial investments. Therefore, such practices represent a long-term “win-win” situation for both the companies and the host country.

*“The interest of international companies to exploit natural resources legally and in a stable environment is growing. Therefore, multi-stakeholder processes that lead to transparency and development-effective expenditure of revenues create win-win situations.”*

The role of civil society and local community groups in directing NRNR revenues to the needs of population and especially local communities were stressed. These groups should be represented in management committees of NRNR revenue funds. Furthermore, civil society has an important role in monitoring exploitation activities, educating population on relevant issues, putting necessary pressure on governments to implement transparency initiatives such as EITI (“Extractive Industries Transparency Initiative”) and in undertaking additional research in the area to better found allegations regarding corrupt practices and to develop possible solutions.

*“In natural resources rich countries, the risk of a growing distance between the population and the government is high. Therefore, the role of civil society as interface and vehicle to communicate the population's needs is particularly important.”*

Workshop participants also underlined the importance to increasingly inform civil society in home countries of international exploitation companies about exploitation techniques in order to increase control and positive pressure.

In addition, efforts are urgently needed to change the prevalent culture of mutual distrust and antagonism between different actors involved (home and host countries, civil society, local communities and international companies). The basis for successful multi-stakeholder processes is to build trust among all parties, to identify common interests and to define a set of common priorities. It was stressed that all parties involved (home and host countries, civil society, local communities and international companies) will benefit from the implementation of the EITI initiative.

*“For home and host countries it is important to build trust and commonly define respective responsibilities.”*

Finally, more innovative approaches to direct NRNR revenues towards development activities should be explored. The challenge is not only to curb corruption, but also to ensure development-effective spending of revenues. A promising approach in this direction is the establishment of NRNR revenue funds that are governed by multi-stakeholder management committees and that develop specific investment schemes to channel funds into priority development activities at the local, regional and national level. Local communities need to be involved in these committees in order to ensure that their needs are addressed.

## **II. Main Outcomes**

The exchanges and discussions during the workshop contributed to achieving the following outcomes:

1. Awareness increased among participants about linkages between corruption in the Non-Renewable Natural Resources Exploitation sector and Human Development.
2. Partnerships between international organizations, civil society representatives and research institutions strengthened.
3. Bases for a development-oriented approach to management of Non-renewable Natural Resources defined.

## **III. Main Outputs**

Specifically, the workshop has produced the following outputs:

1. Different forms of impact of corruption in the Non-Renewable Natural Resources Exploitation Sector on Human Development identified;
2. Innovative strategies and approaches in fighting corruption identified, and the role of civil society better defined.
3. Necessary next steps on the way towards development-oriented management of Non-Renewable Natural Resources Revenues defined.

## **IV. Recommendations and follow-up actions**

Based on the interventions of the panellists and the workshop discussions, the workshop concluded that

*“Natural resources as such do not corrupt; it is bad governance at the national and international level that leads to corruption.”*

However, curbing corruption alone will not necessarily lead to Human Development. It is important to develop and implement approaches that direct NRNR revenues towards the development needs of countries. To achieve this, the active and informed participation of civil society and local communities in decision-making about investments, the monitoring of exploitation activities and the use of revenues is crucial.

The following actions were commonly developed in order to strengthen anti-corruption practices in Non-Renewable Natural Resources for sustainable Human Development:

1. **International and national development actors** should further adapt and fine-tune their approach to promoting transparent management of NRNR revenues.
2. **Civil society groups** in countries subject to natural exploitation should involve in monitoring mechanisms of NRNR revenue expenditure.
3. Innovative mechanisms of revenue management such as resource accounts should be further explored and **local communities** should be involved in planning, programming and monitoring of revenue expenditures.
4. **Host and Home countries** of NRNR exploitation companies should commonly review expectations from the extraction of NRNR and define respective responsibilities.
5. **Host and Home countries** should involve in a multi-stakeholder confidence-building process that reviews risks of and expectations from the extraction of NRNR and defines responsibilities of respective actors.
6. The understanding of the linkages between corruption in the NRNR sector and Human Development should be further explored through additional research and review of pilot experiences.
7. **International and national development agents** should develop a holistic approach to NRNR revenues management that enhances the development impact of these revenues. This holistic approach should include strategies to respond to the specific development needs to communities at the local level.