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POSING THE CHALLENGE:  
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Chapter V

CONFLICT-SENSITIVE PERSPECTIVE IN MANAGING EXTRACTIVE INDUSTRIES

Poppy S. Winanti

It is widely accepted that extractive industries are being implemented in both environmentally and socially risky environments. In this regard, integrating the use of analytical tools such as the ‘Environmental Impact Assessment’ (EIA), ‘Social Impact Assessment’ (SIA), as well as ‘Political Risk Analysis’ (PRA) to identify and mitigate environmental, social, and political impacts is mandatory in extractive project planning (Goldwyn and Switzer, 2003). Nevertheless, considering that extractive industries, to a great extent, are operating in areas of potential or open conflict, in addition to these tools, it is also necessary to adopt conflict-sensitive approaches (CSAs) in extractive industry management. For this purpose, CSAs, which “…encompass a myriad of approaches, concepts, tools and methodologies that inculcate conflict impact awareness into development, humanitarian and peace-building work” (Goldwyn and Switzer, 2003) increasingly have been utilized to enrich the existing impact assessment tools in the extractive industry.

Assessment Scheme: Tools of Risk Management

Within CSAs, there are at least two significant components of extractive industry management, namely conflict-risk assessment and conflict-risk management. A conflict risk assessment is intended to “…identify the severity of the risk of conflict within a given region or area” (IPIECA, 2008). Conflict risk management is also needed in extractive industries because it involves a variety of strategies and actions to prevent, to manage, and to resolve conflict (IPIECA, 2008).

There are three basic components of a risk assessment (IPIECA, 2008). First, identifying whether countries, regions, districts or communities are at risk of conflict or not, which can be done by using a traditional risk assessment system. Second, understanding the nature of conflict, which requires some form of conflict analysis. Third, identifying how investments could affect conflict and vice versa. Conducting a risk assessment required the use of specific conflict-and-impact assessment tools. Conflict analysis tools focus on understanding the wider conflict context, including its profile, dynamics, actors, and the causes and drivers of conflict (USAID, 2008). In other words, conflict analysis tools involve the assessment of conflict factors, peace factors, and stakeholder dynamics (IPIECA, 2008). According to Kapelus et.al (2011), as part of conflict assessment preparation, it is important to have a detailed understanding of the nature of historical, current, and potential conflict; an analysis of the underlying features of conflict, the potential for project activities to trigger conflict; and the potential for the prevailing conflict dynamics to impact negatively on the project and future investments. These should be accompanied by a detailed assessment of the social impacts, social risks, and key stakeholders analysis.

Conflict can be defined as a situation in which “...parties disagree about the distribution of material or symbolic resources and act on the basis of these real or perceived incompatibilities (USAID, 2008: p. 2). Conflict is not necessarily bad. In fact conflict is an inevitable element of human interaction and is
essential to social change and development. The problem occurs when conflicts are not well managed and lead to violence. With regard to natural resource conflict, Mairu (2000) defines it as “...disagreement and disputes over access to, and control and use of, natural resources.” Similarly, Matthew et al. (2007: p. 7) also argue that “conflict resources are natural resources 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”. From the point of view of extractive industries, conflicts can be divided into two categories. First, conflicts related to the wider socio-political context or macro-level conflicts and not directly related to the presence of the industry such as poverty, social/political marginalization, and political power struggles. Second, conflicts that are directly related to the industry’s presence and the companies may have a much greater degree of involvement in the conflicts (IPIECA, 2008).

The Drivers of the Conflict.

With reference to the drivers of conflict in extractive industries, Gryzbowski (2012) argues that there are at least six main drivers of extractive industries-related conflicts:

- Inadequate engagement of communities and stakeholders
- Unwillingness to address the natural resource question in peace agreements
- Inadequate institutional and legal framework
- Mismanagement of funds and financing wars
- Inadequate benefit sharing
- Excessive impacts on the economy, communities, and the environment

The first main driver of extractive industries-related conflict is inadequate engagement of communities and stakeholders in the development process and subsequent activities including profit distribution process. In this regard, conflict may occur when communities and stakeholders are poorly engaged, marginalized, or excluded from natural resources management (Gryzbowski, 2012; UN, 2013). Similarly, Mairu (2000: p.7) argues, “conflicts may arise because policies are imposed without local participation ...[and because of]...poor identification of and inadequate consultation with stakeholders”.

The second main driver is inadequate benefit-sharing. According to Gryzbowski (2012), natural resource conflicts may also occur due to unfair distribution of the benefits, costs, risks, and
responsibilities associated with natural resources management. Extractive industry activities may create a situation in which some people are treated unfairly in terms of the benefits, they have to bear the risks and costs without fair compensation. These conditions will not only cause laborers to raise objections but may also lead to political grievance. Empirical studies reveal that in the long run, there is a high risk that grievance will turn into social and political insurgence.

Conflict may also occur as a result of excessive impacts on the economy, communities and the environment. One of the examples of the impact on the economy according to Gryzbowski (2012) is that “an increasing demand for local goods and services from an expanding local labor force causes local inflation, increasing local prices and reducing the purchasing power of those that are not directly benefiting from the development”. In this context, when the promise of prosperity from extractive industries development is not reflected in the community and the negative environmental impacts are often augmented, this can be a powerful conflict driver (UN, 2011).

Mismanagement of funds and financing wars also contribute to extractive industries-related conflicts. Extractive industry development can vastly increase government revenues. Nevertheless, if institutional arrangements are not in place to manage this revenue in a transparent and accountable manner, there is serious potential for increased corruption, theft of funds, which would only benefit an individual or particular groups at the expense of the wider community (Gryzbowski, 2012, UN, 2011). This then may lead to the loss of opportunity to use the wealth gained from the industry to implement policies for public interests, including poverty reduction policy and development of other sectors of the economy (Gryzbowski, 2012). In this regard, Matiru (2000: p. 11) argues that conflicts may arise when governments’ “lack the capacity to engage in sustainable natural resource management.” Some empirical cases indicate that increasing revenues to the state stimulates or exacerbates corruption and poor governance.

Another important main driver of extractive industries-related conflict is inadequate institutional and legal framework. If the legal framework and associated institutional arrangements are not in place or capable of managing the conflicts associated with EI development, then these conflicts will manifest into serious challenges that undermine the potential benefits of the development (Gryzbowski, 2012). Inadequate institutional and legal framework can also be seen from inadequate monitoring and evaluation programs. Following Matiru’s argument (2000), natural resources-related policies are often designed without integrating a systematic monitoring and evaluation component. This condition is also worsened by lack of effective mechanisms for conflict management in the policy making process (Matiru, 2000). As a result, strengthening the institutional and legal framework in order to manage development and produce sustainable benefits is a critical priority.

The last main driver is unwillingness to address the natural resource question in peace agreements. Addressing the issue related to natural resources is essential in order to secure sustainable peace. According to Gryzbowski (2012) there is a danger that extractive industries may become a potential source of the next conflict if issues of ownership, wealth-sharing, and distribution of these resources are unaddressed in the context of a peace process. In this context therefore, addressing these issues are essential to the achievement of post-conflict stability.

Managing the Risks.

In order to design an effective intervention framework, several variables need to be considered during assessment. In this respect, there are at least six aspects that need to be integrated in the assessment (Gryzbowski, 2012):
In designing an intervention framework, it is important to understand the position of extractive industries development in the value chain. In this context, if the development is still in its early stage, it is relatively easy to prevent potential conflicts and mitigate negative impacts. In the early stage of extractive industries development, a country may be able to establish institutional and legal frameworks needed to manage the revenues and distribute the benefits, including mitigating economic, social, and environmental impacts (Gryzbowski, 2012). However, if the development is already at a more advanced level of the value chain and the conflict has already manifested itself, the ability of a country to establish institutional and legal frameworks is somehow more narrowly defined by the institutional arrangements and practices that are already in place (Gryzbowski, 2012).

The position of a country in the conflict cycle also needs to be considered when designing an intervention framework. If it is still at a pre-conflict stage, the institutional framework can be designed based on conflict prevention strategies including institutional strengthening and support for constructive engagement processes (Gryzbowski, 2012). However, if it is already at the conflict phase, Gryzbowski (2012) argues that, "the assessment needs to determine the extent to which extractives are already part of financing the war effort or one of the underlying purposes for the conflict." If the country is already in the post-conflict phase, the assessment should focus on factors that contribute to promoting sustainable peace.

Another crucial variable is the institutional and legal framework. The assessment should also take into account to what extent the existing institutional and legal framework address EI governance in accordance with international standards. It should also be able to assess the weakness of the existing framework and what should be done to improve it.

In addition, conflict assessment needs to consider the scale especially for a country with a decentralization system like Indonesia. In this regard, a conflict analysis can be conducted at various levels (national, regional, and local) and then linkages between these levels can be established (USAID, 2008). This is important because an initiative at the local government level, for example, can be undermined by conflict at the national level because each level may have to deal with different issues and respond differently to them (see table 1). In this respect, an effective conflict prevention framework, therefore, requires conflict prevention strategies at all relevant levels.
Table 1.

Scale and Nature of Potential Conflicts

<table>
<thead>
<tr>
<th>Scale</th>
<th>Nature of the Potential Conflicts</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>Conflict may arise because laws do not require local content provisions, environmental assessments, public participation, transparent revenue collection and/or management</td>
</tr>
<tr>
<td></td>
<td>Conflict may arise because of macroeconomic destabilization caused by resource revenues and currency fluctuations</td>
</tr>
<tr>
<td>Regional</td>
<td>Conflict may arise over the distribution of revenues between the region and the state from the extractive industry development</td>
</tr>
<tr>
<td></td>
<td>Conflict may arise over the bestowal of authority to manage resources between the region and the state</td>
</tr>
<tr>
<td>Local</td>
<td>Conflicts can arise over environmental and socio-economic impacts; inequitable distribution of benefits, costs, risks and responsibilities; inadequate involvement of communities and stakeholders in decision-making processes</td>
</tr>
</tbody>
</table>

Source: Gryzbowski (2012: p. 22)

The relationship among stakeholders in the extractive industry also needs to be taken into account when designing an intervention framework. It should be assessed who are the key actors and how do they interact with each other (USAID, 2008). According to Gryzbowski (2012) "the patterns of engagement between the key actors in EI developments have a significant impact on whether conflicts are prevented and mutual benefits realized [furthermore]...where relationships are dysfunctional, constrained or conflicted, problems will either be evident or likely to manifest".

The last yet also crucial aspect is that of economic integration; which is mainly related to the relationship between EI supply chains and economic activity in local communities. The more integrated EI development is with local economic activities, the easier it will be to prevent and or resolve potential conflicts.

By considering all those crucial factors, Gryzbowski (2012) proposes the following intervention framework for extractive industries-related conflict.

Diagram 3.

Intervention Framework for Extractive Industries

Source: Gryzbowski (2012: p. 22)

The previous section argued that in addition to the existing framework which focussed on impact assessments such as EIA, SIA, and PRA, it is also important to utilize conflict sensitive approaches in extractive industries. In order to do so, the focus was on establishing an intervention framework in order to prevent conflict. Possible interventions include an effective engagement of communities and stakeholders; equitable benefit-sharing; mitigating negative impacts of social, environmental, and gender issues; transparent and effective management of revenues; strengthening the institutional and legal framework; incorporating high-value natural resources into peace processes.
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